Regulatory Comment Letters in Mergers and Acquisitions: Evidence from China

Junzi Zhang
junzi.zhang@city.ac.uk

Pawel Bilinski
pawel.bilinski.1@city.ac.uk

Ivana Raonic
i.raonic@city.ac.uk

The Business School (formerly Cass), City, University of London

James Ryans
jryans@london.edu

London Business School

Acknowledgments: We appreciate the comments of Mark Bradshaw, Brian Bushee, Jo Horton, Zhongwei Huang, Jay Jung, Clive Lennox, Maria Ogneva, Marcel Olbert, Lakshmanan Shivakumar, Ahmed Tahoun, Zheng Wang, and seminar participants at The Business School, (formerly Cass), City, University of London, London Business School, University of Bristol, University of Southern California, Warwick Business School, 2020 International FMA conference and 2020 CAFR conference.

Regulatory Comment Letters in Mergers and Acquisitions: Evidence from China

ABSTRACT

This study examines the importance of enforcing acquisition disclosure regulation on price reactions to M&A announcements. Using a novel sample of regulatory comment letters on acquisition filings by public companies in China, we document that acquisitions targeted by the regulator have lower bidder announcement returns and the effect is greater when the comment letters have more acquisition-specific comments, compared to those on general accounting and governance issues. Transactions with M&A comment letters are lower quality transactions obfuscated by weaker disclosure evidenced by a lower likelihood of the deal closing, and if the deal does close, lower post-deal firm profitability and a greater likelihood of subsequent goodwill impairment. The results highlight that regulatory enforcement of acquisition disclosures is useful to investors.

Keywords: comment letters; mergers and acquisitions; disclosure; regulation; tunneling; transparency; enforcement; political economy.

Data Availability: Data are available from the public sources cited in the text.

JEL classification: D78; D82; G14; G34; G38; K22; K42; M41; M48

I. Introduction

When publicly traded companies announce acquisitions, investors make use of mandatory acquisition-related disclosures to inform valuation estimates and make decisions on actions such as voting to approve the deal and trading the participant firms' shares. To protect investors and promote transparency and price discovery, regulators mandate these acquisition-related disclosures to include material information about the transaction. However, despite the presence of these mandatory disclosure requirements, merger filings may be deficient in providing required information or may exaggerate aspects of the deal, which impedes investors' ability to assess and trade on the merger news.[1] Direct evidence of deficient merger filings can be observed when securities regulators review and comment on such filings and demand that they be enhanced or amended, and several jurisdictions both conduct such reviews of mandatory acquisition filings to enforce compliance with regulation and decision-usefulness, and make the resulting comments public, in the form of comment letters which are a written record of the regulator's required disclosure modifications. This study examines the effect of acquisition disclosure enforcement on bidder announcement returns and deal outcomes for publicly listed Chinese companies, using comment letters to identify acquisitions with deficient disclosures.

We focus on regulatory interventions on acquisition announcement filings because acquisitions are economically important and crucial in improving capital allocation, firm productivity and curbing managerial entrenchment (Dimopoulos and Sacchetto 2017; Bonetti, Duro and Ormazabal 2020). However, investors have limited time to gather, process and react to acquisition announcements, making the information disclosed important for evaluating the deal, and therefore enforcement of disclosure compliance becomes heightened. Acquisitions are viewed as a potential channel for

[1] Several jurisdictions consider low decision-useful disclosure as deficient (see Bozanic, Dietrich and Johnson 2017 for US and Duan, Li, Rogo and Zhang 2019 for Chinese evidence). Decision usefulness reflects that "information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers" (IASB, 2008: 12). We operationalize decision usefulness of financial information by its price impact (see Lev and Gu 2016; Khan, Rajgopal and Venkatachalam 2018).

tunneling, whereby controlling shareholders, usually managers, may extract value for themselves at the expense of minority shareholders (e.g., Johnson et al. 2000; Bae, Kang, and Kim 2002). While other methods of promoting compliant acquisition disclosure, such as litigation, may be available an alternative to regulatory enforcement, these avenues are potentially too slow to be useful in evaluating acquisition transactions, and shareholder litigation is unlikely to be effective in less developed litigation venues such as China (e.g., Jiang et al. 2010).[2] We focus on acquirer's filings because mergers tend to be less favourable to bidder than to target shareholders, thus the demand for transaction-related information is stronger with bidder shareholders (Jarrell and Poulsen 1989; Servaes 1991), and non-public targets are not subject to mandatory announcement day filings.

We expect that regulatory reviews, if effective at correcting distorted filing disclosure, or eliciting strategically withheld but mandatory information, will relate to lower quality transactions and have a corresponding association with the stock price response to the bidders' announcement. We also expect regulatory reviews to indicate the deals' longer-term success as proxied by completion rates, firm profitability, and future goodwill impairment. Deficient disclosures increase the uncertainty of valuation estimates leading to greater estimate overlap with higher quality deals (see Grossman and Hart 1980; Jovanovic 1982; Cheong and Kim 2004; and Board 2009). Coupled with strategic managerial disclosures that promote the transaction (e.g., Hansen 1987; Eckbo et al., 1990; DeAngelo 1990), lower quality deals with deficient disclosures can be misvalued as investors find them harder to distinguish from higher quality deals.[3] The empirical evidence that acquisitions tends to associate with

[2] Fisch, Griffith, and Solomon (2014) find that approximately 90% of deals in the United States involving publicly traded firms engender shareholder litigation seeking additional merger-related disclosure. While litigation is one method of encouraging information production, it is costly, managerial responses become public weeks after the deal announcement, and supplemental disclosures are often of limited usefulness—Fisch et al. (2014, p. 557) conclude that "supplemental [litigation-prompted] disclosures do not in fact constitute a substantial benefit" as they do not find evidence that the disclosures affect shareholder voting.

[3] Skaife and Wangering (2012) and McNichols and Stubben (2015) discuss how low target reporting quality impedes bidder's valuation leading to a higher range of estimates and ultimately higher offer premia. They highlight that although bidder's optimal response to target valuation uncertainty is to discount such bids, empirical evidence suggests managers do not do this, which they attribute to agency problems (Jensen and Meckling 1976; Jensen 1986), behavioural reasons (Thaler 1988; Barberis and Thaler 2003) and the winner's curse (Bazerman and Samuelson 1983).

disappointing post-merger market performance is consistent with investors not discounting enough the expected benefits of some deals (Rau and Vermaelen 1998; Loughran and Vijh 1997; Loderer and Martin 1992). Hence, it is important to examine if regulatory enforcement of acquisition disclosures through comment letter reviews can identify lower value acquisitions, mitigate the effects of deficient disclosures, and improve the decision usefulness of disclosures for investors.

We take advantage of the unique nature of the Chinese setting to examine the impact of regulatory reviews on the market response to acquisition announcements.[4] The China Security Regulatory Commission (CSRC), acting through staff at the Shenzhen and Shanghai exchanges, requires publicly-traded bidders to submit a standardized set of filings when announcing a material acquisition, including financial statements, proof of funds for cash transactions, a merger plan, and a justification for the offer price, before the deal can be publicly announced. These filings are reviewed with the objectives of compliance with disclosure regulation, market stability, and bidder shareholders' protection.[5] Filing compliance reflects the completeness of the filing documents as specified by the disclosure regulations. Market stability concerns the bidder's ability to consummate the transaction, failure of which can lead to undesirable share price volatility, delisting, or bankruptcy risk for the bidder. Shareholder protection concerns relate to the avoidance of tunneling, or self-dealing by management and controlling shareholders. If the regulator considers the merger filings deficient in any of the three areas, it will issue a comment letter requesting clarification and amendment of the deal filings.[6] Satisfactory

---

[4] Examining the market impact of enforcement reviews on M&A announcement filings is not feasible in the United States, because the SEC does not review the 8-K merger filing disclosed on the merger announcement day prior to disclosure. Filings subject to SEC review include forms S-4 if shares are issued in payment, proxy and information statements on schedules 14A and 14C, and tender offers on schedule TO, however, these filings happen weeks or months after a deal's announcement and are dependent on the deal's features (e.g., shares as a payment method) and path of events (e.g., a negative price reaction to the deal announcement can prompt regulatory investigation), creating timing, endogeneity and reverse causality issues.

[5] See http://www.csrc.gov.cn/pub/zjhpublic/zjh/200804/t20080418_14481.htm and http://www.csrc.gov.cn/pub/zjhpublic/zjh/201410/P020141024548321879951.pdf

[6] E.g., the CSRC asked for clarification for the 1,028% price premium Yibai pharmaceutical intended to pay for Mianyang Fulin Hospital. The bidder received a letter from the exchange asking to explain the basis for determining the price of the transaction, to provide pricing of comparable transactions in the same industry, to provide an independent fairness opinion of the transaction's pricing, and to provide a discussion expected future profitability.

response to the letter is necessary for the regulator to approve the transaction, at which point the bidder is allowed to publicly announce the deal. When the deal is announced, investors learn the transaction details, if the bidder received any comment letters, and the content and response to the letters that were issued.[7]

We examine comment letters issued by the CSRC for acquisitions by public bidders announced from 2015 through 2017. We first provide descriptive statistics which illustrate the significance of the acquisition oversight—583 out of 2,167 acquisitions (26.69 percent) received a comment letter requesting modified disclosures. When comment letters are issued, they contain a mean (median) of 25.8 (26) comments, with a mean (median) of 15.01 (15) relating to acquisition disclosure issues, such as the rationale for the offer price, 7.3 (7) relating to accounting disclosures, and 3.4 (3) relating to corporate governance issues. Thus, a significant proportion of merger filings elicit regulatory intervention.

We then turn to our first question of which transactions are more likely to attract regulatory requests for disclosure enhancement. This analysis gives insights into the mapping between the regulator's stated objectives and bidder and deal characteristics, thus speaks to the efficacy of regulatory supervision. We document that the CSRC actively pursues their stated objectives, targeting more material transactions, deals financed by private stock placements, deals that strategically attempt to reduce the likelihood of regulatory review, deals that do not caution shareholders of risks involved in the transaction, and deals by riskier bidders measured by bidder's stock return volatility and relatively high stock valuations. These characteristics associate with high information asymmetries and uncertainty that the bidder can consummate the deal, and poor post-announcement performance (Travlos 1987; Moeller, Schlingemann, and Stulz 2007; Ambrose and Megginson 1992; Berger and Ofek and Swary 1996; Bhagwat et al. 2016). Thus, the regulator issues comment letters on deals where

[7] An unsatisfactory response to the initial comment letter prompts follow-up letters. Less than 6% of comment letter transactions in our sample received more than one letter. We found only four cases where the firm did not respond to the comment letter and the exchange subsequently withdrew the deal.

investors are expected to demand more information to evaluate the transaction and the additional disclosure should help assess deal quality improving announcement day price discovery (Fisch et al. 2014). The results indicate that regulator's actions are consistent with the goals of market stability and bidder shareholder protection.

Next, to identify if comment letters produce material new disclosures, we use textual analysis to examine the letters' content to detect regulator's requests for substantive supplemental M&A information. We document that comment letters promote material new disclosures. To illustrate, the regulator asks for additional pricing and valuation-related disclosures in 93.2% of letters, 92% of letters include questions about the payment method, 95.1% request more information about the target, 66% ask about the deal risk, and 85.3% about integration plan.[8] These additional disclosures are unlikely to be available to market participants without the action of the comment letter, indicating that information provided in response to the comment letter is likely to provide value to investors.[9]

We then turn to the questions of whether the disclosure of the regulator's intervention and of the information in firms' responses to comments affects investors' trades around the merger announcement. Specifically, we examine if investors differentially assess expected deal benefits at the deal announcement, considering the association between the disclosure of a comment letter and bidder announcement returns. We find that comment letter deals experience 6.01% lower announcement returns compared to those that do not receive comment letters. Given that the mean bidder announcement returns are -0.91% when no comment letter is present, comment letter disclosure prompts a 6.6-fold more negative price reaction. Thus, the disclosure of a comment letter seems to

[8] Less than 10% of mergers in our sample involve public targets, thus bidders' filings are among key sources of information about the target. Public targets' filings are submitted jointly with bidders' filings to the exchange and the bidder, upon consulting with the target, is expected to respond to target's filings comment letters.

[9] To ensure credibility, most comment letters ask that a professional accounting firm or a financial advisor certify financial opinions. CSRC can also fine the firm and individual managers for false or misleading disclosure (see Chen, Firth, Gao and Rui 2005).

materially affect investors' assessment of the transaction and is associated with lower quality deals as captured by more negative announcement day price reactions.

To speak to the effect on the merger announcement day price discovery, we examine how comment letter disclosure associates with the speed of price reaction to the M&A signal, which we measure by the ratio of the abnormal return on the announcement day to the cumulative abnormal return measured from the three days before to the three days after the announcement (e.g., Meulbroek 1992). We find that comment letters prompt a 55% more efficient impounding of the M&A signal into prices on the announcement day compared to non-comment letter firms.

Our interpretation of the more negative price reaction to comment letter disclosure is that the presence of CSRC comment letters is associated with lower quality transactions that were identified through deal characteristics and deficient disclosures, since the comment letters are found to produce both significant additional disclosure and the comment letters are associated with observable firm and deal characteristics. We conduct a series of tests to examine the extent to which the effect we document is a result of the regulator's comments, rather than that the comments merely being associated with lower-value deals that would have been identified by investors even without the regulator's intervention. We find evidence consistent with the regulator's comments revealing valuable information when we control for unobserved time-invariant bidder characteristics, use instrumental variables regressions where the identification is based on regulatory busyness (Lopez and Peters 2012; Tanyi and Smith 2015; Fich and Shivdasani 2006; Gunny and Hermis 2019), use counterfactual samples based on propensity and entropy balancing matching (Hainmueller 2012; McMullin and Schonberger 2018), and apply the Altonji, Elder, and Taber (2005) test to assess the extent to which omitted variables can explain our results. Further, to isolate the effect of the comment letter from the announcement-day pricing of the deal failure likelihood, we select only deals that eventually fail and find that, for this sample, comment letter firms have lower price reactions compared to matched counterfactual firms.

Finally, we document that the negative price reactions increase with the intensity of the regulator's M&A comments, a result that supports the interpretation that comment letters are associated with significant disclosure of value-relevant information.[10] Additional tests significantly reduce the likelihood that our conclusions are due to omitted correlated variables, however, we recognize that we cannot completely rule out this alternative explanation.

To evaluate how the comment letters can predict deal quality, we then turn to our third question, of how comment letters associate with important outcomes. We find that comment letter deals are less likely to complete, a finding that supports the regulator's objective of targeting deals that associate with higher risk of market instability and minority shareholder protection, as deal cancellations are associated with negative price reactions (Davidson, Dutia, and Cheng 1989), a higher likelihood of managerial turnover (Lehn and Zhao 2006), and firm distress (Dassiou and Holl 1996). For deals that do close, we document that comment letter firms have poorer subsequent operating performance and a higher likelihood of future goodwill impairment, indicating overpayment relative to the value received by the acquiring firm (Gu and Lev 2011). Further, bids that receive comment letters associate with a longer period of share trading suspension measured by the number of days between the M&A announcement and the first trading day after the announcement. Jointly, these results suggest that regulators can identify transactions more likely to experience comparatively worse outcomes by evaluating the deal disclosures and prior to observing the market's reaction to those disclosures.

We conclude by considering to what extent bidders' political connections are associated with the incidence and effects of regulatory scrutiny. We find that the bidders' state ownership is associated with a lower likelihood that an acquisition will receive a comment letter.[11] This may be due to politically

[10] The regulator's goal is to ensure decision-usefulness of M&A disclosures, not fair terms or fair deal pricing as deal terms are determined by the bidder's negotiation with the target. Consistently, we find no evidence that comment letter firms change the offer price between the initial and the final filing. Further, the regulator does not sanction potentially 'bad deals' and, consistently, there were no deals that received comment letters but were subsequently disallowed by CSRC.

[11] The evidence that political connections reduce the risk of receiving a comment letter contrast Chen et al. (2017) and

connected firms providing better disclosures, or it may be due to a lower enforcement threshold. We find that when a politically connected firm receives a comment letter, the price reaction is incrementally more negative than the reaction for a non-politically connected comment letter firm, suggesting that investors perceive acquisitions by politically connected bidders to have a higher threshold for regulatory scrutiny, and the existence of a comment letter for a politically connected firm indicates lower quality disclosures than those prompting comment letters for acquisitions made by a less-connected firm.

