Springer Link

Search Log in

Published: 19 July 2011

The accounting and market consequences of accelerated share repurchases

Victoria Dickinson, Paul Kimmel & Terry Warfield

Review of Accounting Studies **17**, 41–71 (2012)

1110 Accesses | **12** Citations | Metrics

Abstract

We evaluate the representational faithfulness of the accounting treatment of a recent and well-established type of structured transaction—accelerated share repurchases (ASRs). ASRs are popular because accretive earnings per share benefits are recognized immediately, while any gains or losses on the forward contract used to execute an ASR bypass income, and are reported directly in equity. We document lower value relevance for the liabilities of ASR companies compared with a size- and industry-matched sample. ERC tests also indicate a market discount for the earnings of ASR companies

Your Privacy

We use cookies to make sure that our website works properly, as well as some ‘optional’ cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on ‘Manage Settings’, where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

This is a preview of subscription content, access via your institution.

Access options

Buy article PDF

39,95 €

Price includes VAT (Poland)

Instant access to the full article PDF.

Rent this article via DeepDyve.

Learn more about Institutional subscriptions

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 payouts and stock repurchases, market analysts expect a resurgence in stock repurchases, as

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

(2005), who argue that, when a firm is obligated to issue shares at prices different than the fair value, this gives rise to a liability (a contingent claim in which existing shareholders give up value to the claimants). Ohlson and Penman also argue that that the unrealized gains and losses can be separated into two parts: (1) an imputed finance charge, which should flow through the income statement, and (2) a nonrecurring, unpredictable change in value due to changes in market factors, which should be reported in other comprehensive income.

3. This is consistent with FASB and IASB Conceptual Frameworks' common conclusion that disclosure is not an acceptable substitute for recognition (FASB SFAC No. 5).

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;

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

serve to reduce cash buildup, which may indicate a lack of investment opportunities.

6. We add another 43 ASR contracts to the initial sample published in the Bear Stearns research report, bringing the total ASR contracts between 2002 and 2005–1994.

7. Some companies contractually cap their potential losses at settlement through "collar" agreements. Collars were used with increasing frequency over our sample period. However, the collars limit the magnitude of unrealized gains and losses and, as such, will bias against finding a market reaction to the off-balance sheet amounts.

8. The consequences of off-balance sheet accounting have been explored by Bauman (2003)—equity method investments; Marquardt and Wiedman (2007)—contingently convertible securities; Hann et al. (2007)—pension assets and liabilities; and both Dhaliwal et al. (1999) and Chambers et al. (2007)—other comprehensive income items (i.e., marketable securities, pension,

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

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 mechanism of the ASR, Marquardt et al. (2009) find no difference in the short window market reactions to ASR and

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

12. See http://www.fasb.org/project/liabeq.shtml. In the conclusion to this paper we discuss the merits of this proposal in light of our empirical findings. A related project addresses EPS calculations related to ASRs. In this project, the FASB and IASB have proposed to eliminate diversity in the accounting for the dilutive EPS effects of ASRs by requiring that companies assume share settlement of the forward contract (see http://www.fasb.org/project/short-term_intl_convergence.shtml).

13. Some question the relevance of tests based on associations between accounting measures and market variables to standard-setters (see Brown et 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*

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

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," "accelerated stock buyback," "accelerated share buyback," "overnight stock repurchase," "overnight share repurchase," "overnight stock buyback," "overnight share buyback," "broker-dealer counterparty transaction," and "privately negotiated repurchase". The flagged reports were read to collect specific details of the nature, timing, and amount of the accelerated share transaction.

15. Observations in which greater than 20% of the outstanding shares were repurchased are excluded from the sample because it is possible that these repurchases were executed by tender offer (Hribar et al. 2006).

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

ASRs exclusively is reported in Table 2, Panel B.

