The options market reaction to financial reporting comparability

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Abstract

We examine the association between accounting comparability, representing a financial reporting characteristic facilitating relative valuation, and options implied volatility around quarterly earnings announcements. We expect that greater comparability of firms' financial statements with industry peers should mitigate option market investor uncertainty about firms' prospects, as the latter are reflected into forward-looking expectations incorporated in implied volatility levels and changes around announcements. We examine US firms and find that comparability negatively and significantly associates with both short-term and long-term implied volatility on the day of earnings announcements, and greater resolution of this volatility after the event. We further observe that more comparable firms possess significantly flatter term structure curves on the day of the event, which become steeper after the event these firms, consistent with stronger decreases in short-term implied volatility after earnings announcements. Our cross-sectional analyses indicate that the mitigating effect of comparability on implied volatility becomes weaker when factors aggravating information asymmetry, adverse selection, external monitoring efficiency, and managerial risk-seeking behaviors, are stronger. Our results are unaffected by the type of news reaching the market, since they hold similarly for firms with positive and with negative earnings surprises. Finally, we implement a volatility trading strategy and obtain evidence on significant economic profits when trading on firms with differential comparability with their peers, in the absence of transaction costs. Our study provides first-time evidence about the statistical and economic effect on the formulation of forward-looking market expectations for a firm comparison-enabling financial reporting characteristic, as is accounting comparability.

JEL classifications: G13, G14, M41

Keywords: accounting comparability; financial reporting quality; options implied volatility; implied volatility term structure; options trading strategy

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1. Introduction

In their effort to manage uncertainty about the future business and financial position of firms, scholars and practitioners alike have traditionally used option prices to infer volatility expectations by market participants (Kuo and Wang, 2009). This is because the options implied volatility (hereafter, IV) is expected to reflect the market's assessment of price uncertainty of the underlying asset (Campa and Chang, 1995). The options market has generally been seen as more forward-looking than the stock market (e.g., Diavatopoulos et al. 2012), with levels and changes of IV to reflect uncertainty expectations by market participants (Campa and Chang 1995; Dubinsky and Johannes 2005; Kuo and Wang, 2009; Truong et al. 2012). An important stream of research has investigated the relation between information on firm fundamentals and options market pricing (e.g., Rogers et al., 2008; Kim and Zhang, 2014; Sridharan, 2015; Goodman et al., 2018), with a particular focus on the behavior of IV around corporate earnings announcements (hereafter, EA) (Anagnostopoulou and Tsekrekos, 2015, 2017; Diavatopoulos et al., 2012; Truong, 2012).

Information in financial reports should enable investors to improve price discovery, and the level of accounting comparability among industry peers is considered by many as a desirable property of firm financial reporting. Accounting comparability is defined as the similarity of accounting functions regarding translating economic transactions into accounting data (De Franco et al., 2011). This comparability has been shown to improve the quality of financial information (De Franco et al., 2011; Barth et al., 2012; Kim et al., 2013; Chen et al., 2014; Kim et al., 2016) and the performance of valuation models based on peers (Young and Zeng, 2015), by further improving the pricing efficiency of accruals (Chen and Gong, 2019). A fundamental difference between financial reporting comparability and other financial reporting information quality attributes is that the former constitutes a relative, rather than an absolute or stand-along measure of the quality of financial reporting; thus, financial reporting comparability should be particularly useful for relative corporate evaluation purposes. This property of accounting comparability should enable financial statement users to detect and understand differences and similarities among different firms (Neel, 2017), which should be particularly useful in disentangling relevant uncertainty when valuing firms.

In this paper, we examine the association between financial reporting comparability, representing a financial reporting property affecting the relative valuation of firms with reference to their peers, and option market reaction around quarterly EA. We focus on options markets, which are widely considered as the investing outlet of the most sophisticated investors, who possess information advantages in comparison to equity traders (Diavatopoulos et al. 2012; Jin et al. 2012; Kim and Zhang, 2014; Goodman et al., 2018), with investors in option markets often trading in advance of stock market investors (Xing et al., 2010; Diavatopoulos et al., 2012; An et al., 2014). Earnings risk is expected to be priced within options market pricing, and option prices can be used to learn about stock price uncertainty regarding information released by EA (Dubinsky et al., 2019). More specifically, IV around EA can be used to measure the degree to which investors reassess their beliefs about firms following announcements, or capture the extent to which investors anticipate the release of news that provide systematic news (Rogers, 2009; Barth and So, 2014; Goodman et al., 2018).

We measure the options market reaction through short-term, and also long-term IV (hereafter, STIV and LTIV, respectively) levels and changes around EA dates. The basic concept of accounting comparability is that accounting numbers should be analogous for similar economic events encountered by different corporations; hence, financial reporting comparability better enables investors to appreciate the association between accounting numbers and economic results and to differentiate peer firms as far as performance is concerned (Cheng and Wu, 2018). Financial statements that are comparable facilitate the understanding and evaluation of firm performance by investors, as the latter must apply less subjective judgement and make fewer estimations, calculations and adjustments when comparing firm performance with that of their peers (Kim et al., 2013). Accounting comparability refines the usefulness of financial statement information and augments the information set available to investors and corporations, improving capital allocation and investment decisions (Cheng and Wu, 2018). Thus, we examine whether this specific manifestation of financial reporting quality which should particularly facilitate relative valuation for firms is associated with the formulation of uncertainty expectations around the information-rich event of EA for the most sophisticated investors which are expected to trade in the options market.

Several studies have examined the options market reaction around EA (Patell and Wolfson, 1979, 1981; Whaley and Cheung, 1982; Donders and Vorst, 1996; Donders et al., 2000; Acker, 2002; Truong et al., 2012). These studies systematically observe a significant increase in IV before announcements, followed by a significant drop afterwards with further evidence that that short-term, at-the-money (hereafter ATM) IV is at its peak on EA days (Whaley and Cheung, 1982; Donders and Vorst, 1996; Dubinsky and Johannes, 2005; Truong et al., 2012). We expect that as financial comparability improves the relative valuation of firms with reference to their peers, it should mitigate option market investor uncertainty around EA, and thus positively contribute to more efficient processing of financial information about the firm contained in the announcement, associating with a) lower IV levels on the announcement date and b) greater resolution of uncertainty after the event for more vs. less financially comparable firms.

We examine these research questions for a large sample of US listed firms with options data on the Ivy DB Optionmetrics database during 1996-2021 and first apply portfolio analysis by constructing ten quarterly rebalanced portfolios of accounting comparability for our sample firms, with corresponding metrics of STIV and LTIV in the days surrounding EA. We first observe that firms with higher (lower) accounting comparability to their industry peers experience significantly lower (higher) STIV and LTIV on the day of quarterly EA. In this way, IV levels are found to significantly decrease as accounting comparability increases for firms on the day of EA. This result is observed to be stronger for STIV than LTIV, consistent with accounting comparability significantly mitigating more immediate investor uncertainty, as the latter is manifested through short- vs. long-term IV, on the day of the information-rich event of the publication of earnings.

Regarding changes in IV around EA, we find that these changes tend to be positive (negative) for all firms before (after) the announcement date, consistent with evidence by past research on run-ups (run-downs) in volatility in the days preceding (following) the event. Interestingly, increases in IV before the event are found to be weaker for less, as opposed to more comparable firms, while this trend is found to reverse after the event. For the next one to ten days after the EA, we observe that decreases in volatility are stronger for higher, rather than lower comparability firms. This is consistent with stronger uncertainty resolution for more comparable or easier to relatively evaluate, firms, as opposed to firms with less comparable financial reporting practices with the ones of their peers, thanks to the EA, with information from announcements to be incorporated by traders for uncertainty resolution more intensely if firms are more financially comparable to their peers.

Regarding time windows before the event, one would intuitively expect market participants to be more eager to learn and extract information from the EA for less, rather than for more comparable firms, under the general expectation and evidence that IV increases (decreases) before (after) EA (Diavatopoulos et al., 2012; Truong et al., 2012). However, we observe that before the event, both STIV and LTIV tend to increase more strongly for more comparable firms, We view this finding as consistent with market participants being unsure of the actual informativeness of EA events and about what kind of useful information they are expected to receive for low comparability firms in particular, which makes them view EA as events possibly not revealing information that could help them resolve potential uncertainty concerns if firms are little financially comparable.

Again, results on changes of IV around EA hold for both STIV and LTIV but appear to be stronger for STIV. This evidence is consistent with more intense options market reaction for firms for the volatility leg for which EA events could provide more contemporary, and thus relevant information. Regression analysis confirms the above findings by observing that comparability negatively and significantly associates with the level of STIV and LTIV on the day of the event, and positively (negatively) associates with the changes in STIV and LTIV before (after) the announcement, while results are stronger for STIV vs. LTIV.

