

# Accounting Comparability and Loan Contracting

Xiaohua Fang

J. Mack Robinson College of Business

Georgia State University

[xfang@gsu.edu](mailto:xfang@gsu.edu)

Yutao Li

Faculty of Management

University of Lethbridge

[yutao.li@uleth.ca](mailto:yutao.li@uleth.ca)

Baohua Xin

Rotman School of Management

University of Toronto

[bxin@rotman.utoronto.ca](mailto:bxin@rotman.utoronto.ca)

Wenjun Jenny Zhang

School of Business Administration

Dalhousie University

[jenny.zhang@dal.ca](mailto:jenny.zhang@dal.ca)

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## **Accounting Comparability and Loan Contracting**

### **ABSTRACT**

This study examines whether accounting comparability is associated with the contracting cost of private loans. Using a sample of U.S. public firms from the years 1982 to 2009, we find strong evidence that accounting comparability is significantly negatively associated with private loan interest spread, consistent with the view that accounting comparability facilitates information processing by lenders. The findings are robust to alternative model specifications and estimation methods. We also find that the negative association between comparability and private loan spread is stronger for borrowers without Standard & Poor's credit ratings and borrowers with non-collateralized loans. Further analyses show that accounting comparability is significantly positively associated with the number of lenders and negatively associated with the share of loan held by lead lender(s), confirming our main evidence of the relationship between accounting comparability and loan contracting cost.

**JEL Classification:** G12, G14, M41.

**Keywords:** accounting comparability, cost of debt, loan contracting.

## I. INTRODUCTION

Accounting comparability has a long history. The Financial Accounting Standards Board (FASB 1980) states that “investing and lending decisions essentially involve evaluations of alternative opportunities, and they cannot be made rationally if comparative information is not available.” Recently, the Statement of Financial Accounting Concepts (SFAC) No. 8 (2010) further states that comparability is an important qualitative characteristic that enhances the usefulness of financial information, and that “information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.” Thus, it is expected that accounting comparability can benefit financial statement users by helping them to better process information at reduced costs. Despite the substantial discussion about the benefits of comparability at a conceptual level in accounting textbooks and regulatory pronouncements, very few studies directly examine effects of accounting comparability on capital markets, particularly the debt market. In this paper, we test whether and how accounting comparability is associated with various features of loan contracts, especially the cost of debt.

Several considerations motivate our choice of loan contracts. First, debt is a predominant source of external financing for corporations relative to equity, and bank loans are a major component of debt. Thus it is of economic relevance to study how banks, as a major capital provider and one of the most important market participants, value accounting comparability among industry peers in assessing borrowers’ credit risk. Second, in addition to the interest rates that banks charge borrowers to compensate for the risks undertaken, loan contracts have other mechanisms that offer lenders protection against potential default risks, such as covenant restrictions, collateral requirements, and loan maturity. So lenders often offer borrowers a trade-

off between various contractual terms, and these terms cannot be traded separately (Melnik and Plaut 1986; Gigler, Kanodia, Sapa, and Venugopalan 2009). It is interesting to examine how these terms interact with each other as borrowers' accounting comparability varies. Third, Lambert, Leuz, and Verrecchia (2011) argue that in perfectly competitive markets, information risk is not a priced risk factor. Relative to the equity market, the loan market is less competitive due to low liquidity, and thus information risk in debt contracting cannot be fully diversified. Further, the cost of loans is directly observable from the loan terms, while estimating the cost of equity has various measurement issues. These last two features of loans offer us a better chance to explore the relationship between the cost of capital and accounting comparability in a more efficient manner. However, there are counterforces that could mitigate or even entirely offset any association between comparability and debt contract terms. Lenders generally have superior information about borrowers, and they make investments in monitoring borrowers. So they may rely to a lesser extent than other stakeholders on the financial statements. Taking advantage of the rich setting offered by debt contracting, we attempt to shed light on the implications of comparability for the debt market by examining the relationship between debt contracting terms and accounting comparability.

Accounting numbers based on generally accepted accounting principles (GAAP) play an important role in debt contracting (Leftwich 1983; Watts and Zimmerman 1986; Ball 2001; Dichev and Skinner 2002; Begley and Feltham 1999; Ball, Bushman, and Vasvari 2008; and N. Li 2010). The quality of accounting information affects the estimation risk of firms (Bhojraj and Sengupta 2003). We argue that accounting quality has two distinct dimensions. The first dimension is the extent to which accounting numbers faithfully measure and communicate the underlying economic transactions specific to the firm – we label this “inherent accounting

quality”; and the other dimension is the extent they reflect the similarity of similar transactions across firms – which we call “accounting comparability.” It has been well established in the literature that the inherent accounting quality affects both the cost of equity (Botosan 1997; Francis, LaFond, Olsson, and Schipper 2005; Ashbaugh-Skaife, Collins, Kinney, and LaFond 2009), and the cost of debt and other debt terms (Bharath, Sunder, and Sunder 2008; Graham, Li, and Qiu 2008; Costello and Wittenberg-Moerman 2011; Dhaliwal, Hogan, Trezevant, and Wilkins 2011; and Kim, Song, and Zhang 2011). However, research on the role of accounting comparability in capital markets has only appeared recently and has focused primarily on equity markets (S. Li 2010; Lang, Maffett, and Owens 2010; De Franco, Kathari, and Verdi 2011; Peterson, Schmardebeck, and Wilks 2012). It remains a question whether and how accounting comparability is associated with various debt contracting terms. We believe such an inquiry informs us of the specific channels through which accounting information affects the design of debt contracts.

We employ a subset of U.S. publicly listed firms with private debt during the period 1981–2008. Using comparability measures developed by De Franco et al. (2011), we find strong evidence that accounting comparability is significantly and negatively associated with the cost of debt, (i.e., private loan spread), after controlling for the inherent accounting quality, consistent with the view that accounting comparability improves the information quality to lenders (or debt investors). The findings are robust to alternative model specifications and estimation methods. The effect is economically significant. On average, the effect of accounting comparability on loan spread is about 29 basis points between a firm within the top percentile of accounting comparability and a firm within the bottom percentile, which is equal to about 17% of the sample mean of loan spread.

We further hypothesize that accounting comparability will be more important to lenders if there is limited information about borrowing firms. We partition the sample based on the borrowers' information environment, which is proxied by the availability of Standard & Poor's (S&P) credit ratings of the borrowers. We find that the negative association between comparability and loan spread is stronger for firms without credit ratings, suggesting that accounting comparability is useful, especially when lenders have less public available information about borrowers. We also argue that nonprice terms in loan contracts weaken the role of accounting comparability in determining the loan spread, because such terms by themselves provide additional protection against the information asymmetry between borrowers and lenders. We find that the negative association between the cost of debt and accounting comparability is mitigated by the use of collateral, but financial covenants and maturity terms do not seem to alter this association.

Finally, we investigate whether private loan ownership structures are related to accounting comparability. We find that accounting comparability is significantly positively associated with the number of lenders, and significantly and negatively associated with the share of loan held by lead lender(s). The findings corroborate our argument that accounting comparability is an important accounting mechanism to reduce information asymmetry between lenders and borrowers and between lead lender(s) and participating lenders. Additional tests also suggest that, as enhanced comparability of accounting reduces lenders' exposure to borrowers' information risks, lenders are more likely to be willing to offer the loans without requiring borrowers to pledge collateral.

Overall, this study provides preliminary evidence on the importance of accounting comparability to lenders in the debt market. It contributes to the literature along several

dimensions. First it adds to the growing literature on the benefits of accounting comparability in capital markets. Though at a conceptual level, comparability has been believed to be one of the most important enhancing characteristics of accounting that helps users to more effectively process information and make investing/lending decisions, relatively little has been known about exactly how capital market participants value comparability. The existing studies examine the impact of comparability on the equity market and conclude that accounting comparability is associated with a lower cost of equity (S. Li 2010), more efficient pricing of peer firms' earnings news (Campbell and Yeung 2011), improved analyst forecasts (De Franco et al. 2011), and facilitated acquirer's acquisition-investment decisions (Chen, Collins, Kravet, and Mergenthaler Jr. 2012). We examine the capital market implications of accounting comparability from the debt market participants' perspective. We show that a lower cost of debt arising from accounting comparability is a significant benefit to lenders (or debt holders).

In a concurrent study, Kim, Kraft, and Ryan (2012) investigate the role of financial statement comparability in assessing credit risk and conclude that comparability reduces debt market participants' uncertainty about borrowers' credit risks. A key difference between our study and theirs is that they use a sample of public debt, while we focus on the private loan market. In addition, the benefits of comparability that these two studies examine are fundamentally different because of the choice of debt type. Both studies however reach the same conclusion: accounting comparability helps users to better process information contained in financial statements. We view the two studies as complementary, and together with studies on the role of comparability in the equity market, provide a more comprehensive picture of the benefits of financial statement comparability in capital markets.

Second, this study contributes to our understanding of the relationship between accounting quality and the cost of capital. The extensive literature examining this relationship in the equity market has not been able to reach a consensus as to whether and how financial reporting quality and the cost of equity capital are associated (Botosan 1997; Francis et al. 2005; Ecker, Francis, Kim, Olsson, and Schipper 2006; Core, Guay, and Verdi 2007; Hughes, Liu, and Liu 2007; Ashbaugh-Skaife et al. 2009; and Ogneva, Subramanyam, and Raghunandan 2007). However, research on the debt market generally tells a consistent story that high financial reporting quality results in lower cost of debt (Mansi, Maxwell, and Miller 2004; Bharath et al. 2008; Graham et al. 2008; Costello and Wittenberg-Moerman 2011; Kim et al. 2011; and Dhaliwal et al. 2011). Unlike the prior literature, which examines the overall accounting quality, we make a clear distinction between the two dimensions of accounting quality – inherent accounting quality and accounting comparability. We provide evidence that not only does inherent accounting quality matter in determining the cost of debt (as documented by the aforementioned prior studies), accounting comparability also matters over and above inherent accounting quality. This finding is consistent with the concept in SFAC No. 8 (2010) that comparability is an important qualitative characteristic that enhances the usefulness of financial information.

Finally, this study contributes to the loan contracting literature. Loan contracts have multiple contract terms that include not only the price term (loan spread), but also nonprice terms (covenants, collateral, etc.). These terms cannot be split and traded separately (Melnik and Plaut 1986), and lenders can fine tune the risk-return relationship with borrowers by making a tradeoff between the price term and nonprice terms, and among nonprice terms. Thus focusing on the spread alone is likely to underestimate the total benefit of accounting comparability to lenders. In addition to altering contract terms, lenders can also choose how to structure loans. We explore



how accounting comparability is associated with the number of lenders, the percentage of loans that the lead lenders retain, and the likelihood of issuing syndicated loans. We strive to provide a comprehensive investigation of the role of accounting comparability in debt contracting.

The paper proceeds as follows. In Section 2, we review prior literature and develop our hypotheses. Section 3 describes the sample, variable measurement, and research design. We present our empirical results in Section 4. Section 5 concludes.

## **II. BACKGROUND AND HYPOTHESES**

### **Related Literature**

There is an extensive literature on the role of accounting information in debt contracting. Some studies focus on specific aspects of accounting quality such as accounting conservatism, while others examine more comprehensive indices or indicators of accounting quality such as accruals, internal control strength, and restatements. Ahmed, Billings, Morton, and Stanford-Harris (2002) investigate the relationship between credit ratings and accounting conservatism. Zhang (2008) examines the relationship between the spreads of private debts and conservatism. Both papers find that lenders offer lower interest rates when borrowers are relatively more conservative, consistent with the notion that conservatism in financial reports plays an important role in reducing the costs of debt. Using a large sample of U.K. firms, Ball and Shivakumar (2005) find that the demand for conservative financial reports is stronger for publicly held firms than for private firms. Wittenberg-Moerman (2008) finds that timely loss recognition reduces the bid–ask spread for loans traded on the secondary loan market, and Nikoleav (2010) finds that reliance on covenants in public debt contracts is positively associated with the degree of timely loss recognition.

