Repo Narratives as a Strategic Management Tool

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This study seeks to address Li (2010) call for further research examining accounting items in the context of disclosure analysis. In particular this study seeks to explain the amount and type of repo narratives in 10-K filings through the legitimacy and agency theories. I find that in line with the legitimacy theory, in response to a legitimacy crisis, banks seek to increase their disclosures to address a legitimacy gap. This increase is most apparent for banks most exposed to the legitimacy threat. Further analysis reveals that the agency theory can be used to explain impression management in repo narratives. In this regard I find that higher liquidity risk and higher stock-based compensation are associated with increased impression management through the characterization of repo transactions as sales in repo narratives.