Investor Style and Domicile and Financial Reporting Comparability

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ABSTRACT

We examine how institutional holdings by foreign vs. domestic investors affect cross-border and intra-industry financial reporting comparability among investee firms from countries reporting under the same standards. Using a global sample, we document that levels of and changes in foreign institutional ownership significantly associate with higher levels of and increases in cross-country comparability among same-industry firms reporting under the same accounting rules, while this effect is not significant for domestic institutions. We further examine how investor style (active vs. passive) associates with comparability and observe that comparability improvements are mainly driven by active, rather than passive, institutions. Importantly, we find that the combined effect of foreign and active institutional ownership positively associates with levels of and improvements in accounting comparability significantly more than any other investor style characteristics. Our results are unaffected by differences in reporting incentives, earnings management, or information acquisition costs among sample firms. We provide evidence that foreign institutional investors increase the cross-country comparability of accounting information post-investment, and this improvement is stronger when institutions are active. Our study contributes to the literature on the economic importance of geography by showing that more effective monitoring by foreign institutional investors increases accounting comparability and thus contributes to improvement in firms' informational environments.

Keywords: institutional investors, accounting comparability, foreign investors, active investors

JEL classifications: M41, M48, G14, G15

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1. Introduction

Institutional investors have long been considered as particularly important in affecting several corporate policies of their investee firms (Gillian & Starks, 2003). Research has shown that foreign institutional investors in particular tend to promote market efficiency and the informative content of stock prices; this effect is primarily driven by active investors (Kacperczyk et al., 2021). The channel through which the effect of foreign institutional investors on market efficiency occurs is via improvements in firms' information environment, as they enhance the efficiency of capital allocation by increasing the informational content of prices (Kacperczyk et al., 2021). Regarding the effects of foreign institutional holdings on the financial reporting practices of investee firms from other countries, Fang et al. (2015) use a sample of emerging and developed countries and firms applying different financial reporting standards, and find that US institutional holdings in emerging markets lead to an increase in the comparability of emerging market firms' financial statements compared to those of their US peers. They argue that mechanisms other than mandating the use of a single set of standards alter firms' equilibrium reporting practices and that such mechanisms have contributed to the global reporting convergence observed in recent decades (Land & Lang, 2002).

Accounting systems map firms' economic activities into accounting numbers. Therefore, the degree of information comparability between two firms is determined by the similarity of relevant mappings for corresponding firms. Accounting comparability has been considered a desirable property of firms' financial reporting, and it is associated with improved quality of financial information (De Franco et al., 2011; Barth et al., 2012; Kim et al., 2013; Chen et al., 2014; Kim et al., 2016). This is because comparability improves the valuation performance of peer-based valuation models (Young & Zeng, 2015) and the overall usefulness of accounting information; it also significantly decreases a number of accounting anomalies (Chen et al., 2019). In this study, we extend research by Fang et al. (2015) on US investors' role in improving the comparability of firms from emerging markets with US firms. We comprehensively examine the role of foreign vs. domestic institutional investors in shaping cross-country and intra-industry accounting comparability among firms from countries that have already adopted a single set of standards, namely International Financial Reporting Standards (IFRS).

There are two important factors that affect the mapping of economic events into financial reporting numbers made by the accounting system, i.e., accounting comparability. These are a) the similarity of accounting standards and b) the similarity of managerial reporting incentives to provide high quality

information.[1] Firms' and countries' financial reporting practices develop to a great extent endogenously, so any changes in them occur only if combined with a shift in reporting incentives (Holthausen, 2009), with important evidence on country-level enforcement affecting various financial reporting quality outcomes (Chantziaras et al., 2021). Thus, mandating the use of a common set of accounting standards alone is unlikely to achieve financial reporting convergence (Daske et al., 2008), as there exist alternative mechanisms which contribute to the significant global convergence in reporting (Fang et al., 2015). One such mechanism is investor demand for more comparable reporting (Fang et al., 2015). Therefore, using a cross-country sample of firms which report under the same rules should help us to explicitly examine whether institutional investor domicile, i.e., foreign vs. domestic, can alter managerial financial reporting behaviors, which should in turn lead to more comparable financial reporting among peer firms from different countries.

Foreign investors have been shown to improve the information environment of their investee firms in other countries (Kacperczyk et al., 2021). These investors may be better informed than domestic ones, e.g., if they are located in world financial centers, which gives them quick access to better information and learning opportunities through the transfer of information and skills (Kim & Yi, 2015). Their understanding of and aptitude for information collection and processing may also be better than that of their domestic counterparts, given that experience in trading on information simultaneously affects market reaction around the world (Kim & Yi, 2015). Foreign institutions may also help improve disclosure quality and governance processes in investee firms (He et al., 2013) and ultimately increase the stock price informativeness of their investees, given skills and incentives to process information important for investment decisions (He et al., 2013). Such investors can also better tolerate investment risk thanks to more diversified portfolios which involve international holdings (Bena et al., 2017).

Importantly, foreign investors may exert more efficient monitoring over the actions of the managers of their investee firms thanks to fewer business ties or the absence of any close relations with local investee firms (Bena et al., 2017). The absence of any affiliations with local banks, relationships between other capital providers and local firms, and ties with local managers – which could be entrenched – leads to an improved quality of monitoring being exerted by foreign investors (Gillan & Starks, 2003; Ferreira & Matos, 2008; Bena et al., 2017). We expect that the presence of significant relative investments by foreign vs. domestic investors, and also positive changes in these investments, should make external monitoring and the imposition of discipline on local corporate insiders more efficient for their investee firms. Thus, such

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investments should ultimately work as a factor that positively affects accounting comparability levels and changes among domestic investee firms following foreign institutional investment.

In the course of the above examination, we additionally examine whether investor style, i.e., an active vs. passive stance in investing, in combination with institutional investor domicile, significantly associates with levels of and changes in cross-country financial reporting comparability among investee firms. Passive funds prefer to trade shares of firms that do not contain significant private information and already possess a high degree of informational efficiency, while active funds improve the informational efficiency of stocks by helping to impound firm-specific information into stock prices (Wermers & Yao, 2010). If active investors work in favor of promoting market information efficiency, we anticipate that their active investment interest in firms should result in more efficient monitoring of their investees and thus higher informational efficiency for these firms. In this way, we expect that more intensive investment by active vs. passive institutional investors should increase the financial reporting convergence of firms with their different country but same-industry peers.

We examine the above topics using a global sample of mandatory IFRS reporting firms from 25 countries with data on Compustat Global during 2005–2018 and extract institutional stock ownership data from the FactSet/LionShares database. We use two proxies for comparability in accordance with previous research based on De Franco et al. (2011), as employed by Cascino and Gassen (2015). Active vs. passive investor styles are defined based on Ferreira and Matos (2008). We first document that institutional ownership, regardless of origin, positively and significantly associates with levels of and changes in accounting comparability. Our findings further indicate that both the level of and change in foreign institutional ownership positively and significantly associate with higher levels of and, more importantly, changes or improvements in comparability among firms in our sample. However, we observe that changes in domestic institutional ownership do not yield similar statistically significant results for both levels of and improvements in comparability, in contrast to our findings for foreign institutions. Interestingly, we also find that active, but not passive, institutional ownership and changes in ownership positively associate with the level of and, more importantly, change in comparability among domestic investee firms. However, this result is not equally significant for passive institutional ownership, indicating that trading by active, as opposed to passive, investors associates with increased comparability post-investment. This is consistent with firms' informational environment becoming more comparable as active investors exert increased pressure on their investee firms in the course of investing.

Interestingly, we observe that the combined effect of foreign and active institutional ownership associates with levels of and improvements in accounting comparability significantly more strongly than any other investor style characteristics. This finding confirms our hypothesis that foreign institutional origin

improves firms' informational environment via increases in financial reporting comparability after the investment. At the same time, an active, rather than a passive, attitude in foreign investors in particular is found to additionally contribute towards improvements in domestic firms' information environment. It thus has the power to alter managerial financial reporting incentives that increase comparability through more active monitoring, even among firms that follow the very same set of accounting rules on paper. Our results are robust to controlling for a variety of different types of fixed effects in our analysis; these include the use of firm and country combined with year, and industry combined with year, fixed effects.

Our findings also remain unchanged when considering differences in the level of firm-specific financial reporting incentives to provide financial information of high quality, regardless of any differences in levels of earnings management or information acquisition and processing costs across firms. We control for differences in incentives because we expect that higher accounting comparability with foreign peers should stem from increases in foreign institutional investor holdings at the same time that the existence of differences in firm-specific financial reporting incentives could also affect corporate incentives to report comparably to peers. Moreover, differing levels of firm-specific accounting quality, in the form of differences in earnings management practices undertaken by firms, could also reflect differences in firm incentives to provide high quality financial reporting, with comparability with peers being a manifestation of this. At the same time, differences in information processing costs for external investors across firms may also be manifested in the form of differences in comparability when the absence of such costs is important for attracting foreign institutional ownership. Nevertheless, our findings remain qualitatively similar regardless of the level of discretionary accruals, and the intensity of analyst following among sample firms, when the latter is used as a proxy for the cost to process firm-specific information. Finally, one could argue that if foreign institutional ownership affects the comparability of the accounting information of a firm with that of its peers, then this comparability could be affected by any foreign institutional ownership of peer firms as well. We consider this possibility, and our results remain similar upon controlling for changes in institutional ownership in firms' peer groups.

At this point, one could counterargue that foreign investors could naturally prefer firms that are already more comparable with their industry peers abroad, rather than drive increases in accounting comparability, as we hypothesize. Such investors could take a passive investment approach and look for firms that already have high levels of accounting comparability, rather than actively promoting reporting convergence (Fang et al., 2015). This conjecture constitutes the second (competing) expectation of Fang et al. (2015), which they do not verify empirically. Although we acknowledge that comparability could naturally work as a factor driving the formulation of investor preferences, our basic research design consists of examining the effect of foreign vs. domestic institutional ownership on levels of and, more importantly,

changes in comparability for firms in one country with their same-industry or peer firms from other countries.

To address this possible criticism in a more targeted way, following Kalay et al. (2020) and Kacperczyk et al. (2021), we exploit the fact that foreign institutions are more likely to invest in Morgan Stanley Capital International (MSCI) indexes' stocks, because international portfolios are typically benchmarked against these indexes (Cremers et al., 2016; Bena et al., 2017). Foreign institutional investors significantly increase their holdings for stocks newly added to the MSCI Standard Index (Chen et al., 2016; Kacperczyk et al., 2021). Thus, we explicitly examine whether the inclusion of new stocks in the MSCI All Country World Index (ACWI) index associates with higher levels of accounting comparability for the period immediately following the investment. Upon implementing generalized, and also basic, difference-in-differences analyses, our results indicate that firm inclusion in the MSCI ACWI index is associated with significantly higher accounting comparability compared to propensity score-matched comparable peers from other countries, with reference to the pre-inclusion period. We consider that this evidence provides additional reassurance about the ability of particular institutional investor characteristics to produce higher levels of accounting comparability, rather than comparability levels already in place working as a factor that helps attract investment from particular subgroups of investors.

We contribute to the literature in a number of ways. First, past research has indicated that investor domicile is an important driver of firm stock price informativeness (Kacperczyk et al., 2021). However, the exact way in which this informational efficiency is achieved could benefit from further investigation. Accounting comparability has long been considered a factor that facilitates financial decision-making by reducing information processing costs; thus, our examination of whether this financial reporting convergence is achieved by the relative presence of foreign vs. domestic institutional investors (as well as by their investment style) provides insights into the way in which this process takes place. Therefore, our paper provides insights about the role that foreign institutional investors may play for their investee firms (Hasan et al., 2022) and contributes to the literature on the economic importance of geography (Coval & Moskowitz, 2001). This is because our study provides evidence on comparability working as mechanism through which foreign institutional investors promote the informational efficiency of firms by triggering improvements in the way that firms' accounting information compares with that of their foreign peers.

Our investigation goes beyond Fang et al. (2015), who examine the role of US institutional investors in the convergence of the reporting practices of non-US with US firms, for firms from countries with differing accounting regulations. The focus of Fang et al. (2015) is the convergence of the financial reporting of firms from emerging markets – which may use any kind of standards in their financial reporting – with the financial reporting practices of US firms. Our approach is much more comprehensive, as we test for the

differential impact of foreign (of any origin) vs. domestic investors when financial reporting standards are the same across countries. This examination permits the identification of the differential role of foreign vs. domestic investors, ceteris paribus, for financial statement comparability, no matter what the country of origin of such investors is.

Second, our study is the first to investigate the role of investor style in the achievement of accounting comparability. Active investors have been considered as especially important for market efficiency achieved through improved stock price informativeness (Kacperczyk et al., 2021). We assess whether the anticipated stronger monitoring of investee firms by active vs. passive investors results in reporting convergence. We explicitly examine the effect of investor characteristics on comparability by decomposing the institutional investor base into four possible groups depending on whether investors are foreign vs. domestic and active vs. passive in their investment style. This analysis sheds light on the exact investor attributes that affect comparability in financial statements across countries; the latter have been used as an argument justifying the need to apply a uniform set of accounting standards across countries globally. Finally, we examine the effect of institutional investor domicile and style on accounting comparability at the global level for a set of countries that apply the same set of accounting rules. This allows us to test for the effect of institutional ownership characteristics on investee firms which report under the same accounting standards, complementing existing evidence that country-specific regulation and governance practices are more likely to act as substitutes than complementary devices in shaping the financial reporting practices of investees (Zattoni et al., 2020).

The rest of the paper is organized as follows. In Section 2, we provide a literature review on accounting comparability and institutional ownership characteristics and develop our research hypothesis. Section 3 describes the sample selection process and study methodology. Section 4 reports the empirical results, while the study concludes with Section 5.

2. Literature review and hypothesis development

2.1 Financial reporting comparability

Accounting comparability is defined as the similarity of accounting functions with regard to translating economic transactions into accounting data (De Franco et al., 2011). The fundamental concept of financial reporting comparability is that accounting amounts should be analogous for similar economic events experienced by different firms; therefore, comparability enhances the ability of investors to understand the link between accounting numbers and economic outcomes and to compare performance across firms (Cheng & Wu, 2018).

The benefits of comparability rely on the assumption that information about a firm is more useful when a firm adopts the same accounting standards as its peers (DeFond et al., 2011). Comparable financial statements make it easier for investors to understand and evaluate firm performance, as they need to make fewer adjustments and apply less judgement in calculations when comparing the performance of firms with their peers (Kim et al., 2013). Financial statement comparability enhances the usefulness of accounting information and enriches the information set available to firms and potential investors, resulting in positive impacts on capital allocation and investment decisions (Cheng & Wu, 2018). Comparability also lowers the costs of acquiring and processing information and improves information quality for financial statement users (Zhang et al., 2020), leading to reduced monitoring costs for stakeholders (De Franco et al., 2011). Importantly, it serves as an effective governance tool (Zhang et al., 2021), with a mitigating effect on undetectable opportunistic behaviors (Kim et al., 2016). Research indicates a lower incidence of accrual-based earnings management among firms with greater accounting comparability (Sohn, 2016), while comparability further aids the detection of tax evasion or fraudulent activities (Qingyuan & Lumeng, 2018).

Both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) expect that more comparable information enables global markets to operate with fewer frictions (Yip & Young, 2012). This is because an important factor that explains why investors are reluctant to make cross-border investments is the high costs of acquiring and processing information about foreign companies (Kang & Stulz, 1997; Bradshaw et al., 2004; Chan et al., 2005; Covrig et al., 2007; DeFond et al., 2011). Financial statement comparability is expected to reduce information acquisition costs for foreign investors and, therefore, increase their investment in foreign firms (DeFond et al., 2011).