Bharath et al. (2008) document that borrowers with poorer accounting quality (measured by abnormal operating accruals) prefer private debt over public debt, and firms with poorer accounting quality face significantly higher interest cost for both private and public debts, and that the pricing impact of accounting quality on public debt is greater than that on private debt. They also find that only private loan lenders (i.e., banks) set more stringent nonprice terms (shorter maturities and use of collateral) for borrowers with poor accounting quality. These findings are consistent with the notion that banks possess superior information access and processing abilities that reduce their exposure to borrowers' information risks. Beatty, Weber, and Yu (2008) find that debt contract modifications are more likely when agency costs are higher and litigation, tax, and equity demands for conservatism are lower. Ball et al. (2008) investigate how the debt-contracting value (DCV) of borrowers' accounting information affects both the ownership structure and the explicit contractual structure of syndicated loans. Using internal control as an indicator of financial reporting quality, Costello and Witternberg-Moerman (2011), Kim et al. (2011), and Dhaliwal et al. (2011) provide evidence that the disclosure of material internal control weakness is factored into both public and private debts, and in the case of private debts, in both price and nonprice terms. Graham et al. (2008) study the effect of financial restatement on bank loan contracting. They document that loans initiated after restatement have significantly higher spreads, shorter maturities, higher likelihood of being secured, and more covenant restrictions.

Collectively, the findings in these studies suggest the importance of accounting information in debt contracting. However these studies do not differentiate between inherent accounting quality and accounting comparability in their proxies for financial reporting quality, and tend to

focus primarily on the former. Thus they are silent about whether accounting comparability plays any role in designing debt contracts.

Recent research examining the role of financial reporting comparability in capital markets has considered equity market participants, including equity analysts and investors. De Franco et al. (2011) develop a measure of financial statement comparability and find that this measure is positively related to equity analyst following and forecast accuracy, and negatively related to forecast dispersion. Their results suggest that financial statement comparability lowers the cost of acquiring and processing information, and increases the overall quantity and quality of public information. S. Li (2010) investigates a sample of European Union (EU) firms and finds that the International Financial Reporting Standards (IFRS) mandate significantly reduces firms' cost of equity capital through both increased disclosure and enhanced comparability. Campbell and Yeung (2011) find that when the financial statements of the firm of interest and its peer firms are more comparable: 1) the impact of peer firms' earnings news on the firm's stock price is greater; 2) the drift following the peer firms' earnings announcement is smaller; and, 3) the reversal at the firm's own earnings announcement is smaller. Peterson et al. (2012) examine how accounting comparability relates to earnings attributes such as abnormal accruals, and find that firms whose accounting is more comparable to their industry peers tend to share similar earnings attributes with them.<sup>1</sup>

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<sup>1</sup> There are also several studies on whether the adoption of IFRS improves firms' financial reporting comparability (Lang et al. 2010, Barth, Landsman, Lang, and Williams 2012). Francis, Pinnuck, and Watanabe (2011) examine one of the determinants of financial statement comparability – auditor style. They provide evidence that two firms audited by the same Big 4 auditor have greater accounting comparability (more uniform earnings) than two firms audited by two different Big 4 auditors.

In this study, we connect the two streams of literature by examining the incremental impact of accounting comparability on debt contracting, over and above the impact of inherent accounting quality.

### **Hypotheses Development**

Lenders evaluate alternative investment opportunities based on a variety of information, including financial statements. Accounting information quality improves lending efficiency by aiding lenders in evaluating such alternatives, and possibly by providing better future monitoring. As the SFAC No. 8 (2010) implies, more comparable accounting information across such alternatives might be more useful than less comparable accounting information for the purpose of investing or lending because accounting comparability can reduce the cost to lenders of processing information. Therefore, firms with more comparable information potentially face lower adverse selection or monitoring costs in the loan markets. If this is the case, we expect that borrowers with more comparable financial statements enjoy lower costs of debt.

There are several counterforces that mitigate or even entirely offset the negative association between the cost of debt and accounting comparability. First, banks may have superior access to information from borrowers and make investments in monitoring borrowers. They may rely to a lesser extent on public information such as financial statements. Second, banks can set both the price and nonprice terms in response to borrowers' accounting attributes. As a result, firms with comparable financial information can be valued through nonprice terms (e.g., debt covenants, collateral, and maturity) rather than price term (i.e. cost of debt). Third, as Lang et al. (2010) argue, even though true comparability is desirable because it increases the usefulness of accounting data and reduces the costs of processing a firm's information, to the extent that shared accounting standards result in dissimilar events being treated similarly, information may

be destroyed. So mandating comparability may eliminate accounting differences that exist for valid reasons. As a result, “comparable information, however, is not useful if it is not relevant and may mislead if it is not faithfully represented” (SFAC No. 8 2010). The benefits of accounting comparability might be compromised under these circumstances.

On one hand, if accounting comparability indeed facilitates lenders’ information processing and lowers the information asymmetry between borrowers and lenders, a negative association between accounting comparability and the cost of loan is expected. On the other hand, if accounting comparability is not useful to or may even mislead lenders, no association (or even a positive association) between comparability and the cost of loan is implied. This yields the following hypothesis (stated in the alternative form):

*H1: More comparable financial information is associated with lower cost of debt.*

The analysis leading to H1 also implies that the usefulness of accounting comparability in determining the cost of debt is potentially contingent on information availability and the use of nonprice terms in the debt contracts. Next we explore these cross-sectional variations.

Diamond (1991a) emphasizes the importance of publicly available information, such as credit ratings, to the lender–borrower relationship. Sufi (2007) finds that the availability of a loan-specific credit rating reduces information asymmetry between borrowers and uninformed lenders in the syndicated loan market. Similarly, Wittenberg-Moerman (2008) finds that loans of public firms with available credit ratings are traded at lower bid–ask spreads in the secondary loan market. Therefore, we conjecture that the benefits of financial reporting comparability in reducing information asymmetry between borrowers and lenders are stronger when there is less publicly available information regarding borrowers. Thus, we hypothesize:

*H2a: The relationship between accounting comparability and the cost of debt is stronger (i.e., more negative), the less available the public information regarding a borrower.*

Prior literature suggests that lenders and borrowers trade off price and nonprice terms in debt contracting (Melnik and Plaut 1986; Bharath et al. 2008). Rather than relying on spreads to address the information problems of borrowing firms, lenders and borrowers may agree to use collateral (Berger and Udell 1990; and Jimenez, Salas, and Saurina 2006), financial covenants (Rajan and Winton 1995), and/or maturity (Stohs and Mauer 1996; and Ortiz-Molina and Penas 2008) in combination with spreads to provide the needed protection against the information risk. We conjecture that the use of more restrictive nonprice terms, including collateral, financial covenants and maturity, mitigates the negative association between the cost of debt and accounting comparability. This leads to the following hypotheses:

*H2b: The relationship between accounting comparability and the cost of debt is weaker (i.e., less negative) when collateral is pledged in the debt;*

*H2c: The relationship between accounting comparability and the cost of debt is weaker (i.e., less negative) when the debt has a shorter maturity;*

*H2d: The relationship between accounting comparability and the cost of debt is weaker (i.e., less negative) when financial covenants are imposed.*

In addition to contract terms, accounting comparability can also have an impact on how loans are structured. Sufi (2009) finds that previously unrated borrowers who obtain a loan rating expand their set of creditors toward less-informed lenders, suggesting that high quality information increases the investor base of a loan. Ball et al. (2008) find that when a borrower's

accounting information possesses higher DCV, information asymmetry between the lead arranger(s) and other syndicate participants is lower, allowing lead arrangers to hold a smaller proportion of new loan deals. In a similar vein, Sufi (2007) finds that, to signal the lead bank's commitment to monitor, the lead bank in a loan syndicate retains a larger share of the syndicated loan and forms a more concentrated syndicate when the borrower is more opaque to lenders. Hence, if accounting comparability improves borrowers' information environment, we expect that more lenders will be attracted to loans, and lead lenders will be able to hold a smaller proportion of loans. This leads to the following hypotheses:

*H3a: The number of lenders in loan deals is positively associated with borrowers' accounting comparability.*

*H3b: The percentage of loans held by lead lenders is negatively associated with borrowers' accounting comparability.*

### **III. SAMPLE AND VARIABLE MEASUREMENT**

#### **Data Sources and Sample**

Our data covers U.S. publicly listed firms with private debt (bank loans) during the period 1981–2008. The sample of private debt is obtained from the Dealscan database provided by Loan Pricing Corporation (LPC). The Dealscan database provides information on loans obtained by firms and details of both price and nonprice terms for each loan, including the loan amount, the loan inception, the loan maturity, covenants, collateralization requirement, loan purposes, loan market segment, and the cost of the loan measured by the number of basis points above the London Interbank Offered Rate (LIBOR). Sometimes, loan packages or deals can have several

facilities for the same borrower and with the same contract date. We include each facility as a separate sample observation because loan characteristics vary with each facility.

In addition, we collect: 1) stock data from the Center for Research in Security Prices (CRSP) stock files; 2) firm-level accounting data from *Compustat* annual files; 3) analyst data from the Institutional Brokers' Estimate System (I/B/E/S); and 4) institutional ownership data from the Thomson Reuters Institutional Holdings database. To mitigate the influence of extreme observations, we winsorize the top and bottom one percent of outliers for each variable. Our final sample consists of 12,969 loan facility observations for 2,559 borrowers.<sup>2</sup>

### **Measuring Accounting Comparability**

We follow De Franco et al. (2011) to measure accounting comparability between firm  $i$  and firm  $j$ . Based on FASB (1980), De Franco et al. (2011) define financial statement comparability as follows: “Two firms have comparable accounting systems if, for a given set of economic events, they produce similar financial statements.” In other words, two firms with comparable accounting should have similar mappings such that for a given a set of economic events, one firm produces similar financial statements to the other firm. De Franco et al. (2011) use stock returns as a measure for the net effect of economic events on the firm’s financial statements. These economic events could be unique to the firm, but could also be due to industry- or economywide shocks. The proxy for financial statements is earnings – an important summary income statement measure.<sup>3</sup>

For each firm-year, we first estimate the following equation using the 16 previous quarters of data:

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<sup>2</sup> It is worth noting that our major results remain the same if we remove financial (SIC 6000–6999) and utility (SIC 4900–4999) borrowers.

<sup>3</sup> De Franco et al. (2011) acknowledge that using only earnings to capture financial statement comparability is a limitation of their analysis. We acknowledge the same issue here.



$$Earnings_{it} = \alpha_i + \beta_i Return_{it} + \varepsilon_{it}, \quad (1)$$

where *Earnings* is the ratio of quarterly net income before extraordinary items to the market value of equity at the beginning of the quarter, and *Return* is the stock price return during the quarter.

We estimate Equation (1) for firm *i* and firm *j*, respectively, and their accounting functions are proxied by the respective estimated coefficients. Comparability is measured as the “distance” between the estimated accounting functions of firm *i* and firm *j*. If the two firms have experienced the same set of economic events, the distance will be smaller when financial statements are more comparable. To measure the distance, for each of the 16 prior quarters, we first calculate the predicted earnings based on the estimated coefficients of firm *i*'s and firm *j*'s estimated accounting functions, assuming both firms had the same stock return:

$$E(Earnings)_{iit} = \hat{\alpha}_i + \hat{\beta}_i Return_{it}, \text{ and} \quad (2)$$

$$E(Earnings)_{ijt} = \hat{\alpha}_j + \hat{\beta}_j Return_{it}, \quad (3)$$

where  $E(Earnings)_{iit}$  is the predicted earnings of firm *i* given firm *i*'s function and firm *i*'s return in period *t*; and  $E(Earnings)_{ijt}$  is the predicted earnings of firm *j* given firm *j*'s function and firm *i*'s return in period *t*. By using firm *i*'s return in both predictions, we explicitly hold the economic events constant.

