

The disciplinary role of financial statements: Evidence from mergers and acquisitions of privately held targets

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Compliance with Data Policy for the Journal of Accounting Research

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*1. A description of which author(s) handled the data and conducted the analyses.*

Data handling and programming were performed solely by the author.

*2. A detailed description of how the raw data were obtained or generated, including data sources, the date(s) on which data were downloaded or obtained, and the instrument used to generate the data (e.g., for surveys or experiments). We recommend that more than one author is able to vouch for the stated source of the raw data.*

The data sources and the years in which data were collected or downloaded are as follows:

- 1) Data on M&A transactions were downloaded from the Security Database Company (SDC) database. The sample period was 1997 to 2009, and I performed sample selection screens detailed in Table 1 of the manuscript to obtain a sample of private target acquisitions. I also discuss the sample screens under Item 4 in this data sheet.
  - 2) I used the sample obtained in 1) to search for acquiring firms' 8-K filings of private targets' audited financial statements using the SEC's EDGAR website. Acquiring firms that disclosure private targets financial statements under Regulation S-X are classified as disclosers (DISC = 1), and other acquiring firms are non-disclosers (DISC = 0). I hand collected this data in 2014.
  - 3) Acquirers' accounting data were from Compustat and returns data were from CRSP. Data related to M&A transactions (i.e., deal characteristics) were obtained from the SDC database. Again, the sample period was from 1997 to 2009.
- 3. If the data are obtained from an organization on a proprietary basis, the authors should privately provide the editors with contact information for a representative of the organization who can confirm data were obtained by the authors. The editors would not make this information publicly available. The authors should also provide information to the editors about the data sharing agreement with the organization (e.g., non-disclosure agreement, any restrictions imposed by the organization on the authors with respect to publishing certain results).*

Except for the disclosures of private targets' audited financial statements from 1997 to 2009 that I hand collected from firms' SEC filings (mostly 8-K and 8-K/A), all the other data are obtained from the public databases as described above.

4. *A complete description of the steps necessary to collect and process the data used in the final analyses reported in the paper. For experimental papers, we require information about subject eligibility and/or selection, as well as any exclusion criteria.*

Step 1: downloading M&A transactions from SDC and performing some sample screens

- 1) I used SDC for M&A transactions announced between 1997 and 2009. I selected public acquiring firms and required the transactions to be classified as merger (M) or acquisition (A) in SDC. I included both public and private targets.
- 2) I deleted firm-years with more than one M&A transactions and firms make another acquisition within three-year window. The reason was to eliminate the effect of other targets' accounting information.
- 3) I deleted transactions of public targets because the focus of this study is on private targets.

Step 2: merging SDC data with CRSP and COMPUSTAT

- 1) I used acquirers' cusip provided in SDC for the merge and deleted observations with missing gvkey and/or permno.
- 2) I deleted observations missing acquirers' market value one quarter before acquisition announcement.
- 3) I deleted deal value smaller than 1% of acquirers' market value one quarter before acquisition announcement to make sure the private targets are economically significant.
- 4) After these sample screens, I have 1,849 observations. I use this sample to hand collect disclosure information using the SEC's EDGAR website.

Step 3: hand collection

- 1) I used the acquirer's CIK to find SEC filings.
- 2) I used the acquisition announcement date to find filings (8-K, S-4, or Proxy Statements) related to acquisition announcement. This step made sure the acquiring firm did engage in the transaction reported in SDC.
- 3) I read through each acquisition announcement to see if the acquiring firm filed audited financial statements of the private target. Acquiring firms that disclose are coded as DISC = 1, and DISC = 0 if I found no disclosure of private targets' financial statements.

Step 4: winsorization

- 1) All continuous variables (both dependent and control variables) were winsorized at the top and the bottom 1% level.

5. *The computer programs or code used to convert the raw data into the final dataset used in the analysis plus a brief description that enables other researchers to use this program. The purpose of this requirement is to facilitate replication and to help other researchers understand in detail how the raw data were processed, the final sample was formed, variables were defined, outliers were treated, etc. This code or programming is in most circumstances not proprietary. However, we recognize that some parts of the code or data generation process may be proprietary, including from the authors' perspective. Therefore, instead of the code or program, researchers can provide a detailed step-by-step description of the code or the relevant parts of the code such that it enables other researchers to arrive at the same final dataset used in the analysis. In such cases, the authors should inform the editors upon initial submission, so that the editors can consider an exemption from the code sharing requirement. Whenever feasible, authors should also provide the identifiers (e.g., CIK, CUSIP) for their final sample. Authors should consult our FAQ Sheet on the JAR website for further details.*

I used SAS to convert the raw data into the final datasets used in the analyses and to run the analyses. For details, see the attached SAS files: "CODE1", "CODE2", and "CODE3." The file "FIRM ID" lists the firm CIKs of the final dataset.

6. *An assurance that the data and programs will be maintained by at least one author (usually the corresponding author) for at least six years, consistent with National Science Foundation guidelines.*

The author will retain all data and programs for the required six years.