Our study first contributes to the literature on financial reporting and disclosure regulation, surveyed in Leuz and Wysocki (2016), by documenting significant effects of timely enforcement of acquisition disclosure regulation revealed by more negative and timelier price reactions to the bidder's announcement. Our results also relate to evidence on tunneling and managerial conflicts of interest and high information asymmetries in acquisitions (e.g., Bae et al. 2002; Johnson et al. 2000; Moeller et al. 2007), suggesting that in the acquisition setting, direct regulatory intervention to enforce disclosure on M&A filings can produce significant benefits to shareholders. While studies have examined the use of intercorporate loans as a tunneling mechanism in China (e.g., Jiang et al. 2010), and blacklisting to limit loan-based tunneling in China (Haß et al. 2016), the use of comment letters to mitigate tunneling in the acquisition setting in China has not heretofore been explored.

Second, we contribute to the literature examining the effects of publicly disclosed regulatory comment letters, extending the literature from that which predominantly examines periodic filings, such as annual reports, to transactional filings relating to acquisitions. In the U.S. setting, Johnston and Petacchi (2017) and Dechow, Lawrence, and Ryans (2016) find insignificant price reaction to SEC

Heese et al. (2017), who find that political connections increase the chances a firm receives a comment letters on its annual filing in China and in the U.S. However, our findings are consistent with Anderson (2000), Allen et al. (2005), Hou and Moore (2010) who document that political connections limit Chinese firms' regulatory scrutiny, and with Mehta, Srinivasan, and Zhao (2020) who document lighter regulatory reviews in the US antitrust setting for politically connected firms.

comment letters disclosures on periodic filings.[12] Focusing on longer windows, studies document that in response to SEC comment letters, firms amend their 10-K filings to resolve the issues raised in the letter (Johnston and Petacchi 2017), restate their results (Cassell et al. 2013), and improve their disclosures in subsequent reports (Bozanic, Dietrich, and Johnson 2017; Robinson et al. 2011), including learning from peer firms' comment letters (Brown, Tian, and Tucker 2018). Johnston and Petacchi (2017) find that information asymmetry declines in the quarter following SEC comment letters, and Ryans (2019) shows that this effect appears strongest when the regulator does not identify significant disclosure deficiencies, in effect identifying firms with higher reporting quality. Li and Liu (2017) consider SEC comment letters on IPO filings, finding an association between comment letters and lower price revisions, which they interpret as limiting IPO hyping and higher post-IPO returns. Lowry et al. (2020) show that the SEC's IPO comment letters request material new information for investors. Specific to the Chinese setting, Duan, Li, Rogo and Zhang (2019) do not find evidence that Chinese listed firms improve their disclosure quality in response to comment letters issued for their annual reports nor that responses to the letter reduce information asymmetries or improve share liquidity, concluding that comment letters play less of a disciplining role in environments with potentially weaker enforcement. Li, Guochao and Pingui (2019) find that Chinese firms that receive comment letters have lower bid-ask spreads and higher accuracy of analyst forecasts and lower forecast bias in the three-year period after the letter issuance. The literature on comment letters related to acquisition disclosures has heretofore been relatively unexplored and focuses on *post*-acquisition announcement filings. Johnson, Lisic, Moon and Wang (2019) is a contemporaneous working paper finding higher post-acquisition accounting quality in US share-based deals if the acquisition received Form S-4 comments, which is the registration statement for the newly-issued shares. Dowdell and

[12] Section 404 of the Sarbanes-Oxley Act requires the SEC to review listed firms' financial statements at least once every three years. Since January 2012, the content of SEC comment letters is publicly disclosed within 20 days of the investigation.

Press (2004) find that post-acquisition comment letters targeting accounting for acquired in-process research and development produces material changes to the accounting for these assets and related expenses.

Third, this study contributes to the debate on the validity of regulatory theories. The public interest theory views regulatory involvement as necessary to correct market inefficiencies (Lewis 1949; Shleifer 2005). In contrast, the capture theory (Stigler 1971; Posner 1974; Pelzman 1976; Grossman and Helpman 1994) predicts that regulators are ineffective, or their interests align with that of managers, e.g., because regulators vie to secure lucrative future positions at listed firms.[13] Our overall conclusions challenge the view that regulatory involvement is inefficient, and supports the efficacy of regulatory enforcement in the M&A setting in China. However, the evidence that political connections reduce the likelihood of receiving a comment letter is consistent with some level of regulatory capture of disclosure regulation for acquisitions.

Our findings are directly relevant for markets at similar institutional development stage as China where regulatory intervention through comment letters can facilitate price discovery, where incentives for tunneling and the prevalence of controlling shareholders is high, and where non-regulatory avenues for minority shareholder protection, such as litigation, are relatively weaker (e.g., Jiang et al. 2010). Because tunneling can occur legally in developed market settings (Johnson et al. 2000), our results may also have broader policy implications for regulatory reviews of acquisition disclosures in jurisdictions with varying degrees of institutional and market development.

[13] In the US acquisition setting, Mehta et al. (2020) find that political connections to members of congress with antitrust authority reduce M&A antitrust scrutiny and limit antitrust regulators actions, consistent with regulatory capture and contrary to the public interest. Schweizer, Walker, and Zhang (2017) find that political connections increase the completion rates on Chinese firms' international acquisitions but also that they have lower announcement returns and lower post-acquisition accounting performance.

II. Background and the Chinese acquisition setting

Information asymmetries around mergers and acquisitions and strategic M&A disclosures to promote the deal impair bidder shareholders' ability to assess expected acquisition benefits (e.g., Hansen 1987; Eckbo et al., 1990; DeAngelo, 1990). Graffin, Haleblian and Kiley (2015) and Hu, Platt and Su (2018) report that managers issue optimistic press releases and report favourable earnings before announcing M&A transactions; Filip, Lobo, Paugam and Stolowy (2018) document that managers use more terms related to synergies and growth when justifying poorer transactions. The incentives to promote the transactions reflect that managerial compensation is often tied to deal closures—Grinstein and Hribar (2004) report that 88% of bidder CEOs received a bonus after a transaction, with 39% citing deal completion as the condition for awarding the bonus. Fisch et al. (2014, p. 557) find that the vast majority of public acquisitions engender litigation to compel the production of more information for shareholders, although they conclude that "supplemental disclosures do not in fact constitute a substantial benefit" as they do not find evidence that the disclosures affect shareholder voting. In this study, we explore whether regulatory scrutiny of bidder disclosures may align their content with informational needs of bidder shareholders, facilitating the market's evaluation of expected deal benefits.

We focus on regulatory interventions through the enforcement channel of comment letters, building on the literature that examines the consequences of comment letters on annual filings (Dechow et al., 2016; Johnston and Petacchi, 2017; Duan et al. 2019). In China, stock exchanges oversee and monitor mandatory reporting of listed firms under the authority of the CSRC. In addition to periodic reviews of annual reports for adherence with accounting rules, disclosure standards, and other listing rules, the regulator is also responsible for reviewing mandatory filings related to proposed

M&A transactions.[14] The stated goal of the review process is to avoid misleading or deficient M&A filings, avoid rejection of proposed acquisitions due to non-compliance, and to protect investors from insider self-dealing. If the exchange identifies substantial deficiencies in the filing documents, it can issue a comment letter asking for changes, clarification, additional information and filing amendment. The bidder has to respond to the comment letter within seven business days. If the exchange is not satisfied with the response or did not receive it before the due date, it issues follow-up letters. If the overall response is not satisfactory, the exchange can withhold permission to proceed with the M&A transaction, launch an on-site inspection and issue monetary penalties. Upon approval from the exchange, the bidder can apply for share trading to be suspended prior to making the public acquisition announcement, which is standard for disclosure of major corporate events in China. This trading suspension period serves to give investors time to process the information revealed at the deal announcement before the company shares start trading again and applies to both companies with and without comment letters.[15] Overall, the process aims to reduce abnormal price movement around the M&A announcement and provide time for investors to evaluate the news prior to trading resumption (CSRC, 2014). Figure 1 illustrates an overview of the timeline of the M&A process in China from the bidder's perspective.

[Insert Figure 1 about here]

The Chinese setting allows unique insights into investor response to the role of regulatory oversight over acquisition disclosures that is not present in other settings, such as in the United States. The

[14] The regulation on monitoring and review of acquisitions was introduced in CSRC notices, 'Further Improving the Administrative Punishment System' issued in April 2002 and 'Strengthening the Construction of the Securities and Futures Legal System to Ensure the Steady and Healthy Development of the Capital Market', in 2007. Deals exceeding 50% of the bidder's size (captured by either total assets or revenue) are classified as a *major asset restructuring* and are subject to additional review focused on whether the deal is a reverse takeover (CSRC, 2014, 2016). A firm has to declare whether a deal is a reverse takeover and such a transaction needs to comply with the IPO listing rules (CSRC, 2020).

[15] The CSRC states that the suspension's "main function is to ensure the timely and fair disclosure of information, alert [investors] about major risks, and maintain a fair trading order". Available at: http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201811/t20181106_346304.html

potential for acquisitions detrimental to minority shareholders may be more pronounced than in other markets, since controlling shareholders often have limited means for realizing value from their shareholdings, giving rise to incentives for tunneling abuses, and avenues for minority shareholder redress, such as litigation, are limited (e.g., Jiang et al. 2010, Haß et al. 2016).

In the Chinese acquisition setting, the regulator reviews a consistent set of announcement disclosures for all deals, prior to the acquisition's announcement, and the regulator's comments, if any, are made public along with the deal announcement and the related disclosures. While the larger and more developed US market might seem to be an attractive setting to conduct this study, there are structural features of acquisition disclosure regulation that preclude analysis of this research question in the U.S., because acquisitions are announced prior to the submission of shareholder disclosure filings which are only subject to regulatory review after they are filed and publicly disclosed. Furthermore, the set of filings subject to review may differ substantially for each deal depending on the nature and path of the deal, such as prospectuses for share issuance, tender offer and proxy disclosures. Furthermore, U.S. post-announcement acquisition filings are only selectively reviewed by the SEC, which means that for a variety of reasons, e.g., resource constraints or having recently reviewed other filings from the same firm, the SEC may not conduct any substantial review of the deal-related documents, other than the preliminary screening to determine whether or not a review should take place. Finally, the SEC's comments, if any, are made public on a delayed basis, either 20 business days after the review is complete, or after a filing is made effective, in the case of registration statements. The reverse causality issues present in the U.S. setting, e.g., where the regulator observes the market and media responses prior to deciding if a review is warranted, or where the deal's closing causes form S-4 comment letters to be made public, makes studying the impact of comment letters on U.S. acquisition market response and outcomes challenging. These issues are not present in the Chinese setting, because the process is such that acquisition comments are made *prior* to the announcement, so the regulator does not observe the market response to the deal in determining if comments are warranted. Furthermore, the regulator's comments are made public at the time of the deal's announcement and are therefore not dependent on any future filings or other outcomes, which makes it possible to empirically observe differences in announcement returns coinciding with comment letter disclosure. Thus, the Chinese setting provides an econometric environment which is appropriate for analysing the association between the regulator's intervention and the acquiring firm's shareholder wealth effects, as well as the relation between the intervention and deal outcomes.

III. Data and research design

Data and sources

We collect acquisition, market, and firm accounting data from the CSMAR and WIND databases, with Appendix A providing details of the variables used in this study. We select bids by domestic public A-share firms, which ensures availability of financial and market data. We place no restriction on the public status of the target, nor on the industry of the acquirer or the target, to minimize the risk of sample bias (Netter, Stegemoller, and Wintoki 2011). Following Lehn and Zhao (2006) and Masulis et al. (2007), we require an acquisition in our sample to satisfy the following conditions: (i) the acquisition is completed or withdrawn, (ii) the acquirer controls less than 50% of the target prior to the acquisition announcement and more than 50% after, and (iii) the annual financial statement information, stock return data, firm's headquarters' location, and deal-level information are available in the CSMAR and WIND databases. The resulting sample yields a total of 2,167 takeover bids between fiscal years 2015 and 2017. We start in fiscal year 2015, which is the first year M&A comments letters for firms listed on the Shanghai and Shenzhen exchanges are available.

We hand-collect all comment letters from Shanghai and Shenzhen exchanges' websites and classify them as M&A related comment letters or those issued on annual and half-year reports and other restructurings. We retain only M&A related comment letters. To identify types of regulatory concerns, we perform textual analysis of the letters' content. We split the letters' questions and concerns into three groups. *MA_ITEMS* measures the number of comments and questions related directly to the acquisition transaction disclosures, e.g., comments and questions related to the offer price or availability of funds needed to consummate the deal. Our analysis of all comment letters identified 28 types of comments related to the M&A transaction. *A_ITEMS* is the number of comments and questions an acquirer receives form the stock exchange, which relate to the bidder's general accounting quality, e.g., questions or comments related to the firm's goodwill balance and impairment testing. We identify 13 types of comments that capture accounting quality. *G_ITEMS* is the number of comments and questions related to bidder's corporate governance mechanisms disclosed in the M&A filing, e.g., comments regarding the disclosures of significant shareholders and disclosures regarding the relations between shareholders and the firm. We identify 8 types of questions that related to bidder's corporate governance. Appendix B lists the keywords we use to classify comments into each group (translated from Chines) and Appendix C provides examples of comments in the three categories (translated from Chinese). The final sample consists of 583 comment letters deals and 2,167 non-comment letter deals.[16] Panel A of Table 1 summarizes the sample selection process.

[Insert Table 1 about here]

Panel B of Table 1 reports the annual number of all acquisitions and the frequency of those with comment letters. The number of comment letters by year is 195 in 2015, or 25.36% of the sample observations, 258 in 2016 (35.1%), and 130 in 2017 (19.61%). Over our sample period, 26.69% of acquisitions receive a comment letter, representing a significant proportion of bidders for which the regulator

[16] All deals are considered to be negotiated, as hostile takeovers in China are rare (Armour, Jacobs and Milhaupt 2011). The Shanghai stock exchange identified only 20 hostile deal between 1993 and 2009 (Shanghai Stock Exchange 2009). Similarly, tender offers are rare due to the segmentation of shares in China, where a firm can have state-owned shares, legal person shares, A-shares and B-shares (Chi, Sun and Young 2011).

identified potential disclosure deficiencies. Appendix D presents the sample breakdown by industry. We use the CSRC industry sector classification, which is assigned to each listed firm. The sectors with the greatest number of deals receiving comment letters is non-metallic mineral products manufacture, with 35.85% of all comment letters, followed by furniture manufacturing, paper products and printing, with 15.61% of comment letters, and information transmission, software and information technology with 12.52% of comment letters.

Determinants of receiving regulatory comments

Our first objective is to understand which transactions are more likely to attract regulatory requests for disclosure enhancement, by examining the factors associated with a comment letter being disclosed at the deal's announcement. The basic model specification is:

$$\begin{aligned} Prob(Letter = 1) = \theta_0 + \theta_1 merger\ filing\ variables + \theta_2 deal\ characteristics + \\ \theta_3\ bidder\ characteristics + \theta_4\ bidder\ CG + Year\ FE + \\ Industry\ FE + e \end{aligned} \tag{1}$$

where the dependent variable *Letter* is an indicator equal to 1 if an acquisition receives a comment letter, and 0 otherwise.

Merger filing variables

We first use textual analysis to identify information in merger filings that is likely to factor into CSRC's decision to issue a comment letter. We identify if the deal was approved by the bidder's board of directors, *Board_of_director_meeting*, whether target's assets have been assessed by a professional external firm, *Asset_appraisal*, and whether the filing lays out a plan for the merger execution, such as post-deal organization structure of the merged firms, *Trading_plan*. Bidders may use such statements to signal better preparation for the transaction aiming to reduce the likelihood of a regulatory intervention. We identify if the bidder states that a transaction is not a major restructuring, *Non-*

major_restructure, as major restructurings associate with increased regulatory review. We expect CSRC to be more vigilant if the bidder does not warn of investment risk related to the deal, *Invest_risk_factor*. We also control for whether the filing identifies the payment method and if it mentions private equity offerings to finance the transaction, *Non_public_offering*.[17]

Deal characteristics

We use a number of variables to examine aspects of deals that can predict the issuance of comment letters. We control for the relative transaction size as acquiring relatively larger targets is linked with more negative outcomes (Golubov et al. 2012). Specifically, *Sig_Deal* equals one if the deal meets the CSRS definition of a 'significant transaction', and zero otherwise. Broadly, a deal is considered significant if acquired assets increase bidder's total assets or net income by more than 100%. Appendix E provides CSRC's definition of a significant transaction.

To control for M&A deals paid for entirely with equity, we include the variable *Payment_stock*, which equals one if the method of payment is entirely in stock, and zero otherwise. Such transactions associate with negative short- and long-run returns in the U.S. (Travlos 1987; Moeller et al. 2007). However, Black, Doukas, Xing and Guo (2015) find more positive price reactions to stock than cash acquisitions in China.

