The accounting and market consequences of accelerated share repurchases

Published: 19 July 2011

Volume 17, pages 41–71, (2012) Cite this article

Review of Accounting Studies

Aims and scope →

Article	26 May 2021	Chapter	© 2019	Article	13 January 2017

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Notes

1. Our data ends in 2007, in part to calculate post-ASR transaction variables. Although the market downturn in 2008–2009 resulted in a decline in dividend

4. Grullon and Michaely (2002) document that the aggregate value of share repurchases exceeds that of dividends. According to a Standard & Poors' study, stock repurchases among the S&P 500 companies totaled more than $367 billion in 2006 compared with just $131 billion in 2003 (Standard & Poors 2007; Marquardt et al. 2009).

5. Another motivation is related to providing a signal to outside parties about the value of the company. Alternatively, stock repurchases can also be used to alleviate agency problems arising from the over-consumption of perquisites (perks). Lastly, stock repurchases serve to reduce cash buildup, which may indicate a lack of investment opportunities.

9. FAS. No. 128—“Contracts that may be Settled in Stock or Cash” discusses the computation of EPS with respect to the ASR plan. EITF 00-19—“Accounting for derivative financial instruments indexed to, and potentially settled in, a company’s own stock,” (FASB 2000) discusses the intent of management in the computation of diluted EPS. The “management intent” criterion opens the door for EPS management. While most companies ultimately settle in cash (57.72% in our sample), virtually all companies generally assume share settlement when calculating diluted EPS (Bear Stearns 2006). By assuming share settlement, rather than cash settlement, companies achieve higher diluted EPS in the period of contract execution.

10. Stephens and Weisbach (1998) find that 25–30% of announced traditional share repurchases remain unexecuted 3 years subsequent to the announcement. However, contrary to the strength of the signaling

al. 1999; Holthausen and Watts 2001). We are careful not to draw prescriptive standard-setting conclusions from our results. Rather, our goal is to document the significance of ASR transactions and associations of ASR-related amounts with market variables to provide insights on the *economic substance* of ASR transactions. This evidence, as well as the potential abnormal returns that could be earned, based on unrecognized ASR amounts, provides insights to standard-setters about the adequacy of the accounting for ASRs. We acknowledge that standard-setters factor evidence such as ours, as well as other non-investor oriented costs and benefits into their standard-setting decisions (Barth et al. 2001).

14. A computer program was developed with an algorithm to search annual and quarterly reports for specific text substrings. The search terms used were "accelerated stock repurchase," "accelerated share repurchase,"

our sample. We require the contracts to be outstanding for at least one full quarter in order to compute unrealized gains or losses on the contract.

18. The magnitude of the coefficient on *OBSL* is large (−5.90) relative to the coefficients on the recognized assets and liabilities. There are several explanations, which we explore later in the paper: (1) the large number of zero observations for *OBSL* (all nonASR firms) are skewing the coefficient values, (2) *OBSL* is measured with error due to potential correlated omitted variables, and (3) investors treat the *OBSL* as a discount to the earnings coefficient, which is also large in magnitude (15.56).

19. In later specifications, we examine a model that controls for possible endogeneity associated with the repurchase decision to further rule out the

21. While our value relevance models are similar to those used in prior research that examines associations between accounting measures and market metrics (e.g., Landsman 1986; Barth 1991; and Pfeiffer 1998), share price models can be susceptible to various specification issues. For example, Easton and Sommers (2003) find price-level regressions can be driven by firms with large share prices, which causes nonlinearity in the relation between market capitalization and financial statement variables. To address these concerns, our results are robust to using a variety of scalers (number of shares, assets, and sales revenue). We also perform returns regressions (discussed in the next section) to help address concerns that our findings may be the result of specification issues.

22. All results presented throughout the paper are invariant to using market-

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in Anaheim, CA. Terry Warfield acknowledges financial support from the Arthur Andersen Center at the University of Wisconsin.

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Accelerated share repurchases
Off-balance sheet items
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JEL Classifications

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