Narrative Conservatism

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Research Question and Contribution (I)

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  - Is narrative disclosure conservative?

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- **Definition**
  - Narrative conservatism: narratives that reflect bad news in a more **complete**, **news-consistent**, and **timely** manner than good news.
- **Findings**
  - Using 8-K and 10-Q data (1994-2019), we find evidence of narrative conservatism.
  - Narratives are **longer**, **more tone-consistent** (content sentiment agrees with sign of news), and **timelier** (shorter time lag) in reaction to bad news than to good news, where news is measured by returns as in Basu (1997).

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- **Contribution**
  - Extend literature on accounting conservatism by defining and documenting the existence of narrative conservatism.
  - Explore the links between recognition and narrative disclosure.
  - Add to the debate on whether managers withhold bad news.
  - Add to the broader literature on the narrative properties of SEC filings.

Theoretical Framework: Conservatism

- **Accounting Conservatism**
  - Recognition (Beaver and Ryan, 2005; Ball and Shivakumar, 2005)
    - *Conditional*: ex post or news dependent, "higher degree of verification to recognize good news as gains than to recognize bad news as losses," (Basu, 1997, p. 7) leading to earnings that recognize bad news in a timelier and more complete manner than good news.
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  - What role narrative disclosure?
    - Prior work focuses on recognition, little is known about conservative disclosure (Kothari et al., 2009, p.243).
    - A "committment to timely disclosure of bad news need not come exclusively through financial statement recognition" (Guay and Verrecchia, 2018, p. 73-74):

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  - Disclosure: possibility to *timely* convey information that fails to meet certain recognition criteria
    - Displays in the notes and supporting schedules that accompany financial statements (Schipper, 2007); but also:
    - 10-Qs, 8-Ks, press releases, conference calls, social media, etc.

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  - Explain/complement/provide details of recognized line items

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- **Narratives may <u>not</u> be conservative:**
  - Strategic disclosure and bad news hoarding/smoothing (e.g., Kothari et al., 2009; Ge and Lennox, 2011; Segal and Segal, 2016; Chapman et al., 2019).
  - "Full disclosure," (Guay and Verrecchia, 2018) may imply greater timeliness and completeness of good news disclosure, if all bad news are recognized.

Theoretical Framework: Asymmetric Completeness

- **Completeness**
  - Completeness implies that disclosure includes all necessary information for a user to understand the underlying economic event.
    - Disclosure reduces information asymmetry: lowers CoC and increases liquidity (Diamond and Verrecchia, 1991; Diamond, 1985; Leuz and Verrecchia, 2000)
  - Good news disclosure may be completer, relative to bad news, to boost performance (Teoh et al., 1998; Lang and Lundholm, 2000).
  - Bad news disclosure may be more complete, relative to good news, to avoid litigation risk (Skinner, 1994, 1997; Marinovic and Varas, 2016).

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H1: Asymmetric Completeness

Narrative disclosure is more complete in response to bad news than to good news.

Theoretical Framework: Asymmetric News-consistency

- **News-consistency**
  - News-consistency implies that disclosure agrees with the underlying economic event in content sentiment.
  - Tone influences how information is perceived or processed, and thus it can be employed both to inform or mislead (Davis et al., 2012; Li, 2010; Huang et al., 2014).
  - Firms may deploy a uniformly positive tone in both good and bad news disclosure, resulting in higher news-consistency in good news disclosure
    - "A careful manager might use 90% positive words in dismissing an employee." (Loughran and McDonald, 2016, p.1206)

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H2: Asymmetric News-Consistency

Narrative disclosure is more news-consistent in response to bad news than to good news.

Theoretical Framework: Timeliness

- **Asymmetric Timeliness**
  - Timeliness implies that disclosure is made *in time* to be able to influence users' decisions.
  - Managers may delay bad news disclosure to mitigate its negative economic consequences (Chambers and Penman, 1984; Niessner, 2015; Segal and Segal, 2016; Brockbank and Hennes, 2018).
  - Managers may accelerate good news disclosure to increase insider profitability (Khalilov and Osma, 2020).