The IASB argues that a single set of high-quality global accounting standards should provide market participants with comparable financial statements to help them make economic decisions (International Accounting Standards Committee (IASC) Foundation, Constitution 2(a), 2005; Cascino & Gassen, 2015). IFRS adoption reduces the cross-country cost of comparing firms and thus improves earnings quality through better monitoring by investors by mitigating the costs of acquiring expertise (Soderstrom & Sun, 2007; Cheng & Wu, 2018). A significant amount of research has examined the effect of IFRS adoption on comparability (Lang et al., 2010; Li, 2010; DeFond et al., 2011, 2013; Barth et al., 2012, 2018; Yip & Young, 2012; Wang, 2014; Neel, 2017). Evidence is consistent with compatibility having increased, at least on average, following mandatory IFRS adoption (Cascino & Gassen, 2015; Yip & Young, 2012; Brochet et al., 2013; Wang, 2014). However, Cascino and Gassen (2015) use a number of alternative comparability measures and find that that the overall comparability effect of mandatory IFRS adoption is actually marginal.

2.2 Institutional ownership characteristics

Firms benefit from an increased investor base (Merton, 1987) and enjoy benefits from higher ownership of their shares by institutional investors (Lehavy & Sloan, 2008). Past research has shown that institutional holdings play a monitoring role for investee firms (Gillian & Starks, 2003) and have the potential to limit agency problems (Shleifer & Vishny, 1986; Admati et al., 1994; Huddart, 1993; Kaplan & Minton, 1994; Bethel et al., 1998; Maug, 1998; Noe, 2002; Hartzell & Starks, 2003).

Financial liberalization of equity markets has steadily increased in recent decades, opening domestic markets to foreign investors (Bae & Goyal, 2010), giving them the opportunity to invest in domestic equity securities, and providing domestic investors with the right to transact in foreign equity securities (Bekaert et al., 2005). Openness to foreign equity investment has been further associated with improvements in firms' information environment (Bae et al., 2006) and higher rates of economic growth (Bekaert et al., 2005; Quinn & Toyoda; 2008; Bekaert et al., 2011). Foreign institutional investors have been playing an increasingly important role in capital market function in both developed and emerging markets (Wu & Zheng, 2020). These investors are more likely to participate in domestic markets when they face lower frictions or higher benefits (Kacperczyk et al., 2021). Foreign investors have been shown to play a monitoring role for domestic firms, with firms with high foreign institutional ownership outperforming those with low foreign institutional ownership (Huang & Shiu, 2009). Foreign ownership has, overall, been associated with higher valuation and improved operating performance (Ferreira & Matos, 2008), improvements in corporate governance (Aggarwal et al., 2011), increases in long-term investment (Bena et al., 2017), and improved monitoring for domestic firms (Fang et al, 2015; Bena et al., 2017). Foreign institutions are also found to exert a convincing power over corporate insiders with regard to pursuing long-term projects instead of enjoying a quiet life (Bena et al., 2017).

Kim and Yi (2015) examine whether trading by foreign and domestic institutional investors improves the extent to which firm-specific information is incorporated into stock prices, as captured by stock price synchronicity, using a sample of Korean firms. They find that trading by foreign investors facilitates the incorporation of firm-specific information into stock prices to a greater extent than trading by aggregate domestic institutions. More recently, Kacperczyk et al. (2021) find that foreign institutions unambiguously increase the informational content of domestic asset prices, with this increase arising from new information that foreign investors bring in and the displacement of less-informed domestic retail investors. They observe that the price informativeness of companies with the highest (lowest) foreign ownership is comparatively significantly higher (lower) for both short and long investment horizons, while improvements in price informativeness are driven by active investors, with passive investors having a smaller, but still positive, effect. They further argue that the mechanism through which foreign investors positively affect domestic markets' informational environment is through an information-based channel, where informed foreign investors improve the efficiency of capital allocation by increasing the

informational content of prices. Finally, they observe that information contained in foreign investors' trades does not overlap with the information contained in trades by domestic investors; it is also likely to be different from the information produced by corporate managers.

2.3 Research hypothesis

Foreign, compared to domestic, shareholders may experience disadvantages in gaining access to private information possessed by corporate insiders, relative to domestic institutional investors, because of distance, language, and culture (Kim & Yi, 2015). However, foreign institutions may have a better understanding of and skills in collecting, processing, and trading on information that simultaneously influences the stock prices of firms in different countries worldwide (Kim & Yi, 2015). Large foreign shareholders can improve the informativeness of stock prices through informed trading, as they tend to have a stronger incentive and better capability to collect and process value-relevant information (He et al., 2013). Large foreign shareholders can also enhance price informativeness by improving the corporate governance and disclosure quality of the invested firms (He et al., 2013).

At the same time, such investors may be less engaged with local managers, compared to domestic investors, and thus exert more efficient monitoring on their local investee firms (He et al., 2013). Specifically, foreign institutional investors may be in a better position than domestic ones to monitor corporate insiders and influence strategic decision-making because domestic institutions could be more likely to have business ties with local companies or an overall closer relationship with investee firms (Bena et al., 2017). For example, domestic institutional investors are often affiliated with banks which at the same time act as creditors or underwriters, or even hold seats on corporate boards of investee firms, thus making monitoring by them less effective (Gillan & Starks, 2003; Ferreira & Matos, 2008; Bena et al., 2017). However, foreign investors have fewer ties with corporate insiders; they may thus reduce managerial entrenchment and promote investment in riskier opportunities for growth (Bena et al., 2017). At the same time, foreign institutional investors could possibly better tolerate the high-risk/high return trade-off associated with long-term investment by better diversifying risks through investing in international portfolios (Bena et al., 2017).

We posit that increased institutional ownership by foreign vs. domestic investors should improve opportunities for efficient monitoring for investee firms and thus trigger increases in the accounting comparability of firms with their peers from different countries. We expect that the anticipated ability of foreign institutional investors to exert monitoring and discipline on managers in a more objective way than domestic investors should associate with higher levels of and positive changes in comparability for domestic investee firms with their foreign peers, following foreign investment in them. Our research hypothesis is as follows:

H1: Foreign institutional ownership positively associates with changes in and levels of accounting comparability more strongly than domestic institutional ownership.

3. Sample selection and methodology

3.1 Sample selection

Our sample selection process begins with all non-financial public firms from Compustat Global during 2005–2018 from countries that had mandatorily adopted IFRS by 2005 and following the country selection by Daske et al. (2008), with the exception of Venezuela. We exclude Korea, for example, because the country adopted IFRS in 2011; this ensures that our sample consists of mandatory IFRS adopters throughout the sample period, as the scope of our paper is to examine the effect of institutional ownership characteristics on comparability for firms which report under the same set of rules throughout our sample period. After dropping observations with fiscal years before 2005, our sample decreases to 125,779 firm-year observations.[2] We also exclude firms without data available to estimate our main comparability proxies during our sample period and firms without sufficient data to compute institutional ownership and control variables. In this way, we obtain an estimation sample of 53,816 firm-year observations for our comparability proxy *COMP1* and 44,016 for *COMP2*, which will be described in detail in Section 3.2. The intersection of the former two datasets represents our final sample of 41,524 firm-years for 5,977 unique firms from 25 countries that had adopted IFRS by year 2005.

3.2 Measures of accounting comparability

Our first measure of accounting comparability is based on De Franco et al. (2011). Its derivation entails the estimation of the so-called "accounting function" for each firm (i.e., mapping between economic events and their corresponding accounting representation) and comparing this with the relevant function for another firm. The shorter the distance between the accounting functions for a pair of firms, the higher their comparability should be accounting-wise. The De Franco et al. (2011) approach consists of the following three steps:

1. For each firm *i*, we estimate its accounting function according to the De Franco et al. (2011) specification as:

$$NI_{i,t} = \alpha_i + \beta_i Return_{i,t} + \varepsilon_{i,t} \quad (1)$$

[2] However, we need data from 1999 to compute our comparability proxies.

where $NI_{i,t}$ is income before extraordinary items, scaled by market capitalization at the beginning of year t, and $Return_{i,t}$ is the buy-and-hold percentage stock return, from nine months prior to the fiscal year end t to three months after the end of the fiscal year end t (both variables are winsorized at percentiles 1–99%).

2. We then compute $E(NI)_{i,i,t}$ and $E(NI)_{i,j,t}$, representing expected net income for firm i using firm i's stock return and j's stock return, respectively.

3. For each combination of firms (i, j) in a given year t, we compute the comparability proxy $COMP_{i,j,t}$ as the distance between their accounting functions:

$$COMP_{i,j,t} = -\frac{1}{(n+1)}\sum_{t-n}^{t} |E(NI)_{i,i,t} - E(NI)_{i,j,t}| \quad (2)$$

where |x| is the absolute value of x for all combinations (i, j), and i and j are firms in the same industry but different countries in a given year t (same two-digit SIC code) sharing the same fiscal year-end month date.

In our context, we estimate (1) as a rolling-window time series-regression with a window length of five years, as in Fang et al. (2015), by setting n=4, while t ranges from 2005 to 2018. For the computation of each (i, j)-pair-year observation, accounting comparability $COMP_{ijt}$ requires the availability of relevant data for all five years. For each firm-year observation, the variable $COMP1_{it}$ is then computed as the average of $COMP_{ijt}$ over the set of firms to which firm i is compared (the subscript j indexes the firm to which firm i is compared), multiplied by 100, as in Fang et al. (2015), who closely follow De Franco et al. (2011).

Our second comparability proxy uses accruals and cash flows to account for similarity in the way that accounting and economic amounts, respectively, are treated and recognized by different firms. In specific, we use the specification adopted by Cascino and Gassen (2015) and estimate the following equation instead of (1):

$$ACC_{i,t} = c_i + d_i CFO_{i,t} + \varepsilon_{i,t} \quad (3)$$

where $ACC_{,I,t}$ is total accruals, and $CFO_{i,,t}$ represents cash flows from operations. $COMP2_{i,t}$ is then computed as described in stages 2 and 3 above by averaging calculations over the set of firms to which firm i is compared. As in the case of the previous proxy, this average value is multiplied by 100. Detailed variable definitions are reported in Appendix A.

Our first proxy for comparability based on De Franco et al. (2011) (and also Yip & Young, 2012; Cascino & Gassen, 2015; Fang et al., 2015; and Neel, 2017, for global samples; and Kim, et al., 2013; Kim

et al., 2016; and Imhof et al., 2017, for US firms), uses an earnings-return regression to estimate a firm's mapping between economic events and accounting outcomes. De Franco et al. (2011) construct a dynamic, firm-specific financial statement output measure of comparability, which has several advantages over an input-based method. De Franco et al. (2011) use a regression-based approach to estimate the mapping of earnings on returns for a focal firm and then apply this mapping to a target firm by measuring comparability in terms of accuracy for these projected earnings. Their measure overcomes the issue of having to deal with different accounting choices made by firms. Their measure is also unaffected by lack of input comparability, while it can be calculated using widely available financial statement and return data (De Franco et al., 2011). Output-based measures of comparability, such as that of De Franco et al. (2011), are easier to construct but more difficult to interpret (Klein, 2018; Fang et al., 2022). Our second proxy follows Cascino and Gassen (2015) and Neel (2017). It does not make use of returns and subsequent cash flows but rather uses contemporaneous cash flows and accruals to proxy for economic events and accounting amounts, respectively. This estimation is based on the expectation that the association between contemporaneous cash flows and accruals should be informative about both the noise reduction and the gain and loss recognition roles of accruals (Neel, 2017).

3.3 Institutional ownership

We retrieve our ownership data from the FactSet database previously used by Li et al. (2006), Ferreira and Matos (2008), Chen et al. (2016), Kacperczyk et al. (2021), and Hasan et al. (2022). Data from FactSet is available on a quarterly basis. However, for the purposes of our research, we use the last reported value in each calendar year. The latter rarely coincides with the last day of the calendar year, except for holdings by top insiders, information about which is retrieved from annual and periodic company reports. FactSet collects ownership data from a wide variety of sources which include press releases, news, Initial Public Offering (IPO) prospectuses, national regulatory agencies, stock exchange announcements, mutual fund aggregates,[3] mutual fund industry directories such as European Fund Industry Directory, company proxies, Securities and Exchange Commission (SEC) 13F forms, N-30D filings, and annual and periodic financial reports. Moreover, it reports holdings for a wide range of institution types, such as hedge funds, mutual funds, pension funds, investment advisers, bank trusts, and insurance companies (for a description of FactSet, see Ferreira & Matos, 2008 and Kacperczyk et al., 2021).

[3] As an example, FactSet reports the holding by Artisan Partners LP in Danone SA in 2019 (0.1779%) as the sum of funds of Artisan International Fund (0.1461%), Brighthouse/Artisan International Portfolio (0.0181%), Artisan Partners Global Funds Plc - Global Equity Fund (0.0091%), and Artisan Global Equity Fund (0.0045%), where all percentages are calculated based on Danone SA's total shares outstanding.

We compute our institutional ownership variables as follows. $InstInv_{i,t}$ is computed as the fraction of firm i's shares held by institutional investors at the end of year t.[4] We then decompose this variable in different ways, depending on different institutional investor characteristics. First, we distinguish between foreign and domestic ownership.[5] In particular, $FOREIGN_{i,t}$ is the fraction of the firm's i shares held at time t by all institutions domiciled in a different country from the one where the stock is listed, relative to the firm's total number of shares outstanding. Similarly, $DOMESTIC_{i,t}$ is the fraction of the firm's i shares held at time t by all institutions domiciled in the same country where the stock is listed, relative to the firm's total number of shares outstanding.[6] If a stock is not held by any foreign (domestic) institution, but is held by at least by one domestic (foreign) institution, we set the value of $FOREIGN_{i,}$ ($DOMESTIC_{i,t}$) equal to zero.

We further partition our institutional ownership set into active and passive holders based on institutions' investment types, following the definitions obtained by Ferreira and Matos (2008). $ACTIVE_{i,t}$ measures ownership by all active institutions for firm i in year t relative to the firm's total number of shares outstanding at the time (e.g., mutual funds, independent investment advisers, hedge funds), i.e., the fraction of the firm's i shares held at time t by all active institutional investors relative to the firm's total number of shares outstanding, following the definition of active investors by Ferreira and Matos (2008). $PASSIVE_{i,t}$ measures ownership by all passive institutions for firm i in year t relative to the firm's total number of shares outstanding at the time (e.g., bank trusts, insurance companies, index funds), i.e., the fraction of the firm's i shares held at time t by all passive institutional investors relative to the firm's total number of shares outstanding (Ferreira & Matos, 2008). Finally, we combine the classification sets of foreign, domestic, active, and passive, in order to create four additional variables: $FOR\_ACTIVE_{i,t}$, $DOM\_PASSIVE_{i,t}$, $FOR\_PASSIVE_{i,t}$, and $DOM\_ACTIVE_{i,t}$. The former is the intersection of the foreign and active set, and it is set to zero if at least another intersection (for example, domestic and active) is non-empty. The other variables are constructed analogously. We further calculate change versions of all the aforementioned

[4] The few cases where the holder is reported to hold more than 50% in a given company in a given year are reviewed individually. When it is possible to find an original source document detailing the holding, relevant numbers are corrected for cases where the mistake is the result of a decimal separator or thousands separator error. In all other cases, we winsorize these observations to a 50% ownership level, following Ben-David et al. (2021).

