Discussion of "The Impact of IFRS Goodwill Reporting on Financial analysts' Equity Valuation: Some Experimental Evidence"

Hellman, Andersson, and Fröberg 2015

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October 11, 2015
IFRS/ABR Research Symposium

What I like about this paper…

- Timely topic that contributes to a broader debate on practitioners' discretion in accounting choice.
- Interesting research question, examines whether preparers' accounting choices on recognition as *goodwill* versus *intangible assets* affect analysts' valuation judgments.
- Appropriate to use experiment to study such question, clean to tease out the confounding factors and single out the effect of accounting choice in this setting.

Is this supposed to mimic the realistic context?

- Yes – because the inference of the study is analysts can be misled by the accounting choice between goodwill and intangible recognition.
- Design of experiment: Analysts make a quick value judgment after seeing several screens of limited financial information.
- First, analysts are not asked whether they would like to look for additional information before making the value judgment.

Analysts' information search role assumed away from the current study…

- *Analyst participants report a confidence level of 3.42, which translates to a "fairly uncertain" on the scale.*

- Information search is assumed away from the current experiment, making it hard to convince the audience that accounting choice of GO versus IIR would "mislead" analysts in practice.

Source of analysts' superior performance

– Interpretation of public information
– Private information acquisition

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The importance of earnings? (2012 All-Europe Research Team)

Rank	Attribute
1	Industry knowledge
2	Integrity/professionalism
3	Local market knowledge/country knowledge
4	Accessibility/responsiveness
5	Idea generation
6	Special services (company visits, conference, etc.)
7	Management access (one-to-one)
8	Written reports
9	Useful/timely calls & visits
10	Financial models
11	Research delivery (entitlement, technology & customization of buy-side needs)
12	Earnings estimates

Data source: www.institutionalinvestor.com

Is this supposed to mimic the realistic context?

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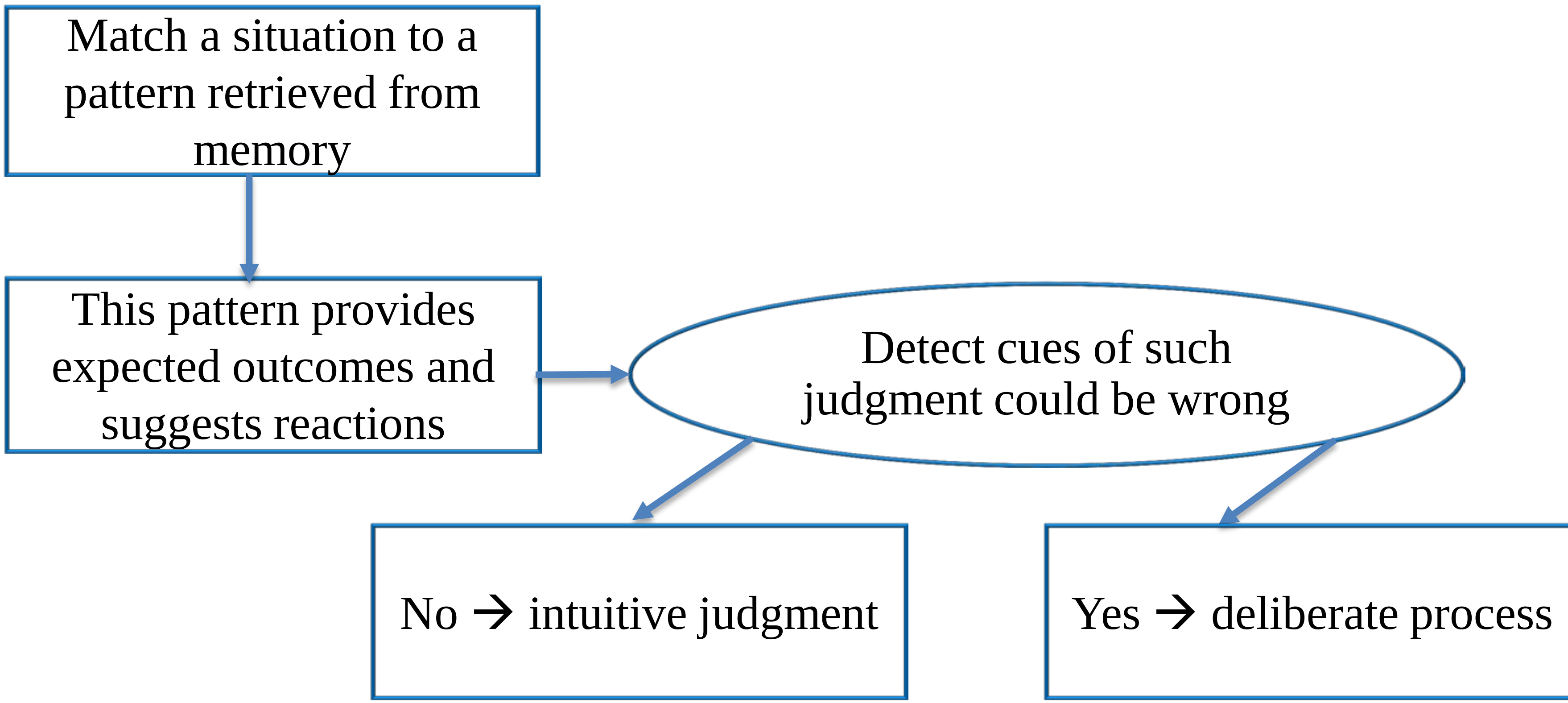
- Design of experiment: Analysts make a quick value judgment after seeing several screens of limited financial information.
- First, analysts are not asked whether they would like to look for additional information before making the value judgment.
- Second, analysts (subjects) are put in a setting where they are asked to make value judgment (a task they are familiar with) for a company that they do not follow (a context they are unfamiliar with), based on limited information (EPS number) in a very short time window (constrained by the experimental duration).