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H3: Asymmetric Timeliness

Narrative disclosure is timelier in response to bad news than to good news.

Research Design: Proxies

- **Narrative Disclosure Corpora**
  - Corpora: 10-Q and 8-K filings because (a) they are more credible (SEC scrutiny); (b) only events with at least moderate impact are reported (Hassan et al., 2019); and (c) are timelier than other corporate communication channels.
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- **Proxies for Textual Properties (TEX) and News**
  - Completeness (NW): natural logarithm one plus total number of words of SEC filings, also number items (NITEMS) and of 8-Ks (N8K).

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  - Timeliness (TLAG): reporting time lag. TLAG is days elapsed between the news release date and the filing date.
  - Good and Bad News: stock returns, in the spirit of Basu (1997).

Research Design: Model for 10-Q (I)

- **Model Specification**
  - **Form 10-Q**: We explore responsiveness to good versus bad news:

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

  - *QRET* quarterly market-adjusted stock return
  - *NEG* is the bad news indicator (1 if *QRET* is negative, 0 otherwise)
  - *CONTROLS*: Size, MTB, Leverage, Age, Complexity, Profitability, Operating risk, Analyst earnings forecast errors, Readability

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  - *CONTROLS*: Size, MTB, Leverage, Age, Complexity, Profitability, Operating risk, Analyst earnings forecast errors, Readability
  - Narrative conservatism implies β_3 is negative when TEX=NW (lengthier); and positive when TEX=TONE (more tone-consistent) and TEX=TLAG (lower time lag: timelier).

Research Design: Model for 8-K

- **Model Specification**
  - **Form 8-K**: we explore responsiveness to good versus bad news.

$$\begin{aligned} TEX_{i,t} =& \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \\ & \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \\ & \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t}, \end{aligned} \tag{2}$$

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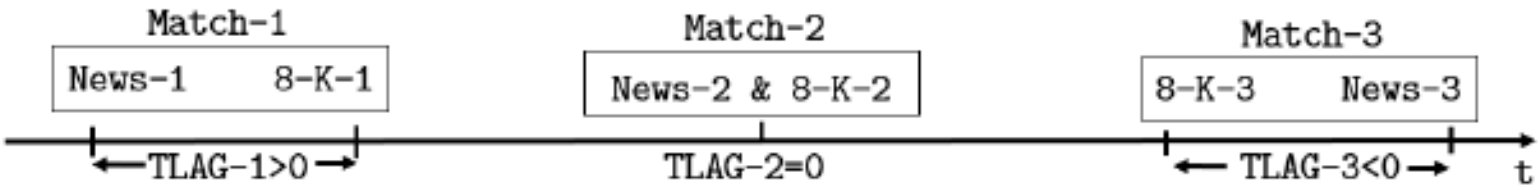
  - $\Delta DRET$ is change in daily returns
  - BN is bad news day, 1 if $\Delta DRET$ is three times larger than average change in $DRET$.

Figure 1: 8-K Matching Process



Research Design: Data

- US firms period 1994-2019
- 8-K and 10-Q files from EDGAR
- Data source: Compustat, CRSP and I/B/E/S
- Exclude regulated and financial firms
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- *Final sample 10-Q*: 91,606 observations
- *Final sample 8-K*: 119,615 observations
  - If we exclude TLAG over 4 days, sample is 40,700 observations

