

Accounting choice in measurement and comparability: an examination of the effect of the fair value option

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Abstract

The choice between historical cost and fair value measurement is one of the most debated issues among accounting academics and practitioners. In this paper, we use the election of the fair value option (FVO) to study the effects of entities' measurement choice on accounting comparability. The FVO enables entities to use different measurement bases for similar assets/liabilities, raising questions about whether the FVO compromises or enhances comparability. Using a sample of US banks, we find that FVO elections increase comparability both across FVO electing banks and between FVO electing banks and banks that never elect the FVO, but only if the FVO elections comply with the intent of the standard setters to remedy accounting mismatches. Overall, our results suggest that banks elect the FVO to better present their economics, yielding higher comparability.

Keywords: fair value option; comparability; financial instruments; banks.

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1 Introduction

The choice between fair value and historical cost measurement is one of the most debated issues in the accounting literature. As the measurement basis is often determined by accounting standard setters, there is limited evidence from settings where the choice between fair value and historical cost is made by entities (Christensen and Nikolaev 2013). In this paper, we use the election of the fair value option (FVO) for financial instruments under SFAS 155, 156 and 159 by a sample of US banks to study the effect of entities' measurement choice on the comparability of accounting numbers (hereafter "comparability"). Using the approach of De Franco, Kothari, and Verdi (2011), we measure comparability by the mapping of economic events into entities' accounting numbers.

The FVO allows entities to elect fair value measurement for most financial assets and liabilities (for servicing assets/liabilities) on an instrument-by-instrument basis (on a class basis). The FVO was introduced by Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) to allow accounting to better represent the underlying economic relationships among related assets and liabilities, thereby reducing volatility arising from the current mixed-attribute measurement model. Allowing different accounting treatments for the same asset/liability stirred important debate as to whether the FVO compromises the fundamental and enhancing qualitative characteristics of accounting numbers, particularly comparability. Indeed, the American Accounting Association criticized the FVO as yielding noncomparable accounting numbers and two FASB board members dissented from the issuance of SFAS 159, mainly because of the FVO's expected negative impact on the consistency and comparability of financial statements (AAA 2007; FASB 2007).

Comparability is one of the enhancing qualitative characteristics of accounting numbers. Accounting numbers are considered comparable if two entities that face similar (different) economic outcomes report similar (different) accounting numbers (FASB 2010; IASB 2018).

Our study expands the understanding of the impact of the FVO by examining its effect on the comparability of an entity's accounting numbers. Our focus on comparability differs from other studies examining the impact of the FVO on earnings' volatility and information asymmetry (Chang, Liu, and Ryan 2021; Fiechter 2011; Guthrie, Irving, and Sokolowsky 2011).

The effect of the FVO on comparability is not clear *a priori*, as FVO elections involve both signal and noise about economically-related assets and liabilities. On one hand, using the FVO as a means to remedy accounting mismatches should increase comparability (signal), as entities' accounts will better portray their economically-related assets and liabilities. For example, an asset or liability that is normally measured at historical cost but economically hedges other positions measured at fair value can be measured at fair value under the FVO. Electing the FVO allows changes in the fair value of both sides of the economic hedge to be recorded in earnings in the same period, thus likely reducing accounting mismatches. This is particularly relevant for entities that engage in asset-liability management, such as banks.

On the other hand, a FVO election may decrease comparability as it requires fair valuing an entire instrument and does not require effectiveness assessments nor specification of the economically hedged item.¹ Fair valuing an entire instrument causes the entity's earnings to reflect all changes in the value of the instrument, not just those of the component involved in the hedge. Volatility associated with the non-hedged component may reduce comparability.

The FVO may also reduce comparability because its optional nature offers several opportunities for entities to obscure their economic performance. First, at the adoption of the three FVO standards, users could exploit the transition guidance. The transition guidance enables entities to elect the FVO for eligible items that exist at the effective date and requires

¹As opposed to the FVO, hedge accounting requires a highly effective hedging relationship and allows hedge accounting treatment only for the proportion of the instrument that hedges a particular risk (e.g., the credit risk component or the interest rate component). The application of hedge accounting, including the assessment of hedge effectiveness, was recently simplified under ASU 2017-12 (effective for fiscal years beginning after December 15, 2018).

the effect of the first remeasurement to fair value to be reported in retained earnings. For example, when an entity adopts SFAS 159, it can elect the FVO for existing instruments with cumulative unrealized losses. Doing so relieves future net income of these losses, obscuring true economic performance, resulting in lower comparability. According to Chang et al. (2021), the transition guidance of SFAS 159 was exploited by early adopters (banks that adopted SFAS 159 in 2007), but not by regular adopters, likely because of higher regulatory scrutiny faced by the latter. Second, entities are allowed to elect the FVO only for selected items that fall within the scope of SFAS 155, SFAS 156 and SFAS 159, allowing management of earnings volatility. However, this possibility is mitigated by the fact that entities can elect the FVO only at the inception of an instrument or when certain events trigger a new measurement basis. Moreover, FVO elections are irrevocable. As entities generally cannot forecast changes in the fair values of instruments, their ability to engage in earnings management via FVO elections is limited. Finally, some entities choose not to elect the FVO despite the potential for a more accurate reflection of their economics due to a lack of expertise or concerns about the option's effect on earnings. For these reasons, it is possible that the FVO election may obscure true performance, reducing comparability. Overall, the effect of the FVO election on comparability is an open question.

We investigate this question using a sample of 673 US bank holding companies for the period 2007 to 2019. We focus on banks, as they are the main users of financial instruments and have been central to the debate over the effects of the FVO. We use a single country and single industry to alleviate concerns that our results are driven by differences in implementation or enforcement quality of accounting standards (Ball, Kothari, and Robin 2000; Daske, Hail, Leuz, and Verdi 2008; DeFond, Hu, Hung, and Li 2011).

We find that 35% of the bank holding companies in our sample (238 out of 673 banks) elect the FVO during the sample period. Of these 238, less than 10% (21 unique banks) elect

the FVO in 2007. 2009 is the year with the highest number of first-time FVO electing banks (50 unique banks). Of the 5,496 bank-quarters in which the FVO was elected between 2007 and 2019, we find that in 4,574 (922) bank-quarters the FVO is used for assets only (liabilities only or assets and liabilities). The effect of the FVO election on earnings is typically significant. For the average FVO-electing bank, the absolute value of quarterly FVO gains/losses represents 9.5% of quarterly net income, with this percentage being higher for both large banks (18.8%) and banks with higher pre-FVO election accounting mismatches (11.1%), as indicated by ineffective hedges or a low correlation between income and returns (Chang et al. 2021).

We primarily measure comparability following De Franco et al. (2011). In line with previous comparability studies, we match banks on business model (proxied by the loans-to-assets ratio) and size (e.g. Barth, Landsman, Lang, and Williams 2012; Yip and Young 2012). We expect the FVO election to influence comparability both across FVO electing banks and between electing banks and non-electing banks.

We first examine the effect on comparability between banks that first elect the FVO (currently electing banks) and banks that elected the FVO earlier (previously electing banks). Our results show that, post-FVO election (i.e., after the currently electing bank elects the FVO), the accounting numbers of currently electing banks show greater comparability with those of previously electing banks. This increase in comparability is more pronounced for banks with higher pre-FVO election accounting mismatches, i.e., when banks have high incentives to use the FVO in compliance with the intent of the standard setters to remedy accounting mismatches (hereafter “in compliance with the intent of the standard setters”). We capture accounting mismatches using the correlation between stock returns and net income before extraordinary items and gains and losses attributable to hedge ineffectiveness. This suggests that banks which have significant economic hedges that are not reflected in their accounts pre-FVO election benefit more from FVO elections. In summary, these results suggest that similarity in the

measurement attributes (input similarity) increases comparability (output comparability). These results hold when we match FVO electing banks based on the types of instruments for which they elect the FVO as well as the extent to which they use the FVO.

Our results further show that the positive effect on comparability is higher when currently electing banks use the FVO for liabilities. This result reinforces existing research that shows a more accurate reflection of asset-liability management for entities that fair value their liabilities (Fontes, Panaretou, and Peasnell 2018). Moreover, we provide some weak evidence that comparability is reduced when currently electing banks elect the FVO for instruments with fair values measured using level 3 inputs. Since level 3 fair values are based on unobservable inputs, these values likely differ across banks. Finally, we document an increase in comparability for currently electing banks that use hedge accounting prior to the FVO election. This result is in line with hedge accounting users being risk-management focused, and electing the FVO when it reflects their risk management in the accounting numbers.

Comparing currently electing banks and non-electing banks (banks that never elect the FVO in our sample period), we find some evidence that comparability increases if the FVO is elected in compliance with the intent of the standard setters. This is only the case when the currently electing (non-electing) banks have larger (smaller) accounting mismatches pre-FVO election. These results suggest that differences in measurement attributes (input dissimilarity) can increase comparability of accounting numbers (output comparability).

Finally, we find that comparability across non-electing banks decreases from before to after 2007, alleviating concerns that our observed increase in comparability reflects a positive time trend rather than the FVO election. The fact that FVO elections take place in different quarters also alleviates concerns that our observed increase in comparability is driven by factors other than the FVO election.

Our results contribute to the debate regarding whether the FVO increases comparability (Chang et al. 2021; Christensen and Nikolaev 2013; Guthrie et al. 2011). Our paper also adds to prior studies that document the benefits of fair value measurement (Muller, Riedl, and Sellhorn 2011; Blankespoor, Linsmeier, Petroni, and Shakespeare 2013; Fontes et al. 2018), such as reduced information asymmetry and increased risk relevance, by showing another benefit, namely increased comparability. Moreover, our study adds to the literature that examines the effect of changes in accounting standards on comparability, by showing the effect of the introduction of the FVO (Barth et al. 2012; Yip and Young 2012).

Although our setting of US bank holding companies offers several advantages, two caveats should be considered when interpreting the results of this study. First, it is possible that our findings may not generalize to other countries or industries where the use of the FVO is more limited. Second, it is possible that our matching and difference-in-difference procedures may not fully eliminate the effects of other accounting or economic factors on comparability.

The remainder of the paper proceeds as follows. Section 2 reviews related academic research and the institutional background, and develops our hypotheses. Section 3 outlines our research design and section 4 describes the sample and provides descriptive statistics. Section 5 presents our empirical results and section 6 concludes.

2 Related literature, institutional background, and hypothesis development

2.1 Related literature

Our study contributes to two main streams of empirical work. The first stream studies the choice between historical cost and fair value accounting. According to Christensen and Nikolaev (2013) there is limited evidence from settings where this choice is determined by market forces rather than by regulators. Christensen and Nikolaev (2013) and Cairns, Massoudi, Taplin, and Tarca (2011) find limited use of fair value measurement in settings

where IFRS allows entities to choose between fair value and historical cost accounting for non-financial instruments (such as PPE, investment properties and intangibles). Their results indicate that managers consider historical cost accounting more appropriate for non-financial assets, perhaps due to their illiquidity.

More closely related to our study, a number of papers investigate whether using the FVO for assets and liabilities allows entities to better reflect their economics. Using a sample of banks, Chang et al. (2021) find that early adopters of SFAS 159 with a history of managing accounting numbers are more likely to elect the FVO opportunistically, while regular adopters elect the FVO in compliance with the intent of the standard setters. In line with the latter result, Guthrie et al. (2011) find negligible earnings management associated with the FVO election. Fiechter (2011) uses a sample of European banks and finds that FVO elections meant to reduce accounting mismatches lead to lower earnings volatility. In contrast, Song (2008) finds no reduction in earnings volatility or change in hedging activity post-FVO election. Song's (2008) results are likely driven by the fact that his sample is limited to the 2007-2008 period, thus including mainly early adopters of SFAS 159.

Several studies examine the capital market effects of the FVO election. Fontes et al. (2018) find that the fair value measurement of assets is associated with noticeably lower information asymmetry, and that this reduction is larger for banks that recognize fair value gains and losses on liabilities that arise from changes in a bank's own credit risk. Schneider and Tran (2015) find that European IFRS banks that elect the FVO for liabilities and recognize own credit risk gains and losses exhibit lower bid-ask spreads. Lin, Panaretou, Pawlina, and Shakespeare (2022) find that a bank's own credit risk gains and losses can explain future changes in credit risk when the fair value of liabilities is based on level 3 inputs, suggesting these gains and losses provide managers' inside information to the market. Our study

contributes to this literature by showing how the election of the FVO impacts the comparability of accounting numbers.

The second related stream of empirical work investigates how changes in accounting standards affect comparability. Within this literature, studies investigating IFRS mandatory adoption generally find that comparability improves in the period after IFRS adoption (DeFond et al. 2011; Barth et al. 2012; Yip and Young 2012). Exploring the reasons for this improvement, Yip and Young (2012) find that it can be explained by both accounting convergence and a higher quality of information. Examining voluntary adoption, Barth, Landsman, Lang and Williams (2018) find that firms voluntarily adopting IFRS show greater comparability with firms that previously adopted IFRS and lower comparability with firms that kept the domestic standards.

Most of this literature uses the definition of comparability underlying FASB and IASB's conceptual frameworks: two entities have comparable accounting if they report similar (different) accounting numbers when they experience similar (different) economic events (FASB 2010, IASB 2018). While comparability is a desired characteristic of financial reporting, standard setters do not provide a clear empirical construct for comparability. The measure developed by De Franco et al. (2011) has been used extensively in the literature (Yip and Young 2012; Kim, Li, Lu, and Yu 2016; Neel 2017; Choi, Choi, Myers, and Ziebart 2019). Their comparability measure is based on regressions of earnings on stock returns. Barth et al. (2012) employ a similar approach using more extensive regressions of earnings on stock returns, cash flows, and prices.

