An Examination of SFAS No.144：The Likelihood of Asset Impairment Recognition, Write-off Characteristics, and Market Reaction

This paper adds to the growing body of literature on managers' discretionary accounting choices in general by specifically studying several issues related to the Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Our investigation starts by exploring the factors affecting the decision to take an SFAS No. 144 write-off and the percentage of assets that is actually written off. The empirical results reveal that, after controlling for the effects of firms' economic conditions and changes in those economic conditions, writeoff firms appear to be acting in a manner consistent with the "big bath" behavior and smoothing incentive. We also find that firms with a senior management change are more likely to accelerate write-offs. To examine the extent to which our write-off likelihood model that incorporates both economic factors and reporting incentives mirrors the market's assessment of long-lived assets, we study the association between the market reaction to write-off announcements and the probability of a write-off produced by our model. The results provide support for the notion that our write-off prediction model proxies for the unobservable market expectations. The findings also reveal a negative stock price response to "unpredictable" asset write-offs. The above implications are robust to a number of alternative specifications and variables definitions.