IFRS Accounting

Staff paper

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IASB® meeting

Date	**December 2024**
Project	**Business Combinations—Disclosures, Goodwill and Impairment**
Topic	**Academic literature review**
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Purpose and structure of this paper

1. As Agenda Paper 18 for this meeting explains, this literature review summarises evidence from academic papers on topics relevant to the proposals in the Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* (Exposure Draft). Academic literature related to this project was previously considered by the IASB in its May 2021 meeting when developing the proposals in the Exposure Draft (previous review).

2. This literature review does not include papers from the previous review. This review is based on:

   (a) papers selected by academics who participated in an International Accounting Standards Board (IASB) workshop with the European Accounting Association and EFRAG during the consultation period for the Exposure Draft and who were asked to gather relevant academic evidence to the questions in the Exposure Draft;

   (b) academic papers collected by the Financial Accounting Standards Board (FASB) staff for their past project Identifiable Intangible Assets and Subsequent Accounting for Goodwill; and

(c) additional published and working papers not included in the sources described in paragraphs 2(a)–2(b), which were sent by academics or located in databases of academic studies.

3. This paper includes:

(a) key messages (paragraphs 5-15);

(b) question for the IASB;

(c) Appendix A—Evidence from a meta-analysis and an academic literature review[1]; and

(d) Appendix B—Empirical evidence[2].

4. The literature we have selected includes:

(a) meta-analysis and academic literature review; and

(b) empirical evidence studies.

Key messages

Need for better information about business combinations

5. A meta-analysis of business combinations revealed that:

(a) both acquirees and acquirers earned positive abnormal returns at announcement (with acquirees gaining more);

(b) acquirers often faced insignificant or negative returns post-announcement due to unrealised synergies;

[1] Meta-analysis aggregates results across multiple studies to estimate the true relationship between variables in the population. Meta-analysis uses results of previously conducted studies, specifically the effect magnitudes or correlation coefficients reported in those studies.

[2] Empirical evidence is derived from data collected through observation or experimentation and is used to validate or support research findings and hypotheses.

(c) academic research has not identified specific factors and conditions that consistently lead to business combinations' superior performance; and

(d) in the authors' view, managers should be as explicit as possible about how, why, and where a business combination can be reasonably expected to strengthen their entities.

6. Entities used conference calls in business combination announcements to provide more information and emphasise forward-looking information more compared to what was typically available in press releases.

7. Announcements of large, equity-financed business combinations that included conference calls resulted in more positive market reactions compared to announcements without conference calls.

Information availability

8. Synergy forecasts were provided in 20% of business combinations. More entities provided information about the effect on earnings per share than synergies to avoid legal risks.

9. Acquirers were:

(a) more likely to disclose synergy forecasts in equity-financed, same-industry, or large-acquiree business combinations to signal synergy gains and mitigate negative price reactions; and

(b) less likely to disclose synergy forecasts if information related to synergies was uncertain, for example, in cross-border deals; and if shareholder litigation risk was high.

Role of mandatory disclosures

10. A review of the impact of voluntary and mandatory information disclosure highlighted:

    (a) voluntary disclosures are used to enhance entity value, improve liquidity but can be limited by commercial sensitivity and influenced by litigation risk and governance; and

    (b) mandatory disclosures are needed to address information asymmetries, improve market efficiency, and enhance comparability, though they may pose over-disclosure risk and require careful consideration of conservatism, neutrality, and social welfare implications.

11. Mandatory disclosures of information required by a regulator were associated with improved analyst forecast accuracy and better alignment between managers' and stakeholders' interests.

12. Regulator action increased the quality of information provided about a business combination.

Commercial sensitivity, litigation risk and need for exemption

13. Commercial sensitivity and litigation concerns may influence the length and detail of disclosures, highlighting a trade-off between valuable information and protecting sensitive data.

14. Evidence from entities applying IFRS 8 *Operating Segments* showed that commercial sensitivity concerns influenced the quantity and quality of segment disclosures.

Thresholds for identifying subset of business combinations

15. Research aiming to understand why multinational entities separately disclosed or did not disclose segments highlighted a sensitivity to disclosing information about new geographical areas.

