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Investment Banking Relationships and Analyst Affiliation Bias: The Impact of the Global Settlement on Sanctioned and Non-Sanctioned Banks*

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Abstract: We examine the impact of the Global Settlement on affiliation bias in analyst recommendations. Using a broad measure of investment bank-firm relationships, we find a substantial reduction in analyst affiliation bias following the settlement for sanctioned banks. In contrast, we find strong evidence of bias both before and after the settlement for affiliated analysts at non-sanctioned banks. Our results suggest that the settlement led to an increase in the expected costs of issuing biased coverage at sanctioned banks, while concurrent self-regulatory organization rule changes were largely ineffective at reducing the influence of investment banking on analyst research at large non-sanctioned banks.

JEL classification: G10, G24, G34, L14

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