[5] We obtain information on location at the subsidiary/desk level for multinational companies. For example, for State Street Corporation, we can distinguish, e.g., between State Street Global Advisors, Australia Ltd, and State Street Global Advisors France SA. See https://www.sec.gov/Archives/edgar/data/93751/000114544306000351/d18466_ex-211.htm for a list of "significant subsidiaries" of State Street.

[6] For example, the holding reported by FactSet for Sella SGR S.p.A. in Ferrari S.p.A. in 2019 0.0099% – which is the sum of the holdings of the following funds: Gestnord Azioni Italia, Investimenti Bilanciati Italia, and Gestnord Azioni Europa – is classified as domestic.

institutional holdings variables, representing changes in respective variables between years *t* and *t-1*. Taken together, they provide a more fine-grained partition of our original institutional ownership set.

3.4 Baseline model specification

We use regression analysis to test our research hypotheses. In order to assess the relation between accounting comparability and (lagged) institutional ownership, we first employ the following changes-on-changes linear model, where a firm is indexed by the subscript *i* at time *t* in country *c* and industry *j*:

$$\begin{aligned} \Delta COMP_{i,t+1} \; &= \alpha_0 + \beta_1 \Delta InstOwn_{i,t} + \beta_2 \Delta SIZE_{i,t} + \beta_3 \Delta ROA_{i,t} + \\ &\beta_4 \Delta BTM_{i,t} + \beta_5 \Delta RETVOL_{i,t} + \beta_6 \Delta CLOSE_{i,t} + \beta_7 ADR_{i,t} + \\ &Fixed \;\; Effects_{t,j,c} \;\; + \;\; \varepsilon_{i,t} \end{aligned} \tag{4}$$

where $\Delta COMP_{i,t+1}$ indicates change in our comparability proxies *ΔCOMP1* or *ΔCOMP2* for firm *i* between years *t* to *t+1*, and $\Delta InstOwn_{i,t}$ represents change in institutional ownership for firm *i* between years *t* and *t-1*. Considering the panel nature of our dataset, we estimate the following sub-cases of equation (4):

$$\begin{aligned} \Delta COMP_{i,t+1} \; &= \alpha_0 + \beta_1 \Delta InstOwn_{i,t} + \beta_2 \Delta SIZE_{i,t} + \\ &\beta_3 \Delta ROA_{i,t} + \beta_4 \Delta BTM_{i,t} + \beta_5 \Delta RETVOL_{i,t} + \beta_6 \Delta CLOSE_{i,t} + \beta_7 ADR_{i,t} + \\ &FIRM \;\; Fixed \;\; Effects_i + YEAR \;\; Fixed \;\; Effects_t + \varepsilon_{i,t} \end{aligned} \tag{4a}$$

$$\begin{aligned} \Delta COMP_{i,t+1} \; &= \alpha_0 + \beta_1 \Delta InstOwn_{i,t} + \beta_2 \Delta SIZE_{i,t} + \beta_3 \Delta ROA_{i,t} + \\ &\beta_4 \Delta BTM_{i,t} + \beta_5 \Delta RETVOL_{i,t} + \beta_6 \Delta CLOSE_{i,t} + \beta_7 ADR_{i,t} + \\ &COUNTRYxYEAR \;\; Fixed \;\; Effects_{c,t} + INDUSTRY \;\; Fixed \;\; Effects_j + \varepsilon_{i,t} \end{aligned} \tag{4b}$$

In our baseline specification, we use a one fiscal year lag between the dependent and independent variables. Longer lags, i.e., for two or more years, can be also used for our context, to capture cases when the effect of institutional ownership changes might take more than a year to associate with changes in accounting comparability. However, other confounding effects might have a stronger impact on changes in comparability when using longer lags. Hence, we proceed by using a one-year lag as our baseline specification.

Secondly, we estimate a levels-on-levels linear model as follows:

$$\begin{aligned} COMP_{i,t+1} \; &= \alpha_0 + \beta_1 InstInv_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 ROA_{i,t} + \beta_4 BTM_{i,t} + \\ &\beta_5 RETVOL_{i,t} + \beta_6 CLOSE_{i,t} + \beta_7 ADR_{i,t} + \beta_7 AGE_{i,t} + Fixed \;\; Effects_{t,j,c} \;\; + \\ &\varepsilon_{i,t} \end{aligned} \tag{5}$$

where $COMP_{i,t+1}$ indicates the level of comparability proxies *COMP1* and *COMP2* for firm *i* at time *t+1*, and $InstOwn_{i,t}$ is the level of institutional ownership for firm *i* at time *t.*

Again, considering the panel nature of our dataset, we estimate the following sub-cases of equation (5):

$$COMP_{i,t+1} = \alpha_0 + \beta_1 InstInv_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 ROA_{i,t} + \beta_4 BTM_{i,t} + \beta_5 RETVOL_{i,t} + \beta_6 CLOSE_{i,t} + \beta_7 ADR_{i,t} + \beta_7 AGE_{i,t} + FIRM\ \ Fixed\ \ Effexts_{\ i} + YEAR\ \ Fixed\ \ Effects_t + \varepsilon_{i,t} \quad (5a)$$

$$COMP_{i,t+1} = \alpha_0 + \beta_1 InstInv_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 ROA_{i,t} + \beta_4 BTM_{i,t} + \beta_5 RETVOL_{i,t} + \beta_6 CLOSE_{i,t} + \beta_7 ADR_{i,t} + \beta_7 AGE_{i,t} + COUNTRYxYEAR\ \ Fixed\ \ Effects_{c,t} + INDUSTRY\ \ Fixed\ \ Effects_j + \varepsilon_{i,t} \quad (5b)$$

The last specifications are more in line with exit and voice theories (e.g., Edmans, 2009), according to which what is more important regarding corresponding effects on firms' outcomes, is the level of institutional ownership rather than changes in this level. In any case, the changes-on-changes specifications are not sufficient *per se* to suggest that changes in institutional ownership among certain types of investors might drive changes in accounting comparability manifested in the next fiscal year. This is because there could exist parallel time trends driving changes in both institutional ownership and accounting comparability, or the two variables might be interrelated in a different or non-causal way. In this respect, to explore whether certain institutional investors have a particular preference for firms that are more comparable from an accounting point of view than others, rather than investors causally producing changes in comparability for investee firms, we examine trends in accounting comparability for investee farms around a suitable event, which can be argued to be reasonably exogenous. We follow a relevant approach which is described in Section 3.5.

We include mainstream control variables used by previous research on accounting comparability which are suitable for our context. We use firm size ($SIZE_{i,t}$), profitability based on the return-on-assets ratio ($ROA_{i,t,}$), and book-to-market ratio ($BTM_{i,t}$). These variables capture fundamental accounting and market characteristics for our sample firms. Another important firm characteristic we control for is firm age ($AGE_{i,t}$), retrieved from Orbis BvD, while we also employ a measure of stock return volatility for firms ($RETVOL_{i,t}$). Given that our independent variables of interest are measured with reference to shares outstanding and not floating shares, we include a variable that captures the percentage of closely held shares ($CLOSE_{i,t}$). Finally, we add an indicator variable that equals one if a firm is cross-listed on a US stock exchange in year *t*, and zero otherwise ($ADR_{i,t}$). Cross-listing is identified based on whether there exists trading for an American Depository Receipt (ADR) for a given firm at time *t*; this variable should also

denote the presence of higher quality corporate governance and transparency for firms falling into this category due to enhanced monitoring, in line with the documented bonding hypothesis (Coffee, 1999, 2002; Stulz, 1999; Karolyi, 2012). Detailed variable definitions are provided in Appendix A.

3.5 Identification strategy – controlling for endogeneity

Following Bena et al. (2017), Kalay et al. (2020), and Kacperczyk et al. (2021), we exploit the fact that foreign institutions are more likely to invest in MSCI indexed stocks because international portfolios are typically benchmarked against these indices (Cremers et al., 2016; Bena et al., 2017). We use additions to the MSCI ACWI to account for the possibility that foreign institutional investors prefer to invest in firms that are already more comparable with foreign peers, from an accounting point of view, as opposed to causally producing improvements in accounting comparability for their investee firms post-investment. Our proxy for foreign institutional ownership is stock additions to (and deletions from) the MSCI ACWI (Bena et al., 2017). The MSCI ACWI incorporates the largest firms from around the world and covers about 85% of the free float-adjusted market capitalization in every country (Bena et al., 2017). As summarized by Kalay et al. (2020), the MSCI ACWI is tracked by a large number of exchange trade funds. It covers both developed and emerging markets and is widely followed by institutional investors, while additions to and deletions from the index are closely monitored by institutions. MSCI ACWI is maintained by MSCI Inc., a leading provider of investment decision support to investment institutions worldwide, headquartered in New York, while Morgan Stanley is the controlling shareholder of MSCI Inc. (Kalay et al., 2020). Foreign institutional investors have been shown to include MSCI index constituents in their portfolios (Ferreira & Matos, 2008; Leuz et al., 2009; Chen et al., 2016).

MSCI follows a proprietary methodology to maintain desired weightings of different stocks within the index; these rest upon some general criteria, such as the importance of an industry, the representativeness of a firm within its industry, and the accessibility of its stock to domestic and foreign investors. In this respect, it should be safe to assume that the level of or change in accounting comparability do not drive additions and deletions decisions. Therefore, we can plausibly consider the inclusion of a stock in the MSCI ACWI index as exogenous for our setting. Previous research has used additions to MSCI ACWI in the form of a quasi-natural experiment (e.g., Bena et al., 2017; Kacperczyk et al., 2021) for other contexts as well. The staggered nature of our shock contributes to mitigating concerns about omitted variable bias and time trends, as outlined above (Baker et al., 2022).

MSCI undertakes four periodic index reviews each year in February, May, August, and November. The outcomes of these reviews are publicly announced at least two weeks before their effective implementation dates. For example, on November 7, 2019, MSCI published the outcome of the respective index review and specified at the top of the eight-page document that: "*The following are changes in*

constituents for the MSCI Global Standard Indexes which will take place as of the close of November 26, 2019."[7] Besides periodic reviews, MSCI may announce immediate index adjustments dictated by corporate events, such as delisting or bankruptcies, which drive deletions from the index. In our study, we consider the announcement of an index addition as the exogenous event which should associate with different levels of accounting comparability, following the above-described four regular index reviews every year.

Data about firms added to the MSCI ACWI during 2005–2018 are hand-collected from the MSCI website. We first retrieve data on all firms added to the index during our time frame, exclude financial firms, and then proceed by manually matching those firms with Compustat Global, to obtain 318 unique firms matched to our Compustat sample. Firms added to the MSCI index and later deleted to then be added back again in a future period are kept for their first inclusion only. We also require that at least six years of accounting and ownership data be available for all firms and that comparability proxies are available for them. This procedure results in 304 unique firms.

Propensity score matching (PSM) procedure

We use a PSM approach to identify counterfactual firms which are otherwise similar to firms added to the index in terms of ex-ante observable characteristics. Each treated firm is matched with a non-MSCI ACWI added control firm, representing its nearest neighbor with replacement. Matching is based on the following variables, used as matching covariates and measured as of one year before inclusion in the index: $FOREIGN_t$ and $DOMESTIC_t$ (foreign/domestic institutional ownership as previously defined); $SIZE_t$; BTM_t; ROA_t; $ANALYST_t$, representing analyst following; FOR_SALES_t, representing foreign sales; $INVESTMENT_t$. standing for capital expenditure plus research and development (R&D) expenses, scaled by total assets, by additionally employing country fixed effects. The selection of the variables used for matching is based on Kacperczyk et al. (2021). Matched firms should come from the same industry sector as treated firms, with industry sectors defined according to their two-digit SIC codes.

Generalized difference-in-differences estimation

Given that treatment taking the form of MSCI ACWI addition occurs at different times for different firms, we first employ a generalized difference-in-differences model specified as:

$$Y_{i,t} = \alpha_0 + \gamma_t + \delta_i + \beta_t T_{it} + \varepsilon_{i,t} \quad (6)$$

where T_{it} is a dummy variable equal to one when group i is subject to treatment at time t, and γ_t and δ_i represent time and group fixed effects, respectively. The identification of the model is obtained out of within

[7] Available at: https://www.msci.com/eqb/gimi/stdindex/MSCI_Nov19_STPublicList.pdf.

group variation.[8] In our setting, we use addition to the MSCI index as our treatment event, with corresponding firms considered as treated firms, and we create a dummy variable named $MSCI_{it}$ taking the value of one when firm *i* is added to the MSCI ACWI index in year *t*, and zero otherwise. γ_t and δ_i represent our year and firm dummy variables. $COMP_{i,t}$ indicates one of our two comparability proxies. We also include a vector of lagged controls $X_{i,t-1}$ as follows:

$$COMP_{i,t} = \alpha_0 + \gamma_t + \delta_i + \beta_1 MSCI_{it} + \beta_2 X_{i,t-1} + \varepsilon_{i,t} \quad (7)$$

Main PSM model specification

We also apply a PSM combined with a difference-in-differences empirical approach, which compares the accounting comparability of firms that are newly added to the MSCI ACWI index to the accounting comparability of matched control firms, from the same or different countries, within the same industry. In specific, we estimate the following regression equation:

$$COMP_{i,t} = \alpha_0 + \beta_1 Treat_i + \beta_2 Post_t + \beta_3 Treat_i x Post_t + \beta_4 X_{i,t-1} + Fixed\ \ Effects_{t,j,c} + \varepsilon_{i,t} \quad (8)$$

where $COMP_{i,,t}$ indicates one of our two comparability proxies; $Treat_i$ is a dummy variable taking the value of one if firm *i* is newly added to the index, and zero otherwise; $Post_t$ is a dummy variable taking the value of one for firm-years following firm *i*'s index inclusion; $X_{i,t-1}$ is a vector of lagged control variables used in the above-described estimations; and *Fixed Effects* $_{t,j,c}$ stands for time, industry, and country fixed effects. The primary coefficient of interest is β_3, which captures the sign and magnitude of the level of accounting comparability following index addition. We cluster standard errors at the pair level (i.e., at the treated firm and PSM-matched firm level). Detailed variable definitions are provided in Appendix A.

We plot a graph with values of the comparability measures for our treated vs. matched firms over a five-year window centered around the fiscal year of index addition. Graph 1 reports mean values for the comparability measure *COMP1* over this five-year window, while Graph 2 plots values for *COMP2* over the same time window. The x-axis indicates years relative to the addition year, and the y-axis indicates mean values for our relevant accounting comparability proxy. In this way, we assess whether the parallel trend assumption underlying the difference-in-differences methodology has been achieved and whether there indeed exists an increase in accounting comparability for treated firms relative to the control group following addition to the index. Indeed, the trends observed from Graphs 1 and 2 point in this direction.

[8] See Wooldridge (2002, 2012) for details of the generalized difference-in-differences approach.

Insert Graphs 1 and 2 about here.

4. Empirical findings

4.1 Descriptive statistics

Table 1 reports summary statistics for our sample firm-year observations during years 2005–2018. We first observe from the table that values for *COMP1* and *COMP2* are broadly consistent with values obtained by Cascino and Gassen (2015). Regarding changes in comparability, mean and median changes appear to be positive for both our proxies for comparability, as mean (median) change is near the levels of 13% (21%) and 18% (30%) for *ΔCOMP1* and *ΔCOMP2*, respectively. Regarding the intensity of institutional ownership, we observe that this represents about 25% of total shareholdings, on average, for our sample firms (18% for medians). Domestic ownership exceeds foreign ownership, with average percentages of about 15% vs. 11% (6% vs. 5% for medians). Actively managed holdings strongly exceed passive ones, with mean values of approximately 15% for active vs. 4% for passive investors, with median values following similar trends. Relevant trends for a greater representation of active vs. passive institutions in our sample are also observed for holdings by FOR_ACTIVE_t vs. $FOR\_PASSIVE_t$ and holdings by DOM_ACTIVE_t vs. $DOM\_PASSIVE_t$, in terms of median and median values. This is because active holdings exceed passive holdings when made by both foreign and domestic investors.

