Narrative Conservatism

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Outline

Research Question and Contribution

- **Research Question**
  - Whether narrative disclosure is conservative, i.e., whether narratives respond to bad news in a more complete, news-consistent and timely manner than good news?
- **Contribution**
  - Filling the gap in conservatism literature by documenting the existence of narrative conservatism.
  - Adding to the literature on the distinction and the interaction between recognition and disclosure.
  - Providing novel evidence to the debate regarding whether managers withhold bad news.
  - Relating to the broader literature on the informativeness of SEC filings.

Theoretical Framework: Recognition and Disclosure

- **Definition (Schipper, 2007)**
  - Recognition: depictions in numbers with captions on the face of the financial statements
  - Disclosure: display in the notes and supporting schedules that accompany financial statements
- **Reporting Requirement (FASB, 1984)**
  - Recognition: an economic event can be recognized if it satisfies all of the following criteria
    - Definition criterion
    - Measurability criterion
    - Relevance criterion
    - Reliability criterion
  - Disclosure: can be deployed to disclose information that fails to meet certain recognition criteria
- **Role of Narratives**
  - Supplement information that cannot be recognized
  - Explain recognized line items

Theoretical Framework: Conservatism

- **Definition**
  - Conditional and unconditional conservatism
  - Narrative conservatism: narratives responding to bad news in a more complete, news-consistent and timely manner than good news
- **Why do firms disclose or withhold bad news?**
  - Disclose: lower financing costs, avoid litigation risk and reduce the stock option exercise price
  - Withhold: managers' future career concern and performance-based compensation
- **Hypotheses**
  - **H1:** The total number of words in narrative disclosure is greater in response to bad news than good news.
  - **H2**: The marginal change of tone in narrative disclosure is greater in response to bad news than good news.
  - **H3**: The reporting time lag of narrative disclosure is shorter in response to bad news than good news.

Research Design: Model

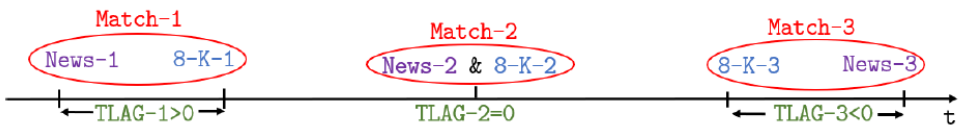
- **Narrative Disclosure Corpora and News Proxy**
  - Corpora: 10-Q and 8-K filings as they (a) are more credible, (b) have higher reporting threshold and (c) are more timely than other corporate communication channels.
  - Heterogeneity between 10-Q and 8-K: (a) 10-Q is more diversified in content (b) 8-K is more timely.
  - News proxy is stock returns, assuming market efficiency.
- **Model Specification**
  - Form 10-Q

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

  - Form 8-K

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (3)$$

Figure 1: 8-K Merging Process



Research Design: Data

- Data source: historical financial and segment data from Compustat, stock returns from the Center for Research in Security Prices (CRSP) and analyst earnings forecasts data from I/B/E/S.

Table 1. Sample Selection Process

10-Q		
Numer of observations:		
Retrieved from EDGAR		575,579
After merging with COMP and CRSP data		190,336
After merging with I\B\E\S and segment data		110,116
After dropping obs. with missing values in key variables and screening		**91,607**
8-K		
Numer of observations:		
Retrieved from EDGAR		1,489,626
After merging and matching with COMP and CRSP data		442,611
(-) Number of obs. from utility and financial firms	112,739	
(-) Number of firm-quarters with missing values in SIC, SIZE, MTB, LEV, or with non-positive total assets or book value of equity or common shares outstanding, or with common share price less than \$1	48,230	
(-) Number of obs. with total words less than 1% percentile (133 words)	2,776	
(-) Number of obs. that are reversals of previous news day	5,132	
After dropping obs. with missing values in key variables and data screening		273,734
After dropping obs. with negative or larger than 99% percentile TLAG (Full 8-K sample)		**119,616**
After dropping obs. with TLAG larger than four (five) days after (before) the 8-K reform (Restricted 8-K sample)		**40,700**

