Narrative Conservatism

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March 9, 2021

Outline

Research Question and Contribution

- **Research Question**
  - Whether narrative disclosure is conservative, i.e., whether narratives reflect bad news in a more timely, news-consistent, and complete manner than good news?
- **Contribution**
  - Filling the gap in conservatism literature by documenting the existence of narrative conservatism.
  - 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 conservatism: "accountants' tendency to require a higher degree of verification to recognize good news as gains than to recognize bad news as losses" (Basu, 1997, p. 7)
  - Unconditional conservatism: "accountants' preference for accounting methods that lead to lower reported values for shareholders' equity" (Basu, 1997, p. 8).
  - Narrative conservatism: narratives reflecting bad news in a more complete, news-consistent and timely manner than good news

Theoretical Framework: Timeliness

- **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 bad news disclosure due to litigation concerns (Skinner, 1994; Marinovic and Varas, 2016).
- **Hypotheses**
  - **H1**: Narrative disclosure is timelier in response to bad news than to good news.

Theoretical Framework: 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 (negative) tone in both good and bad news disclosure, resulting in higher news-consistency in good (bad) news disclosure.
- **Hypotheses**
  - **H2**: Narrative disclosure is more news-consistent in response to bad news than to good news.

Theoretical Framework: Completeness

- **Completeness**
  - Completeness implies that disclosure includes all necessary information for a user to understand the underlying economic event.
  - Firms may disclose good news in a more complete manner than bad news to boost performance (Teoh et al., 1998; Lang and Lundholm, 2000).
  - Firms may disclose bad news in a more complete manner than good news to avoid litigation (Skinner, 1994, 1997).
- **Hypotheses**
  - **H3:** Narrative disclosure is completer in response to bad news than to good news.

Research Design: Proxies

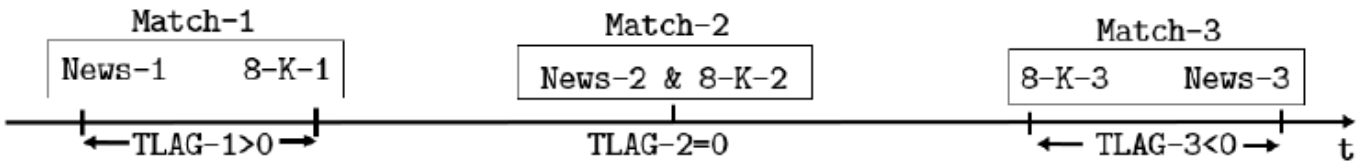
- **Narrative Disclosure Corpora**
  - Corpora: 8-K filings because they (a) are more credible, (b) have higher reporting threshold and (c) are more timely than other corporate communication channels.
- **Proxies for Textual Properties and News**
  - Timeliness: reporting time lag, defined as the number of days elapsed between the news release date and the filing date of the studied disclosure
  - News-consistency: the marginal change of tone in response to increase (good news) or decrease (bad news) in stock market returns.
  - Completeness: the total number of 8-K words, filings, items, exhibits and graphs
  - News: stock returns (Basu, 1997).

Research Design: Model

- **Model Specification**

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Figure 1: 8-K Matching Process



Research Design: Data

- Data source: Compustat, CRSP and I/B/E/S

Table 1. Sample Selection Process

	Numer of observations	
Retrieved from EDGAR		1,540,911
After matching with Compustat and CRSP data		442,575
(-) Number of obs. from utility and financial firms	112,729	
(-) 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	46,865	
(-) Number of obs. with total words less than 1% percentile (133 words)	2,785	
(-) Number of obs. that are reversals of previous news day	5,160	
(-) Number of obs. with negative or larger than 99% percentile TLAG	154,861	
After dropping obs. with missing values in key variables and screening		120,175
After merging with IBES and Compustat Segment data (Full 8-K sample)		**83,464**

Results: Summary Statistics

Table 2. Panel A: Summary Statistics 8-K

	count	mean	std	min	25%	50%	75%	max
Textual Variables								
tlag	83464	15	17	0	2	9	21	93
TLAG	83464	2.076	1.311	0.000	1.099	2.303	3.091	4.543
TONE	83464	-0.312	7.226	-97.851	-2.632	0.000	3.704	45.929
nw	83464	1207	6015	133	260	346	566	264704
NW	83464	6.074	0.874	4.898	5.565	5.849	6.340	12.486
n8k	83464	1	0	1	1	1	1	4
N8K	83464	0.707	0.076	0.693	0.693	0.693	0.693	1.609
nitem	83464	2	1	1	2	2	2	16
NITEM	83464	1.093	0.272	0.693	1.099	1.099	1.099	2.833
nexhibit	83464	1	1	0	1	1	1	59
NEXHIBIT	83464	0.668	0.430	0.000	0.693	0.693	0.693	4.094
ngraph	83464	2	9	0	0	0	1	464
NGRAPH	83464	0.424	0.785	0.000	0.000	0.000	0.693	6.142
Financial Variables								
DRET	83464	0.002	0.084	-0.929	-0.035	-0.003	0.037	3.085
ΔDRET	83464	-0.013	0.160	-9.062	-0.108	-0.045	0.092	3.023
BN	83464	0.536	0.499	0	0	1	1	1
SIZE	83464	6.805	1.816	3.023	5.508	6.698	7.977	11.587
MTB	83463	3.818	4.607	0.250	1.488	2.431	4.175	32.077
LEV	83039	0.211	0.191	0.000	0.018	0.186	0.340	0.732
AF	75810	0.044	0.112	-0.568	0.024	0.051	0.080	0.416
AFE	82548	-0.012	0.062	-0.438	-0.007	0.000	0.003	0.134
BUSSEG	83464	1.057	0.602	0.693	0.693	0.693	1.386	2.890
GEOSEG	83464	1.132	0.710	0.693	0.693	0.693	1.386	3.258
EARN	83454	-0.005	0.059	-0.296	-0.007	0.010	0.021	0.101
STD_EARN	83105	0.024	0.038	0.001	0.005	0.011	0.025	0.243

