
Discussion of Economic Consequences of Purchase Price Allocation Reporting (Paper 6)

Tim Craig, IASB Technical Director
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Discussion structure

- Relevance
- Areas for further discussion
- Possible areas to expand research



Relevance

Main finding:

- Greater allocation of purchase price to qualifying identifiable assets (including **previously unrecognised intangibles**) associated with:
 - Higher value relevance
 - Lower information asymmetry
 - Lower cost of capital
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Relevance

IASB research pipeline project: **Intangible Assets:**

This project will aim comprehensively to review the accounting requirements for intangible assets. Initial research will seek to identify the scope of the project and how best to stage work on this topic to deliver timely improvements to IFRS Accounting Standards.

- Evidence of the benefits of **recognition of internally generated intangible assets** in statement of financial position
 - Evidence of benefits to **users and companies**
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Areas for further discussion

Standard-setters **need help understanding** research studies based on **econometrics** (statistics)

- Convergent validity tests
 - Diligence of PPA and overpayment propensity?
- Comparison of acquiring and non-acquiring
 - ‘Acquiring’ cost of capital increases post-acquisition?
 - Consistency with OLS tests
 - Increased risk associated with M&A
 - Higher information asymmetry for ‘non-acquirers’ pre-acquisition?
- Are all measures of information asymmetry equal?
- Reasons for the influence of earnings management

Possible areas to expand research

- Disaggregate PPAIA → qualifying identifiable intangible assets previously expensed
- Persistence of results
- 2004–2014 time series—effect of Phase I (2004) and Phase II (2008) *Business Combinations* changes
- Extend to other country samples—consistent results?



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