Main Results: Summary Statistics

Table 2. Panel A: Summary Statistics 10-Q

	count	mean	std	min	25%	50%	75%	max
Textual Vars.								
NW	91607	9.020	0.757	7.120	8.506	9.086	9.547	13.544
nw	91607	10937	10204	1236	4942	8829	13997	752337
TONE	91607	-8.921	7.236	-63.579	-13.127	-7.875	-3.866	24.215
TLAG	91607	39	6	0	36	40	44	52
READ	91607	38.161	42.160	14.580	17.840	20.210	39.660	262.515
ABTONE	91607	0.000	6.919	-55.759	-3.946	0.939	4.777	34.181
Financial Vars.								
QRET	91607	0.018	0.253	-1.579	-0.113	0.007	0.130	4.849
NEG	91607	0.483	0.500	0	0	0	1	1
SIZE	91607	6.447	1.776	2.002	5.175	6.317	7.563	11.206
MTB	91607	3.515	4.009	0.288	1.485	2.343	3.902	30.902
LEV	91607	0.192	0.182	0.000	0.011	0.162	0.315	0.724
AF	91607	0.043	0.066	-0.262	0.023	0.049	0.073	0.227
AFE	91607	-0.021	0.067	-0.445	-0.018	-0.002	0.002	0.078
BUSSEG	91607	0.859	0.447	0.693	0.693	0.693	0.693	2.773
GEOSEG	91607	0.898	0.532	0.693	0.693	0.693	0.693	3.045
AGE	91607	8.312	1.033	5.811	7.635	8.420	9.089	10.288
EARN	91607	0.005	0.042	-0.201	0.001	0.012	0.023	0.084
ΔEARN	91607	0.002	0.031	-0.126	-0.006	0.001	0.008	0.150
STD_EARN	91607	0.020	0.030	0.001	0.005	0.009	0.021	0.188
STD_QRET	91607	0.089	0.070	0.007	0.040	0.070	0.115	0.379
LOSS	91607	0.242	0.429	0	0	0	0	1

Main Results: Summary Statistics Cont.

Table 2. Panel B: Summary Statistics 8-K

	count	mean	std	min	25%	50%	75%	max
Textual Vars.								
NW	119616	6.093	0.926	4.898	5.553	5.846	6.358	12.486
nw	119616	1339	6398	133	257	345	576	264704
TONE	119616	-0.551	7.424	-97.851	-3.049	0.000	3.677	45.929
TLAG	119616	15	17	0	2	9	21	93
N8K	119616	1	0	1	1	1	1	4
NITEM	119616	2	1	1	2	2	2	16
Financial Vars.								
DRET	119616	0.003	0.097	-0.833	-0.039	-0.003	0.041	5.991
ΔDRET	119616	-0.018	0.187	-9.062	-0.121	-0.050	0.100	5.989
BN	119616	0.542	0.498	0	0	1	1	1
SIZE	119616	6.326	1.993	2.122	4.896	6.262	7.664	11.379
MTB	119616	3.740	4.781	0.123	1.366	2.293	4.055	33.390
LEV	119616	0.205	0.193	0.000	0.012	0.171	0.334	0.751