Results: Summary Statistics Continued

Table 2. Panel B: Summary Statistics by 8-K Item

Item	count	percent	tlag	TONE	nw	n8k	nitem	nexhibit	ngraph
Before August 23, 2004									
1: Changes in Control of Registrant	2712	8.35%	17	-1.01	1076	1.04	3.48	1.05	0.47
2: Acquisition or Disposition of Assets	4074	12.55%	22	-4.35	7146	1.04	3.05	1.59	0.31
3: Bankruptcy or Receivership	54	0.17%	28	-3.84	12217	1.11	1.56	1.74	0.00
4: Changes in Registrant's Certifying Accountant	383	1.18%	24	-9.64	1217	1.03	1.82	0.95	0.02
5: Other Events	**8909**	**27.44%**	**20**	**-2.94**	**4272**	**1.02**	**1.81**	**1.34**	**0.10**
6: Resignation of Registrant's Directors	34	0.10%	23	-9.34	9247	1.03	2.21	2.03	0.06
7: Financial Statements and Exhibits	10942	33.70%	20	-3.18	5169	1.02	2.33	1.58	0.38
8: Change in Fiscal Year	71	0.22%	29	-2.15	6068	1.01	1.66	1.63	0.03
9: Reg FD	**2966**	**9.13%**	**16**	**-1.28**	**549**	**1.04**	**1.94**	**1.10**	**1.35**
10: Amendments to the Registrant's Code of Ethics	6	0.02%	27	0.09	289	1.17	3.50	1.00	7.17
11: Temporary Suspension of Trading	18	0.06%	20	-3.40	310	1.06	2.83	0.89	0.00
12: Results of Operation	**2303**	**7.09%**	**16**	**-0.62**	**329**	**1.04**	**3.86**	**1.12**	**0.54**
After August 23, 2004 (included)									
1: Registrant's Business and Operations	10825	7.58%	15	-3.44	839	1.08	2.85	1.84	1.48
2: Financial Information	31595	22.11%	13	1.02	463	1.05	2.41	1.30	2.19
2.02: Results of Operation	**27022**	**18.91%**	**12**	**1.95**	**404**	**1.05**	**2.29**	**1.22**	**2.28**
3: Securities and Trading Markets	1728	1.21%	13	-4.26	1129	1.12	3.69	2.41	1.92
4: Matters Related to Accountants and Financial Statements	478	0.33%	16	-10.32	770	1.09	2.32	1.19	0.57
5: Corporate Governance and Management	19494	13.64%	16	0.09	587	1.06	2.06	0.96	0.65
6: Asset-Backed Securities	2	0.00%	7	2.20	200	1.00	2.00	1.00	0.00
7: Reg FD	**11844**	**8.29%**	**11**	**0.33**	**562**	**1.09**	**2.65**	**1.36**	**8.97**
8: Other Events	**13009**	**9.11%**	**12**	**-0.85**	**569**	**1.09**	**2.46**	**1.38**	**1.98**
9: Financial Statements and Exhibits	53896	37.72%	13	0.49	500	1.05	2.41	1.39	3.00

Results: Is 8-K Narrative Disclosure Conservative?

Table 3. Is 8-K Narrative Disclosure Conservative?

Dep. Variables	(1) TLAG	(2) TLAG	(3) TONE	(4) TONE
ΔDRET	1.913***	2.007***	-1.744***	-1.171**
	(11.44)	(10.83)	(-2.86)	(-2.07)
BN	-0.021	-0.026	-0.120*	-0.125
	(-1.13)	(-1.15)	(-1.71)	(-1.64)
(Pred. Sign)	(-)	(-)	(+)	(+)
ΔDRET×BN	-2.966***	-3.182***	2.893***	1.849**
	(-8.42)	(-7.55)	(2.70)	(1.97)
SIZE		0.051***		0.115*
		(4.56)		(1.76)
MTB		0.002		-0.009
		(1.22)		(-1.08)
LEV		-0.007		-0.592
		(-0.11)		(-1.45)
EARN		-0.231*		3.059**
		(-1.70)		(2.51)
STD_EARN		-0.165		-2.705**
		(-0.72)		(-2.17)
BUSSEG		-0.028		-0.015
		(-1.52)		(-0.12)
GEOSEG		0.016		0.131
		(0.91)		(1.18)
AF		0.020		-0.019
		(0.20)		(-0.04)
AFE		0.045		1.713**
		(0.41)		(2.57)
Constant	-2.816***	-3.150***	-5.598**	-5.921***
	(-10.16)	(-10.85)	(-2.47)	(-2.71)
Observations	83,464	75,360	83,464	75,360
Adjusted R-squared	0.131	0.132	0.151	0.147

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Results: Is 8-K Narrative Disclosure Conservative?