Evidence from past research indicates a non-uniform response of option markets to good vs. bad news or earnings surprises (Truong et al. 2012; Rogers et al. 2009), with positive earnings news and surprises to trigger greater uncertainty resolution than corresponding negative news (Truong et al., 2012). Therefore, we examine how our baseline results change for firms meeting or beating (vs. not) analyst earnings forecasts, i.e., firms with positive vs. negative earnings surprises, and for firms which disclose positive vs. negative earnings. We do not observe significant qualitative differences in the direction of our results for firms with positive vs. negative earnings surprises, indicating that our baseline findings are not dependent on the type of news reaching the market.

In addition, one could argue that our baseline findings could suffer from potential endogeneity concerns. This would be the case, if common unobservable factors simultaneously affect the comparability of accounting information with its peers and market expectations incorporated within their options pricing. This could be possible if, for example, firms with higher-than-average comparability to their peers are systematically different from lower comparability firms, and such differences in financial reporting patterns relate to uncertainty about form valuation and corresponding investor expectations formulation, when the latter are incorporated within our dependent variables of option pricing patterns. To mitigate such concerns, we apply the entropy balancing approach (see Hainmueller, 2012) which weights each of our main regression observations such that the post-weighting distribution properties of firms with high and low accounting comparability are equal, thereby ensuring covariate balance. Our regression results following entropy balancing remain qualitatively similar, suggesting that any variations in observable characteristics between firms with high and low accounting comparability do not drive our results.

We complement our analysis by further examining the association between accounting comparability and the slope of the term structure of implied volatility (hereafter, TSIV), in the days surrounding the EA date. Under the benchmark Black–Scholes model, the TSIV should not exist, or should actually be flat; however, in practice it often slopes upward or downward (Mixon, 2007). Behavioral economists consider this behavior as indicative of market overreaction and mispricing of assets in predictable ways, option theorists employ sophisticated stochastic volatility models to better describe the data, while market participants rely on the interaction of supply and demand forces to rationalize the phenomenon (Mixon, 2007). From a purely descriptive viewpoint, however, volatilities implied from observed contracts systematically varying with options' expiration dates provide a reflection of the market's assessment of the uncertainty over different time horizons, i.e., long or medium-term (relative to short-term) (Campa and Chang, 1995; Anagnostopoulou and Tsekrekos, 2017). If uncertainty about long-vs. short-term firm prospects is differently resolved depending on whether firms report more or less comparably with their peers, we expect that accounting comparability should also be significantly associated with the slope (and changes in the slope) of the TSIV around EA.

When we turn our attention to the TSIV, we observe that more comparable firms possess significantly flatter TSIV curves on the day of the announcement event. However, before the event, *low* comparability firms possess a *steeper* TSIV curve than high comparability firms, and this is consistent with sharper STIV decreases for less financially comparable firms before the event. After the event, we observe that the slope of TSIV becomes significantly *steeper* as comparability *increases*. Both results are consistent with stronger increases in STIV and larger decreases in STIV before (after) EA, with a corresponding effect on the slope of the TSIV stemming from the short-term end of the term structure. All our results hold both when measuring comparability according to the computational methodology of both the De Franco et al. (2011) model, as well as by using a modification to the De Franco et al. (2011) model to incorporate potential influence from past negative performance and its effect on returns based on Basu (1997).

To better explore into the reason explaining our results, we conduct several supplementary analyses. We use the magnitude of the bid-ask spread as a measure of information asymmetry and corresponding uncertainty by market participants about firm value. We also employ a measure capturing the existence (or not) of any anti-takeover provisions for firms (based on the entrenchment index (E-index) by Bebchuk et al., 2009). We also employ the type of the business strategy, i.e., whether the firm follows a prospector-type, analyser-type or defender-type of strategy (see Bentley et al., 2013) as an indicator of business uncertainty arising from the aggressiveness (or not) of managers. We observe that the negative effect of accounting comparability on STIV and LTIV on the day of EA is weaker for firms with higher bid-ask spreads, for firms with no anti-takeover provisions in place (so less insulated from market monitoring and investor pressure), and for firms which follow a more aggressive prospector-type, rather than a defensive strategy within their industry sector.

We interpret these results as indicative of the mitigating effect of comparability on IV becoming weaker when factors which aggravate information asymmetry and corresponding possible adverse selection, the efficiency of external monitoring, and potential managerial risk-seeking behaviors, are stronger. In the presence of factors negatively affecting the information efficiency and market pressure effectiveness of firms, comparability is observed to be more weakly able to decrease market uncertainty incorporated within investor perceptions as reflected into IV levels on the day of EA.

Finally, to test the economic significance of our findings, we implement a self-financed volatility-based trading strategy around the days following the EA of sample firms. Specifically, in order to exploit our finding that highly comparable sample firms exhibit (compared to low accounting comparability firms) higher IV runups (respectively rundowns) in the days that precede (respectively follow) the EA date, we execute (in-sample) a strategy that takes up long positions in straddles of highly comparable firms in the ten days that precede the EA, financed by short positions in straddles of low comparability firms (leg 1 of the strategy, in the [-10, -1] window relative to the EA day). The positions are reversed in the ten days that follow the EA (i.e. long straddles of low comparability firms after the EA, financed by short straddles of highly comparable firms, that is leg 2 of the strategy in the [+1, +10] window relative to the EA day) and the strategy is terminated. We find that the trading strategy yields significant positive mean profits, across all sample quarters, and although the mean profits we report do not account for transaction costs, they establish the economic significance of accounting comparability in option pricing.

Our paper contributes to accounting and corporate finance research by examining, to the best of our knowledge, for the first time, the effect of a financial reporting attribute which makes the valuation of stand-alone firms easier or more difficult with reference to their peers, on investor forward-looking uncertainty, as the latter is manifested on the IV level and TSIV expectations of market participants around EA The relevance of focusing on accounting comparability is justified by its property to facilitate (or not) the relative valuation of firms, which is widely employed by financial analysts (e.g., Asquith et al., 2005; Demirakos et al., 2010). Thus, we show that a financial reporting attribute with a particular focus on aiding the relative valuation of firms reflects into the market perceptions of short- and long-term (and also relative short- vs. long-term) uncertainty of the most sophisticated market participants, as is the case with options market traders. In this way, our findings provide preliminary evidence on relative valuation easiness driving investor perceptions about the uncertainty path to value creation for firms, in addition to any short-term reaction by them, building on accounting research examining option returns to accounting numbers (Rogers et al., 2009; Barth and so, 2014; Sridharan, 2015, Goodman et al., 2018).

Furthermore, we contribute to research on the implementation of trading strategies using accounting information, with reference to the profit impact of a financial reporting characteristic reflective of the relevant accounting quality with reference to facilitating their relative valuation (Piotroski, 2000; Kim and Lee, 2014). This research includes studies such as Boulland et al. (2019), who show that a zero-cost trading strategy that relies on public information about unrealized available-for-sale securities generates a sizeable monthly alpha that ranges between 1.8% and 1.9%, Alan et al. (2014), who show that a zero-cost portfolio investment strategy, which consists of buying from the two highest and selling from the two lowest quintiles formed on inventory turnover, earns more than 1% average monthly abnormal return benchmark, and We show that a self-financed, volatility-based strategy based on accounting comparability can lead to significant mean profits (at least in the absence of transaction costs), building on a limited, but important line of research providing evidence that financial reporting attributes can be used for the extraction of trading signals. Thus, our study provides first-time evidence about the statistical and economic effect on the formulation of forward-looking market expectations for a financial reporting attribute that enables among-firm comparisons, rather than reflect accounting quality in a stand-alone way for firms, referring to accounting comparability.

The rest of the article is organized as follows. Section 2 provides a brief review of the related literature and develops our research hypotheses. Section 3 describes our sample selection, and the methodology employed for measuring financial reporting comparability and option market reaction variables, as well as our baseline model specifications. Section 4 discusses our main findings, endogeneity controls, supplementary analyses and the results of a proposed trading strategy based on our findings. Section 5 concludes the study.

2. Literature review and development of hypotheses

2.1 Literature review

2.1.1 Accounting comparability

Accounting comparability refers to the tendency of two firms that have comparable accounting systems to produce similar financial statements for a given set of economic events (De Franco et al., 2011), allowing stakeholders to draw more accurate inferences about economic similarities and differences across comparable firms (Zhang et al., 2020). Comparability also affects information transfer among more financially comparable firms, so that investors can more accurately infer their similarities and differences (De Franco et al., 2011), with additional evidence on improving the ability of current period returns to reflect future earnings (Choi et al., 2019).

There exists extensive evidence in previous research about the benefits of comparability. For example, research indicates a lower incidence of accrual-based earnings management among firms with greater accounting comparability (Sohn, 2016). This evidence is consistent with comparability improving financial analysts' understanding of how economic performance translates into accounting performance, resulting in more accurate and less dispersed analyst forecasts (De Franco et al., 2011). In this way, the financial statement comparability of firms with their peers permits investors to better assess firm quality, and, thus, enriches the usefulness of information in financial statements and augments the information set available to investors and corporations, with repercussions about capital allocation and better investment decisions (Cheng and Wu, 2018). Overall, accounting comparability has been associated with increased analyst following and forecast accuracy, lower forecast dispersion and decreased stock price crash risk, a lower cost of equity capital (DeFond et al. 2011; De Franco et al., 2011; Wang, 2014; Fang et al., 2015, Kim et al., 2016; Imhof et al., 2017), and additional benefits for public debt (Kim et al., 2013) and private loan markets (Fang et al., 2016).