Regarding the behavior of other market and fundamental accounting variables, we observe that our sample firms are profitable, on average, with *ROA* values of 0.02 for means (0.04 for medians). Book value is found to represent roughly 63% of sample firm market value using medians, while firms have a median age of 21 years. Average and median values are very close for volatility of returns, with relevant values of around 0.3. The same applies for closely held shares, with mean and median values close to 30%. Finally, only about 1.5% of our sample firms appear to be listed on a US stock exchange.

Insert Table 1 about here.

Table 2 reports yearly changes for our comparability proxies *COMP1* and *COMP2* for each year separately during 2005–2018. It can be readily observed from the table that values for means and medians follow very similar trends for all years in the sample period for both comparability proxies. Interestingly, we observe that mean and median changes in comparability are positive during the years 2005–2008, which is the period immediately after the mandatory application of IFRS. We then observe negative changes in comparability during the years 2010–2016; these turn back into positive ones towards the final years of the sample period, in 2017–2018. On average, annual changes in comparability are positive for sample firms, with mean (median) values of about 0.13 (0.18) for *COMP1* and 0.21 (0.30) for *COMP2*. Overall, descriptive statistics from Table 2 indicate that firms increased their financial reporting comparability in the years immediately after 2005, which is consistent with a positive effect stemming from the adoption of

IFRS; however, comparability decreased following the first post-adoption years. This evidence is consistent with arguments that improvements in comparability are achieved in a much more complex way than by simply mandating the adoption of a uniform set of standards, and rather reflects changes in managerial incentives to report in a more comparable way with peers (Fang et al., 2015).

Insert Table 2 about here.

Table 3 reports pairwise Pearson correlation coefficients for the variables employed in our empirical estimations. As intuitively expected, the correlation coefficient between *COMP1* and *COMP2* is 0.742 and strongly significant at the 1% significance level. Correlations between comparability measures and proxies for institutional ownership, either general or foreign/domestic and active/passive, or the intersection between active/passive and foreign/domestic ownership, are also strongly significant, with relevant coefficient values of about 0.10 ranging between 0.05–0.10 depending on the type of ownership. This constitutes preliminary evidence of significant correlations between accounting comparability and institutional ownership, regardless of any specific characteristics and different types of institutions, before moving into the examination of causality between institutional ownership characteristics and accounting comparability. Nevertheless, correlations are higher for comparability and foreign vs. domestic institutions (higher vs. lower than 0.10) and active vs. passive institutions (around 0.12–0.13 vs. around 0.05). Regarding correlations among control variables, we observe that they are significant on a significant number of occasions, without attaining any exceptionally high values on any occasion.

Insert Table 3 about here.

4.2 Baseline model findings

Table 4 Panel A reports ordinary least squares (OLS) regression results for equations (4) and (4a)–(4b), which examine the relation between changes in institutional investors' ownership between years *t* and *t-1*, and changes in firms' accounting comparability from year *t to t+1*, when using $\Delta COMP1_{i,t+1}$ as a proxy for comparability (columns (1) and (3)) or $\Delta COMP2_{i,t+1}$ (columns (2) and (4)). Panel B reports similar results for equations (5) and (5a)–(5b), this time on the relation between the levels of institutional investors' ownership in year *t* and one year ahead levels of accounting comparability when using $COMP1_{i,t+1}$ (columns (1) and (3)) and $COMP2_{i,t+1}$ (columns (2) and (4)) as a proxy for comparability. For both panels, columns (1) and (2) report results with year and firm fixed effects, while columns (3) and (4) present similar results when using country×year and industry fixed effects.

Insert Table 4 about here.

We observe from both panels of Table 4 – when examining the association between changes in institutional ownership ($\Delta InstInv_t$) and future changes in accounting comparability (Panel A) or levels of institutional ownership ($InstInv_t$) and future levels of accounting comparability (Panel B) – that our independent variable of interest, measuring changes in or levels of institutional ownership, is strongly positively and significantly associated with both future changes in and levels of accounting comparability, respectively. This effect is found to hold for both comparability proxies, *COMP1* and *COMP2*, and when applying variations in the type of fixed effects used each time. Thus, we strongly confirm evidence from previous research that institutional ownership, when defined in a generic way (i.e., before isolating any particular characteristics it may possess), is a factor significantly explaining increases in accounting comparability (Fang et al., 2015) and levels of comparability.

Regarding the behavior of the rest of the variables, firm size and profitability are both observed to positively and significantly associate with comparability changes and levels, regardless of model specification. This finding indicates that larger and more financially robust firms tend to have greater incentives to report in a way that is more comparable with their peers. Firms with lower changes – or in most cases, levels of the book-to-market ratio and low volatility of returns – also tend to report more comparably, and this is associated with improvements in comparability. This result is intuitively explainable upon considering that firms with low volatility of returns and changes in volatility, along with low BTM_t, should be intuitively expected to exhibit more stable performance compared to the rest of the sample; this type of behavior could be reflected in their choice to report in a way that is more comparable with their peers as well. Percentages of closely held shares, firms' listing in the US market, and firm age do not appear to significantly associate with levels of and changes in accounting comparability in a consistent way across different model specifications.

Table 5 reports results on the analysis of the effect of foreign vs. domestic institutions on changes in and levels of accounting comparability post-investment. Table 5 Panel A reports results on changes in foreign vs. domestic institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*, when using $\Delta COMP1_{i,t+1}$ ($\Delta COMP2_{i,t+1}$) as a proxy for comparability in columns (1) and (3) ((2) and (4)) and when applying year and firm fixed effects (columns (1) and (2)) or country×year and industry fixed effects (columns (3) and (4)). Panel B reports corresponding results when examining the relation between levels of foreign vs. domestic institutional investors' ownership in year *t* and one-year ahead levels of accounting comparability.

Insert Table 5 about here.

We observe from Panel A of Table 5 that changes in foreign, but not domestic, institutional ownership positively and significantly (at the 1% level) associate with changes in subsequent financial

reporting comparability for both comparability proxies and all model specifications. Findings from Panel B indicate that levels of domestic and foreign ownership positively and significantly associate with future levels of comparability, while this result is significant at the 1% level across all model specifications only in the case of foreign ownership. In this way, we find that although levels of ownership significantly relate to future levels of comparability regardless of investor domicile, *changes* in ownership significantly relate to future changes in comparability only in the case of foreign institutional ownership. This result provides a direct extension to evidence from Fang et al. (2015) on US institutional holdings associating with comparability improvements in oversees investee firms with their US peers. The results from Table 5 confirm *H1* and constitute evidence that foreign investors play a significantly stronger role in bringing about increases in financial reporting incentives that improve comparability for domestic firms. Foreign investors are observed to have a relatively stronger influence on the improvement of investee firms' information environment – to the extent that comparability improvements constitute manifestations of improved informational efficiency – compared to domestic investors.

4.3 Baseline findings extended: The impact of investor style on financial reporting comparability

According to neoclassical theories, institutional investors can remove market anomalies and reveal information to the rest of the economy through active investing (Friedman, 1953, Fama, 1965; Ye, 2012). Active investors increase the price efficiency of stocks when they trade (Wermers & Yao, 2010) and help improve firms' informational efficiency by more strongly incorporating firm-specific information into stock prices (Wermers & Yao, 2010). On the contrary, passive funds prefer to trade shares of firms that do not contain significant private information and already possess a high degree of informational efficiency (Wermers & Yao, 2010). According to Maffett (2012), more intensive privately informed trading takes place by institutional investors when levels of firm-level opacity are higher for investee firms.

We expect that higher investment by active vs. passive institutional investors should increase the financial reporting convergence of firms with their different country but same-industry peers. This expectation rests on the assumption that more intensive active vs. passive trading should enhance the informational efficiency of investee firms as active investors exert more intensive monitoring than passive ones to benefit from any informational advantages. Therefore, we also examine the effect of investor style, i.e., active vs. passive, in combination with foreign vs. domestic institutional ownership on levels of and changes in comparability for firms in a given country with their peer firms from abroad. We expect that foreign ownership, combined with a more active investor style, should contribute to the informational efficiency of firms by producing improvements in accounting comparability.

Table 6 first reports results on the relation between changes in active or passive institutional ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t*

to *t+1* (Panel A), and for levels of active or passive institutional ownership in year *t* and subsequent levels of firms' accounting comparability (Panel B) when both $\Delta COMP1_{i,t+1}$ (columns (1) and (3)) and $\Delta COMP2_{i,t+1}$ (columns (2) and (4)) are used as proxies of financial reporting comparability. Equations are estimated with either year and firm fixed effects (columns (1) and (2)) or country×year and industry fixed effects (columns (3) and (4)). It can be readily observed from Panel A of the table that changes in active institutional ownership positively and significantly associate with subsequent changes in accounting comparability for three out of four model specifications for this panel (except when *ΔCOMP1* is used as a proxy for comparability and year and country fixed effects are used) at the 5% or 1% (for one specification) significance levels. However, changes in passive ownership are *not* found, overall, to significantly associate with future changes in comparability, as they are observed to negatively and significantly associate with changes in comparability in only one of four model specifications.

Insert Table 6 about here.

Regarding levels of comparability, we observe trends in Table 6 Panel B similar to those in Table 6 Panel A. Levels of active, but not passive, institutional holdings are found to positively and significantly associate with future levels of comparability for both comparability proxies under all model alternatives. Therefore, results from Panel B confirm the direction of results observed from Panel A regarding a significant association between active, but not passive, holdings and changes thereof on financial reporting comparability improvements and levels of comparability. They also provide support for our prediction that foreign ownership combined with an active investment approach should induce improvements in comparability more intensely than passive institutional ownership.

Table 7 reports results on the relation between changes in institutional investors' ownership characteristics ((foreign, domestic) & (active, passive)) between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1* (Panel A), and also levels of institutional investors' ownership characteristics (again, (foreign, domestic) & (active, passive)) in year *t* and subsequent levels of firms' accounting comparability (Panel B) when both $\Delta COMP1_{i,t+1}$ (columns (1) and (3)) and $\Delta COMP2_{i,t+1}$ (columns (2) and (4)) are used as proxies of financial reporting comparability, by estimating equations with either year and firm fixed effects (columns (1) and (2)) or country×year and industry fixed effects (columns (3) and (4)). Results reported in Table 7 directly test the expectation that a foreign active institutional investor style positively associates with levels of and changes in accounting comparability more strongly than a foreign passive investor style, by simultaneously examining the effect of investor domicile combined with style on changes in and levels of accounting comparability.

Insert Table 7 about here.

We observe from Table 7 Panel A that among the four different institutional investment type combinations assessed (foreign vs. domestic, combined with active or passive investment style), only for changes in foreign combined with active institutional ownership do we observe a positive and significant (at the 1% level) effect on changes in comparability, regardless of the proxy for comparability used or model specification. The effect of all other investment type combinations is observed not to be statistically significant for producing changes in comparability, with the exception of changes in domestic and active institutional holdings for one out of four Panel A specifications, with results weakly significant at the 10% level. Evidence on levels of institutional ownership and comparability from Panel B of the table are in accordance with relevant findings from Panel A, as foreign and active ownership is observed to be positively and significantly associated with future levels of comparability. The same result is also found to hold for domestic and active institutions as well. However, no significant effect is consistently observed for passive holdings associating with future levels of comparability, no matter whether they come from foreign or domestic investors.

Appendix B reports results from Tables 4, 5, 6, and 7 for changes in comparability as the dependent variable. When employing firm, country×year, and industry×year fixed effects (in Panel A for Table 4-equivalent results and Panel B for results comparable to those reported in Tables 5, 6, and 7). Regarding results reported in Panel A of Appendix B, referring to changes in institutional ownership, these have been calculated when clustering standard errors at the institutional ownership level (columns (1) and (2)) and at the institutional ownership and year level (columns (3) and (4)) of each panel. It can be readily observed from both panels of Appendix B that the use of this type of more stringent fixed effects in estimations leads to no qualitative changes in the direction of our results. This finding reinforces our confidence that baseline analyses remain unaffected by the quality and strength of fixed effects employed in our estimations, as our results remain unchanged when controlling for different types of fixed effects that could potentially alter the direction of our results.

We observe that our findings – that foreign, but not domestic, ownership positively and significantly associates with future levels and, more importantly, changes or improvements in accounting comparability post-investment – should be driven by active investors. This evidence indicates that foreign investors induce improvements in domestic firms' informational environments and are successful in this task only when they take an active investment stance in investee firms. Overall, our evidence indicates that the improvement in price efficiency induced by foreign institutional trading – especially active trading, as observed by past research (Kacperczyk et al., 2021) – should relate, at least in part, with informational environment improvements stemming from the enhancement of the financial reporting comparability of firms with their foreign peers.

4.4 Supplementary analyses and robustness controls

Financial reporting incentives

One could argue that the level of any preexisting firm-specific financial reporting incentives should affect whether firms report in a way that is more or less comparable with their peers, rather than pressure from foreign institutional investor holdings being the factor that produces changes in the comparability of firms with their foreign peers. To control for this possibility, we repeat our analysis by considering differences in the strength of incentives firms have to provide a true and fair view of their financial performance to outsiders, when measuring firm-specific financial reporting incentives following Daske et al. (2013) and Gao and Sidhu (2018).

Table 8 reports results on the relation between changes in foreign vs. domestic institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1* when dividing our sample into sub-samples with low vs. high firm-level financial reporting incentives. Firm-year observations with low (high) reporting incentives are the ones with values for the relevant proxy by Daske et al. (2013) (defined in detail in Appendix A) below (above) the sample-year median, with corresponding results reported in columns (1) and (2) ((3) and (4)), when using $\Delta COMP1_{i,t+1}$ as a proxy for changes in comparability. Columns (1) and (3) of the table report results with year and firm fixed effects, and columns (2) and (4) report results when applying country×year and industry fixed effects.

Insert Table 8 about here.

We readily observe from Table 8 that regardless of the strength of financial reporting incentives and the type of fixed effects used in estimations, changes in foreign, but not in domestic, institutional ownership significantly associate with future changes in the accounting comparability of domestic firms with their foreign peers. This finding lends support to our expectation that the disciplining role of foreign vs. domestic institutions drives cross-country peer firm increases in comparability rather than any preexisting firm-specific financial reporting incentives being at the root of any such differences.

The role of firm-level earnings management and information acquisition costs

We argue that a firm's foreign institutional investors have the power to increase firms' accounting comparability with their foreign peers by improving externally imposed monitoring, thus ultimately altering managers' reporting incentives. One could argue, at this point, that differences in firm-specific accounting quality across firms, manifested in the form of differing levels of earnings management, could reflect differences in the incentives of domestic firms to improve (or not) their financial reporting quality by

reporting more comparably depending on their previous engagement (or not) in earnings management activities. For this reason, we repeat our baseline results for firms with lower vs. higher levels of accrual-based earnings management in a year.