2.2 Institutional background

Under US GAAP, entities have the option to measure certain assets and liabilities at fair value as indicated in three standards: SFAS 155 "Accounting for certain hybrid financial

instruments”, SFAS 156 “Accounting for servicing of financial assets” and SFAS 159 “The fair value option for financial assets and financial liabilities” (FASB 2006a, 2006b, 2007). Effective for fiscal years beginning after September 15, 2006, with early adoption permitted, SFAS 155 gives entities the option to measure any hybrid financial instrument containing embedded derivatives at fair value, with changes in fair values reported in earnings. Also effective for fiscal years beginning after September 15, 2006, with early adoption permitted, SFAS 156 requires entities to initially recognize servicing assets and liabilities at fair value, if practicable. These entities have the option to subsequently measure these instruments at fair value, with changes in fair values reported in earnings. Finally, effective for fiscal years beginning after November 15, 2007, with early adoption permitted if SFAS 157 is also earlier adopted, SFAS 159 gives entities the option to measure most financial instruments at fair value, with changes in fair values reported in earnings. The FVO is applied on an instrument-by-instrument basis (class basis) for financial instruments (servicing assets/liabilities).² The option provided by the three standards is irrevocable. Since we are interested in the effects of optional fair value measurement on comparability, we consider the FVO election under all three standards.³

The election of the FVO has little or no immediate effect at the inception of financial instruments, given that the financial instruments and servicing rights are initially accounted for at fair value. However, in contrast to historical cost accounting, fair value accounting requires re-estimation of fair values at each reporting date and recognition of any fair value changes in net income. This means that subsequently a FVO electing entity and a non-FVO electing entity

² For liabilities for which the FVO has been elected, the portion of the change in the fair value that results from changes in the entity’s own credit risk is recognized in other comprehensive income for fiscal years beginning after December 15, 2017. We do not expect this to affect our results as the FVO is mainly elected for assets. Even when the FVO is elected for liabilities, only a small number of banks report own credit risk gains and losses (Lin et al. 2022).

³ Our results hold if we consider FVO elections under SFAS 159 and SFAS 155 only (i.e., if we exclude from our analyses banks electing the FVO for servicing assets under SFAS 156). We cannot provide an analysis based only on SFAS 159, as the instruments for which the FVO is elected under SFAS 159 are reported together with the instruments for which the FVO is elected under SFAS 155.

may measure the same instrument differently. It also means that the same entity may account for identical instruments in different ways if it elects the FVO for only some of these instruments.

2.3 Hypotheses development

Banks can first elect the FVO at any time between 2007 and the end of the sample period (2019). As depicted in Figure 1, we first examine pre- and post-FVO election comparability between banks that first elect the FVO (currently electing banks) and those banks that elected the FVO earlier (previously electing banks). The post-FVO election period includes all quarters in which both banks elect the FVO, while the pre-FVO election period consists of all quarters in which only the previously electing bank elects the FVO.⁴ We then examine pre- and post-FVO election comparability between currently electing and non-electing banks (defined as banks that never elect the FVO in our sample period). The post-FVO election period includes all quarters in which the currently electing (non-electing) bank elects (does not elect) the FVO, while the pre-FVO election period consists of all quarters in which both banks do not elect the FVO.

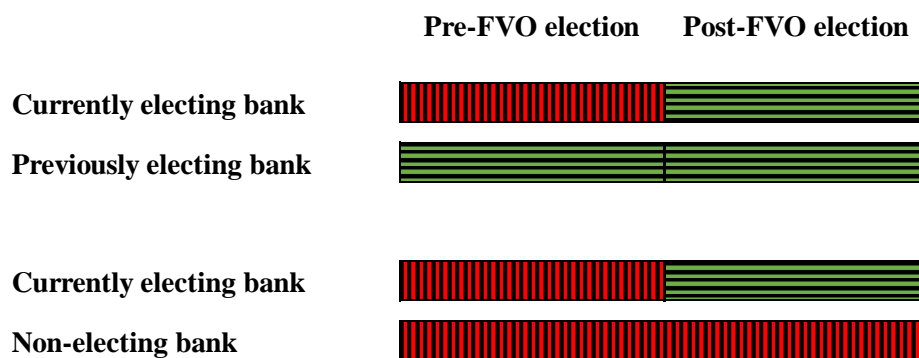


Figure 1: This figure outlines the samples used in the analysis. The green (red) area indicates the period in which a bank is (is not) a FVO-electing bank.

⁴ We exclude from our analysis any observations before the previously electing banks elect the FVO, as in this period both banks use the same accounting system.

2.3.1 Comparability across FVO-electing banks

Our first hypothesis examines the effect of the FVO election on comparability across electing banks. The election of the FVO can involve both informative signal and noise. If FVO elections enable banks to increase the quality of their earnings signal, we predict that comparability between *currently electing* and *previously electing banks increases* after the currently electing banks elect the FVO. In this case, comparability benefits from similarity in the measurement attributes (Chang et al. 2021; Fiechter 2011; Guthrie et al. 2011).

However, it is possible that the FVO election might not increase comparability by exacerbating mixed-attribute measurement. While hedge accounting allows fair value measurement for only the proportion of the instrument that hedges a particular risk, the FVO requires the entire instrument to be measured at fair value. Therefore, FVO-derived earnings reflect all changes in the instrument rather than only hedge-based changes. Volatility associated with the non-hedged component may reduce comparability. Second, hedge accounting requires high hedge effectiveness, whereas the FVO election requires no effectiveness assessment, potentially resulting in less effective offsetting of unrealized gains and losses than hedge accounting. Third, banks may simply substitute the FVO for hedge accounting, leading to either no change or a negative change in comparability.

It is also possible that, at the adoption of the standards, banks and in particular early adopters, exploit the transition guidance to report accumulated gains/losses in retained earnings, enabling them to manage their future net income (Chang et al. 2021; Song 2008).⁵ Further, FVO-users may engage in earnings volatility management by choosing to report fair values only for some instruments within the scope of the FVO. In both cases, electing the FVO may obscure an entity's true economic performance, accentuating the noise relative to the signal and thereby reducing accounting comparability. Nonetheless, since entities typically

⁵ Our results are robust if we delete early adopters from our sample and re-run our analyses.

cannot forecast changes in the fair value of their instruments, we expect that electing banks generally will not use the FVO to manage earnings after 2008.

When economic similar banks have larger accounting mismatches that they resolve more fully through FVO elections, we expect the signal to be stronger and, therefore, a positive incremental effect on comparability. These accounting mismatches might arise from mixed-attribute measurements or the difficulty of qualifying for hedge accounting. Banks with lower accounting mismatches can elect the FVO non-opportunistically, but such elections will have a lower impact on earnings, and therefore on comparability.

To test these predictions, we match currently electing to previously electing banks based on business model (proxied by the loans-to-assets ratio) and size and compare the comparability of their accounting numbers pre- and post-FVO election. This pre-and post-election comparison enables us to use each pair of banks as its own control, mitigating concerns that our observed results are driven by differences in the economic characteristics of the compared banks. We state our first hypotheses as follows:

Hypothesis 1a: Comparability increases across electing banks post-FVO election.

Hypothesis 1b: The increase in comparability across electing banks post-FVO election is higher for banks that have larger accounting mismatches that they resolve more fully through FVO elections.

2.3.2 Comparability between currently electing and non-electing banks

Our second set of hypotheses investigate the effect of the FVO election on comparability for *currently electing* and *non-electing banks*. We do not have a prediction for the direction of this effect. On one hand, if the FVO election allows a bank to better reflect its underlying economics (increase the quality of earnings signal), then we should see an increase in comparability for currently electing and non-electing banks. In this case, the comparability (output

comparability) benefits from differences in measurement attributes. On the other hand, the FVO election or the FVO non-election can accentuate the noise relative to the signal. Currently electing banks may choose to elect the FVO for opportunistic reasons. Moreover, non-electing banks may refrain from electing the FVO because of lack of expertise or concerns about the effect of the FVO on their earnings. In these cases, the different measurement attributes should not benefit comparability.

We next consider the case when both currently electing and non-electing banks have high incentives to use the FVO in compliance with the intent of the standard setters. This is the case when the currently electing banks have larger accounting mismatches that they resolve more fully through FVO elections and the non-electing banks have smaller accounting mismatches. We expect comparability to increase as electing banks use the FVO to reduce accounting mismatches and better reflect their economics. To test this hypothesis, we match currently electing to non-electing banks and compare their comparability in the pre- and post-FVO election periods. Our hypothesis is as follows:

Hypothesis 2: Comparability increases for currently electing and non-electing banks post-FVO election when currently electing (non-electing) banks have larger (smaller) accounting mismatches.

2.3.3 Comparability pre- and post-FVO election for sample partitions

In our final set of analyses, we investigate the moderating effect of a number of factors on comparability post-FVO election. As we mainly look at choices within the FVO, we focus on comparability across electing banks. First, we investigate whether the effect on comparability changes if the FVO is elected: (1) only for assets and (2) only for liabilities or for both liabilities

and assets.⁶ Asset-liability management is the main form of economic hedging for banks. Prior research has shown that most liabilities are held at historical cost, while a larger set of assets are measured at fair value (McDonough, Panaretou, and Shakespeare 2020). Therefore, the election of the FVO for liabilities is more likely to resolve an asset-liability mismatch than is a FVO election just for assets. Accordingly, we predict that comparability should be higher when the FVO is used for liabilities. This effect may be attenuated, as fair value estimates for liabilities are less verifiable and understandable to investors compared to those for assets (Koonce, Nelson, and Shakespeare 2011).

Hypothesis 3a: The increase in comparability across electing banks is higher if the FVO is elected for liabilities.

The level of the fair value measurement of assets/liabilities elected under the FVO can also influence our findings. Fair value accounting categorizes fair values into different levels based on how these are estimated. Level 1 fair value estimates are based on quoted prices for identical assets or liabilities in active markets. Level 2 estimates are based on quoted market prices for similar assets or liabilities and inputs other than quoted prices, for example interest rates and yield curves. Level 3 estimates are based on unobservable entity-supplied inputs. We expect that instruments' fair values estimated based on unobservable inputs (i.e., level 3) will be more likely to differ across banks. In this case, FVO elections will accentuate the noise relative to the signal. Thus, we predict a lower increase in comparability between currently electing and previously electing banks if currently electing banks use level 3 inputs to measure the fair values of assets/liabilities for which the FVO is elected.

⁶ Due to our limited sample size of banks electing the FVO solely for liabilities, we are unable to investigate the effects of electing the FVO only for liabilities separately.

Hypothesis 3b: the increase in comparability across electing banks is lower if banks use level 3 inputs to measure assets/liabilities for which the FVO is elected.

Finally, banks that use hedge accounting tend to be risk-management focused and want their accounting to reflect that focus. Therefore, they are more likely to elect the FVO when this would reflect their risk management in the accounting numbers. Through FVO elections, we expect banks will be able to reflect additional economic hedges not allowed under strict hedge accounting rules and, therefore, comparability will increase.⁷ It is possible that banks might substitute hedge accounting with the FVO, which could lead to a decrease (or no change) in comparability after the FVO election. However, the first scenario is more likely, given the difficulty of qualifying for hedge accounting.

Hypothesis 3c: the increase in comparability across electing banks is higher if banks use hedge accounting pre-FVO election.

3 Research design

3.1 Matched design

We conduct our tests using a matched sample design, where each bank is one-to-one matched with an economically similar bank. To increase the pool of banks available for matching, and consequently our sample size, we match with replacement.⁸ The matching procedure is used to mitigate the effects of economic differences between banks that are not attributable to their

⁷ Since changes in the hedge accounting introduced by ASU 2017-12 are effective for fiscal years beginning after December 15, 2018, they have little impact on our 2007-2019 sample. Our inferences do not change when we re-run our results without the year of 2019.

⁸ The currently electing bank in each pair is a unique bank. Matching with replacement means that a previously electing bank (or a non-electing bank) can be matched with more than one currently electing bank. To form the pairs of currently electing - previously electing banks, we use 63 unique previously electing banks. To form the pairs of currently electing - non-electing banks, we use 85 unique non-electing banks. The inferences from our results do not change if we match without replacement. Matching without replacement yields 79 (95) pairs of currently electing - previously electing banks (currently electing - non-electing banks).

FVO elections.⁹ We match banks on two dimensions, business model and size, both measured at the date that the currently electing bank elects the FVO for the first time.

First, we require banks to employ the same business model. Following previous literature, we measure a bank's business model as its ratio of loans to total assets (Fontes et al. 2018).¹⁰ We classify a bank as banking-book-activities (trading-activities) bank if its ratio of gross loans to assets (*BusModel*) is above (below) the sample median in each quarter. Second, we require banks to have similar size as measured by total assets. Size is commonly used in the comparability literature to control for economic characteristics (Barth et al. 2012; Yip and Young 2012; Barth et al. 2018). In line with prior studies, we eliminate from our sample any matched pair for which the size difference exceeds 50% in absolute value (Barth et al. 2012).

Furthermore, we require each bank in a given pair to have data for at least four quarters before and four quarters after, including the FVO election quarter.¹¹ Our analyses include all sample quarters for which the matched banks both have data. For example, if the currently electing bank has data from 2000Q1 to 2014Q4 and the matched bank has data from 2003Q1 to 2015Q2, our analyses include data from 2003Q1 to 2014Q4. Some banks in our sample elect the FVO at one point but then stop if the FVO instruments mature or are disposed. In these cases, we define the election period as the period in which the currently electing bank starts electing the FVO until the last quarter in our sample period in which the bank elects the FVO.

3.2 Comparability

To assess comparability, we follow the measure developed by De Franco et al. (2011), which has been used extensively in the comparability literature (for example, Yip and Young 2012;

⁹ The fact that banks first elect the FVO in different financial quarters also mitigates these effects.