2.1.2 IV and TSIV around EA

Options IV is 'the "market's" forecast of future volatility' (Canina and Figlewski, 1993) and represents a forward-looking measure of inferring investor expectations about the prediction of future firm performance, informationally superior to realized volatility. This is consistent with the expectation that the options market is more forward-looking compared to the stock market, with changes in IV to reflect changes in uncertainty expectations by investors (Diavatopoulos et al. 2012) and option market traders are expected to be more sophisticated than stock market participants (Jin et al. 2012; Diavatopoulos et al. 2012; Goodman et al. 2018). The forecasting properties of IV for future realised volatility have been widely examined by past research (e.g., Heynen et al., 1994; Byoun, et al., 2003; Chalamandaris, and Tsekrekos 2011), establishing IV as a good predictor of both stock return volatility (Latané and Rendelman, 1976) and also future stock returns (Xing et al., 2010). Numerous studies have examined the properties of different IV metrics around EA (Patell and Wolfson, 1979, 1981; Whaley and Cheung, 1982; Donders and Vorst, 1996; Donders et al., 2000; Acker, 2002; Truong et al., 2012), observing important increases (decreases) in IV before (after) EA.

Another stream of research has focused on the relation between firm financial attributes, financial reporting characteristics and option market pricing. For example, Truong et al. (2012) examine the differential impact of good vs. bad news announcement on IV around EA while Goodman et al. (2018) show that options markets do not fully incorporate fundamental information into option prices, with more studies to exist indicating that financial reporting information is significantly priced by option markets (e.g., Rogers et al., 2009; Kim and Zhang, 2014; Anagnostopoulou and Tsekrekos, 2015; Sridharan, 2015; Anagnostopoulou and Tsekrekos 2017). Sridharan (2012) finds that information from financial statements, including earnings opacity is incrementally informative when predicting future stock market volatility, while Kim and Zhang (2014) find a significant and positive relation between financial reporting opacity and the steepness of IV smirks. Finally, Anagnostopoulou and Tsekrekos (2015, 2017) obtain evidence on accounting quality significantly affecting short-term IV levels and changes, and also the term structure of this volatility, around EA events.

Option prices can also be used to infer volatility expectations over different time horizons by market participants. According to the Black and Scholes (1973) model, asset prices follow geometric Brownian motions with constant volatility, necessitating that the IV is independent of the options' maturities and moneyness, and all options on the same asset should have the same IV regardless of strike price or time remaining to maturity (Campa and Chang, 1995; Dumas et al., 1998; Chalamandaris and Tsekrekos, 2011). However, in practice, the use of the Black and Scholes (1973) pricing equation in order to derive implied volatilities from observed option prices on the same underlying asset often results in observing different levels of IV for different strike prices (resulting in a volatility skew or smirk – see Canina and Figlewski 1993, and Rubinstein 1994) and different maturities, resulting in a so-called 'term structure' of IV (Campa and Chang, 1995). Research further examined the behavior of this TSIV phenomenon, with no consensus to have emerged about the explanation of this phenomenon (Mixon, 2007). The slope of the TSIV has been shown to work as a predictor or future realized volatility (Stein, 1989; Diz and Finucane, 1993; Busch et al., 2011; Guo et al., 2014). Nevertheless, TSIV slopes and changes in this slope represent a market-based, forward-looking approach to infer the expectations of option traders about firm uncertainty over different time horizons.

2.2 Hypotheses development

Accounting comparability implies that financial reporting numbers should be analogous for similar economic events experienced by different firms. In this way, comparability increases the usefulness of accounting information, improves transparency and reduces the cost of information processing, mitigates information asymmetry between managers and capital providers and overall expands the information set available to investors (Cheng and Wu, 2018; Chen et al., 2018), ultimately facilitating the incorporation of firm-specific information in the stock market pricing (Choi et al., 2019).

In contrast to widely used stand-alone financial reporting quality attributes, comparability describes a comparison of multiple items or entities, enabling users to pick up and evaluate differences and similarities among firms' financial statements. This fact should make comparability especially important for relative corporate evaluation purposes. In this study, we focus on the effect of comparability on the formulation of uncertainty expectations about firms made by the most sophisticated investors, expected to lead the stock market in terms of understanding firm risk and expected returns, as is the case with the options market (e.g., Jin et al. 2012; Diavatopoulos et al. 2012; Goodman et al. 2013; Kim and Zhang 2014). This examination permits testing whether option market participants fully incorporate and to which extent the comparable valuation benefits that comparability should bring along.

We focus on the IV formation around quarterly EA, which we consider to represent an adequate setting for the examination of our research question, given extensive evidence on idiosyncratic uncertainty about the value of their equity resolution around EA (Barth and So, 2014), with the quality of the financial reporting information disclosed expected to make the understanding of past and the prediction of future firm performance more or less difficult for outside investors. Furthermore, we examine both levels and changes in IV around EA, as IV should change in anticipation of the size and direction of the approaching EA in the options market, which is expected to make changes in implied moments possibly more informative than levels (Diavatopoulos et al., 2012; Truong et al., 2012; Anagnostopoulou and Tsekrekos, 2015).

As accounting comparability should facilitate and improve the quality of the relative valuation of firms in comparison to their peers, we expect that it should help towards resolving option market investor uncertainty about firms' future prospects, and confidence of prediction of potential economic inflows to the firm, as the latter are reflected in their forward-looking expectations incorporated in IV levels and changes around EA. These benefits of comparability should facilitate the more efficient processing by sophisticated option market investors of the financial news conveyed in quarterly announcements of earnings, reducing uncertainty about firms' prospects, and ultimately facilitating the process of formulating forward-looking expectations necessary for options pricing. In this way, we expect that accounting comparability should relate with a) lower IV levels on the EA dates and b) greater resolution of uncertainty after the announcement.

H1: Accounting comparability of firms with their industry peers should be negatively associated with options IV levels on the day of quarterly earnings announcements.

H1a: Accounting comparability of firms with their industry peers should be associated with stronger IV resolution after quarterly earnings announcement events.

We do not formulate a full and directional hypothesis regarding the behavior of IV before EA depending on the level of accounting comparability, because of identifying conflicting effects on whether comparability should positively or negatively associate with changes in IV before the event. This is because on one hand, IV increases before EA could be possibly *lower* when firms are more financially comparable thanks to greater certainty about the accurate valuation of these firms, but on the other hand. market participants could actually anticipate EA as more reliably information-rich, and information processing-enabling events for more comparable firms, because of greater ease to process information for these firms in particular, leading to *higher* increases in IV for such firms before the event.

3 Sample Selection and Methodology

3.1 Sample selection

We employ US listed firms with quarterly data on Compustat that have equity options data on the Ivy DB OptionMetrics database between 1996-2021 (as the initial sample with data on Optionmetrics is 1996). Our initial sample from Compustat consists of 608,870 quarter-firm observations during 1996-2021, out of which 104,838 are matched to Optionmetrics based on the security ID available on the latter. Limited data loss due to variable calculations results in a usable sample with maximum of 103,066 firm-year observations.

Optionmetrics reports daily, among other items, the IV from standardized equity options (both calls and puts) that are closest-to-the-money, with maturities ranging from 10 days to 730 days. We use the IV of these standardized options as a proxy for market participant's forward-looking view of uncertainty regarding the underlying stock. In accordance with past research, we first focus on a short-term maturity (30 days), which should be the quickest to respond to new information released via EA (e.g., Donders et al., 2000; Goyal and Seratto, 2009; Truong et al., 2012; Goodman et al., 2018). We further proxy long-term IV by the IV of standardized contracts with 182 days to maturity (LTIV). Furthermore, we use the difference between the long-term IV (182 days, LTIV) and the short-term IV (30 days, STIV) in order to estimate the term structure of IV on any given day for each sample firm (TSIV).

3.2 Research methodology - baseline model specification

3.2.1 Accounting comparability

Accounting comparability is defined as the similarity of accounting functions that translate economic transactions into accounting numbers (De Franco et al., 2011). The basic concept of accounting comparability is that the accounting output should be analogous for similar economic events experienced by different firms; therefore, comparability improves the ability of investors to better appreciate the association between accounting data and economic events and to compare performance across firms (Cheng and Wu, 2018). De Franco et al. (2011) regress earnings (representing a proxy for accounting outcome) on returns (representing a proxy for economic events) to estimate a mapping from economic events to financial statements and measure comparability. We use two measures for financial reporting comparability. Our first measure is based on De Franco et al. (2011) and assesses the "closeness" of the functions between a focal firm and its industry peers, and for robustness purposes, we also estimate an alternative measure of comparability, based on Basu (1997) which incorporates a potential influence from past negative performance and its effect on returns.