Furthermore, one could also argue that foreign institutional investors' ownership associates with more comparable information because foreign investors demand this kind of information to reduce their information processing costs when they invest. However, across-firm differences in the amount of information processing costs they impose for external investors may also be manifested in the form of differences in comparability. Blankespoor et al. (2020) consider information acquisition costs as the costs necessary to extract and quantify new information from firm disclosures, with acquisition costs forming part of the total information processing costs. Müller et al. (2015) define information processing costs in the form of differences in the strength of analyst following, with the number of analysts following the firm being negatively related to investors' information processing cost.

In response to these points, we divide our sample into subsamples of low vs. high levels of earnings management and low vs. high analyst following (i.e., the number of analysts following the firm in a year), when the latter is used as a proxy for differing levels of information processing costs for investors (Müller et al., 2015). Table 9 reports OLS regression results on the relation between changes in foreign vs. domestic institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1* (for $\Delta COMP1_{i,t+1}$) when dividing the sample into firm-year observations with low vs. high levels of accrual-based earnings management (columns (1) and (2), respectively) and observations with low vs. high analyst following (columns (3) and (4), respectively). Firms with low (high) levels of earnings management are those with values of absolute discretionary accruals based on the Modified Jones model (Dechow et al., 1995) below (above) the sample-year median, and firms with low (high) analyst following are those with an average number of analysts following the firm for a year below (above) the sample year median.

Insert Table 9 about here.

Results from Table 9 indicate that the association between foreign institutional ownership and future changes in comparability holds regardless of the level of earnings management or information processing costs firms possess. In this way, differences in the level of firm-specific preexisting accounting quality or investors' difficulties in processing firm-related information do not appear to significantly change the direction of our baseline results.

Controlling for peer firms' foreign institutional ownership

In relation to our empirical design, our dependent variables take the form of changes in accounting comparability between firm *i* and its foreign peers from year *t* to *t+1*, or levels of comparability for a firm in year *t+1*, while our independent variables of interest are changes in or levels of institutional holdings as of year *t*. However, if a firm's foreign institutional ownership affects its information comparability with its peer firms, then $\Delta COMP_{t+1}$ or $COMP_{t+1}$ might be affected not only by foreign institutional ownership of firm *i* but also by the average foreign institutional ownership of firm *i*'s peers.

We control for this possibility by including a variable that measures average changes in peer firms' foreign institutional ownership in a year among regressors ($\Delta PEER_{i,t}$), in the form of a robustness control for our findings. Table 10 reports results on the relation between changes in foreign/domestic institutional ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1* (column (1)) and between levels of foreign/domestic institutional ownership in year *t* and one-year ahead levels of firms' accounting comparability (column (2)), when including $\Delta PEER_{i,t}$ as an additional regressor. Our results for both changes in and levels of comparability in year *t+1* remain unchanged with the inclusion of this additional control.

Insert Table 10 about here.

4.5 Identification strategy - additions to MSCI

Following the methodological descriptions stated in Section 3.5, we first report – in Table 11 – preliminary results on the effect of new additions to the MSCI ACWI index on foreign and domestic, and foreign combined with active or passive institutional holdings, for newly added (treated) vs. non-added, but otherwise similar (control), propensity score-matched firms. Using pair fixed effects, the dependent variable is foreign institutional ownership in columns (1)–(2) in Panel A, and domestic institutional ownership is the dependent variable in columns (3)–(4). In Panel B, the dependent variable is foreign and active institutional ownership in columns (1)–(2), and foreign and passive institutional ownership in columns (3)–(4). Our independent variable of interest is $MSCI_{i,t}$, or a dummy variable equal to one when firm *i* is added to the MSCI ACWI index in year *t*, and zero otherwise. Columns (1) and (2) report estimates for a five-year window (or years [-2,2]); columns (3) and (4) report estimates for a three-year window (or years [-1,1]) around addition to the index for both panels.

Insert Table 11 about here.

Results reported in Panels A–B of Table 11 confirm previous findings by Kacperczyk et al. (2021) for our sample. Judging from the sign and significance of the $MSCI_{i,t}$ binary indicator, the results show that

new inclusions in the MSCI index significantly associate with higher foreign, but not domestic, institutional ownership (Panel A). Findings reported in Panel B indicate that MSCI inclusion significantly and positively associates with higher foreign and active, but generally not passive, institutional ownership, confirming Kacperczyk et al. (2021) in this respect.

Table 12 reports results for equation (7), when performing a generalized difference-in-differences estimation to examine whether new additions to the MSCI ACWI index are associated with subsequent higher levels of comparability for newly added vs. non-added propensity score-matched firms. In results reported in columns (1)–(3) ((4)–(6)), the dependent variable is *COMP1* (*COMP2*). Columns (1) and (4) report estimates for a six-year window (or years [-3,2], while columns (2) and (5) report estimates for a five-year window (or years [-2,2]) and columns (3) and (6) report estimates for a three-year window (or years [-1,1]) around addition to the index.

Insert Table 12 about here.

We observe from Table 12 that inclusion in the MSCI ACWI index positively and significantly associates with the level of accounting comparability for treated firms, regardless of model specification. The MSCI binary indicator is in almost every specification positively significant at either the 5% or 1% significance level, indicating that MSCI inclusion goes together with stronger financial statement comparability.

Finally, Appendix C reports results for equation (8), when applying a basic difference-in-differences estimation for comparability proxies *COMP1* (Panel A) and *COMP2* (Panel B) for a five-year (or years [-2,2]) or a three-year window (or years [-1,1]) around index addition, in columns (1) and (2), respectively, for both panels. We first observe that *Treat*, indicating that a firm has been newly added to the MSCI ACWI index on a given addition date, is not statistically significant in results reported in Panel A but is so in Panel B, tentatively indicating that newly added firms are characterized by lower levels of comparability on an absolute basis compared to control firms, at least when comparability is defined in terms of *COMP2*. We do not, overall, observe consistent statistical significance across panels and model specifications for the variable *Post*, indicating years after inclusion (i.e., year 1 and 2 post-addition). Importantly, we observe that in both panels, the coefficient of the interaction term between *Treat*×*Post* is positive and statistically significant at either 10% or 5% in results for both comparability proxies in both panels.

Evidence from Table 12, confirmed by findings reported in Appendix C, indicate overall that recent additions to the MSCI index are associated with significantly higher levels of accounting comparability for relevant firms, compared to their otherwise similar but not added to the index counterparts. This evidence contradicts the argument that institutional investors prefer to invest in firms with preexisting high levels of

accounting comparability, so their holdings should not actually produce any changes in accounting comparability. This is because we find that new firm inclusions in the index, which would be expected to attract more institutional holdings based on relevant arguments and evidence developed by previous research, are accompanied by significantly higher levels of comparability post-event for affected firms compared to otherwise similar but not added to the index counterparts.

5. Conclusion

We examine the association between institutional investor domicile, referring to holdings and changes in holdings by foreign vs. domestic investors, on the levels of and changes in the financial reporting comparability of firms with their same-industry foreign peers for a large global sample of firms reporting under the same set of standards, namely IFRS. Foreign investors have been shown to improve the information environment and price informativeness of domestic firms (Kacperczyk et al., 2021). We expect that institutional investing by foreign vs. domestic investors should make the monitoring of investee firms more stringent and thus produce improvements in firms' information environments by altering managerial reporting incentives to produce and report financial information more comparable with that of foreign peers. Thus, we posit that investments by foreign institutions should improve the accounting comparability of firms with same-industry foreign firms when they all apply the same set of standards on paper.

Our examination extends arguments and evidence by Fang et al. (2015) who found that US institutional investors bring about increases in the financial reporting comparability of firms from emerging markets with their US peers. Our research more comprehensively examines the importance of foreign vs. domestic institutions for achieving financial reporting convergence, with an explicit focus on the power of foreign vs. domestic investors to trigger changes in accounting comparability because of hypothesized differential monitoring effectiveness when investors are foreign, as opposed to domestic. We also examine the impact of investor style on financial reporting convergence by distinguishing between active and passive institutions. We anticipate that active investors should provide stronger and more effective monitoring for their investee firms, resulting in increased convergence of the financial reporting of firms with their different country peers.

We find that foreign institutional ownership, regardless of exact investor domicile, positively and significantly associates with both levels of and, importantly, changes in accounting comparability. However, this result does not hold for domestic institutional ownership. We then find that changes in active, but not passive, investor ownership (and levels thereof) positively associate with changes in and levels of the future accounting comparability of firms with their same-industry foreign peers. Thus, our evidence indicates that trading by active, but not by passive, investors associates with increased accounting comparability of domestic firms with their foreign peers following the investment. Importantly, we find that that the

combined effect of foreign and active institutional ownership associates with levels of and improvements in accounting comparability significantly more strongly than any other combination of investor style and domicile characteristics. This finding confirms our expectation that foreign institutional investment improves the informational environment of firms via increases in financial reporting comparability post-investment, even for firms that report under the same set of accounting regulations. However, this result is found to be mainly driven by active foreign investment, which has the ability to alter managerial reporting incentives and lead to increases in accounting comparability. Our results are robust to a battery of different types of fixed effects used in our estimations, which involve the use of firm fixed effects combined with country×year and industry×year fixed effects. Our results are also unaffected by any differences in firm-level financial reporting incentives, differences in levels of earnings management and information acquisition costs for outsiders across sample firms, and changes in institutional ownership within a firm's peer group in a given year.

To counteract the argument that institutional investors may tend to prefer firms that are already reporting in a more comparable manner, rather than preferring to have the ability to alter managerial incentives for reporting more comparably, we explicitly examine whether the inclusion of new stocks in the MSCI ACWI index associates with higher levels of accounting comparability following their addition to the index for newly added firms compared to propensity score-matched firms which did not experience this event. This examination is based on the expectation that foreign institutional holdings should increase for firms recently included in the MSCI index (Bena et al., 2017; Kalay et al., 2020; Kacperczyk et al., 2021). We find that new firm additions to the MSCI ASWI index significantly associate with higher levels of accounting comparability post-event, in comparison to non-added but otherwise comparable peer firms. This evidence indicates that foreign ownership can trigger improvements in comparability, as opposed to preexisting comparability being the driver of higher institutional holdings.

Our evidence extends Fang et al. (2015), who observe that US institutional investor holdings associate with improvements in comparability for emerging market firms reporting under different accounting standards to their US peers. We provide evidence that foreign institutional holdings have a positive influence on managerial motivations to report more comparatively even when the same set of standards are followed across jurisdictions. Furthermore, Kacperczyk et al. (2021) show that firms' information environments improve with higher foreign and, especially, active institutional ownership. Examining whether foreign institutional investors' ownership increases domestic investee firm comparability with foreign same-industry peers gives us the opportunity to investigate whether improved financial reporting comparability works in the form of a mechanism through which foreign institutional ownership improves the informational information efficiency of investee firms. Our evidence is consistent with foreign institutional investors improving firms' informational environment via increases in the

comparability of their accounting information with that of their foreign peers post-investment, and it therefore contributes to research on the economic effects of the geography of investing.

Finally, by decomposing investor characteristics into active vs. passive styles of investing (given that active vs. passive investors have been linked with improved stock price informativeness (Kacperczyk et al., 2021), we provide insights into how the differential strength of monitoring by active vs. passive investors could make firms' reporting more comparable with that of their foreign peers. Overall, our study provides evidence about which particular institutional investor characteristics associate with more comparable financial reporting, and it provides insights into potential market mechanisms that may significantly affect corporate financial reporting practices across countries.

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Appendix A – Table A.1: *Variable definitions*

Variable name	Variable definition (Source: Compustat Global, unless otherwise indicated)
Proxies for comparability and relevant calculations (Source: Compustat Global)	
NI	Income before extraordinary items, scaled by market capitalization at the beginning of year *t*.
Return	Buy-and-hold percentage stock return, computed from nine months prior to the fiscal year end *t* to three months after the end of the fiscal year end *t*. We adjust returns for dividends and stock splits.
ACC	Total accruals, calculated as the difference between income from continuing operations and net operating cash flow, scaled by lagged market capitalization.
CFO	Net operating cash flow scaled by lagged market capitalization.
COMP1	First proxy for accounting comparability (as described in Section 3.2).
ΔCOMP1	Change in $COMP1_t$ between years *t* and *t-1*.
COMP2	Second proxy for accounting comparability (as described in Section 3.2).
ΔCOMP2	Change in $COMP2_t$ between years *t* and *t-1*.
Ownership-related variables (Source: FactSet)	
InstInv	Fraction of a firm's shares held by institutional investors at the end of year *t*, relative to the firm's total number of shares outstanding.
ΔInstInv	Change in $InstInv_t$ between years *t* and *t-1*.
FOREIGN	Fraction of a firm's shares held at time *t* by all institutions domiciled in a different country as where the stock is listed, relative to the firm's total number of shares outstanding.
ΔFOREIGN	Change in $FOREIGN_t$ between years *t* and *t-1*.
DOMESTIC	Fraction of a firm's shares held at time *t* by all institutions domiciled in the same country as where the stock is listed, relative to the firm's total number of shares outstanding.
ΔDOMESTIC	Change in $DOMESTIC_t$ between years *t* and *t-1*.
ACTIVE	Fraction of a firm's shares held at time *t* by all active institutional investors following the definition of active investors by Ferreira and Matos (2008) (e.g., mutual funds, independent investment advisers, and hedge funds), relative to the firm's total number of shares outstanding.
ΔACTIVE	Change in $ACTIVE_t$ between years *t* and *t-1*.
PASSIVE	Fraction of a firm's shares held at time *t* by all passive institutional investors following the definition of passive investors by Ferreira and Matos (2008) (e.g., bank trusts, insurance companies, and other institutions), relative to the firm's total number of shares outstanding.
ΔPASSIVE	Change in $PASSIVE_t$ between years *t* and *t-1*.

FOR_ACTIVE	Fraction of a firm's shares held at time *t* by all foreign and active institutional investors, relative to the firm's total number of shares outstanding.
ΔFOR_ACTIVE	Change in FOR_ACTIVE_t between years *t* and *t-1*.
DOM_ACTIVE	Fraction of a firm's shares held at time *t* by all domestic and active institutional investors, relative to the firm's total number of shares outstanding.
ΔDOM_ACTIVE	Change in DOM_ACTIVE_t between years *t* and *t-1*.
FOR_PASSIVE	Fraction of a firm's shares held at time *t* by all foreign and passive institutional investors, relative to the firm's total number of shares outstanding.
ΔFOR_PASSIVE	Change in $FOR\_PASSIVE_t$ between years *t* and *t-1*.
DOM_PASSIVE	Fraction of a firm's shares held at time *t* by all domestic and passive institutional investors, relative to the firm's total number of shares outstanding.
ΔDOM_PASSIVE	Change in $DOM\_PASSIVE_t$ between years *t* and *t-1*.

Other variables used in the primary analyses and PSM (Source: Compustat Global or Orbis, Worldscope, and IBES if specifically indicated)

SIZE	Firm size, calculated as the natural logarithm of market capitalization in euros at the end of year *t*.
ΔSIZE	Change in $SIZE_t$ between years *t* and *t-1*.
ROA	Return-on-assets ratio, calculated as net income divided by book value of assets at the end of year *t*.
ΔROA	Change in ROA_t between years *t* and *t-1*.
BTM	Book-to-market ratio, calculated as book value of common equity divided by market capitalization at the end of year *t.*
ΔBTM	Change in BTM_t between years *t* and *t-1*.
RETVOL	Annualized stock return volatility in year *t*, calculated as the standard deviation of monthly returns times$\sqrt{12}$.
ΔRETVOL	Change in $RETVOL_t$ between years *t* and *t-1*.
CLOSE	Fraction of a firm's shares closely held by insiders and controlling shareholders at the end of year *t*, set to zero if missing (Source: Worldscope, item WC08021).
ΔCLOSE	Change in $CLOSE_t$ between years *t* and *t-1.*
ADR	An indicator variable that equals one if a firm is cross-listed on a US stock exchange, and zero otherwise as of the end of year *t*.
AGE	Firm age in years, retrieved from Orbis BvD. If not available in Orbis, age is approximated by the number of years the firm has been included in Compustat Global by the end of year *t*.
ANALYST	The number of analysts covering a stock at the end of year *t* (Source: IBES).
FOR_SALES	Foreign sales as a percentage of total sales measured at the end of year *t* (Source: Worldscope, item WC08731).
INVESTMENT	The sum of capital expenditure and R&D expenses divided by total assets.

