

Bank market power and the quality of earnings forecasts

Takanori TANAKA

Kansai University

Abstract

This study documents the bias of management earnings forecasts by banks with market power. Using data on Japanese banks over the period 2007-2019, this study examines whether and how bank market power affects the bias of management earnings forecasts. I find that banks with higher market power are likely to issue more biased (less accurate) earnings forecasts. Especially, banks with higher market power are likely to issue optimistic earnings forecasts. The effect of bank market power on the bias of earnings forecasts is likely to be mainly driven by the risk-taking behaviors. Overall, these findings show that competitive environment surrounding banks is important for understanding the quality of financial disclosure.