Internet Appendix A117: Goodwill
A117.1 Illustrative Pitch Template Example

Pitcher's Name	Zhengling Xiong (Ling)
(A) Working Title	An investigation of the relationship between insider trading and goodwill impairment
(B) Basic Research Question	Do insiders trade on goodwill impairments?
(C) Key paper(s)	1. Alldredge, D. M., and Cicero, D. C. (2015). Attentive insider trading. *Journal of Financial Economics*, 115(1), 84-101. 2. Ryan, S., Tucker, J. W., and Zhou, Y. (2015). Securitization and insider trading. *The Accounting Review*, *Forthcoming.* 3. Li, K. K., and Sloan, R. G. (2012). Has Goodwill Accounting Gone Bad? SSRN Working Paper, University of Toronto.
(D) Motivation/Puzzle	Goodwill is a special type of intangible asset that represents the portion of the entire business value which cannot be attributed to other income producing business assets, tangible or intangible. Therefore, it is specific to each firm and difficult for outside investors to understand. Puzzle: Given the external opacity of goodwill, do insiders trade on and take an advantage of impaired goodwill in terms of greater trading profits and higher trading intensity, and do insiders with financial expertise better predict goodwill impairments? FASB at 2001 and IFRS 3 and IAS 36 in 2004 require goodwill to be tested at least annually for impairment ("Impairment-only approach"). This changed the GAAP and IFRS reporting standards significantly. Taking the transition of goodwill impairment regulations as an exogenous factor, does the profitability of insider trading change over different regulatory regimes?
THREE	**Three** core aspects of any empirical research project i.e. the "**ID**io**T**s" guide
(E) Idea?	Insider trading literature has widely documented that insiders profit from trading on private information prior to significant events and the release of asymmetric information (Lakonishok and Lee 2001; Ke et al., 2003; Aboody and Lev, 2003; Ryan, Tucker and Zhou, 2015; Alldredge and Cicero, 2015). H1: insiders take the advantage to trade more and earn abnormally high returns from future changes in goodwill valuations. Li and Sloan (2012) find evidence suggesting that impairments under SFAS 142 (new goodwill impairment regulations) are less timely than impairments under SFAS 121. In other words, managers use the discretion granted by SFAS 142 to delay the reporting of goodwill impairments. H2: Market impact and intensity of insider trading on goodwill are greater during the SFAS 142 regime compared to SFAS 121.
(F) Data?	All data including firm accounting data (including goodwill data), insider trading data, stock returns come from Compustat, Thomson Reuters and CRSP via WRDS, respectively. M&A data from Security Database Corporation (SDC) in Thomson ONE and goodwill write-off data from Worldscope to investigate the changes of insider trading activities. Director and board characteristics data from RiskMetrics and BoardEx to analyse whether different insider characteristics lead to different trading patterns around goodwill impairments. One concern with the sample is that the RiskMetrics database only has director information in big US firms and so will merge with BoardEx to enlarge the sample size and include small firms.
(G) Tools?	Individual-level analysis will be based on event studies and cross-sectional regressions, but firm-level analysis will be both cross-sectional and panel cross-sectional regressions. I will consider three prevalent methods in later robustness tests: propensity score matching to mitigate sample selection bias (person and firm level), difference in difference tests to mitigate time varying sample selection bias (firm level) and 2SLS to investigate the existence of reverse causality. I will also restrict the sample to goodwill impairments not around earnings announcements to investigate the insider trading activities as a robustness test to ensure that results are not driven by earnings announcements. Finally, I will use some alternative proxies for profitability, probability and intensity of insider trading.

TWO	**Two** key questions
(H) What's New?	1. Investigate whether ex ante goodwill impairment is a significant source of asymmetric information to insiders. 2. Analyse insider trading activities before, during and after the changes in goodwill accounting standards. 3. Emphasise insiders with financial expertise as the major source of insider asymmetric information. 4. Examine whether insiders earn greater profit and trade more frequently around goodwill written-offs or written-downs.
(I) So What?	This paper identifies a critical information source besides earnings announcements. This research also has implications for market participants. First, financial analysts should follow insiders with financial expertise; second, regulators should be aware of the second order effects of accounting regulations that potentially increase firm opacity.
ONE	**One** bottom line
(J) Contribution?	We contribute to the insider literature by examining how insiders potentially exploit their goodwill-based information advantage through trading, and therefore identify a private source of information to insiders. We also contribute to the goodwill literature by examining whether the new regulations on goodwill impairment improve firm information disclosure by reducing insider trading profits.