¹⁰ We avoid using a business model proxy based on banks' income statements as such proxy would be influenced by banks' FVO elections.

¹¹ Our results are robust to requiring each pair to have data for at least eight quarters before and after the FVO election quarter (inclusive).

Kim et al. 2016; Neel 2017; and Choi et al. 2019). In the De Franco et al. (2011) measure, two firms, i and j , are considered to have more comparable accounting systems if they report similar (different) accounting numbers when they experience similar (different) economic events. Following De Franco et al. (2011), we use earnings as a proxy for accounting numbers and stock returns as a proxy for economic outcomes to compute *Comp* (EAR-RET). We also estimate an alternative comparability metric using future cash flows as a proxy for economic outcomes (Barth et al. 2012; 2018), *Comp* (EAR-CF).

We first estimate each entity's functions as follows:

$$Earnings_{it} = \beta_0 + \beta_1 Return_{it} + \varepsilon_{it} \quad (1a)$$

$$Earnings_{it} = \beta_0 + \beta_1 CF_{it+1} + \varepsilon_{it} \quad (1b)$$

Earnings is net income before extraordinary items deflated by the lagged market value of equity. *Return* is the cumulative percentage change in the stock price over the quarter. *CF* is the cash flow from operations at the end of the quarter scaled by the lagged market value of equity. Subscript i refers to the bank and subscript t refers to the quarter. The intercept β_0 and the coefficient β_1 on *Return* or *CF* represent the estimated accounting function for the bank and reflect how economic events are mapped into accounting numbers. In our analyses, we use quarterly data and estimate the accounting function for each bank separately for the periods before and after the currently electing bank elects the FVO. To mitigate the effects of outliers, all variables used to compute our comparability metrics are winsorized at the 1% and 99% levels.

Specifically, for each quarter, we compute each bank's predicted earnings using (1) its own accounting function (i) and (2) the accounting function of its matched bank (j). For each bank and quarter, we obtain two predicted earnings ($E(Earnings)_{it}^i$ and $E(Earnings)_{it}^j$),

holding the economic event (i.e., return or cash flow) constant. We then compute the negative absolute difference in predicted earnings for each quarter as:

$$DiffEarnings_{it} = -|E(Earnings)_{it}^i - E(Earnings)_{it}^j| \quad (2)$$

We repeat the same process for the matched bank:

$$DiffEarnings_{jt} = -|E(Earnings)_{jt}^j - E(Earnings)_{jt}^i| \quad (3)$$

Comparability (*Comp*) is the mean of (2) and (3) for each matched pair of banks *i* and *j* in quarter *t*. A higher (i.e. closer to zero) mean difference in earnings indicates more comparable accounting numbers across the matched pair of banks. For our univariate analysis, we calculate comparability at the period level (i.e., pre- and post-FVO election comparability). Comparability for the pre-FVO election period is the mean (median) *Comp* for all pairs in this period. Similarly, comparability for the post-FVO election period is the mean (median) *Comp* for all pairs in the post-FVO election period.

For our multivariate analyses, we estimate the following two models:

$$Comp = b_0 + b_1FVO + b_iControls + \varepsilon \quad (4a)$$

$$Comp = b_0 + b_1FVO + b_2Group1 + b_3FVO * Group1 + b_iControls + \varepsilon \quad (4b)$$

Where *FVO* is an indicator variable that equals 1 if *t* is in the post-FVO election period, and 0 otherwise. A statistically significant b_1 coefficient indicates that the level of comparability changes between the pre- and post-FVO election periods. *Group1* is an indicator variable that equals 1 if both banks in the pair have a high incentive to use the FVO in compliance with the intent of the standard setters, and 0 otherwise. The coefficient on *FVO*Group1* (b_3) represents the incremental effect of the FVO on comparability post-election for *Group1* banks. To control for differences in size, business model, book to market and leverage, we include *TA_Ratio*, *BusModel_Ratio*, *BtoM_Ratio* and *Leverage_Ratio*, respectively (Yip and Young 2012; Lin, Riccardi, and Wang 2019). *TA_Ratio* is the ratio of the size of the smaller firm in the pair to the size of the larger firm in the pair. *BusModel_Ratio* is the ratio of the smaller value of

BusModel to the larger value of *BusModel* of the two banks in the pair. *BtoM_Ratio* (*Leverage_Ratio*) is the ratio of the smaller value of book to market ratio (leverage) to the larger value of book to market ratio (leverage) of the two banks in the pair. Control variables are winsorized at the top and bottom 1%.

4 Sample and data

We conduct our tests on a sample of US bank holding companies (BHCs) for several reasons. First, as banks are the main users of financial instruments for which the FVO could be elected, they have been central in the debate over the FVO. Second, by focusing on a single country and a single industry, we can rule out the possibility that our results are driven by differences in implementation or enforcement quality across countries or industries (Ball et al. 2000; Ball, Robin, and Wu 2003; Daske et al. 2008; DeFond et al. 2011). Moreover, this focus increases the likelihood that our bank-pairs are subject to similar economic shocks. Finally, the choice of the sample is driven by data availability. For US BHCs, information on the fair values and gains and losses on assets and liabilities for which the FVO is elected is provided in databases, allowing us to identify both the election of the FVO and the extent of its use.

We draw our sample from the S&P Capital IQ database, which provides detailed information on assets/liabilities for which the FVO is elected. Our sample period starts in 2000, as this is when S&P Capital IQ provides comprehensive reporting of cash flows, and ends in 2019. As US BHCs start reporting assets/liabilities for which the FVO is elected in their FRY-9C reports in the first quarter of 2007 (2007Q1), our sample period ranges from 7 years before to 12 years after the introduction of the FVO.

Our sample selection process is summarized in Table 1. We start by identifying all US-listed BHCs available on S&P Capital IQ with total assets greater than zero in any of the quarters within the period 2007Q1-2019Q4. This process yields 673 unique banks, which we refer to as active BHCs. We use this sample of active BHCs to provide descriptive information

regarding the timing and extent of the FVO use. We obtain the rest of our accounting data from S&P Capital IQ, with the exception of gains/losses attributable to hedge ineffectiveness, which are obtained from Compustat. Market data is obtained from Datastream. To estimate our comparability metrics, we require returns, cash flows, and net income to be available for a minimum of eight quarters, four quarters pre-FVO election and four quarters post-FVO election. This process yields a sample of 478 and 379 unique banks eligible for our matching process for the *Comp* (EAR-RET) and *Comp* (EAR-CF) metrics, respectively.¹²

Table 1, Panel B provides information on the matched samples used in the analyses. For the sample of currently electing - previously electing banks (currently electing - non-electing banks), our pre-FVO election sample potentially spans from 2007Q1 to 2018Q4 (2000Q1 to 2018Q4), while our post-FVO election sample potentially spans from 2008Q1 to 2019Q4 (2007Q1 to 2019Q4). For the *Comp* (EAR-RET) (*Comp* (EAR-CF)) metric, our matching procedure yields a sample of 123 (98) pairs and 4,341 (3,514) bank-quarters for currently electing-previously electing banks. Of these bank-quarters, 1,412 (1,142) are pre-FVO election and 2,929 (2,372) are post-FVO election. For currently electing-non-electing bank-pairs, this process yields 154 (130) pairs for the *Comp* (EAR-RET) (*Comp* (EAR-CF)) metric, with 5,128 (4,462) bank-quarters pre-FVO election and 4,330 (3,596) bank-quarters post-FVO election.¹³

Table 2 provides information about banks' election of the FVO and the impact of the FVO election on banks' net income. Panel A includes data for all active BHCs in the period 2007-2019 (i.e., all 238 electing banks referred to in Panel A, Table 1). Columns 1-2 provide the number of unique banks that first elect the FVO in each sample year, both in absolute and

¹² The drop in the sample using *Comp* (EAR-RET) (*Comp* (EAR-CF)) metric is mainly driven by missing data on returns (cash flows).

¹³ Our matched samples and subsequent analyses exclude very large banks (banks with total assets greater than \$250 billion in 2008), as these banks could not be matched to any other bank, given the criteria we use. By not including very large banks, our matched samples are more likely to include banks with more homogenous risk profiles.

relative terms, respectively. From Table 2, we see that 21 unique banks first elect the FVO in 2007, 36 in 2008, and 50 in 2009. Columns 3-4 provide the number of bank-quarters (N) in which the FVO is used, by year. This number changes over time as some banks start electing the FVO, while others stop using the FVO as the instruments for which the FVO was elected no longer exist.

Columns 5-6 (columns 7-8) provide the number of bank-quarters in which the FVO is used for assets only (for liabilities only or both for assets and liabilities). Note that the number of bank-quarters in which the FVO is used for assets only is much higher than the one in which the FVO is used for liabilities only or for both assets and liabilities. For example, in 2009, out of the 307 bank-quarters in which the FVO is used (column 3), in 228 cases it is used for assets only (column 5) and in 79 cases it is used for liabilities only or for both assets and liabilities (column 7).

Panel B presents information on the effect of FVO elections on banks' net income. The number of bank-quarters is lower in this Panel due to missing data for gains/losses on assets/liabilities for which the FVO is elected (*FVOGL*). The mean ratio of absolute *FVOGL* to net income (*NI*) is 9.5% and its maximum is 71.8%. For large banks with total assets greater than \$50 billion, the effect of the FVO election on income is even higher with a mean (median) *FVOGL/NI* of 18.8% (7.9%). This is likely driven by the fact that larger banks have a higher ratio of the FVO instruments to total assets than do smaller banks (untabulated finding). These numbers show that the effect of FVO elections on income is economically significant, reinforcing our selection of an earnings-based comparability measure.

In our study, we are also interested in whether FVO elections increase comparability for banks with high accounting mismatches pre-election, and therefore, with high incentives to elect the FVO in compliance with the intent of the standard setters. In line with Chang et al. (2021), we capture accounting mismatches using: (1) the correlation between stock returns and

net income before extraordinary items (*REcor*) and (2) gains and losses attributable to hedge ineffectiveness (*HIGL*).¹⁴ *HighAccMis* is an indicator variable for high accounting mismatches that takes the value 1 if a FVO electing bank has *REcor* below the sample median or non-zero *HIGL* pre-FVO election, and zero otherwise.¹⁵ Panel B shows that the ratio *FVOGL/NI* is higher for banks with high accounting mismatches pre-FVO election (*HighAccMis*=1), in line with our expectations.

Continuing with Table 2, Panel C provides information on the instruments for which banks elect the FVO. From Panel C, we see that 230 (56) out of the 238 electing banks use the FVO for assets (liabilities). On the asset side, the FVO is mainly used for loans. The mean ratio of loans under the FVO to total assets under the FVO is 69%. Assets other than loans for which the FVO is elected include repos, servicing assets, and non-trading securities. On the liability side, the FVO is used for borrowings (45%), deposits (21%), and other liabilities (34%). Panels D and E provide information similar to that in Panel A, but for our matched samples presented in Panel B of Table 1. Panel D (E) describes the samples used to compute the *Comp* (EAR-RET) (*Comp* (EAR-CF)) metric.¹⁶ The number of observations in columns (2) and (4) correspond to the bank-quarters in which banks elect the FVO, by year.

Table 3 reports the descriptive statistics for the main variables used in our analyses. Variable definitions are provided in Appendix A. Panel A provides information on the input variables used to estimate the comparability metrics and the firm characteristics used in the matching procedure. The *t-statistics* based on the difference in the means (two-tailed test) show

¹⁴ *REcor* is computed over the four quarters prior to the FVO election for electing banks (prior to 2008Q1 for non-electing banks). Chang et al. (2021) also use the standard deviation of income and the notional value of derivatives to capture accounting mismatches and the cost of hedge accounting. However, their results show that these variables are not significant in explaining the FVO election for regular adopters.

¹⁵ Our inferences do not change if we estimate accounting mismatches based only on the correlation between stock returns and income (*REcor*). Given our low number of *HIGL* banks, we cannot conduct a separate analysis for hedging ineffectiveness.

¹⁶ For the currently electing-previously electing bank-pairs, there are no observations in 2007. This is because we require a previously electing bank to be using the FVO for a minimum of four quarters at the matching date. Similarly, we do not consider new electing banks in 2019, as we require data for four quarters post-FVO election.

that the banks in our matched samples have similar business models and sizes, indicating a good outcome of the matching procedure. The differences in the mean value of the economic outcome (*Return* or *CF*) are statistically insignificant in all cases except one (the sample of currently electing – previously electing banks for the *Comp* (EAR-CF) metric), suggesting that the banks in our matched samples have similar economics.

Panel B of Table 3 presents descriptive statistics for the variables used in our univariate and multivariate analyses of our different samples and for both comparability metrics.¹⁷ From Panel B, we see that the percentage of currently electing banks that use the FVO for liabilities (*FVOL_D*) is small, averaging 4%, in line with earlier studies (Lin et al. 2022). Additionally, 19-20% of the currently electing banks in our sample measure more than 80% of their FVO instruments at fair value level 3 (*L3_D*), and 38-41% are hedge accounting users pre-FVO election (*HedgeAccPre*).

5 Results

5.1 Univariate analysis

Table 4 presents the results from our univariate analysis. Panel A shows the findings for the sample of currently electing and previously electing banks. From Panel A, we see that both the mean and median comparability increase after the currently electing banks elect the FVO. The differences are statistically significant at the 1% level. These results support Hypothesis 1a in showing that two economically similar entities applying similar accounting systems are more likely to report comparable accounting numbers.

In Panels A1 and A2, we split the pairs of electing banks into two groups. *Group1* includes all pairs where both currently electing and previously electing banks have high incentives to elect the FVO in compliance with the intent of the standard setters

¹⁷Although we eliminate from our sample pairs with a *TA_Ratio* larger than 0.5 at the date of matching, this ratio can be larger than 0.5 before or after the matching date.