We capture whether the target is a publicly listed firm, *Public_target.* Hope, Thomas, and Vyas (2013) document that public firms have, on average, higher reporting quality and more informative disclosures. Singhvi and Desai (1971) highlight that information about private entities is not as easily obtained, owing to the lack of listing requirements by the stock exchange or the lack of incentives for voluntary disclosure. Golubov et al. (2012) report that acquisitions of public targets associate with less favourable outcomes. We also control for related party mergers, *Related_Deal*, where the bidder and

[17] Public equity placements to finance a merger are subject to a separate approval by CSRC. A firm will file with the exchanges to issue new stock to the public after shareholders vote in favour of the transaction, which is typically weeks after the deal announcement.

the target are part of the same corporate group or share majority shareholders as such transactions are subject to CSRC approval.

Several studies find that deals advised by lower quality investment banks outperform transactions advised by bulge bracket banks (Michel, Shaked, and Lee 1991; Rau 2000; Hunter and Jagtiani 2003; Ismail 2010) and such bidders are less likely to overpay for targets (McLaughlin 1992; Song and Wei 2010; Bilinski and Yim 2019). We control for top financial advisors on M&As, *Top_FA*, which is an indicator variable taking the value of one if the transaction is advised by one of the top ten financial advisors, and zero otherwise. Appendix F lists top 10 financial advisors by year from the Securities Association of China website.

Bidder characteristics

We control for bidder size, *Firm_Size*, measured by log of total assets because Park (2002), Arnoldi and Muratova (2019), and Jensen and Ruback (1983) find poorer M&A outcomes for larger bidders. Moeller et al. (2007), Ambrose and Megginson (1992), Berger and Ofek (1996) and Bhagwat et al (2016) find that higher volatility firms engage in more risky acquisitions and their deals associate with lower announcement returns. We measure stock return volatility, *Volatility*, as the natural log of the standard deviation of daily returns from the 100th to the 15th trading day relative to the M&A announcement date. The uncertainty surrounding the deal is reduced with the speed of information disseminated about the transaction, which is positively related to the number of analysts following the bidder (Beltratti and Paladino 2013). Variable *Analyst_Num* counts the number of analysts covering the bidder in the last fiscal quarter before the transaction.

We control for the uncertainty stemming from deficiencies in the reliability of bidder's financial reporting, as captured by the internal control weakness report. Specifically, *Weak_IC* equals one if the firm reported a material weakness in its internal controls and equals zero otherwise. The internal control weakness report reveals deficiencies in bidder's ability to efficiently convey relevant financial information, which increases the uncertainty regarding bidder's creditworthiness and financial strength (Costello and Wittenberg-Moerman 2011).

Maloney, McCormick, and Mitchell (1993) find a positive association between bidder's leverage and acquisition gains. We measure *Leverage* as the ratio of total debt to total assets. We include *Firm_Age* measured as the number of years an acquirer has been listed on the stock exchange, because Krasker (1986) shows that older firms engage in M&As as an alternative to organic growth and that such acquisitions tend to underperform. Jensen and Ruback (1983) and Bernardo and Chowdhry (2002) also find a negative association between firm age and acquisition announcement returns.

Managers can try to take advantage of temporarily high stock valuations to acquire other firms, but such acquisitions tend to associate with disappointing announcement returns (e.g., Dong et al. 2006; Park 2002; Cremers, Nair, and John 2009; Palepu 1986). We capture the bidder's relative valuation by *Tobin's Q*. Jensen (1986) and Lang, Stulz, and Walkling (1991) argue that firms with excess free cash-flows engage in empire-building and such acquisitions generate negative returns to bidder's shareholders. We control for bidder's profitability, *ROA*, measured as operating income before depreciation and amortization to total assets, to capture cash-flow generating ability.

Firms can build political capital to hedge them from regulatory scrutiny, thus reduce the likelihood of receiving an M&A comment letter.[18] To capture firm's political connections, we follow Fan et al. (2007) and include a dummy variable *CEO_PC*, which equals one if the acquirer's CEO has worked in a government department, or is a deputy to the people's congress, or a member of the Chinese people's political consultative conference at or above the provincial level, and zero otherwise. Political connections can shield the bidder from regulatory scrutiny (Allen et al. 2005; Hou and Moore 2010),

[18] Prior literature finds that political connections mitigate and reduce regulatory enforcement in the U.S. (Stigler 1971; Correia 2014; Yu and Yu 2011). Fan, Wong and Zhang (2007) survey 617 Chinese CEOs and document that 28% had a political background. They find that CEOs with a political background generate positive benefits to the firm in terms of privileged access to capital and government contracts. Allen et al. (2005) and Hou and Moore (2010) find that politically connected Chinese firms receive less regulatory scrutiny. In contrast, Chen et al. (2017) and Heese et al. (2017) find that political connections increase the chances of a firm receiving a comment letter on its annual filing in China and in the U.S.

which can be important as politically connected M&As are more disappointing (Schweizer, Walker, and Zhang 2017). We also control for whether the acquirer is a state-owned enterprise, *SOE*, as such firms have more direct access to local and national government bodies. Further, an indicator variable *Regulated* captures if the acquirer is in a regulated industry as such companies are likely to be subject to heightened scrutiny from regulators (Heese et al. 2017; Francis et al. 1994).

Bidder corporate governance variables

Bidders with lower corporate governance quality tend to engage in value destroying transactions (Mitchell and Lehn 1990; Masulis, Wang and Xie 2007). We control for bidder's *Board size*, and the proportion of the board seats occupied by managers with variable *MGB_ON_BOARD*. We also control for whether the CEO and CFO have an accounting background (*CEO_ACC* and *CFO_ACC*) and for whether the CEO holds the firm's stock (*CEO_OWN*). Finally, we include year and industry dummies to control for time- and industry- variation in takeover intensity and regulatory focus (Harford 2005). We cluster standard errors in all models by industry to account for within-industry correlations.

Bidder announcement returns and comment letter disclosure

To examine our second research question, how shareholders respond to the disclosure of the regulator's comments, we consider abnormal returns around the acquisition disclosure event, which capture the net benefit an acquisition is expected to bring to the acquirer's shareholders (Cai et al. 2016; Halpern 1983; Jensen and Ruback 1983; Jarrell, Brickley, and Netter 1988; Betton, Eckbo, and Thorburn 2008). If investors find that comment letters help identify lower quality deals, then the incremental impact on bidder returns when a comment letter is received should be negative. The regression model has the form:

$$CAR_{it} = \beta_0 + \beta_1 Letter + \mathrm{B} Controls + Year\ FE + Industry\ FE + u \qquad (2)$$

where CAR is the seven trading-day cumulative abnormal return surrounding the M&A announcement date, which is also the date when the comment letter is made publicly available on the exchange's website. β_1 captures acquirer's incremental price reaction to receiving a comment letter. *Controls* include independent variables from model (1), to account for the possible impact that these variables have on bidder returns, separate from the comment letter disclosure. Year and industry effects account for heterogeneity in price reactions over time and across industries and the resulting serial correlation of residuals. Standard errors are industry-clustered.

Because Chinese companies typically suspend share trading before announcing major corporate events with share trading resuming shortly after the M&A announcement, we classify as day 0 the first trading day after the announcement, and day -1 is the last trading day before the M&A announcement.[19] Bidders request trade suspension before the announcement without providing detailed information to the public for the suspension reason with the justifications ranging from more specific – 'we plan to conduct an M&A' to more vague ones – 'we are planning a major event'. Trade suspension request can be filed after trading hours, with the M&A announcement scheduled for the next day and share trading resuming shortly after the announcement (see also Huang, Zhongzhi and Zhao 2018). Figure 2 shows the mapping between the event days and trade suspension, acquisitions announcement and trade resumption days.

[Insert Figure 2 about here]

Endogeneity concern

Third, we create a sample of comparable non-comment letters M&A transactions which we match to the sample of M&A transactions that receive comment letters. We then compare price announcement

[19] The median number of days between the merger announcement and resumption of share trading is zero in our sample, thus bidder shares can resume trading shortly after the merger announcement.

effects across the two groups and argue that any differential performance is attributable to the comment letter disclosure. For the propensity score method (PSM), we first use the logit model from Equation (1) to calculate propensity scores for each firm in the sample and then match each firm that received a comment letter (treated firm) with a peer firm that did not receive the letter (control firm), but with the closest propensity score and a score difference no larger than 0.02.

As a robustness tests, we also find control firms using the entropy balancing method (Hainmueller 2012; McMullin and Schonberger 2018). In contrast to PSM, which matches controls on the closest propensity score, entropy balancing aims to balance the mean, variance and skewness of the covariate distribution between the treatment and control groups. This increases the likelihood that the difference in outcomes is due to treatment rather than correlated differences in covariates. The method also dispenses with the need to specify a model to estimate the propensity score and allows for non-linearities to affect the matching process.

The price reaction to the merger announcement includes investors' assessment of the deal's completion likelihood and synergies, and post-merger value based on bidder's filings and the comment letter. To better isolate the pricing effect of comment letter from the effect of deal failure estimates, we also compare abnormal returns between treated and control firms for a sample of failed deals.

The intensity of regulatory monitoring and price reactions to comment letter disclosure

We next consider how the variation in regulatory intensity affects abnormal returns, which supports the contention that information revealed by comment letters is value-relevant to bidder shareholders. If regulatory monitoring is superficial, measures of review intensity should be weakly correlated with price reaction to comment letter disclosures and their economic magnitudes should be small. We consider variables that proxy for the overall variation in regulatory intensity and measures of specific disclosure deficiencies and remediation costs (e.g., Cassell et al. 2013).

First, we measure the length of the comment letter in terms of the number of words, *CL_Complexity*, because longer letters are likely to reflect a larger number of comments and questions the bidder must address, which in turn can signal more risky transactions. We scale the total number of words in a letter by the length of the longest comment letter to bound the measure in the range [0, 1].

Next, we also consider the category of questions to be able to infer the type of information that most strongly associates with investors' reactions. To do so, we include counts of the questions in each category from Appendix B in Equation 2. Specifically, we include counts of *MA_ITEMS,* the number of comments and questions related directly to the acquisition transaction disclosures, *A_ITEMS,* the number of accounting comments, and *G_ITEMS*, the number of governance questions, and we sum all the issues to measure a total number of comments, *ISSUES*.

Comment letters and acquisition outcomes

To shed further light on the efficacy of the M&A regulatory intervention, we link comment letter receipts with four acquisitions outcomes: the likelihood of deal cancellation, post-acquisition operating performance, impairment of acquisition goodwill, and the duration between the merger announcement and resumption in share trading.

The CSRC's review guidelines highlight that regulators are concerned about the bidder's ability to consummate the transaction (CSRC 2014, 2016). This concern reflects that deal cancellations associate with negative price reactions (Jacobsen 2014; Davidson, Dutia, and Cheng 1989), increased turnover of management (Jacobsen 2014, Lehn and Zhao 2006) and increased uncertainty about the bidder's ability to continue trading (Sanger and Peterson 1990). If regulatory interventions are consistent with the stated objectives, we expect that they identify transactions which are more likely to be cancelled after the deal announcement.[20] We define a variable *Completion*, which is an indicator equal to 1 if the M&A transaction is completed, and 0 if the deal is withdrawn. We then use it as the dependent variable in Equation (2) and estimate the regression using maximum likelihood.

If the regulator identifies transactions more likely to deliver disappointing outcomes, we expect comparatively poorer post-acquisition performance of bidders that receive comment letters. We calculate return on assets, *ROA*, as the ratio of net income divided by the average total assets for the most recent fiscal quarter, which we then use as a dependent variable in Equation (2). We focus on accounting rather than market performance because stock returns embed future expectations and may be biased due to market sentiment or investor's perceptions (Fich, Rice and Tran 2016).

Goodwill is the part of the purchase price exceeding the fair market value of identifiable assets of the target. If the goodwill recognized from M&A transactions overstates the value of assets, it will have a greater chance of being impaired when the overpricing becomes clear to investors and managers in subsequent periods. We expect that acquirers with comments letters will be more likely to impair goodwill after the transaction. Variable *Goodwill Impairment* is a dummy variable that equals 1 if the acquirer confirms that goodwill impairment has been reported after the merger, and 0 otherwise. We then use *Goodwill Impairment* as Equation (2) dependent variable and estimate the model using maximum likelihood.

Upon the request of the bidder, the exchange can halt trade in bidder's stock to allow investors to process the announcement day news and give the bidder the time to complete the negotiations and begin the integration of the target. The length of the suspension is set by managers and can be extended upon a firm's request.[21] A longer duration of bidder's stock price suspension after the merger

[20] The deal announcement reflects that the regulator is satisfied with the response and approves the transaction. Thus, the receipt of the comment letter does not mechanically lead to deal cancellations. However, higher disclosure promoted by the letter can identify transactions more at risk to be cancelled, e.g., transactions more likely to discover material adverse effects in the due diligence process that point to a lower value of the target.

[21] Shanghai and Shenzhen exchanges allow a maximum of three-month trade halt with an additional two-month suspension permitted if circumstances warrant https://www.ft.com/content/b29f20ec-8697-11e5-90de-f44762bf9896

announcement may indicate more challenges to negotiate or integrate the target, such as the discovery of "material adverse effects" during the due diligence process that can lead to renegotiations or bid withdrawal.[22] Bauman, Jackson, and Lawrence (1997) report that investors mark down prices of companies where integration proceeds at a slow pace. Buono, Bowditch and Lewis (1985) emphasize that uncertainty surrounding long integrations has a negative effect on operating performance. Long share suspension is also costly to investors who would normally trade in the bidder's stock, e.g., for liquidity reasons. If comment letters indicate more challenging deals, the time to relist is likely to be longer. We create a variable *Time to relist* that measures the number of days between the merger announcement date and the share trading resumption date. We then use Equation (2) with log (1 + *Time to relist*) as the dependent variable.

Political connections, comment letters, and bidder announcement returns

We expect that political connections will reduce the likelihood of scrutiny of M&A transactions by means of a comment letter because prior evidence shows that political connections reduce regulatory oversight of antitrust issues and allow less attractive deals to be approved (Allen et al. 2005, Hou and Moore 2010, Mehta, Srinivasan, and Zhao 2020). However, the impact of a comment letter for a politically connected firm, if received, is less clear. If a firm is subject to regulatory scrutiny, political connections can mitigate negative consequences of receiving a comment letter, such as punitive measures by the exchange. Liu et al. (2017) argue that political connections reduce information asymmetry between the firm and regulatory authorities, which helps connected firms circumvent regulatory barriers. Thus, an M&A comment letter issued for a politically connected firm may provide less signalling value if regulators do not follow through with disciplining actions. An alternative

[22] Material adverse effect clauses allow the bidder to terminate the deal if specific events are triggered, which include economic or industry shocks and financial misreporting (Denis and Macias 2013; Wangerin 2019).

perspective is that a comment letter issued for a politically connected firm may signal that the transaction is significantly problematic to overcome the political connection hurdle, and therefore a comment letter indicates a less attractive deal than it would have for a non-politic

ally connected bidder. To test this prediction, we expand Equation (2) to add interaction terms between variable *Letter* and the three measures of political connections: CEO political connections (*Letter*×*CEO_PC*), firm's state ownership (*Letter*×*SOE*) and whether the firm is in a regulator industry (*Letter*×*Regulated*).

IV. Descriptive Statistics

Panel A of Table 2 reports descriptive statistics for comment letter characteristics for our sample of 583 M&As that receive a comment letter. The average length of the latter is around 2,566 words and the average number of comments in the letter is 25.8 out of 49 potential issues. An average letter includes around 15 out of 28 potential M&A issues, 7 out of 13 accounting issues and 3 out of 8 corporate governance issues.[23]

[Insert Table 2 about here]

Panel B shows annual averages for the number of issues mentioned in each of the three categories we identify. We observe that the proportions are relatively stable over the sample period, for example, the average number of M&A related comments is 13.9 in 2015 with a maximum value of 15.26 in 2017. Thus, the M&A deals that receive comment letters are relatively comparable across years in terms of the number of comments they receive. Panel C presents Pearson correlations between CAR (-3,3) and comment letter characteristics. Price reactions are negatively correlated with the *Letter* dummy (Pearson

[23] In untabulated results, we find that the mean (median) time between the issuance of the first comment letter to the resolution of all letters is 9 (7) days, indicating that there is significant time and effort involved in complying with the regulator's demands of responding with seven business days. Only 34 transactions received more than one comment letter.

correlation of 0.214) and with characteristics of comment letters. This result provides preliminary support for the signalling role of M&A comment letters.