Main Results: 10-Q Main Results

Table 3. Panel A: Main Results 10-Q

Dep. Vars.	(1) NW	(2) NW	(3) TONE	(4) TONE	(5) TLAG	(6) TLAG
QRET	0.248***	0.042***	-3.161***	0.272**	0.932***	-0.269**
	(15.24)	(3.41)	(-19.80)	(2.11)	(7.13)	(-2.34)
NEG	0.002	0.006	0.157**	-0.103**	-0.161***	0.024
	(0.27)	(1.23)	(2.38)	(-2.08)	(-2.97)	(0.65)
Sign Prediction	-	-	+	+	+	+
QRET×NEG	-0.546***	-0.141***	9.654***	1.927***	-5.612***	-0.698***
	(-19.00)	(-5.94)	(34.29)	(6.74)	(-24.35)	(-3.83)
SIZE	0.116***	0.017**	-0.398***	0.799***	-1.167***	-0.262***
	(79.86)	(2.04)	(-28.00)	(9.15)	(-100.34)	(-4.15)
MTB	-0.002***	-0.005***	0.019***	0.074***	0.077***	-0.023**
	(-2.70)	(-4.90)	(3.16)	(4.54)	(15.38)	(-2.23)
LEV	0.050***	0.322***	3.018***	-1.666***	1.495***	0.942***
	(3.74)	(9.38)	(23.14)	(-3.81)	(14.00)	(2.67)
Constant	8.222***	8.049***	-6.273***	-21.404***	45.609***	45.616***
	(763.58)	(150.83)	(-59.49)	(-34.05)	(528.25)	(84.02)
Observations	91,607	91,607	91,607	91,607	91,607	91,607
Adjusted R-squared	0.069	0.650	0.023	0.563	0.122	0.614
Year-quarter FE	NO	YES	NO	YES	NO	YES
Firm FE	NO	YES	NO	YES	NO	YES
Industry clustered SE	NO	YES	NO	YES	NO	YES

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Main Results: 10-Q Additional Results

Table 3. Panel B: ABTONE and Readability 10-Q

Dep. Vars.	(1) ABTONE	(2) TONE	(3) READ	(4) READ
QRET	0.214*	0.275**	-0.254	-0.071
	(1.68)	(2.15)	(-0.41)	(-0.11)
NEG	-0.107**	-0.107**	0.093	0.118
	(-2.18)	(-2.18)	(0.33)	(0.43)
Sign Prediction	+	+	-	-
QRET×NEG	0.686**	0.686**	1.596	1.354
	(2.54)	(2.54)	(1.21)	(1.00)
SIZE	1.193***	0.398***	0.289	0.244
	(14.22)	(4.75)	(0.50)	(0.40)
MTB	-0.021	0.065***	-0.004	0.012
	(-1.30)	(4.13)	(-0.06)	(0.17)
LEV	-1.119**	-1.119**	-3.625	-4.293*
	(-2.42)	(-2.42)	(-1.46)	(-1.73)
EARN	3.548	10.371***		8.615
	(1.35)	(3.96)		(1.15)
STD_QRET	4.804***	-1.627***		-0.729
	(14.72)	(-4.99)		(-0.38)
STD_EARN	14.141***	-6.429***		7.917
	(10.71)	(-4.87)		(1.01)
AGE	-0.424*	-0.054		2.832**
	(-1.90)	(-0.24)		(2.38)
BUSSEG	-0.204	0.455**		0.775
	(-0.93)	(2.08)		(0.48)
GEOSEG	1.130***	0.261		0.721
	(5.38)	(1.24)		(0.66)
LOSS	1.815***	-1.465***		0.356
	(17.67)	(-14.26)		(0.86)
ΔEARN	4.805***	-6.212***		0.091
	(4.72)	(-6.10)		(0.02)
AFE	-1.700***	4.276***		-2.205
	(-2.98)	(7.50)		(-0.87)
AF	2.299**	-2.692***		-5.551
	(2.29)	(-2.68)		(-0.99)
Constant	-14.528***	-19.388***	182.073***	159.770***
	(-8.22)	(-10.97)	(18.12)	(12.22)
Observations	91,607	91,607	91,607	91,607
Adjusted R-squared	0.533	0.573	0.442	0.442
Year-quarter FE	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Industry clustered SE	YES	YES	YES	YES

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

$$\begin{aligned} TONE_{i,t} = {} & \beta_0 + \beta_1 EARN_{i,t} + \beta_2 RET_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 MTB_{i,t} + \beta_5 STD\_EARN_{i,t} \\ & + \beta_6 STD\_RET_{i,t} + \beta_7 AGE_{i,t} + \beta_8 BUSSEG_{i,t} + \beta_9 GEOSEG_{i,t} + \beta_{10} LOSS_{i,t} \\ & + \beta_{11} \Delta EARN_{i,t} + \beta_{12} AFE_{i,t} + \beta_{13} AF_{i,t} + \epsilon_{i,t} \end{aligned} \quad (2)$$