Following De Franco et al. (2011), we regress earnings (representing a proxy for accounting outcome) on returns (representing a proxy for economic events) to estimate a mapping from economic events to financial statements (De Franco et al., 2011, p. 896). In the first step, for each firm-quarter, we estimate equation (1) below using the 16 previous quarters of data:

$$Earnings_{i,t} = \alpha_i + \beta_i Return_{i,t} + \varepsilon_{i,t} \quad (1)$$

The estimated intercept $\hat{\alpha}_i$ of this regression and the slope coefficient $\hat{\beta}_i$ determine the accounting function of firm i (Gross and Perotti, 2017). Similarly, the accounting function of firm j is proxied by $\hat{\alpha}_j$ and $\hat{\beta}_j$, that are estimated using the earnings and return of firm j). Equation (1) states that the financial statements of a firm are a function $f(.)$ of the economic events and of the accounting of these events. Thus, financial statement comparability is defined based on the expectation that two firms have comparable accounting systems if, for a given set of economic events, they produce similar financial statements (De Franco et al., 2011). Specifically, firms i and j, reporting under comparable accounting should have similar mappings $f(.)$, such that for a given a set of economic events $Return_{i,t}$, firm j produces similar financial statements to firm i.

In the second step, we use the accounting functions of firms i and j, together with the corresponding return of a single firm. That is, we estimate

$$E(Earnings)_{i,i,t} = \hat{\alpha}_i + \hat{\beta}_i Return_{i,t} \quad (2)$$

$$E(Earnings)_{i,j,t} = \hat{\alpha}_j + \hat{\beta}_j Return_{i,t} \quad (3)$$

In the above, $E(Earnings)_{i,i,t}$ is the predicted earnings of firm i given firm i's function and firm i's return in period t and $E(Earnings)_{i,j,t}$ is the predicted earnings of firm j given the firm j's function and firm i's return in period t. As in De Franco et al. (2011), by using firm i's return in both predictions, we explicitly hold the economic events constant (De Franco et al., 2011, p. 900).

We define accounting comparability between firms i and j ($Comparability_{i,j,t}$) as the negative value of the average absolute difference between the predicted earnings using firm i's and j's functions (multiplied by 100, in conformance with past research, e.g., De Franco et al., 2011 or Chen et al., 2018):

$$Comparability_{i,j,t} = -\frac{1}{16} \times \sum_{t-15}^{t} |E(Earnings)_{i,i,t} - E(Earnings)_{i,j,t}| \quad (4)$$

This yields a negative number, with higher values indicating higher accounting comparability of the We estimate accounting comparability for each firm i − firm j combination for all firms J within the same SIC two-digit industry classification.

After estimating accounting comparability for each firm i − firm j combination for all firms J within the same SIC two-digit industry classification, we rank all the J values of $Comparability_{i,j,t}$ for each firm i from the highest to the lowest. Our main variable of interest, $AccComp\_M1_{i,t}$, is the average $Comparability_{i,j,t}$ of the ten firms j with the highest comparability to firm i during period t.[3]

For robustness purposes, we also estimate an alternative measure of comparability, based on Basu (1997). In this alternative measure, equation (1) now becomes:

$$Earnings_{i,t} = \gamma_i + \delta_i Return_{i,t} + \xi_i D_{Return_{i,t}<0} + \varphi_i Return_{i,t} \times D_{Return_{i,t}<0} + e_{i,t} \qquad (5)$$

where $D_{Return_{i,t}<0}$ is a dummy variable that takes the value of one if the return is negative (and zero otherwise). This modification incorporates a potential influence from past negative performance and its effect on returns as in Basu (1997). Now, equations (2)-(4) become:

$$E(EarningsBasu)_{i,i,t} = \hat{\gamma}_i + \hat{\delta}_i Return_{i,t} + \hat{\xi}_i D_{Return_{i,t}<0} + \hat{\varphi}_i Return_{i,t} \times D_{Return_{i,t}<0} \qquad (6)$$

$$E(EarningsBasu)_{i,j,t} = \hat{\gamma}_j + \hat{\delta}_j Return_{i,t} + \hat{\xi}_j D_{Return_{i,t}<0} + \hat{\varphi}_j Return_{i,t} \times D_{Return_{i,t}<0} \qquad (7)$$

$$ComparabilityBasu_{A,T,t} = -\frac{1}{8} \times \sum_{t-15}^{t} |E(EarningsBasu)_{A,A,t} - E(EarningsBasu)_{A,T,t}| \qquad (8)$$

Our alternative proxy of accounting comparability that is based on Basu (1997), denoted $AccComp\_M2_{i,t}$, is the average $ComparabilityBasu_{i,j,t}$ of the ten firms j with the highest comparability to firm i during period t.

In all cases, we exclude holding firms, American Depository Receipts (ADRs) and limited partnerships (De Franco et al., 2011, footnote 3). If we find the word Holding, Group, ADR, or LP appear in a firm's name on Compustat, these firms are excluded. We also exclude firm-year observations whose financial year does not end in either March, June, September, or

[3] The choice of how many firms should be included in the set of comparable firms is admittedly ad hoc. We have also used the average $Comparability_{i,j,t}$ of the four firms (as opposed to the ten firms) with the highest comparability and make these untabulated results available upon request.

December. All variables used in our analyses are winsorized at percentiles 1-99% on a year-quarter basis.

3.2.2 STIV, LTIV, and TSIV measurement

Regarding our IV measures, let $\sigma_{i,m,\tau}^{c}$ (respectively $\sigma_{i,m,\tau}^{p}$) stand for the firm i equity volatility, as implied from the closest-to-the-money call option (respectively put option) with maturity m in days (and T_m in years) on (relative) day τ. By relative day τ the following is meant: As we are only interested in the dynamics of IV (and its term structure) around EA dates, our day indexing τ takes values $[-10, -9, \dots, +10]$ relative to the firm i quarterly EA day (day $\tau = 0$).

For our measure of STIV, denoted $\sigma_{i,\tau}^{ST}$, we fix the maturity to $m = 30$ days and estimate the simple (call-put) average of at-the-money IV, i.e. $\sigma_{i,\tau}^{ST} = 0.5\left(\sigma_{i,30,\tau}^{c} + \sigma_{i,30,\tau}^{p}\right)$. Similarly, for the LTIV, we fix the maturity to $m = 182$ days and estimate the average $\sigma_{i,\tau}^{LT} = 0.5\left(\sigma_{i,182,\tau}^{c} + \sigma_{i,182,\tau}^{p}\right)$. We focus on $\sigma_{i,0}^{ST}$ (respectively $\sigma_{i,0}^{LT}$) on the quarterly EA day ($\tau = 0$) and also on the changes $\Delta\sigma_{i,[x,y]}^{ST}$ (respectively $\Delta\sigma_{i,[x,y]}^{LT}$) that stand for the differences $\sigma_{i,x}^{ST} - \sigma_{i,y}^{ST}$, (respectively $\sigma_{i,x}^{LT} - \sigma_{i,y}^{LT}$) which we calculate for 10 and 1-day windows around the quarterly EA day.[4]

Finally, we examine the level and the changes in the TSIV around the quarterly announcement dates, as proxies for market participants' short- and long-term forward-looking view of uncertainty about the underlying stock. For each sample firm i, on day τ relative to its EA day for a given quarter, our proxy for the TSIV is estimated by running the following ordinary least squares

$$0.5\left(\sigma_{i,j,\tau}^{c} + \sigma_{i,j,\tau}^{p}\right) = \alpha_{i,\tau} + \beta_{i,\tau} \times T_j + e_{i,\tau}, \quad (9)$$

across all maturities j. The simple (call-put) average IVs that are available on day τ are regressed on their contract expiries T_j in years, and the simple OLS slopes $\hat{\beta}_{i,\tau}$ are used as proxies of the TSIV for firm i on day τ.[5]

3.2.3 Baseline methodology and model specification

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[4] Among our additional tests (see Section 4.5), we check the robustness of our findings if STIV and LTIV are measure via the delta-interpolated (call-put) average IV on day τ (see Truong et al. (2012) and Mixon (2009), inter alia, for the use of the average and delta-interpolated implied volatility in empirical studies).

[5] Among our untabulated robustness tests, we also estimate proxies of TSIV by estimating equation (9) with the delta-interpolated (call-put) average IV on day τ (instead of the simple call-put average IV) as the dependent variable.