Following De Franco et al. (2011), we define accounting comparability between firms *i* and *j* ( $CompAcct_{jt}$ ) as the negative value of the average absolute difference between the predicted earnings using firm *i*'s and *j*'s functions during the 16-quarter estimation period:

$$CompAcct_{jt} = \frac{-1}{16} * \sum_{t-15}^t |E(Earnings)_{iit} - E(Earnings)_{ijt}|. \quad (4)$$

Higher values of  $CompAcct_{jt}$  mean greater accounting comparability between firms  $i$  and  $j$ . We estimate accounting comparability for each firm  $i$  – firm  $j$  combination for  $J$  firms within the same SIC two-digit industry classification.

After calculating the  $i - j$  measure of comparability, we estimate a firm-year measure of accounting comparability by aggregating the firm  $i$  – firm  $j$   $CompAcct_{jt}$  for a given firm  $i$ .

$CompAcct4_{it}$  is the average  $CompAcct_{jt}$  of the four firms  $j$  with the highest comparability to firm  $i$  during period  $t$ .  $CompAcctInd_{it}$  is the median  $CompAcct_{jt}$  for all firms  $j$  in the same industry as firm  $i$  during period  $t$ . Firms with high  $CompAcct4_{it}$  and  $CompAcctInd_{it}$  have financial statements that are more comparable to those in the peer group and in the industry, respectively.

Several studies (e.g., Lang et al. 2010; and Barth et al. 2012) are based on the measure developed by De Franco et al. (2011). The measure of comparability is applicable to all firms and can capture the overall earnings comparability, rather than the comparability of earnings components. Kim et al. (2012) use the within-industry variations in accounting adjustments made by a credit rating agency as a measure of comparability. This measure is only available for firms with credit ratings and can only reflect adjustments related to interest coverage ratios and nonrecurring income items.

### **Measuring the Cost of Debt**

Our main measure of the cost of debt is *Spread*, the initial interest rate spread over LIBOR for each loan. Prior research has shown that *Spread* is an important measure of the agency cost of debt (Altman 1992; Liu, Seyyed, and Smith 1996; Zhang 2008; Bharath et al. 2008; Beatty et al. 2008). The larger the spread, the greater the cost of debt. In the robustness

checks, as an alternative measure of cost of debt, we also use the interest rate on firm's debt, calculated as its interest expense for the year divided by its average short- and long-term debts during the year (Ahmed et al. 2002; Pittman and Fortin 2004).

### **Control Variables**

Following prior literature, we control for the following set of firm-specific variables:  $Inst_t$ , the percentage of a firm's shares held by institutional investors;  $Stkvol_t$ , defined as the standard deviation of firm-specific daily returns in fiscal year  $t$ , based on the market model;  $MB_t$ , defined as the market-to-book ratio at the end of fiscal year  $t$ ;  $LEV_t$ , defined as the book value of all liabilities divided by the total assets at the end of fiscal year  $t$ ;  $ROE_t$ , defined as income before extraordinary items divided by the book value of equity at the end of fiscal year  $t$ ;  $LnSize_t$ , defined as the natural log of market value of equity at the end of fiscal year  $t$ ;  $Opaque_t$ , computed as the three-year moving sum of the absolute value of annual performance-adjusted discretionary accruals (Kothari, Leone, and Wasley 2005) from fiscal years  $t-2$  to  $t$ <sup>4</sup>;  $Analyst_t$ , defined as the natural log of 1 plus the number of analysts following the firm;  $Notrated_t$ , an indicator variable equal to one if the borrower does not have an S&P credit rating, and zero otherwise; and  $Litigation_t$ , which is equal to one when the firm is in the biotechnology (SIC codes 2833-2836 and 8731-8734), computer (SIC codes 3570-3577 and 7370-7374), electronics (SIC codes 3600-3674), or retail (SIC codes 5200-5961) industries, and zero otherwise.

We also control for a series of loan-specific variables:  $Maturity_t$ , the loan maturity in months;  $Loanamount_t$ , defined as loan amount in U.S. dollars;  $Syndicate_t$ , an indicator variable equal to one if a loan is syndicated, and zero otherwise;  $Takeover_t$ , an indicator variable equal to one if the primary purpose of the loan is a takeover, and zero otherwise;  $LBO_t$ , an indicator

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<sup>4</sup> We also use a modified Dechow and Dichev's (2002) accrual quality measure in Francis et al. (2005) to measure firm-level reporting quality, and the results (untabulated) remain robust.

variable equal to one if the primary purpose of the loan is a leveraged buyout, and zero otherwise; *Repay<sub>it</sub>*, defined as an indicator variable equal to one if the primary purpose of the loan is debt repayment, and zero otherwise; *Levloan<sub>it</sub>*, an indicator variable equal to one if the market segment of the loan is a leveraged loan segment, and zero otherwise; and *Numcovenants<sub>it</sub>*, which is the number of financial covenants contained in a loan contract.

## IV. RESULTS

### Descriptive Statistics

Table 1 Panel A presents descriptive statistics for the key variables used in our regression models. The mean and standard deviation of *Spread* is 170.07 and 138.23, which are comparable to those reported by Bharath et al. (2008). The mean values of the accounting comparability measures, *CompAcct4<sub>it</sub>* and *CompAcctInd<sub>it</sub>*, are -0.54 and -2.03, respectively. The mean value, median value, and standard deviation of *CompAcct4<sub>it</sub>* and *CompAcctInd<sub>it</sub>* are very similar to those reported by De Franco et al. (2011).

Panel B presents a Pearson correlation matrix for the key variables used in our study. Our comparability measures, *CompAcct4<sub>it</sub>* and *CompAcctInd<sub>it</sub>*, are significantly and positively correlated with each other, suggesting that they are picking up much the same information. The correlation coefficient between *CompAcct4<sub>it</sub>* and *CompAcctInd<sub>it</sub>*, 0.83, is comparable to that reported by De Franco et al.(2011). In addition, *Spread* is significantly negatively correlated with both comparability measures at the one percent significance level (two-tailed). The univariate results are consistent with our expectation that more comparable financial reporting is associated with lower cost of debt.

-----Insert Table 1-----

### **Multivariate Analysis of Cost of Debt: Main Results**

We examine the effect of accounting comparability on the cost of loan (H1) with reference to the following regression:

$$\begin{aligned} Spread_{it+1} = & \alpha_0 + \alpha_1 Comparability_{it} + \alpha_2 Firm\text{-}specific\ Control_{it} \\ & + \alpha_3 Loan\text{-}specific\ Control_{it+1} + Year\ Dummies \\ & + Industry\ Dummies + \varepsilon_{it+1}, \end{aligned} \tag{5}$$

where *Comparability* is measured by *CompAcct4* or *CompAcctInd*. All regressions control for year and industry (two-digit SIC) fixed effects. Regression equations are estimated using pooled ordinary least squares (OLS) with White standard errors corrected for firm clustering. Our focus is on the effect of *Comparability* on loan spread, that is, on the coefficient  $\alpha_1$ .

Columns (1) and (2) in Table 2 show the results of our regression analysis of Equation (5), where we measure accounting comparability by *CompAcct4* and *CompAcctInd*, shown in columns (1) and (2), respectively. In both columns, the estimated coefficients for *Comparability* (*CompAcct4* and *CompAcctInd*) are significantly negative at less than 1% significance levels (two-tailed). The results indicate that accounting comparability is negatively associated with loan spread, consistent with H1.

To measure the economic impact of accounting comparability, we use the percentile rank of the *Comparability* within each year and industry (two-digit SIC) in the regression equation (5). Columns (3) and (4) in Table 2 show that in economic terms, the effect of accounting comparability on loan spread is about 29 basis points between a firm within the top percentile of accounting comparability and a firm within the bottom percentile. The evidence indicates that the negative association between accounting comparability and the cost of loan is economically

significant as well as statistically significant. These findings are consistent with the view that accounting comparability facilitates lenders' information processing and resolves the information asymmetry problem between borrowing firms and their lenders, ultimately lowering the cost of loans.

We now turn to our firm-specific control variables. Consistent with prior literature, the coefficients on *Stkvol* and *LEV* are significantly positive across all four columns. This implies that more risky firms are associated with higher cost of loan. Consistent with Bharath et al. (2008), the coefficient on *Opaque* is significantly positive across all four columns. In addition, we observe significantly negative coefficients on *ROE* and *LNSIZE*, suggesting that larger firms and better performing firms are associated with lower cost of loan. The significant, positive coefficient on *Litigation* implies that, not surprisingly, litigation risk increases the cost of loan.

Regarding loan-specific control variables, we find that, consistent with Bharath et al. (2011), the coefficients on *Maturity* are significantly negative across all four columns. The significantly negative coefficients on *Syndicate* suggest that syndicated loans are associated with a lower cost of borrowing. The coefficients on *Levloan* and *LBO* are significantly positive across all the columns, with a relatively large magnitude of more than 100 basis points. This implies that borrowing for risky purposes, that is, leveraged loans or loans for leveraged buyouts, are associated with higher borrowing costs.

-----Insert Table 2 -----

### **Multivariate Analysis of Cost of Debt: Robustness**

We perform a number of robustness checks of our main results. Columns (1) and (2) of Table 3 re-estimates regression equation (5), including firm fixed effects to address the concern that omitted time-invariant firm characteristics may be driving the results. When analyzing the

effect of accounting comparability on the cost of loan, endogeneity concerns arise because of omitted unobservable firm characteristics. Omitted variables affecting both accounting comparability and the cost of debt could lead to spurious correlations between them. We find that our results hold when we employ firm fixed effects regressions in both columns (1) and (2) of Table 3.

As an alternative firm-level measure of the cost of debt, we use the interest rate (*Int. Rate*) on the firm's debt, which is calculated as its interest expense for the year divided by its average short- and long-term debt during the year. We estimate the following regression equation:

$$Int. Rate_{it+1} = \alpha_0 + \alpha_1 Comparabilty_{it} + \alpha_2 Firm-specific Control_{it} + Year Dummies + Industry Dummies + \varepsilon_{it+1} \cdot \quad (6)$$

Columns (3) and (4) show that the estimated coefficients for both *CompAcct4* and *CompAcctInd* are significantly negative at less than 1% significance level, indicating further that accounting comparability is negatively associated with cost of debt, consistent with H1.

Following De Franco et al. (2011), we also use *CompAcctIQ<sub>it</sub>*, the average *CompAcct<sub>jt</sub>* of the ten firms *j* with the highest comparability to firm *i* during period *t*, as an alternative measure of accounting comparability.<sup>5</sup> In our untabulated analysis, the results are very similar to those using *CompAcct4<sub>it</sub>* and *CompAcctInd<sub>it</sub>*.

-----Insert Table 3 -----

In accounting equations, the earnings number is the summation of cash flow and total accruals. Thus, we decompose earnings into cash flow and accruals, construct two additional comparability measures for cash flow and total accruals, respectively, and re-estimate the

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<sup>5</sup>De Franco et al. (2011) acknowledge that the choice of how many firms should be included in the set of comparable firms is ad hoc.

regression equation (5) using the new set of comparability measures.  $CompAcct4\_CFO_{it}$  ( $CompAcctInd\_CFO_{it}$ ) is the comparability measure created in an identical manner to  $CompAcct4_{it}$  ( $CompAcctInd_{it}$ ), except that we replace earnings with  $CFO$ , which is the ratio of the cash flow from operations to the beginning-of-period market value of equity; and  $CompAcct4\_ACCR_{it}$  ( $CompAcctInd\_ACCR_{it}$ ) is the comparability measure created in an identical manner to  $CompAcct4_{it}$  ( $CompAcctInd_{it}$ ), except that we replace earnings with  $ACCR$ , which is the ratio of the total accruals to the beginning-of-period market value of equity. Table 4 Columns (1) – (4) show the results using  $CompAcct4\_CFO_{it}$ ,  $CompAcctInd\_CFO_{it}$ ,  $CompAcct4\_ACCR_{it}$ , and  $CompAcctInd\_ACCR_{it}$  as comparability measures, respectively. Consistent with H1, the estimated coefficients on *Comparability* are significantly negative across all columns. The results further support our view that accounting comparability reduces the information asymmetry between borrowing and lending firms.