Main Results: 8-K Main Results

Table 4. Panel A: Main Results 8-K

Dep. Vars.	(1) NW	(2) NW	(3) TONE	(4) TONE	(5) TLAG	(6) TLAG	(7) TLAG>0
ΔDRET	0.600***	0.050	-3.701***	-0.878**	-10.561***	-13.924***	-9.996***
	(15.46)	(1.43)	(-11.88)	(-2.48)	(-14.61)	(-10.65)	(-9.70)
BN	0.044***	0.007	-0.286***	-0.082	0.374**	0.190	-0.120
	(5.33)	(1.15)	(-4.36)	(-1.30)	(2.46)	(1.02)	(-0.68)
Sign Prediction	-	-	+	+	+	+	+
ΔDRET×BN	-0.994***	-0.108**	6.071***	1.843***	14.575***	20.861***	13.804***
	(-20.21)	(-2.15)	(15.38)	(2.90)	(15.92)	(11.64)	(11.40)
SIZE	-0.009***	-0.010	0.217***	0.140***	-0.961***	-0.493***	-0.198**
	(-5.70)	(-1.47)	(17.94)	(2.66)	(-34.33)	(-5.22)	(-2.03)
MTB	0.007***	0.003***	-0.004	-0.009	0.065***	0.016	0.024
	(12.72)	(2.72)	(-0.90)	(-1.27)	(6.10)	(0.78)	(1.16)
LEV	0.378***	0.039	-1.824***	-0.872***	-1.831***	-1.867***	-2.405***
	(27.02)	(1.19)	(-16.25)	(-2.94)	(-7.03)	(-3.70)	(-4.49)
Constant	5.952***	7.280***	-0.968***	-6.952***	21.938***	33.040***	32.469***
	(473.57)	(33.20)	(-9.59)	(-4.25)	(93.72)	(8.16)	(7.87)
Observations	119,616	119,616	119,616	119,616	119,616	119,616	98,882
Adjusted R-squared	0.012	0.447	0.009	0.158	0.013	0.136	0.123
Year-month FE	NO	YES	NO	YES	NO	YES	YES
Firm FE	NO	YES	NO	YES	NO	YES	YES
Industry clustered SE	NO	YES	NO	YES	NO	YES	YES

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (3)$$

Main Results: 8-K Additional Results

Table 4. Panel B: NITEM, N8K and TLAG 8-K

Dep. Vars.	(1) NITEM	(2) N8K_OL	(3) TLAG_OL
ΔDRET	0.232***	1.076***	-0.944***
	(4.74)	(6.73)	(-7.63)
BN	0.011	0.061	0.107***
	(1.28)	(1.43)	(3.82)
Sign Prediction	-	-	+
ΔDRET×BN	-0.337***	-1.358***	1.436***
	(-5.18)	(-6.43)	(8.75)
SIZE	0.002	0.103***	-0.160***
	(0.36)	(11.76)	(-29.57)
MTB	0.001	-0.011***	0.006***
	(1.06)	(-2.90)	(3.13)
LEV	0.060*	0.467***	0.100**
	(1.78)	(5.57)	(2.06)
/cut1		4.240***	-1.007***
		(69.28)	(-5.38)
/cut2		7.627***	-0.240***
		(74.25)	(-0.07)
/cut3		10.602***	0.349***
		(27.59)	(7.80)
/cut4			1.084***
			(23.74)
/cut5			3.102***
			(53.44)
Constant	1.393***		
	(16.78)		
Observations	119,616	119,616	40,700
Year-month FE	YES	NO	NO
Firm FE	YES	NO	NO
Industry clustered SE	YES	NO	NO
Pseudo R-squared		0.0056	0.0090
Adjusted R-squared	0.0950		

