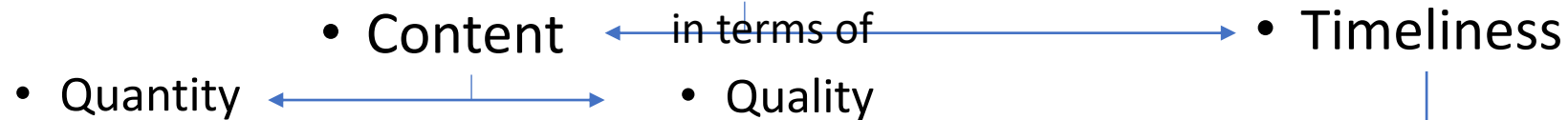


Main RQ

Is narrative disclosure more responsive to bad news than good news?

Concept



Measure

- NW: Total number of words in the document
- TONE: Tone of the document
- TLAG: Time lag between the news release date and document filing date

Model

$\text{Doc\_measure} = b_0 + b_1 * \text{RET} + b_2 * \text{NEG} + b_3 * \text{RET} * \text{NEG} + \text{controls}$ , where doc\_measure = NW, TONE, TLAG

- If narrative disclosure is more responsive to bad news than good news, then I expect:
  - **NW:  $b_3$  should be positive**
    - bad news reporting requires more careful explanation than good news which translate into longer document
  - **TONE:  $b_1$ ,  $b_1+b_3$  and  $b_3$  should be positive**
    - positive  $b_1$  and  $b_1+b_3$  means that tone is consistent with news: good news – positive tone, bad news – negative tone
    - positive  $b_3$  means that firms uses more sentimental words to attract investors attention to bad news than good news
  - **TLAG:  $b_3$  should be negative**
    - bad news reporting is more timely than good news which translate into shorter lag

Additional RQ

Factors affecting the asymmetric responsiveness to good v.s. bad news in narrative disclosure?

- **Policy:** textual disclosure related to items that mainly apply conditional (PP&E) v.s. unconditional (R&D) conservative accounting policy in its numerical disclosure
- **Purpose:** text disclosure that aims to explain numerical disclosure (notes) v.s. to provide forward-looking information (MD&A)

Model – only 10Q

$\text{Doc\_measure} = a_0 + b_1 * \text{RET} + b_2 * \text{NEG} + b_3 * \text{RET} * \text{NEG} + c_1 * \text{SEC} + c_2 * \text{RET} * \text{SEC} + c_3 * \text{NEG} * \text{SEC} + c_4 * \text{RET} * \text{NEG} * \text{SEC} + \text{controls}$ , where SEC is:

- **Policy indicator** that takes 1 if the textual section is related to items that mainly apply unconditionally conservative in its numerical disclosure (R&D), and 0 if related to items that mainly apply conditionally conservative in its numerical disclosure (PP&E)
- **Purpose indicator** that takes 1 if the textual section is explanatory (notes), and 0 if is forward-looking (MD&A)

Robustness

- Other news proxy: tariff / oil price (case study for specific industries)

# CRSP\_COMP\_10-Q Merging Process

## CRSP

- Total number of monthly obs. in CRSP: 2,477,547
- Number of monthly obs. in CRSP that contains *numeric* returns: 2,427,687

## COMPUSTAT

- Total number of quarterly obs. (10-Q + 10-K) in Compustat: 1,240,141
- Number of quarterly obs. in Compustat with 9-digits cusips: 1,239,632

## EDGAR

- Total number of 10-Qs in Edgar: 594,017
- Number of 10-Qs successfully parsed and downloaded: 575,579

Merge and aggregate CRSP monthly returns to quarterly returns

## CRSP\_COMPUSTAT

- Number of cusip-quarter observations after
  - merging
  - dropping obs. with missing gvkey and return: 707,333

Merge

## CRSP\_COMPUSTAT\_EDGAR

- Number of cik-quarter observations after
  - merging: 303,843
  - dropping obs. according to a set of data screening criterion\*: 190,926

### Time Period

- Compustat & Edgar: 1993Q1 - 2020Q1
- CRSP: 1992 Nov. - 2019 Dec.

\* For example, dropping non-positive total asset/book equity, 10-Q words less than 1% quantile etc., see code.

# CRSP\_COMP\_8-K Merging Process (WIP!!!)

## CRSP

- Total number of monthly obs. in CRSP: 2,477,547
- Number of monthly obs. in CRSP that contains *numeric* returns: 2,427,687

## COMPUSTAT

- Total number of quarterly obs. (10-Q + 10-K) in Compustat: 1,240,141
- Number of quarterly obs. in Compustat with 9-digits cusips: 1,239,632

## EDGAR

- Total number of 8-Ks in Edgar: 1,628,467
- Number of 8-Ks successfully parsed and downloaded: 1,578,861

Merge and aggregate CRSP monthly returns to quarterly returns

## CRSP\_COMPUSTAT

- Number of cusip-quarter observations after
  - merging
  - dropping obs. with missing gvkey and return: 707,333

## EDGAR

- Total number of 8-Ks in Edgar: 1,628,467
- Number of 8-Ks successfully parsed and downloaded: 1,578,861

Merge

## CRSP\_COMPUSTAT\_EDGAR

- Number of cik-quarter observations after
  - merging: 303,843
  - dropping obs. with total number of 10-Q words less than 1% threshold of the merged sample (1185 words): 300,806

## Time Period

- Compustat & Edgar: 1993Q1 - 2020Q1
- CRSP: 1992 Nov. - 2019 Dec.