-----Insert Table 4 -----

## **Testing Hypotheses on Cross-Sectional Variations (H2)**

To test H2a, we utilize the availability of a S&P credit rating to proxy for information asymmetry regarding a borrower (Sufi 2007, 2009; Wittenberg-Moerman 2008; Bharath et al. 2011). That is, the existence of a S&P credit rating implies more publicly available information regarding the borrower, and thus less information asymmetry between the borrower and lenders. Sufi (2007) finds that when the borrower has no publicly available S&P credit rating, lead arrangers of syndicated loans attempt to reduce the need for information gathering by choosing participants that are “closer” to the borrower. Wittenberg-Moerman (2008) finds that loans of public firms with available credit ratings are traded at lower bid–ask spreads. Sufi (2009) demonstrates that the availability of a loan-specific credit rating mitigates the information



asymmetry problem between borrowers and lenders in the syndicated loan market. Bharath et al. (2011) also use the existence of an S&P credit rating to measure information opacity regarding a borrower, and find that the reduction in loan spreads arising from repeated borrowing from the same lenders is more pronounced when a borrower does not have a S&P credit rating.

We split the sample into two subsamples based on the availability of S&P credit ratings and estimate Equation (5) for each subsample separately.<sup>6</sup> Table 5 presents the regression results of Equation (5) for each of the subsamples. The coefficients on *Comparability* (i.e., *CompAcct4* and *CompAcctInd*) are significantly negative in both subsamples. But the coefficients on *Comparability* measures for the subsample of firms without S&P long-term issuer credit ratings are greater in absolute value and have t-statistics with much larger magnitudes than those for the subsample of firms with S&P credit ratings. We also conduct tests to compare the coefficients between the two subsamples ( $p$ -values = 0.0636 and 0.0849). The evidence indicates that the negative relationship between accounting comparability and the cost of loan is stronger for firms without S&P credit ratings. It is consistent with H2a, that the less available public information is regarding a borrower, the stronger (more negative) is the relationship between accounting comparability and the cost of loan.

-----Insert Table 5 -----

To test H2b, H2c and H2d, we split the sample into two subsamples based on each of nonprice terms of loans in the sample, including collateral, financial covenants, and maturity, and separately re-estimate Equation (5) for each subsample. Table 6 presents the regression

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<sup>6</sup> Partitioning firms based on rated vs. not-rated has a potential endogeneity concern. We address this issue by using the Heckman (1979) selection model. Specifically, we first model the choice of having a rating. We include whether the sample firm is included in S&P 500 or S&P 400 index as instruments (Hovakimian, Kayhan, and Titman 2009). In the second stage, we include the inverse Mills ratio from the first stage in the cost of debt analysis. Our results hold after controlling for this selection bias.

results of Equation (5) for each of the subsamples of loans with and without collateral. The coefficients on *Comparability* measures are significantly negative in both subsamples. But the coefficients on *Comparability* measures for the subsample of loans without collateral are much greater in absolute value and have t-statistics with much larger magnitudes than those for the subsample of loans with collateral. We also conduct tests to compare the coefficients between the two subsamples ( $p$ -values = 0.0044 and 0.0714). The evidence indicates that, consistent with H2b, the negative relationship between accounting comparability and the cost of loan is stronger (more negative) for the sample of loans without collateral.

Table 7 presents the regression results of Equation (5) for each of the subsamples of loans with and without financial covenants.<sup>7</sup> In both subsamples, the coefficients on *Comparability* measures are significantly negative, and have similar economic magnitudes. The tests comparing the coefficients between the two subsamples ( $p$ -values = 0.6994 and 0.3563) show that the negative relationship between accounting comparability and the cost of loan is not significantly different across the subsamples of loans with and without financial covenants. In Table 8, we present the regression results of Equation (5) for each of the subsamples of loans with maturity above and below the median maturity. In both subsamples, the coefficients on *Comparability* are significantly negative, and have similar economic magnitudes. The tests for the comparison of the coefficients between the two subsamples ( $p$ -values = 0.8153 and 0.8056) show that the negative relationship between accounting comparability and the cost of loan is not significantly different across the subsamples of loans with long and short maturities.

In short, the findings in Tables 6 – 8 strongly support our hypothesis H2b that the effect of accounting comparability on the cost of loan is more pronounced for the subsample of loans

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<sup>7</sup> We also split the sample based on the median of financial covenants, and re-estimate Equation (5) for each subsample. The inference remains the same.

without collateral relative to those with collateral, but we do not find support for H2c or H2d, that the financial covenants and loan maturity affect the relationship between accounting comparability and the cost of debt. These findings are consistent with our argument that the use of more (less) restrictive nonprice terms mitigates (exacerbates) the negative relationship between the cost of debt and accounting comparability, though the impact of nonprice terms on such a relationship is mainly concentrated on the loan collateral.

-----Insert Tables 6, 7, and 8 -----

### Testing Hypotheses on Loan Structure (H3)

To test H3a and H3b, we estimate the following regression equations:

$$\begin{aligned} \text{The number of lenders}_{it+1} = & \alpha_0 + \alpha_1 \text{Comparability}_{it} + \alpha_2 \text{Firm-specific Control}_{it} \\ & + \alpha_3 \text{Loan-specific Control}_{it+1} + \text{Year Dummies} \\ & + \text{Industry Dummies} + \varepsilon_{it+1}. \end{aligned} \quad (7)$$

$$\begin{aligned} \text{The share of lead lenders}_{it+1} = & \alpha_0 + \alpha_1 \text{Comparability}_{it} + \alpha_2 \text{Firm-specific Control}_{it} \\ & + \alpha_3 \text{Loan-specific Control}_{it+1} + \text{Year Dummies} \\ & + \text{Industry Dummies} + \varepsilon_{it+1}. \end{aligned} \quad (8)$$

Table 9 Columns (1) and (2) present the results for regression equation (7). We find that the coefficients on *Comparability* (*CompAcct4* and *CompAcctInd*) are significantly positive.

Consistent with H3a, the findings suggest that accounting comparability reduces information asymmetries between potential lenders and borrowers in loan contracting. As a result, more lenders participate in loan contracting. Columns (3) and (4) present the results for regression equation (8). We find that the coefficients on *Comparability* (*CompAcct4* and *CompAcctInd*) are negative ( $p$ -values = 0.129 and 0.054). The results are consistent with H3b, that if accounting comparability reduces information asymmetries between lead lenders and other participating

lenders in loan contracting, lead lenders (other syndicate participants) will hold a smaller (larger) proportion of new loan deals.

-----Insert Table 9 -----

## **Additional Tests**

### ***Nonprice Terms***

Accounting comparability can potentially have effects beyond influencing the price of bank loans. To capture the multifaceted character of loan contracts, we turn our focus to dimensions other than the price, and explore how they are associated with accounting comparability. Nonprice terms can be used either separately or in combination with spreads to compensate for the information risk. Prior studies find that riskier borrowers are more likely to pledge collateral (Berger and Udell 1990, Jimenez et al. 2006, Bharath et al. 2008, and Graham et al. 2008). Rajan and Winton (1995) suggest that banks use debt covenants to enhance their monitoring ability. Diamond (1991b) posits theoretically, and Stohs and Mauer (1996) and Ortiz-Molina and Penas (2008) document empirically, that maturity can be used to address the information problems of borrowing firms. As a result, if accounting comparability reduces lenders' exposure to the information risk of the borrowing firms, we would expect that it will to some extent substitute for the nonprice terms that aim to provide lenders with similar protections. Specifically, borrowers' accounting comparability would be negatively associated with the likelihood of pledging collateral and the likelihood of using financial covenants in debt contracting, and would be positively associated with the maturities in debt contracting. We estimate the following regression equations:

$$\begin{aligned}
Nonprice\ terms_{it+1} = & \alpha_0 + \alpha_1 Comparability_{it} + \alpha_2 Firm\text{-}specific\ Control_{it} \\
& + \alpha_3 Loan\text{-}specific\ Control_{it+1} + Year\ Dummies \\
& + Industry\ Dummies + \varepsilon_{it+1},
\end{aligned} \tag{9}$$

where *Nonprice Terms* are measured by the presence of collateral, the presence of financial covenants, or the maturity in loan contracts. Regression equation (9) is estimated using a logit model (ordinary least squares model) when the presence of collateral and the presence of financial covenants (the maturity) are used as dependent variables.

Table 10 Columns (1) and (2) present the results for regression equation (9) when the presence of collateral is the dependent variable. We find that the coefficients on *Comparability* (*CompAcct4* and *CompAcctInd*) are significantly negative. Consistent with H3a, the findings suggest that accounting comparability facilitates information processing by lenders, thus reducing lenders' exposure to the information risk of borrowers in loan contracting. As a result, lenders are less likely to require borrowers to provide collateral for a loan to compensate for information risk. It is consistent with the implication in Bharath et al. (2008) and Bharath et al. (2011) that when information risk to lenders is low, borrowers are less likely to be required to provide collateral.

Columns (3) – (6) present the results for regression equation (9) when the presence of financial covenants and the maturity in loan contracts are used as dependent variables. Across the four columns, none of the coefficients on *Comparability* (*CompAcct4* and *CompAcctInd*) is significant. The findings suggest that accounting comparability does not have a salient impact on financial covenants requirements and loan maturities.

Overall, the findings in Table 10 are consistent with our argument that accounting comparability impacts nonprice terms in loan contracts, with such impact being mainly concentrated on the loan collateral term.

-----Insert Table 10 -----

### ***Simultaneous Equations Estimation***

The pricing term (e.g., spread) and non-pricing terms (e.g., maturity and collateral requirement) in a loan contract could be jointly determined. As a robustness test, we use a simultaneous equation model to re-estimate our main results concerning the cost of debt. We follow Bharath et al. (2011) and estimate the following three-equation regression:

$$\begin{aligned}
 \text{Spread} &= \alpha_S \text{Comparability} + \alpha_{AC} \text{Collateral} + \alpha_{AM} \text{Log}(\text{Maturity}) + X_S \beta_S + \varepsilon_S; \\
 \text{Collateral} &= \alpha_C \text{Comparability} + \alpha_{CM} \text{Log}(\text{Maturity}) + X_C \beta_C + \varepsilon_C; \text{ and,} \\
 \text{Log}(\text{Maturity}) &= \alpha_M \text{Comparability} + \alpha_{MC} \text{Collateral} + X_M \beta_M + \varepsilon_M,
 \end{aligned}
 \tag{10}$$

where  $\text{Log}(\text{Maturity})$  is the log value of the loan maturity in months,  $\alpha_{ij}$  is the coefficient arising from the interdependence of dependent variables, and  $X_k$  is a vector of the exogenous variables that affect spread, collateral, and maturity.

This estimation produces similar results (untabulated) to those of the OLS regressions that treat each dependent variable separately. In particular, the estimated coefficients on *CompAcct4* and *CompAcctInd* in the *spread* equation are -8.122 and -3.507 respectively in the simultaneous regression model, both being statistically significant at the one percent level, as compared to -9.58 and -5.32 in the OLS regression of the cost of debt on comparability. As before, both comparability measures are significantly negatively associated with the likelihood of the loan being collateralized.