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (3)$$

Auxiliary Analyses: Narrative and Conditional Conservatism

Table 5: Narrative and Conditionl Conservatism

Dep. Vars.	NW		TONE		TLAG	
	(1)	(2)	(3)	(4)	(5)	(6)
CCONS.	LOW	HIGH	LOW	HIGH	LOW	HIGH
QRET	0.079**	0.030***	-0.176	-0.080	-0.110	-0.234**
	(2.49)	(3.92)	(-0.58)	(-0.76)	(-0.45)	(-2.49)
NEG	0.006	-0.008*	-0.119	-0.009	0.079	-0.046
	(0.72)	(-1.92)	(-1.64)	(0.14)	(1.33)	(-0.86)
Sign Prediction	-	-	+	+	+	+
QRET×NEG	-0.179***	-0.095***	2.982***	1.635***	-0.858**	-0.670***
	(-3.62)	(-6.42)	(6.36)	(7.99)	(-2.24)	(-3.68)
SIZE	0.021***	0.037***	0.667***	0.431***	-0.113**	-0.710***
	(3.42)	(13.78)	(11.35)	(11.50)	(-2.35)	(-21.29)
MTB	-0.007***	-0.001***	0.076***	0.027***	-0.049***	0.016***
	(-5.31)	(-2.49)	(5.99)	(4.61)	(-4.68)	(2.98)
LEV	0.354***	0.296***	-2.140***	-1.423***	2.110***	-0.321
	(10.40)	(15.58)	(-6.62)	(-5.43)	(8.00)	(-1.38)
Constant	8.708***	9.293***	-9.067***	-10.464***	42.773***	41.878***
	(51.02)	(269.44)	(-5.60)	(-22.01)	(32.38)	(99.04)
Diff. QRET×NEG	-0.084***		1.347***		-0.189	
	(-1.78)		(3.19)		(-0.56)	
Observations	38,063	38,062	38,063	38,062	38,063	38,062
Adjusted R-squared	0.590	0.838	0.553	0.699	0.653	0.621
Year-quarter FE	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Auxiliary Analyses: The Role of Narratives

Table 6: The Role of Narratives and Narrative Conservatism

Dep. Vars.	NW		TONE	
	(1)	(2)	(3)	(4)
Section	MDA	NOTE	MDA	NOTE
QRET	0.044***	0.043***	-0.180*	0.101
	(3.91)	(3.43)	(-1.82)	(0.65)
NEG	-0.003	-0.004	-0.094**	0.074
	(-0.61)	(-0.92)	(-2.03)	(1.18)
Sign Prediction	-	-	+	+
QRET×NEG	-0.189***	-0.159***	3.279***	1.976***
	(-8.71)	(-5.90)	(9.77)	(6.28)
SIZE	0.034***	0.013	0.847***	1.033***
	(5.03)	(1.28)	(8.03)	(7.77)
MTB	-0.003***	-0.004***	0.018*	0.052***
	(-4.31)	(-3.71)	(1.65)	(3.25)
LEV	0.245***	0.451***	-0.690	-1.855***
	(6.85)	(11.37)	(-1.63)	(-3.14)
Constant	6.870***	5.856***	-5.302***	-9.994***
	(58.27)	(49.31)	(-4.08)	(-6.74)
Diff. QRET×NEG	-0.030***		1.303***	
	(-3.56)		(7.38)	
Observations	79,547	79,547	79,547	79,547
Adjusted R-squared	0.724	0.806	0.535	0.545
Year-quarter FE	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES
Industry clustered SE	YES	YES	YES	YES

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Auxiliary Analyses: Voluntary and Mandatory Disclosure