Question for the IASB
Does the IASB have any questions or comments on the academic literature summarised in this paper?

Appendix A—Evidence from a meta-analysis and a literature review

Title, author(s) and scope	Overview of paper's conclusions and findings
King, D. R., Dalton, D. R., Daily, C. M., and Covin, J. G. (2003), 'Meta-analyses of post-acquisition performance: indications of unidentified moderators', *Strategic Management Journal*, 25 (2), 187-200. Sample: 93 empirical studies Sample period: data included in the studies covered the period 1921–2002	This paper analysed academic research on business combinations and the role of commonly examined factors in explaining acquirers' post-acquisition performance. The findings were: (a) both the acquiree and acquirer earned positive abnormal returns on the day of the business combination announcement, revealing, in the authors' view, an expectation of long-term synergies; (b) the acquirees' returns were higher than the acquirers' returns on the day of the announcement; (c) the acquirers' returns in the post-announcement period were, on average, either insignificant or negative, indicating, in the authors' view, that expected synergies had not been realised; (d) the four most common variables in the literature used for explaining post-acquisition performance—whether the acquirer is a conglomerate, whether the acquirer is related to the acquiree, whether payment is in cash or equity and whether the acquirer has prior acquisition experience—did not explain post-acquisition performance sufficiently; (e) academic research has not identified the specific factors and conditions that consistently lead to business combinations' superior performance; and (f) in the authors' view, managers should be as explicit as possible about how, why, and where business combinations can be reasonably expected to strengthen their entities.
Beyer, A., Cohen, D. A., Lys, T. Z., and Walther, B. R. (2010), 'The financial reporting environment: Review of the recent literature', *Journal of Accounting and Economics*, 50 (2/3), 296-343.	The paper reviews academic literature on the roles of voluntary and mandatory disclosures (and the role of analysts) in financial reporting. The findings were: (a) voluntary information: (i) is provided to maximise entity value, particularly during capital market transactions and corporate control contests; (ii) is provided by managers with share-based compensation; (iii)may be discouraged by concerns over commercial sensitivity; (iv) can lead to improved liquidity and lower cost of capital;

Title, author(s) and scope	Overview of paper's conclusions and findings
Sample: 70,700 quarterly observations of 2,747 US listed entities Sample period: 1994–2007	(v) can be influenced by litigation risk and corporate governance; and (vi) when in the form of management forecasts, is reflected in share prices to the largest extent, accounting for 59% of accounting-based information reflected in share prices. (b) mandatory disclosure of information: (i) is necessary to address information asymmetries and externalities that voluntary disclosure of information may not resolve; (ii) can reduce information asymmetry, improve market efficiency, and enhance comparability across firms; (iii) may pose risks of over-disclosure and compliance costs; (iv) should consider trade-offs between conservatism and neutrality, and implications of fair value and hedge accounting; and (v) can be effective if based on understanding its social welfare implications and interactions with other information sources.

Appendix B—Empirical evidence[3]

Title, author(s) and scope	Overview of paper's conclusions and findings
Johnson, B. A., Lisic, L. L., Moon, J. S., and Wang, M. (2023), 'SEC comment letters on form S-4 and M&A accounting quality', *Review of Accounting Studies*, 28 (2), 862-909. Sample: 721 business combinations by US-listed entities Sample period: 2004–2015	This paper examined the role of Securities and Exchange Commission (SEC)'s comment letters on the accounting quality—the likelihood of subsequent restatement or a goodwill impairment—and disclosures by acquirers filing Form S-4.[4] The findings were: (a) entities that received an SEC comment letter for their S-4 filings were less likely to issue restatements or have goodwill impairments in the two years after the business combination. (b) entities that received an SEC comment letter focusing specifically on business combination related issues (for example, goodwill or proforma financial statements) were less likely to restate or impair goodwill compared to those whose comment letters focused on other issues. (c) entities that received comment letters with a higher word count, indicating a larger number and more complex comments, were also less likely to restate or impair goodwill. (d) receiving an SEC comment letter was associated with higher likelihood and frequency of disclosure revisions to entities' pro-forma financial statements, total purchase price, and goodwill allocations in S-4 amendments.[5] (e) revisions to pro-forma financial statements corresponded to lower likelihood of future restatements and total purchase price revisions and downward revisions to goodwill allocations corresponded to a lower likelihood of future goodwill impairments. (f) in the authors' view, the SEC's comment letter process is effective in addressing potential accounting issues and disclosure deficiencies before completion of the business combination.

