

IASB Research Forum

Goodwill Impairment and Acquisition Performance: Evidence from SFAS 142

Liu and Hsu 2023

Discussion:

Ionela Andreicovici

Frankfurt School of Finance and Management

- 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

- Motivation
- Mechanism
- Empirical strategy (control sample)
- Alternative stories

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

- 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.