Table 7. Panel A: Narrative Conservatism in Voluntary and Mandatory Disclosure

Dep. Vars.	NW		TONE		TLAG	
	(1)	(2)	(3)	(4)	(5)	(6)
Disclosure Type	VD	MD	VD	MD	VD	MD
ΔDRET	0.128***	-0.036	-1.254**	-0.804	-15.657***	-6.524***
	(3.11)	(-0.32)	(-2.42)	(-0.64)	(-8.19)	(-4.39)
BN	0.011*	-0.004	-0.026	-0.093	0.425	0.147
	(1.70)	(-0.26)	(-0.39)	(-0.48)	(1.62)	(0.55)
Sign Prediction	-	-	+	+	+	+
ΔDRET×BN	-0.221***	0.003	2.826***	1.285	25.419***	9.365***
	(-3.88)	(0.03)	(3.15)	(0.98)	(9.36)	(5.45)
SIZE	-0.003	-0.021**	0.082	0.148	-0.626***	-0.045
	(-0.40)	(-2.07)	(1.46)	(1.62)	(-5.15)	(-0.29)
MTB	0.001	0.005***	-0.006	-0.007	0.001	0.036
	(1.01)	(3.15)	(-0.55)	(-0.43)	(0.04)	(1.42)
LEV	0.097**	-0.055	-1.064***	-0.665	-1.491**	-2.122*
	(2.43)	(-1.00)	(-3.48)	(-1.07)	(-2.47)	(-1.91)
Constant	6.807***	8.426***	-4.472**	-10.793***	30.618***	39.314***
	(34.90)	(15.03)	(-2.40)	(-2.65)	(6.25)	(4.36)
Diff. ΔDRET×NEG	-0.225***		1.541***		16.054***	
	(-3.07)		(1.78)		(11.33)	
Observations	84,113	35,503	84,113	35,503	84,113	35,503
Adjusted R-squared	0.464	0.522	0.196	0.158	0.140	0.178
Year-month FE	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES
Industry clustered SE	YES	YES	YES	YES	YES	YES

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (3)$$

Auxiliary Analyses: Voluntary and Mandatory Disclosure

Table 7. Panel B: Narrative Conservatism in Voluntary and Mandatory 8-K Items

Dep. Vars.	NW		TONE		TLAG	
	(1)	(2)	(3)	(4)	(5)	(6)
Time Period	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER
Item 1	0.120	0.593***	0.092	-4.302***	-1.204	1.596***
	(1.49)	(93.13)	(0.15)	(-43.87)	(-0.96)	(11.42)
Item 2	1.373***	**0.201*** **	-5.253***	**-0.728*** **	3.364***	**-0.049**
	(28.35)	**(36.37)**	(-14.96)	**(-8.77)**	(5.02)	**(-0.22)**
Item 3	0.687***	0.423***	1.651	-2.177***	4.413	-1.512***
	(3.45)	(39.65)	(1.18)	(-13.17)	(1.38)	(-4.30)
Item 4	0.018	0.819***	-6.211***	-11.772***	1.029	1.668***
	(0.30)	(55.40)	(-16.45)	(-36.82)	(1.13)	(3.07)
Item 5	**0.286*** **	0.449***	**-0.162**	-1.234***	**-1.935*** **	1.583***
	(8.34)	(84.25)	**(-0.67)**	(-14.01)	**(-3.27)**	(11.99)
Item 6	0.223	0.026	-7.449***	-0.126	-0.359	4.224
	(1.15)	(0.24)	(-4.47)	(-0.06)	(-0.11)	(0.75)
Item 7	0.376***	**0.286*** **	0.242	**-1.111*** **	-0.228	**-1.669*** **
	(14.63)	**(28.86)**	(1.21)	**(-10.54)**	(-0.59)	**(10.04)**
Item 8	-0.443***	**0.278*** **	3.785***	**-2.155*** **	1.468	**-1.695*** **
	(-3.13)	**(43.77)**	(5.69)	**(-19.29)**	(0.75)	**(5.82)**
Item 9	**0.300*** **	0.113***	**0.556** **	0.765***	**-2.432*** **	-1.093***
	(8.71)	(14.22)	**(2.47)**	(7.45)	**(-3.67)**	(-8.94)
Item 10	0.431*		-2.273		-0.564	
	(1.94)		(-0.69)		(-0.09)	
Item 11	0.165		-1.272		5.025	
	(1.28)		(-0.98)		(1.10)	
Item 12	**-1.255*** **		**6.438*** **		**-3.027***	
	(-13.62)		**(8.27)**		**(-1.93)**	
ΔDRET	-0.019	-0.014*	0.830**	0.126	-2.846***	-2.214***
	(-0.51)	(-1.75)	(2.52)	(0.83)	(-3.32)	(-3.84)
SIZE	-0.014	0.001	0.292**	0.029	-0.593*	-0.175*
	(-0.56)	(0.27)	(2.15)	(0.59)	(-1.84)	(-1.94)
MTB	0.007*	0.001	-0.006	0.005	0.141**	-0.032**
	(1.67)	(1.20)	(-0.25)	(0.72)	(2.34)	(-2.11)
LEV	0.038	0.021	-1.253*	-0.650**	-2.576*	-2.071***
	(0.34)	(0.95)	(-1.70)	(-2.19)	(-1.67)	(-4.07)
Constant	6.676***	5.243***	-7.525***	1.733**	33.222***	17.786***
	(27.41)	(99.05)	(-4.08)	(2.09)	(7.04)	(9.21)
Observations	26,799	92,807	26,799	92,807	26,799	92,807
Adjusted R-squared	0.566	0.480	0.213	0.197	0.145	0.095
Year-month FE	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES
Industry clustered SE	YES	YES	YES	YES	YES	YES