Results: Summary Statistics

Table 2. Panel A: Summary Statistics 10-Q

	count	mean	std	min	25%	50%	75%	max
Textual Variables								
NW	91606	9.020	0.757	7.120	8.506	9.086	9.547	13.544
nw	91606	10937	10204	1236	4941	8829	13997	752337
TONE	91606	-8.921	7.236	-63.579	-13.127	-7.875	-3.866	24.215
TLAG	91606	39	6	0	36	40	44	52
READ	91606	38.161	42.160	14.580	17.840	20.210	39.660	262.519
Financial Variables								
QRET	91606	0.018	0.253	-1.579	-0.113	0.007	0.130	4.849
NEG	91606	0.483	0.500	0	0	0	1	1
SIZE	91606	6.452	1.772	2.898	5.175	6.317	7.563	11.315
MTB	91606	3.461	3.665	0.416	1.485	2.343	3.902	24.449
LEV	91606	0.192	0.182	0.000	0.011	0.162	0.315	0.705
AF	91606	0.043	0.066	-0.262	0.023	0.049	0.073	0.227
AFE	91606	-0.021	0.067	-0.445	-0.018	-0.002	0.002	0.078
BUSSEG	91606	0.859	0.447	0.693	0.693	0.693	0.693	2.773
GEOSEG	91606	0.898	0.532	0.693	0.693	0.693	0.693	3.045
AGE	91606	8.312	1.033	5.811	7.635	8.420	9.089	10.288
EARN	91606	0.005	0.042	-0.201	0.001	0.012	0.023	0.084
STD_EARN	91606	0.020	0.030	0.001	0.005	0.009	0.021	0.188
STD_QRET	91606	0.089	0.070	0.007	0.040	0.070	0.115	0.379

Results: Summary Statistics Continued

Table 2. Panel B: Summary Statistics 8-K

	count	mean	std	min	25%	50%	75%	max
Textual Variables								
NW	119615	6.093	0.926	4.898	5.553	5.846	6.358	12.486
nw	119615	1339	6398	133	257	345	576	264704
TONE	119615	-0.552	7.424	-97.851	-3.049	0.000	3.677	45.929
TLAG	119615	15	17	0	2	9	21	93
N8K	119615	1	0	1	1	1	1	4
NITEM	119615	2	1	1	2	2	2	16
Financial Variables								
DRET	119615	0.003	0.097	-0.833	-0.039	-0.003	0.041	5.991
ΔDRET	119615	-0.018	0.187	-9.062	-0.121	-0.050	0.100	5.989
BN	119615	0.542	0.498	0	0	1	1	1
SIZE	119615	6.326	1.993	2.122	4.896	6.262	7.664	11.379
MTB	119615	3.741	4.784	0.123	1.366	2.293	4.055	33.434
LEV	119615	0.204	0.192	0.000	0.012	0.171	0.334	0.735

Results: Is 8-K Narrative Disclosure Conservative?

Table 4. Panel A: Is 8-K Narrative Disclosure Conservative?

Dep. Variables	(1) NW	(2) NW	(3) TONE	(4) TONE	(5) TLAG	(6) TLAG
ΔDRET	0.062	0.050	-1.064**	-0.873**	-13.495***	-13.883***
	(1.61)	(1.30)	(-2.57)	(-2.15)	(-12.06)	(-11.96)
BN	0.007	0.007	-0.091	-0.082	0.211	0.194
	(1.16)	(1.07)	(-1.31)	(-1.20)	(1.13)	(1.02)
(Pred. Sign)	(-)	(-)	(+)	(+)	(+)	(+)
ΔDRET×BN	-0.129**	-0.108**	2.175***	1.837***	20.112***	20.817***
	(-2.53)	(-2.12)	(4.07)	(3.49)	(13.37)	(13.21)
SIZE		-0.010*		0.139***		-0.496***
		(-1.80)		(2.88)		(-5.15)
MTB		0.003***		-0.008		0.017
		(2.92)		(-1.14)		(1.06)
LEV		0.043		-0.938***		-1.867***
		(1.40)		(-3.60)		(-3.57)
Constant	7.242***	7.279***	-6.359***	-6.934***	30.063***	33.047***
	(32.57)	(33.42)	(-3.68)	(-3.99)	(7.20)	(7.83)
Observations	119,615	119,615	119,615	119,615	119,615	119,615
Adjusted R-squared	0.447	0.447	0.157	0.158	0.135	0.136

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (2)$$

Results: Is 10-Q Narrative Disclosure Conservative?

Table 3. Panel A: Is 10-Q Narrative Disclosure Conservative?