Panel D reports descriptive statistics for Equation (1) variables for firms with a comment letter (*Letter* =1) and without a comment letter (*Letter* =0). We observe that price reactions to M&A announcements are significantly lower for firms that receive comment letters with the mean difference of -0.6%. This result supports our correlation evidence that comment letters send a negative signal to the market. Comment letter firms also have lower completion rates, weaker post-deal ROA, and longer time for share trading resumption. These results provide preliminary evidence that the regulatory intervention identifies potentially lower quality transactions.

Examining the merger filings documents, we observe that comment letter bidders more frequently state that the transaction was approved by the board of directors, target assets have been appraised and their filings indicate a clear plan for the acquisition execution. These results suggest comment letter firms may want to appear as better prepared for the deal to reduce the likelihood of regulatory interventions. Bidders that receive comment letters also less frequently warn investors of the risks involved in the transaction and more frequently indicate that the transaction will involve a private equity placement.

Looking at the control variables, firms that receive comment letters tend to be listed for longer time, have lower profitability and lower analyst coverage, but almost two times higher Tobin's Q and higher return volatility. Further, comment-letter firms are less likely to be state owned, and interestingly, they have better corporate governance as indicated by a smaller proportion of managers on boards, though the CEO is less likely to have accounting background. Comment letter bidders also tend to pay with stock for the target, acquire relatively larger targets, choose more reputable financial advisors, and are more likely to engage in related party transactions. Thus, based on the descriptive analysis, it is not obvious that comment letter bidders are of a lower quality or engage in lower quality transactions.

Thus, regulatory review of M&A filings can provide insights on the potential transaction deficiencies and help identify poorer outlook deals.

V. Multivariate analyses

The likelihood of receiving an acquisition comment letter

Panel A of Table 3 reports regression results for Equation (1) where we model the likelihood that a bidder will receive a comment letter. If the review meets the set objectives, the exchanges should target incomplete filings, transactions with high M&A risk, defined as deals unlikely to complete, those at risk of bankruptcy after the transaction, or those with a high post-deal price volatility of the merged firm, and deals with high information asymmetry where investors are disadvantaged in unravelling transaction benefits. The logistic regression results support these predictions. We find that CSRC is more likely to comment on transactions claiming not to represent major asset restructurings, a material change in odds of 1.424, even though close to 73% of deals that receive comment letters are ultimately classified as major asset restructurings. This result suggests that the likelihood of regulatory review is not reduced through potentially strategic phrasing of the merger filings. Consistently, we find that filings stating that the deal was approved by the board of directors, indicating an execution plan and that bidder's assets were professionally appraised, thus supposedly being better prepared transactions, are more likely to receive a comment letter. Interestingly, regulatory interventions are less likely if the bidder clearly warns investors of the risks involved in the transaction. As expected, deals involving private equity placements are more likely to receive comment letters as such transactions are at higher risk of shareholder expropriation.

Further, we find that regulators target M&As where information asymmetries are higher, such as bidders with high stock return volatility and higher Tobin's Q. Firms with a longer listing history are more likely to receive a comment letter; Krasker (1986) finds that acquisitions by more mature firms tend to underperform. We find that hiring a top financial advisor does not mitigate the risk of receiving a comment letter, which suggests that top financial advisors do not reduce the risk of regulatory involvement.[24] The economic significance of M&A risk proxies in explaining the likelihood of receiving a comment letter is high. To illustrate, bidders with higher return volatility have 25.4% higher odds to receive a comment letter.

[Insert Table 3 about here]

We can also make an initial assessment of the impact of political connections on the likelihood of receiving a comment letter. Connected firms may lobby directly with the exchanges and politicians who can influence regulatory outcomes and reduce the likelihood of regulatory scrutiny (Ferris et al. 2016). We find that state-owned firms are less likely to receive a comment letter, with a 17.5% reduction in the odds of receiving a comment letter if a firm is an SOE. Our result supports the view that some level of regulatory capture is present. These results are consistent with previous evidence on a negative association between political connections and regulatory oversight (Correia 2014; Yu and Yu 2011; Fan, Wong and Zhang 2007; Allen et al. 2005 and Hou and Moore 2010, Mehta et al. 2020).

The M&A disclosure prompted by the comment letter

Our next test examines the nature of the M&A disclosures prompted by the comment letters. Specifically, we split the M&A issues from Appendix B that we scan for in each comment letter into six categories that relate to offer pricing, the payment method, target, deal risk, deal integration and other. Panel B of Table 3 reports that 93.2% of comment letters ask for additional pricing and valuation-related disclosures, 92% of letters include questions about the payment method, 95.1%

[24] A significant literature stream shows that hiring reputable investment banks does not associate with better outcomes for the bidder, such as lower risk of overpayment, see McLaughlin (1992), Servaes and Zenner (1996), Rau (2000), Fuller, Netter, and Stegemoller (2002), Hunter and Jagtiani (2003), Moeller, Schlingemann, and Stulz (2003), Porrini (2006), Ismail (2010), and McNamara, Haleblain, and Dykes (2008).

request more information about the target, 66% ask about the deal risk, and 85.3% about the integration plan. Thus, the regulatory intervention prompts the type of disclosures which is of high interest to shareholders and which affects the deal pricing. Our results are in line with the idea that comment letters should be among key information sources for private targets acquisitions that constitute over 90% of transactions in our sample (see Panel D of Table 2).

Bidder announcement returns and comment letter disclosure

Model 1 in Panel A of Table 4 reports Equation (2) results, which examine market reaction to the disclosure that a bidder received a comment letter. We confirm the univariate evidence that the market reacts negatively to the comment letter receipt. The price reaction for comment letter firms is 6.01% lower compared to firms that did not receive a letter. The mean bidder announcement returns when no comment letter is present is -0.91%, thus comment letter disclosure prompts a 6.6-fold more negative price reaction. These results suggest M&A comment letters reveal valuable information to investors that helps them better assess the transaction prospects.[25]

[Insert Table 4 about here]

Next, we estimate Equation (2) after including firm-fixed effects. Firm-fixed effects capture unobserved time-invariant characteristics that could correlate both with the regulator's decision to issue a comment letter and with the price reaction to M&A announcement. This analysis relies on serial acquirers where we can observe a variation in regulatory scrutiny in the form of comment letters (there are 504 firms that had more than one transaction over the sample period). We confirm significant negative coefficient on the comment letter dummy for this analysis.

[25] In untabulated results, we find that our conclusion is similar using quantile regression to estimate the effect of comment letters on announcement day price reaction for a median deal (coefficient -0.0386, t-test=-16.52 based on bootstrapped standard errors).

To further address the endogeneity concern, columns '2SLS' in Panel A of Table 4 estimate the 2SLS model in Equation (3) where the first stage models the regulator's choice of the M&A transaction to comment on, and the second stage adjusts for selectivity in regulator's choice. The instrument is the standardized volume of periodic and IPO filings which is negative and statistically significant in the first stage logit regression, consistent with the idea that regulatory busyness associated with a high volume of work reduces the likelihood of bidders receiving a comment letter. Controlling for the selectivity in deals for which regulators issue comment letters, we continue to find a significantly negative coefficient on the *Letter* dummy.

Altonji, Elder, and Taber (2005) propose a formal test to assess the extent to which omitted variables can explain away the effect of interest. Intuitively, the test examines by how much the coefficient of interest changes in the full model compared to a model without control variables. If the change is substantial, then it is more likely that addition of controls would bring the coefficient of interest towards zero. The difference between coefficients on *Letter* between the two models is 0.001 (result untabulated) and the unobservable factors would need to be over four times as important as observable covariates to eliminate the association between *Letter* and price reaction to M&A announcement. Altonji, Elder, and Taber (2005) consider values higher than 1.43 as indicative that unobservables cannot explain away the effect of the main independent variable.

Next, we address the issue that the share trading resumption varies between comment letter vis-à-vis non-comment letter firms. This may result in a negative price reaction on the share resumption day for comment letter firms reflecting other news disclosed after the M&A announcement, such as earnings releases. We address this concern three-fold. First, we search for whether bidders announce earnings news between the merger announcement and the trade resumption dates but find no such cases. We also check the incidence of media and analysts' reports for comment letter firms but find virtually no cases between the announcement and trade resumption dates. Second, we re-estimate equation (2) only for bidders that resume trading within the three days of the merger announcement, which aligns trade resumption between comment letter and non-comment letter firms and reduces the impact of other news. Column 'Trade resumed within 3 days' in Panel A of Table 4 reports a significant and slightly higher in magnitude coefficient on *Letter* for this subsample (-0.0656 vs. -0.0601). Thus, constraining the time between the merger announcement and resumption day seems to increase the effect of comment letters. Third, if comment letters associate with a public signal that correlates with lower bidder quality, then the request for trade suspension should associate with a more negative price reaction as investors anticipate lower benefits of a potential, yet unknown, corporate transaction. Extending this argument, if comment letter firms are of lower quality, we could expect a more negative share price drift for these firms compared to non-comment letter firms after prices adjust to the merger signal, i.e., starting from the event day 1 (a day after the trading resumes). Figure 3 reports the coefficients on *Letter* from equation (2) where the dependent variables are individual abnormal returns from the event window AR(-3) to AR(3). We also report the regression intercept, which captures the price reaction to non-comment letter deals. We observe relatively similar abnormal return patterns for bidders with and without comment letters up until day -1 (trade suspension day) and starting from day 1 (a day after the trade resumption). However, there is a markedly different price pattern on the trade resumption day between the two groups of firms as investors discount the merger news. In sum, the tests that address potential impact of confounding variables corroborate our conclusion regarding the negative market effect of the comment letter disclosure.

Our final test examines the effect comment letter disclosures have on merger announcement price discovery. Specifically, we create a ratio of the abnormal return on day 0 (the first trading day after the M&A announcement, i.e., the trade resumption day) scaled by CAR(-3,3): $\frac{AR(0)}{CAR(-3,3)}$. The result reported in the last column of Panel A, Table 4, shows that comment letters prompt a 55% more efficient impounding of the M&A signal into prices on the announcement day compared to non-comment letter firms. Thus, comment letters seem to improve merger announcement price discovery.

The intensity of regulatory monitoring and price reactions to comment letter disclosure

To help with identification that the comment letter content is useful to investors, our next test examines the pricing effect of comment letter content. Model (1) in Panel B of Table 4 shows that the negative price reaction to the M&A announcement is amplified if the bidder receives a more complex letter. A bidder in the top quartile of comment letter complexity has on average 2.4% lower price reaction compared to a bidder in the bottom quartile (result untabulated). This evidence implies that the information content of comment letters influences investors' trades.

To study the impact of letters' content and investors' reaction to a specific set of concerns raised in comment letters, Model (2) in Panel B of Table 4 documents a more pronounced negative reaction when the overall number of comments and questions in the letter increases. Specifically, comment letter firms with the total number of concerns in the top quartile have on average 2.1% lower price reactions than firms in the bottom quartile (result untabulated). Model (3) shows that investors react negatively to comments specific to the M&A transaction and bidder's corporate governance when these are included jointly in Equation (2). To estimate the economic effect of each comment type, we report standardized coefficients where the variables are normalized to mean of zero and unit standard deviation. Normalization adjusts for the higher number of M&A categories, which mechanically reduces the coefficient estimate compared to the accounting quality and corporate governance categories. We find that the pricing effect of M&A comments is 49% higher compared to corporate governance comments. This result confirms that the main informational role of M&A comment letters is to reveal new information about the transaction. The economic effects of M&A-related comments is significant—one additional comment reduces price reactions by 0.21%. The evidence on an insignificant reaction to accounting quality comments is consistent with Duan et al. (2019), who argue that Chinese firms face limited consequences of failing to respond to comment letters on their annual filings.

Propensity score and entropy balancing matching

To address the endogeneity concern in an alternative manner, we create matched samples of comment and non-comment letter acquisitions based on the propensity to receive a comment letter and based on entropy balanced matching of observable firm characteristics. Table 4 Panel C reports that the average difference in announcement returns between comment letter and non-comment letter deals in the PSM matched sample is -5.24%. The entropy balanced matched sample finds a difference in announcement returns of -13.7%. Finally, to isolate the effect of the comment letter from the announcement-day pricing of the deal failure likelihood, we select only deals that eventually fail and perform matching on propensity score for this sample. For this sample, comment letter firms have 8.79% lower price reaction compared to the matched counterfactual firms. [26] In sum, matching comment letters firms with counterfactuals with similar distribution of covariates produces results consistent with our main findings.

Comment letters and acquisition outcomes

We next examine the relation between the receipt of a comment letter and the duration of the bidder's stock trading suspension. Though the median time to relist is 0 in our sample, comment letters may identify deals that experience more challenges to negotiate or integrate the target after the deal announcement, thus associate with a longer duration between the merger announcement and

[26] The propensity score matching removes one comment letter acquisitions where a quality counterfactual could not be found. For PSM matching for failed deals, we lose 22 comment letter acquisitions because we cannot match them with peers.

resumption of stock trading. Column 'Time to relist' in Table 5 presents regression results that suggest the time to resume trading is longer for comment letter deals compared to non-comment letter acquisitions: comment letter firms relist on average 7.649 days later than an average non-comment letter firm[27]. These results support our conclusion that comment letters identify acquisitions with potential negative outcomes for the bidder's shareholders.

[Insert Table 5 about here]

We provide corroborating evidence that the regulator targets deals with a higher likelihood of delivering poor outcomes as measured by deal cancellation, in line with the CRSC M&A review guidelines (CSRC, 2014, 2016). Column 'Completion' in Table 5 presents the logit regression results examining whether receiving a comment letter affects the M&A completion likelihood. We find that receiving a comment letter has a negative effect on the completion rates and that the economics effect is significant: firms that receive comment letters have 13.2% lower odds for completing the transaction.

If the acquisition fails to generate expected benefits, the bidder will be more likely to impair the goodwill arising from the acquisition. Column 'Goodwill impairment (t+1)' in Table 5 documents that bidders in M&A deals with comment letters are more likely to impair goodwill one year after the transaction, compared to transactions that do not receive comment letters. Specifically, comment letters firms have 14.1% higher odds for impairing the goodwill one year after the transaction.

Our next test examines the relation between comment letter receipt and the change in firm operating performance after- relative to before the acquisition, measured by the return-on-assets (e.g., Heron and Lie 2002). Table 6 results suggest that in the acquisition year, comment letter firms do not experience a significant change in profitability relative to two years prior to the acquisition and compared to non-comment letter firms. At the same time, we find that comment letter firms have

[27] Using OLS regression to estimate Equation (2) with raw *Time to relist* as the dependent variable shows a 7.25 longer time to relist.

significantly lower profitability two years following the acquisition compared to non-comment letter firms. This result is consistent with the prediction that relatively poorer disclosure of comment letter firms is associated with less attractive acquisitions, and that the regulator is able to identify such deals and request additional disclosure. Overall, the association between comment letters, time to relist, completion likelihood, profitability, and goodwill impairments indicate that the comment letters are associated with deals that are less attractive for the bidder's shareholders, and that the additional disclosure helps investors better assess deal prospects.[28]

[Insert Table 6 about here]

The effect of political connections on price reaction to M&A announcement

Our evidence from Table 2 illustrates that around 25%-28% of comment letter firms can be considered to benefit from political connections, and Table 3 suggests that political connections reduces, but does not eliminate, the likelihood of receiving a comment letter. The regulator's reputation could be impaired if it did not provide oversight of politically connected firms, and so we expect it to issue comment letters in cases where shortcomings are more severe and which might cause investors to question the regulator's competence if comments are not issued.

In Table 7, we examine the interactions between comment letters and our proxies for political connections to identify the incremental association of comment letters when political connections are present. We find that the effects of comment letters on bidder returns are more negative in the presence of each of the three measures of connections, with between 2.6% and 5.13% lower returns. These results suggest that investors perceive deals of politically connected firms that receive comment

[28] In untabulated results, we related comment letters to the difference between the initial and the final offer price, but do not find a significant association. This result is consistent with the comment letter enhancing existing bidder disclosures, not influencing deal conditions as those are subject to the negotiation between the bidder and target.

letters being of incrementally lower quality, having met a higher comment letter hurdle that appears to exist for connected firms.

[Insert Table 7 about here]

VI. Conclusions

Drawing on a novel sample of acquisition filings and regulatory comment letters in China, we examine a number of factors that shed light on the importance of regulatory reviews of acquisition disclosures. The specific nature of Chinese regulatory setting, where acquisition disclosures are reviewed by the regulator *prior* to the deal's public announcement, and hence prior to observing the market's assessment of the deal, allows us to examine the association between the regulator's oversight and investors' reaction to the deal. We find that regulators issue comment letters for bidders at higher risk of delivering poor acquisition performance, measured by changes in operating performance and future goodwill impairments, but are less likely to issue comments to politically connected firms. Investors react negatively to comment letter disclosure if the regulator does issue comments to politically connected firms, and the bidder announcement returns are incrementally lower, indicating that the regulator has a relatively higher hurdle for commenting on these firms' deals.

