IÉSEG SCHOOL OF MANAGEMENT

EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

"NARRATIVE CONSERVATISM" BY DR. BEATRIZ GARCIA OSMA – Carlos III, MADRID & EUROPEAN ACCOUNTING REVIEW, EDITOR

ABSTRACT

We define narrative conservatism as narratives that reect bad news in a more complete, news-consistent, and timely manner than good news. Using 10-Q and 8-K filings from 1994 to 2019, we Find that narrative disclosure is conservative.

Narratives are asymmetrically lengthier, timelier, and show greater tone consistency in response to bad news than to 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. We provide initial evidence that narrative conservatism is pervasive in firms with high conditional conservatism, intangible assets, R&D expenses and proprietary costs.

Finally, we find more narrative conservatism in settings where managers have strong incentives to disclose bad news, validating our empirical approach.

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