$$TEX_{i,t} = \beta_0 + \beta_j ITEMS_{i,t} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t}$$

Auxiliary Analyses: Managerial Incentives

Table 8. Managerial Incentives and Narrative Conservatism

Dep. Vars.	NW		TONE		TLAG	
Panel A	(1)	(2)	(3)	(4)	(5)	(6)
Option Value	LOW	HIGH	LOW	HIGH	LOW	HIGH
QRET	0.041	0.104***	1.164***	0.545	-0.224	-0.151
	(0.98)	(2.66)	(3.48)	(1.38)	(-0.71)	(-0.54)
NEG	0.023	-0.003	-0.082	-0.132	0.095	-0.070
	(1.38)	(-0.26)	(-0.70)	(-1.01)	(0.97)	(-0.56)
QRET×NEG	-0.177**	-0.252***	1.615**	1.584**	-0.859	-0.693
	(-2.24)	(-4.44)	(2.57)	(2.55)	(-1.63)	(-1.51)
Diff. QRET×NEG	0.076***		0.030		-0.166	
	(2.02)		(0.14)		(-0.86)	
Observations	15,229	15,226	15,229	15,226	15,229	15,226
Adjusted R-squared	0.443	0.493	0.551	0.610	0.540	0.588
Panel B	(1)	(2)	(3)	(4)	(5)	(6)
SEO	NO	YES	NO	YES	NO	YES
QRET	0.060***	0.027	-0.222	0.060	-0.506***	-0.153
	(3.70)	(1.52)	(-1.32)	(0.41)	(-2.89)	(-0.79)
NEG	-0.002	-0.001	-0.104	-0.073	0.048	0.050
	(-0.25)	(-0.11)	(-1.56)	(-0.82)	(1.00)	(0.84)
QRET×NEG	-0.153***	-0.163***	2.448***	1.357***	-0.510*	-0.415
	(-5.33)	(-4.25)	(8.25)	(3.16)	(-1.73)	(-1.49)
Diff. QRET×NEG	0.009		1.091***		-0.095	
	(1.07)		(5.99)		(-0.59)	
Observations	45,490	37,054	45,490	37,054	45,490	37,054
Adjusted R-squared	0.696	0.687	0.552	0.623	0.634	0.674
Year-quarter FE	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES
Industry clustered SE	YES	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES	YES

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Discussion

- **Conclusions**
  - On average narrative disclosure has more number of words, greater marginal change of tone and shorter reporting time lag in response to bad news relative to good news, consistent with narratives being conservative.
  - Firms emphasize bad news more than good news via 10-Q filings, and are more likely to report larger number of 8-K filings and 8-K items per day in response to bad news comparing to good news.
  - Narrative conservatism is more (less) pronounced in frms with lower (higher) conditional conservatism, in explanatory (supplementary) narratives, in voluntary (mandatory) disclosure, and in settings where managers have more (less) incentives to disclose bad news.
- **Next Steps**
  - Complete the auxiliary analyses.
  - Polish the drafts.

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