

**A Study of How Tehran Stock Exchange Law
Implementation Affects the Behavior of Financial
Analysts:(a case study of member companies of the
investment industry group accepted into Tehran Stock
Exchange)**

Sadegh Safari¹

*PhD Candidate of Accounting, Young
Researchers and Elites Club, Kish
International Branch, Islamic Azad
University, Kish, Iran*

Farhad Shahveisi²

*Assistant Professor, Department of
accounting, Faculty of social science,
Razi University, Kermanshah, Iran*

Received: 6/9/2015

Accept: 23/3/2017

Extended Abstract

The purpose of *changing laws* in the capital market is to encourage *potential and actual* investors. *In developing countries such as Iran, it has become mandatory to codify revelatory laws and regulations as to clear financial information* in order to help increase transparency of these pieces of information and create a culture of investment in the Stock Exchange. Codifying laws and regulations related to the stock exchange is a necessity to protect the rights of investors and organize, maintain, and develop the capital market.

Stock Exchange Act (ratified in 2005) is a legal act, consisting of sixty clauses and nine subsections, which aims to organize, maintain, and develop a transparent, fair, and efficient securities market passed by Islamic Consultative Assembly on 22 November 2005, effective as from four months later. The term 'Fair Market' signifies that all market participants should be able to act under the same rules and conditions, so no continuous and excessive inequality as to access to information, access to the market, and no order fulfilment priority will be caused.

This research aims to recognize the effects of laws and regulations governing Tehran Stock Exchange (Stock Exchange Act ratified in 2005) *on the* analytical

1- safarisadege@yahoo.com

2- f.shahveisi@razi.ac.ir

behavior of financial analysts.

This research covers the analytical behavior of financial analysts in Tehran Stock Exchange during the following periods: 2000 to 2005 (before the ratification of 2005 Stock Exchange Act) and 2006 to 2011 (after the ratification of 2005 Stock Exchange Act). That's why the behavior of financial analysts is studied according to Forecast error, Forecast dispersion, and Forecast number. Member companies of the investment industry group accepted into Tehran Stock Exchange constitute the subjects of this research. The *required information of companies* was gathered from the databases of Tadbirpardaz, *Rahavard* Novin, and the official website of *Securities and Exchange* Organization of Iran. Afterwards, these pieces of information were summarized and estimated in *Excel, ready to be analyzed*, and variables of interest in this research were calculated and underwent the final analysis via the following statistical software: Eviews and Minitab. The reliability level used to test the hypotheses and examine the assumptions of the classical regression is 95 percent. To test the hypotheses, the regression analysis was used, and to choose among the panel and integrated data (pooling) F-Limmer test was utilized. Based on F-Limmer test, the panel data was selected to test the first and third hypotheses, and the integrated data (pooling) was selected to test the second hypothesis. In order to determine the type of panel data (random and fixed effects) in the first and third hypotheses, the Hausman test was used in a way that the first hypothesis was tested via panel regression with random effects, and the third hypothesis, via the panel regression with fixed effects. The Jarque-bera test and cox-box transformations were utilized to check the normality of the data. The controlled variables of the current study, controlled in accordance with the evidence about their influence on the dependent variables, are as follows:

1. Company Size (Size), 2. Return of Assets (RoA), 3. Systematic Beta Risk (Bet), 4. Financial Leverage (TDTA), and 5. Altman Z-score (Alt-Z)

The results show that the implementation/execution variable of Exchange Act (Z) does not affect the analysts' forecast error (FE), because the significance level for this variable is %47, which is more than %05 error level. The implementation/execution variable of Exchange Act (Z) affects the analysts' forecast dispersion (FD), because the significance level for this variable is %0133, which is less than % 5 error level. On the other hand, the estimated coefficient for variable of Securities Exchange Act (Z) is positive. The number of financial analysts' forecasts is not affected by the Exchange Act, because the significance level for this variable is %0896, which is more than %05 error level.

The results of this research show that *there is no significant differences* in Forecast error of earnings which, in turn, signifies special economic and political conditions governing the country in order to obscure the information and create a climate of mistrust in the business environment. This law *has been able* to affect Forecast dispersion positively, which reflects the existence of *obscurity* in the information available to the analysts. It is recommended to investors in Iran Capital Market (especially the newcomers) to invest more cautiously; due to the uncertainty in the market, they had better invest in investment funds and companies, and use the of analysts' forecast dispersion as a criterion to invest in the capital market.

The Forecast number of analysts shows no significant differences as to the implementation of this law; it can be put down to the notification of Fast Revelation of Information Regulation (2001) by the Stock Exchange Supervisory Council affecting the Forecast number. As a result, the behavior of analysts has been influenced in terms of Forecast *dispersion* after the ratification of the Stock Exchange Act in 2005.

Keywords: Stock Exchange Act, financial analysts, information transparency, *information disclosure/revelation*, capital market, Forecast error.

