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## Accounting quality, information risk and implied volatility around earnings announcements

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### Highlights

- Accounting accruals quality (AQ) is used as a proxy for corporate information risk.
- AQ significantly affects option implied volatility around earnings announcements.
- Worse AQ will increase equity option implied volatility before the announcement.
- Worse AQ will decrease equity option implied volatility after the announcement.
- Information risk has a significant effect on equity implied volatility behavior.

### Abstract

We examine the impact of accounting quality, used as a proxy for information risk, on the behavior of equity implied volatility around quarterly earnings announcements. Using US data during 1996-2010, we observe that lower (higher) accounting quality significantly relates to higher (lower) levels of implied volatility (IV) around announcements. Worse accounting quality is further associated with a significant increase in IV before announcements, and is found to relate to a larger resolution in IV after the announcement has taken place. We interpret our findings as indicative of information risk having a significant impact on implied volatility behavior around earnings announcements.

JEL classification: G13, G14, M41

Keywords: Accounting quality, accruals quality, information risk, earnings announcements, implied volatility, investor uncertainty.

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