Is value judgment an intuitive judgment or deliberate process?



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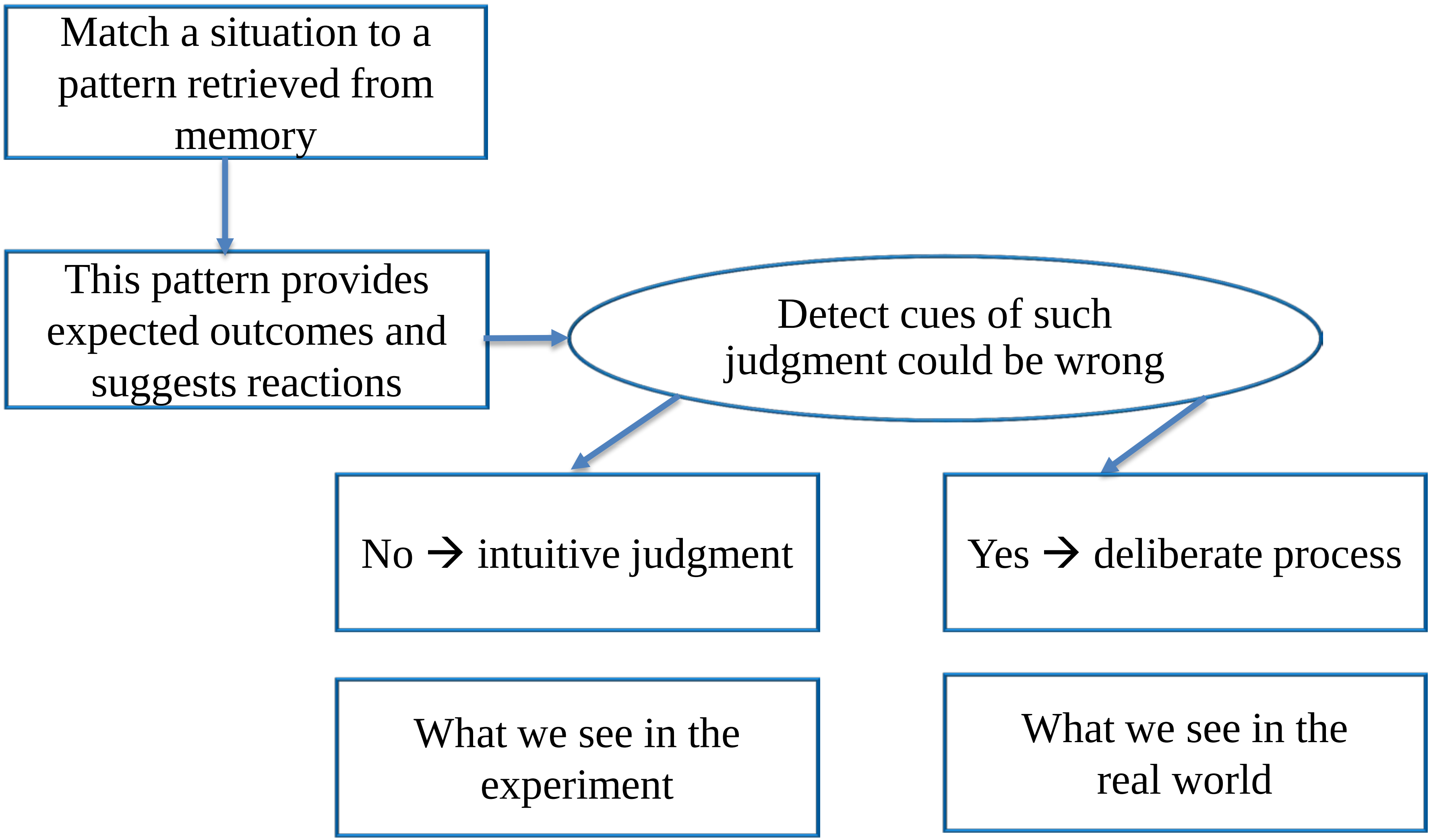

A potential confounding…

Current experiment:

- [GO]: EPS accretive from 2011 onwards.
- [IIR] EPS accretive from 2011 onwards, excluding amortization of intangibles estimated at SEK 3.5-4.0 billion per year.

How about:

- [GO]: EPS accretive from 2011 onwards, excluding goodwill subjective to potential impairment tests.
- [IIR] EPS accretive from 2011 onwards, excluding amortization of intangible annually.

Thank you!