## V. CONCLUSION

This study explores the role of accounting comparability in the debt market. Specifically, we examine the impact of accounting comparability on the cost of debt in loan contracting. Using comparability measures developed by De Franco et al. (2011), we find strong evidence that accounting comparability is significantly and negatively associated with loan spreads, consistent with the view that accounting comparability improves the information quality to lenders. The findings are robust to alternative model specifications and estimation methods.

We further examine the cross-sectional variations in the negative association between accounting comparability and the cost of debt. We first partition the sample based on the availability of S&P credit ratings of the borrowers. We find that the negative association between comparability and the private loan yield spread is stronger for firms without credit ratings, implying that accounting comparability is especially useful when lenders have less publicly available information about borrowers. Additional evidence shows that the negative association between the cost of debt and accounting comparability is mitigated by the use of collateral.

Further, we investigate whether private loan ownership structure is related to accounting comparability. We find that as a firm's accounting information becomes more comparable to its peer firms, a greater number of lenders are attracted to the loan, and the lead lenders are able to arrange a bigger portion of the loan to be undertaken by other participating lenders. We also find that, as enhanced comparability of accounting reduces lenders' exposure to borrowers' information risks, lenders are more likely to be willing to offer the loans without requiring borrowers to pledge collateral.

Overall, our findings shed light on how accounting comparability affects private debt contracting, and provide first-hand evidence for the importance of financial statement comparability to lenders in the private loan market. The findings provide support for the claim of SFAC No. 8 (2010) that comparability is an important qualitative characteristic that enhances the usefulness of financial information to capital market participants.



## Appendix

### Variable Definitions

*Analyst* is the log value of one plus the number of analysts that issue earnings forecasts for a given firm during the fiscal year.

*CompAcct4<sub>it</sub>* is the average *CompAcct<sub>ijt</sub>* of the four firms *j* with the highest comparability to firm *i* during year *t*.

*CompAcctInd<sub>it</sub>* is the median *CompAcct<sub>ijt</sub>* for all firms in the same industry as firm *i* during year *t*.

*CompAcct4\_ACCR<sub>it</sub>* is a comparability measure created in an identical manner to *CompAcct4<sub>it</sub>* except that we replace earnings with *ACCR*, which is the ratio of total accrual to the beginning-of-period market value of equity.

*CompAcctInd\_ACCR<sub>it</sub>* is a comparability measure created in an identical manner to *CompAcctInd<sub>it</sub>* except that we replace earnings with *ACCR*, which is the ratio of total accrual to the beginning-of-period market value of equity.

*CompAcct4\_CFO<sub>it</sub>* is a comparability measure created in an identical manner to *CompAcct4<sub>it</sub>* except that we replace earnings with *CFO*, which is the ratio of cash flow from operations to the beginning-of-period market value of equity.

*CompAcctInd\_CFO<sub>it</sub>* is a comparability measure created in an identical manner to *CompAcctInd<sub>it</sub>* except that we replace earnings with *CFO*, which is the ratio of cash flow from operations to the beginning-of-period market value of equity.

*Inst* is the percentage of a specific firm's equity held by institutional investors at the end of the fiscal year.

*Int. Rate* is interest rate on the firm's debt, which is calculated as its interest expense for the year divided by its average short- and long-term debt during the year.

**LBO** is an indicator variable equal to one if the primary purpose of the loan is leveraged buyout, and zero otherwise.

**LEV** is the book value of all liabilities divided by total assets at the end of the fiscal year.

**Levloan** is an indicator variable equal to one if the market segment of the loan is leveraged loan segment, and zero otherwise.

**Litigation** is an indicator variable that equals to 1 for all firms in the biotechnology (SIC codes 2833-2836 and 8731-8734), computer (SIC codes 3570-3577 and 7370-7374), electronics (SIC codes 3600-3674), and retail (SIC codes 5200-5961) industries, and zero otherwise (Francis, Philbrick, and Schipper, 1994).

**LnSize** is the log value of market capitalization at the end of the fiscal year.

**Loanamount** is the loan amount in U.S. dollars.

**Log(Maturity)** is the log value of *Maturity*.

**Maturity** is the loan maturity in months.

**MB** is the ratio of the market value of equity to the book value of equity measured at the end of the fiscal year.

**Numcovenants** is the number of financial covenants contained in a loan contract.

**Notrated** is an indicator variable that takes a value of one if the borrower does not have an *S&P* credit rating, and zero otherwise.

**Opaque** is the three-year moving sum of the absolute value of annual performance-adjusted discretionary accruals developed by Kothari, Leone, and Wasley (2005).

**Rating** is the *S&P* domestic long-term issuer credit rating.

**Repay** is an indicator variable that equals to one if the primary purpose of the loan is debt repayment, and zero otherwise.

**ROE** is the income before extraordinary items divided by the book value of equity at the end of the fiscal year.

**Spread** is the initial interest rate spread over LIBOR for each loan.

**Stkvol** is the standard deviation of firm-specific (residual) daily returns from the market model regression for each firm and year.

**Syndicate** is an indicator variable that equals to one if a loan is syndicated, and zero otherwise.

**Takeover** is an indicator variable that equals to one if the primary purpose of the loan is a takeover, and zero otherwise.

**The number of lenders** is the total number of lenders in a loan contract.

**The presence of collateral** is an indicator variable that equals to one if a loan is secured, and zero otherwise.

**The presence of financial covenants** is an indicator variable that equals to one if a loan has financial covenants, and zero otherwise.

**The share of lead lenders** is the percentage of a loan held by lead lender(s) in a loan contract.

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**Table 1: Descriptive Statistics and Correlation Matrix**

This table presents descriptive statistics of key variables of interest for the sample of firms included in our study. The sample covers 12,969 firm-year observations with non-missing values for all control variables for the period 1982 to 2009. Panel A presents descriptive statistics of key variables of interest. Panel B presents a Pearson correlation matrix. The  $p$ -values are below the correlation coefficients in Panel B. All variables are defined in the Appendix.

## Panel A. Descriptive Statistics

Variable	N	Mean	Standard Deviation	P5	Q1	Median	Q3	P95
<i>Spread(in basis points)</i>	12969	170.07	138.23	25.00	62.50	137.50	250.00	405.00
<i>CompAcct4</i>	12969	-0.54	0.85	-2.13	-0.53	-0.24	-0.12	-0.05
<i>CompAcctInd</i>	12969	-2.03	1.87	-5.67	-2.26	-1.46	-1.01	-0.58
<i>Inst</i>	12969	0.57	0.25	0.13	0.40	0.60	0.77	0.96
<i>Stkvol</i>	12969	0.03	0.01	0.01	0.02	0.02	0.03	0.05
<i>MB</i>	12969	2.70	3.27	0.46	1.33	2.04	3.27	8.02
<i>LEV</i>	12969	0.59	0.20	0.24	0.46	0.59	0.71	0.90
<i>ROE</i>	12969	0.06	0.40	-0.35	0.03	0.11	0.17	0.35
<i>LnSize</i>	12969	20.54	1.87	17.35	19.19	20.61	21.91	23.60
<i>Opaque</i>	12969	0.16	0.13	0.03	0.07	0.12	0.20	0.41
<i>Analyst</i>	12969	2.04	0.80	0.69	1.39	2.08	2.71	3.26
<i>Notrated</i>	12969	0.44	0.50	0.00	0.00	0.00	1.00	1.00
<i>Litigation</i>	12969	0.05	0.21	0.00	0.00	0.00	0.00	0.00
<i>Maturity (in months)</i>	12969	44.85	26.22	11.00	20.00	48.00	60.00	84.00
<i>Loanamount (in millions \$)</i>	12969	613	1220	10	75	244	650	2480
<i>Syndicate</i>	12969	0.89	0.32	0.00	1.00	1.00	1.00	1.00
<i>Takeover</i>	12969	0.17	0.38	0.00	0.00	0.00	0.00	1.00
<i>LBO</i>	12969	0.04	0.20	0.00	0.00	0.00	0.00	0.00
<i>Repay</i>	12969	0.17	0.37	0.00	0.00	0.00	0.00	1.00
<i>Levloan</i>	12969	0.34	0.47	0.00	0.00	0.00	1.00	1.00
<i>Numcovenants</i>	12969	1.26	1.40	0.00	0.00	1.00	2.00	4.00

Panel B. Correlation Matrix

	<i>Spread</i>	<i>CompAcct4</i>	<i>CompAcctInd</i>	<i>Inst</i>	<i>Stkvol</i>	<i>MB</i>	<i>LEV</i>	<i>ROE</i>	<i>LnSize</i>	<i>Opaque</i>
<i>CompAcct4</i>	-0.29 0.00									
<i>CompAcctInd</i>	-0.34 0.00	0.83 0.00								
<i>Inst</i>	-0.20 0.00	0.12 0.00	0.11 0.00							
<i>Stkvol</i>	0.49 0.00	-0.30 0.00	-0.39 0.00	-0.36 0.00						
<i>MB</i>	-0.12 0.00	0.12 0.00	0.07 0.00	0.12 0.00	-0.10 0.00					
<i>LEV</i>	0.08 0.00	-0.24 0.00	-0.19 0.00	-0.02 0.06	-0.05 0.00	-0.04 0.00				
<i>ROE</i>	-0.23 0.00	0.20 0.00	0.26 0.00	0.13 0.00	-0.28 0.00	0.15 0.00	-0.07 0.00			
<i>LnSize</i>	-0.49 0.00	0.22 0.00	0.24 0.00	0.50 0.00	-0.59 0.00	0.27 0.00	0.12 0.00	0.23 0.00		
<i>Opaque</i>	0.21 0.00	-0.08 0.00	-0.14 0.00	-0.17 0.00	0.33 0.00	0.04 0.00	-0.09 0.00	-0.10 0.00	-0.32 0.00	
<i>Analyst</i>	-0.42 0.00	0.23 0.00	0.25 0.00	0.41 0.00	-0.45 0.00	0.16 0.00	0.07 0.00	0.15 0.00	0.77 0.00	-0.23 0.00
<i>Notrated</i>	0.22 0.00	0.02 0.06	-0.03 0.00	-0.27 0.00	0.32 0.00	-0.03 0.00	-0.41 0.00	-0.09 0.00	-0.56 0.00	0.28 0.00
<i>Litigation</i>	0.07 0.00	0.05 0.00	-0.04 0.00	0.01 0.28	0.12 0.00	0.06 0.00	-0.12 0.00	-0.02 0.04	-0.03 0.00	0.09 0.00
<i>Maturity</i>	0.05 0.00	-0.05 0.00	-0.02 0.03	0.10 0.00	-0.12 0.00	-0.01 0.23	0.03 0.00	0.04 0.00	0.00 0.98	-0.05 0.00
<i>Loanamount</i>	-0.10 0.00	0.06 0.00	0.08 0.00	0.18 0.00	-0.23 0.00	0.07 0.00	0.13 0.00	0.09 0.00	0.44 0.00	-0.14 0.00
<i>Syndicate</i>	-0.18 0.00	0.03 0.00	0.06 0.00	0.31 0.00	-0.24 0.00	0.04 0.00	0.13 0.00	0.10 0.00	0.34 0.00	-0.14 0.00
<i>Takeover</i>	0.06 0.00	0.03 0.00	0.04 0.00	0.06 0.00	-0.04 0.00	0.02 0.07	-0.08 0.00	0.06 0.00	-0.02 0.03	0.02 0.01
<i>LBO</i>	0.23 0.00	0.03 0.00	0.06 0.00	0.01 0.34	-0.04 0.00	-0.01 0.15	-0.04 0.00	0.02 0.03	-0.03 0.00	-0.04 0.00
<i>Repay</i>	0.04 0.00	-0.04 0.00	-0.03 0.00	-0.13 0.00	0.12 0.00	-0.07 0.00	0.07 0.00	-0.08 0.00	-0.17 0.00	0.11 0.00