Dep. Variables	(1) NW	(2) NW	(3) TONE	(4) TONE	(5) TLAG	(6) TLAG
QRET	0.039***	0.029**	-0.279**	0.335**	-0.081	-0.318***
	(3.23)	(2.21)	(-2.04)	(2.58)	(-0.78)	(-2.72)
NEG	0.006	0.007	-0.113**	-0.116**	0.027	0.039
	(1.29)	(1.45)	(-2.20)	(-2.31)	(0.73)	(1.03)
QRET×NEG	-0.145***	-0.075***	2.103***	0.760***	-0.771***	-0.189
	(-6.05)	(-3.36)	(6.67)	(2.82)	(-4.07)	(-1.04)
SIZE		0.035***		0.469***		-0.135**
		(3.79)		(5.57)		(-2.06)
MTB		-0.007***		0.077***		-0.023**
		(-5.53)		(4.34)		(-1.98)
LEV		0.332***		-1.260***		0.748**
		(9.76)		(-2.77)		(2.16)
Additional controls	No	Yes	No	Yes	No	Yes
Firm & Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	91,606	91,606	91,606	91,606	91,606	91,606
Adjusted R-squared	0.649	0.653	0.557	0.570	0.613	0.616

Results: Are Lengthier 10-Qs Less Readable?

Table 3. Panel B: Are Lengthier 10-Qs Less Readable?

Dep. Variables	(1) READ	(2) READ	(3) READ	(4) READ
NW	13.048***	13.298***	13.407***	13.697***
	(21.59)	(21.73)	(18.50)	(18.74)
QRET	-1.001	-0.471	8.889	11.146
	(-1.49)	(-0.74)	(0.82)	(1.03)
NEG	0.012	0.028	-0.597	-0.597
	(0.05)	(0.11)	(-0.14)	(-0.14)
(Pred. Sign)	(-)	(-)	(?)	(?)
QRET×NEG	3.686**	2.341*	-37.674*	-43.311*
	(2.52)	(1.66)	(-1.66)	(-1.92)
NW×NEG			0.067	0.068
			(0.14)	(0.14)
QRET×NW			-1.093	-1.285
			(-0.91)	(-1.07)
(Pred. Sign)			(-)	(-)
QRET×NEG×NW			4.568*	5.045**
			(1.81)	(2.02)
Observations	91,606	91,606	91,606	91,606
Adjusted R-squared	0.461	0.462	0.461	0.462
Controls	NO	YES	NO	YES

$$READ_{i,t} = \beta_0 + \beta_1 NW_{i,t} + \beta_2 QRET_{i,t} + \beta_3 NEG_{i,t} + \beta_4 QRET_{i,t} \times NEG_{i,t} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t}$$

Results: 8-K Items, Filings and Reporting Time Lag

Table 4. Panel B: 8-K Items, 8-K Filings and Reporting Time Lag

Dep. Variables	(1) NITEM	(2) NITEM	(3) N8K_OL	(4) TLAG_OL
ΔDRET	0.221***	0.222***	1.076***	-0.944***
	(4.27)	(4.45)	(6.73)	(-7.63)
BN	0.011	0.011	0.061	0.107***
	(1.23)	(1.24)	(1.44)	(3.82)
(Pred. Sign)	(-)	(-)	(-)	(+)
ΔDRET×BN	-0.318***	-0.321***	-1.358***	1.436***
	(-4.63)	(-4.86)	(-6.43)	(8.75)
Controls	NO	Included	Included	Included
Observations	119,615	119,615	119,615	40,700
Adjusted (Pseudo) R-squared	0.126	0.126	(0.006)	(0.009)
Year-month FE	YES	YES	NO	NO
Firm FE	YES	YES	NO	NO
Industry Clustered SE	YES	YES	NO	NO

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (2)$$

Results: Robustness Checks

- Our evidence of narrative conservatism is robust to
  - employing an alternative tone measure using the positive and negative word list from the Harvard General Inquiry dictionary (Loughran and McDonald, 2016);
  - including controls for conditional conservatism and managerial incentives;
  - excluding 8-K items on results of operations that contain quarterly or annual financial statements (Segal and Segal, 2016);
  - using an alternative 8-K reporting time lag definition (Carter and Soo, 1999; Niessner, 2015; Chapman et al., 2019);
  - excluding a priori bad news 8-K items (Segal and Segal, 2016);
  - estimating by fiscal year from 1995 to 2020.

