Does regulation impact analyst optimism? Evidence from an emerging economy

The study analyses the impact of the regulation on security analysts in an emerging economy, i.e., Brazil. The regulation, instituted by the Brazilian Securities and Exchange Commission in July 2010, improved the code of conduct for the analysts, made the analyst-affiliated institutions more responsible, and strengthened the structure of self-regulation. The present study uses the Difference-in-Difference (DID) framework to study the changes in optimism in analyst forecasts and recommendations post the implementation of the regulation. South Africa, a BRICS counterpart of Brazil, is used as the control group. The sample period ranges from 1993 to 2020. The study finds that analyst forecasts and regulations show a negative relationship with the regulation, i.e., analyst optimism decreased post the implementation of the regulation. The findings suggest that the regulation seems to have effectively curbed the incentive to produce optimistic output. In addition, the fall in analyst optimism post-regulatory change shows that analyst output significantly depends on the policy environment in the nation.

Keywords: Analysts, Optimism, Regulation, Emerging Economy