(*HighAccMis*=1). We allocate all other pairs into *Group0*. Note that there are fewer observations in this analysis because of missing data on the variables used to compute *HighAccMis*. The results show that the mean and median (mean) increase in comparability is significantly higher for *Group1* than for *Group0* using the *Comp* (EAR-RET) metric (using the *Comp* (EAR-CF) metric) at the 1% level.¹⁸

Panel B presents findings for the sample of currently electing and non-electing banks. The median effect of FVO elections on comparability is positive and significant, indicating that most of our pairs experience an increase in comparability after the currently electing banks elect the FVO. However, when we look at the mean effect, we see that the change in comparability using the *Comp* (EAR-CF) metric is negative and significant, suggesting that some pairs experience a large decrease in comparability post-FVO election.

In Panels B1 and B2, we again split the pairs of banks into two groups. In *Group1*, we include only pairs for which FVO elections comply with the intent of the standard setters. This is the case when the currently electing bank has *HighAccMis*=1 and the non-electing bank has *HighAccMis* =0. All other pairs are in *Group0*. The results show that pairs in *Group1* (*Group0*) experience an increase (mean decrease) in comparability post-FVO election, consistent with Hypothesis 2. The decrease in comparability in *Group0* may reflect the decision of non-electing banks to forego the FVO because of lack of expertise or concerns about its effect on earnings, or the decision of currently electing banks to use the FVO for opportunistic reasons.

To investigate whether there is a change in comparability post-2007 (i.e., the FVO introduction year) driven by factors other than the use of the FVO, we next examine comparability across non-electing banks. To obtain pairs of non-electing banks, we begin with the 317 banks that never elected the FVO during our sample period. We then match them based

¹⁸ To assess the significance of mean (median) differences between *Group1* and *Group0*, we use a t-test (bootstrapping procedure). Specifically, we construct 1,000 samples and generate an empirical distribution of the differences.

on business model and size. As we can see from Panel C, comparability across non-electing banks decreases from pre-2007 to post-2007.¹⁹ This decrease in comparability may reflect changes in the operating or financial reporting environment of the banks. Based on this result, the positive effect on comparability we document earlier is likely not driven by a time trend.

Overall, the univariate results are consistent with the FVO election improving comparability. The effect is even greater when banks have high incentives to elect the FVO in compliance with the intent of the standard setters. Since these tests do not control for other factors that may affect comparability, we next examine a multivariate setting.

5.2 Multivariate analysis

Table 5 presents the regression results from estimating equations (4a) and (4b), for currently electing - previously electing banks (columns 1-4) and currently electing - non-electing banks (columns 5-8). Columns 1-2 in Panels A and B show that, for currently electing - previously electing banks, the post-FVO election period coefficient (*FVO*) is positive and statistically significant at the 1% level in three out of four cases (Panel A columns 1-2 and Panel B column 1). These results suggest that FVO elections enable banks to increase the quality of their earnings signal. Columns 3-4 in Panels A and B show that the coefficient on *FVO*Group1* is positive and statistically significant for both comparability metrics. The *F-test* indicates that the sum of the coefficients on *FVO* and *FVO*Group1* is always significantly different from zero. These results are in line with our expectation that the signal is stronger when banks resolve larger accounting mismatches through FVO elections (Hypothesis 1b).

¹⁹ This result is robust when we use the sample of non-electing banks matched with currently electing banks in Panel B of Table 4. To construct this sample, we match non-electing banks used in the currently electing – non-electing pairs with similar non-electing banks. Our inferences also remain unchanged if we examine comparability across non-electing banks using the same periods used for the tests of currently electing – non-electing pairs provided in Panel B. In this case, we use the timing of the FVO election by the currently electing bank in Panel B to determine the pre- and post-periods, instead of using 2007. By doing this, we match the (distribution of the) timing of the pairs of non-electing banks to the (distribution of the) timing of the FVO election by currently electing banks.

Interestingly, when we look at the matched pairs of currently electing and non-electing banks in columns 5-8, Panels A and B, the results are less consistent. The results in columns 5-6 show a decrease in comparability post-FVO election when using the *Comp* (EAR-CF) metric (Panel B), suggesting that FVO elections accentuate the noise relative to signal. We find an insignificant effect on comparability when using the *Comp* (EAR-RET) metric (Panel A). Examining our results further and controlling for the incentives to comply with the intent of the standard setters, we find that the coefficient on $FVO*Group1$ is consistently positive and statistically significant for both *Comp* metrics (columns 7-8, Panels A and B). The *F-test* also reveals that the sum of the coefficients on *FVO* and $FVO*Group1$ is significantly different from zero in three out of four cases. This result implies that comparability increases when banks elect the FVO to comply with the intent of the standard setters, providing support for Hypothesis 2.

To control for the impact of accounting or economic factors other than FVO election on comparability, we re-run our analyses including the matched pairs of non-electing banks used in Table 4, Panel C. Results are presented in Panel C. The dummy variable *CE-PE* (*CE-NE*) indicates a pair of currently electing-previously electing (currently electing-non-electing) banks. The results in columns 1-4 show that the coefficient on *FVO* is consistently positive and statistically significant, indicating that FVO elections increase comparability between currently electing and previously electing banks. The results for currently electing – non-electing banks in columns 5-8 are less consistent. The coefficient on *FVO* is insignificant in two out of four cases. Overall, controlling for the matched pairs of non-electing banks, yields similar inferences.²⁰

5.2.1 *The moderating effect of FVO choices and hedge accounting*

²⁰ This result remains robust when comparability for the non-electing banks is measured over the same periods as in the tests on currently electing – non-electing pairs reported in Panel B of Table 5.

Table 6 presents the results examining the moderating effect of a number of choices within the FVO election, as well as the effect of the use of hedge accounting. In this analysis, we focus on the pairs of currently electing – previously electing banks. Panel A (Panel B) presents results using the *Comp* (EAR-RET) (*Comp* (EAR-CF)) metric. *FVOL_D* indicates the election of FVO for liabilities or for both assets and liabilities by currently electing banks. From columns 1-2, Panels A and B, we see that the coefficient on *FVOL_D* is consistently positive and statistically significant, indicating that the post-FVO comparability increase is more pronounced when the FVO is elected for liabilities. This result is in line with the idea that the election of the FVO for liabilities is more likely to resolve an asset-liability mismatch than is a FVO election just for assets, supporting Hypothesis 3a.

We next investigate whether the level of fair value measurement affects our results. We consider FVO-electing banks as Level 3 reporters if, in a specific quarter, they report more than 80% of their FVO assets and liabilities at fair value level 3. *L3_D* indicates that a currently electing bank is a Level 3 reporter. The results in columns 3-4, Panels A and B show that the coefficient on *L3_D* is negative and significant when we use the *Comp* (EAR-RET) metric, but statistically insignificant when we use the *Comp* (EAR-CF) metric, providing weak support for Hypothesis 3b. These results may reflect the unobservable nature of level 3 fair values, leading to greater potential deviation between different banks and thus lower comparability.

Finally, in the last two columns of Panels A and B, we present our results controlling for the use of hedge accounting. *HedgeAccPre* indicates whether a currently electing bank uses hedge accounting pre-FVO election. The coefficients on the interaction of *HedgeAccPre* and *FVO* are consistently positive and statistically significant at the 1% level, indicating that comparability is higher when the currently electing bank is a hedge accounting user pre-FVO election, supporting Hypothesis 3c. This result is in line with hedge accounting users being

risk-management focused, and electing the FVO when it reflects their risk management in the accounting numbers.

5.2.2 Matching based on the type of FVO instruments and the extent of FVO use

In our previous analyses, we match banks on economic similarity, measured by their business model and size. This process allows us to generate both pairs of currently electing-previously electing banks and pairs of currently electing-non-electing banks. Although business model and size are significant determinants of the FVO election (Chang et al. 2021), it is possible that banks may choose to elect the FVO for different instruments or extent. To examine whether differences in FVO elections across banks drives our results, we run additional analyses. Given that non-electing banks have no instruments under the FVO, we can only run these analyses for pairs of currently electing - previously electing banks.

First, we investigate whether banks matched on business model and size elect the FVO for the same instruments and find that both banks in a match elect the FVO for the same instrument category in 60% of our pairs.²¹ This finding provides some indication that the instruments for which the FVO is elected are similar for most of our pairs.

Second, we re-run our analyses after we match banks based on the instruments for which they use the FVO and size. Results are provided in Panel A of Table 7. Given that most banks in our sample choose to use the FVO for loans (see Table 2, Panel C), we classify our sample into loan electing banks and non-loan electing banks. A bank is a loan electing bank ($LoanElecting=1$) if $LoansFVO/FVOA$, computed over the period in which the bank elects the FVO, is greater than 50%, and a non-loan electing otherwise ($LoanElecting=0$). We then match currently loan (non-loan) electing to previously loan (non-loan) electing banks on size. In line

²¹ Specifically, of the 90 currently electing banks that use the FVO mainly for loans, 55 are matched with previously electing banks that also use the FVO mainly for loans. Out of the 33 currently electing banks that use the FVO for assets other than loans, 13 are matched with previously electing banks that use the FVO mainly for the same instruments.

with our main analyses, we eliminate from our sample any matched pair for which the size difference exceeds 50%. This process yields 128 (106) pairs of currently electing - previously electing banks when we use the *Comp* (EAR-RET) (*Comp* (EAR-CF)) metric.

Third, we examine pairs matched on the extent of the FVO use and size.²² Results are provided in Panel B of Table 7. To do this, we categorize each bank as a FVO heavy user (*Heavyuser=1*) if it has a median ratio of (1) assets under the FVO to total assets or (2) liabilities under the FVO to total liabilities in the top quartile of the sample, and as a non-FVO heavy user otherwise (*Heavyuser=0*). We then match banks within a category on size. Again, we eliminate any matched pair for which the size difference exceeds 50%. This process yields 125 (104) pairs of currently electing - previously electing banks when we use the *Comp* (EAR-RET) (*Comp* (EAR-CF)) metric.

The results in Panel A and B of Table 7 show that the coefficient on *FVO*Group1* is positive and significant. A further *F-test* reveals that the sum of the coefficients of the *FVO* and *FVO*Group1* is significantly different from zero. Overall, these results corroborate our finding that the FVO election increases comparability and that this increase is more pronounced when banks elect the FVO in compliance with the intent of the standard setters.²³

5.2.3 Estimating comparability metrics using different data requirements

To be included in our sample, banks are required to have data for at least four quarters before and after the FVO election (Barth et al. 2018). This criterion is related to the fact that 50% of the banks in our sample elect the FVO in the first four years of its introduction. Consequently, when examining comparability between currently electing and previously electing banks, we have limited number of quarters in which the previously electing bank elects the FVO while

²² We cannot match banks more finely on further the FVO election characteristics (for example using more instrument types, or both the type of instrument and extent of the FVO use and size), as the resulting small sample size precludes meaningful statistical analysis.

²³ Untabulated univariate results are in line with those from the multivariate analysis.

the currently electing bank does not (pre-FVO election period). Although we require a minimum of four quarters, our comparability metrics are estimated using at least eight quarters before and after the FVO election for 57% (90%) of the currently electing - previously electing pairs (currently electing - non-electing pairs) in our sample.

The use of a minimum of four quarters may raise concerns regarding the estimation of the comparability metrics due to limited number of observations in certain cases. Moreover, it can be argued that quarters distant from the first FVO election quarter may not be relevant for estimating the comparability metrics. To investigate if these factors influence our results, we re-run our analyses, estimating comparability metrics using a minimum of eight quarters and a maximum of 24 quarters before and after the FVO election. The results are presented in Table 8. For brevity, we only present multivariate results using the *Comp* (EAR-RET) metric.²⁴

After eliminating banks with insufficient data from our sample, we match them on size. This process yields a sample of 99 (140) bank-pairs when comparing currently electing-previously electing banks (currently electing- non-electing banks). We acknowledge that not matching banks also on business model may result in less economic similarity among bank-pairs compared to our primary analyses. However, this approach is necessary to obtain a sufficient number of bank-pairs for our analyses when requiring a minimum of eight observations pre- and post-FVO election, particularly when examining comparability across different sample partitions. We recognize that this is a limitation of our sample.

Overall, the results provide similar inferences to the ones of our main results. Panel A, columns 3-4 and 7-8 show that the coefficient on *FVO*Group1* is consistently positive and statistically significant. These results indicate that comparability increases post-FVO election

²⁴ Univariate analysis is in line with the multivariate analysis, and the inferences of our findings do not change if we use the *Comp* (EAR-CF) metric.

when banks have greater incentives to comply with intent of the standard setters, in line with Hypotheses 1b and 2.

Panels B and C focus on pairs of currently electing and previously electing banks, providing findings comparable to those in Tables 6 and 7. Panel B presents results examining the moderating effect of choices within the FVO and the use of hedge accounting. In line with the results presented in Table 6, we find that the increase in comparability across FVO-electing banks is lower if assets/liabilities under the FVO are measured at fair value level 3 (columns 3-4). We find insignificant results regarding the election of the FVO for liabilities (columns 1-2) and the use of hedge accounting (columns 5-6). The insignificant result regarding the election of the FVO for liabilities may be due to limited statistical power, as the number of quarters in which the FVO is elected for liabilities is very small (70 out of 3,188 quarters).

In Panel C, we present results after matching banks on size and type of FVO-instruments (columns 1-4) and size and extent of FVO use (columns 5-8). Columns 1-2 and 5-6 suggest that the FVO election increases comparability (positive coefficient on *FVO*). Moreover, the coefficients on *FVO*Group1* in columns 3-4 and 7-8 are positive, but significant only in columns 3-4. This offers some further evidence that the increase in comparability is more pronounced when banks elect the FVO in compliance with the intent of the standard setters.