Table 3. Is 8-K Narrative Disclosure Conservative? (Continued)

Dep. Variables	(5) NW	(6) NW	(7) N8K	(8) N8K	(9) NITEM	(10) NITEM	(11) NEXHIBIT	(12) NEXHIBIT	(13) NGRAPH	(14) NGRAPH
ΔDRET	-0.086*	-0.042	-0.034***	-0.039***	-0.075***	-0.079***	-0.105***	-0.110***	-0.151***	-0.212***
	(-1.78)	(-0.71)	(-3.43)	(-3.64)	(-3.34)	(-3.71)	(-2.99)	(-3.04)	(-3.03)	(-5.02)
BN	-0.015**	-0.015**	-0.002**	-0.003**	-0.004	-0.004	-0.003	-0.002	0.001	-0.001
	(-2.04)	(-2.19)	(-2.24)	(-2.43)	(-1.13)	(-1.05)	(-0.53)	(-0.36)	(0.16)	(-0.13)
(Pred. Sign)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)
ΔDRET×BN	0.127**	0.033	0.046***	0.051***	0.099***	0.104***	0.176***	0.175***	0.221***	0.298***
	(2.02)	(0.40)	(3.34)	(3.36)	(2.84)	(3.06)	(3.46)	(3.32)	(4.06)	(5.71)
SIZE		0.018**		-0.001		-0.002		-0.003		-0.004
		(2.13)		(-0.84)		(-0.70)		(-0.58)		(-0.60)
MTB		-0.002		-0.000		-0.000		-0.002***		-0.003***
		(-1.30)		(-0.43)		(-0.96)		(-2.88)		(-2.82)
LEV		-0.027		-0.008**		-0.021*		-0.007		0.005
		(-0.65)		(-2.43)		(-1.68)		(-0.32)		(0.11)
EARN		0.406***		-0.001		0.069*		0.113*		-0.064
		(3.84)		(-0.17)		(1.82)		(1.96)		(-0.87)
STD_EARN		-0.331***		-0.004		-0.098**		-0.112		0.243*
		(-2.75)		(-0.41)		(-2.11)		(-1.29)		(1.71)
BUSSEG		-0.008		0.000		0.002		0.003		-0.005
		(-0.71)		(0.21)		(0.39)		(0.42)		(-0.31)
GEOSEG		0.007		0.002**		-0.001		-0.011*		-0.011
		(0.67)		(2.27)		(-0.36)		(-1.82)		(-0.76)
AF		-0.026		0.004		0.015		0.029		-0.075
		(-0.47)		(0.52)		(0.74)		(0.66)		(-1.56)
AFE		-0.044		-0.009		-0.022		-0.091**		-0.164**
		(-0.69)		(-1.36)		(-0.86)		(-2.44)		(-2.37)
Constant	-7.291***	-7.295***	-0.688***	-0.684***	-0.872***	-0.843***	-0.506***	-0.459***	0.051	0.096
	(-27.57)	(-28.75)	(-190.40)	(-120.16)	(-25.72)	(-22.63)	(-4.91)	(-4.26)	(1.01)	(1.44)
Observations	83,464	75,360	83,464	75,360	83,464	75,360	83,464	75,360	83,464	75,360
Adjusted R-squared	0.443	0.427	0.021	0.024	0.139	0.142	0.109	0.107	0.256	0.263

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Results: Robustness Checks

- Our evidence of narrative conservatism is robust to
  - 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);

Additional Analyses: 10-Qs

Table 4. Panel A. Narrative Conservatism in Quarterly Reports

Dep. Variables	(1) TONE	(2) TONE	(3) NW	(4) NW
QRET	-0.371***	0.095	-0.039***	-0.040***
	(-2.78)	(0.69)	(-3.54)	(-3.54)
NEG	-0.077	-0.075	-0.004	-0.005
	(-1.59)	(-1.52)	(-0.95)	(-1.08)
(Pred. Sign)	(+)	(+)	(+)	(+)
QRET×NEG	2.274***	1.191***	0.140***	0.094***
	(8.19)	(5.20)	(6.56)	(5.12)
SIZE		0.540***		-0.027***
		(6.36)		(-3.25)
MTB		0.046***		0.005***
		(3.79)		(5.18)
LEV		-1.212**		-0.293***
		(-2.48)		(-10.11)
EARN		14.674***		0.635***
		(5.54)		(3.80)
STD_EARN		-7.233***		-0.654***
		(-4.68)		(-6.85)
BUSSEG		0.468**		-0.019
		(2.22)		(-1.50)
GEOSEG		0.319*		0.020*
		(1.82)		(1.81)
AF		-3.316***		-0.043
		(-4.40)		(-1.07)
AFE		3.339***		0.168***
		(4.60)		(3.02)
Constant	-18.117***	-21.970***	-8.224***	-8.082***
	(-38.84)	(-36.79)	(-267.21)	(-156.81)
Observations	116,156	116,156	116,156	116,156
Adjusted R-squared	0.586	0.597	0.695	0.698