Results: Additional Analyses

- We expect to observe greater narrative conservatism where managers are more able to have discretion over narrative content:
  1. in the MD&A section as compared to the footnotes:
     - extract MD&A and Notes to Financial Statements (NFS) from 37,216 10-Qs;
     - calculate TONE and NW for these sections.
     - do not study asymmetric timeliness as sections of 10-Qs do not differ in timing.

Results: Additional Analyses

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  1. in the MD&A section as compared to the footnotes:
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     - calculate TONE and NW for these sections.
     - do not study asymmetric timeliness as sections of 10-Qs do not differ in timing.
  2. also, in voluntary disclosures as compared to mandatory disclosures;
     - we divide 8-Ks into voluntary and mandatory following Lerman and Livnat (2010); He and Plumlee (2020)

Additional Analyses: MD&A and NFS

Table 5. Narrative conservatism in MD&A and NFS

Dep. Variables	(1) NW_MDA	(2) NW_NFS	(3) TONE_MDA	(4) TONE_NFS
QRET	0.031***	0.022	0.542***	0.451
	(2.60)	(1.08)	(2.94)	(1.39)
NEG	0.015***	0.010	-0.132*	-0.038
	(3.28)	(1.56)	(-1.87)	(-0.41)
QRET×NEG	-0.062**	-0.026	0.773**	0.453
	(-2.33)	(-0.78)	(1.98)	(0.87)
Controls	Included	Included	Included	Included
Observations	37,215	37,215	37,215	37,215
Adjusted R-squared	0.741	0.812	0.560	0.568

Additional Analyses: Voluntary and Mandatory Disclosure

Table 6. Narrative Conservatism in Voluntary and Mandatory Disclosure

Dep. Variables	NW		TONE		TLAG	
	(1)	(2)	(3)	(4)	(5)	(6)
Disclosure Type	VD	MD	VD	MD	VD	MD
ΔDRET	0.128***	-0.036	-1.247**	-0.813	-15.607***	-6.471***
	(3.10)	(-0.32)	(-2.41)	(-0.65)	(-8.20)	(-4.32)
BN	0.011*	-0.004	-0.025	-0.093	0.431	0.150
	(1.69)	(-0.26)	(-0.38)	(-0.49)	(1.64)	(0.56)
(Pred. Sign)	(-)	(-)	(+)	(+)	(+)	(+)
ΔDRET×BN	-0.221***	0.003	2.818***	1.294	25.375***	9.292***
	(-3.87)	(0.02)	(3.15)	(0.98)	(9.38)	(5.36)
SIZE	-0.003	-0.021**	0.080	0.148	-0.631***	-0.050
	(-0.38)	(-2.08)	(1.42)	(1.63)	(-5.16)	(-0.32)
MTB	0.001	0.005***	-0.005	-0.007	0.003	0.037
	(0.99)	(3.17)	(-0.51)	(-0.44)	(0.10)	(1.47)
LEV	0.103**	-0.056	-1.135***	-0.681	-1.475**	-2.310*
	(2.47)	(-1.02)	(-3.70)	(-1.08)	(-2.39)	(-2.08)
Constant	6.806***	8.426***	-4.453**	-10.788***	30.627***	39.368***
	(34.89)	(15.03)	(-2.40)	(-2.65)	(6.25)	(4.37)
Observations	84,113	35,502	84,113	35,502	84,113	35,502
Adjusted R-squared	0.464	0.522	0.196	0.158	0.140	0.178

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (2)$$

Results: What links Conditional Conservatism?

- Quintiles of C_SCORE

Results: What links Conditional Conservatism?