ΔPEER	Change in peer firms' foreign institutional ownership in a year, when peer firm groups are defined in the same way as when measuring financial reporting comparability.
Financial reporting incentives	Firm-specific financial reporting incentives, calculated as the yearly principal component of the following factors: the natural log of market value, as a proxy for firm size; financial leverage; return on assets, as a measure of profitability; market-to-book, as a proxy for growth opportunities; and, finally, the % of closely held shares (defined as explained in this Appendix – variable *CLOSE*), following Daske et al. (2013) and Gao and Sidhu (2018).
Earnings management	Measure of earnings management, calculated in the form of the absolute value of discretionary accruals under the Modified Jones model (Dechow et al., 1995), as the difference between total accruals and non-discretionary accruals (*NDA*). The latter are the predicted values from the following regression equation, estimated according to year and industry (same industry definition as in comparability estimations) for the population of non-financial firms in our sample: $NDA_t = \alpha_1\left(\frac{1}{A_{t-1}}\right) + \alpha_2(\Delta REV_t - \Delta REC_t) + \alpha_3(PPE_t).\Delta REV_t - \Delta REC_t$ is change in sales minus change in net receivables between years t and $t-1$ and scaled by total assets in year $t-1$. *PPE* (Property, Plant, & Equipment) is also scaled by lagged total assets, and $\frac{1}{A_{t-1}}$ is the inverse of lagged total assets.
MSCI	Dummy variable equal to one when firm *i* is added to the MSCI ACWI index in year *t*, and zero otherwise.
Treat	Dummy variable equal to one if firm *i* is newly added to the MSCI ACWI index in year *t*, and zero otherwise.
Post	Dummy variable equal to one for firm-years following firm *i*'s MSCI ACWI index inclusion, and zero otherwise.

Appendix B –Table B.1: *The effect of institutional holdings on changes in accounting comparability: Imposing firm, country×year, and industry×year fixed effects*

Note: Panel A reports OLS regression results on the relation between changes in institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*, when using $\Delta COMP1_{t+1}$ ($\Delta COMP2_{t+1}$) as a proxy for changes in comparability in columns (1) and (3) ((2) and (4)). These are comparable to results reported in Table 4 of the paper, but this time by estimating all models with firm, country×year, and industry×year fixed effects. Standard errors, adjusted for heteroskedasticity and clustered at the institutional ownership level and at institutional ownership and year level (in columns (1) and (2) and (3) and (4), respectively), are reported in parentheses. Panel B reports regression results comparable to relevant results reported in Tables 5, 6, and 7 of the paper in columns (1) and (2), (3) and (4), and (5) and (6), respectively. Columns (1) and (2) of Panel B report OLS regression results on the relation between changes in foreign vs. domestic institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*. Columns (3) and (4) of Panel B report OLS regression results on the relation between the changes in active or passive institutional ownership *t-1* between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*. Columns (5) and (6) of Panel B report OLS regression results on the relation between changes in institutional investors' ownership characteristics ((foreign, domestic) & (active, passive)) between years *t* and *t-1*and subsequent changes in firms' accounting comparability from year *t* to *t+1*. Again, all regression models are estimated with firm, country×year, and industry×year fixed effects. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

Panel A: Table 4 equivalent results, estimated with firm, country×year, and industry×year fixed effects

	(1)	(2)	(3)	(4)
	$\Delta COMP1_{t+1}$	$\Delta COMP2_{t+1}$	$\Delta COMP1_{t+1}$	$\Delta COMP2_{t+1}$
	Standard errors clustered at the institutional ownership level		*Standard errors clustered at the institutional ownership and year level*	
$\Delta InstInv_t$	1.849***	2.959***	1.849***	2.959***
	(0.508)	(0.661)	(0.511)	(0.666)
$\Delta SIZE_t$	1.269***	1.659***	1.269***	1.659***
	(0.160)	(0.155)	(0.159)	(0.155)
ΔROA_t	0.0810	0.0236	0.0810	0.0236
	(0.0896)	(0.0191)	(0.0896)	(0.0191)
ΔBTM_t	-0.173	-0.366***	-0.173	-0.366***
	(0.107)	(0.118)	(0.111)	(0.119)
$\Delta RETVOL_t$	-1.467***	-1.471***	-1.467***	-1.471***
	(0.277)	(0.345)	(0.279)	(0.344)
$\Delta CLOSE_t$	0.218	-0.214	0.218	-0.214
	(0.354)	(0.429)	(0.354)	(0.431)
ADR_t	1.170**	0.567	1.170**	0.567
	(0.538)	(0.851)	(0.538)	(0.851)
FIRM FE	YES	YES	YES	YES
COUNTRY×YEAR FE	YES	YES	YES	YES
INDUSTRY×YEAR FE	YES	YES	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.190	0.211	0.190	0.211

Panel B: Table 5, 6, and 7 equivalent results, estimated with firm, country×year, and industry×year fixed effects

	(1)	(2)	(3)	(4)	(5)	(6)
	$\Delta COMP1_{t+1}$	$\Delta COMP2_{t+1}$	$\Delta COMP1_{t+1}$	$\Delta COMP2_{t+1}$	$\Delta COMP1_{t+1}$	$\Delta COMP2_{t+1}$
$\Delta FOREIGN_t$	2.671***	2.442***				
	(0.648)	(0.811)				
$\Delta DOMESTIC_t$	-0.728	1.021				
	(1.004)	(0.749)				
$\Delta ACTIVE_t$			1.192	1.200**		
			(0.778)	(0.583)		
$\Delta PASSIVE_t$			-4.127*	3.081		
			(2.332)	(2.607)		
ΔFOR_ACTIVE_t					3.616***	3.836***
					(0.977)	(1.235)
$\Delta FOR\_PASSIVE_t$					2.207	2.577
					(2.454)	(2.860)
ΔDOM_ACTIVE_t					0.0960	1.049
					(1.618)	(1.050)
$\Delta DOM\_PASSIVE_t$					-3.586	0.0527
					(2.339)	(2.699)
$\Delta SIZE_t$	0.746***	1.187***	0.735***	1.193***	0.733***	1.179***
	(0.165)	(0.165)	(0.167)	(0.165)	(0.166)	(0.165)
ΔROA_t	0.101**	0.026**	0.100**	0.026**	0.101**	0.026**
	(0.047)	(0.010)	(0.048)	(0.010)	(0.047)	(0.010)
ΔBTM_t	-0.296***	-0.474***	-0.297***	-0.473***	-0.299***	-0.476***
	(0.113)	(0.106)	(0.113)	(0.106)	(0.113)	(0.106)
$\Delta RETVOL_t$	-0.827***	-0.830**	-0.827***	-0.844**	-0.810***	-0.812**
	(0.279)	(0.357)	(0.279)	(0.357)	(0.279)	(0.357)
$\Delta CLOSE_t$	-0.072	-0.545	-0.055	-0.552	-0.047	-0.534
	(0.350)	(0.457)	(0.352)	(0.456)	(0.352)	(0.457)
ADR_t	0.935*	-0.186	0.931*	-0.187	0.982*	-0.124
	(0.536)	(1.258)	(0.537)	(1.260)	(0.535)	(1.256)
FIRM FE	YES	YES	YES	YES	YES	YES
COUNTRY×YEAR FE	YES	YES	YES	YES	YES	YES
INDUSTRY×YEAR FE	YES	YES	YES	YES	YES	YES
N	41,524	41,524	41,524	41,524	41,524	41,524
adj. R^2	0.184	0.217	0.184	0.217	0.184	0.217

Appendix C –Table C.1: *Institutional ownership and accounting comparability: Basic difference-in-differences estimation*

Note: This appendix reports results for equation (8), described in the text, when applying basic difference-in-differences estimation. In results reported in Panel A (Panel B), the dependent variable is the comparability proxy *COMP1* (*COMP2*). *Treat* is equal to one for firms added to the MSCI ACWI index on a given addition date, and zero otherwise; *Post* is equal to one for years after inclusion (i.e., year 1 and 2 post-inclusion), and zero otherwise. *Treat×Post* is the interaction term between the previous two variables. Regression models include year, country, and industry fixed effects. Column (1) reports estimates for a five-year window (or years [-2, 2]) and column (2) for a three-year window (or years [-1, 1]) around addition. The full set of control variables used in previous estimations is also included, but not reported for brevity. Robust standard errors clustered at the pair level are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

Panel A

	(1)		*(2)*	
	COMP1	*STANDARD ERRORS*	*COMP1*	*STANDARD ERRORS*
	(five- year window)		*(three- year window)*	
Treat	-1.157	(1.520)	-1.359	(1.395)
Post	4.100*	(2.105)	-0.970	(1.916)
*Treat*Post*	3.440*	(1.922)	4.740**	(2.063)
YEAR FE	YES		YES	
COUNTRY FE	YES		YES	
INDUSTRY FE	YES		YES	
N	2,382		1,513	
adj. R^2	0.125		0.169	

Panel B

	(1)		*(2)*	
	COMP2	*STANDARD ERRORS*	*COMP2*	*STANDARD ERRORS*
	(five- year window)		*(three- year window)*	
Treat	-3.008**	(1.198)	-3.447***	(1.281)
Post	-0.318	(1.397)	1.193	(0.922)
*Treat*Post*	2.669**	(1.336)	2.196*	(1.142)
YEAR FE	YES		YES	
COUNTRY FE	YES		YES	
INDUSTRY FE	YES		YES	
N	2,031		1,270	
adj. R^2	0.271		0.287	

Table 1 – *Summary descriptive statistics*

Note: This table presents summary statistics for the sample used in this study. The sample period extends from 2005–2018, unless otherwise specified. Detailed variable definitions are provided in Appendix A.

Variables	*N*	*Mean*	*STD*	*Q25*	*Median*	*Q75*
Accounting comparability variables						
COMP1	41,524	-23.485	16.88	-25.124	-18.97	-15.122
COMP2	41,524	-26.556	22.774	-30.567	-20.101	-14.187
ΔCOMP1	41,524	0.124	8.438	-1.766	0.179	2.307
ΔCOMP2	41,524	0.209	12.068	-2.755	0.293	3.506
Ownership variables (%)						
InstInv	41,524	24.764	23.536	5.457	18.036	37.427
FOREIGN	41,524	10.593	13.188	0.745	5.426	16.060
DOMESTIC	41,524	14.527	19.939	0.787	6.3302	20.435
ACTIVE	41,524	21.258	21.797	4.448	15.045	31.034
PASSIVE	41,524	3.862	6.817	0.000	0.937	4.802
FOR_ACTIVE	41,524	8.984	11.458	0.501	4.354	13.628
FOR_PASSIVE	41,524	1.322	3.317	0.000	0.160	1.632
DOM_ACTIVE	41,524	11.374	16.140	0.506	4.927	14.775
DOM_PASSIVE	41,524	3.142	7.272	0.000	0.000	2.948
Market-related and accounting variables						
SIZE	41,524	20.099	2.393	18.360	19.980	21.693
ROA	41,524	0.015	0.157	-0.002	0.038	0.079
BTM	41,524	1.053	1.569	0.318	0.627	1.176
RETVOL	41,524	0.355	0.204	0.211	0.300	0.442
CLOSE	41,524	0.420	0.263	0.195	0.432	0.627
ADR	41,524	0.013	0.115	0.000	0.000	0.000
AGE	41,524	36.648	35.915	12.000	21.000	47.000

Table 2 – *Yearly summary statistics for proxies for accounting comparability*

Note: This table presents summary statistics for year-on-year changes in the comparability proxies used by this study, i.e., *COMP1* and *COMP2*. Detailed variable definitions are provided in Section 3.1 and Appendix A.

ΔCOMP1				*ΔCOMP2*			
Fiscal Year	*Mean*	*Median*	*STD*	*Fiscal Year*	*Mean*	*Median*	*STD*
2005	4.527	3.390	10.067	2005	5.188	2.829	14.353
2006	2.567	2.157	7.059	2006	1.923	0.927	11.025
2007	2.630	1.654	8.568	2007	3.672	2.577	11.689
2008	3.029	2.208	8.567	2008	2.657	0.900	12.985
2009	-3.290	-2.258	9.099	2009	-4.814	-2.149	13.751
2010	-0.666	-0.428	6.489	2010	0.431	0.213	10.225
2011	-1.622	-1.118	6.757	2011	-0.851	-0.514	9.843
2012	-2.776	-1.849	8.103	2012	-3.392	-1.694	10.601
2013	-2.119	-1.202	8.194	2013	-2.372	-1.420	10.053
2014	1.857	1.924	9.661	2014	1.872	2.048	14.364
2015	-1.002	-0.106	8.762	2015	-1.442	-0.765	12.396
2016	-0.616	0.040	7.571	2016	-1.308	-0.015	10.896
2017	1.145	1.288	7.500	2017	1.662	1.472	11.557
2018	2.230	1.985	7.761	2018	4.331	3.448	11.283
Total	0.124	0.179	8.438	Total	0.209	0.293	12.068

Table 3 – *Correlation matrix*

Note: This table presents pairwise Pearson correlation coefficients for the variables used in the paper. One star (*) denotes statistical significance at the 1% level. Detailed variable definitions are provided in Appendix A.

	Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**
1	*COMP1*	1																	
2	*COMP2*	0.742*	1																
3	*InstInv*	0.129*	0.139*	1															
4	*FOREIGN*	0.103*	0.106*	0.611*	1														
5	*DOMESTIC*	0.087*	0.097*	0.826*	0.098*	1													
6	*ACTIVE*	0.127*	0.136*	0.948*	0.627*	0.795*	1												
7	*PASSIVE*	0.048*	0.054*	0.568*	0.216*	0.571*	0.341*	1											
8	*FOR_ACTIVE*	0.101*	0.107*	0.571*	0.961*	0.057*	0.594*	0.126*	1										
9	*FOR_PASSIVE*	0.061*	0.052*	0.276*	0.375*	0.089*	0.209*	0.312*	0.260*	1									
10	*DOM_ACTIVE*	0.093*	0.102*	0.794*	0.092*	0.933*	0.809*	0.321*	0.078*	0.095*	1								
11	*DOM_PASSIVE*	0.037*	0.051*	0.356*	0.009	0.431*	0.175*	0.715*	0.004	0.036*	0.231*	1							
12	*SIZE*	0.187*	0.165*	0.165*	0.358*	-0.041*	0.146*	0.103*	0.346*	0.179*	-0.055*	0.051*	1						
13	*ROA*	0.080*	0.065*	0.022*	0.021*	0.012	0.022*	0.008	0.021*	0.009	0.013*	0.005	0.043*	1					
14	*BTM*	-0.219*	-0.211*	-0.113*	-0.080*	-0.085*	-0.113*	-0.042*	-0.082*	-0.036*	-0.089*	-0.024*	-0.258*	0.007	1				
15	*RETVOL*	-0.286*	-0.259*	-0.103*	-0.117*	-0.044*	-0.105*	-0.022*	-0.116*	-0.067*	-0.054*	-0.028*	-0.225*	-0.066*	0.0496*	1			
16	*CLOSE*	-0.016*	-0.044*	-0.532*	-0.384*	-0.391*	-0.509*	-0.258*	-0.373*	-0.160*	-0.156*	-0.395*	-0.098*	-0.007	0.0905*	-0.045*	1		
17	*ADR*	-0.001	0.004	0.032*	0.112*	-0.036*	0.035*	-0.003	0.108*	0.046*	-0.031*	-0.032*	0.126*	0.002	0,0024	-0,001	-0.064*	1	
18	*AGE*	0.090*	0.069*	0.052*	0.114*	-0.015*	0.043*	0.037*	0.113*	0.064*	-0.020*	0.062*	0.166*	0.016*	0.0559*	-0.216*	-0.024*	0.029*	1

Table 4 – *The effect of institutional holdings on accounting comparability*

Note: Panel A reports OLS regression results on the relation between changes in institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t to t+1*, when using $\Delta COMP1_{t+1}$ ($\Delta COMP2_{t+1}$) as a proxy for changes in comparability in columns (1) and (3) ((2) and (4)). Panel B reports OLS regression results on the relation between the levels of institutional investors' ownership in year *t* and subsequent levels of firms' accounting comparability, when using $COMP1_{t+1}$ ($\Delta COMP2_{t+1}$) as a proxy for comparability in columns (1) and (3) ((2) and (4)). Columns (1) and (2) ((3) and (4)) report results with year and firm (country×year and industry) fixed effects in both panels. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

Panel A

	(1) $\Delta COMP1_{t+1}$	*(2)* $\Delta COMP2_{t+1}$	*(3)* $\Delta COMP1_{t+1}$	*(4)* $\Delta COMP2_{t+1}$
$\Delta InstInv_t$	1.644***	2.813***	1.948***	3.162***
	(0.496)	(0.748)	(0.481)	(0.716)
$\Delta SIZE_t$	0.837***	1.372***	1.374***	1.860***
	(0.171)	(0.173)	(0.177)	(0.173)
ΔROA_t	0.099**	0.023***	0.076	0.022*
	(0.044)	(0.008)	(0.057)	(0.013)
ΔBTM_t	-0.295***	-0.491***	-0.182	-0.387***
	(0.111)	(0.112)	(0.111)	(0.112)
$\Delta RETVOL_t$	-0.905***	-1.120***	-1.542***	-1.704***
	(0.274)	(0.356)	(0.272)	(0.353)
$\Delta CLOSE_t$	-0.015	-0.753	0.212	-0.529
	(0.358)	(0.474)	(0.351)	(0.441)
ADR_t	0.998*	-0.294	1.667***	1.051
	(0.573)	(1.346)	(0.557)	(0.904)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.078	0.061	0.111	0.092

Panel B

	(1) $COMP1_{t+1}$	*(2)* $COMP2_{t+1}$	*(3)* $COMP1_{t+1}$	*(4)* $COMP2_{t+1}$
$InstInv_t$	4.340***	6.687***	5.370***	7.154***
	(1.023)	(1.310)	(0.781)	(1.091)
$SIZE_t$	2.999***	3.863***	0.368***	0.457***
	(0.290)	(0.337)	(0.134)	(0.171)
ROA_t	0.210***	0.160***	0.566***	0.476***
	(0.043)	(0.055)	(0.154)	(0.149)
BTM_t	-0.095	-0.316	-2.481***	-3.121***
	(0.212)	(0.232)	(0.293)	(0.318)
$RETVOL_t$	-8.642***	-10.670***	-19.770***	-23.220***
	(0.602)	(0.761)	(0.914)	(1.152)
$CLOSE_t$	0.705	0.554	2.128***	0.606
	(0.780)	(0.945)	(0.649)	(0.940)
ADR_t	1.741	0.134	0.0322	-0.913
	(2.242)	(1.793)	(1.069)	(1.666)
AGE_t	-0.010	-0.086	0.010**	0.004
	(0.132)	(0.078)	(0.005)	(0.007)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.128	0.113	0.272	0.251

Table 5 – *Foreign vs. domestic institutional holdings and accounting comparability*

Note: Panel A reports OLS regression results on the relation between changes in foreign vs. domestic institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*, when using $\Delta COMP1_{t+1}$ ($\Delta COMP2_{t+1}$) as a proxy for changes in comparability in columns (1) and (3) ((2) and (4)). Panel B reports OLS regression results on the relation between the levels of foreign vs. domestic institutional investors' ownership in year *t* and subsequent levels of firms' accounting comparability, when using $COMP1_{t+1}$ ($COMP2_{t+1}$) as a proxy for comparability in columns (1) and (3) ((2) and (4)). Columns (1) and (2) ((3) and (4)) report results estimated with year and firm (country×year and industry) fixed effects in both panels. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

Panel A

	(1) $\Delta COMP1_{t+1}$	*(2)* $\Delta COMP2_{t+1}$	*(3)* $\Delta COMP1_{t+1}$	*(4)* $\Delta COMP2_{t+1}$
$\Delta FOREIGN_t$	2.889***	2.752***	2.983***	2.891***
	(0.659)	(0.919)	(0.609)	(0.855)
$\Delta DOMESTIC_t$	-0.808	1.005	-0.581	1.141
	(0.987)	(0.753)	(0.889)	(0.722)
$\Delta SIZE_t$	0.845***	1.380***	1.384***	1.871***
	(0.171)	(0.173)	(0.177)	(0.173)
ΔROA_t	0.099**	0.030***	0.077	0.022
	(0.043)	(0.008)	(0.055)	(0.014)
ΔBTM_t	-0.294***	-0.490***	-0.181	-0.386***
	(0.111)	(0.112)	(0.111)	(0.112)
$\Delta RETVOL_t$	-0.899***	-1.127***	-1.542***	-1.719***
	(0.274)	(0.356)	(0.272)	(0.353)
$\Delta CLOSE_t$	-0.0392	-0.786*	0.182	-0.571
	(0.358)	(0.475)	(0.351)	(0.442)
ADR_t	0.980*	-0.317	1.647***	1.025
	(0.573)	(1.344)	(0.558)	(0.902)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.078	0.061	0.111	0.092

Panel B

	(1) $COMP1_{t+1}$	*(2)* $COMP2_{t+1}$	*(3)* $COMP1_{t+1}$	*(4)* $COMP2_{t+1}$
$FOREIGN_t$	3.762***	5.396***	3.332***	4.960***
	(1.371)	(1.618)	(1.131)	(1.535)
$DOMESTIC_t$	1.803*	4.147***	3.967***	6.277***
	(1.001)	(1.327)	(1.207)	(1.191)
$SIZE_t$	3.020***	3.887***	0.423***	0.511***
	(0.291)	(0.338)	(0.140)	(0.177)
ROA_t	0.210***	0.160***	0.568***	0.477***
	(0.043)	(0.055)	(0.156)	(0.151)
BTM_t	-0.092	-0.312	-2.467***	-3.106***
	(0.212)	(0.232)	(0.294)	(0.318)
$RETVOL_t$	-8.680***	-10.730***	-19.940***	-23.360***
	(0.603)	(0.763)	(0.932)	(1.157)
$CLOSE_t$	0.539	0.355	1.652**	0.204
	(0.777)	(0.943)	(0.659)	(0.934)
ADR_t	1.676	0.083	-0.007	-0.910
	(2.240)	(1.796)	(1.069)	(1.669)
AGE_t	-0.007	-0.083	0.010**	0.004
	(0.129)	(0.075)	(0.005)	(0.007)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.128	0.112	0.271	0.251

Table 6 – *Active vs. passive institutional holdings and accounting comparability*

Note: Panel A reports OLS regression results on the relation between the changes in active or passive institutional ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*, when using $\Delta COMP1_{t+1}$ ($\Delta COMP2_{t+1}$) as a proxy for changes in comparability in columns (1) and (3) ((2) and (4)). Panel B reports OLS regression results on the relation between the levels of active or passive institutional ownership in year *t* and subsequent levels of firms' accounting comparability, when using $COMP1_{t+1}$ ($COMP2_{t+1}$) as a proxy for comparability in columns (1) and (3) ((2) and (4)). Columns (1) and (2) ((3) and (4)) report results with year and firm (country×year and industry) fixed effects in both panels. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

Panel A

	(1) $\Delta COMP1_{t+1}$	*(2)* $\Delta COMP2_{t+1}$	*(3)* $\Delta COMP1_{t+1}$	*(4)* $\Delta COMP2_{t+1}$
$\Delta ACTIVE_t$	1.135	1.327**	1.339*	1.450**
	(0.776)	(0.607)	(0.701)	(0.570)
$\Delta PASSIVE_t$	-3.710	2.971	-3.664*	3.231
	(2.412)	(2.660)	(2.213)	(2.543)
$\Delta SIZE_t$	0.836***	1.385***	1.378***	1.877***
	(0.173)	(0.173)	(0.179)	(0.173)
ΔROA_t	0.099**	0.030***	0.076	0.022
	(0.044)	(0.008)	(0.056)	(0.014)
ΔBTM_t	-0.294***	-0.489***	-0.180	-0.386***
	(0.111)	(0.112)	(0.111)	(0.112)
$\Delta RETVOL_t$	-0.900***	-1.141***	-1.544***	-1.732***
	(0.274)	(0.356)	(0.272)	(0.353)
$\Delta CLOSE_t$	-0.029	-0.796*	0.189	-0.583
	(0.359)	(0.474)	(0.353)	(0.442)
ADR_t	0.987*	-0.309	1.657***	1.029
	(0.572)	(1.345)	(0.556)	(0.903)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.078	0.061	0.111	0.092

Panel B

	(1) $COMP1_{t+1}$	*(2)* $COMP2_{t+1}$	*(3)* $COMP1_{t+1}$	*(4)* $COMP2_{t+1}$
$ACTIVE_t$	3.273***	5.038***	3.937***	6.094***
	(0.922)	(1.104)	(0.985)	(1.064)
$PASSIVE_t$	-2.365	1.775	2.703	4.336
	(2.572)	(4.082)	(2.444)	(3.043)
$SIZE_t$	3.025***	3.890***	0.414***	0.492***
	(0.289)	(0.337)	(0.133)	(0.170)
ROA_t	0.209***	0.160***	0.568***	0.477***
	(0.043)	(0.055)	(0.156)	(0.150)
BTM_t	-0.090	-0.311	-2.470***	-3.112***
	(0.212)	(0.232)	(0.293)	(0.317)
$RETVOL_t$	-8.657***	-10.710***	-19.920***	-23.340***
	(0.601)	(0.761)	(0.933)	(1.158)
$CLOSE_t$	0.507	0.335	1.688**	0.274
	(0.777)	(0.944)	(0.664)	(0.934)
ADR_t	1.690	0.093	-0.035	-0.963
	(2.241)	(1.796)	(1.067)	(1.666)
AGE_t	-0.005	-0.081	0.010**	0.004
	(0.128)	(0.074)	(0.005)	(0.007)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.128	0.112	0.271	0.251

Table 7 – *The effect of combined institutional characteristics ((foreign, domestic) & (active, passive)) on accounting comparability*

Note: Panel A reports OLS regression results on the relation between changes in institutional investors' ownership characteristics ((foreign, domestic) & (active, passive)) between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*, when using $\Delta COMP1_{t+1}$ ($\Delta COMP2_{t+1}$) as a proxy for changes in comparability in columns (1) and (3) ((2) and (4)). Panel B reports OLS regression results on the relation between the levels of institutional investors' ownership characteristics ((foreign, domestic) & (active, passive)) in year *t* and subsequent levels of firms' accounting comparability, when using $COMP1_{t+1}$ ($COMP2_{t+1}$) as a proxy for comparability in columns (1) and (3) ((2) and (4)). Columns (1) and (2) ((3) and (4)) report results with year and firm (country×year and industry) fixed effects in both panels. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

Panel A

	(1) $\Delta COMP1_{t+1}$	*(2)* $\Delta COMP2_{t+1}$	*(3)* $\Delta COMP1_{t+1}$	*(4)* $\Delta COMP2_{t+1}$
ΔFOR_ACTIVE_t	3.770***	4.512***	3.888***	4.627***
	(0.996)	(1.383)	(0.887)	(1.240)
ΔDOM_ACTIVE_t	-0.134	1.107	0.477	1.724*
	(1.644)	(1.070)	(1.486)	(1.047)
$\Delta FOR\_PASSIVE_t$	2.117	1.487	2.713	2.894
	(2.411)	(3.146)	(1.886)	(2.716)
$\Delta DOM\_PASSIVE_t$	-2.214	0.696	-2.430	0.184
	(2.367)	(2.595)	(2.192)	(2.440)
$\Delta SIZE_t$	0.834***	1.369***	1.370***	1.854***
	(0.173)	(0.173)	(0.179)	(0.173)
ΔROA_t	0.099**	0.030***	0.077	0.022*
	(0.044)	(0.008)	(0.056)	(0.013)
ΔBTM_t	-0.297***	-0.493***	-0.184*	-0.391***
	(0.111)	(0.112)	(0.112)	(0.112)
$\Delta RETVOL_t$	-0.885***	-1.110***	-1.528***	-1.700***
	(0.274)	(0.356)	(0.272)	(0.353)
$\Delta CLOSE_t$	-0.0172	-0.769	0.213	-0.542
	(0.359)	(0.475)	(0.352)	(0.443)
ADR_t	1.033*	-0.251	1.696***	1.091
	(0.572)	(1.339)	(0.557)	(0.895)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.078	0.061	0.111	0.092

Panel B

	(1) $COMP1_{t+1}$	*(2)* $COMP2_{t+1}$	*(3)* $COMP1_{t+1}$	*(4)* $COMP2_{t+1}$
FOR_ACTIVE_t	5.117***	7.309***	3.390***	6.140***
	(1.723)	(2.057)	(1.303)	(1.775)
DOM_ACTIVE_t	4.038**	6.678***	5.184***	7.487***
	(1.681)	(2.039)	(1.597)	(1.589)
$FOR\_PASSIVE_t$	3.553	4.877	6.878**	2.148
	(3.958)	(5.066)	(2.741)	(4.595)
$DOM\_PASSIVE_t$	-2.629	-0.974	2.329	4.910*
	(3.000)	(4.260)	(1.820)	(2.522)
$SIZE_t$	2.991***	3.850***	0.405***	0.491***
	(0.290)	(0.337)	(0.140)	(0.178)
ROA_t	0.210***	0.160***	0.567***	0.476***
	(0.043)	(0.055)	(0.155)	(0.150)
BTM_t	-0.099	-0.322	-2.470***	-3.108***
	(0.212)	(0.232)	(0.294)	(0.318)
$RETVOL_t$	-8.627***	-10.660***	-19.840***	-23.230***
	(0.599)	(0.758)	(0.940)	(1.159)
CLOSEt	0.666	0.505	1.759***	0.340
	(0.785)	(0.947)	(0.673)	(0.939)
ADR_t	1.679	0.086	0.031	-0.873
	(2.238)	(1.794)	(1.068)	(1.668)
AGE_t	-0.009	-0.087	0.010**	0.004
	(0.128)	(0.073)	(0.005)	(0.007)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	41,524	41,524	41,524	41,524
adj. R^2	0.128	0.113	0.271	0.251

Table 8 – *Accounting for different levels of firm financial reporting incentives among firms*

