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Linguistic Tone of Municipal Management Discussion and Analysis Disclosures and Future Financial Reporting Delays

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ABSTRACT

We investigate relations between the textual content of municipal Management Discussion and Analysis (MD&A) disclosures and future financial reporting. Specifically, we examine the linguistic tone of municipal MD&A disclosures and future financial reporting delays as a proxy for financial reporting quality. Using a sample of 362 municipal MD&A disclosures in fiscal year-end 2011, our empirical analysis suggests that the fraction of positive to total words in municipal MD&A disclosures is associated with timelier financial reporting in the following year after controlling for current report timing and other municipality and governance factors. We interpret our results to suggest that positive language in municipal MD&A disclosures is a signal of confidence in financial reporting quality, indicating that MD&A text contains relevant information in forecasting the quality of future financial reporting for local governments.

JEL Classifications: G34; H55; H72.

Keywords: linguistic tone, financial reporting delay, municipal MD&A

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