5.3 Further sensitivity analyses

To further investigate the robustness of our findings, we conduct several additional tests. First, we re-run our analyses using alternative proxies for comparability. Specifically, we follow Barth et al. (2012) and estimate two additional comparability metrics. The first captures the relation between returns, net income, and changes in net income, while the second captures the relation between stock price, book value of equity, and net income. To compute these metrics, we follow the same process used for our main comparability metrics. The results are consistent

with our previous finding that FVO election increases comparability between currently and previously electing banks.

Chang et al. (2021) find that early adopters with a history of managing accounting numbers are more likely to choose the FVO for opportunistic reasons. To check if our results are driven by opportunistic use of the FVO, we re-run our analyses with a sample omitting early adopters and find similar results.²⁵

We cannot directly observe which risks banks manage by electing the FVO, but we observe the FVO choices made by managers. We assume that these decisions are correlated with risk management. To further consider differences in the risk profile of the banks, we repeat our analyses matching currently electing to previously electing banks based on loans under the FVO to total loans and size. The inferences of our results do not change.

Recall that the FVO is allowed under three standards: SFAS 155, 156, and 159. Here, we investigate whether our results hold if we consider FVO elections only under SFAS 159 and 155 (i.e., if we exclude from our analyses banks that elect the FVO for servicing assets under SFAS 156).²⁶ The bundled reporting of instruments under SFAS 159 and 155 does not allow us to conduct separate analyses for these two standards. Our results are consistent with comparability increasing post-FVO election both across electing banks and between currently electing and non-electing banks when the use of the FVO complies with the intent of the standard setters.

²⁵To analyse currently electing - non-electing banks, we exclude banks that first elected the FVO in 2007. For the analysis of currently electing - previously electing banks, we exclude previously electing banks that first elected the FVO in 2007. Note that the sample of currently electing - previously electing banks does not include currently electing banks that are early adopters, as the pre-FVO election period requires at least four quarters during which the currently electing bank does not use the FVO, while previously electing banks does. Therefore, it only includes currently electing banks that first elected the FVO in 2008 or later.

²⁶ For the period 2007Q1-2009Q1, data on servicing assets for which the FVO is elected under SFAS 156 is reported together with repos for which the FVO is elected under SFAS 159. From 2009Q2, the S&P Capital IQ database provides information separately for servicing assets. Therefore, to investigate if our results hold under SFAS 159 and 155 only, we exclude from our analysis banks using the FVO for repos and servicing assets in the period 2007Q1-2009Q1.

To address concerns about the limited number of observations in our sample, we re-run our analyses using one-to-many matching to estimate the comparability metrics. The untabulated results are similar to those of our main analysis: comparability increases across FVO-electing banks but decreases between currently electing and non-electing banks post-FVO election.

Finally, we test if our results are driven by the use of replacements in the matching procedure by re-running our main analyses using matching without replacement. While the number of observations decreases, our results are robust to this change. Our results are also robust to the use of an alternative timeframe for returns, namely the period starting two months before and finishing one month after the quarter end.

6 Conclusions

The choice between historical cost and fair value measurement is one of the most debated issues among both accounting academics and practitioners. This study uses the election of the FVO to investigate the effect of entities' measurement choice on comparability.

Using a sample of 673 US BHCs, we find that 35% of the banks in our sample elect the FVO during the years 2007 to 2019, with the majority using the FVO for assets. Defining comparability as the ability for similar (different) economic events to be converted into similar (different) accounting numbers, we predict that banks have greater comparability with previously electing banks after they elect the FVO. Our results support our predictions and further show that comparability increases between currently electing banks and non-electing banks if FVO elections comply with the intent of the standard setters to remedy accounting mismatches. These results are consistent with the FVO election accentuating the signal relative to the noise. Additionally, we document a negative trend in comparability across non-electing banks after the introduction of the FVO, alleviating concerns that our observed increase in comparability across electing banks is driven by factors other than the FVO election.

Examining our findings in greater detail, we find that currently electing banks that use the FVO for assets and liabilities show greater post-FVO election comparability, reflecting a better representation of asset-liability management in their financial statements. We also find that comparability is greater for pre-election hedge accounting users, suggesting that these banks are more likely to use the FVO when it enables them to better reflect their risk management in the accounting numbers. Finally, we find weak evidence that comparability decreases if banks use a level 3 fair value measurement, reflecting the unobservable and subjective nature of level 3 inputs.

The results from our study contribute to the debate about the role of measurement choice in financial reporting and add to the empirical evidence on the effects of changes in accounting standards on comparability. Overall, our evidence indicates that banks elect the FVO to better present their economics in the financial statements, leading to the benefit of higher comparability of their accounting numbers.

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Appendix A

Variable definitions

- Return* the cumulative percentage change in stock price over the quarter, computed using the return index at the end of the quarter divided by the return index at the beginning of the quarter minus 1, winsorized at the top and bottom 1% (source: Datastream).
- CF* cash flow from operations at the end of the quarter scaled by lagged market value of equity, winsorized at the top and bottom 1% (source: S&P Capital IQ).
- Earnings* net income before extraordinary items deflated by the lagged market value of equity, winsorized at the top and bottom 1% (source: S&P Capital IQ).
- BusModel* the ratio of the book value of gross loans not under the FVO to total assets, at the end of the quarter. *BusModel* is used as a proxy for the business model (source: S&P Capital IQ).
- Size* the book value of total assets, at the end of the quarter, in million dollars (source: S&P Capital IQ).
- Comp* the estimated comparability between a pair of matched banks (greater values represent greater comparability). Subsection “3.2 Comparability” provides details on how the comparability metrics are estimated.
- FVO* a variable that indicates the post-FVO election period. It takes the value of one for the period starting from the quarter in which the currently electing bank first elects the FVO and ending in the last quarter in which the bank uses the FVO, and zero otherwise.
- TA_Ratio* the ratio of *Size* of the smaller bank in the pair to *Size* of the larger bank in the pair.
- BusModel_Ratio* the ratio of the smaller value of *BusModel* to the larger value of *BusModel* of the two banks in the pair.
- BtoM_Ratio* the ratio of the smaller value of book to market ratio to the larger value of book to market ratio of the two banks in the pair. We measure book to market ratio using book value of equity to market value of equity (source: S&P Capital IQ and Datastream).
- Leverage_Ratio*
- the ratio of the smaller value of leverage to the larger value of leverage of the two banks in the pair. We measure leverage using the ratio of total liabilities to total assets (source: S&P Capital IQ).
- FVOGL/NI* the absolute ratio of gains and losses on assets and liabilities under the FVO to net income before extraordinary items, winsorized at top 5% (source: S&P Capital IQ).

LoansFVO/FVOA

the ratio of loans under the FVO to the total assets under the FVO (source: S&P Capital IQ).

OtherAssetsFVO/FVOA

the ratio of assets, other than loans, under the FVO to the total assets under the FVO (source: S&P Capital IQ).

DepositsFVO/FVOL

the ratio of deposits under the FVO to the total liabilities under the FVO (source: S&P Capital IQ).

BorrowingsFVO/FVOL

the ratio of the sum of other borrowed money, subordinated notes and debentures, and loan commitments, under the FVO to total liabilities under the FVO (source: S&P Capital IQ).

SecReposFVO/FVOL

the ratio of servicing liabilities, repos and other liabilities, except deposits and borrowings, under the FVO to total liabilities under the FVO (source: S&P Capital IQ).

REcor

the correlation between quarterly returns (source: Datastream) and quarterly net income before extraordinary items divided by beginning total assets (source: S&P Capital IQ) over the four quarters prior to FVO election for electing banks (prior to the regular adoption of the FVO in 2008Q1 for non-electing banks).

HIGL

gains or losses on ineffective hedges in the year prior to FVO election for electing banks (prior to the regular adoption of the FVO in 2008Q1 for non-electing banks) (source: Compustat).

HighAccMis a variable that indicates the existence of a high accounting mismatches pre-FVO election for electing banks (pre-2008Q1 for non-electing banks). It takes the value of one if the bank has *REcor* below the sample median or any *HIGL*, and zero otherwise.

Group1

a variable that indicates that both banks in the pair have high incentives to use the FVO in line with the intent of the standard setters. For pairs of currently electing-previously electing banks, it takes the value of one if both banks have *HighAccMis*=1, and zero otherwise. For pairs of currently electing-non-electing banks, it takes the value of one if the currently electing bank has *HighAccMis*=1 and the non-electing bank has *HighAccMis*=0, and zero otherwise.

Group0

a variable that indicates that the pair is not in *Group1*.

CE-PE

an indicator variable that takes the value of one if the match is a pair of currently electing - previously electing banks, and zero otherwise.

- CE-NE* an indicator variable that takes the value of one if the match is a pair of currently electing - non-electing banks, and zero otherwise.
- FVOL_D* an indicator variable that takes the value of one if the currently electing bank elects the FVO for assets and liabilities or only for liabilities in the specific quarter, and zero otherwise.
- L3_D* an indicator variable that takes the value of one if the currently electing bank is a fair value Level 3 reporter and zero otherwise. We consider a bank to be a Level 3 reporter if 80% or more of its assets and liabilities classified under the FVO are measured at fair value level 3 in the specific quarter.
- HedgeAccPre* an indicator variable that takes the value of one if the electing bank is a hedge accounting user in the period prior to FVO election, and zero otherwise.
- LoanElecting* an indicator variable that takes the value of one if the average of $LoansFVO/FVOA$ computed over the period in which the bank elects the FVO is greater than 50%, and zero otherwise.
- LoanElecting_Pair* an indicator variable that takes the value of one if both banks in the pair have $LoanElecting=1$, and zero otherwise.
- Heavyuser* an indicator variable that takes the value of one if the bank has (1) its median ratio of assets under the FVO to total assets ($FVOA/TA$), calculated over the period in which the bank elects the FVO, in the top quartile of the sample, or (2) its median ratio of liabilities under the FVO to total liabilities ($FVOL/TL$) in the top quartile of the sample.
- Heavyuser_Pair* an indicator variable that takes the value of one if both banks in the pair have $Heavyuser=1$, and zero otherwise.

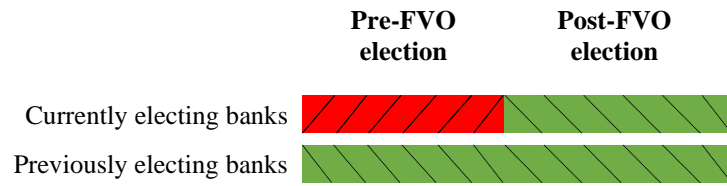
Tables

TABLE 1
The sample

Panel A: Sample used for matching purposes	<i>Comp</i> (EAR-RET)			<i>Comp</i> (EAR-CF)		
	Total	Electing banks	Non-electing banks	Total	Electing banks	Non-electing banks
Active BHC in the period Q12007-Q42019; out of which	673	238	435	673	238	435
<i>Less banks with missing data for</i>						
- regression data	-149	-31	-118	-237	-44	-193
- threshold of minimum 8 quarters (at least 4 before and 4 after date of FVO election)	-46	-46	0	-57	-57	0
Sample used for matching - unique banks	478	161	317	379	137	242
 Panel B: Matched samples on business model and size	<i>Comp</i> (EAR-RET)			<i>Comp</i> (EAR-CF)		
	bank-pairs	bank-quarters		bank-pairs	bank-quarters	
Currently electing - Previously electing banks of which	123	4,341		98	3,514	
pre-FVO election		1,412			1,142	
post-FVO election		2,929			2,372	
 Currently electing - Non-electing banks of which	154	9,458		130	8,058	
pre-FVO election		5,128			4,462	
post-FVO election		4,330			3,596	

The table presents data on sample selection. Panel A provides information on the sample used for matching. Active bank holding companies (BHC) include all U.S. listed BHC available on S&P Capital IQ that have total assets greater than zero in any of the quarters of the period 2007Q1-2019Q4. Panel B presents the samples matched on business model and size used in our analyses: currently electing matched to previously electing banks and currently electing matched to non-electing banks. The sample size varies depending on the comparability metric *Comp*. The first comparability metric is based on an earnings-return specification (*Comp* (EAR-RET)) and the second comparability metric is based on an earnings-cash flow specification (*Comp* (EAR-CF)).