To examine the association of financial reporting comparability with the levels and changes of IV (and its term structure) around quarterly EA, we first employ standard portfolio analysis. For each quarter, we sort sample firms into ten equal-size portfolios depending on $AccComp\_M1_{i,t}$ (and $AccComp\_M2_{i,t}$ for robustness purposes), i.e. their level of comparability with their industry peers, measured at the end of each quarter, with financial reporting information that is revealed and made public on the EA day (day $\tau = 0$). Each quarter, for each firm in each portfolio, we calculate the level of short- (σ_{τ}^{ST}) and long-term (σ_{τ}^{LT}) IV on day $\tau = 0$, their changes for time windows [-1, -10], [0, -1], [+1, -1], [+1,0], [+10, +1] surrounding the event ($\Delta\sigma_{[-1,-10]}^{ST}, \Delta\sigma_{[0,-1]}^{ST}, \Delta\sigma_{[+1,-1]}^{ST}, \Delta\sigma_{[+1,0]}^{ST}, \Delta\sigma_{[+10,+1]}^{ST}$ for changes in STIV, and $\Delta\sigma_{[-1,-10]}^{LT}, \Delta\sigma_{[0,-1]}^{LT}, \Delta\sigma_{[+1,-1]}^{LT}, \Delta\sigma_{[+1,0]}^{LT}, \Delta\sigma_{[+10,+1]}^{LT}$ for change sin LTIV), as well the level of the TSIV (β_0), and changes in the term structure around these time windows ($\Delta\beta_{[-1,-10]}$, $\Delta\beta_{[0,-1]}$, $\Delta\beta_{[+1,-1]}$, $\Delta\beta_{[+1,0]}$, $\Delta\beta_{[+10,+1]}$). Portfolio 1 consists of the firms with the lowest financial reporting comparability metric in all sample quarters, while Portfolio 10 consists of the firms with the highest comparability metric in all sample quarters. The statistic *t-stat* and *p-val* refer to the test (under the null hypothesis) that the means of Portfolios 10 and 1 are equal.

Furthermore, we apply regression analysis by regressing the level of STIV and LTIV, and changes in them for time windows [-1, -10], [0, -1], [+1, -1], [+1,0], and [+10, +1] around EA, on accounting comparability, measured as $AccComp\_M1_{i,t}$ ($AccComp\_M2_{i,t}$ for robustness purposes) and control variables. Specifically, we estimate the following equation using OLS for all sample observations during 1996-2021,

$$\sigma_{i,0}^{ST} \ or \ \sigma_{i,0}^{LT} \ or \ \Delta\sigma_{i,[-k,+l]}^{ST} \ or \ \Delta\sigma_{i,[-k,+l]}^{LT} = \delta_0 + \delta_1 AccComp\_M1_{i,t}(or \ AccComp\_M2_{i,t}) + \sum_p \xi_p Controls_{p,i,t} + \sum_q \varphi_q Fixed \ Effects_q + v_{i,t} \qquad (10)$$

Eq. (10) is estimated with year and industry fixed effects, while the reported standard errors are robust to heteroscedasticity and autocorrelation. Control variables include firm size ($Size_{i,t}$), stock market performance or last year annual returns ($Return_{i,t}$), standard deviation of last year returns ($Std(Return)_{i,t}$), stock return skewness over the last year ($Skew(Return)_{i,t}$), stock market volume ($StockVolume_{i,t}$), a firm's systematic risk measure ($Beta_{i,t}$), and the standard deviation of cash flows from operations, earnings and sales, in the form of measures for fundamental firm risk ($Std(CFO/TA)_{i,t}$, $Std(NIBE/TA)_{i,t}$, and $Std(Sales/TA)_{i,t}$, respectively). Detailed variable definitions can be found in Appendix A.

We expect that $AccComp\_M1_{i,t}(or \ AccComp\_M2_{i,t})$ should be negatively associates with σ_0^{ST} and σ_0^{LT} on the day of the announcement, and also negatively associate with STIV and

LTIV changes ($\Delta\sigma^{ST}_{[-k,+l]}$ and $\Delta\sigma^{LT}_{[-k,+l]}$) after the event, indicating stronger investor uncertainty resolution for more comparable firms. Control variable selection mainly follows from Kim et al. (2016), who examine the association between accounting comparability and stock price crash risk, measured in the form of an options-based variable as is the case with the IV volatility smirk. We include firm size (which may affect firms' stock price volatility; Pástor and Veronesi, 2003; Kim et al., 2016), stock market performance, together with measures of its skewness and volatility during the previous year, given that past return behavior has been shown to associate with IV (Bradshaw et al., 2010; Van Buskirk, 2011; Kim et al, 2016). We include market beta as a measure of market risk, which may relate with IV behavior (e.g., Dennis and Mayhew, 2002; Duan and Wei, 2009; Bradshaw et al., 2010), and measures of uncertainty about firms' profitability in the form of the standard deviation of cash flows, sales and earnings because such uncertainty may reflect on the volatility of returns (Pástor and Veronesi, 2003; Kim et al., 2016). Finally, we control for stock trading volume in the form of a measure for the heterogeneity of beliefs among investors (Kim et al., 2016), given evidence that this volume is associated with negative stock return skewness (Hong and Stein, 2003).

4. Empirical findings

4.1 Descriptive statistics

Table 1 reports descriptive statistics for all sample firm-quarter observations during 1996-2021, with data availability for our baseline model specification of eq. (10). We observe from Table 1 that our average and median comparability metrics $AccComp\_M1_{i,t}$ and $AccComp\_M2_{i,t}$ are negative and close to zero, consistent with prior research for respective proxies (e.g., Imhof et al., 2017, for a more limited sample in their case). STIV levels (σ^{ST}_0) are higher than LTIV equivalents (σ^{LT}_0), with mean (median) values of 0.4759 (respectively 0.4171) vs. 0.4338 (respectively 0.3783) on the day of EA, confirming the expectation that STIV is more sensitive (than LTIV) in its response to the information-rich event of publicizing earnings. The average (median) slope of the TSIV (β_0) is also negative (-0.0882 for the mean and -0.0362 for the median), which is consistent with higher STIV compared to LTIV on the day of the event. Regarding average and median changes in both STIV and LTIV around the event, we observe that their mean and median values are negative for the [0, -1], time window but positive for the [-1, -10], window before the event, and negative for all time windows following the event, while values are stronger for STIV compared to LTIV. The reduction in IV, and particularly STIV following the announcement of earnings, is consistent with uncertainty resolution, and increases in volatility in the days before the event confirm previous research on a runup of IV as the announcement day approaches, consistent with past research (e.g., Diavatopoulos et al., 2012; Truong et al., 2012). We consider that the negative values of both STIV and LTIV for the [0, -1] pre-event window indicate the incorporation of firm-specific news on the event day.

Insert Table 1 about here.

Regarding changes in the TSIV around the announcement, we observe that, except for the mean value of the TSIV for the [-1, -10] time window, all changes in the slope are positive and higher in absolute terms for around, and after the event time windows. This evidence is consistent with a greater resolution (and higher reductions) in STIV compared to LTIV around announcements, with a corresponding upward tendency for the slope of the term structure of IV.-Turning our attention to the rest of the variables, both mean (0.0985) and median (0.0823) returns ($Return_{i,t}$) are positive, and so are their skewness using means or medians, while average and median values for their standard deviations are very close to each other (0.1357 and 0.1093, respectively). Average (median) $Beta_{i,t}$ is 1.2712 (1.1528) for our sample firms, exceeding unity. Mean and median values for the logarithms of market value of equity and stock trading volume are similar for means and medians, with values around 14 in all cases. Finally, we observe that the standard deviation for both cash flows from operations and earnings are slightly positive, but close to zero, for both mean and median values, while the average (but not median) value of the standard deviation of sales is readily larger (0.2804), compared to volatility levels observed for other fundamentals.

We further report on Table 1 some descriptive statistics for variables that will be used in supplementary analyses. These include firms' bid-ask spread $\left(BidAskSpread_{i,t}\right)$, a variable reflecting a firm's business strategy, i.e., whether a firms positions itself through a prospector-type vs. a defender-type of strategy, based on Bentley et al. (2013) ($Strategy_{i,t}$), a binary indicator taking the value of one if the firm has no antitakeover provisions in place, and zero otherwise an $\left(E - index_{i,t}\right)$, and, finally, a binary indicator taking the value of one (zero) when a firm's average Herfindahl-Hirschman Index for institutional ownership is above (below) the industry-quarter median ($InstOwnership_{i,t}$). We observe that the average (median) value for the bid-ask spread for sample firms is 0.1810 (0.1501), while the average or median strategy score takes the value of 17, confirming that the average firm in our sample is an analyser-type, given that prospector (defender) strategies receive values close to 30 (6). Finally, almost half of the sample firm-year observations (47.44%) do not have any antitakeover provisions outstanding, when the latter may insulate from pressures from the market for corporate control. Detailed definitions for all variables are provided in Appendix A.

4.2 Main empirical findings

4.2.1 Portfolio analysis

Table 2 reports means of STIV (σ_{τ}^{ST}) levels and changes ($\Delta\sigma_{[x,y]}^{ST}$) for ten quarterly-rebalanced, equal-size portfolios formed based on accounting comparability, from lowest (portfolio 1) to highest (portfolio 10). Panel A (Panel B) reports portfolio formation based on accounting comparability Model 1, De Franco et al. (2011), $AccComp\_M1_{i,t}$ (Model 2, Basu (1997), $AccComp\_M2_{i,t}$). When moving from portfolio 1 to 10, we observe from Table 2, Panels A and B that firms with higher (lower) accounting comparability to their industry peers experience significantly lower (higher) STIV on quarterly EA days. This is because the level of IV is observed to significantly decrease as accounting comparability increases for firms on the day of EA, indicating that accounting comparability significantly mitigates investor uncertainty, as the latter is manifested through IV, on the day of the information-rich event of the publication of earnings.

