IASB Research Forum

Goodwill Impairment and Acquisition Performance: Evidence from SFAS 142

Liu and Hsu 2023

Discussion:
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This paper

• Examines the effect of changes in external financial reporting (SFAS 142) on market assessment of M&As

Primary findings:
• Improvement in M&A quality for acquiring firms affected by SFAS 142 (with goodwill balances)
• Improvement in M&A quality for acquiring firms with overconfident CEOs and without goodwill impairments

Important topic
• Goodwill accounting treatment is not without controversy
Comments

• Motivation

• Mechanism

• Empirical strategy (control sample)

• Alternative stories
Motivation

Information hypothesis

• Shroff (2017) - changes in GAAP that are more likely to require firms to collect new information affect firms' investment decisions

• Cheng et al. (2018) - firms affected by SFAS 142 experience an improvement in management forecast accuracy

This paper

• A different outcome, M&A decisions

But,

• Bartov et al. 2021 – a significant increase in overbidding after SFAS 142
Information hypothesis

• What type of information do managers acquire that allows for a better valuation of the target?

Better identify the information hypothesis mechanism

• Target’s financial reporting quality
• Target’s organizational complexity
• (Re-specify the current test on private targets)

• Triple interaction or subsample analyses
Alternative mechanisms

• Market discipline
• Changes in investors' information sets
More information about the control sample

- Are the firms first-time acquirers?
- Did they never pay a purchase price higher than fair value of the net identifiable assets?
- Had goodwill but was impaired? (however, Impaired=0.29)
- Control sample size

Alternatively

- Use European companies a control sample
- Keep only acquirers with acquisitions in both the pre- and post-period
- Within firm estimation
Potential alternative stories

• The results could be driven by concurrent regulation - e.g., SOX requires majority of the board of directors independent

• Variations in macroeconomic performances between the pre- and the post- SFAS 142 periods impact the quality of M&As

• Decrease in the overall number of acquisitions

• Composition of acquirers and thus firms’ characteristics might have changed between the two subperiods
Good luck with the paper.