Note: The table reports OLS regression results on the relation between changes in foreign vs. domestic institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*, when dividing the sample into firms with low vs. high financial reporting incentives. Firms with low (high) reporting incentives are those with values for the proxy by Daske et al. (2013) (defined in detail in Appendix A) below (above) the sample-year median, and relevant results are reported in columns (1) and (2) and (3) and (4), respectively. $\Delta COMP1_{t+1}$ is a proxy for changes in comparability from year *t* to *t+1*. Columns (1) and (3) ((2) and (4)) report results with year and firm (country×year and industry) fixed effects. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

	Firms with low reporting incentives		*Firms with high reporting incentives*	
	(1)	*(2)*	*(3)*	*(4)*
	Dependent variable: $\Delta COMP1_{t+1}$			
$\Delta FOREIGN_t$	3.032*	3.495**	2.876***	2.385***
	(1.741)	(1.651)	(0.814)	(0.810)
$\Delta DOMESTIC_t$	-0.398	-0.808	-1.621	-1.338
	(1.341)	(1.323)	(1.124)	(1.204)
$\Delta SIZE_t$	0.645***	0.624***	0.595***	0.434**
	(0.245)	(0.238)	(0.209)	(0.204)
ΔROA_t	-0.306***	-0.269***	0.105***	0.108***
	(0.040)	(0.060)	(0.007)	(0.009)
ΔBTM_t	-0.326**	-0.309*	-0.364**	-0.393***
	(0.156)	(0.158)	(0.146)	(0.142)
$\Delta RETVOL_t$	-1.179***	-1.119***	-0.494	-0.424
	(0.426)	(0.434)	(0.375)	(0.372)
$\Delta CLOSE_t$	0.532	-0.030	-0.226	-0.268
	(0.577)	(0.559)	(0.487)	(0.469)
ADR_t	4.596***	5.754***	1.102	0.433
	(0.936)	(1.362)	(0.696)	(0.461)
FIRM FE	YES	YES	NO	NO
YEAR FE	YES	YES	NO	NO
COUNTRY×YEAR FE	NO	NO	YES	YES
INDUSTRY FE	NO	NO	YES	YES
N	17,068	17,068	29,266	29,266
adj. R^2	0.082	0.198	0.092	0.258

Table 9 – *Accounting for different levels of earnings management and analyst following among firms*

Note: This table reports OLS regression results on the relation between changes in foreign vs. domestic institutional investors' ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1*, when dividing the sample into firms with low vs. high levels of accrual-based earnings management (columns (1) and (2), respectively) and firms with low vs. high analyst following (columns (3) and (4), respectively). Firms with low (high) levels of earnings management are those with values of absolute discretionary accruals based on the Modified Jones model (Dechow et al., 1995) below (above) the sample-year median, and firms with low (high) analyst following are those with an average number of analysts following the firm for a year below (above) the sample-year median. Earnings management and analyst following variables are defined in detail in Appendix A. $\Delta COMP1_{t+1}$ is a proxy for changes comparability. Results in all columns are calculated with country×year and industry fixed effects. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

	Firms with low vs. high earnings management		*Firms with low vs. high analyst following*	
	(1)	*(2)*	*(3)*	*(4)*
	Dependent variable: $\Delta COMP1_{t+1}$			
$\Delta FOREIGN_t$	1.562**	5.176***	4.479***	2.685***
	(0.739)	(1.382)	(1.049)	(0.995)
$\Delta DOMESTIC_t$	-1.095	-1.174	-2.527*	-1.272
	(0.723)	(1.720)	(1.358)	(1.293)
$\Delta SIZE_t$	0.314	0.789***	0.645***	0.525*
	(0.258)	(0.193)	(0.189)	(0.287)
ΔROA_t	0.162***	0.015	-0.018	0.105***
	(0.043)	(0.013)	(0.022)	(0.012)
ΔBTM_t	-0.150	-0.608***	-0.382**	-0.395**
	(0.146)	(0.175)	(0.154)	(0.158)
$\Delta RETVOL_t$	-0.963**	-1.033**	-0.999***	-0.938**
	(0.410)	(0.409)	(0.382)	(0.411)
$\Delta CLOSE_t$	0.253	-0.751	0.307	-0.334
	(0.462)	(0.598)	(0.490)	(0.534)
ADR_t	0.611	1.469	0.0253	1.037
	(0.756)	(1.146)	(0.956)	(0.700)
COUNTRY×YEAR FE	YES	YES	YES	YES
INDUSTRY FE	YES	YES	YES	YES
N	22,109	20,136	21,362	24,865
adj. R^2	0.276	0.182	0.227	0.220

Table 10 – *Controlling for peer firms' changes in foreign institutional ownership*

Note: This table reports OLS regression results on the relation between changes in foreign/domestic institutional ownership between years *t* and *t-1* and subsequent changes in firms' accounting comparability from year *t* to *t+1* (Column (1)), and results on the relation between the levels of foreign/domestic institutional ownership in year *t* and subsequent levels of firms' accounting comparability (Column (2)), when including a variable measuring average changes in peer firms' foreign institutional ownership in a year among regressors ($\Delta PEER_{i,t}$). $\Delta PEER_{i,t}$ is calculated by defining peer groups in the same way as in comparability estimations. $\Delta COMP1_{t+1}$ ($COMP1_{t+1}$) is a proxy for changes in (levels of) comparability. Results in all columns are calculated with country×year and industry fixed effects. Standard errors, adjusted for heteroskedasticity and clustered at the firm level, are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% level, respectively. Detailed variable definitions are provided in Appendix A.

	(1) $\Delta COMP1_{t+1}$	*(2)* $COMP1_{t+1}$
$\Delta FOREIGN_t$	3.178***	
	(0.754)	
$FOREIGN_t$		4.645***
		(1.215)
$\Delta DOMESTIC_t$	-1.687	
	(1.223)	
$DOMESTIC_t$		2.227***
		(0.850)
$\Delta SIZE_t$	0.734***	
	(0.173)	
$SIZE_t$		2.256***
		(0.205)
ΔROA_t	0.065	
	(0.046)	
ROA_t		0.087***
		(0.032)
ΔBTM_t	-0.267**	
	(0.112)	
BTM_t		0.0519
		(0.158)
$\Delta RETVOL_t$	-0.968***	
	(0.280)	
$RETVOL_t$		-8.275***
		(0.507)
$\Delta CLOSE_t$	-0.218	
	(0.377)	
$CLOSE_t$		0.641
		(0.589)
ADR_t	1.045*	0.214
	(0.594)	(1.334)
AGE_t		0.044
		(0.131)
$\Delta PEER_t$	-3.353	21.220*
	(9.064)	(12.610)
COUNTRY×YEAR FE	YES	YES
INDUSTRY FE	YES	YES
N	42,688	48,993
adj. R^2	0.214	0.270

Table 11 – *Controlling for endogeneity: The association between new firm additions to MSCI ACWI and levels of foreign (active or passive) and domestic institutional ownership*

Note: This table reports results on the effect of new additions to the MSCI ACWI index on foreign and domestic, and foreign combined with active or passive institutional holdings, for newly added (treated) vs. non-added, but otherwise similar (control), propensity score-matched firms. In Panel A, the dependent variable is foreign (domestic) institutional ownership in results reported in columns (1)–(3) ((4)–(6)). In Panel B, the dependent variable is foreign and active (foreign and passive) institutional ownership in columns (1)–(3) ((4)–(6)). $MSCI_{i,t}$ is a dummy variable equal to one when firm *i* is added to the MSCI ACWI index in year *t*, and zero otherwise. Columns (1) and (3) report estimates for a five-year window (or years [-2, 2]) and columns (2) and (4) for a three-year window (or years [-1, 1]) around addition in both panels. For brevity, the full set of control variables used in previous estimations are not reported in Panel B. Firm and year fixed effects are used in all estimations. Robust standard errors clustered at the pair level are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Detailed variable definitions are provided in Appendix A.

Panel A

	(1) *FOREIGN (five-year window)*	(2) *FOREIGN (three-year window)*	(3) *DOMESTIC (five-year window)*	(4) *DOMESTIC (three-year window)*
$MSCI_t$	1.935**	1.584**	0.449	0.815
	(0.804)	(0.767)	(0.885)	(0.939)
$SIZE_t$	0.0254	-0.107	-1.508***	-1.726**
	(0.442)	(0.521)	(0.579)	(0.673)
ROA_t	-1.395	-3.116	6.985**	6.726**
	(2.101)	(2.329)	(3.005)	(3.300)
BTM_t	-0.324	-0.427	-0.155	-0.156
	(0.672)	(0.926)	(0.358)	(0.377)
$RETVOL_t$	-1.950	-1.925	-2.473	0.200
	(2.818)	(3.506)	(2.188)	(2.561)
$CLOSE_t$	-24.600***	-23.860***	-24.440***	-25.000***
	(2.382)	(2.424)	(2.954)	(3.200)
ADR_t	-3.832	-7.142	-15.720**	-13.690*
	(7.046)	(6.284)	(6.934)	(7.886)
AGE_t	0.001	0.003	-0.038	-0.035
	(0.016)	(0.017)	(0.025)	(0.029)
FIRM FE	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES
N	2,331	1,478	2,331	1,478
adj. R^2	0.212	0.198	0.194	0.204

Panel B

	(1) *FOR_ACTIVE (five-year window)*	(2) *FOR_ACTIVE (three-year window)*	(3) *FOR_PASSIVE (five-year window)*	(4) *FOR_PASSIVE (three-year window)*
$MSCI_t$	1.864***	1.949***	0.380*	0.229
	(0.701)	(0.677)	(0.194)	(0.179)
FIRM FE	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES
N	2,358	1,498	2,358	1,498
adj. R^2	0.202	0.190	0.130	0.138

Table 12 – *Controlling for endogeneity: The association between institutional ownership and accounting comparability examined through a generalized difference-in-differences methodology*

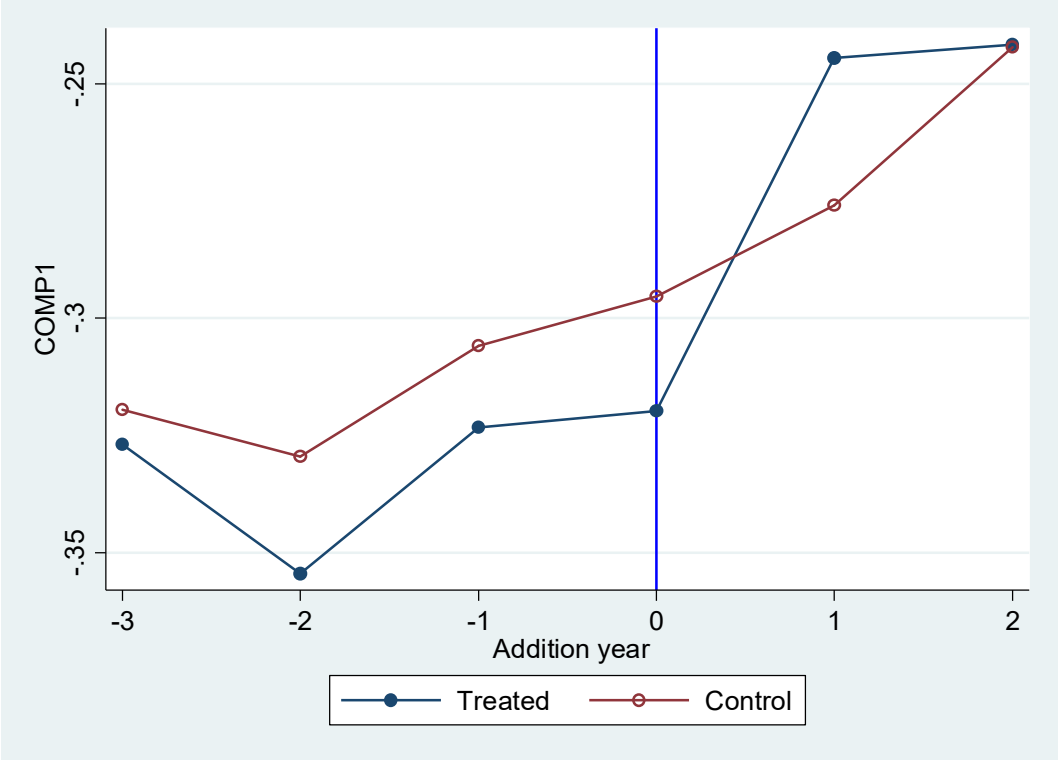
Note: This table reports results for equation (7), reported in the text, when performing a generalized difference-in-differences estimation to examine whether new additions to the MSCI ACWI index are associated with subsequent higher levels of comparability for newly added vs. non-added propensity score-matched firms. In results reported in columns (1)–(3) ((4)–(6)), the dependent variable is our comparability proxy *COMP1* (*COMP2*). $MSCI_{i,t}$ is a dummy variable equal to one when firm *i* is added to the MSCI ACWI index in year *t*, and zero otherwise. Columns (1) and (4) report estimates for a six-year window (or years [-3, 2]), columns (2) and (5) for a five-year window (or years [-2, 2]), and columns (3) and (6) for a three-year window (or years [-1, 1]) around addition. Firm and year fixed effects are used in all estimations. Robust standard errors clustered at the firm level are reported in parentheses. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Detailed variable definitions are provided in Appendix A.

	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent variable: COMP1			*Dependent variable: COMP2*		
	(six-year window)	*(five-year window)*	*(three-year window)*	*(six-year window)*	*(five-year window)*	*(three-year window)*
$MSCI_t$	1.384**	1.564**	1.415***	2.319	3.077**	3.168**
	(0.634)	(0.642)	(0.527)	(1.413)	(1.426)	(1.289)
$SIZE_t$	0.160	0.112	-0.456	5.834**	5.492**	4.494*
	(0.639)	(0.626)	(0.664)	(2.494)	(2.494)	(2.669)
ROA_t	2.223	1.358	3.246	0.264	0.0926	16.72
	(2.163)	(2.071)	(2.224)	(1.001)	(0.838)	(15.56)
BTM_t	0.181	0.879**	1.125**	3.604*	3.613*	4.118
	(0.543)	(0.405)	(0.435)	(1.910)	(1.999)	(2.791)
$RETVOL_t$	-1.377	-0.522	-2.149	-2.667	-1.411	1.872
	(1.773)	(1.989)	(1.817)	(3.657)	(4.098)	(5.035)
$CLOSE_t$	1.131	1.436	1.255	6.120*	7.880**	4.067
	(1.675)	(1.714)	(2.276)	(3.551)	(4.009)	(5.258)
ADR_t	-7.355	-9.538	2.451	3.371	7.571***	1.602
	(9.107)	(12.01)	(1.514)	(2.734)	(2.729)	(2.651)
AGE_t	-0.034	-0.132	-0.025	-0.483	-0.766	-0.650
	(0.239)	(0.231)	(0.235)	(0.464)	(0.485)	(0.547)
FIRM FE	YES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES	YES
N	2,240	1,923	1,215	2,538	2,193	1,387
adj. R^2	0.154	0.172	0.163	0.082	0.082	0.096

Graph 1a –(1b) *Institutional ownership and accounting comparability around additions to the MSCI ACWI index*

Note: Graph 1a (1b) plots the evolution of average accounting comparability as measured by our *COMP1* (*COMP2*) proxy, calculated for both treated and control firms around stock additions to the MSCI ACWI index, following a PSM procedure between firms added vs. those otherwise similar but not added to the MSCI index, as described in Section 3.5. *COMP1* and *COMP2* are calculated in raw (not in percentage) form. Year [-1, 0] is the year when treated firms are added to the MSCI ACWI index. Detailed variable definitions for comparability variables are provided in Section 3.1 and Appendix A.

Graph 1a



Graph 1b