17. Eight contracts were initiated and settled in the same quarter, and are not in 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

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

there are 149 observations containing unrealized losses ranging from $1.5 billion to $0.1 million. There are 101 unrealized gain observations ranging from $0.3 million to $552.0 million. Thus, both the frequency and magnitude of ASR assets is less than that of ASR liabilities. Theoretically, based on the Ohlson and Penman (2005) framework, “one can interpret the issuance of a claim as an activity that finances the firms’ operations, which in turn implicitly leads to a borrowing cost” (p. 4). Investors likely react more strongly to unrealized losses than unrealized gains (the ASR asset reflects an offset to borrowing costs—an asymmetric reaction). This prediction is supported by loss aversion theory (Kahneman and Tversky 1979) with empirical support in the prior literature indicating that negative earnings and nonrecurring items can adversely affect the value relevance of earnings (Basu 1997). Similarly, Skinner (1994) finds that the magnitude of returns over all earnings-based announcements is larger for bad news firms than for good news firms.

Your Privacy

We use cookies to make sure that our website works properly, as well as some ‘optional’ cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on ‘Manage Settings’, where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

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-adjusted returns from one-quarter ahead, market model abnormal returns or raw returns as the dependent variable, and unexpected earnings based on a random walk expectations model as the explanatory variable.

References

Badrinath, S., & Varaiya, N. (2001). Share repurchase: To buy or not to buy. *Financial Executive, 17*(3), 43–48.

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

for financial accounting standard setting: Another view. *Journal of Accounting and Economics, 31*(1–3), 77–104.

Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics, 24*(1), 3–37.

Bauman, M. (2003). The impact and valuation of off-balance sheet activities concealed by equity method accounting. *Accounting Horizons, 17*(4), 303–314.

Bear Stearns (2006). *Accelerated share repurchase: Share repurchase using derivatives*. Equity Research Report, January.

Bens, D., Nagar, V., Skinner, D., & Wong, M. (2002). The real investment implications of ESO exercises. *Journal of Accounting Research, 40*(2), 359–393.

Brav, A., Graham, J., Harvey, C., & Michaely, R. (2005). Payout policy in the 21st century. *Journal of Financial Economics, 77*(3), 483–527.

Your Privacy

We use cookies to make sure that our website works properly, as well as some ‘optional’ cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on ‘Manage Settings’, where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

Review, 72(2), 187–215.

Chambers, D., Linsmeier, T., Shakespeare, C., & Sougiannis, T. (2007). An evaluation of SFAS No. 130 comprehensive income disclosures. *Review of Accounting Studies, 12*(4), 557–593.

Chemmanur, T., Cheng, Y., & Zhang, T. (2009). Why do firms undertake accelerated share repurchase programs? Working paper. Boston College and Florida State University.

Collins, D., & Kothari, S. (1989). An analysis of intertemporal and cross-sectional determinants of earnings response coefficients. *Journal of Accounting and Economics, 11*(2–3), 143–182.

Collins, D., Pincus, M., & Xie, H. (1999). Equity valuation and negative earnings: The role of book value of equity. *The Accounting Review, 74*(1), 29–61.

Dhaliwal, D., Lee, K., & Fargher, N. (1991). The association between unexpected earnings and abnormal security returns in the presence of

Your Privacy

We use cookies to make sure that our website works properly, as well as some ‘optional’ cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on ‘Manage Settings’, where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

Dittmar, A. (2000). Why do firms repurchase stock? *Journal of Business, 73*(3), 331–355.

Easton, P., & Sommers, G. (2003). Scale and scale effects in market-based accounting research. *Journal of Business, Finance and Accounting, 30*(1), 25–56.

Fama, E., & French, K. (2001). Disappearing dividends, changing company characteristics or lower propensity to pay? *Journal of Financial Economics, 60*(1), 3–43.

Financial Accounting Standards Board. (1999). *EITF No. 99-3. Application of Issue No. 96-13 to derivative instruments with multiple settlement alternatives*.

Financial Accounting Standards Board. (2000). *EITF No. 00-19. Accounting for derivative financial instruments indexed to and potentially settled in a company's own stock*.

Grullon, G., & Michaely, R. (2002). Dividends, share repurchases, and the substitution

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

scandal: Potential liability of corporations engaged in open market, 10B-18 buybacks; A minority view; Case histories; Summary of published studies; Direction of future research. Working paper.