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (2)$$

Additional Analyses: MD&A and NFS in 10-Qs

Table 4. Panel B. Narrative Conservatism 10-Q Sections

Dep. Variables	TONE		NW	
	(1)	(2)	(3)	(4)
Section	MDA	NFS	MDA	NFS
QRET	0.109	0.297	-0.055***	-0.033*
	(0.64)	(1.15)	(-4.34)	(-1.70)
NEG	-0.123**	0.014	-0.012***	-0.005
	(-1.98)	(0.17)	(-3.05)	(-1.01)
(Pred. Sign)	(+)	(+)	(+)	(+)
QRET×NEG	1.423***	0.882*	0.102***	0.055*
	(4.54)	(1.88)	(4.18)	(1.65)
SIZE	0.626***	0.900***	-0.030***	-0.013
	(4.26)	(5.14)	(-3.36)	(-1.01)
MTB	0.021	0.054**	0.003**	0.004***
	(1.12)	(2.21)	(2.41)	(3.28)
LEV	-0.213	-0.802	-0.189***	-0.362***
	(-0.33)	(-0.94)	(-5.32)	(-5.88)
EARN	17.163***	12.079***	0.470**	0.693***
	(5.26)	(5.69)	(2.16)	(3.83)
STD_EARN	-8.090***	-6.020**	-0.547***	-0.816***
	(-4.64)	(-2.20)	(-3.35)	(-6.19)
BUSSEG	-0.065	-0.159	-0.057***	-0.031
	(-0.23)	(-0.45)	(-2.93)	(-1.58)
GEOSEG	0.052	0.999***	0.063***	0.036**
	(0.16)	(2.61)	(3.01)	(1.98)
AF	1.979*	-0.343	0.140	-0.073
	(1.86)	(-0.22)	(1.61)	(-0.95)
AFE	7.938***	4.137***	0.227***	0.243***
	(7.81)	(3.74)	(3.20)	(3.56)
Constant	-7.264*	-12.393**	-7.167***	-7.224***
	(-1.84)	(-2.57)	(-15.46)	(-18.08)
Observations	48,089	48,089	48,089	48,089
Adjusted R-squared	0.559	0.579	0.734	0.816

$$TEX_{i,t} = \beta_0 + \beta_1 QRET_{i,t} + \beta_2 NEG_{i,t} + \beta_3 QRET_{i,t} \times NEG_{i,t} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (2)$$

Additional Analyses: Voluntary and Mandatory Disclosure

Table 5. Narrative Conservatism in Voluntary and Mandatory Disclosure

Dep. Variables	TLAG		TONE	
	(1)	(2)	(3)	(4)
Disclosure Type	VD	MD	VD	MD
ΔDRET	2.375***	0.672***	-1.704**	-1.214
	(8.39)	(3.79)	(-2.43)	(-0.72)
BN	-0.063*	0.011	-0.040	-0.121
	(-1.96)	(0.49)	(-0.45)	(-0.54)
(Pred. Sign)	(-)	(-)	(+)	(+)
ΔDRET×BN	-4.176***	-0.831***	3.446***	1.337
	(-6.55)	(-3.54)	(2.81)	(0.62)
SIZE	0.057***	0.016	0.113	-0.100
	(3.48)	(1.15)	(1.49)	(-0.76)
MTB	0.004*	-0.003	-0.004	0.004
	(1.91)	(-1.30)	(-0.32)	(0.17)
LEV	-0.004	0.060	-0.812**	-0.529
	(-0.05)	(0.69)	(-2.09)	(-0.62)
EARN	-0.221	-0.378*	3.053**	3.373*
	(-1.05)	(-1.80)	(2.12)	(1.82)
STD_EARN	-0.307	0.314	-3.427**	-1.409
	(-1.09)	(0.80)	(-2.12)	(-0.61)
BUSSEG	-0.030	-0.014	0.025	-0.006
	(-1.26)	(-0.53)	(0.17)	(-0.02)
GEOSEG	0.029	-0.012	0.165	0.040
	(1.23)	(-0.56)	(1.33)	(0.20)
AF	0.045	0.101	-0.326	0.916
	(0.30)	(0.80)	(-0.58)	(0.81)
AFE	0.076	-0.369**	1.360*	1.551
	(0.51)	(-2.16)	(1.83)	(1.10)
Constant	-2.768***	-3.997***	-4.618*	-5.168
	(-7.65)	(-15.53)	(-1.70)	(-1.06)
Observations	53,460	21,900	53,460	21,900
Adjusted R-squared	0.155	0.116	0.194	0.136