Matched sample of currently electing - previously electing banks



Matched sample of currently electing - non-electing banks



TABLE 2**Fair value option: election and effect on net income****Panel A: All banks (active BHCs)**

	Date of first election (Electing banks)		FVOAll		FVOAssets		FVOAssetsLiab or FVOLiab	
	(1) unique banks	(2) %	(3) bank- quarters	(4) %	(5) bank- quarters	(6) %	(7) bank- quarters	(8) %
2007	21	9%	71	1%	22	0%	49	5%
2008	36	15%	208	4%	115	3%	93	10%
2009	50	21%	307	6%	228	5%	79	9%
2010	11	5%	353	6%	275	6%	78	8%
2011	11	5%	373	7%	300	7%	73	8%
2012	35	15%	444	8%	373	8%	71	8%
2013	14	6%	498	9%	420	9%	78	8%
2014	8	3%	519	9%	449	10%	70	8%
2015	17	7%	531	10%	462	10%	69	7%
2016	15	6%	563	10%	490	11%	73	8%
2017	12	5%	567	10%	493	11%	74	8%
2018	4	2%	548	10%	485	11%	63	7%
2019	4	2%	514	9%	462	10%	52	6%
Total	238	100%	5,496	100%	4,574	100%	922	100%

Panel B: All banks - Effect of FVO election on net income

	N	Mean	Median	Std Dev	Min	Max
FVOGL/NI	3,781	9.5%	1.0%	18.5%	0.0%	71.8%
by size:						
<i>large banks</i>	757	18.8%	7.9%	23.4%	0.0%	71.8%
<i>small banks</i>	3,024	7.2%	0.5%	16.2%	0.0%	71.8%
by FVO incentives:						
<i>high accounting mismatch</i>	2,147	11.1%	1.8%	19.3%	0.0%	71.8%
<i>low accounting mismatch</i>	1,634	7.4%	0.4%	17.2%	0.0%	71.8%

Panel C: All banks - Instruments under the FVO

	unique banks	Mean	Median	Std Dev	Min	Max
FVO for assets	230					
<i>LoansFVO/FVOA</i>		68.7%	97.3%	41.4%	0.0%	100.0%
<i>OtherAssetsFVO/FVOA</i>		31.3%	2.7%	41.4%	0.0%	100.0%
FVO for liabilities	56					
<i>DepositsFVO/FVOL</i>		21.3%	0.0%	37.8%	0.0%	100.0%
<i>BorrowingsFVO/FVOL</i>		44.5%	37.1%	41.9%	0.0%	100.0%
<i>SecReposFVO/FVOL</i>		34.0%	15.2%	40.2%	0.0%	100.0%

Panel D: Matched samples - *Comp* (EAR-RET)

	Currently electing - Previously electing				Currently electing - Non-electing			
	(1)		(2)		(3)		(4)	
	Date of first election (Currently electing)		FVOAll (Nr of pairs = 123)		Date of first election (Currently electing)		FVOAll (Nr of pairs = 154)	
	unique banks	%	bank- quarters	%	unique banks	%	bank- quarters	%
2007	0	0%	0	0%	14	9%	47	1%
2008	16	13%	58	2%	30	19%	168	4%
2009	35	28%	155	5%	36	23%	258	6%
2010	11	9%	223	8%	11	7%	316	7%
2011	9	7%	247	8%	9	6%	335	8%
2012	19	15%	285	10%	20	13%	395	9%
2013	6	5%	295	10%	7	5%	420	10%
2014	3	2%	296	10%	3	2%	421	10%
2015	10	8%	290	10%	10	6%	425	10%
2016	5	4%	284	10%	5	3%	421	10%
2017	6	5%	277	9%	6	4%	385	9%
2018	3	2%	271	9%	3	2%	384	9%
2019	0	0%	248	8%	0	0%	355	8%
Total	123	100%	2,929	100%	154	100%	4,330	100%

Panel E: Matched samples - Comp (EAR-CF)

	Currently electing - Previously electing				Currently electing - Non-electing			
	(1)		(2)		(3)		(4)	
	Date of first election (Currently electing)		FVOAll (Nr of pairs = 98)		Date of first election (Currently electing)		FVOAll (Nr of pairs = 130)	
	unique banks	%	bank- quarters	%	unique banks	%	bank- quarters	%
2007	0	0%	0	0%	10	8%	35	1%
2008	12	12%	43	2%	28	22%	143	4%
2009	26	27%	115	5%	32	25%	218	6%
2010	8	8%	166	7%	8	6%	267	7%
2011	7	7%	180	8%	7	5%	280	8%
2012	17	17%	225	9%	17	13%	322	9%
2013	5	5%	234	10%	6	5%	337	9%
2014	3	3%	230	10%	3	2%	324	9%
2015	9	9%	238	10%	8	6%	343	10%
2016	4	4%	238	10%	4	3%	349	10%
2017	4	4%	238	10%	4	3%	327	9%
2018	3	3%	240	10%	3	2%	335	9%
2019	0	0%	225	9%	0	0%	316	9%
Total	98	100%	2,372	100%	130	100%	3,596	100%

The table provides information about the election of the FVO. Panels A to C provide information regarding all banks active in any quarter between 2007 and 2019, whereas Panel D and E provide information regarding the matched samples used in our analyses. Panel A provides information on the number of banks that first elect the FVO, by year (columns 1-2). Columns 3-8 provide information on the total number of bank-quarters (N) in which the FVO is elected, by year. FVOAll provides the number of quarters in which the FVO is elected for assets and/or liabilities. FVOAssets (FVOAssetsLiab or FVOLiab) provides the number of quarters in which the FVO is elected only for assets (for both assets and liabilities or for liabilities only). Panel B provides information on the effect of FVO election on net income. FVOGL/NI is the absolute ratio of gains and losses on FVO to net income, winsorized at top 5%. The information is then decomposed by (i) size, where big (small) banks are the ones with total assets greater (lower) than \$50B, and (ii) incentives to elect FVO. A bank has high (low) incentives to elect the FVO if it has high (low) accounting mismatches prior to FVO election. Panel C reports the instruments for which the FVO is elected, on average, by bank. LoansFVO/FVOA (OtherAssetsFVO/FVOA) is the ratio of loans (assets, other than loans) under the FVO to the total assets under the FVO. DepositsFVO/FVOL is the ratio of deposits under the FVO to the total liabilities under the FVO. BorrowingsFVO/FVOL is the ratio of the sum of other borrowed money, subordinated notes and debentures, and loan commitments, under the FVO to total liabilities under the FVO. SecReposFVO/FVOL is the ratio of servicing liabilities, repos and other liabilities, except deposits and borrowings, under the FVO to total liabilities under the FVO. Panels D and E report information on the FVO election for the matched samples used in our analyses, for both comparability measures: Comp (EAR-RET) and Comp (EAR-CF).

TABLE 3

Descriptive statistics for various samples

Panel A: Input variables for Comp and firm characteristics

	Currently electing			Previously electing			t-stat Mean	Currently electing			Non-electing			t-stat Mean
	(1)	(2)	(3)	(4)	(5)	(6)		(1)	(2)	(3)	(7)	(8)	(9)	
	Mean	Median	Std Dev	Mean	Median	Std Dev		Mean	Median	Std Dev	Mean	Median	Std Dev	
Comp (EAR - RET)	N= 4,341							N=9,458						
Return	0.02	0.01	0.14	0.02	0.01	0.15	0.63	0.02	0.01	0.14	0.02	0.01	0.13	-0.23
Earnings	0.02	0.02	0.03	0.01	0.02	0.04	6.00	0.02	0.02	0.03	0.02	0.02	0.03	-5.36
BusModel	0.68	0.70	0.11	0.68	0.69	0.09	1.05	0.67	0.69	0.12	0.67	0.70	0.12	-0.77
Size	9,168	3,488	17,230	9,545	3,547	18,011	-1.00	17,356	2,528	50,215	15,024	2,725	34,636	3.72
Comp (EAR - CF)	N= 3,514							N= 8,058						
CF	0.03	0.03	0.08	0.04	0.03	0.08	-4.68	0.03	0.02	0.07	0.03	0.03	0.05	-0.14
Earnings	0.01	0.02	0.03	0.01	0.02	0.04	8.68	0.02	0.02	0.02	0.02	0.02	0.02	-1.42
BusModel	0.68	0.69	0.12	0.68	0.69	0.10	0.18	0.67	0.68	0.13	0.67	0.69	0.12	-1.51
Size	10,101	4,136	18,466	10,662	4,497	19,282	-1.25	19,223	3,095	53,479	16,358	3,467	36,254	3.98

Panel B: Variables in the various samples

	Comp (EAR - RET)						Comp (EAR - CF)					
	Currently electing-Previously electing (Nr of pairs=123)						Currently electing-Previously electing (Nr of pairs=98)					
	N	Mean	Median	Std Dev	Min	Max	N	Mean	Median	Std Dev	Min	Max
Comp	4,341	-0.02	-0.01	-0.19	0.00	0.00	3,514	-0.02	-0.01	0.02	-0.22	0.00
FVO	4,341	0.67	1.00	0.00	1.00	1.00	3,514	0.68	1.00	0.47	0.00	1.00
TA_Ratio	4,341	0.77	0.81	0.15	1.00	1.00	3,514	0.77	0.80	0.17	0.15	1.00
BusModel_Ratio	4,341	0.88	0.91	0.24	1.00	1.00	3,514	0.88	0.90	0.10	0.24	1.00
BtoM_Ratio	4,341	0.72	0.75	0.10	1.00	1.00	3,514	0.73	0.77	0.19	0.18	1.00
Leverage_Ratio	4,341	0.98	0.98	0.85	1.00	1.00	3,514	0.98	0.98	0.02	0.85	1.00
FVOL_D	4,341	0.04	0.00	0.00	1.00	1.00	3,514	0.04	0.00	0.19	0.00	1.00
L3_D	4,028	0.19	0.00	0.00	1.00	1.00	3,313	0.20	0.00	0.40	0.00	1.00
HedgeAccPre	4,087	0.38	0.00	0.00	1.00	1.00	3,435	0.41	0.00	0.49	0.00	1.00
	Currently electing-Non-electing (Nr of pairs=154)						Currently electing-Non-electing (Nr of pairs=130)					
Comp	9,458	-0.01	-0.01	0.02	-0.27	0.00	8,058	-0.01	-0.01	0.01	-0.16	0.00
FVO	9,458	0.46	0.00	0.50	0.00	1.00	8,058	0.45	0.00	0.50	0.00	1.00
TA_Ratio	9,458	0.73	0.78	0.21	0.05	1.00	8,058	0.73	0.78	0.21	0.06	1.00
BusModel_Ratio	9,458	0.85	0.89	0.13	0.09	1.00	8,058	0.86	0.89	0.14	0.09	1.00
BtoM_Ratio	9,458	0.71	0.74	0.20	0.02	1.00	8,058	0.73	0.76	0.19	0.10	1.00
Leverage_Ratio	9,458	0.97	0.98	0.02	0.84	1.00	8,058	0.98	0.98	0.02	0.85	1.00

The table provides descriptive statistics. Panel A provides descriptive statistics for the input variables used to compute the comparability metrics (Comp), as well as the firm characteristics variables used in the matching procedure. T-stat^{Mean} indicate the t-statistic based on the difference in the means for each variable between currently electing and previously electing banks; and currently electing and non-electing banks. Panel B provides descriptive statistics for the variables used in the multivariate analysis for the two samples of (1) currently electing - previously electing banks and (2) currently electing - non-electing banks. All variables are defined in Appendix A.

TABLE 4

Univariate analysis

		<i>Comp (EAR - RET)</i>			<i>Comp (EAR - CF)</i>		
		(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Currently electing – Previously electing (all banks)							
		(Nr of pairs = 123)			(Nr of pairs = 98)		
	Pred	N	Mean	Median	N	Mean	Median
Pre-FVO election		1,412	-0.0216	-0.0138	1,142	-0.0226	-0.0135
Post-FVO election		2,929	-0.0131	-0.0069	2,372	-0.0134	-0.0059
Post-Pre	(+)		0.0085***	0.0069***		0.0092***	0.0076***
Panel A1: Currently electing – Previously electing (Group1)							
		(Nr of pairs = 36)			(Nr of pairs = 31)		
	Pred	N	Mean	Median	N	Mean	Median
Pre-FVO election		305	-0.0252	-0.0146	232	-0.0275	-0.0140
Post-FVO election		1,043	-0.0130	-0.0075	857	-0.0129	-0.0069
Post-Pre	(+)		0.0122***	0.0071***		0.0145***	0.0070***
Panel A2: Currently electing – Previously electing (Group0)							
		(Nr of pairs = 79)			(Nr of pairs = 62)		
	Pred	N	Mean	Median	N	Mean	Median
Pre-FVO election		950	-0.0208	-0.0130	788	-0.0230	-0.0156
Post-FVO election		1,764	-0.0133	-0.0066	1,444	-0.0141	-0.0060
Post-Pre	(+)		0.0075***	0.0064***		0.0088***	0.0096***
<i>Group1 - Group0</i>	(+)		0.0047***	0.0007***		0.0057***	-0.0026***
Panel B: Currently electing – Non-electing (all banks)							
		(Nr of pairs = 154)			(Nr of pairs = 130)		
	Pred	N	Mean	Median	N	Mean	Median
Pre-FVO election		5,128	-0.0107	-0.0061	4,462	-0.0082	-0.0055
Post-FVO election		4,330	-0.0111	-0.0050	3,596	-0.0089	-0.0048
Post-Pre	(?)		-0.0004	0.0011***		-0.0008***	0.0007***
Panel B1: Currently electing – Non-electing (Group1)							
		(Nr of pairs = 34)			(Nr of pairs =25)		
	Pred	N	Mean	Median	N	Mean	Median
Pre-FVO election		1,205	-0.0189	-0.0073	929	-0.0095	-0.0062
Post-FVO election		878	-0.0141	-0.0048	617	-0.0089	-0.0048
Post-Pre	(+)		0.0048***	0.0024***		0.0006	0.0014***

Panel B2: Currently electing – Non-electing (Group0)

	Pred	(Nr of pairs = 113)			(Nr of pairs = 104)		
		N	Mean	Median	N	Mean	Median
Pre-FVO election		3,781	-0.0081	-0.0057	3,521	-0.0078	-0.0054
Post-FVO election		3,344	-0.0103	-0.0049	2,963	-0.0089	-0.0049
Post-Pre	(?)		-0.0022***	0.0008		-0.0011***	0.0005***
Group1 - Group0	(+)		0.0070***	0.0016***		0.0017***	0.0009***

Panel C: Non-electing – Non-electing (all banks)

	Pred	(Nr of pairs = 214)			(Nr of pairs = 132)		
		N	Mean	Median	N	Mean	Median
Pre-2007		3,890	-0.0089	-0.0050	2,724	-0.0059	-0.0046
Post-2007		9,975	-0.0131	-0.0080	5,153	-0.0115	-0.0054
Post-Pre	(?)		-0.0042***	-0.0030***		-0.0056***	-0.0008***

This table presents the results of the univariate tests. Post FVO-election and pre FVO-election (post-2007 and pre-2007) corresponds to period after and before the FVO election (after and before 2007). A positive (negative) difference between post and pre-election (post and pre-2007) indicates an increase (decrease) in comparability after the currently electing bank elects the FVO (after 2007). Results are presented for both Comp (EAR-RET) and Comp (EAR - CF) metrics. Panel A presents the results for the sample of currently electing - previously electing bank-pairs. Panel A1 and A2 present the results according to the incentives to elect FVO. Group1 includes all pairs where both the currently electing and previously electing banks have high incentives to elect the FVO in compliance with the intent of the standard setters. We allocate all other pairs into Group0. Panel B presents the results for the sample of currently electing - non-electing bank-pairs. Panel B1 and B2 present the results according to the incentives to elect FVO. Group1 includes all pairs where the currently electing bank has high incentives to elect the FVO and the non-electing bank has low incentives to elect the FVO in compliance with the intent of the standard setters. All other pairs are in Group0. Panel C presents the results for the sample of non-electing - non-electing bank-pairs. To assess significance of mean differences between Group1 and Group0, we use a t-test. To assess significance of median differences between Group1 and Group0, we use a bootstrapping procedure. Specifically, we construct 1,000 samples and generate an empirical distribution of the differences. All variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% levels, respectively, two-sided.