Gumport, M. (2007). Accelerated stock repurchase programs: Underreported and overpriced? Working paper.

Hann, R., Heflin, F., & Subramanyam, K. (2007). Fair-value pension accounting. *Journal of Accounting and Economics, 44*(3), 328–358.

Hayn, C. (1995). The information content of losses. *Journal of Accounting and Economics, 20*(2), 125–153.

Heckman, J. (1979). Sample selection bias as a specification error. *Econometrica, 47*(1), 153–161.

Holthausen, R., & Watts, R. (2001). The relevance of the value relevance literature for financial accounting standard setting. *Journal of*

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

theory: An analysis of decision under risk. *Econometrica, 47*(2), 263–291.

Krantz, M. (2010). Stock buybacks lose some luster. www.usatoday.com. January 29.

Landsman, W. (1986). An empirical investigation of pension fund property rights. *The Accounting Review, 61*(4), 662–691.

Maremont, M., & Ng, S. (2006). Stock buyback now may spur a big bill later. *The Wall Street Journal*. C1.

Marquardt, C., Tan, C., & Young, S. (2009). Accelerated share repurchases, bonus compensation, and CEO horizons. Working paper. Baruch College—CUNY.

Marquardt, C., & Wiedman, C. (2007). Economic consequences of regulation of financial reporting: The case of contingent convertible securities. *Review of Accounting Studies, 12*(4), 487–523.

Your Privacy

We use cookies to make sure that our website works properly, as well as some ‘optional’ cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on ‘Manage Settings’, where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

Pfeiffer, R. (1998). Market value and accounting implications of off-balance sheet items. *Journal of Accounting and Public Policy, 17*(3), 185–207.

Skinner, D. (1994). Why firms voluntarily disclose bad news. *Journal of Accounting Research, 32*(1), 38–60.

Skinner, D. (2008). The evolving relation between earnings, dividends, and stock repurchases. *Journal of Financial Economics, 87*(3), 582–609.

Standard & Poors. (2007). Buybacks—hold the applause. *The Outlook*, November 14.

Stephens, C., & Weisbach, M. (1998). Actual share reacquisitions in open-market share repurchase programs. *Journal of Finance, 53*(1), 313–333.

Taub, S. (2007). Banks back buyback boom. *CFO Magazine*, August 31.

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

Tsinghua University, the University of Waterloo, the Wisconsin School of Business, and session participants at the 2008 AAA Meeting in Anaheim, CA. Terry Warfield acknowledges financial support from the Arthur Andersen Center at the University of Wisconsin.

Author information

Authors and Affiliations

University of Mississippi, Oxford, MS, USA

Victoria Dickinson

University of Wisconsin - Milwaukee, Milwaukee, WI, USA

Paul Kimmel

University of Wisconsin - Madison, 975 University Avenue, Madison, WI, 53706, USA

Terry Warfield

Corresponding author

Correspondence to Terry Warfield.

Rights and permissions

Reprints and Permissions

About this article

Your Privacy

We use cookies to make sure that our website works properly, as well as some 'optional' cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on 'Manage Settings', where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences

https://doi.org/10.1007/s11142-011-9162-7

Keywords

Accelerated share repurchases

Off-balance sheet items

Share repurchases

JEL Classifications

M41

Not logged in - 178.214.4.5

Not affiliated

SPRINGER NATURE

© 2022 Springer Nature Switzerland AG. Part of Springer Nature.

Your Privacy

We use cookies to make sure that our website works properly, as well as some ‘optional’ cookies to personalise content and advertising, provide social media features and analyse how people use our site. By accepting some or all optional cookies you give consent to the processing of your personal data, including transfer to third parties, some in countries outside of the European Economic Area that do not offer the same data protection standards as the country where you live. You can decide which optional cookies to accept by clicking on ‘Manage Settings’, where you can also find more information about how your personal data is processed. Further information can be found in our privacy policy.

Accept all cookies

Manage preferences