

UNDERSTANDING THE SEC'S INFLUENCE ON FINANCIAL REPORTING IN MERGERS

In the first half of this year, global companies launched 23,000 merger and acquisition deals valued at \$1.3 trillion. The success of such high-stakes transactions – and their effect on stock markets worldwide – hinges on many factors including the accuracy of financial accounting.

One faculty member at the Bryan School of Business and Economics is doing her part to make this reporting the best it can be.

Dr. Mengmeng Wang, an assistant professor in the Department of Accounting and Finance, has studied the impact of regulation by the Securities and Exchange Commission on financial reporting during and after mergers. Firms are required to file certain reports when they make new transactions involving issuing new securities, such as an IPO or a merger or acquisition. SEC staff review these reports to ensure that investors have sufficient information to make an informed investment decision. If the reviewers find potential deficiencies in the firms' filings, or if they feel the disclosures could be clarified or improved, they may issue a comment letter.

"We find that when firms have to respond to these SEC comment letters, the review process resolves accounting policy or estimation issues, and firms actually learn to do better reporting," Wang says. "By addressing anything that is unclear and resolving issues promptly, the quality of future financial statements and the accounting quality of the newly merged firm actually improves."

Wang acknowledges some negatives of SEC regulation, including additional review time and audit fees. "But the benefit to the firm is that their future accounting quality improves a lot," Wang says.

Her next paper will examine how gender can influence SEC reviewer's outcomes. Female reviewers are often stricter in their findings than their male counterparts, Wang says, perhaps overperforming due to perceived threats of sex discrimination. But she and her coauthors at George Mason University, the University of Texas at Austin, and Virginia Tech found one factor seemed to change this. When the SEC created the Office of Minority and Women Inclusion more than a decade ago to guard against such discrimination, the gender discrepancy began to drop off and outcomes aligned more closely.

Wang, who has also worked in banking, has had research published or accepted in the *Journal of Financial Economics*, *Review of Accounting Studies* and *Management Science*. She finds the field ripe for future study and often shares her research in the classroom.

"Students are very interested in how my research relates to capital markets," she says. "Broadly talking about what I'm doing often generates or stimulates their interest in this field, and that is important."



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