- Quintiles of C_SCORE

Table 8. Narrative Conservatism and Conditional Conservatism

Quintile	(1) 0% - 20%	(2) 20% - 40%	(3) 40% - 60%	(4) 60% - 80%	(5) 80% - 100%
C_SCORE					
NW (-)	-0.198*	-0.174**	-0.179***	-0.044	-0.115***
	(-1.72)	(-2.40)	(-3.11)	(-1.06)	(-3.50)
TONE (+)	1.618	2.547***	2.235***	1.048**	1.614***
	(1.50)	(4.03)	(3.71)	(2.21)	(5.17)
TLAG (+)	-0.596	-1.566***	-1.408***	-0.217	-0.402
	(-0.89)	(-3.12)	(-3.21)	(-0.56)	(-1.11)

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

Results: Additional Analyses

- We expect to observe greater narrative conservatism
  - in firms where recognition criteria may be stringer (less opportunities to recognize bad news).
  - in settings where managers have incentives to release bad news

Conclusions

- **Conclusions**
  - We provide evidence that narratives reflect bad news in a more complete, news-consistent, and timely manner than good news.
  - Firms report lengthier 10-Qs to clarify rather than obfuscate bad news, and provide more 8-Ks and 8-K items in response to bad news than to good news.
  - We document greater narrative conservatism in the MD&A section and in voluntary disclosure. Also, narrative conservatism is pervasive in firms with high conditional conservatism, intangible assets, R&D expenses and proprietary costs.
  - We find greater narrative conservatism in settings where managers have strong incentives to disclose bad news.

Results: Summary Statistics Continued

Table 2. Panel C: Summary Statistics by 8-K Item —— Before August 23, 2004

Item	# of 8-Ks	%	nw	TONE	TLAG
1: Changes in Control of Registrant	4377	8.21%	1195	-1.22	17.29
2: Acquisition/Disposition Assets	6773	12.70%	7183	-4.65	22.34
3: Bankruptcy or Receivership	85	0.16%	9920	-4.05	27.89
4: Changes in Registrant's Certifying Accountant	895	1.68%	1128	-9.50	24.71
5: Other Events	**14836**	**27.82%**	**4431**	**-3.14**	**20.49**
6: Resignation of Registrant's Directors	84	0.16%	8052	-11.32	27.98
7: Financial Statements and Exhibits	18111	33.96%	5239	-3.48	20.70
8: Change in Fiscal Year	153	0.29%	3322	-0.95	27.59
9: Reg FD	**4379**	**8.21%**	**571**	**-1.25**	**15.56**
10: Amendments to the Registrant's Code of Ethics	11	0.02%	353	-2.93	19.64
11: Temporary Suspension of Trading	26	0.05%	309	-3.43	19.31
12: Results of Operation	**3608**	**6.76%**	**316**	**-0.61**	**15.98**

Results: Summary Statistics Continued

Table 2. Panel C: Summary Statistics by 8-K Item —— After August 23, 2004 (included)

Item	# of cases	%	nw	TONE	TLAG
1: Registrant's Business and Operations	15672	7.95%	797	-3.43	14.96
2: Financial Information	42226	21.42%	449	1.03	12.76
2.02: Results of Operation	**35910**	**18.22%**	**395**	**1.97**	**12.43**
3: Securities and Trading Markets	3063	1.55%	1081	-4.10	13.03
4: Matters Related to Accountants and Financial Statements	888	0.45%	779	-10.14	16.54
5: Corporate Governance and Management	26776	13.58%	539	-0.06	15.76
6: Asset-Backed Securities	3	0.00%	211	2.91	14.33
7: Reg FD	**15795**	**8.01%**	**555**	**0.29**	**11.04**
8: Other Events	**18734**	**9.50%**	**567**	**-0.86**	**11.66**
9: Financial Statements and Exhibits	73982	37.53%	488	0.40	12.82

Correlation matrix (I)