We also classify the regulator's comments to understand which types of issues are most value relevant to bidder shareholders and find that acquisition-specific comments have a greater impact compared to those on accounting and governance issues. The comments appear to be useful to investors because they are also associated with a lower likelihood of deal completion, lower future profitability, and a greater chance of goodwill impairment. These results support the view that the regulator's enforcement of acquisition related disclosures is effective from a public interest perspective, and while some evidence of regulatory capture is present, the regulator's comments are nonetheless effective for evaluating politically connected firms. Our results suggest that M&A disclosure reviews increase transparency and help investors better evaluate the expected benefits of a transaction. Overall, our study provides insights on how regulatory involvement brings substantial benefits to investors and market stability in countries with relatively lower degree of institutional structures and capital market development compared to the United States, but also on how timely regulatory enforcement of relevant disclosure in the M&A setting is useful for more sophisticated investors and in more mature markets.

References

Allen, F., Qian, J. and Qian, M., 2005. Law, finance, and economic growth in China. Journal of financial economics, 77(1), pp.57-116.

Altonji, J.G., Elder, T.E. and Taber, C.R., 2005. Selection on observed and unobserved variables: Assessing the effectiveness of Catholic schools. Journal of political economy, 113(1), pp.151-184.

Ambrose, B. W., and W. L. Megginson. 1992. The Role of Asset Structure, Ownership Structure, and Takeover Defenses in Determining Acquisition Likelihood. Journal of Financial & Quantitative Analysis 27 (4):575-589.

Anderson. D. 2000. Taking stock in China: Company disclosure and information in China's stock markets. Georgetown Law Journal 88, 1919-1952.

Armour, J., Jacobs, J. B., & Milhaupt, C. J. (2011). The evolution of hostile takeover regimes in developed and emerging markets: An analytical framework. Harv. Int'l LJ, 52, 219.

Arnoldi, J., and Y. Muratova. 2019. Unrelated acquisitions in China: The role of political ownership and political connections. Asia Pacific Journal of Management 36 (1):113-134.

Bae,. K.-H., Kang, J.-K., and Kim, J.-M. 2002. Tunneling or value added? Evidence from mergers by Korean business groups. Journal of Finance 57(6), pp. 2695-2740.

Barberis, N. and Thaler, R., 2003. A survey of behavioral finance. Handbook of the Economics of Finance, 1, pp.1053-1128.

Bazerman, M.H. and Samuelson, W.F., 1983. I won the auction but don't want the prize. Journal of conflict resolution, 27(4), pp.618-634.

Bauman, R. P. (1997). From promise to performance: A journey of transformation at SmithKline Beecham. Harvard Business Press.

Bauman, R.P., Jackson, P. and Lawrence, J.T., 1997. Creating SmithKline Beecham: This successful" journey of transformation" required a high level of soul searching and commitment at all levels of the new organization. CHEMTECH-WASHINGTON DC-, 27, pp.8-15.

Beltratti, A., and G. Paladino. 2013. Is M&A different during a crisis? Evidence from the European banking sector. Journal of Banking & Finance 37 (12):5394-5405.

Bernardo, A.E. and Chowdhry, B., 2002. Resources, real options, and corporate strategy. Journal of Financial Economics, 63(2), pp.211-234.

Betton, S., Eckbo, B.E. and Thorburn, K.S., 2009. Merger negotiations and the toehold puzzle. Journal of Financial Economics 91(2)： 158-178.

Berger, P.G., Ofek, E. and Swary, I., 1996. Investor valuation of the abandonment option. Journal of financial economics 42(2)： 259-287

Bhagwat, V., Dam, R. and Harford, J., 2016. The real effects of uncertainty on merger activity. The Review of Financial Studies, 29(11), pp.3000-3034.

Bilinski, P. and Yim, A., 2019. Bean Counters at the Gates: The Performance of Accounting Firms in the M&A Advisory Market. Available at SSRN 2695819.

Black, E.L., Doukas, A.J., Xing, X. and Guo, J., 2015. Gains to Chinese bidder Firms: Domestic vs. foreign acquisitions. European Financial Management, 21(5), pp.905-935.

Board, O., 2009. Competition and disclosure. The Journal of Industrial Economics, 57(1), pp.197-213.

Boone, J. P., C. L. Linthicum, and A. Poe. 2013. Characteristics of Accounting Standards and SEC Review Comments. Accounting Horizons 27 (4):711-736.

Bonetti, P., Duro, M. and Ormazabal, G., 2020. Disclosure Regulation and Corporate Acquisitions. Journal of Accounting Research, 58(1), pp.55-103.

Bozanic, Z., J. R. Dietrich, and B. A. Johnson. 2017. SEC comment letters and firm disclosure. Journal of Accounting & Public Policy 36 (5):337-357.

Brown, S. V., X. Tian, and J. Wu Tucker. 2018. The Spillover Effect of SEC Comment Letters on Qualitative Corporate Disclosure: Evidence from the Risk Factor Disclosure. Contemporary Accounting Research 35 (2):622-656.

Buono, A. F., Bowditch, J. L., & Lewis III, J. W. (1985). When cultures collide: The anatomy of a merger. Human relations, 38(5), 477-500.

Chi, J., Sun, Q., & Young, M. (2011). Performance and characteristics of acquiring firms in the Chinese stock markets. Emerging markets review, 12(2), 152-170.

Cameron, A.C. and Trivedi, P.K., 2005. Multinomial models. Microeconometrics, Methods and Applications, pp.113-146.

Cassell, C. A., L. M. Dreher, and L. A. Myers. 2013. Reviewing the SEC's Review Process: 10-K Comment Letters and the Cost of Remediation. Accounting Review 88 (6):1875-1908.

Christensen, H.B., Hail, L. and Leuz, C., 2013. Mandatory IFRS reporting and changes in enforcement. Journal of Accounting and Economics, 56(2-3), pp.147-177.

Chen, S., Huang, R., Zhang, B. and Zhang, R., 2018. Do Corporate Insiders Use External Signals in Performance Evaluation? Evidence on SEC Comment Letters. Baruch College Zicklin School of Business Research Paper, (2019-01), p.02.

Cheong, I. and Kim, J.Y., 2004. Costly information disclosure in oligopoly. The Journal of Industrial Economics, 52(1), pp.121-132.

China Securities Regulatory Commission (CSRC). 2014. Guidelines on listed firms' major asset restructurings. In Chinese. Available at http://www.csrc.gov.cn/pub/zjhpublic/zjh/201410/t20141024_262340.htm

China Securities Regulatory Commission (CSRC). 2016. Regarding decision to revise "Guidelines on listed firms' major asset restructurings." In Chinese. Available at http://www.csrc.gov.cn/shanghai/xxfw/gfxwj/201610/t20161013_304529.htm

China Securities Regulatory Commission (CSRC). 2020. IPO Guidelines. In Chinese. Available at http://www.csrc.gov.cn/pub/zjhpublic/zjh/202005/P020200515521366582132.pdf

Coase, R.H., 1960. The problem of social cost. In Classic papers in natural resource economics (pp. 87-137). Palgrave Macmillan, London.

Correia, M. M. 2014. Political connections and SEC enforcement. Journal of Accounting and Economics 57 (2):241-262.

Costello, A. M., and R. Wittenberg-Moerman. 2011. The Impact of Financial Reporting Quality on Debt Contracting: Evidence from Internal Control Weakness Reports. Journal of Accounting Research (John Wiley & Sons, Inc.) 49 (1):97-136.

Cremers, K.M., Nair, V.B. and John, K., 2009. Takeovers and the cross-section of returns. The Review of Financial Studies, 22(4), pp.1409-1445.

Davidson III, W.N., Dutia, D. and Cheng, L., 1989. A re-examination of the market reaction to failed mergers. The Journal of Finance, 44(4)：1077-1083.

Dassiou, X. and Holl, P., 1996. Merger failure and merger profitability: an alternative to the Hviid and Prendergast model. Applied Economics Letters, 3(4), pp.271-273.

DeAngelo, L. E., 1990. Equity valuation and corporate control. Accounting Review, 93-112.

Dechow, P. M., A. Lawrence, and J. P. Ryans. 2016. SEC Comment Letters and Insider Sales. Accounting Review 91 (2):401-439.

Denis, D.J. and Macias, A.J., 2013. Material adverse change clauses and acquisition dynamics. Journal of Financial and Quantitative Analysis, pp.819-847.

Dimopoulos, T. and Sacchetto, S., 2017. Merger activity in industry equilibrium. Journal of Financial Economics, 126(1), pp.200-226.

Dowdell, T., Press, E. 2004. The impact of SEC scrutiny on financial statement reporting of in-process research and development expense. Journal of Accounting and Public Policy 23 (2004) 227–244
Duan, Tinghua and Li, Kai and Rogo, Rafael and Zhang, Ray, The Myth about Public versus Private Enforcement of Securities Laws – Evidence from Chinese Comment Letters (March 2019). Available at SSRN: https://ssrn.com/abstract=3281505
Dyck, A., Morse, A. and Zingales, L., 2010. Who blows the whistle on corporate fraud?. The Journal of Finance, 65(6), pp.2213-2253.
Eckbo, B. E., Giammarino, R. M., & Heinkel, R. L. (1990). Asymmetric information and the medium of exchange in takeovers: Theory and tests. The Review of Financial Studies, 3(4), 651-675.
Fan, J. P. H., T. J. Wong, and T. Zhang. 2007. Politically connected CEOs, corporate governance, and Post-IPO performance of China's newly partially privatized firms. Journal of Financial Economics 84 (2):330-357.
Fich, E. M., and A. Shivdasani. 2006. Are busy boards effective monitors? Journal of Finance 31 (2): 689–724
Fich, E.M., Rice, E.M. and Tran, A.L., 2016. Contractual revisions in compensation: Evidence from merger bonuses to target CEOs. Journal of Accounting and Economics, 61(2-3), pp.338-368.
Filip, A., Lobo, G.J., Paugam, L. and Stolowy, H., 2018. Disclosures about intangible resources in M&A press releases and quality of the deal.
Fisch, J. E., Griffith, S. J., & Solomon, S. D., 2014. Confronting the peppercorn settlement in merger litigation: An empirical analysis and a proposal for reform. Tex. L. Rev., 93, 557.
Francis, J., Philbrick, D. and Schipper, K., 1994. Shareholder litigation and corporate disclosures. Journal of accounting research, 32(2), pp.137-164.
Golubov, A., Petmezas, D., Sougiannis, T., Travlos, N., 2012. Target Firm Auditor Reputation, Information Asymmetry, and Corporate Takeovers. Working Paper.
Graffin, S. D., Haleblian, J., & Kiley, J. T. (2015). Ready, aim, acquire: Impression offsetting and acquisitions. Academy of Management Journal, 59(1), 232252.
Grinstein, Y. and Hribar, P., 2004. CEO compensation and incentives: Evidence from M&A bonuses. Journal of financial economics, 73(1), pp.119-143.
Grossman, G.M. and Helpman, E., 1994. Endogenous innovation in the theory of growth. Journal of Economic Perspectives, 8(1)：23-44.
Grossman, S.J. and Hart, O.D., 1980. Takeover bids, the free-rider problem, and the theory of the corporation. The Bell Journal of Economics, pp.42-64.
Gu, F., and B. Lev. 2011. Overpriced Shares, Ill-Advised Acquisitions, and Goodwill Impairment. The Accounting Review 86 (6):1995-2022.
Gunny, K. A., & Hermis, J. M., 2019. How busyness influences SEC compliance activities: Evidence from the filing review process and comment letters. Contemporary Accounting Research.
Halpern, P., 1983. Corporate acquisitions: A theory of special cases? A review of event studies applied to acquisitions. The Journal of Finance, 38(2), pp.297-317.
Hansen, R. G., 1987. A theory for the choice of exchange medium in mergers and acquisitions. Journal of business, 75-95.
Hainmueller, J., 2012. Entropy balancing for causal effects: A multivariate reweighting method to produce balanced samples in observational studies. Political Analysis, 20(1), pp.25-46.
Harford, J., 2005. What drives merger waves?. Journal of financial economics 77(3)：529-560.
Haß, L.H., Johan, S. & Müller, M.A. 2016. The Effectiveness of Public Enforcement: Evidence from the Resolution of Tunneling in China. J Bus Ethics 134, 649–668
Heese, J., M. Khan, and K. Ramanna. 2017. Is the SEC captured? Evidence from comment-letter reviews. Journal of Accounting & Economics 64 (1):98-122.

Heron, R., E. Lie. 2002. Operating perofmance and the method of payment in takeovers. Journal of Financial and Quantitative Analysis 37(1): 137-155.
Hou, W., and G. Moore. 2010. Player and Referee Roles Held Jointly: The Effect of State Ownership on China's Regulatory Enforcement Against Fraud. Journal of Business Ethics 95:317-335.
Hribar, P., T. Kravet, and R. Wilson. 2014. A new measure of accounting quality. Review of Accounting Studies 19 (1):506-538.
Hu, H., Platt, K. and Su, C.H.D., 2018. Strategic Sequencing of Earnings and M&A Announcements.
Huang, J., Shi, D., Song, Z. and Zhao, B., 2018. Discretionary stock trading suspension. http://www.cafr-sif.com/2018/2018selected/Discretionary%20Stock%20Trading%20Suspension.pdf
Hunter, W.C. and Jagtiani, J., 2003. An analysis of advisor choice, fees, and effort in mergers and acquisitions. Review of Financial Economics, 12(1), pp.65-81.
Ismail, A. 2010. Are good financial advisors really good? The performance of investment banks in the M&A market. Review of Quantitative Finance and Accounting 35 (4):411-429.
Jacobsen, S., 2014. The death of the deal: Are withdrawn acquisition deals informative of CEO quality?. Journal of Financial Economics, 114(1)： 54-83.
Jarrell, G.A. and Poulsen, A.B., 1989. The returns to acquiring firms in tender offers: Evidence from three decades. Financial management, pp.12-19.
Jarrell, G.A., Brickley, J.A. and Netter, J.M., 1988. The market for corporate control: The empirical evidence since 1980. Journal of Economic perspectives, 2(1), pp.49-68.
Jensen, M.C., 1986. Agency costs of free cash flow, corporate finance, and takeovers. The American economic review, 76(2), pp.323-329.
Jensen, M.C. and Meckling, W.H., 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of financial economics, 3(4), pp.305-360.
Jensen, M.C. and Ruback, R.S., 1983. The market for corporate control: The scientific evidence. Journal of Financial economics 11(1-4)： 5-50.
Jiang, G., Lee, C., and Yue, H., 2010. Tunneling through intercorporate loans: The China experience. Journal of Financial Economics 98: 1-20.
Johnson, S., La Porta, R., Shleifer, A., and Lopez-de-Silanes, F., 2000. Tunneling. American Economic Review Papers and Proceedings 90, pp. 22-27.
Johnston, R., and R. Petacchi. 2017. Regulatory Oversight of Financial Reporting: Securities and Exchange Commission Comment Letters. Contemporary Accounting Research 34 (2):1128-1155.
Jovanovic, B., 1982. Truthful disclosure of information. The Bell Journal of Economics, pp.36-44.
Khan, U., Li, B., Rajgopal, S. and Venkatachalam, M., 2018. Do the FASB's standards add shareholder value?. The Accounting Review, 93(2), pp.209-247.
Krasker, W. S. 1986. Stock Price Movements in Response to Stock Issues under Asymmetric Information. Journal of Finance (Wiley-Blackwell) 41 (1):93-105.]
La Porta, R., Lopez-de-Silanes, F. and Shleifer, A., 2006. What works in securities laws?. The Journal of Finance, 61(1), pp.1-32.
Lang, L.H., Stulz, R. and Walkling, R.A., 1991. A test of the free cash flow hypothesis: The case of bidder returns. Journal of Financial Economics, 29(2), pp.315-335.
Lehn, K.M. and Zhao, M., 2006. CEO turnover after acquisitions: are bad bidders fired?. The Journal of Finance, 61(4), pp.1759-1811.
Leuz, C., and P. D. Wysocki. 2016. The Economics of Disclosure and Financial Reporting Regulation: Evidence and Suggestions for Future Research. Journal of Accounting Research 54 (2):525-622.