TABLE 5

The effect of FVO election on comparability

Panel A: Dependent variable *Comp* (EAR-RET)

	Currently electing - Previously electing				Currently electing - Non-electing			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	0.0230 (1.30)	0.0435** (2.48)	0.0369** (2.00)	0.0540*** (2.95)	-0.0177** (-2.10)	-0.0120 (-1.43)	-0.0057 (-0.66)	0.0001 (0.01)
FVO	0.0079*** (11.55)	0.0042*** (5.23)	0.0069*** (8.05)	0.0033*** (3.46)	-0.00001 (-0.01)	0.0003 (0.50)	-0.0017*** (-3.67)	-0.0015*** (-2.60)
Group1			-0.0039*** (-2.77)	-0.0028** (-1.99)			-0.0101*** (-15.84)	-0.0098*** (-15.52)
FVO*Group1			0.0043*** (2.64)	0.0030* (1.82)			0.0068*** (7.08)	0.0064*** (6.69)
TA_Ratio	0.0003 (0.16)	0.0019 (1.01)	0.0017 (0.84)	0.0036* (1.79)	-0.0018* (-1.96)	0.0006 (0.66)	-0.0020** (-2.12)	0.0004 (0.40)
BusModel_Ratio	-0.0125*** (-3.86)	-0.0153*** (-4.72)	-0.0162*** (-4.71)	-0.0189*** (-5.51)	-0.0137*** (-9.10)	-0.0125*** (-8.30)	-0.0136*** (-8.99)	-0.0125*** (-8.24)
BtoM_Ratio	0.0260*** (15.47)	0.0215*** (12.59)	0.0262*** (14.85)	0.0211*** (11.77)	0.0299*** (30.72)	0.0283*** (28.78)	0.0296*** (30.22)	0.0281*** (28.35)
Leverage_Ratio	-0.0534*** (-3.00)	-0.0621*** (-3.53)	-0.0649*** (-3.48)	-0.0699*** (-3.80)	-0.0012 (-0.14)	-0.0071 (-0.82)	-0.0109 (-1.25)	-0.0170* (-1.95)
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. R-sq	8.50%	11.24%	8.75%	11.58%	9.40%	10.29%	12.07%	12.88%
N	4,341	4,341	4,062	4,062	9,458	9,458	9,208	9,208
Coefficient comparison			F-stat				F-stat	
FVO + FVO*Group1 = 0			0.0297***	0.0079***			0.0134***	0.0101***

Panel B: Dependent variable *Comp* (EAR-CF)

	Currently electing - Previously electing				Currently electing - Non-electing			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	0.0608*** (2.97)	0.0782*** (3.96)	0.0785*** (3.70)	0.0918*** (4.47)	-0.0559*** (-10.87)	-0.0492*** (-9.72)	-0.0541*** (-10.40)	-0.0477*** (-9.30)
FVO	0.0080*** (10.01)	0.0011 (1.24)	0.0077*** (7.70)	0.0010 (0.91)	-0.0005** (-2.06)	-0.0011*** (-2.83)	-0.0009*** (-3.37)	-0.0014*** (-3.63)
Group1			-0.0032* (-1.86)	-0.0015 (-0.89)			-0.0015*** (-3.71)	-0.0014*** (-3.46)
FVO*Group1			0.0052*** (2.69)	0.0044** (2.28)			0.0019*** (3.06)	0.0017*** (2.73)
TA_Ratio	0.0125*** (5.67)	0.0135*** (6.29)	0.0135*** (5.74)	0.0149*** (6.49)	-0.0023*** (-3.95)	-0.0001 (-0.11)	-0.0023*** (-3.88)	-0.00003 (-0.05)
BusModel_Ratio	-0.0219*** (-6.08)	-0.0278*** (-7.88)	-0.0238*** (-6.26)	-0.0293*** (-7.91)	-0.0039*** (-4.29)	-0.0029*** (-3.32)	-0.0041*** (-4.48)	-0.0031*** (-3.50)
BtoM_Ratio	0.0290*** (14.2)	0.0218*** (10.75)	0.0295*** (13.88)	0.0229*** (10.86)	0.0095*** (14.32)	0.0064*** (9.65)	0.0095*** (14.38)	0.0064*** (9.70)
Leverage_Ratio	-0.0965*** (-4.68)	-0.0913*** (-4.59)	-0.1150*** (-5.38)	-0.1072*** (-5.18)	0.0469*** (8.85)	0.0429*** (8.25)	0.0455*** (8.49)	0.0417*** (7.94)
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. R-sq	10.06%	16.90%	11.12%	17.54%	3.88%	9.38%	4.05%	9.48%
N	3,514	3,514	3,321	3,321	8,058	8,058	8,030	8,030
Coefficient comparison FVO + FVO*Group1 = 0			F-stat 0.0302***	0.0043***			F-stat 0.0004*	0.0002

Panel C: Controlling for pairs of non-electing banks

	Currently electing - Previously electing				Currently electing - Non-electing			
	<i>Comp</i> (EAR - RET)		<i>Comp</i> (EAR - CF)		<i>Comp</i> (EAR - RET)		<i>Comp</i> (EAR - CF)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	-0.0116** (-2.20)	-0.0110** (-2.08)	-0.0243*** (-3.79)	-0.0132** (-2.13)	-0.0175*** (-3.85)	-0.0163*** (-3.56)	-0.0489*** (-12.69)	-0.0394*** (-10.43)
FVO	0.0078*** (13.73)	0.0071*** (11.94)	0.0083*** (13.90)	0.0036*** (5.88)	-0.0001 (-0.22)	0.0015*** (3.54)	-0.0005* (-1.70)	-0.0002 (-0.75)
CE-PE	-0.0107*** (-21.65)	-0.0093*** (-18.06)	-0.0132*** (-24.95)	-0.0091*** (-17.00)				
CE-NE					-0.0003 (-1.04)	-0.0011*** (-3.50)	0.0007*** (2.92)	0.0008*** (3.27)
TA_Ratio	-0.002*** (-2.86)	-0.0017** (-2.20)	0.0099*** (12.33)	0.0146*** (17.96)	-0.0022*** (-3.85)	-0.0016** (-2.50)	0.0030*** (6.45)	0.0064*** (12.88)
BusModel_Ratio	-0.0079*** (-6.83)	-0.0074*** (-6.30)	-0.0084*** (-5.79)	-0.0068*** (-4.83)	-0.0099*** (-10.62)	-0.0093*** (-9.91)	-0.0037*** (-4.68)	-0.0019** (-2.42)
BtoM_Ratio	0.0272*** (48.00)	0.0264*** (45.75)	0.0218*** (27.10)	0.017*** (21.23)	0.0282*** (55.41)	0.0277*** (53.60)	0.0147*** (28.88)	0.0111*** (21.85)
Leverage_Ratio	-0.0103* (-1.91)	-0.0114** (-2.11)	-0.0008 (-0.12)	-0.0107* (-1.70)	-0.0029 (-0.62)	-0.0053 (-1.13)	0.0310*** (7.82)	0.0221*** (5.73)
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. R-sq	13.07%	13.66%	11.87%	17.83%	12.01%	12.62%	6.03%	11.84%
N	18,206	18,206	11,391	11,391	23,323	23,323	15,935	15,935

This table reports regression results on the effect of the FVO election on comparability. Panel A (B) presents the results for the Comp EAR-RET (Comp (EAR-CF)) metric. Columns 1-4 include the results for the currently electing-previously electing banks and columns 5-8 for the currently electing-non electing banks. For currently electing – previously electing banks, the variable Group1 indicates that both banks in the pair have high incentives to elect the FVO in compliance with the intent of the standard setters. For currently electing – non electing banks, the variable Group1 indicates that the currently electing (non-electing) bank in the pair has high (low) incentives to elect the FVO in compliance with the intent of the standard setters. Panels A and B also provide F-statistics for the sum of the coefficients of FVO and FVO*Group1. Panel C presents the results after we include pairs of non-electing banks (i.e., non-electing matched to non-electing banks) in the regressions. Columns 1-2 and 5-6 (3-4 and 7-8) include results for the Comp (EAR-RET) (Comp (EAR-CF)) metric. CE-PE (CE-NE) is an indicator variable that takes the value of one if the match is a pair of currently electing-previously electing banks (currently electing - non-electing banks), and zero otherwise. All variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% levels, respectively, two-sided.

TABLE 6

The moderating effect of FVO choices and hedge accounting

Panel A: Dependent variable *Comp* (EAR-RET)

	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.0278 (1.57)	0.0486*** (2.77)	0.0204 (1.13)	0.0427** (2.39)	0.0374** (2.10)	0.0568*** (3.21)
FVO	0.0075*** (10.86)	0.0037*** (4.59)	0.0087*** (11.69)	0.0047*** (5.40)	0.0066*** (7.66)	0.0034*** (3.66)
FVOL_D	0.0062*** (3.89)	0.0064*** (4.09)				
L3_D			-0.0021** (-2.30)	-0.0017* (-1.87)		
HedgeAccPre					-0.0021* (-1.80)	-0.0015 (-1.27)
HedgeAccPre*FVO					0.0053*** (3.65)	0.0043*** (2.98)
TA_Ratio	0.0005 (0.29)	0.0022 (1.15)	-0.0007 (-0.35)	0.0004 (0.23)	0.0009 (0.47)	0.0029 (1.50)
BusModel_Ratio	-0.0127*** (-3.93)	-0.0155*** (-4.79)	-0.0131*** (-3.85)	-0.0155*** (-4.60)	-0.0127*** (-3.87)	-0.0156*** (-4.76)
BtoM_Ratio	0.0264*** (15.72)	0.0219*** (12.82)	0.0259*** (14.71)	0.0212*** (11.92)	0.0250*** (14.71)	0.0210*** (12.21)
Leverage_Ratio	-0.0587*** (-3.29)	-0.0674*** (-3.83)	-0.0494*** (-2.71)	-0.0594*** (-3.30)	-0.0672*** (-3.73)	-0.0761*** (-4.28)
Year FE	NO	YES	NO	YES	NO	YES
Adj. R-sq	8.80%	11.56%	8.84%	11.89%	9.37%	11.87%
N	4,341	4,341	4,028	4,028	4,087	4,087

Panel B: Dependent variable *Comp* (EAR - CF)

Intercept	0.0639*** (3.12)	0.0826*** (4.17)	0.0675*** (3.21)	0.0859*** (4.23)	0.0692*** (3.35)	0.0900*** (4.50)
FVO	0.0078*** (9.66)	0.0008 (0.87)	0.0087*** (9.86)	0.0012 (1.23)	0.0056*** (5.44)	-0.0010 (-0.95)
FVOL_D	0.0035* (1.77)	0.0047** (2.50)				
L3_D			-0.0016 (-1.52)	-0.0006 (-0.59)		
HedgeAccPre					-0.0023 (-1.64)	-0.0017 (-1.25)
HedgeAccPre*FVO					0.0058*** (3.47)	0.0051*** (3.16)
TA_Ratio	0.0124*** (5.64)	0.0134*** (6.25)	0.0123*** (5.38)	0.0127*** (5.73)	0.0123*** (5.45)	0.0136*** (6.21)
BusModel_Ratio	-0.0219*** (-6.06)	-0.0277*** (-7.86)	-0.0234*** (-6.15)	-0.0286*** (-7.72)	-0.0211*** (-5.78)	-0.0278*** (-7.79)
BtoM_Ratio	0.0292*** (14.27)	0.0220*** (10.84)	0.0286*** (13.46)	0.0215*** (10.24)	0.0288*** (13.93)	0.0218*** (10.63)
Leverage_Ratio	-0.0999*** (-4.82)	-0.0957*** (-4.79)	-0.1016*** (-4.78)	-0.0973*** (-4.76)	-0.1045*** (-5.01)	-0.1029*** (-5.11)
Year FE	NO	YES	NO	YES	NO	YES
Adj. R-sq	10.11%	17.03%	10.04%	17.27%	10.32%	16.98%
N	3,514	3,514	3,313	3,313	3,435	3,435

This table reports regression results on the moderating effect FVO choices and hedge accounting on comparability for the sample of currently electing-previously electing banks. Panel A (B) presents the results for the *Comp* (EAR-RET) (*Comp* (EAR- CF)) metric. All the variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% levels, respectively, two-sided.