Table 2. Panel D: Correlation Matrix 10-Q

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) NW		-0.456	-0.192	-0.083	-0.007	0.002	0.255	0.058
(2) TONE	-0.482		0.016	0.086	0.020	-0.021	-0.062	-0.013
(3) TLAG	-0.263	0.021		0.048	-0.022	0.034	-0.331	-0.023
(4) READ	-0.252	0.169	0.125		-0.016	0.016	-0.014	-0.037
(5) QRET	-0.007	0.028	-0.032	-0.029		-0.684	-0.064	-0.029
(6) NEG	0.003	-0.024	0.033	0.028	-0.866		0.000	0.014
(7) SIZE	0.264	-0.047	-0.333	-0.078	-0.024	-0.001		0.247
(8) MTB	0.046	0.040	-0.042	-0.026	-0.055	0.033	0.382	
(9) LEV	0.014	0.076	0.000	0.075	0.003	-0.004	0.143	-0.111
(10) AF	-0.018	0.062	-0.125	0.035	-0.087	0.072	0.026	-0.299
(11) AFE	0.040	0.099	-0.149	-0.023	0.181	-0.157	0.232	0.226
(12) AGE	-0.035	0.063	-0.232	0.071	0.011	-0.015	0.336	-0.081
(13) EARN	-0.139	0.223	-0.146	0.065	0.114	-0.098	0.299	0.282
(14) STD_EARN	0.092	-0.194	0.153	-0.052	-0.024	0.028	-0.281	0.093
(15) STD_QRET	-0.047	-0.083	0.214	-0.023	0.128	-0.088	-0.325	-0.041

Correlation matrix (II)

Table 2. Panel E: Correlation Matrix 8-K

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) NW		-0.425	0.133	0.154	0.164	0.021	-0.015	0.011	-0.024	0.042	0.075
(2) TONE	-0.414		-0.079	-0.024	-0.081	0.003	0.015	-0.011	0.069	0.004	-0.035
(3) TLAG	0.119	-0.110		-0.041	-0.055	-0.016	-0.037	0.038	-0.093	-0.006	-0.036
(4) N8K	0.206	-0.043	-0.059		0.432	0.017	0.011	-0.006	0.032	0.000	0.022
(5) NITEM	0.184	-0.104	-0.093	0.296		0.009	0.006	-0.004	0.014	-0.005	0.027
(6) DRET	-0.001	0.009	-0.019	0.006	0.003		0.709	-0.572	-0.028	0.004	0.003
(7) ΔDRET	-0.016	0.019	-0.049	0.006	0.007	0.780		-0.738	0.069	-0.006	0.013
(8) BN	0.012	-0.012	0.049	-0.005	-0.005	-0.780	-0.863		-0.032	0.002	-0.009
(9) SIZE	0.029	0.075	-0.113	0.032	0.024	0.025	0.080	-0.032		0.191	0.168
(10) MTB	0.047	0.026	-0.016	0.003	-0.007	0.005	0.009	-0.003	0.350		0.085
(11) LEV	0.081	-0.043	-0.041	0.023	0.025	0.013	0.022	-0.010	0.213	-0.039	

Additional Analyses: Intangible Assets and R&D Expenses

Table 7. Narrative Conservatism, Intangible Assets and R&D Expenses

Dep. Variables	NW		TONE		TLAG	
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Intangible Assets	LOW	HIGH	LOW	HIGH	LOW	HIGH
(Pred. Sign)	(-)	(-)	(+)	(+)	(+)	(+)
QRET×NEG	-0.024	-0.068***	0.469	0.475	-0.109	-0.093
	(-1.21)	(-2.71)	(1.50)	(1.08)	(-0.44)	(-0.24)
Observations	29,636	29,634	29,636	29,634	29,636	29,634
Adjusted R-squared	0.831	0.798	0.708	0.678	0.654	0.693
Panel B: R&D Expenses	LOW	HIGH	LOW	HIGH	LOW	HIGH
(Pred. Sign)	(-)	(-)	(+)	(+)	(+)	(+)
QRET×NEG	-0.065	-0.075**	0.710	0.048	0.336	-0.029
	(-1.56)	(-2.45)	(1.53)	(0.10)	(1.15)	(-0.06)
Observations	22,899	22,898	22,899	22,898	22,899	22,898
Adjusted R-squared	0.623	0.682	0.581	0.635	0.626	0.619

