Discussion of A Proposal for Goodwill Accounting

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How do we solve a problem like goodwill?

- How do you catch a cloud and pin it down?
- Bartov et al (2021) more overbidding under impairment than amortisation regimes – real effects
- Acquiring firms worse off, CEOs better off (Harford and Li, 2007)

- Is it correct in the first place? (CEO optimism, Emperor) - plug
- Disclosures of rationales of accusation
- Differences from internal goodwill and fair value of identifiable assets
- Impairment vs amortisation
- “Some post-acquisition performance isn’t assessed very much.” Keith Kendall, Australian Accounting Standards Board

No Discretion or *Less* Discretion

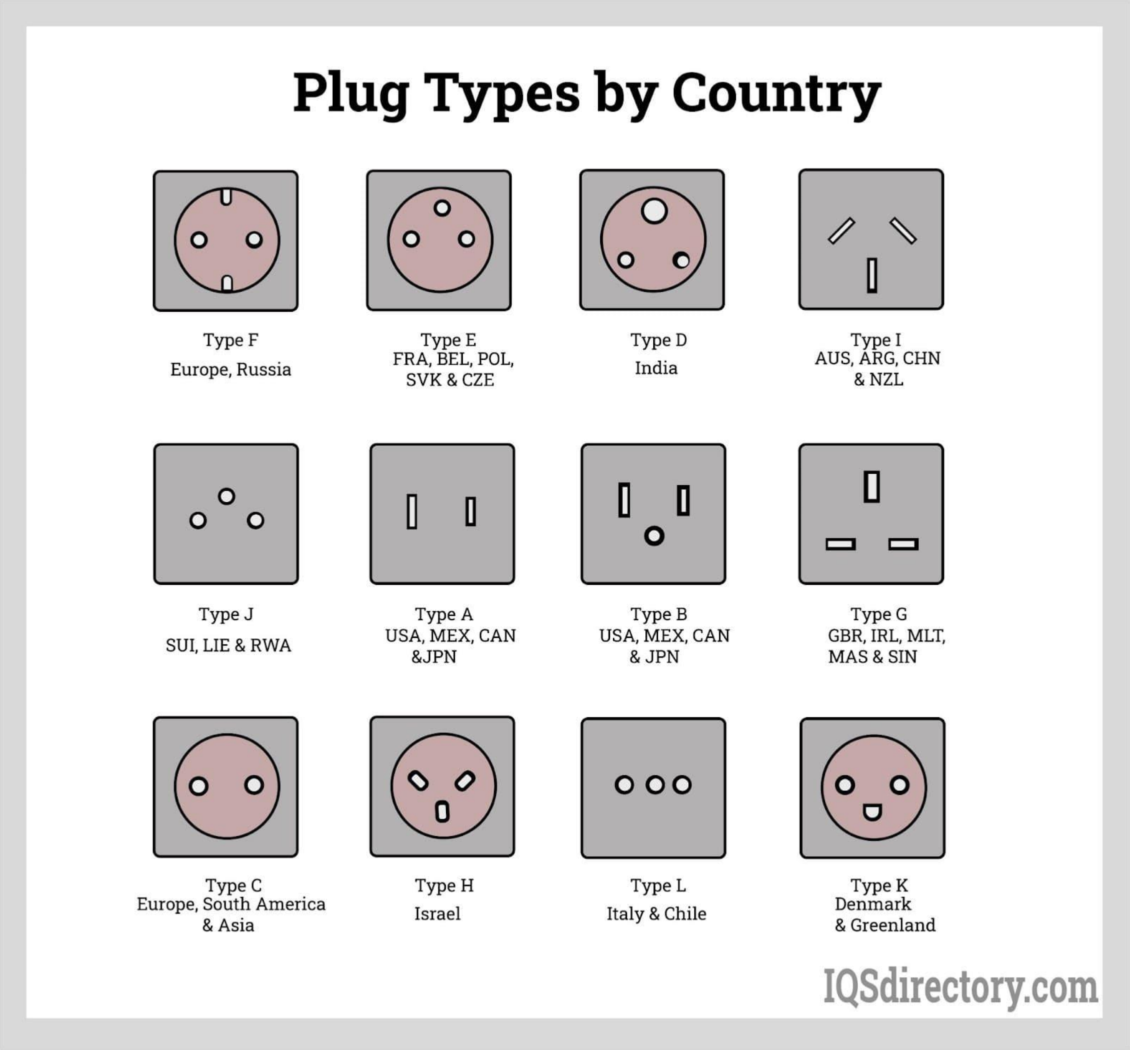
- Is goodwill manipulated at acquisition?
- Probably yes –Bugeja and Loyeung (2015) show that 42% of acquirers have 0 goodwill. It is associated with:
  - CEO compensation
  - Industry (combination)
  - Increased post-IFRS (shift from amortisation to impairment)
- Would the proposal be manipulated at acquisition?
  - Akin to Level 3 fair value? - less value relevant (Song et al., 2010)
- Conclude less discretion and easier to assess if there is manipulation

Plugs

- Plugs are great!
  - “Equity is the residual interest in the assets of the entity after deducting all its liabilities. “

Ill defined plugs

- Ill defined plugs are not great!
- International variation
  - No universal adapter in accounting (EBITDAFT?)
- Disclosures of earnings, discount rate and growth make comparisons clearer



Harmonisation of Accounting

- Proposal would avoid issues such as externally acquired brands being recognised whilst internal are not
- Does two wrongs make a right?
- Kallapur and Kwan (2004) brands are value relevant
  - Brand value estimates are value relevant
  - Marketing expense leads to Sales
- Instead should we partially capitalise marketing expense?

Post-acquisition performance monitoring

- Should be goodwill be disclosed for strategic acquisitions? – suits proposal
- Disaggregation of growth and combination would focus disclosure of rationales
- Would improve disclosures of acquisition rationales?
  - “in the year of acquisition, the acquisition-date **key objectives** and the related **targets**. Targets can be disclosed as a range or as a point estimate.”
- I view the requirements of r, g providing useful and clear disclosures on the fair value of growth
- In NZ, more enforcement around IFRS adoption on easy to assess disclosure than judgement or measurement (shameless self-*plug*: Bradbury and Scott, 2021)
- “More emphasis is needed on ensuring that the disclosure requirements are enforceable and auditable in order to secure a certain minimum level of disclosure.” (Hellman et al., 2017)

Association with impairment tests

- Value of Growth is significantly associated with impairment in any year
- Current goodwill and Value of Combination are not
- Should goodwill be associated with impairment?
  - Personal preference is value relevance tests or post acquisition performance (identifiable intangible assets are not: Su et al, 2015).
- To avoid bias to earlier part of a sample would suggest a restricted sample for t+3 or something similar
- Would like to see post-acquisition graphs rerun by value of growth

Summary

- I have a lot of ‘good will’ towards this paper
- Good mix of normative drawing from accounting theory and then supported by empirical analysis
  - I hope for more accounting papers like this
- Disclosure based solution - framework

- Plenty of research opportunities