Panel B. Correlation matrix (continued)

	<i>Analyst</i>	<i>Notrated</i>	<i>Litigation</i>	<i>Maturity</i>	<i>Loanamount</i>	<i>Syndicate</i>	<i>Takeover</i>	<i>LBO</i>	<i>Repay</i>	<i>Levloan</i>
<i>Notrated</i>	-0.48									
	0.00									
<i>Litigation</i>	-0.02	0.13								
	0.03	0.00								
<i>Maturity</i>	-0.01	-0.01	-0.05							
	0.21	0.46	0.00							
<i>Loanamount</i>	0.33	-0.28	-0.03	0.08						
	0.00	0.00	0.00	0.00						
<i>Syndicate</i>	0.22	-0.23	-0.03	0.13	0.14					
	0.00	0.00	0.00	0.00	0.00					
<i>Takeover</i>	-0.02	0.06	0.02	0.10	0.15	0.06				
	0.07	0.00	0.02	0.00	0.00	0.00				
<i>LBO</i>	-0.05	0.04	0.01	0.18	0.12	0.00	-0.10			
	0.00	0.00	0.55	0.00	0.00	0.62	0.00			
<i>Repay</i>	-0.09	0.08	-0.02	0.08	-0.08	-0.01	-0.21	-0.10		
	0.00	0.00	0.05	0.00	0.00	0.28	0.00	0.00		
<i>Levloan</i>	-0.33	0.16	0.07	0.12	-0.05	0.09	0.08	0.14	0.01	
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.51	
<i>Numcovenants</i>	-0.22	0.13	0.03	0.15	-0.03	0.18	0.15	-0.03	0.08	0.40
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

**Table 2: Impact of Accounting Comparability on Cost of Loan**

This table estimates the cross-sectional relationship between accounting comparability and the cost of loan (i.e., loan spread) for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Spread</i> (1)		<i>Spread</i> (2)		<i>Spread</i> (3)		<i>Spread</i> (4)	
<b>Comparability measures</b>								
<i>CompAcct4</i>	-9.58***	(-4.37)						
<i>CompAcctInd</i>			-5.32***	(-4.90)				
<i>Rank for CompAcct4</i>					-29.01***	(-5.98)		
<i>Rank for CompAcctInd</i>							-28.80***	(-5.85)
<b>Firm control variables</b>								
<i>Inst</i>	3.35	(0.48)	3.51	(0.50)	1.97	(0.28)	2.67	(0.38)
<i>Stkvol</i>	1892.48***	(8.72)	1808.41***	(8.09)	1924.95***	(9.11)	1897.24***	(9.03)
<i>MB</i>	0.49	(1.15)	0.46	(1.09)	0.48	(1.16)	0.40	(0.95)
<i>LEV</i>	73.98***	(9.17)	71.96***	(8.99)	75.24***	(9.23)	76.80***	(9.45)
<i>ROE</i>	-19.16***	(-4.64)	-18.01***	(-4.40)	-19.28***	(-4.67)	-19.35***	(-4.70)
<i>LnSize</i>	-16.16***	(-8.85)	-16.15***	(-8.85)	-15.51***	(-8.55)	-15.59***	(-8.60)
<i>Opaque</i>	30.90***	(2.59)	30.14**	(2.53)	27.47**	(2.31)	27.08**	(2.26)
<i>Analyst</i>	-3.45	(-1.12)	-3.66	(-1.20)	-3.42	(-1.12)	-3.63	(-1.18)
<i>Notrated</i>	-3.13	(-0.90)	-3.15	(-0.90)	-3.04	(-0.87)	-3.27	(-0.94)
<i>Litigation</i>	17.88*	(1.81)	17.04*	(1.74)	17.34*	(1.75)	17.22*	(1.74)
<b>Loan control variables</b>								
<i>Maturity</i>	-0.10*	(-1.79)	-0.09*	(-1.68)	-0.10*	(-1.81)	-0.10*	(-1.81)
<i>Loanamount</i>	0.00***	(3.39)	0.00***	(3.44)	0.00***	(3.29)	0.00***	(3.37)
<i>Syndicate</i>	-36.00***	(-6.76)	-35.92***	(-6.75)	-36.19***	(-6.81)	-35.78***	(-6.74)
<i>Takeover</i>	29.87***	(8.36)	30.06***	(8.44)	30.01***	(8.39)	29.92***	(8.38)
<i>LBO</i>	131.01***	(16.54)	131.59***	(16.58)	130.79***	(16.58)	130.91***	(16.55)
<i>Repay</i>	10.75***	(3.28)	10.89***	(3.32)	10.70***	(3.25)	10.45***	(3.17)
<i>Levloan</i>	112.38***	(32.02)	111.85***	(31.83)	111.35***	(31.79)	111.57***	(31.94)
<i>Numcovenants</i>	-0.73	(-0.63)	-0.70	(-0.61)	-0.81	(-0.70)	-0.82	(-0.71)
<i>Intercept</i>	511.60***	(12.36)	510.43***	(12.34)	519.89***	(12.57)	521.59***	(12.66)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
N	12969		12969		12969		12969	
adj. R-sq	0.5476		0.5484		0.5477		0.5477	

**Table 3: Robustness: Firm Fixed Effects and Interest Rate on Debts**

This table estimates the cross-sectional relationship between accounting comparability and the cost of loan for the period 1982 to 2009. Columns (1) and (2) provide the regression results after controlling for firm fixed effects. Columns (3) and (4) present regression results using the interest rate on a firm's debt as the firm-level measure of the cost of debt. The *p*-values reported in parentheses are based on White standard errors corrected for firm clustering. Year fixed effects and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Spread</i>		<i>Spread</i>		<i>Int. Rate</i>		<i>Int. Rate</i>	
	(1)		(2)		(3)		(4)	
<b>Comparability measures</b>								
<i>CompAcct4</i>	-6.06*	(-1.82)			-0.00***	(-6.33)		
<i>CompAcctInd</i>			-3.53**	(-2.09)			-0.00***	(-5.57)
<b>Firm control variables</b>								
<i>Inst</i>	-12.80	(-0.90)	-11.86	(-0.84)	0.01***	(2.57)	0.01***	(2.60)
<i>Stkvol</i>	1233.59***	(5.10)	1194.40***	(4.77)	0.25***	(4.78)	0.24***	(4.38)
<i>MB</i>	0.47	(0.85)	0.41	(0.75)	-0.00	(-0.99)	-0.00	(-1.09)
<i>LEV</i>	49.89***	(3.43)	48.26***	(3.34)	-0.00	(-1.11)	-0.00	(-1.14)
<i>ROE</i>	-11.52**	(-2.01)	-11.25**	(-1.96)	-0.00	(-0.79)	-0.00	(-0.60)
<i>LnSize</i>	-24.02***	(-7.36)	-23.87***	(-7.34)	-0.00	(-1.32)	-0.00	(-1.28)
<i>Opaque</i>	15.15	(0.87)	15.40	(0.88)	0.01	(1.60)	0.01	(1.55)
<i>Analyst</i>	-4.00	(-0.93)	-3.65	(-0.84)	-0.00**	(-2.31)	-0.00**	(-2.44)
<i>Notrated</i>	-2.67	(-0.48)	-2.57	(-0.47)	-0.00	(-0.81)	-0.00	(-0.88)
<i>Litigation</i>					0.01	(1.36)	0.01	(1.33)
<b>Loan control variables</b>								
<i>Maturity</i>	-0.02	(-0.43)	-0.02	(-0.41)				
<i>Loanamount</i>	0.00	(1.15)	0.00	(1.17)				
<i>Syndicate</i>	-23.05***	(-3.55)	-23.20***	(-3.56)				
<i>Takeover</i>	22.38***	(5.90)	22.44***	(5.92)				
<i>LBO</i>	121.34***	(11.26)	121.57***	(11.31)				
<i>Repay</i>	4.42	(1.18)	4.33	(1.15)				
<i>Levloan</i>	100.68***	(20.54)	100.48***	(20.61)				
<i>Numcovenants</i>	-2.46*	(-1.71)	-2.45*	(-1.71)				
<i>Intercept</i>	752.97***	(10.67)	746.88***	(10.63)	0.08***	(5.83)	0.08***	(5.74)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	No		No		Yes		Yes	
<i>Firm FE</i>	Yes		Yes		No		No	
N	12969		12969		13738		13738	
adj. R-sq	0.6735		0.6737		0.1620		0.1614	

**Table 4: Robustness – Cash Flow Comparability and Accrual Comparability**

This table estimates the cross-sectional relationship between cash flow comparability, accrual comparability, and cost of loan (i.e., loan spread) for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Spread</i>		<i>Spread</i>		<i>Spread</i>		<i>Spread</i>	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Comparability measures</b>								
<i>CompAcct4_CFO</i>	-3.86**	(-2.19)						
<i>CompAcctInd_CFO</i>			-2.20**	(-2.24)				
<i>CompAcct4_ACCR</i>					-3.06*	(-1.92)		
<i>CompAcctInd_ACCR</i>							-1.36*	(-1.66)
<b>Firm control variables</b>								
<i>Inst</i>	1.17	(0.16)	0.90	(0.12)	2.69	(0.37)	2.40	(0.33)
<i>Stkvol</i>	2066.24***	(9.13)	2052.01***	(9.08)	2105.77***	(9.63)	2098.18***	(9.40)
<i>MB</i>	0.58	(1.32)	0.58	(1.31)	0.47	(1.10)	0.47	(1.10)
<i>LEV</i>	80.03***	(8.57)	79.89***	(8.72)	77.61***	(8.93)	77.82***	(8.91)
<i>ROE</i>	-21.28***	(-4.77)	-21.13***	(-4.76)	-20.89***	(-4.85)	-20.98***	(-4.88)
<i>LnSize</i>	-15.55***	(-8.26)	-15.62***	(-8.29)	-14.67***	(-7.97)	-14.72***	(-8.00)
<i>Opaque</i>	32.85**	(2.56)	32.16**	(2.49)	33.51***	(2.64)	33.20***	(2.61)
<i>Analyst</i>	-3.18	(-1.01)	-3.07	(-0.96)	-4.29	(-1.41)	-4.34	(-1.42)
<i>Notrated</i>	-4.62	(-1.27)	-4.71	(-1.30)	-3.20	(-0.88)	-3.29	(-0.90)
<i>Litigation</i>	17.00	(1.64)	16.63	(1.61)	13.22	(1.35)	13.26	(1.35)
<b>Loan control variables</b>								
<i>Maturity</i>	-0.01	(-0.09)	-0.01	(-0.11)	0.00	(0.02)	0.00	(0.03)
<i>Loanamount</i>	0.00***	(2.80)	0.00***	(2.78)	0.00***	(2.84)	0.00***	(2.86)
<i>Syndicate</i>	-33.78***	(-5.86)	-33.58***	(-5.80)	-33.61***	(-5.96)	-33.61***	(-5.97)
<i>Takeover</i>	25.96***	(7.72)	26.07***	(7.75)	26.90***	(8.03)	26.95***	(8.05)
<i>LBO</i>	123.04***	(14.16)	123.00***	(14.19)	125.74***	(14.69)	125.76***	(14.70)
<i>Repay</i>	8.55**	(2.39)	8.45**	(2.36)	8.35**	(2.40)	8.42**	(2.42)
<i>Levloan</i>	114.02***	(31.37)	113.86***	(31.08)	114.54***	(31.83)	114.44***	(31.82)
<i>Numcovenants</i>	-0.50	(-0.43)	-0.54	(-0.46)	-0.82	(-0.70)	-0.81	(-0.69)
<i>Intercept</i>	488.85***	(11.49)	488.97***	(11.50)	473.60***	(11.44)	474.25***	(11.47)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
N	11483		11483		11902		11902	
adj. R-sq	0.5608		0.5608		0.5585		0.5584	