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

Additional Analyses: Firm Characteristics

Table 8. Narrative, Conditional Conservatism and Firm Characteristics

Quintile	(1) 0% - 20%	(2) 20% - 40%	(3) 40% - 60%	(4) 60% - 80%	(5) 80% - 100%
Panel A: C_SCORE					
NW (-)	-0.198*	-0.174**	-0.179***	-0.044	-0.115***
	(-1.72)	(-2.40)	(-3.11)	(-1.06)	(-3.50)
TONE (+)	1.618	2.547***	2.235***	1.048**	1.614***
	(1.50)	(4.03)	(3.71)	(2.21)	(5.17)
TLAG (+)	-0.596	-1.566***	-1.408***	-0.217	-0.402
	(-0.89)	(-3.12)	(-3.21)	(-0.56)	(-1.11)
Panel B: SIZE					
NW (-)	-0.126**	-0.073	-0.303***	-0.091	-0.196**
	(-2.43)	(-1.43)	(-5.65)	(-1.60)	(-2.46)
TONE (+)	1.837***	1.462**	3.639***	1.733**	1.785*
	(3.97)	(2.23)	(5.50)	(2.39)	(1.72)
TLAG (+)	0.028	-0.268	-1.767***	-1.098*	-1.269
	(0.08)	(-0.71)	(-3.40)	(-1.73)	(-1.59)
Panel C: MTB					
NW (-)	-0.179***	-0.203***	-0.090	-0.181***	-0.127***
	(-3.55)	(-3.34)	(-1.36)	(-2.91)	(-2.68)
TONE (+)	2.426***	3.072***	1.530**	1.557**	2.475***
	(4.45)	(4.69)	(2.06)	(2.38)	(4.51)
TLAG (+)	-0.689*	-0.531	-1.315**	-0.969*	-0.465
	(-1.67)	(-1.03)	(-2.33)	(-1.90)	(-1.23)
Panel D: LEV					
NW (-)	-0.117***	-0.121***	-0.098	-0.140**	-0.123**
	(-2.62)	(-2.80)	(-1.46)	(-2.29)	(-2.33)
TONE (+)	1.564***	0.849	1.662**	1.795**	2.934***
	(3.25)	(1.38)	(2.53)	(2.53)	(5.47)
TLAG (+)	-0.560**	-0.385	-0.647	-1.351**	-0.709*
	(-2.24)	(-1.08)	(-1.14)	(-2.29)	(-1.80)

Additional Analyses: Managerial Incentives

Table 9. Narrative Conservatism and Managerial Incentives

Dep. Variables	NW		TONE		TLAG	
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: SEO	NO	YES	NO	YES	NO	YES
(Pred. Sign)	(-)	(-)	(+)	(+)	(+)	(+)
QRET×NEG	-0.113**	-0.128***	1.891***	0.391	0.158	-0.343
	(-2.29)	(-2.61)	(3.29)	(0.63)	(0.32)	(-0.66)
Observations	17,937	17,919	17,937	17,919	17,937	17,919
Adjusted R-squared	0.649	0.678	0.595	0.634	0.632	0.685
Panel B: Option Value	LOW	HIGH	LOW	HIGH	LOW	HIGH
(Pred. Sign)	(-)	(-)	(+)	(+)	(+)	(+)
QRET×NEG	-0.084	-0.216***	0.225	0.654	-0.427	-0.702
	(-0.96)	(-2.97)	(0.29)	(0.89)	(-0.68)	(-1.36)
Observations	11,553	11,552	11,553	11,552	11,553	11,552
Adjusted R-squared	0.456	0.513	0.561	0.623	0.555	0.599
Panel C: Litigation Risk	LOW	HIGH	LOW	HIGH	LOW	HIGH
(Pred. Sign)	(-)	(-)	(+)	(+)	(+)	(+)
QRET×NEG	-0.107***	-0.058**	1.017***	0.691*	-0.290	-0.026
	(-3.11)	(-2.34)	(3.00)	(1.92)	(-1.05)	(-0.10)
Observations	58,945	32,661	58,945	32,661	58,945	32,661
Adjusted R-squared	0.626	0.688	0.532	0.620	0.620	0.611

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