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The Valuation Effect of Pension Accounting Standard 158 on Highly Levered Firms

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Abstract

SFAS 158 mandates that firms fully recognize pension liabilities associated with a defined benefit plan's funded status on the balance sheet and use the Projected Benefit Obligation to estimate that status. Prior research documents a negative relationship between financial risk and the discount rate used to estimate these liabilities. Using standard event study methodology, we extend these prior findings by investigating the effects of pronouncements related to SFAS 158 on stock returns. Our findings show highly levered firms experience negative abnormal returns on and around the issue date of the exposure draft.