Lev, B. and Gu, F., 2016. The end of accounting and the path forward for investors and managers. John Wiley & Sons.
Li, B., and Z. Liu. 2017. The oversight role of regulators: evidence from SEC comment letters in the IPO process. Review of Accounting Studies 22 (3):1229-1260.
Li, X.X., Yang, G. C, and Rao, P.G, 2019, The regulatory role of stock exchange comment letters: Evidence from textual analysis of merger and acquisition plans. Economic Research Journal, 5, 181-198. (in Chinese).
Liu, Q., T. Luo, and G. G. Tian. 2017. How do political connections cause SOE s and non-SOE s to make different M&A decisions/performance? Evidence from China. Accounting & Finance.
Loderer, C. and Martin, K., 1992. Postacquisition performance of acquiring firms. Financial Management, pp.69-79.
Lopez, D. M., and G. F. Peters. 2012. The effect of workload compression on audit quality. Auditing: A Journal of Practice & Theory 31 (4): 139–65
Loughran, T. and Vijh, A.M., 1997. Do long - term shareholders benefit from corporate acquisitions?. The Journal of Finance, 52(5), pp.1765-1790.
Lowry, M., Michaely, R. and Volkova, E., 2020. Information Revealed through the Regulatory Process: Interactions between the SEC and Companies ahead of Their IPO. The Review of Financial Studies. In-press.
Maloney, M.T., McCormick, R.E. and Mitchell, M.L., 1993. Managerial decision making and capital structure. Journal of Business, pp.189-217.
Masulis, R.W., Wang, C. and Xie, F., 2007. Corporate governance and acquirer returns. The Journal of Finance, 62(4), pp.1851-1889.
McLaughlin, R.M., 1992. Does the form of compensation matter?: Investment banker fee contracts in tender offers. Journal of Financial Economics, 32(2), pp.223-260.
McNamara, G.M., Haleblian, J.J. and Dykes, B.J., 2008. The performance implications of participating in an acquisition wave: Early mover advantages, bandwagon ef-166. Academy of Management Review.
McMullin, J.L. and Schonberger, B., 2018. Entropy-balanced discretionary accruals. Kelley School of Business Research Paper, (15-31), pp.15-01.
McNichols, M.F. and Stubben, S.R., 2015. The effect of target-firm accounting quality on valuation in acquisitions. Review of Accounting Studies, 20(1), pp.110-140.
Mehta, M.N., Srinivasan, S. and Zhao, W., 2020. The politics of M&A antitrust. Journal of Accounting Research, 58(1), pp.5-53.
Meulbroek, L.K., 1992. An empirical analysis of illegal insider trading. The Journal of Finance, 47(5), pp.1661-1699.
Michel, A., Shaked, I. and Lee, Y.T., 1991. An evaluation of investment banker acquisition advice: the shareholders' perspective. Financial Management, pp.40-49.
Mitchell, M.L. and Lehn, K., 1990. Do bad bidders become good targets?. Journal of Political Economy, 98(2), pp.372-398.
Moeller, S. B., F. P. Schlingemann, and R. M. Stulz. 2007. How Do Diversity of Opinion and Information Asymmetry Affect Acquirer Returns? Review of Financial Studies 20 (6):2047-2078.
Netter, J., M. Stegemoller, and M. Babajide Wintoki. 2011. "Implications of Data Screens on Merger and Acquisition Analysis: A Large Sample Study of Mergers and Acquisitions from 1992 to 2009." Review of Financial Studies 24 (7): 2316–57. https://doi.org/10.1093/rfs/hhr010
Nunn, N. and Wantchekon, L., 2011. The slave trade and the origins of mistrust in Africa. American Economic Review, 101(7), pp.3221-52.

Oster, E., 2015. Unobservable Selection and Coefficient Stability: Theory and Evidence. Working Paper, Brown University.
Park, C. 2002. The effects of prior performance on the choice between related and unrelated acquisitions: Implications for the performance consequences of diversification strategy. Journal of Management Studies, 39(7), 1003–1081
Palepu, K.G.,1986. Predicting takeover targets: A methodological and empirical analysis. Journal of accounting and economics, 8(1)：3-35.
Pelzman, J., 1976. Trade Integration in the Council of Mutual Economic Assistance: Creation and Diversion 1954-1970(Doctoral dissertation, Boston College, Ph. D.)
Posner, R.A., 1974. Theories of economic regulation.
Porrini, P., 2006. Are investment bankers good for acquisition premiums?. Journal of Business Research, 59(1), pp.90-99.
Ramanna, K., and R. Watts. 2012. Evidence on the use of unverifiable estimates in required goodwill impairment. Review of Accounting Studies 17 (4):749-780.
Rau, P.R., 2000. Investment bank market share, contingent fee payments, and the performance of acquiring firms. Journal of Financial Economics, 56(2), pp.293-324.
Rau, P.R. and Vermaelen, T., 1998. Glamour, value and the post-acquisition performance of acquiring firms. Journal of financial economics, 49(2), pp.223-253.
Robinson, J.R., Xue, Y. and Yu, Y., 2011. Determinants of disclosure noncompliance and the effect of the SEC review: Evidence from the 2006 mandated compensation disclosure regulations. The Accounting Review 86(4)：1415-1444.
Rogers, W. 1993. "sg17: Regression standard errors in clustered samples." Stata Technical Bulletin 13: 19-23.
Ryans, J., 2019. Textual classification of SEC comment letters. Review of Accounting Studies, In-press.
Sanger, G.C. and Peterson, J.D., 1990. An empirical analysis of common stock delistings. Journal of Financial and Quantitative Analysis, pp.261-272.
Schweizer, D., Walker, T. and Zhang, A., 2017. Cross-border acquisitions by Chinese enterprises: The benefits and disadvantages of political connections. Journal of Corporate Finance.
Servaes, H., 1991. Tobin's Q and the Gains from Takeovers. The Journal of Finance, 46(1), pp.409-419.
Shanghai Stock Exchange, 2019 Rules Governing the Listing of Stocks on Shanghai Stock Exchange. Available at http://english.sse.com.cn/start/rules/sse/public/c/4938268.pdf
Shanghai Stock Exchange Research Centre, China Corporate Governance Report (2009)---The Market for Corporate Control and Corporate Governance (Shanghai Stock Exchange, 2009) 120.
Shipman, J.E., Swanquist, Q.T. and Whited, R.L., 2016. Propensity score matching in accounting research. The Accounting Review, 92(1), pp.213-244.
Shleifer, A. 2005. Understanding Regulation. European Financial Management 11 (4):439-451.
Singhvi, S.S. and Desai, H.B., 1971. An empirical analysis of the quality of corporate financial disclosure. The Accounting Review, 46(1), pp.129-138.
Skaife, H.A. and Wangerin, D.D., 2013. Target financial reporting quality and M&A deals that go bust. Contemporary Accounting Research, 30(2), pp.719-749.
Song, W., Wei, J.D. and Zhou, L., 2013. The value of "boutique" financial advisors in mergers and acquisitions. Journal of Corporate Finance, 20, pp.94-114.
Sobel, Y. (2014). Domestic-to-Domestic Transactions— A Gap in China's Merger Control Regime? The Antitrust source. (http://awa2015.concurrences.com/IMG/pdf/feb14_sobel_2_20f.pdf)
Stigler, G.J., 1971. The theory of economic regulation. The Bell journal of economics and management science, pp.3-21.

Tanyi, P. N., and D. B. Smith. 2015. Busyness, expertise, and financial reporting quality of audit committee chairs and financial experts. Auditing: A Journal of Practice & Theory 34 (2): 59–89

Thaler, R.H., 1988. Anomalies: The ultimatum game. Journal of economic perspectives, 2(4), pp.195-206.

Travlos, N. G. 1987. Corporate Takeover Bids, Methods of Payment, and Bidding Firms' Stock Returns. Journal of Finance (Wiley-Blackwell) 42 (4):943-963.

Urooj Khan, Bin Li, Shivaram Rajgopal, and Mohan Venkatachalam (2018) Do the FASB's Standards Add Shareholder Value?. The Accounting Review: March 2018, Vol. 93, No. 2, pp. 209-247.

Wang, W., 2018. Bid anticipation, information revelation, and merger gains. Journal of Financial Economics, 128(2), pp.320-343.

Wangerin, D., 2019. M&A due diligence, post-acquisition performance, and financial reporting for business combinations. Contemporary Accounting Research, 36(4), pp.2344-2378.

White, H., 1980. A heteroskedasticity-consistent covariance matrix estimator and a direct test for heteroskedasticity. econometrica, 48(4), pp.817-838.

Wooldridge, J. M., 1995. Selection corrections for panel data models under conditional mean independence assumptions. Journal of econometrics, 68(1), 115-132.

Wooldridge, J.M., 2010. Econometric analysis of cross section and panel data. MIT press.

Yu, F., and X. Yu. 2011. Corporate Lobbying and Fraud Detection. The Journal of Financial and Quantitative Analysis 46 (6):1865-1891.

Appendix A

Variable definitions

Variable	Description
Panel A: Price reaction measure and comment letter characteristics	
CAR	Cumulative abnormal return of the bidding firm's stock where day 0 is the first trading day after the merger announcement. We cumulate abnormal returns from three days before the stock suspension preceding the merger announcement to three days after the resumption of stock trading. If a firm did not suspend share trading or resumes trading on the merger announcement, day 0 is the merger announcement day.
Letter	A dummy variable that equals one if the acquirer received a comment letter from the stock exchange concerning an ongoing M&A deal, and zero otherwise.
Time to relist	The number of days between the M&A announcement day and the first trading day after the announcement.
CL_complexity	The total number of words in the initial comment letter divided by the word count of the longest letter in the sample
ISSUES	The total number of coded issues an acquirer received from the stock exchange in the initial comment letter. The list of keywords we use to search the letters are in Appendix B.
MA_ ITEMS	The number of comments that an acquirer received form the stock exchange in the comment letter related to the merger information the bidder disclosed in the M&A filing. The list of keywords we use to search the letters are in Appendix B.
A_ ITEMS	The number of comments that an acquirer received form the stock exchange in the comment letter related to the quality of accounting information the bidder disclosed in the M&A filing. The list of keywords we use to search the letters are in Appendix B.
G_ ITEMS	The number of comments that an acquirer received form the stock exchange in the comment letter related to the bidder's corporate governance mechanisms as disclosed in the merger filing. The list of keywords we use to search the letters are in Appendix B.
Completion	An indicator variable equal to one if the M&A transaction is completed, and zero if the deal is withdrawn.
Panel B: Announcement contents variables	
Non_major_restructure	An indicator variable that equals one if the bidder mentions that the deal is not a major asset restructuring in the announcement notice, and zero otherwise.
Board_director_meeting	An indicator variable that equals one if the announcement notice mentions that the deal was reviewed and approved by the board of directors, and zero otherwise.
Asset_appraisal	An indicator variable that equals one if the announcement notice mentions that the target assets have been appraised by a professional outside firm, and zero otherwise.
Trading_plan	An indicator equal to one if the announcement notice mentions the bidder's acquisition plan, and zero otherwise.
Payment_method	An indicator variable that equals one if the announcement notice mentions the method of payment, and zero otherwise.
Investment risk factor	An indicator variable that equals one if the announcement notice includes an investment warning that stock market investments are risky, and investors have to consider all information when deciding to invest, and zero otherwise.
Non-public-offering	An indicator variable that equals one if the announcement notice mentions that the merger will be in part financed by a private equity placement, and zero otherwise.
Panel C: Controls	
Public target	A dummy variable that equals one of the target firm is a public firm, and zero otherwise
Sig_Deal	A dummy variable that equals one if the deal is considered 'significant', and zero otherwise. A deal is considered 'significant' if acquired assets increase bidder's total asserts or income by more than 100% (see Appendix E).

Table continued on next page

Variable	Description
Payment_Stock	A dummy variable that equals one if the method of payment is 100% stock, and zero otherwise.
Related_Deal	A dummy variable that equals one if the deal is a related transaction, and zero otherwise. Related party mergers involve a bidder and a target that are part of the same corporate group or sharing majority shareholders.
Firm_Age	Bidder's age as of the most recent fiscal quarter prior to the comment letter calculated as the number of years since the initial listing on the stock exchange.
Firm_Size	The natural log of bidder's total assets measured in CNY millions.
ROA	Bidder's return on assets measured as net income divided by the average total assets for the two most recent fiscal quarters prior to the merger announcement.
Leverage	Financial leverage of an acquirer calculated as the ratio of total debt to total assets calculated for the most recent fiscal quarter prior to the merger announcement.
Tobin's Q	Bidder's ratio of market value of common equity plus the book values of preferred equity and long-term debt divided by the book value of assets measured at the end of the most recent fiscal quarter prior to the merger announcement.
Goodwill Impairment	A dummy variable that equals one if the acquirer confirms that merger-related goodwill impairment has been reported after the merger, and zero otherwise.
Weak_IC	An indicator variable that equals one if the bidder reported a material weakness in its internal control, and zero otherwise.
MGT_ON_BOARD	Percentage of bidder's company directors who are board members.
Board Size	Total number of directors on the bidder's board.
Volatility	Natural log of the standard deviation of bidder's daily returns, from the 100th to the 15th trading day before the M&A announcement.
TOP_FA	A dummy variable that equals one if transactions are advised by one of the top ten financial advisors, zero for all other financial advisors. Top advisors are defined in Appendix B.
Analyst_Num	Natural log of the number of analysts covering the bidder as of the most recent fiscal quarter prior to the comment letter receipt.
CEO_ACC	A dummy variable that equals one if the bidder's CEO has accounting background, and zero otherwise.
CFO_ACC	A dummy variable that equals one if the bidder's CFO has accounting background, and zero otherwise.
CEO_OWN	A dummy variable that equals one if the bidder's CEO has ownership of the firm, and zero otherwise.
Busyness_CL	The ratio of total number of periodic filings (half- and full-year results) and IPO comment letters issued in a given month over the total number of CLs issued in the previous two months (excluding the current month). We measure regulatory busyness at the end of the month preceding the M&A announcement month.
Panel D: Political connections	
CEO_Political	A dummy variable that equals one if the acquirer's CEO is serving or has formerly served as a government official, or if the CEO is a deputy to the People's Congress or a member of the Chinese people's political consultative conference at or above the provincial level, and zero otherwise.
SOE	A dummy variable that equals one if the acquirer firm is a state-owned enterprise, and zero otherwise.
Regulated	A dummy variable that equals one if the acquirer is in the regulated industry, zero otherwise. Regulated industries include petroleum, chemical, plastics, metal, non-metallic, electricity, gas and water production and supply, transportation, warehousing, information technology industry.

Appendix B

Categories of coded issues from M&A comment letters

We classify comments and questions from the comment letter into those related to (I) M&A transaction, (II) accounting quality, and (III) corporate governance. A bidder scores 1 for a particular issue if it is mentioned in a comment letter for the firm, and 0 otherwise.

I. M&A Issues (Maximum Score = 28)

Issues related directly to the M&A including procedural issues and regulatory compliance.

1. Share issue: Comments requesting more information or disclosure about the effects of changes in shares outstanding related to the M&A.

2. Risk: Questions about the firm's estimation of deal risk, including the potential impact of the factors on the firm's operations and cash flows.

3. Commitment to performance: Questions or comments regarding the terms of the post-M&A commitment to performance, including the basis of performance commitment, the possibility of implementation.

4. Incremental capital: Questions or comments regarding the incremental capital.

5. Assessed Valuation: Comments and questions related to the valuation model in the proposal.

6. Terminate: Comments and questions related to the conditions for termination of the merger and acquisition, termination date in the contract.

7. Action party: Comments and questions related to persons acting in concert. They take "unanimous action" by agreement, contract, arrangement, relationship or other means to obtain the voting right of the target company.

8. Related party: Comments and questions related to related party relations and changes of related party relations after merger and acquisition.

9. Follow-up: Comments and questions related to the integration plan after merger, such as operation integration, personnel integration, etc.

10. Price/pricing: Comments related to explaining the adopted pricing method and M&A pricing mechanism. Explaining the whole process from determining the value of the acquirer to the final price generated by the game between the acquirer and the target.

11.Cash pay: Questions and comments about source of cash.

12. Value-added rate: Comments and questions related to the deal's value-added rate if applied.

13. Discount rate: Comments and questions related to the deal's discount rate if applied.

14. Source of capital: Comments and questions related to the acquirer's source of capital for the deal.

15. Pledge: Comments and questions related to the bidder's pledges under the deal.

16. Assets reorganization: Comments and questions related to the target asset reorganization.

17. Valuation: Comments and questions related to the target valuation.

18. Ownership: Comments and questions related to the relevant arrangements for the ownership structure of the new company after the merger and acquisition integration.

19. Transactions: Comments and questions related to the transaction in general.

20. Target: Comments and questions related to the target in general.

21. Issuance: Comments and questions related to the involving the merger and acquisition accomplished by issuing shares to purchase assets.

