We investigate the determinants and informativeness of banks’ ROTCE non-GAAP disclosures. ROTCE is a common performance measure used in the banking industry that adjusts for items ignored by banking industry regulators for capital adequacy assessments (i.e., goodwill, intangible assets, preferred stock). ROTCE disclosures appear motivated by economic characteristics (i.e., attention from bank regulators, factors that impair the usefulness of GAAP ROE) rather than opportunism. However, in contrast to prior literature on non-GAAP earnings, we find that ROTCE is less informative than its GAAP alternative (i.e., ROE), despite the usefulness of tangible equity for assessing capital adequacy. Specifically, GAAP ROE appears more decision useful in that it exhibits stronger associations with future cash flows and analysts’ earnings forecasts than ROTCE. Investors do not appear to recognize these differences, which leads to negative subsequent returns for firms with large excesses of ROTCE over ROE. Our inferences are strengthened through falsification tests using banks that do not disclose ROTCE. Overall, our results suggest that industry-specific regulation in the banking sector can impact banks’ voluntary disclosures to investors, leading to adverse effects on disclosure quality and market efficiency.

(Copies of the paper are available in the ABA Department offices)