[3] Staff observations have been added to some paper summaries where these observations were considered relevant and helpful.

[4] Entities involved in business combinations with at least a part of the consideration paid in shares are required to file Form S-4 to provide shareholders with information about the business combination and the entities involved. The SEC reviews these filings and may issue a comment letter to resolve any accounting or disclosure issues before security issuance and to prevent future financial reporting issues after the transaction is completed.

[5] S-4 amendments, referred to as S-4/As, are revisions or updates made to the initial Form S-4 registration statement filed with the SEC.

Title, author(s) and scope	Overview of paper's conclusions and findings
	Staff observation: Regulator action increased the quality of information provided about a business combination.
Kubic, M. (2020), 'The benefits of mandatory disclosure: Evidence from Regulation SX Article 11', *Working paper*. Sample: 3,080 business combinations by US publicly listed entities Sample period: 2002–2016	The paper examined the effects of mandatory disclosure of Article 11 pro-forma financial statements on analyst forecast accuracy and incentive alignment in business combinations.[6] The findings were: (a) pro forma disclosures reduced post-acquisition forecast errors mainly for entities with low analyst following. In the authors' view, the benefits of mandated pro-forma disclosures were contingent on the pre-existing information environment. (b) pro-forma disclosures helped acquirers choose better acquirees, particularly in business combinations involving third-party advisers. In the authors' view, such disclosures can mitigate incentive alignment problems between shareholders and managers by improving transparency.
Kubic, M. (2021), 'Time to get it right: An examination of post-acquisition fair value adjustments', *Journal of Financial Reporting*, 6 (1), 109-35.	The paper examined how information availability about business combinations affected fair value measurements of identifiable assets and liabilities in the year following the business combination.[7] The findings were that indicators of information constraints explained the incidence and size of post-measurement fair value adjustments of identifiable assets and liabilities. Specifically, such adjustments were more likely if: (a) the acquiree was a foreign entity;

[6] Article 11 of Regulation S-X requires SEC registrants to provide pro-forma financial information for material transactions, such as significant business combinations. Significant business combinations are identified on the basis of specific materiality thresholds. This includes an as-if consolidated balance sheet and income statement with separate columns for the historical financial statements of the acquirer, the historical financial statements of the target, pro-forma adjustments, and pro-forma results. The objective is to help investors understand the impact of a significant transaction by showing how it might have affected the historical financial statements.

[7] FASB Statement 141(R) Business Combinations allows acquirers a post-acquisition period of up to one year to adjust the initial fair value measurements of identifiable assets and liabilities based on discovery of information that existed at the business combination date.

Title, author(s) and scope	Overview of paper’s conclusions and findings
Sample: 446 business combinations in 2009 and 544 business combinations in 2015 Sample period: 2009 and 2015	(b) the initial purchase price allocation included a larger number of financial statement line items; (c) a higher percentage of the purchase price was allocated to intangible assets; and (d) the acquisition included contingent consideration. In the authors’ view, preparers may have limited information for reliably measuring fair value of identifiable assets and liabilities at the time of business combinations. However, the measurement period alleviates concerns about limited information availability.
Dutordoir, M., Roosenboom, P., and Vasconcelos, M. (2014), 'Synergy disclosures in mergers and acquisitions', *International Review of Financial Analysis,* 31, 88-100 Sample: 1990 business combinations by US listed entities, of which 345 acquirers announced synergy estimates Sample period: 1995–2008	The researchers examined acquirers’ motives to disclose a synergy forecast when announcing business combinations. The findings were: (a) entities were more likely to provide synergy forecasts for: (i) business combinations that were financed with equity; in the authors’ view, entities used synergy forecasts to signal to their shareholders an intention to pursue synergy gains and not to use overvalued shares opportunistically; (ii) business combinations for which entities were able to predict synergies more precisely—same-industry business combinations and business combinations with larger acquiree size, indicating lower information asymmetry about the acquiree value; and (iii) business combinations that were expected to trigger significant negative price reactions for the acquirer; noting that without synergy forecasts, the anticipated market reaction to announcing these deals would be about 5% more negative; (b) entities were less likely to provide synergy forecasts if: (i) information related to synergies was uncertain, for example, in cross-border deals; and (ii) shareholder litigation risk was high; and (c) entities were neither less likely nor more likely to provide synergy forecasts because of: (i) commercial sensitivity concerns; (ii) intention to influence shareholder premiums; or (iii) deter competing bids for the acquiree.