JEL Classification: K22, M41, G14-18

References

- [1] Etemadi, H.; Amirkhani, K.; Rezaei, M. (2011). Value content mandatory disclosure: Evidence from companies listed at Tehran Stock Exchange. Tehran Stock Exchange, (13): 235-252. (In Persian).
- [2] Barzegar, Gh.; Pakdinamiri, A.; Pakdinamiri, M. (2009). Explain the Structural equation modeling the financial factors affecting the stock price index at Tehran Stock Exchange. Financial Accounting. (4): 26-42. (In Persian).
- [3] Pakravan, L. (2006). The differences the new law capital market with law Securities Exchange Act of 1966. Auditor. (32): 94-99. (In Persian).
- [4] Tehrani R.; Ebrahimimymand, M. (2011). The effectiveness various information and provide their honestly investment decisions of investment companies analysts. Tehran Stock Exchange, (15): 5-52. (In Persian).
- [5] Tavakolimohammadi, M.; Ghazizadeh, M. (2007). Investigate the behavior investment managers and financial analysts about Market Forecast and Stock Selection in Tehran Stock Exchange. behavior Scholar, (35): 1-11
- [6] Hejazi, R.; Rahmani, A.; Mozafari, Z. (2010). Investigate the Effect of Disclosure Regulations published by companies accepted in Tehran Stock Exchange. Stock Exchange, (10): 36-63. (In Persian).
- [7] Khaleghimoghdam, H.; Khalegh, A. (2009). Corporate transparency in Iran and its influencing factors. Accounting Studies, (21): 31-60. (in Persian).
- [8] Sori, A. (2011). econometric principles whit the EVIEWS7 Application. Publications culture.
- [9] Salim, F.; Shahriari, S. (2009). Transparency in the securities market. (85): 41-47. (in Persian).
- [10] Shahverdiani, Sh.; Radfar, M. (2013). Affecting Factors the Trust financial analysts to Managers. Investment knowledge. (7): 39. (in Persian).
- [11] Shabahang, R. (2010). Accounting Theory (Volume II). Tehran; Research Center for Accounting and Auditing the Auditing Organization. 150-172. (in Persian).
- [12] Safari, S. (2013). A Study of How Tehran Stock Exchange Law Implementation Affects the Behavior of Financial Analysts. MA thesis. Islamic Azad University, Science & Research. (in Persian).
- [13] Talebnia, Gh.; Jalili, S. (2011). Comparison of the effects of financial and non-financial information on the investment decisions of Investment companies and individual investors in the stock. Financial accounting knowledge and research. (in Persian).
- [14] Madura, J. Translation: Abbasi, E, Adusi, A. (2009). Markets and financial

- institutions. Securities and Exchange Organization.
- [15] Mirjalili, H. (2008). Book Review: Asymmetric Information in Financial Markets: Introduction and Applications. Tehran Stock Exchange, (1): 191-201. (in Persian).
- [16] Marshall, J. F.; Vipul K. B. Translation: Poryanasab, A. (2007). Introduction to Financial Engineering. CPA, (12): 46-57
- [17] Vakilifard, H. (2011). Decisions on financial issues (Volume II), Third edition. Tehran: Publication forest. 219-372. (in Persian).
- [18] The Tehran Stock Exchange website: www.seo.ir
- [19] Bailey, W.; Haito, L.; Mao, C. & Zhang. (2003). Regulation FD and Market Behavior Around Earning Announcements: Is the Cure Worse Than the Disease. <http://ssrn.com/abstract=11364>,
- [20] Cormier, D.; Lapointe-Antunez, P.; Magnan, M. (2012). Continus Environmental Disclosure obligations under Canadian stock market Regulations: The Impact on Analyst Forecasts. ESG. Chaire d. information financiere et organisationnelle: 20-185
- [21] Cheong, Ch, S.; Mahmud, A. A. (2010). Financial Analysts' Forecast Accuracy : Before and After the Introduction of AIFRS. Australasian Accounting Business and Finance Journal. 4(3): 65- 81
- [22] Chen, Ch, J. P, Ding, Yuan, Kim, Ch. (2008). Politically Connected firms, Legal Enforcement and Analysts' Forecast Attributes. dyuan@ceibs.edu. 1-23
- [23] Frankel, R.; Joos, P. (2003). Litigation Risk and Voluntary Disclosure. <http://ssrn.com/abstract=280503>, 50-110
- [24] Gomes, A.; Gorton, A.; Madureira, L. (2006). SEC Regulation Fair Disclosure, Information and the Cost of Capital. <http://ssrn.com/abstract=599162>. 250- 270
- [25] Heflin, F.; Subramanayam, Z. (2003). Regulation FD and The Financial Information Environment. The Accounting Review.
- [26] Heitzman, S.; Wasley, C.; & Zimmerman, J. (2010). The joint effects of materiality thresholds and voluntary disclosure incentives on firm disclosure decisions. Journal of accounting and Economics. 49(1): 109-132.
- [27] Jesper, B.; T, Plenborg. (2008). Value relevance of voluntary disclosure In the annual report. Accounting and Finance. 48: 159–180.
- [28] Keener, M. H. (2007). The Effects of Restructuring Charges on Stock Price and Analyst Forecast Accuracy. A dissertation. 20-185
- [29] Mabe, W. (2007). Globalization and Corporate Governance : How Capital Mobility Spurs the Adoption of Shareholder Righes Laws, Financial Disclisure Lows, Insider Trading Laws “,Proquist Information and Learning Campany.UMI3233006. 40(1): 21–40
- [30] Tadesse, S. (2005). The Economic Value of Regulated Disclosure :Evidence from the Banking Sector. Journal of Accounting and Public Policy. 32-7