**Table 5: Differential Impact of Accounting Comparability on the Cost of Loan – Not-Rated vs. Rated**

This table estimates the cross-sectional relationship between accounting comparability and the cost of loan (i.e., loan spread) for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Spread</i> <i>Not-rated Group</i>		<i>Spread</i> <i>Rated Group</i>		<i>Spread</i> <i>Not-rated Group</i>		<i>Spread</i> <i>Rated Group</i>	
	(1)		(2)		(3)		(4)	
<b>Comparability measures</b>								
<i>CompAcct4</i>	-13.34***	(-3.82)	-5.29*	(-1.96)				
<i>CompAcctInd</i>					-7.03***	(-4.10)	-3.30**	(-2.36)
<b>Firm control variables</b>								
<i>Inst</i>	3.08	(0.30)	-1.16	(-0.12)	3.12	(0.31)	-0.67	(-0.07)
<i>Stkvol</i>	1162.82***	(5.39)	2724.92***	(7.24)	1072.14***	(4.94)	2653.03***	(6.78)
<i>MB</i>	1.18*	(1.68)	0.11	(0.21)	1.00	(1.43)	0.13	(0.25)
<i>LEV</i>	59.22***	(5.09)	76.59***	(6.73)	59.15***	(5.02)	74.03***	(6.63)
<i>ROE</i>	-24.72***	(-3.65)	-13.40**	(-2.45)	-21.79***	(-3.13)	-13.21**	(-2.45)
<i>LnSize</i>	-21.47***	(-7.82)	-13.94***	(-5.98)	-21.41***	(-7.76)	-13.97***	(-5.98)
<i>Opaque</i>	42.41***	(3.02)	7.18	(0.35)	41.05***	(2.93)	7.17	(0.35)
<i>Analyst</i>	-1.03	(-0.24)	-1.48	(-0.36)	-1.50	(-0.35)	-1.36	(-0.33)
<i>Litigation</i>	14.95	(1.11)	12.91	(0.81)	14.31	(1.07)	11.92	(0.77)
<b>Loan control variables</b>								
<i>Maturity</i>	-0.31***	(-4.23)	0.04	(0.56)	-0.30***	(-4.08)	0.05	(0.61)
<i>Loanamount</i>	0.00***	(4.41)	0.00**	(2.20)	0.00***	(4.48)	0.00**	(2.24)
<i>Syndicate</i>	-33.78***	(-5.34)	-36.87***	(-3.52)	-33.93***	(-5.36)	-36.73***	(-3.50)
<i>Takeover</i>	31.62***	(5.70)	26.84***	(5.76)	31.80***	(5.76)	27.01***	(5.80)
<i>LBO</i>	132.54***	(12.29)	127.02***	(11.00)	133.50***	(12.44)	127.37***	(11.00)
<i>Repay</i>	13.52***	(2.99)	6.90	(1.47)	13.52***	(2.98)	7.03	(1.50)
<i>Levloan</i>	113.69***	(25.54)	113.95***	(21.21)	113.01***	(25.26)	113.55***	(21.19)
<i>Numcovenants</i>	-2.13	(-1.27)	1.09	(0.70)	-2.05	(-1.22)	1.07	(0.69)
<i>Intercept</i>	586.69***	(10.02)	471.55***	(8.72)	584.11***	(9.90)	471.59***	(8.72)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
N	5743		7226		5743		7226	
adj. R-sq	0.4720		0.5960		0.4730		0.5966	
Difference in Subsample coefficients:								
<b>Comparability measures</b>	Chi squared = 3.44 ; p value = 0.0636				Chi squared = 2.97 ; p value = 0.0849			

**Table 6: Differential Impact of Accounting Comparability on the Cost of Loan – Not Collateralized vs. Collateralized**

This table estimates the cross-sectional relationship between accounting comparability and the cost of loan (i.e., loan spread) for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Spread</i> <i>Non-collateralized</i> <i>Loan</i> (1)		<i>Spread</i> <i>Collateralized</i> <i>Loan</i> (2)		<i>Spread</i> <i>Non-collateralized</i> <i>Loan</i> (3)		<i>Spread</i> <i>Collateralized</i> <i>Loan</i> (4)	
<b>Comparability measures</b>								
<i>CompAcct4</i>	-17.74***	(-4.52)	-4.93*	(-1.93)				
<i>CompAcctInd</i>					-7.13***	(-4.25)	-3.53***	(-2.69)
<b>Firm control variables</b>								
<i>Inst</i>	19.62**	(2.49)	-25.35**	(-2.42)	19.34**	(2.44)	-25.03**	(-2.39)
<i>Stkvol</i>	1773.49***	(6.61)	1354.63***	(5.82)	1752.70***	(6.47)	1267.31***	(5.30)
<i>MB</i>	-0.09	(-0.19)	0.39	(0.64)	-0.18	(-0.38)	0.42	(0.68)
<i>LEV</i>	49.41***	(5.51)	82.60***	(7.08)	52.00***	(5.69)	79.23***	(6.80)
<i>ROE</i>	-9.95*	(-1.86)	-24.17***	(-4.94)	-9.89*	(-1.73)	-23.12***	(-4.74)
<i>LnSize</i>	-14.11***	(-8.38)	-10.80***	(-3.71)	-13.93***	(-8.31)	-10.92***	(-3.75)
<i>Opaque</i>	5.66	(0.44)	27.69*	(1.79)	5.83	(0.44)	27.41*	(1.77)
<i>Analyst</i>	-0.15	(-0.05)	1.84	(0.39)	-1.13	(-0.41)	1.89	(0.40)
<i>Notrated</i>	2.07	(0.60)	-6.07	(-1.10)	1.70	(0.49)	-5.87	(-1.06)
<i>Litigation</i>	8.36	(0.89)	27.10*	(1.94)	8.34	(0.88)	26.10*	(1.89)
<b>Loan control variables</b>								
<i>Maturity</i>	-0.05	(-0.97)	-0.29***	(-3.17)	-0.05	(-0.91)	-0.28***	(-3.06)
<i>Loanamount</i>	0.00**	(2.25)	0.00	(1.59)	0.00**	(2.28)	0.00	(1.63)
<i>Syndicate</i>	-26.11***	(-4.50)	-41.31***	(-5.44)	-26.46***	(-4.49)	-41.22***	(-5.42)
<i>Takeover</i>	22.10***	(6.22)	24.61***	(4.42)	22.38***	(6.29)	24.81***	(4.46)
<i>LBO</i>	202.22***	(13.11)	90.75***	(9.70)	202.15***	(13.06)	91.31***	(9.73)
<i>Repay</i>	3.94	(1.38)	5.79	(1.09)	3.78	(1.31)	6.12	(1.15)
<i>Levloan</i>	111.23***	(23.14)	104.42***	(20.48)	111.79***	(23.35)	103.69***	(20.25)
<i>Numcovenants</i>	-3.14***	(-2.73)	-3.17*	(-1.83)	-3.00***	(-2.60)	-3.11*	(-1.80)
<i>Intercept</i>	460.74***	(10.79)	457.46***	(7.59)	455.12***	(10.63)	459.01***	(7.62)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
N	7236		5733		7236		5733	
adj. R-sq	0.5859		0.3260		0.5837		0.3273	
Difference in Subsample coefficients:								
<b>Comparability measures</b>	Chi squared = 8.11; p value = 0.0044				Chi squared = 3.25 ; p value = 0.0714			

**Table 7: Differential Impact of Comparability on the Cost of Loan – No Financial Covenants vs. Financial Covenants**

This table estimates the cross-sectional relationship between accounting comparability and the cost of loan (i.e., loan spread) for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Spread</i> <i>No Financial Cov.</i>		<i>Spread</i> <i>Financial Cov.</i>		<i>Spread</i> <i>No Financial Cov.</i>		<i>Spread</i> <i>Financial Cov.</i>	
	(1)	(2)	(1)	(2)	(3)	(4)	(3)	(4)
<b>Comparability measures</b>								
<i>CompAcct4</i>	-8.59**	(-2.51)	-10.22***	(-3.71)				
<i>CompAcctInd</i>					-4.16**	(-2.36)	-6.08***	(-4.75)
<b>Firm control variables</b>								
<i>Inst</i>	4.46	(0.37)	-7.15	(-0.93)	4.14	(0.35)	-6.31	(-0.81)
<i>Stkvol</i>	2354.24***	(6.13)	1420.02***	(7.52)	2300.84***	(5.77)	1314.84***	(6.97)
<i>MB</i>	0.88	(1.18)	0.27	(0.56)	0.84	(1.13)	0.25	(0.52)
<i>LEV</i>	79.83***	(6.18)	55.23***	(6.23)	79.31***	(6.19)	52.25***	(5.86)
<i>ROE</i>	-15.68**	(-2.25)	-22.33***	(-4.55)	-14.98**	(-2.13)	-20.85***	(-4.36)
<i>LnSize</i>	-15.32***	(-5.29)	-14.15***	(-7.07)	-15.22***	(-5.25)	-14.28***	(-7.19)
<i>Opaque</i>	29.89	(1.60)	24.96*	(1.82)	29.98	(1.60)	23.73	(1.75)
<i>Analyst</i>	-10.41**	(-2.16)	3.56	(1.05)	-10.72**	(-2.25)	3.51	(1.04)
<i>Notrated</i>	-0.07	(-0.01)	-8.19**	(-2.01)	-0.19	(-0.04)	-8.15**	(-2.00)
<i>Litigation</i>	8.52	(0.45)	24.51***	(2.67)	7.92	(0.42)	23.62***	(2.59)
<b>Loan control variables</b>								
<i>Maturity</i>	-0.21***	(-2.74)	0.01	(0.17)	-0.21***	(-2.68)	0.02	(0.30)
<i>Loanamount</i>	0.00**	(2.50)	0.00***	(3.12)	0.00**	(2.49)	0.00***	(3.16)
<i>Syndicate</i>	-36.99***	(-5.64)	-24.62***	(-3.33)	-36.96***	(-5.63)	-24.73***	(-3.36)
<i>Takeover</i>	36.08***	(5.80)	17.28***	(4.44)	36.51***	(5.90)	17.29***	(4.45)
<i>LBO</i>	155.77***	(14.96)	76.52***	(7.69)	156.12***	(14.97)	77.32***	(7.78)
<i>Repay</i>	19.40***	(4.22)	1.35	(0.32)	19.42***	(4.21)	1.51	(0.36)
<i>Levloan</i>	119.83***	(16.55)	112.63***	(30.31)	119.58***	(16.48)	111.78***	(30.03)
<i>Numcovenants</i>			11.08***	(6.15)			11.10***	(6.16)
<i>Intercept</i>	468.78***	(6.79)	469.32***	(10.78)	466.42***	(6.74)	470.44***	(10.90)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
N	6037		6932		6037		6932	
adj. R-sq	0.5557		0.5637		0.5558		0.5656	
Difference in Subsample coefficients:								
<b>Comparability measures</b>	Chi squared = 0.15; p value = 0.6994				Chi squared = 0.85 ; p value = 0.3563			