Title, author(s) and scope	Overview of paper's conclusions and findings
Kravet, T. D. and Xu, J. (2023), 'Determinants and informativeness of DEFM14 and S-4 merger proxy disclosures', *Available at SSRN 4556788*. Sample: 2,837 business combinations by US listed entities Sample period: 1993–2019	The paper examined whether commercial sensitivity and litigation concerns affected disclosure in merger proxy filings to the SEC[8]. The findings were: (a) an increase in commercial sensitivity led entities to provide shorter (based on number of words), less specific (based on number of words related to time, date, entity name and quantitative information) and more boilerplate disclosures.[9] (b) an increase in litigation risk led entities to provide longer, more specific and less boilerplate disclosures. (c) abnormal returns around the proxy filing date were not different from returns in the pre-acquisition period; however, lengthier, more specific and less boilerplate disclosures were associated with abnormal returns around the filing date. In the authors' view, entities faced trade-offs between disclosing valuable information and protecting commercially sensitive information.
Leung, E. and Verriest, A. (2019), 'Does location matter for disclosure? Evidence from geographic segments', *Journal of Business Finance and Accounting*, 46 (5-6), 541-68. Sample: 1,277 European publicly listed entities	The paper examined the location characteristics of geographic segments to identify multinational entities' reasons for separately disclosing or not disclosing segments when applying IFRS 8 for the first time. The findings were: (a) entities were less likely to separately disclose segments in economically attractive locations (measured by the Forbes "Best Countries for Business" ranking, the size of the country's middle class from World Bank data, and the Fitch long-term credit rating for financial stability and credit risk); (b) entities were more likely to separately disclose segments where entry barriers were high (identified by the number of import documents required, the number of startup days needed to

[8] The SEC requires entities to submit merger proxy filings when there is a shareholder vote on a prospective merger or acquisition. These filings, which include forms like DEFM14A or S-4, are intended to provide shareholders comprehensive information about the transaction, enabling them to make informed voting decisions. The filings typically contain detailed sections such as the background of the merger, reasons for the merger, financial statements, risk factors, and financial advisors' opinions.

[9] The researchers used the staggered adoption of the Inevitable Disclosure Doctrine (IDD) by US states as a setting to examine a change in commercial sensitivity and the 2007 Delaware Court of Chancery ruling as a setting to examine a change in litigation risk for Delaware-incorporated targets.

Title, author(s) and scope	Overview of paper's conclusions and findings
Sample period: 2009	establish a new company, the trade barriers index from the Economic Freedom of the World database, and the degree of protectionism based on executive perceptions); and (c) in the authors' view, commercial sensitivity influenced entities' decision whether to separately disclose geographic segments. Staff observation: This research highlights sensitivity to disclosure of information about new geographical areas.
Ismail, A. (2011), 'Does the Management's forecast of merger synergies explain the premium paid, the method of payment, and merger motives?', *Financial Management,* 40 (4), 879-910. Sample: 336 business combinations by US-listed entities Sample period: 1985–2004	This paper examined whether entities' publicly available synergy forecasts explained the premium paid, the method of payment, and business combination motives. The findings were: (a) the estimated synergies did not explain the premium paid by acquirers, suggesting, in the authors' view, that these estimates might be used to persuade shareholders to support the deal. (b) acquirers were more likely to overpay if they had low growth potential and if the acquiree was deemed an attractive investment—large, with high operating performance and high growth potential. (c) acquirers were more likely to pay more than their highest valuation if protective measures for management were in place and if they received low compensation, suggesting, in the authors' view, potential managerial self-interest at the expense of shareholders. (d) acquirers, particularly those that overpaid for business combinations, experienced negative share returns and negative operating performance (cash flow return on assets) compared to their non-acquirer peers. (e) higher estimated synergies were associated with higher likelihood of financing the deal with equity, indicating in the authors' view acquirers' lack of confidence in realising the projected synergies. Staff observation: This research considers the usefulness of publicly available synergy forecasts.
Ismail, A. and Mavis, C. P. (2022), 'A new method for measuring CEO	This paper examined the synergy forecast error measured as the difference between the forecasted and actual operating synergies in a business combination. Forecasted synergies were based on expected