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Additional Analyses: Voluntary and Mandatory Disclosure

Table 5. Narrative Conservatism in Voluntary and Mandatory Disclosure (Continued)

Dep. Variables	NW		N8K		NITEM		NEXHIBIT		NGRAPH	
	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Disclosure Type	VD	MD	VD	MD	VD	MD	VD	MD	VD	MD
ΔDRET	-0.156**	0.039	-0.063***	-0.051	-0.048***	-0.020*	-0.092**	-0.017	-0.153***	0.030
	(-2.37)	(0.31)	(-2.72)	(-1.08)	(-4.07)	(-1.65)	(-2.25)	(-0.18)	(-2.64)	(0.47)
BN	-0.018**	0.002	-0.004	-0.007	-0.002	-0.002	-0.003	0.000	-0.017	0.010
	(-2.14)	(0.13)	(-0.99)	(-1.08)	(-1.59)	(-1.59)	(-0.39)	(0.01)	(-1.61)	(1.02)
(Pred. Sign)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)
ΔDRET×BN	0.210**	0.003	0.093***	0.045	0.070***	0.026	0.175***	0.050	0.133	0.031
	(2.18)	(0.02)	(2.91)	(0.75)	(5.44)	(1.60)	(2.86)	(0.47)	(1.61)	(0.42)
SIZE	0.011	0.035***	0.003	-0.003	-0.001	-0.001	0.000	0.005	0.006	-0.003
	(1.18)	(2.64)	(0.90)	(-0.63)	(-0.50)	(-0.88)	(0.04)	(0.45)	(0.56)	(-0.41)
MTB	0.000	-0.004**	-0.000	-0.001	-0.000	0.000**	-0.002***	-0.001	-0.003**	-0.001
	(0.02)	(-2.20)	(-0.16)	(-0.75)	(-1.01)	(1.99)	(-2.67)	(-0.93)	(-2.02)	(-0.69)
LEV	-0.102**	0.073	-0.033**	0.004	-0.012**	-0.001	-0.021	-0.026	-0.004	-0.008
	(-2.42)	(1.02)	(-2.30)	(0.16)	(-2.57)	(-0.22)	(-1.00)	(-0.51)	(-0.08)	(-0.22)
EARN	0.302***	0.270	0.047	0.103	-0.003	-0.009	0.109*	0.054	-0.110	0.054
	(2.72)	(1.42)	(1.20)	(1.34)	(-0.23)	(-0.99)	(1.94)	(0.44)	(-1.17)	(0.58)
STD_EARN	-0.254*	-0.021	-0.096*	-0.078	-0.004	-0.018	-0.014	-0.255	0.373**	-0.136
	(-1.94)	(-0.08)	(-1.69)	(-0.81)	(-0.25)	(-0.91)	(-0.17)	(-1.34)	(2.17)	(-1.10)
BUSSEG	-0.004	-0.025	0.006	-0.017**	0.000	0.000	0.012*	-0.027*	-0.015	0.001
	(-0.26)	(-1.11)	(1.35)	(-2.02)	(0.28)	(0.10)	(1.71)	(-1.75)	(-0.69)	(0.11)
GEOSEG	0.008	0.004	-0.004	0.003	0.002	0.003**	-0.022***	0.008	-0.018	-0.006
	(0.67)	(0.20)	(-0.87)	(0.33)	(1.28)	(2.54)	(-3.67)	(0.55)	(-0.92)	(-0.57)
AF	-0.033	0.013	0.003	0.005	0.002	0.001	0.026	0.031	-0.087	-0.073
	(-0.43)	(0.18)	(0.13)	(0.15)	(0.17)	(0.09)	(0.74)	(0.37)	(-1.08)	(-1.57)
AFE	0.013	-0.266**	0.034	-0.080	-0.019**	0.022**	0.005	-0.192**	-0.170*	-0.022
	(0.16)	(-2.05)	(1.17)	(-1.64)	(-2.33)	(2.19)	(0.12)	(-2.17)	(-1.77)	(-0.35)
Constant	-6.786***	-8.541***	-0.889***	-0.839***	-0.687***	-0.693***	-0.436***	-0.585***	0.000	-0.020
	(-28.58)	(-14.52)	(-18.87)	(-10.34)	(-96.80)	(-130.77)	(-4.01)	(-2.98)	(0.00)	(-0.44)
Observations	53,460	21,900	53,460	21,900	53,460	21,900	53,460	21,900	53,460	21,900
Adjusted R-squared	0.448	0.505	0.212	0.073	0.040	-0.023	0.162	0.139	0.360	0.141

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Additional Analyses: Trends in Narrative Conservatism