Insert Table 2 about here.

Regarding changes in IV around EA, we find that these changes tend to be positive for all firms before the announcement event (referring to the $[-1,-10]$ window) for both Panels A and B, indicating an increase in IV in anticipation of the information-rich event of the EA. Increases in IV before the event are found to be stronger for more, compared to less comparable firms (although the difference between the top vs. bottom comparability portfolio is not found to be statistically significant), evidence we interpret as indicative of the market more eagerly anticipating earnings news for firms easier to value, i.e., more comparable firms with their peers. Interestingly, and in accordance with descriptive statistics reported on Table 1, changes in STIV are on average negative for the $[0,-1]$ and the $[+1,-1]$ event windows, with significantly stronger IV resolution for less, as opposed to more comparable firms, providing evidence on firm-specific news incorporation in the days immediately preceding the event (the difference between the top and bottom comparability portfolios is not significant for the $[+1,-1]$ event window for results reported in Panel B when using the comparability measure based on Basu (1997)).

However, the trend of increasing volatility more strongly for more comparable firms is found to reverse after the event, given that for the next one-to-ten-day windows after the quarterly EA, decreases in volatility are stronger for higher, rather than for lower comparability firms. This is consistent with stronger uncertainty resolution thanks to the EA for more comparable or easier to relatively evaluate, firms, compared to firms with less comparable financial reporting practices with the ones of their peers. In this way, information from the publication of earnings is observed to be incorporated by traders for uncertainty resolution more intensely if firms are more financially comparable to their peers.

Regarding our results for the time window $[0, -1]$ immediately preceding the event and on the event day, we observe that STIV tends to more strongly decrease for low comparability firms compared to more comparable firms (for high comparability firms, we further find that STIV actually increases for the one or two highest compatibility portfolios). This finding is consistent with market participant uncertainty about of the actual informativeness of EA events and the usefulness of information they are expected to receive for low comparability firms in particular, as they may consider EA events not to be able to reveal information that could help them resolve their uncertainty if firms are little financially comparable. Regarding time windows after the event, stronger volatility decreases for more comparable firms confirm expectations that EA are considered by market participants more informationally rich event for higher, compared to lower comparability firms.

Table 3 continues from Table 2 by reporting means this time of LTIV (σ_τ^{LT}) levels and changes ($\Delta\sigma_{[x,y]}^{LT}$) for ten equal size portfolios formed based on accounting comparability. Again, Panel A (Panel B) reports portfolio formation based on accounting comparability Model 1, De Franco et al. (2011), $AccComp\_M1_{i,t}$ (Model 2, Basu (1997), $AccComp\_M2_{i,t}$).

Insert Table 3 about here.

We observe from both Panels of Table 3 that findings from Table 2 about the behavior of STIV on the day of EA, and changes in IV around the day of the event are confirmed for LTIV as well. However, results on levels and changes in IV are slightly stronger for STIV than for LTIV, consistent with greater sensitivity in the response of STIV than LTIV to the announcement of earnings. This evidence is consistent with more intense options market reaction for firms for the term structure end for which EA events could provide more up to date, and thus relevant information.

To the extent that comparability associates with greater resolution of uncertainty for more comparable firms, at least in the short-run, we expect a steeper slope for the TSIV after the announcement event, driven by more intense resolution of STIV as comparability increases. In the course of assessing the behavior of the IV around EA, we next turn our attention to the behavior of the TSIV in the days surrounding EA for firms with different levels of accounting comparability. Figure 1 (Panel C) plots the average daily change of the TSIV around EA for sample firms in portfolios 1 (i.e., with the lowest comparability) and 10 (i.e., with the highest comparability) only. Means of changes in TSIV are plotted over days [-11, -10] up to and including days [+10, +11] relative to the EA day $\tau = 0$. Panel A (Panel B) of Figure 1 plots the mean daily change in STIV (LTIV) for high and low comparability sample firms, while Panel C plots the average daily change in the TSIV for high and low respective firms. We observe from Figure 1, Panel A that from $\tau = 0$ and up to the days that follow the quarterly EA, firms with high accounting comparability experience more negative daily changes in their STIV (relative to the firms with low accounting comparability). Although this is not so discernible in LTIV (see Panel B of Figure 1), the overall effect (more negative changes in TSIV for highly comparable firms) results in more positive daily changes in the term structure of IV for more comparable firms (see Panel C of Figure 1).

Insert Figure 1 about here.

These findings can also be visualized with the help of Figure 2 plots the average cumulative change of IV around EA (over the [-10, +11] window) for sample firms in portfolios 1 (lowest comparability) and 10 (highest comparability) only. Figure 2 is identical to Figure 1, only portfolio daily changes are accumulated, from day -10, up to and including day +11 relative to the EA day (day τ=0). Panel A (Panel B) of Figure 2 plots the cumulative mean change in STIV (LTIV) for high and low accounting comparability sample firms, while Panel C of the Figure plots the cumulative mean change in the TSIV for respective firms. From Panels A and B we observe that over the [-10, +11] window, sample firms with the highest accounting comparability experience more negative cumulative changes in both their STIV and LTIV. Panel C reveals that because the cumulative changes in STIV are more negative than those in LTIV, the cumulative change in the TSIV are more positive for high comparable firms compared to the least comparable firms (the short-term end of the term structure reduces more that the long-term end of it).

Insert Figure 2 about here.

To conclude our portfolio analysis and our graphical investigations, Table 4 reports means of TSIV slopes (β_{τ}) and changes ($\Delta\beta_{[x,y]}$) for ten quarterly-rebalanced, equal-size portfolios formed based on accounting comparability, from lowest (portfolio 1) to highest (portfolio 10). As in Tables 2 and 3, Panel A (Panel B) of Table 4 reports portfolio formation based on accounting comparability Model 1, De Franco et al. (2011), $AccComp\_M1_{i,t}$ (Model 2, Basu (1997), $AccComp\_M2_{i,t}$).

Insert Table 4 about here.

We observe from Table 4, Panels A and B that more comparable firms possess flatter TSIV curves on the day of the announcement event. Before the event, low comparability firms possess steeper TSIV curves than high comparability firms, and this is consistent with sharper STIV decreases for less financially comparable firms before the event, probably because of market uncertainty about what news to expect about these firms on the day of EA. After the event, the slope of TSIV appears to become more positive and steeper for higher comparability portfolios. Both results are consistent with stronger increases in STIV and larger decreases in STIV before (after) EA, with a corresponding effect in the slope of the TSIV stemming from the ST end of the term structure, corroborating our main portfolio analysis from Tables 2 and 3.

4.2.2 Regression analysis

Table 5 reports estimation results for our baseline eq. (10) when the accounting comparability proxy is given by Model 1 ($AccComp\_M1_{i,t}$) and the dependent variables are STIV (LTIV) and changes, in Panel A (Panel B) of the Table. We readily observe from Table 5, Panels A and B, that our OLS results confirm the findings from our portfolio analysis. We observe that accounting comparability negatively and significantly associates with the level of STIV and LTIV on the day of EA, while this result is more strongly statistically (at 1% vs. 10% level) and economically significant ($AccComp\_M1_{i,t}$ coefficient value of -0.0914 vs. -0.0511) for STIV, compared to LTIV.

Insert Table 5 about here.

Regarding the specifications with IV changes as dependent variables, we observe that comparability positively (negatively) associates with changes in STIV and LTIV before (after) the announcement, while results are again statistically and economically stronger for STIV compared to LTIV after (but not before) the event. Post-event results are weaker for the LTIV models, as the comparability coefficient is not statistically significant in the $\Delta\sigma^{LT}_{[+1,-1]}$ and $\Delta\sigma^{LT}_{[+10,+1]}$ model specifications but is so for relevant STIV time window regression estimations.

Table 6 reports similar results to the ones of Table 5, but this time the accounting comparability proxy is given by Model 2, based on the modification of the DeFranco et al. (2011) model by Basu (1997) ($AccComp\_M2_{i,t}$). With the exception of the σ^{ST}_0 model, for which the effect of comparability is observed to be non-significant in Panel A of the Table, results from Table 5 are confirmed in Table 6 for our alternative accounting comparability proxy.

Insert Table 6 about here.

4.2.1 Positive and negative earnings news and surprises

Past research has provided evidence on differential options market reaction depending on whether firms announce good rather than bad news in their EA. Rogers et al. (2009) observe stronger (weaker) increases in volatility after bad (good) news disclosed in forecasts by firm management. Importantly, Truong et al. (2012) specifically examine the differential impact on IV of announcing good and bad news announcement around EA and their evidence indicates that positive earnings surprises and profit announcements trigger higher uncertainty resolution compared to negative surprises and the announcements of losses. Our study examines the effect of accounting comparability on IV and TSIV levels and changes around EA, under the fundamental expectation that IV reflects investor uncertainty about future firm prospects. In this case, a firm may be a poor performer, but it may nevertheless not present difficulties and uncertainty to forecast its future cash flows. Nevertheless, we report on Table 7 estimation results for our baseline Eq. (10) (for both comparability specifications, Models 1 ($AccComp\_M1_{i,t}$) and 2 ($AccComp\_M2_{i,t}$), in Panels A-B, and C-D, respectively) for representative time windows of STIV and LTIV for firm-year observations with positive earnings surprises ($Earnings\_Surprise_{i,t} > 0$, Panels A and C) and negative earnings surprises ($Earnings\_Surprise_{i,t} \leq 0$, Panels B and D). Earnings surprises are defined as positive or negative differences when subtracting the median analyst consensus earnings per share (EPS) forecast for a given quarter from the actual value of earnings reported for the quarter in question by the firm, by making use of the closest analyst median forecast to the day of the announcement.