22. Proposal: Comments and questions related to the filed proposal in general.

23. Major assets restructuring: Comments related to other major assets restructuring.

24. Central Counterparty: Comments related to the counterparty, mainly are financial investors involved in mergers and acquisitions.

25. Offering price: Comments related to the offering price, or proposed range of the offering price; state the basis for pricing, the process of determining the issue price.

26. Income approach: Comments related to explaining the reason for using the income method, the specific evaluation method involved in the merger and acquisition plan.

27. Evaluation parameters: Comments related to the parameters used in the valuation model used by the appraiser when evaluating assets in mergers and acquisitions.

28. Basic/ Market approach: Comments related to explaining the reason for using the basic/ market approach, the specific evaluation method involved in the merger and acquisition plan.

II. Accounting Quality (Maximum Score= 13)

These items represent issues and questions related to the quality of accounting information in the M&A filing.

1. Accounting policy: A general request to clarify or provide more information about the firm's accounting treatment regarding a particular transaction or a series of transactions. This request is more about how a firm applies a given standard, not what accounting standard was used.

2. Assets & Net asset: A general request to clarify or provide more information about the firm's assets/net assets.

3. Revenue: A general request to clarify or provide more information about the firm's revenue recognition.

4. Profit: A general request to clarify or provide more information about the firm's retained profits.

5. Drawing reserve: Questions or comments regarding the accounting and disclosure for reserve liabilities such as warranties and other accrued liabilities.

6. Account payable: Questions or comments regarding the account payables.

7. Intangible asset: Questions or comments regarding the firm's accounting treatment for intangible assets, including how they were valued and/or whether they should have an indefinite life.

8. Net income: Comments or questions related to the computation of net income disclosures.

9. Cash flow & Earnings: Comments or questions regarding the quality of the firm's earnings or cash flows, usually accompanied by comments to balance the tone of the disclosure or make risks/negative results a more prominent part of the disclosure.

10. Capital: Questions regarding the accounting treatment of items included as part of the shareholders' equity, including other comprehensive income and retained earnings (accumulated deficits).

11. Impairment & Goodwill: Questions or comments related to the firm's goodwill balance and impairment testing, including the definition of reporting units and valuation issues.

12. Auditing: A request for additional information regarding the firm's relationship with its audit firm, including issues with auditor changes, issues with matters disclosed (or that should have been disclosed) in the audit report.

13. Performance: Questions or comments related to a firm's method of accounting for revenues and material considerations in evaluating the quality and uncertainties surrounding their revenue generating activity and related to the computation of earnings per share disclosures.

III. Corporate Governance (Maximum Score = 8)

These items represent questions or comments related to the firm's corporate governance mechanisms as disclosed in the M&A filing.

1. Board of directors: Questions or comments on the firm's board of directors, including issues related to board composition, independence, and board's compensation.

2. Independence: Comments to provide clarification on the firm' s board of directors' independence level.

3. Organization & Structure: Comments to provide clarification on the firm' s organizational structure, both before and after the merger and acquisition.

4. Relationship: Comments regarding the relations between the management team and firm's operations.

5. Holding: Comments regarding the disclosures of the controlling shareholders of the firm.

6. Institution: Questions or comments about the holdings of institutional investors.

7. Related-party: Questions for additional clarification or details surrounding the related parties, including management, board members, suppliers, local/national government agencies and other insiders.

8. Shareholder: Comments regarding the disclosure of significant shareholders and disclosure of the relations between shareholders and the firm.

Appendix C

Examples of comments under the three categories

Sample text from a comment letter regarding Shaanxi Ligeance Mineral Resources Co., Ltd. (SLMR) and Hong Kong International Construction Investment Real Estate (HKICIRE)

"Subject to the "Memorandum No.6 on Main Board Information Disclosure - Matters concerning Asset Valuation", please provide details on the parameter selection process, basis and rationality in the valuation of the target based on income approach, especially the values of business growth, yield/rate, discount rate and other important parameters, and the definition and evidence of forecast and stability periods. Based on the historical performance of the business units, the details of the reserve projects, comparable listed companies, changes in current policies and business development trends, please indicate the rationality of parameters selection and valuation, especially the reason and rationality of the significant variance of forecasted revenue and net profit in 2017 compared with 2016." (SLMR¸ M&A related comment)

"Provide additional information on the proportions and changes of independent R&D, joint R&D in partnership with third-party research institutions or universities, sourcing and licensing of the intangible assets of the target, such as key R&D results. Indicate whether the core technologies of the target are derived from third parties, whether there is any intellectual property dispute or potential dispute, the independence of business and core technologies and the measures to maintain R&D and core strengths of the target." (SLMR¸ M&A related comment)

"The Report shows that after the deal, a large amount of goodwill will be generated. Please analyze the specific reasons and rationality of the increased valuation in detail based on the industry position, core competency, market share and competitors of the target, and also its protection against the impairment risk of goodwill." (SLMR, Accounting Quality comment)

"Please explain whether the restructuring and private placement will result in the change of control of the listed [acquirer] company and shall be deemed as a case of restructuring and listing given the specific nomination of the directors of the listed company, the selection, recruitment and adjustment of the supervisors and senior management as well as the shareholding structure, the composition of the board of directors and the major financial and operational decisions after the deal." (SLMR, Corporate Governance comment)

"The plan disclosed that Hong Kong International Construction Investment's 2016 and 2017 annual net profit were respectively. It was 234,032,600 yuan and -21,178,500 yuan, a sharp decline. And its real estate development sales of the remaining Shenyang projects in 2017 are not as good as those sold in 2016 Shanghai and Tianjin projects. Please add: (1) Hong Kong International Construction Investment Real Estate's revenue, profit and gross profit margin in reporting period; (2) Combining the aforementioned disclosures and underlying assets analyze the profitability of Hong Kong International Construction Investment." (HKICIRE, Accounting Quality)

"The ending balance of other non-current assets of the company in 2017 was 37.99 million yuan, of which the ending balance of prepaid equipment was 36.5 million yuan, and the opening balance was 40.95 million yuan. Please disclose the specific conditions of prepaid equipment, including the counterparty, amount, and whether the company has an associated relationship and the reasons for its formation. Please ask auditor provide opinions." (HKICIRE, Accounting Quality)

Appendix D

Industry distribution of comment letter

Industry code	Industry name	N	%
A	Agriculture, forestry, livestock farming, fishery	4	0.69%
B	Mining and oil extraction	13	2.23%
C1	Food processing, tobacco, textiles	25	4.29%
C2	Furniture manufacturing, paper products, printing	91	15.61%
C3	Non-metallic mineral products manufacture	209	35.85%
C4	Instrument manufacturing	12	2.06%
D	Electricity, heat, gas and water production and supply	14	2.40%
E	Constructions	15	2.57%
F	Wholesale and retail trade	29	4.97%
G	Transportation, warehousing and postal services	14	2.40%
H	Hotels and catering services	1	0.17%
I	Information transmission, software and information technology services	73	12.52%
K	Real estate	26	4.46%
L	Rental and business services	16	2.74%
M	Scientific research and technical services	6	1.03%
N	Water conservancy, environment and utilities management	11	1.89%
Q	Health and social work	3	0.51%
R	Culture, sports and entertainment	15	2.57%
S	Comprehensive	6	1.03%
	Total	583	100.00%

The table shows the industry distribution of the sample of comment letter deals. The industry classification is from CSRC guidelines on industry classification of listed firms http://www.csrc.gov.cn/pub/csrc_en/laws/overrule/Announcement/201302/W020130225570141407159.doc.

Appendix E

Definition of significant deals

Regulations of CSRC on material assets reorganization of listed companies (2016 edition)

The purchase of assets from the acquirer and its affiliates, which results in one of the following fundamental changes of the listed company, constitutes a material assets reorganization:
(I) The total amount of assets purchased accounts for more than 100% of the total amount of assets at the end of the audited consolidated financial statement in the fiscal year prior to the change of control of the listed company.
(II) The total amount of assets purchased accounts for more than 100% of the operating income in the audited consolidated financial and accounting report of the listed company in the fiscal year preceding the change of control rights of the listed company;
(III) The total amount of assets purchased accounts for more than 100% of the net profit of the audited consolidated financial and accounting report of the listed company in the fiscal year preceding the change of control rights;
(IV) The total amount of assets purchased accounts for more than 100% of the net assets at the end of the audited consolidated financial statements in the fiscal year prior to the change of control rights of the listed company;
(V) The proportion of the stocks issued by the listed company to purchase assets from the acquirer and its affiliates reached more than 100% of the shares of the trading day prior to the board's decision;
(VI) Although the purchase of assets by a listed company from the acquirer and its affiliates does not meet the standards in items (I) to (V) of this paragraph, it may cause fundamental changes in the main business of the listed company;
(VII) Other circumstances identified by the CSRC that may lead to fundamental changes in the listed company.

Implementation of Comment letter in Chinese Market based on Securities Law of the People's Republic of China
In order to implement the requirements of the "Opinions of the State Council on Promoting Mergers and Acquisitions", "Opinions of the State Council on Further Optimizing the Market Environment of Enterprise Mergers and Acquisitions" and "Several Opinions of the State Council on Further Promoting the Healthy Development of Capital Markets", CSRC passed the "Administrative Measures for Major Asset Restructuring of Listed Companies" on March 23 to further simplify administrative examination and approval, strengthen information disclosure, and strengthen in-event and post-event supervision. To support the implementation of the CSRC's new regulation, the front-line supervision of information disclosure on exchange mergers and acquisitions has gradually evolved, and the comment letter system has increasingly become the main supervision tool issued by the stock exchanges.[29]

[29] CHEN Yunsen, DENG Yilu, LI Zhe. Does the Non-penalty Regulation Have Information Content? Evidence from comment Letters. Journal of Financial Research, 2018, 454(4): 155-171.

Appendix F

Top 10 Financial advisors by year

Year	Advisor	Rank
2014	Haitong Securities	1
	Guotai Junan Securites	2
	HTSC	3
	China International Capital Corporate Limited	4
	GF Securities	5
	Southwest Securities	6
	CSC Financial	7
	CITIC Securities	8
	Northeast Securities	9
	UBS Securities	10
2015	HTSC	1
	CITIC Securities	2
	Southwest Securities	3
	Haitong Securities	4
	Guotai Junan Securites	5
	China International Capital Corporate Limited	6
	GF Securities	7
	CSC Financial	8
	Morgan Stanley	9
	CMSC	10
2016	China International Capital Corporate Limited	1
	CITIC Securities	2
	HTSC	3
	CSC Financial	4
	GF Securities	5
	CMSC	6
	Haitong Securities	7
	Southwest Securities	8
	China Great Wall	9
	Guotai Junan Securites	10
2017	China International Capital Corporate Limited	1
	CITIC Securities	2
	HTSC	3
	CSC Financial	4
	Haitong Securities	5
	CMSC	6
	Guotai Junan Securites	7
	China Great Wall	8
	Guoxin Securities	9
	Southwest Securities	10

FIGURE 1

Merger event timeline

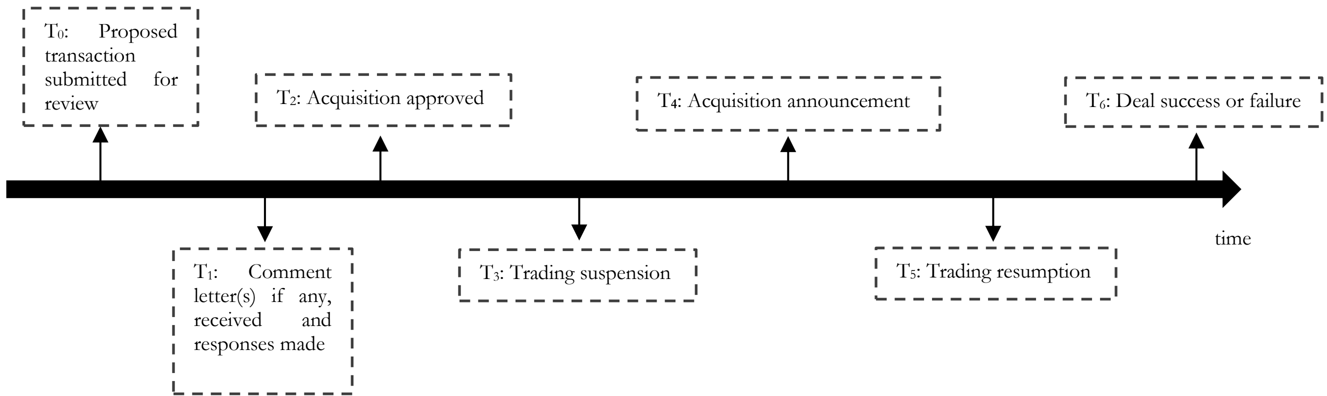

FIGURE 2
Mapping between event days and trade suspension, merger announcement and trade resumption days

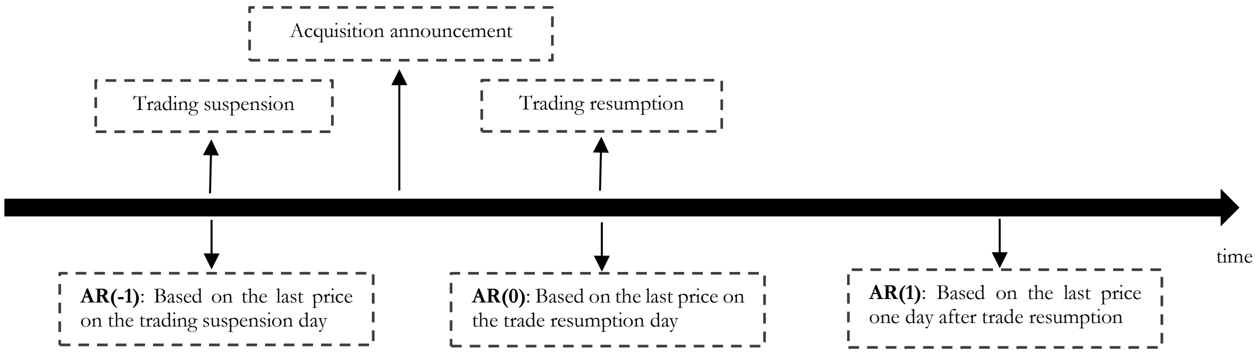

FIGURE 3
Abnormal returns in the event window from AR(-3) to AR(3) for comment letter versus non-comment letter deals

The figure reports the coefficients on variable *Letter* and on the intercept from equation (2) regressions (untabulated) where the dependent variables are individual abnormal returns from the event window from AR(-3) to AR(3).

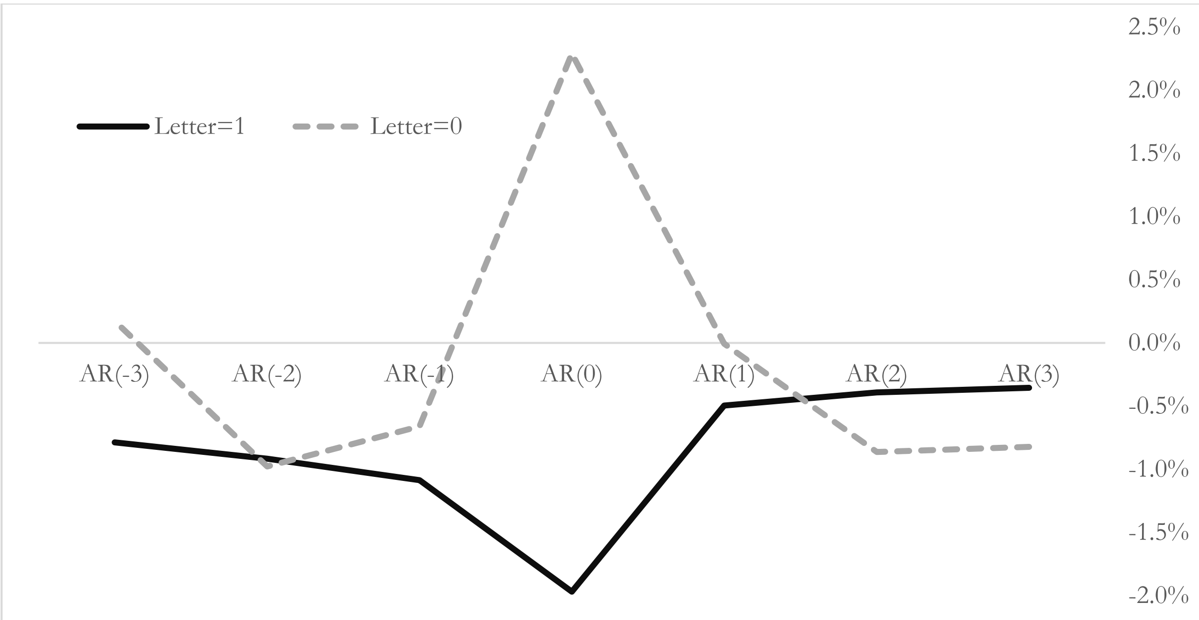

TABLE 1

Sample selection and acquisition comment letter distribution over time

Panel A: Sample selection

Comment letters on asset restructure from Shanghai and Shenzhen Stock Exchanges		720
Less:	Observations with missing filings, announcement or resumption dates	228
	Observations with insufficient data to calculate variables in Equation 1 and 2 (including 21 no response firms)	52
Comment letters M&As		583
M&As from Shanghai and Shenzhen Stock Exchanges		2,312
Less:	Observations with missing filings, announcement or resumption dates	120
	Observations with insufficient data to calculate variables in Equation 1 and 2	25
M&A Cases		2,167

Panel B: Sample distribution over time

Year	M&A observations	CL observations	% CL observations
2015	769	195	25.36%
2016	735	258	35.10%
2017	663	130	19.61%
Total	2167	583	26.69%

Panel A shows the sample selection process for transactions with and without comment letters. Panel B reports the sample distribution over the period 2015-2017.