Figure 2: Time Trend of Narrative Conservatism

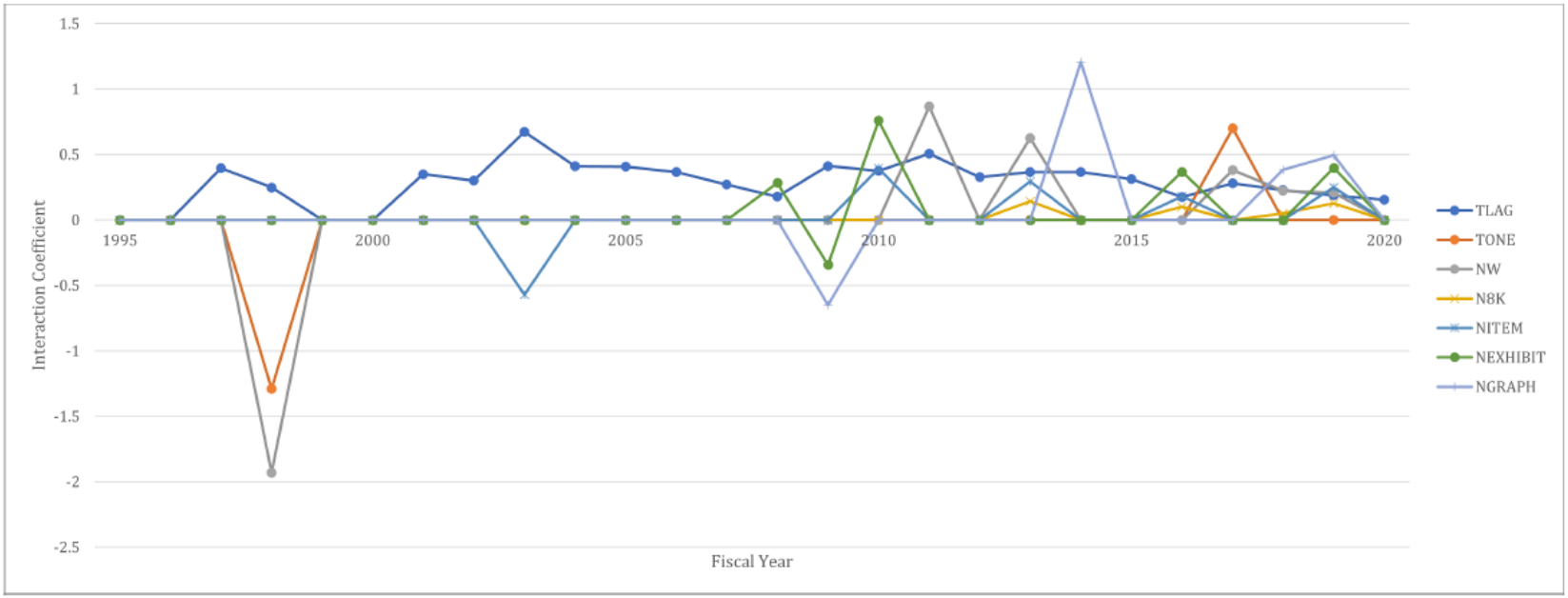


Figure 2 illustrates the time trend of narrative conservatism. X axis represents fiscal year and Y axis represents significant $\beta 3$s obtained from yearly regressions as specified by Equation (1). Insignificant $\beta 3$s are replaced with zero.

Additional Analyses: Narrative and Conditional Conservatism

Table 6. Narrative Conservatism and Conditional Conservatism

Dep. Variables	TLAG		TONE	
	(1)	(2)	(3)	(4)
CONS.	LOW	HIGH	LOW	HIGH
ΔDRET	2.647***	1.775***	-2.473**	-0.206
	(9.71)	(11.56)	(-2.33)	(-0.31)
BN	-0.051*	-0.009	-0.186	-0.079
	(-1.91)	(-0.33)	(-1.54)	(-0.80)
(Pred. Sign)	(-)	(-)	(+)	(+)
ΔDRET×BN	-4.639***	-2.687***	3.553**	0.549
	(-8.75)	(-8.84)	(2.17)	(0.54)
SIZE	0.087***	0.030**	0.092	0.101
	(4.69)	(2.12)	(0.92)	(1.07)
MTB	-0.000	0.003	0.018	-0.005
	(-0.09)	(1.09)	(0.81)	(-0.38)
LEV	-0.002	-0.082	-0.937*	-0.581
	(-0.02)	(-0.94)	(-1.81)	(-0.90)
EARN	0.031	-0.306	1.008	3.218**
	(0.13)	(-1.61)	(0.46)	(2.53)
STD_EARN	-0.041	-0.030	-2.801	-3.046***
	(-0.13)	(-0.10)	(-1.19)	(-2.65)
BUSSEG	-0.026	-0.025	-0.059	-0.046
	(-1.14)	(-0.78)	(-0.36)	(-0.23)
GEOSEG	0.034	0.004	0.031	0.253
	(1.55)	(0.18)	(0.22)	(1.56)
AF	0.153	-0.028	0.022	0.067
	(1.22)	(-0.22)	(0.03)	(0.10)
AFE	0.059	0.032	2.629***	0.810
	(0.34)	(0.21)	(2.75)	(0.83)
Constant	-2.845***	-2.492***	-0.198	-0.826
	(-17.51)	(-23.87)	(-0.25)	(-1.38)
Observations	38,881	35,134	38,881	35,134
Adjusted R-squared	0.139	0.120	0.133	0.154

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Additional Analyses: Narrative and Conditional Conservatism