Insert Table 7 about here.

We observe from Table 7 that our results do not show important differentiation depending on whether earnings surprises around EA are positive or negative. In almost all reported specifications, comparability is negatively and significantly associated with the level of IV on the day of the announcement for both positive and negative surprise observations. Regarding specifications with IV changes, again, there appear to exist no obvious patterns of a difference in results between positive and negative news firms. In this way, our baseline findings do not appear to be driven by the nature of news reaching the market through the EA, and comparability is observed to associate with levels and changes in IV in a similar way regardless of the type of earnings surprise. This indicates that the effect of comparability on investor uncertainty resolution, as the latter is reflected on IV levels and changes around the announcement, is significant regardless of whether investors are positively or negatively surprised by firm earnings.

4.3 Controlling for endogeneity

Our findings could be subject to endogeneity concerns arising from elements that could have an impact on accounting comparability but are not adequately controlled in our models, e.g., stemming from differences in observable characteristics between firms with high and low levels of accounting comparability. This would be the case if, for example, firms reporting more comparably are systematically different from firms reporting less comparably in fundamental ways, introducing bias in our findings. To ensure that our results are not driven by such misspecification, we apply entropy balancing, which is an estimation method that weights each observation such that the post-weighting distribution properties of treatment and control samples are equal, to ensure covariate balance (Hainmueller, 2012). We consider firms with accounting comparability above (below) the sample-quarter-year median as treated (control) firms and report our entropy balancing matching estimation, that ensures better covariate balance between treatment (High Accounting Comparability) and control (Low Accounting Comparability) groups (using the control variables of eq. (10) as covariates for matching) in Table 8.

Insert Table 8 about here.

Panel A of Table 8 reports the descriptive statistics of our model covariates before employing the entropy balancing method, and Panel B presents the descriptive statistics after employing entropy balancing. We observe from Panels A and B of Table 8 that although our observations appear to be really different (in terms of the matching covariates) before applying this method, differences in means after its application are virtually zero for all covariates). Panel C of Table 8 then summarizes the estimation results of eq. (10) after employing entropy balance (Hainmueller, 2012), showing no qualitative differences in baseline results for representative time windows. Therefore, we conclude that our main findings are not significantly affected by endogeneity concerns stemming from differences in observable characteristics between firms with high and low accounting comparability.

4.4 Supplementary analyses

Next, we try to better explore the mechanisms or reasons for which our baseline analysis indicates that accounting comparability negatively associates with both STIV and LTIV around EA. For this reason, we conduct a series of cross-sectional analyses in order to observe whether differing levels of asymmetric information or agency considerations moderate our results. This is because the underlying expectation is that comparability of firms with their peers should affect IV bahavior for reasons that relate to the improvement of the firm's information environment, with corresponding repercussions about reduced agency problems. Specifically, we use the magnitude of the bid-ask spread, following Krishnaswami et al. (1999) and García Lara et al. (2016) as a measure of firm information asymmetry and corresponding uncertainty of market participants about firm value. This is because information asymmetries between all users of accounting information are likely correlated (García Lara et al., 2016).

We further use the existence or not of any anti-takeover provisions (based on the entrenchment index (E-index) by Bebchuk et al., 2009) as a measure of the strength of outside monitoring because of the existence of such provisions, which insulate firms from acquisition market pressures and equity investors more generally. We also employ the concentration of institutional shareholdings using the Herfindahl-Hirschman index of institutional holdings (specifically, whether a firm is above the industry-year median for this variable at the end of the fiscal year), as a measure of the strength of outside monitoring, expecting that a less dispersed institutional shareholder base should imply more intense monitoring from this group of financial stakeholders (Anagnostopoulou et al., 2021), with repercussions for potential agency concerns about managers. Finally, we employ an indicator of firms' business strategy based on Bentley et al. (2013) as an indicator of business uncertainty arising from the aggressiveness or not of managerial actions, depending on whether the firm follows a prospector-type, analyser-type or defender-type of strategy.

Table 9 reports results when we conduct a series of supplementary cross-sectional analyses of our baseline results, when the dependent variable is STIV (LTIV) in Panels A (Panel B), respectively, for our baseline comparability proxy $AccComp\_M1_{i,t}$ (results regarding the other comparability proxy, $AccComp\_M2_{i,t}$, are available from the authors). We observe from Table 9 that the negative effect of accounting comparability on STIV and LTIV is weaker for firms with higher bid-ask spreads, for firms with no anti-takeover provisions in place (so less insulated from market monitoring and pressure), and for firms which follow a more aggressive prospector-type rather than a defensive strategy in their industry sector.

Insert Table 9 about here.

We interpret these findings as indicative of a more limited effect of comparability on IV when factors which aggravate information asymmetry, strength of monitoring, and managerial risk-seeking behavior, are stronger. In the presence of factors negatively affecting the informational efficiency and market pressure effectiveness of firms, comparability is found to be less able to decrease market uncertainty incorporated into investor perceptions, and thus reflected into IV levels on the day of EA.

Interestingly, we find that the magnitude of the concentration of institutional holdings also makes the negative association between accounting comparability and IV on the day of EA weaker, while we observe that the magnitude of ownership concentration positively reflects on IV. This finding may be considered as counter-intuitive, given that the intuitive expectation would be that the strength of institutions should increase managerial monitoring. However, trading on IV can be considered as a distinct asset class by market participants as is the case with institutional investors, depending on the type of their investment strategies (Neftci, 2008; Ch. 5). If this is true, institutional ownership may not work as a pure monitoring device as has been widely considered in the literature, but rather reflect systematic trading patterns which could be, e.g., volatility-seeking. In such a case, any long volatility stance taken by institutional investors could reduce the mitigating effect of comparability on IV due to its stand-alone positive effect on IV, in accordance with our results.

4.5 Robustness analysis

In order to investigate the robustness of our findings, we repeat our analysis using alternative ways to estimate the STIV and LTIV. Specifically, instead of using the simple (call-put) average IVs of ATM standardized option contracts, we employ (a) the IV from call options only, (b) the IV from put options only and (c) the delta-interpolated (call-put) IV (see Mixon, 2009) as dependent variables. Our estimation results are summarized in Table 10. For brevity, we only report results for σ_0^{ST} and σ_0^{LT}, the short-term and long-term IV on the announcement day.

Insert Table 10 about here.

Results are qualitatively similar to the results of Tables 5 and 6, albeit slightly weaker for STIV and $AccComp\_M2_{i,t}$ as the comparability proxy. The results of our robustness analysis seem to confirm our findings that IV on EA days is negatively associated with firm accounting comparability to its peers, regardless of how IV is estimated.

4.6 Trading Strategy

Our results this far have established the statistical significance of accounting comparability on IV (and its term structure), around the quarterly EA days of U.S. listed firms with options traded on their common shares. In this section we will examine the economic significance of accounting comparability on IV via a trading strategy.

Given that our accounting comparability proxy is estimated over the last 4 years (16 quarters, see equation 4) and hence it changes over slightly from quarter to quarter for each firm, we conduct an in-sample volatility trading strategy that characterizes a sample firm as having either high accounting comparability (Portfolio 10 in our portfolio analysis) or low accounting comparability (Portfolio 1) in quarter *t*, and trades the short-term options (30 days) of these firms in their next quarter, *t+1*. That is, every time a sample firm announces quarterly earnings, we estimate its accounting comparability (using the last 16 quarters) and if its accounting comparability belongs in the highest or lowest decile of accounting comparability across all sample firms up to this quarter, we trade this firms' options (30-day ATM call and put) before and after the firm's next quarterly EA.

As we wish to trade the volatility (runups and rundowns) of these firms, if a firm belongs in Portfolio 10 (most comparable firms) in a given quarter, we invest \$1000 in a long position in straddles (long 30-day ATM call and long 30-day ATM put) on day $\tau = -10$ before its next quarterly EA and close this position on day $\tau = -1$. This \$1000 investment is financed by going short in the necessary number of straddles (short 30-day ATM call and short 30-day ATM put) of a firm that belongs in Portfolio 1 (least comparable firms) on day $\tau = -10$ before this firm's next quarterly EA, and closing this position on day $\tau = -1$ before it EA. Observe that the long position in the straddles of a highly comparable firm and the (financing) short position in the straddles of a least comparable firm *do not take place on the same point in time* (same day), hence our trading strategy is considered self-financed only across all sample quarters (and by ignoring the time value of money across quarters). In essence, the strategy needs short-term financing between quarters, but it is self-financed across the entire (in-sample) period.

