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ARE THE NEW RULES OF SEGMENT REPORTING, SFAS 131, USEFUL FOR ANALYSTS?

Abstract:

This paper analyzes whether the new segment reporting rules, SFAS 131, improve analysts' likelihood to accurately forecast future financial results of firms. We conduct an experimental analysis where subjects are given the task to predict future values of key financial variables of several corporations, and we compare the accuracy of the predictions based on the old rules vs. the new ones. Most of the forecasts based on the new rules were not significantly different or significantly more precise than those based on the former ones. Also, only a small percentage of the subjects found the new segment reports central in their analysis. It appears that the new rules, whereas noticeable by the subjects, did not help them achieve more accurate forecasts.

Keywords:

Behavioral Finance, Experimental Economics, Analysts' Predictions, Segment reporting, Financial Statements

JEL Classification: G00, G02, M40