Table 6. Narrative Conservatism and Conditional Conservatism (Continued)

Dep. Variables	NW		N8K		NITEM		NEXHIBIT		NGRAPH	
	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
CONS.	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
ΔDRET	-0.090	-0.015	-0.047***	-0.042***	-0.104***	-0.061**	-0.171***	-0.078*	-0.304***	-0.168***
	(-0.89)	(-0.21)	(-4.04)	(-2.73)	(-2.93)	(-2.30)	(-3.12)	(-1.68)	(-2.93)	(-3.34)
BN	-0.012	-0.022**	-0.002	-0.004**	-0.006	-0.002	-0.003	0.001	-0.011	0.002
	(-1.00)	(-2.13)	(-1.31)	(-2.57)	(-1.15)	(-0.32)	(-0.41)	(0.08)	(-0.78)	(0.16)
(Pred. Sign)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)
ΔDRET×BN	0.095	-0.025	0.066***	0.052**	0.127***	0.085**	0.281***	0.130**	0.391***	0.244***
	(0.66)	(-0.25)	(4.01)	(2.51)	(2.89)	(2.00)	(3.62)	(2.14)	(3.20)	(4.30)
SIZE	0.024**	0.013	-0.001	-0.000	-0.004	0.003	-0.012*	0.011	-0.003	-0.002
	(2.10)	(1.29)	(-0.79)	(-0.19)	(-1.26)	(0.86)	(-1.95)	(1.54)	(-0.29)	(-0.20)
MTB	-0.001	-0.003	-0.000	-0.000	-0.000	-0.001	-0.000	-0.003***	0.001	-0.004**
	(-0.47)	(-1.62)	(-0.07)	(-0.87)	(-0.16)	(-1.54)	(-0.29)	(-3.16)	(0.41)	(-2.40)
LEV	-0.074	0.035	-0.006	-0.010	-0.014	-0.016	-0.019	0.005	0.054	-0.047
	(-1.30)	(0.63)	(-1.03)	(-1.63)	(-0.66)	(-0.94)	(-0.60)	(0.16)	(0.76)	(-0.97)
EARN	0.263	0.486***	0.008	0.001	0.097	0.051	0.007	0.152**	0.003	-0.074
	(1.33)	(4.91)	(0.33)	(0.06)	(1.58)	(1.30)	(0.07)	(2.41)	(0.02)	(-0.89)
STD_EARN	-0.155	-0.335**	0.021	-0.021*	0.049	-0.162***	0.095	-0.186**	0.544**	0.077
	(-0.89)	(-2.32)	(0.88)	(-1.76)	(0.67)	(-3.04)	(0.61)	(-1.98)	(2.07)	(0.48)
BUSSEG	-0.006	-0.015	-0.000	0.001	-0.003	0.007	-0.001	0.002	-0.017	0.039*
	(-0.45)	(-0.82)	(-0.19)	(0.75)	(-0.51)	(1.15)	(-0.12)	(0.18)	(-0.85)	(1.70)
GEOSEG	0.019	0.010	0.002	0.003*	0.002	-0.002	-0.006	-0.006	0.005	-0.036*
	(1.59)	(0.67)	(1.41)	(1.85)	(0.37)	(-0.29)	(-0.67)	(-0.63)	(0.26)	(-1.78)
AF	-0.013	-0.024	0.001	0.010	0.018	0.006	0.053	-0.009	-0.100	-0.057
	(-0.16)	(-0.43)	(0.08)	(0.96)	(0.50)	(0.32)	(1.02)	(-0.17)	(-1.26)	(-0.86)
AFE	-0.020	-0.085	-0.011	-0.009	-0.016	-0.017	-0.141**	-0.081	-0.140	-0.142*
	(-0.23)	(-0.88)	(-1.09)	(-1.05)	(-0.47)	(-0.48)	(-2.53)	(-1.58)	(-1.28)	(-1.88)
Constant	-6.223***	-6.067***	-0.699***	-0.700***	-1.058***	-1.089***	-0.563***	-0.684***	-0.442***	-0.330***
	(-66.29)	(-94.80)	(-69.04)	(-110.27)	(-35.28)	(-51.80)	(-11.01)	(-14.53)	(-4.52)	(-6.45)
Observations	38,881	35,134	38,881	35,134	38,881	35,134	38,881	35,134	38,881	35,134
Adjusted R-squared	0.362	0.437	0.029	0.029	0.133	0.164	0.097	0.117	0.267	0.272

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Additional Analyses: Narrative and Unconditional Conservatism