Title, author(s) and scope	Overview of paper's conclusions and findings
overconfidence: Evidence from acquisitions', *International Review of Financial Analysis*, 79, 101964. Sample: 497 US business combinations by US-listed entities Sample period: 1993–2013	cost savings and revenue increases disclosed in press releases and SEC filings before the business combination. Actual synergies were determined by comparing the cash flows generated by the combined entity in the three years after the business combination with the pro-forma cash flows of the acquiree and acquirer before the business combination. The findings were: (a) higher synergy forecast errors, which in the authors' view, captured CEO overconfidence, were associated with higher takeover premiums and lower acquirer announcement-date returns. Specifically, a one-unit increase in the forecast error corresponded to an 8.07% higher takeover premium and a 2.86% decrease in the acquirer's announcement-date share abnormal returns. In the authors' view, overconfident CEOs overestimated their ability to create value from business combinations. (b) higher synergy forecast errors were associated with diversifying acquisitions, particularly in cash-rich companies; higher capital expenditures, higher leverage, less equity issuance, and higher levels of innovation. Staff observation: More detailed disclosure of information underlying synergy forecasts can help users better assess entities' prospects of creating value from business combinations.
Dasgupta, S., Harford, J., and Ma, F. (2024), 'EPS Sensitivity and Mergers', *Journal of Financial and Quantitative Analysis*, 59 (2), 521-56.	This paper examined acquirers' practice to emphasise the effect of business combinations on the acquirer's earnings per share in the absence of detailed information about synergies. The discussion in the paper that is relevant to the proposals in the Exposure Draft was: (a) previous literature has shown that synergy forecasts were provided in 20% of business combinations. [10]

[10] Bernile, G. and Bauguess, S. W. (2011), 'Do merger-related operating synergies exist?', (Singapore Management University), 1-49 and Dutordoir, M., Roosenboom, P., and Vasconcelos, M. (2014), 'Synergy disclosures in mergers and acquisitions', *International Review of Financial Analysis,* 31, 88-100.

Title, author(s) and scope	Overview of paper's conclusions and findings
Sample: 3,799 business combinations by US listed entities Sample period: 1991–2017	(b) in the authors' view, earnings per share was easier to communicate and evaluate than business combination synergies which are uncertain, difficult to forecast, realised over a longer period and can expose entities to legal risk.
Kimbrough, M. D. and Louis, H. (2011), 'Voluntary Disclosure to Influence Investor Reactions to Merger Announcements: An Examination of Conference Calls', *Accounting Review*, 86 (2), 637-67. Sample: 1,228 business combinations by US listed entities Sample time: 2002–2006	The paper examined the role of voluntary disclosure, specifically conference calls, in influencing investor reactions to business combination announcements. The findings were: (a) acquirers were more likely to hold conference calls during business combination announcements when the transactions were large and financed with equity. (b) announcements with conference calls were associated with more favourable market reactions compared to announcements without calls. (c) announcement returns from conference calls were not associated with subsequent reversal or pre-announcement abnormal accruals—an indicator of earnings management. (d) in the authors' view, the use of conference calls: (i) was intended to provide more information and emphasise forward-looking information more compared to what was typically available in press releases, leading to positive market response; and (ii) was not intended to artificially inflate share prices or mislead investors.