TABLE 7

The effect of FVO election on comparability: Matching based on type of FVO instruments and extent of FVO use

Panel A: Type of instruments under the FVO and size

	<i>Comp (EAR-RET)</i>				<i>Comp (EAR-CF)</i>			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	-0.0063 (-0.61)	-0.0062 (-0.60)	0.0058 (0.55)	0.0047 (0.45)	-0.0072 (-0.75)	-0.0039 (-0.42)	-0.0053 (-0.54)	-0.0050 (-0.51)
FVO	0.0057*** (8.88)	0.0019** (2.51)	0.0025*** (2.97)	-0.0012 (-1.29)	0.0079*** (13.33)	0.0038*** (5.49)	0.0056*** (7.18)	0.0017** (2.04)
Group1			-0.0160*** (-13.31)	-0.0155*** (-12.94)			-0.0102*** (-9.31)	-0.0099*** (-9.10)
FVO*Group1			0.0123*** (8.77)	0.0121*** (8.70)			0.0091*** (7.18)	0.0091*** (7.26)
TA_Ratio	0.0063*** (3.31)	0.0079*** (4.15)	0.0066*** (3.46)	0.0085*** (4.42)	0.0084*** (5.03)	0.0091*** (5.58)	0.0082*** (4.84)	0.0093*** (5.60)
BusModel_Ratio	0.0031 (1.24)	0.0037 (1.46)	0.0054** (2.14)	0.0062** (2.44)	-0.0030 (-1.34)	-0.0029 (-1.32)	-0.0036 (-1.58)	-0.0035 (-1.55)
BtoM_Ratio	0.0205*** (13.56)	0.0174*** (11.43)	0.0197*** (12.83)	0.0167*** (10.73)	0.0172*** (11.85)	0.0123*** (8.37)	0.0167*** (11.24)	0.0124*** (8.23)
Leverage_Ratio	-0.0337*** (-3.37)	-0.0245** (-2.46)	-0.0444*** (-4.38)	-0.0353*** (-3.49)	-0.0264*** (-2.81)	-0.0181* (-1.94)	-0.0256*** (-2.67)	-0.0158* (-1.66)
LoanElecting_Pair	-0.0026*** (-3.57)	-0.0037*** (-5.18)	-0.0002 (-0.31)	-0.0013* (-1.73)	-0.0028*** (-4.09)	-0.0038*** (-5.67)	-0.0017** (-2.31)	-0.0026*** (-3.62)
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. R-sq	6.84%	9.07%	10.68%	12.73%	9.54%	13.94%	12.12%	15.99%
N	4,546	4,546	4,337	4,337	3,783	3,783	3,644	3,644
Coefficient comparison			F-stat				F-stat	
FVO + FVO*Group1 = 0			0.0678***	0.0309***			0.0604***	0.0272***

Panel B: Extent of FVO use and size

	<i>Comp (EAR-RET)</i>				<i>Comp (EAR-CF)</i>			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	-0.0155 (-1.45)	-0.0042 (-0.39)	-0.0025 (-0.23)	0.0091 (0.82)	-0.0031 (-0.31)	0.0191* (1.94)	0.0011 (0.11)	0.0202** (2.01)
FVO	0.0086*** (13.12)	0.0049*** (6.44)	0.0076*** (8.60)	0.0044*** (4.55)	0.0077*** (12.60)	0.0028*** (4.00)	0.0073*** (9.16)	0.0027*** (3.07)
Group1			-0.0061*** (-4.99)	-0.0060*** (-4.92)			-0.0055*** (-4.96)	-0.0045*** (-4.09)
FVO*Group1			0.0056*** (3.83)	0.0054*** (3.71)			0.0041*** (3.12)	0.0035*** (2.67)
TA_Ratio	0.0014 (0.73)	0.0030 (1.54)	0.0028 (1.42)	0.0049** (2.48)	0.0066*** (3.83)	0.0076*** (4.54)	0.0060*** (3.41)	0.0074*** (4.25)
BusModel_Ratio	-0.0042 (-1.57)	-0.0058** (-2.18)	-0.0043 (-1.57)	-0.0057** (-2.09)	-0.0047** (-2.03)	-0.0055** (-2.44)	-0.0045* (-1.91)	-0.0054** (-2.33)
BtoM_Ratio	0.0186*** (12.27)	0.0159*** (10.46)	0.0187*** (12.02)	0.0158*** (10.14)	0.0142*** (9.52)	0.0094*** (6.33)	0.0139*** (9.15)	0.0095*** (6.23)
Leverage_Ratio	-0.0151 (-1.45)	-0.0160 (-1.56)	-0.0288*** (-2.70)	-0.0317*** (-3.00)	-0.0276*** (-2.90)	-0.0381*** (-4.07)	-0.0304*** (-3.12)	-0.0391*** (-4.06)
Heavyuser_Pair	-0.0027*** (-4.35)	-0.0038*** (-5.98)	-0.0035*** (-3.50)	-0.0045*** (-4.57)	-0.0035*** (-3.90)	-0.0044*** (-5.09)	-0.0039*** (-4.19)	-0.0047*** (-5.23)
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. R-sq	8.15%	10.69%	8.31%	10.85%	7.68%	13.23%	8.77%	13.63%
N	4,291	4,291	4,112	4,112	3,633	3,633	3,490	3,490
Coefficient comparison			F-stat				F-stat	
FVO + FVO*Group1 = 0			0.0499***	0.0231***			0.0324***	0.0077***

This table reports regression results on the effect of the FVO election on comparability for the sample of currently electing-previously electing banks, after we match banks based on type of FVO instruments and extent of FVO use and size. For the results presented in Panel A, banks are matched based on the type of instruments for which the FVO is elected and size. For the results presented in Panel B, banks are matched based on the extent of FVO use and size. Columns 1-2 and 5-6 (3-4 and 7-8) include results for the Comp (EAR-RET) (Comp (EAR-CF)) metric. Group1 indicates that both banks in the pair have high incentives to elect the FVO in compliance with the intent of the standard setters. LoanElecting_Pair is an indicator variable that takes the value of one if both banks in the pair elect the FVO mainly for loans, and zero otherwise. Heavyuser_Pair is an indicator variable that takes the value of one if the proportion of assets or liabilities under the FVO for both banks in the pair is in the top quartile of the sample, and zero otherwise. The table also provides F-statistics for the sum of the coefficients of FVO and FVO*Group1. All the variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% levels, respectively, two-sided.

TABLE 8

Use a minimum of 8 and a maximum of 24 quarters pre- and post-FVO election to estimate Comp (EAR-RET)

Panel A: Comparability across currently electing - previously electing and currently electing - non- electing banks

	Currently electing - Previously electing				Currently electing - Non-electing			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	0.0266 (1.32)	0.0400** (2.00)	0.0251 (1.21)	0.0329 (1.61)	-0.0737*** (-6.82)	-0.0578*** (-5.36)	-0.0559*** (-5.12)	-0.0406*** (-3.71)
FVO	0.0071*** (9.00)	0.0015 (1.56)	0.0058*** (5.94)	-0.0001 (-0.12)	-0.0009* (-1.68)	0.0004 (0.53)	-0.0031*** (-5.34)	-0.0024*** (-3.22)
Group1			-0.0065*** (-4.92)	-0.0060*** (-4.66)			-0.0148*** (-15.00)	-0.0138*** (-13.98)
FVO*Group1			0.0036** (2.11)	0.0035** (2.06)			0.0134*** (9.29)	0.0113*** (7.82)
TA_Ratio	-0.0075*** (-2.92)	-0.0073*** (-2.87)	-0.0074*** (-2.84)	-0.0068*** (-2.64)	-0.0004 (-0.28)	0.0019 (1.24)	0.0005 (0.31)	0.0025* (1.66)
BusModel_Ratio	0.0084*** (2.67)	0.0065** (2.09)	0.0087*** (2.71)	0.0073** (2.29)	-0.0147*** (-8.55)	-0.0143*** (-8.35)	-0.0152*** (-8.80)	-0.0149*** (-8.70)
BtoM_Ratio	0.0283*** (14.65)	0.0244*** (12.54)	0.0278*** (14.17)	0.0234*** (11.81)	0.0250*** (20.33)	0.0228*** (18.25)	0.0250*** (20.27)	0.0227*** (18.08)
Leverage_Ratio	-0.0707*** (-3.42)	-0.0680*** (-3.34)	-0.0667*** (-3.14)	-0.0582*** (-2.77)	0.0577*** (5.22)	0.0446*** (4.04)	0.0416*** (3.73)	0.0284** (2.55)
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. R-sq	9.03%	12.27%	9.61%	12.98%	7.64%	9.78%	11.05%	12.81%
N	3,188	3,188	3,084	3,084	6,024	6,024	5,864	5,864
Coefficient comparison			F-stat				F-stat	
FVO + FVO*Group1 = 0			0.0218***	0.0023**			0.0247***	0.0168***

Panel B: The moderating effect of FVO choices and hedge accounting

	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.0278 (1.38)	0.0414** (2.07)	0.0506** (2.45)	0.0619*** (3.03)	0.0310 (1.43)	0.0409* (1.91)
FVO	0.0070*** (8.75)	0.0013 (1.40)	0.0092*** (10.09)	0.0031*** (2.88)	0.0072*** (6.96)	0.0018 (1.54)
FVOL_D	0.0038 (1.42)	0.0038 (1.45)				
L3_D			-0.0049*** (-4.17)	-0.0040*** (-3.47)		
HedgeAccPre					-0.0035*** (-2.63)	-0.0031** (-2.38)
HedgeAccPre*FVO					-0.0002 (-0.14)	-0.0015 (-0.85)
TA_Ratio	-0.0076*** (-2.95)	-0.0074*** (-2.91)	-0.0081*** (-3.09)	-0.0081*** (-3.16)	-0.0068** (-2.50)	-0.0063** (-2.36)
BusModel_Ratio	0.0086*** (2.73)	0.0067** (2.15)	0.0080** (2.45)	0.0067** (2.07)	0.0088*** (2.58)	0.0076** (2.25)
BtoM_Ratio	0.0284*** (14.7)	0.0245*** (12.59)	0.0290*** (14.15)	0.0248*** (12.02)	0.0298*** (14.42)	0.0260*** (12.55)
Leverage_Ratio	-0.0721*** (-3.49)	-0.0695*** (-3.41)	-0.0950*** (-4.47)	-0.0905*** (-4.32)	-0.0757*** (-3.42)	-0.0699*** (-3.20)
Year FE	NO	YES	NO	YES	NO	YES
Adj. R-sq	9.06%	12.30%	10.13%	13.66%	9.33%	12.78%
N	3,188	3,188	2,926	2,926	2,974	2,974

Panel C: Matching based on type of FVO instruments and extent of FVO use

	Type of FVO instruments and size				Extent of FVO use and size			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Intercept	-0.0478**	-0.0186	-0.0503***	-0.0270	-0.0078	0.0177	0.0222	0.0330*
	(-2.57)	(-1.00)	(-2.62)	(-1.41)	(-0.41)	(0.94)	(1.11)	(1.66)
FVO	0.0088***	0.0029***	0.0073***	0.0013	0.0102***	0.0059***	0.0103***	0.0063***
	(11.85)	(3.23)	(7.82)	(1.17)	(14.19)	(7.02)	(10.93)	(5.96)
Group1			-0.0087***	-0.0082***			-0.0054***	-0.0047***
			(-6.89)	(-6.58)			(-4.62)	(-3.98)
FVO*Group1			0.0047***	0.0044***			0.0015	0.0009
			(2.85)	(2.74)			(0.98)	(0.61)
TA_Ratio	-0.0014	-0.0033	-0.0014	-0.0030	-0.0019	-0.0017	0.0001	0.0004
	(-0.61)	(-1.42)	(-0.59)	(-1.26)	(-0.89)	(-0.79)	(0.04)	(0.19)
BusModel_Ratio	0.0116***	0.0111***	0.0134***	0.0131***	0.0007	-0.0015	0.0026	0.0008
	(3.99)	(3.86)	(4.51)	(4.48)	(0.24)	(-0.57)	(0.92)	(0.28)
BtoM_Ratio	0.0226***	0.0192***	0.0220***	0.0181***	0.0213***	0.0194***	0.0205***	0.01858
	(12.17)	(10.33)	(11.54)	(9.44)	(13.42)	(12.28)	(12.45)	11.31
Leverage_Ratio	0.0047	-0.0084	0.0080	0.0004	-0.0289	-0.0417**	-0.0608***	-0.0604***
	(0.24)	(-0.44)	(0.40)	(0.02)	(-1.51)	(-2.21)	(-3.00)	(-3.01)
LoanElecting_Pair	-0.0033***	-0.0050***	-0.0018**	-0.0035***				
	(-3.94)	(-6.08)	(-2.07)	(-4.07)				
Heavyuser_Pair					0.0004	-0.0017	-0.0006	-0.0028**
					(0.32)	(-1.47)	(-0.52)	(-2.24)
Year FE	NO	YES	NO	YES	NO	YES	NO	YES
Adj. R-sq	10.38%	13.63%	11.94%	15.21%	13.19%	16.26%	14.49%	16.90%
N	3,045	3,045	2,897	2,897	2,935	2,935	2,722	2,722
Coefficient comparison			F-stat				F-stat	
FVO + FVO*Group1 = 0			0.0320***	0.0060***			0.0295***	0.0088***

This table reports regression results on the effect of the FVO election on comparability, using a minimum of 8 and a maximum of 24 quarters pre- and post-FVO election to estimate Comp (EAR-RET). For the results presented in Panels A and B, banks are matched based on size. For the results presented in Panel C, banks are matched based on the type of FVO instruments and size (columns 1-4) and on the extent of FVO use and size (columns 5-8). All the variables are defined in Appendix A. *, ** and *** indicate statistical significance at 10%, 5% and 1% levels, respectively, two-sided.
