

## **Does sustainability disclosure improve analysts' forecast accuracy Evidence from European banks**

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**Abstract :** We investigate the extent to which sustainability disclosure from the narrative section of European banks' annual reports improves analyst forecast accuracy. We capture sustainability disclosure using a machine learning approach and use forecast error to proxy analyst forecast accuracy. Our results suggest that sustainability disclosure significantly improves analyst forecast accuracy by reducing the forecast error. In a further analysis, we also find that the induction of Directive 2014/95/European Union (EU) is associated with increased disclosure content, which then reduces forecast error. Collectively, our results suggest that sustainability disclosure improves forecast accuracy, and the induction of the new EU directive strengthens this improvement. These results hold after several further and robustness analyses. Our findings have implications for market participants and policymakers.

**Keywords :** sustainability disclosure, machine learning, analyst forecast accuracy, forecast error, European banks, EU directive

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