**Table 8: Differential Impact of Accounting Comparability on the Cost of Loan – Short vs. Long Maturity**

This table estimates the cross-sectional relationship between accounting comparability and the cost of loan (i.e., loan spread) for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Spread</i> <i>Short-maturity Loan</i> (1)		<i>Spread</i> <i>Long-maturity Loan</i> (2)		<i>Spread</i> <i>Short-maturity Loan</i> (3)		<i>Spread</i> <i>Long-maturity Loan</i> (4)	
<b>Comparability measures</b>								
<i>CompAcct4</i>	-9.34***	(-2.96)	-10.31***	(-3.61)				
<i>CompAcctInd</i>					-5.62***	(-3.92)	-5.15***	(-3.57)
<b>Firm control variables</b>								
<i>Inst</i>	4.09	(0.41)	2.81	(0.32)	4.28	(0.43)	2.83	(0.32)
<i>Stkvol</i>	1810.96***	(7.67)	1914.18***	(5.79)	1705.54***	(7.09)	1867.81***	(5.46)
<i>MB</i>	-0.40	(-0.63)	1.08**	(2.05)	-0.44	(-0.69)	1.08**	(2.05)
<i>LEV</i>	87.20***	(7.16)	60.06***	(6.39)	83.94***	(6.97)	59.50***	(6.25)
<i>ROE</i>	-20.58***	(-3.84)	-17.78***	(-2.88)	-18.59***	(-3.46)	-17.57***	(-2.87)
<i>LnSize</i>	-15.71***	(-5.64)	-15.32***	(-7.05)	-15.72***	(-5.64)	-15.29***	(-7.02)
<i>Opaque</i>	31.54**	(1.99)	22.37	(1.41)	30.22*	(1.90)	22.58	(1.43)
<i>Analyst</i>	-7.94*	(-1.78)	-0.06	(-0.02)	-7.86*	(-1.78)	-0.59	(-0.16)
<i>Notrated</i>	-4.34	(-0.88)	-0.51	(-0.12)	-3.83	(-0.78)	-0.99	(-0.23)
<i>Litigation</i>	12.56	(1.05)	30.45**	(2.02)	11.24	(0.95)	30.08**	(1.99)
<b>Loan control variables</b>								
<i>Maturity</i>	-0.54***	(-3.22)	0.53***	(4.17)	-0.54***	(-3.24)	0.54***	(4.22)
<i>Loanamount</i>	0.00***	(2.77)	0.00*	(1.88)	0.00***	(2.85)	0.00*	(1.90)
<i>Syndicate</i>	-30.68***	(-5.13)	-34.22***	(-3.83)	-30.52***	(-5.11)	-34.46***	(-3.83)
<i>Takeover</i>	20.10***	(3.86)	33.19***	(7.72)	20.04***	(3.86)	33.51***	(7.81)
<i>LBO</i>	194.08***	(10.28)	113.39***	(13.14)	194.44***	(10.29)	113.88***	(13.19)
<i>Repay</i>	19.02***	(3.57)	6.54*	(1.67)	19.16***	(3.60)	6.71*	(1.71)
<i>Levloan</i>	115.24***	(20.42)	108.84***	(25.57)	114.47***	(20.12)	108.66***	(25.60)
<i>Numcovenants</i>	-0.15	(-0.09)	-1.02	(-0.68)	0.00	(0.00)	-1.09	(-0.73)
<i>Intercept</i>	506.64***	(8.22)	481.20***	(8.81)	506.40***	(8.20)	478.73***	(8.72)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
N	6354		6615		6354		6615	
adj. R-sq	0.5485		0.5693		0.5500		0.5691	
Difference in Subsample coefficients:								
<b>Comparability measures</b>	Chi squared = 0.05; p value = 0.8153				Chi squared = 0.06 ; p value = 0.8056			

**Table 9: Accounting Comparability and Loan Structure**

This table estimates the cross-sectional relationship between accounting comparability and the number of lenders, and the share of lead lender in loan contracts for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>The number of lenders</i>		<i>The number of lenders</i>		<i>The share of lead lender</i>		<i>The share of lead lender</i>	
	(1)	(2)	(3)	(4)	(3)	(4)	(3)	(4)
<b>Comparability measures</b>								
<i>CompAcct4</i>	0.26*	(1.87)			-0.80	(-1.52)		
<i>CompAcctInd</i>			0.17***	(2.65)			-0.51*	(-1.93)
<b>Firm control variables</b>								
<i>Inst</i>	1.14**	(2.08)	1.13**	(2.07)	-4.49**	(-2.26)	-4.45**	(-2.23)
<i>Stkvol</i>	6.04	(0.57)	9.63	(0.90)	96.04**	(2.40)	88.95**	(2.18)
<i>MB</i>	-0.09**	(-2.39)	-0.09**	(-2.38)	0.42***	(3.21)	0.41***	(3.14)
<i>LEV</i>	3.91***	(5.45)	4.02***	(5.63)	-18.40***	(-8.11)	-18.33***	(-8.13)
<i>ROE</i>	-0.15	(-0.54)	-0.19	(-0.72)	-0.59	(-0.67)	-0.37	(-0.41)
<i>LnSize</i>	1.18***	(7.39)	1.18***	(7.40)	-3.85***	(-7.40)	-3.85***	(-7.40)
<i>Opaque</i>	-0.75	(-1.08)	-0.73	(-1.05)	-0.04	(-0.02)	-0.13	(-0.05)
<i>Analyst</i>	0.35	(1.58)	0.35	(1.56)	-1.95**	(-2.33)	-1.94**	(-2.30)
<i>Notrated</i>	-0.94***	(-3.57)	-0.94***	(-3.59)	1.97*	(1.92)	2.02**	(1.96)
<i>Litigation</i>	0.20	(0.37)	0.23	(0.43)	-2.19	(-0.79)	-2.18	(-0.78)
<b>Loan control variables</b>								
<i>Maturity</i>	0.01***	(3.72)	0.01***	(3.69)	-0.13***	(-8.16)	-0.13***	(-8.14)
<i>Loanamount</i>	0.00***	(5.92)	0.00***	(5.92)	-0.00***	(-4.41)	-0.00***	(-4.40)
<i>Syndicate</i>	4.70***	(18.45)	4.69***	(18.42)	-50.17***	(-35.73)	-50.17***	(-35.76)
<i>Takeover</i>	0.63*	(1.94)	0.62*	(1.92)	-2.30**	(-2.32)	-2.28**	(-2.30)
<i>LBO</i>	-1.60***	(-2.68)	-1.63***	(-2.72)	-0.70	(-0.25)	-0.66	(-0.24)
<i>Repay</i>	-0.04	(-0.18)	-0.04	(-0.19)	-1.90**	(-2.01)	-1.88**	(-1.99)
<i>Levloan</i>	-1.19***	(-4.55)	-1.17***	(-4.46)	4.90***	(4.78)	4.84***	(4.69)
<i>Numcovenants</i>	0.96***	(11.49)	0.96***	(11.49)	-1.21***	(-3.10)	-1.21***	(-3.09)
<i>Intercept</i>	-27.39***	(-8.36)	-27.40***	(-8.37)	176.66***	(15.91)	176.27***	(15.91)
<i>Year FE</i>	Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes	
N	13865		13865		5440		5440	
adj. /pseudo R-sq	0.3554		0.3557		0.7463		0.7464	

**Table 10: Accounting Comparability and Nonprice Terms**

This table estimates the cross-sectional relationship between accounting comparability and the presence of collateral, the presence of financial covenants, and the maturity in loan contracts for the period 1982 to 2009. The *t*-stats reported in parentheses are based on White standard errors corrected for firm clustering. Year and industry fixed effects are included. The statistical significance at the 10%, 5%, and 1% levels are indicated by \*, \*\*, and \*\*\*, respectively. All variables are defined in the Appendix.

	<i>Collateral</i>		<i>Collateral</i>		<i>Financial Covenants</i>		<i>Financial Covenants</i>		<i>Maturity</i>		<i>Maturity</i>	
	(1)		(2)		(3)		(4)		(5)		(6)	
<b>Comparability measures</b>												
<i>CompAcct4</i>	-0.14***	(-2.84)			-0.01	(-0.24)			-0.07	(-0.17)		
<i>CompAcctInd</i>			-0.10***	(-3.99)			0.00	(0.23)			0.22	(1.05)
<b>Firm control variables</b>												
<i>Inst</i>	0.28	(1.38)	0.29	(1.43)	0.99***	(5.69)	0.98***	(5.67)	7.36***	(3.76)	7.34***	(3.74)
<i>Stkvol</i>	34.33***	(7.52)	32.42***	(6.97)	-2.12	(-0.56)	-1.69	(-0.44)	-244.01***	(-5.92)	-231.85***	(-5.61)
<i>MB</i>	0.03**	(2.57)	0.03**	(2.51)	0.02**	(2.35)	0.02**	(2.33)	-0.09	(-0.86)	-0.10	(-0.88)
<i>LEV</i>	0.46**	(2.37)	0.41**	(2.08)	-0.87***	(-4.46)	-0.85***	(-4.34)	8.81***	(4.38)	9.25***	(4.65)
<i>ROE</i>	-0.10	(-0.95)	-0.07	(-0.68)	0.09	(1.00)	0.08	(0.96)	2.27***	(2.86)	2.14***	(2.64)
<i>LnSize</i>	-0.39***	(-8.27)	-0.39***	(-8.26)	-0.38***	(-7.97)	-0.38***	(-7.95)	0.60	(1.29)	0.62	(1.33)
<i>Opaque</i>	0.88***	(3.12)	0.87***	(3.07)	0.39	(1.30)	0.39	(1.30)	-9.78***	(-3.61)	-9.74***	(-3.60)
<i>Analyst</i>	-0.09	(-1.17)	-0.09	(-1.15)	-0.05	(-0.69)	-0.06	(-0.73)	-0.65	(-0.82)	-0.72	(-0.90)
<i>Notrated</i>	-0.26***	(-2.72)	-0.26***	(-2.69)	0.05	(0.60)	0.05	(0.58)	1.16	(1.20)	1.11	(1.14)
<i>Litigation</i>	-0.29	(-1.18)	-0.30	(-1.25)	0.23	(0.87)	0.24	(0.88)	-2.43	(-0.94)	-2.38	(-0.92)
<b>Loan control variables</b>												
<i>Maturity</i>	0.00***	(3.14)	0.00***	(3.20)	0.00	(1.15)	0.00	(1.15)				
<i>Loanamount</i>	0.00***	(4.85)	0.00***	(4.86)	0.00***	(4.32)	0.00***	(4.31)	-0.00**	(-2.46)	-0.00**	(-2.49)
<i>Syndicate</i>	0.35***	(3.40)	0.35***	(3.41)	1.34***	(12.16)	1.34***	(12.17)	-15.43***	(-8.52)	-15.42***	(-8.50)
<i>Takeover</i>	0.57***	(6.23)	0.57***	(6.23)	0.60***	(6.27)	0.60***	(6.27)	6.96***	(6.59)	6.96***	(6.58)
<i>LBO</i>	1.52***	(8.60)	1.53***	(8.70)	-1.06***	(-5.19)	-1.06***	(-5.20)	19.26***	(10.63)	19.17***	(10.59)
<i>Repay</i>	0.29***	(3.67)	0.29***	(3.70)	0.80***	(9.65)	0.80***	(9.65)	9.68***	(10.25)	9.67***	(10.23)
<i>Levloan</i>	1.61***	(18.38)	1.60***	(18.18)	0.09	(0.95)	0.09	(1.00)	7.00***	(7.75)	7.10***	(7.85)
<i>Numcovenants</i>	0.68***	(18.88)	0.68***	(18.92)					1.94***	(7.59)	1.94***	(7.60)
<i>Intercept</i>	-8.64***	(-9.83)	-8.79***	(-5.05)	0.39	(0.24)	0.38	(0.25)	32.03***	(3.29)	31.65***	(3.25)
<i>Year FE</i>	Yes		Yes		Yes		Yes		Yes		Yes	
<i>Industry FE</i>	Yes		Yes		Yes		Yes		Yes		Yes	
N	13848		13848		12651		12651		13865		13865	
adj. /pseudo R-sq	0.3628		0.3639		0.2577		0.2577		0.1586		0.1587	