Review comments of
"Financial Reporting Uniformity:
Its Relation to Comparability and Its Impact on Financial Statement Users"
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It is my pleasure to review the paper "Financial Reporting Uniformity: Its Relation to Comparability and Its Impact on Financial Statement Users" for the *Journal of Business, Finance, and Accounting*. The authors suggest a new measure for financial statement uniformity. They find that their measure is positively associated with earnings comparability and this relation is weaker for R&D firms and loss firms. They further investigate the relation between uniformity and analysts' coverage, forecast error, and forecast dispersion and find that firms with more uniform financial statements have greater coverage and lower forecast error and dispersion. When they divide their measure into income statement and balances sheet, they find that find that income statement uniformity is correlated with coverage while balance sheet uniformity is correlated with analysts' outputs. The paper is timely in presenting a topic that many in academia are covering and the paper uses the setting of Research and Development (R&D) firms and loss firms to teste some of the implications of university verses comparability. Below is a list of major concerns with suggestions to improve the paper followed by lesser concerns and suggestions.

**Major concerns**

1. **Construct validity** – The measure is described as a measure of uniformity. However, it is not clear from the paper that this measure captures uniformity. While the authors test a form of convergent validity in their analysis of UNIFORM and comparability, there are still concerns about whether and how their measure relates to uniformity. There are two concerns here:
    a. It is not clear from the paper what the difference is between uniformity and comparability. While the academic and regulatory literature does address this difference, the paper should have more of a discussion and distinction between these measures, citing the appropriate literature. While many readers may know the difference between these two constructs, **the paper would be greatly improved by further discussion of the distinction between uniformity and comparability.** This is especially important when the authors assert that the main motivation and contribution of the paper is tied to this distinction. There is a large body of literature that discusses these issues that is absent from the paper.
    b. It is not clear that UNIFORM captures financial reporting uniformity. The authors discuss three attributes of uniformity, reporting location, classification, and disaggregation. Since that the measure is derived from Compustat items, it is important to consider the process S&P's uses to collect and distribute the data. S&P uses a template like process to collect the data from both the financial statements and the footnotes and they create their own classifications for many different items. This eliminates the first two attributes

from UNIFORM, leaving disaggregation as the main effect captured by UNIFORM. I discuss further concerns with whether the measure captures disaggregation uniformity below. I think **the paper could be greatly improved by further discussion of how the measure captures uniformity**, especially because the measure is likely much more influenced by the choices by S&P's staff rather than any reporting choices by the firm.

2. **Competing measures** – The authors recognize one paper that is competing with there own (Hoitash, Hoitash, Ahnet, and Verdi 2018). However, there are several other papers that suggest similar measures. Both Hoistash et al. (2018) and Brown, Ma, and Tucker (2019) use the overlap of Compustat items whereas Henry, Liu, Yang, and Zhu (2020) and Johnston and Zhang (2020) use XBRL tags. The paper should recognize these papers and discuss how their measure differs from them. Several of the contemporary paper are grounded in prior reporting similarity measures (see for example Brown and Tucker, 2010) whereas the present study does not link their measure to other measures of similarity. To improve the paper, **I suggest incorporating an discussion of how their measure is different from the others.** I am not sure that any of these measures are that different, so this task might be insurmountable. **As an alternative, I would suggest exploring how uniformity is related to other factors. I think delving into the R&D firm differences more in-depth, perhaps incorporating other areas where the financial reporting require uniformity**.

3. **Measuring UNIFORM -** I have several concerns regarding how UNIFORM is constructed.
   a. First off, I found the description of UNIFORM short and insufficient. **Some examples would be helpful.** From what I can tell, the measure is average of the number of Compustat items reported by both firm A and firm B divided by the number of items reported only by firm A.
   b. In set notation, UNIFORM = $(\frac{A \cap B}{A})$, without regard to the value of the items. So if firm A reports sales, cost of goods sold and net income and everyone else in in the industry reports sales, cost of goods sold, SG&A, R&D and net income, then firm A's UNIFORM would be one where as everyone else's would be less than one, even though A is less uniform, relative to the others in the industry. The Jaccard similarity is $\frac{A \cap B}{A \cup B}$. In the above example, the uniformity for A would be 3/5 while everyone else would have (3/5 + (n-1))/n > 3/5, correctly ranking firm A lower in uniformity relative to the rest of the industry. The cosine measure of similarity also corrects for this issue and for situations where there is a large discrepancy between the number of facts reported by A relative to B. **I would suggest a more comprehensive discussion of the measure, with examples along with a discussion of what high uniformity and low uniformity would look like.** Again, grounding your measure in prior literature on similarity measures would be helpful here.
   c. I think UNIFORM could be improved by considering what items are more frequently non-missing in Compustat for the industry. The measure would first identify the items that are reported by most (say 50% or more) of the firms in the industry. Then give a firm a point if the firm reports the items that are commonly reported by the industry and a point if the firm doesn't report an items that is not commonly reported by the industry. This aligns with what I think of when I think about uniformity.

4. **Discussion of how UNIFORM within the individual statements affects financial analyst information** – The paper finds that income statement items is related to analysts' coverage and balance sheet items is related to forecast accuracy and forecast dispersion. There is little discussion of the theory behind these relationships. **The paper should include more discussion of how and why uniform affects differentially for income statement and balance sheet accounts. I would also present the results with income statement and balance sheet items separately to show whether the insignificant results are due to a lack of a relationship or that the income statement effect is subsumed by the balance sheet effect and vise-versa.**

**Lesser concerns and suggestions**

1. For your hypotheses, you discuss the arguments for one side of the hypothesis, then present your hypothesis, then give arguments against your hypothesis. You should include a discussion of both arguments for and against finding a relation. If you have a directional hypothesis, you should then detail why you think the hypothesis would go one way rather than another and present the directional hypothesis. If you have no arguments about why one direction would prevail, then present your hypothesis in the null.
2. In explaining your models, you should provide a discussion of your control variables and why you are including each of them. You should also define all of your variables in the research design section. Referencing an appendix is OK for table footnotes but not in the text. Furthermore, some of the variables should be more precisely defined. R&D intensity scaled by assets? Net assets? Sales?
3. You should provide more discussion on the implications of your results in both the introduction and conclusion.
4. Table 1, Panel B – This panel does not make sense to me. Is this the correlation between UNIFORM and the SIC code? I think it would be better to present the average UNIFORM for each of these industry grouping. I would have expected the Fama-French grouping to be large as these tend to have more similar economic conditions. However, to the extent that reporting requirements are determined based on SIC groupings, the SIC 2 digit should be more uniform.
5. Table 1, Panel C – it would be helpful to report the average UNIFORM, and DQ for each of the deciles, particularity the average UNIFORM within DQ decile.
6. Throughout your analysis, you include DQ in the regression models. What happens when you exclude them?

References:

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