Does managerial sentiment play a role in banking?

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[Abstract]: We investigate the role managerial sentiment plays in bank accruals. To do this, we assemble a database on U.S. banks listed on the S&P Financials Index, spanning from 2000 to 2016, and represent managerial sentiment as CFOs’ beliefs on the prospects of their firms, which are not justified by fundamentals. Using copulas, we find that CFO sentiment is negatively correlated with loan loss provisions, including and even more so for extreme levels of dependence. We also show that bank CFOs are less prone to sentiment, as compared to CFOs across sectors. Our study highlights the role of managerial sentiment in financial decisions in the banking industry.