Table 7. Narrative Conservatism and Unconditional Conservatism

Dep. Variables	TLAG		TONE	
	(1)	(2)	(3)	(4)
Panel A: Intangible Assets	LOW	HIGH	LOW	HIGH
ΔDRET	1.975***	3.026***	-1.205	-2.647**
	(11.64)	(9.89)	(-1.23)	(-2.07)
BN	-0.032	-0.130***	-0.193	-0.060
	(-1.13)	(-4.26)	(-1.17)	(-0.38)
(Pred. Sign)	(-)	(-)	(+)	(+)
ΔDRET×BN	-3.181***	-6.326***	1.044	5.773**
	(-10.61)	(-13.28)	(0.82)	(2.42)
Constant	-3.065***	-3.588***	-0.478	-3.469
	(-3.58)	(-6.35)	(-0.06)	(-1.18)
Observations	29,136	31,806	29,136	31,806
Adjusted R-squared	0.118	0.146	0.132	0.123
Panel B: R&D Expenses	LOW	HIGH	LOW	HIGH
ΔDRET	1.651***	1.946***	-0.209	-1.566
	(6.85)	(7.52)	(-0.30)	(-1.33)
BN	0.011	-0.025	-0.149	-0.058
	(0.26)	(-0.91)	(-1.20)	(-0.50)
(Pred. Sign)	(-)	(-)	(+)	(+)
ΔDRET×BN	-2.426***	-2.983***	-0.325	2.432*
	(-5.65)	(-7.03)	(-0.39)	(1.66)
Constant	-2.520***	-2.678***	-1.751	-5.212
	(-4.66)	(-5.07)	(-0.25)	(-1.43)
Observations	19,740	22,608	19,740	22,608
Adjusted R-squared	0.106	0.143	0.184	0.115

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

Additional Analyses: Narrative and Unconditional Conservatism

Table 7. Narrative Conservatism and Unconditional Conservatism (Continued)

Dep. Variables	NW		N8K		NITEM		NEXHIBIT		NGRAPH	
	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Panel A: Intangible Assets	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
ΔDRET	0.041	-0.142	-0.033***	-0.042***	-0.098***	-0.053	-0.087	-0.195***	-0.148**	-0.467***
	(0.48)	(-1.02)	(-2.74)	(-2.90)	(-2.62)	(-1.25)	(-1.54)	(-2.95)	(-2.17)	(-3.88)
BN	-0.002	-0.029*	-0.002	-0.000	-0.007	-0.003	-0.000	-0.007	-0.001	-0.018
	(-0.13)	(-1.92)	(-1.10)	(-0.19)	(-0.83)	(-0.45)	(-0.04)	(-0.80)	(-0.07)	(-1.17)
(Pred. Sign)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)
ΔDRET×BN	-0.042	0.059	0.049***	0.076***	0.118*	0.048	0.135	0.272***	0.219**	0.622***
	(-0.34)	(0.32)	(3.01)	(3.48)	(1.95)	(0.76)	(1.51)	(2.72)	(2.14)	(3.18)
Constant	-6.439***	-7.127***	-0.692***	-0.692***	-0.745***	-0.890***	-0.314	-0.456***	0.156*	-0.173
	(-20.69)	(-21.31)	(-94.98)	(-64.07)	(-11.47)	(-14.91)	(-1.50)	(-2.71)	(1.79)	(-1.36)
Observations	29,136	31,806	29,136	31,806	29,136	31,806	29,136	31,806	29,136	31,806
Adjusted R-squared	0.385	0.315	0.022	0.036	0.144	0.133	0.113	0.088	0.257	0.282
Panel B: R&D Expenses	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH	LOW	HIGH
ΔDRET	-0.068	0.005	-0.054***	-0.031**	-0.120***	-0.007	-0.137**	-0.047	-0.050	-0.348***
	(-0.69)	(0.06)	(-2.60)	(-2.55)	(-3.08)	(-0.23)	(-1.98)	(-1.00)	(-0.63)	(-4.77)
BN	-0.017	-0.005	-0.008***	-0.001	-0.006	0.005	-0.003	0.013	0.011	-0.020
	(-1.23)	(-0.44)	(-3.60)	(-0.38)	(-0.84)	(1.02)	(-0.23)	(1.59)	(0.56)	(-1.53)
(Pred. Sign)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)	(+)
ΔDRET×BN	0.032	-0.010	0.054*	0.049***	0.137**	0.043	0.177**	0.197***	0.128*	0.388***
	(0.24)	(-0.08)	(1.95)	(4.22)	(2.03)	(1.03)	(2.22)	(3.08)	(1.71)	(4.30)
Constant	-7.250***	-7.660***	-0.657***	-0.676***	-0.795***	-0.852***	-0.476***	-0.400**	0.394**	-0.109
	(-8.77)	(-18.41)	(-25.93)	(-63.28)	(-10.34)	(-12.76)	(-3.74)	(-2.21)	(2.07)	(-1.01)
Observations	19,740	22,608	19,740	22,608	19,740	22,608	19,740	22,608	19,740	22,608
Adjusted R-squared	0.491	0.355	0.005	0.009	0.156	0.130	0.129	0.092	0.255	0.253

$$TEX_{i,t} = \beta_0 + \beta_1 \Delta DRET_{i,t-tlag} + \beta_2 BN_{i,t-tlag} + \beta_3 \Delta DRET_{i,t-tlag} \times BN_{i,t-tlag} + \sum \beta_n CONTROLS_{i,t} + \epsilon_{i,t} \quad (1)$$

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.
- **Future Research**
  - An aggregate measure of narrative conservatism
  - Economic implications of narrative conservatism
  - Mechanisms that assure the credibility of narrative conservatism