TABLE 2

Descriptive statistics

Panel A: Descriptive statistics for comment letters transactions

Variable	N	Mean	Median	SD	Min	Q1	Q3
CL_complexity (unscaled)	583	2,566.221	2295	1,387.429	466	1,568	3,182
CL_complexity	583	0.2641	0.2362	0.1428	0.0480	0.1614	0.3275
ISSUES (max 49)	583	25.798	26	6.718	6	21	30
MA_ITEMS (max 28)	583	15.012	15	4.001	4	12	18
A_ITEMS (max 13)	583	7.336	7	2.488	1	6	9
G_ITEMS (max 8)	583	3.449	3	1.613	0	2	5

Panel B: The average number of issues mentioned in a comment letter for each group

	ISSUES	MA_ ITEMS	A_ITEMS	G_ ITEMS
2015	23.75	13.90	6.57	3.28
2016	26.28	15.26	7.44	3.57
2017	27.92	16.18	8.28	3.47

Panel C: Pearson correlations between CAR (-3, 3) and comment letter characteristics

	Letter	CL_complexity	ISSUES
CAR (-3,3)	-0.2140***	-0.1873***	-0.2059***

Table 2 continued on next page

Panel D: Descriptive statistics for firms with comment letters (Letter=1) and firms without a comment letter (Letter=0)

Variables	Letter=0		Letter=1		t-statistic for mean difference
	N	Mean	N	Mean	
Price reaction and M&A outcome measures					
CAR (-3, +3)	1,584	0.006	583	-0.006	10.192***
Time to relist	1,584	6.427	583	22.994	-15.730***
Completion	1,584	0.866	583	0.707	8.779***
Future ROA	1,584	0.041	583	0.0261	2.007**
Future Goodwill impairment	1,584	0.242	583	0.2127	1.449
Merger filing variables					
Non_major_restructure	1,584	0.311	583	0.247	2.915***
Board_of_director_meeting	1,584	0.357	583	0.595	-10.175***
Asset_appraisal	1,584	0.354	583	0.897	-25.564***
Trading_plan	1,584	0.199	583	0.731	-26.610***
Payment_method	1,584	0.168	583	0.504	-16.863***
Invest_risk_factor	1,584	0.089	583	0.029	4.775***
Non_public_offering	1,584	0.280	583	0.840	-27.026***
Deal characteristics					
Sig_Deal	1,584	0.184	583	0.729	-27.887***
Payment_stock	1,584	0.066	583	0.290	-14.544***
Public_target	1,584	0.101	583	0.098	0.223
Related_Deal	1,584	0.273	583	0.593	-14.446***
Top_FA	1,584	0.162	583	0.487	-16.472***
Bidder characteristics and political connections					
Firm_Size (log CNY)	1,584	22.809	583	22.842	-0.784
Volatility	1,584	-3.094	583	-2.326	-11.871***
Analyst_Num	1,584	2.629	583	2.423	4.303 ***
Weak_IC	1,584	0.124	583	0.141	-1.044
Leverage	1,584	5.819	583	1.894	0.600
Firm_Age	1,584	2.089	583	2.278	-5.642***
Tobin's Q	1,584	2.898	583	5.514	-2.713***
ROA	1,584	0.028	583	0.018	4.510***
CEO_Political	1,584	0.247	583	0.223	1.152
SOE	1,584	0.171	583	0.225	-2.851***
Regulated	1,584	0.277	583	0.281	-0.191
Bidder corporate governance variables					
CEO_ACC	1,584	0.836	583	0.808	1.568*
CFO_ACC	1,584	0.205	583	0.184	1.087
CEO_OWN	1,584	0.200	583	0.231	-0.171
MGT_ON_BOARD	1,584	0.346	583	0.344	0.252
Boardsize	1,584	9.162	583	9.690	-3.284***
Instrument in 2SLS model					
Busyness_CL	1,584	0.367	583	0.361	0.989

Table 2 continued on next page

Panel A reports descriptive statistics for variables related to comment letters. Panel B shows the time-series split of comment letters issues across the three categories: M&A related, accounting quality and corporate governance. Panel C reports Pearson correlations between CAR(-3, 3) and comment letter characteristics. Panel D reports descriptive statistics for price reaction measures, post-deal outcomes, variables in Equation (1), and the measure of regulatory busyness split between deals that receive comment letters (Letter=1) and deals that do not receive comment letters (Letter=0).

TABLE 3

The likelihood of receiving a comment letter and the fraction of comment letters with pecific M&A issues

Panel A: The logit model predicting the likelihood of receiving a comment letter

	Coefficient estimate	z-statistic	% Δ in odds
Non-major_restructure	1.9430***	6.444	1.424
Board_of_director_meeting	0.3827***	2.848	0.208
Asset_appraisal	0.8073***	4.120	0.497
Trading_plan	0.3745***	2.752	0.195
Payment_method	0.3208***	3.318	0.151
Invest_risk_factor	-0.4985**	-2.024	-0.122
Non_public_offering	0.8077***	7.149	0.492
Sig_Deal	2.5950***	6.997	2.391
Payment_stock	0.2836	1.190	0.099
Related_Deal	0.1094	0.691	0.054
Public_target	-0.2066	-0.896	-0.060
CEO_Political	-0.2113	-0.999	-0.086
SOE	-0.4953***	-4.915	-0.175
Firm_Age	0.1918**	2.534	0.143
Firm_Size	0.1295	1.259	0.120
Leverage	0.0000	-0.044	-0.002
ROA	-1.7826	-1.057	-0.075
Volatility	0.1642***	2.710	0.254
Weak_IC	0.0129	0.076	0.004
Regulated	0.2732	1.283	0.130
Tangible	0.633	1.317	0.094
Tobin's Q	0.0070***	2.812	0.151
Top_FA	0.4428***	4.591	0.211
Analyst_Num	-0.092	-1.485	-0.087
MGT_ON_BOARD	0.1844	0.621	0.033
Boardsize	0.0073	0.378	0.024
Intercept	-8.2475***	-3.331	
Year-FE	YES		
Industry-FE	YES		
N	2,166		
Pseudo R^2	0.4082		

Table 3 continued on next page

Panel B: The percentage of comment letters with specific M&A issues

I	**Pricing and Valuation**	**93.2%**
	Individual coded issues:	
	Assessed Valuation	22.0%
	Price/pricing	44.0%
	Cash pay	41.0%
	Valued-added	31.0%
	Discount rate	8.0%
	Valuation	29.0%
	Offering price	9.0%
	Income approach	36.0%
	Evaluation	7.0%
	Basic/market approach	24.0%
II	**Payment method**	**92.0%**
	Individual coded issues:	
	Share issue	60.0%
	Incremental capital	26.0%
	Source of capital	16.0%
	Issuance	68.0%
III	**Target**	**95.1%**
	Individual coded issues:	
	Related party	23.0%
	Target	74.0%
IV	**Risk**	**66.0%**
	Individual coded issues:	
	Risk	66.0%
V	**Integration**	**85.3%**
	Individual coded issues:	
	Commitment to performance	9.0%
	Terminate	9.0%
	Action party	9.0%
	Follow-up	31.0%
	Pledge	11.0%
	Assets reorganization	52.0%
	Ownership	22.0%
VI	**Other**	**100.0%**
	Individual coded issues:	
	Transaction	79.0%
	Proposal	47.0%
	Major assets restructuring	51.0%
	Central Counterparty	24.0%

Table 3 Panel A reports results of a logit regression of the likelihood of receiving a comment letter. Column '% Δ in odds' reports the percent change in odds for a one standard deviation increase in the independent variable. z-statistics are in parentheses with standard errors adjusted for industry clustering. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. See Appendix A for variable definitions. Panel B provides a break-down of M&A related issues and their respective frequencies in our sample comment letters .

TABLE 4
Comment letter receipt and bidder announcement returns

Panel A: Comment letter disclosure and price reactions to M&A announcements

	Model (1)	Firm-fixed effects	2SLS: First stage	2SLS: Second stage	Trade resumed within 3 days	$\frac{AR(0)}{CAR(-3,3)}$
Letter	-0.0601***	-0.0337***		-0.1069***	-0.0656***	0.5501**
	(-7.921)	(-3.871)		(-2.923)	(-3.798)	(2.704)
Busyness_CL			-0.5640*			
			(-1.884)			
Intercept	-0.0091	0.3081**		-0.0308	-0.0367	1.2745
	(-0.073)	(2.130)		(-0.336)	(-0.227)	(0.243)
Controls	YES	YES	YES	YES	YES	YES
Year-FE	YES	YES	YES	YES	YES	YES
Industry-FE	YES	NO	YES	YES	YES	YES
Firm-FE	NO	YES	NO	NO	NO	NO
N	2,167	2,167	2,167	2,167	1,284	2,167
R^2	0.069	0.872			0.037	0.025
Hazard lambda				0.0280		
				(1.309)		

Panel B: The effect of the comment letter content on price reactions to M&A announcements

	Model (1)	Model (2)	Model (3)	Standardized coefficients
ISSUES		-0.0023***		
		(-4.051)		
A_ITEMS			-0.0016	-0.0441
			(-0.532)	
G_ITEMS			-0.0056**	-0.0776
			(-2.836)	
MA_ITEMS			-0.0021**	-0.1159
			(-2.153)	
CL_complexity	-0.1435***	0.0279	0.0369	0.0405
	(-5.930)	(0.506)	(0.633)	
Intercept	0.0032	-0.0081	-0.0043	
	(0.026)	(-0.064)	(-0.035)	
Controls	YES	YES	YES	
Year-FE	YES	YES	YES	
Industry-FE	YES	YES	YES	
N	2,167	2,167	2,167	
R^2	0.058	0.065	0.065	

Table 4 continued on next page

Panel C: Difference in bidder announcement returns for PSM and entropy matched samples

PSM matched sample					
	Off-support		On-support		Total observations
Letter=0	0		1,583		1,583
Letter=1	1		582		583
Total	1		2,165		2,166
	CAR (-3,3)	CAR(-3,3)			
	Letter=1	Letter=0	Difference	S.E.	t-stat
Price reaction	-0.0554	-0.0029	-0.0524	0.0088	-5.98

Entropy matched sample					
	CAR (-3,3)	CAR(-3,3)			
	Letter=1	Letter=0	Difference	S.E.	t-stat
Price reaction	-0.0934	0.0436	-0.1370	0.0358	-3.82

PSM matched sample – only deals that failed					
	Off-support		On-support		Total observations
Letter=0	0		208		208
Letter=1	22		148		170
Total	22		356		378
	CAR (-3,3)	CAR(-3,3)			
	Letter=1	Letter=0	Difference	S.E.	t-stat
Price reaction	-0.0293	0.0568	-0.0879	0.0516	-1.70

Table 4 Panel A reports regression results for Equation (2) where the dependent variable is CAR(-3,3) around the M&A announcement. Letter is a dummy variable that equals one if the acquisition disclosure included a comment letter and zero if no comment letter was issued. Busyness_CL is the ratio of total number of periodic filings (half-and full-year results) and IPO comment letters issued in a given month over the total number of comment letters issued in the previous two months (excluding the current month). We measure regulatory busyness at the end of the month preceding the M&A announcement month. Column 'Trade resumed within 3 days' reports Equation (2) results for deals that resumed trading within 3 days of the M&A announcement date. *t* statistics are in parentheses with standard errors adjusted for industry clustering. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Controls are those used in Table 3. See Appendix A for variable definitions. Panel B reports the effect on price reactions of comments related to the M&A transaction, accounting quality and corporate governance based on the classification in Appendix B. Standardized coefficients column reports coefficients for variables normalized to mean of zero and unit standard deviation. Panel C reports the univariate difference in mean announcement returns for the entropy balanced and PSM matched samples between firms with comment letters and matched sample firms without comment letters.

TABLE 5

Comment letter receipt and trading suspension length, deal completion, and goodwill impairment likelihood

	Time to relist	Completion		Goodwill impairment (t+1)	
		Estimate	% Δ in odds	Estimate	% Δ in odds
Letter	1.2033***	-0.3191*	-0.132	0.2905**	0.141
	(20.303)	(-1.787)		(2.119)	
CAR (-3,3)		-0.4971	-0.061		
		(-1.303)			
Intercept	0.3749	1.0770		-6.3370***	
	(0.565)	(0.490)		(-3.844)	
Controls	YES	YES		YES	
Year-FE	YES	YES		YES	
Industry-FE	YES	YES		YES	
N	2,167	2,166		1,665	
R^2	0.6080				
Pseudo R^2		0.1209		0.0824	

Tabe 5 reports regressions of the length of the trading suspension, the likelihood of deal completion and goodwill impairment on comment letter receipt. The dependent variable in column 'Time to relist' is log of 1+ the number of days between the M&A announcement and the resumption of stock trading. The 'Completion' column reports logit results for the acquisition completion likelihood. The 'Goodwill impairment (t+1)' column reports logit regression of the likelihood of goodwill impairment one year following the transaction. Letter is a dummy variable that equals one if the acquisition disclosure included a comment letter and zero if no comment letter was issued. CAR (-3,3) measures price reaction to merger announcement. *t* statistics and *z*-statistics are in parentheses with standard errors adjusted for industry clustering.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Controls are those used in Table 3. See Appendix A for variable definitions.

TABLE 6

Comment letter receipt and changes in operating performance

	Model (1) ROA(t) – ROA(t-2)	**Model (2)** ROA(t+2) – ROA(t-2)
Letter	0.0147	-0.0500**
	(1.054)	(-2.015)
Intercept	0.0212	-0.2266**
	(0.409)	(-1.977)
Controls	YES	YES
Year-FE	YES	YES
Industry-FE	YES	YES
N	2,167	2,167
R^2	0.178	0.177

Table 6 reports regressions of the change in operating performance, measured as the difference in ROA between year *t*, the year of the acquisition, and year *t-2*, two years prior to the acquisition in Model (1); and between year *t+2*, two years after- and year *t-2*, two years prior to the acquisition in Model (2). Letter is a dummy variable that equals one if the acquisition disclosure included a comment letter and zero if no comment letter was issued. Controls are those used in Table 3. *t*-statistics are reported in parentheses with standard errors adjusted for industry clustering.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. See Appendix A for variable definitions.

TABLE 7

Political connections, comment letter receipt, and market reaction

	Model (1)	Model (2)	Model (3)
Letter×CEO_PC	-0.0260***		
	(-4.523)		
Letter×SOE		-0.0342**	
		(-2.133)	
Letter×Regulated			-0.0513***
			(-3.483)
Letter	-0.0642***	-0.0612***	-0.0565***
	(-6.637)	(-8.726)	(-6.477)
CEO_Political	-0.0114*	-0.0068	-0.0070
	(-1.675)	(-1.258)	(-1.295)
SOE	0.0225**	0.0202*	0.0222**
	(2.333)	(1.681)	(2.327)
Regulated	0.0140	0.0141	0.0285**
	(1.218)	(1.232)	(1.998)
Intercept	0.0085	0.0233	-0.0001
	(0.075)	(0.213)	(-0.001)
Controls	YES	YES	YES
Year-FE	YES	YES	YES
Industry-FE	YES	YES	YES
N	2,167	2,167	2,167
R^2	0.044	0.045	0.050

Table 7 reports regressions of bidder announcement returns on comment letter receipt and measures of political connections. *t* statistics in parentheses with standard errors adjusted for industry clustering. Controls are those used in Table 3. See Appendix A for variable definitions. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.