We denote the above (long straddles of most comparable firms and short straddles of least comparable firms) as Leg 1 of the trading strategy, and it takes place on days $[-10, -1]$ relative to the involved firms' quarterly EA. In Leg 2 of the trading strategy, we take reverse positions (i.e., short straddles of most comparable firms and long straddles of least comparable firms) after the EA day, i.e., we initiate the straddle on day $\tau = +1$ relative to the EA of the same firms, and close it on day $\tau = +10$. This second Leg aims to exploit our finding that most comparable firms experience more negative IV changes (stronger STIV rundowns) compared to the least comparable firms after the EA (see e.g. Table 2, Panel A). Figure 3 is a histogram of the profits and losses of the combined strategy (Leg 1 and Leg 2 together) across all sample quarters (pooled profits and losses).

Insert Figure 3 about here.

Table 11 summarizes the mean trading profit/loss and the sum of all trading profits/losses of both Legs (Leg 1 and Leg 2), across all quarters. The combined strategy yields a mean profit of \$9.41 and is statistically significant at the 1% significance level. The sum of the profits across all sample quarters is \$511,776. Looking at the two Legs of the strategy, it appears that the significant mean profits of the combined strategy are mainly driven by Leg 1 (in the $[-10, -1]$ window), as Leg 2 yields statistically zero mean profits (in the $[+1, +10]$ window). Figures 4 and 5 are histograms of the mean trading profits/losses per quarter and of the trading profits/losses sum per quarter respectively.

Insert Table 11 about here.

Insert Figure 4 about here.

Insert Figure 5 about here.

Our trading strategy results establish the economic significance of accounting comparability on options prices around EA days. It should be stressed that the (mean and total) trading profits we report in Table 11 and Figures 3-5 are in the absence of any transaction costs, hence their level would only decrease if one accounted for the costs that have to be incurred by investors who wish to execute the strategy. Moreover, our strategy is not completely self-financed, hence the reported profits might simply be adequate compensation for the risk taken to finance the strategy between quarters. Even with these considerations in mind, our findings in this study seem to suggest that accounting comparability is statistically and economically significant in the formation of option prices in the days that surround quarterly EA.

5. Conclusion

In this paper, we examine the association between the accounting comparability of firms with their industry peers, expected to facilitate the relative valuation of firms, and option market reaction (i.e., IV levels and changes) around quarterly EA. Options markets are widely considered as the trading outlet of the most sophisticated investors. We expect that IV around EA should reflect the degree to which investors reassess their beliefs about firms, and mitigate option market investor uncertainty about firms' prospects, while this uncertainty is expected to be incorporated within investor forward-looking expectations shaping IV levels and changes around announcements.

We use US listed firms with traded options covered by Optionmetrics during 1996-2021 and our portfolio analysis first shows that accounting comparability is negatively and significantly associated with both STIV and LTIV on the day of EA, and greater resolution of IV after announcements. This is consistent with a mitigating effect of comparability on investor uncertainty on the day of EA for more comparable firms, as well as with stronger uncertainty resolution for more comparable -or easier to relatively value- firms, thanks to information-rich event of EA. Our portfolio analysis further shows that firms with greater comparability to their industry peers possess significantly flatter term structure curves on the day of the announcement event, while this curve become steeper after the event for such firms, consistent with stronger decreases in STIV after EA.

Portfolio results are confirmed by regression analysis providing qualitatively similar findings. They are also robust to the application of entropy balancing to affront potential endogeneity concerns, considering the case, e.g., where more comparable firms are fundamentally different from lower comparability counterparts, with differences in financial reporting patterns systematically affecting uncertainty about firm valuation. Furthermore, despite evidence by past research about a non-uniform response of option markets to good vs. bad news or earnings surprises (Truong et al. 2012; Rogers et al. 2009), when we repeat our analysis for firms with positive and negative earnings surprises to analysts' earnings forecasts, we do not observe significant differences in the direction of our results. This is consistent with our baseline findings not depending on the type of news reaching the market, but rather reflect different levels of investor uncertainty resolution depending on how financially comparable firms are to their industry peers.

When we apply a series of cross-sectional analyses to better investigate into the reasons explaining our results, we find that the mitigating effect of comparability on IV weakens for firms with higher bid-ask spreads, firms with no anti-takeover provisions (i.e., less insulated from market pressure), and also for firms following an aggressive prospector-type, rather than a defensive industry positioning. Thus, our baseline result is overall weaker when factors aggravating information asymmetry, external monitoring efficiency, and managerial risk-seeking, are stronger. In this way, in the presence of factors negatively affecting the informational and market pressure effectiveness for firms, comparability is not as able to decrease market uncertainty incorporated within investor perceptions, as the latter is incorporated within IV levels on the day of EA.

Finally, to examine the economic significance of our findings, we implement an in-sample volatility-based trading strategy around the days of EA. To exploit our finding that highly comparable sample firms exhibit higher IV increases (decreases) in the days preceding (following) the announcement, we execute (in-sample) a strategy taking up long positions in straddles of highly comparable firms in the ten days that precede the announcement, financed by short positions in straddles of low comparability firms, reversing the positions in the ten days that follow the EA. This trading strategy produces significant positive mean profits, across all sample quarters, overall establishing the economic significance of accounting comparability in the options market.

Our study provides first-time evidence on the effect of a relative financial reporting quality attribute, as is accounting comparability of firms with their industry peers, which should facilitate company valuation, on the formulation of investor forward-looking uncertainty expectations incorporated within IV and TSIV levels and changes around corporate EA. In this way, our findings are consistent with the easiness of relative valuation guiding investor perceptions about how uncertain the path to value creation is for firms. We also contribute to research on linking accounting information attributes to concrete profit impact for investors, by showing that differences in accounting comparability of firms with their peers can be economically exploitable in the options market. Therefore, our evidence overall indicates significant statistical and economic effects on the formulation of forward-looking market expectation for a financial reporting characteristic that enables firm comparisons, rather than reflect stand-alone firm performance, as is the case with accounting comparability.

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Appendix A. Variable Definitions

Accounting comparability measurement-related variables (Source: Compustat, CRSP)	
$AccComp\_M1_{i,t}$	Measure of accounting comparability between a firm and its industry peers based on 2-digit SIC codes following the methodology by De Franco et al. (2011), calculated as described in Section 3.2.1.
$AccComp\_M2_{i,t}$	Measure of accounting comparability between a firm and its industry peers based on 2-digit SIC codes following the methodology by De Franco et al. (2011) when the baseline equation is modified based on Basu (1997), calculated as described in Section 3.2.1.
Implied volatility (short-term and long-term) and its term structure-related variables (Source: Optionmetrics)	
σ_0^{ST}	Short-term (30-day) ATM IV as of the day of the EA, calculated using the standardised option contracts in Optionmetrics
σ_0^{LT}	Long-term (182-day) ATM IV as of the day of the EA, calculated using the standardised option contracts in Optionmetrics
$\Delta\sigma_{[-k,+l]}^{ST}$	Change in short-term (30-day) ATM IV. This measure has been calculated for time windows [-10, -1], [-1,0], [-1,+1], [0,+1], [+1, +10] around the event.
$\Delta\sigma_{[-k,+l]}^{LT}$	Change in long-term (182-day) ATM IV. This measure has been calculated for time windows [-10, -1], [-1,0], [-1,+1], [0,+1], [+1, +10] around the event.
Control variables (Source: Compustat, CRSP)	
$Size_{i,t}$	Logarithm of market value of equity at quarter end.
$Return_{i,t}$	Annual cumulative return (excluding dividends) for a firm over the last 12 months until quarter end.
$Std(Return)_{i,t}$	Standard deviation of annual cumulative return (excluding dividends) for a firm over the last 12 months until quarter end.
$Skew(Return)_{i,t}$	Skewness of annual cumulative return (excluding dividends) for a firm over the last 12 months until quarter end.
$StockVolume_{i,t}$	Stock trading volume, measured as the logarithm of log of the sum of monthly stock volume over last 12 months until quarter end, calculated if at least if at least 6 months of data exists.
$Beta_{i,t}$	Beta for a firm's stock, measured as….
$Std(CFO/TA)_{i,t}$	Standard deviation of (winsorized at percentiles 1-99%) quarterly cash flow from operations over the last 16 quarters, scaled by average (winsorized at percentiles 1-99%) total assets over the same period.
$Std(NIBE/TA)_{i,t}$	Standard deviation of (winsorized at percentiles 1-99%) quarterly net income before extraordinary items and preferred dividends over the last 16 quarters, scaled by average (winsorized at percentiles 1-99%) total assets over the same period.

$Std(Sales/TA)_{i,t}$	Standard deviation of (winsorized at percentiles 1-99%) quarterly sales over the last 16 quarters, scaled by average (winsorized at percentiles 1-99%) total assets over the same period.
Variables used in supplementary analysis (Source: Compustat, CRSP, Institutional Shareholder Services (ISS), Thomson 13-F)	
$BidAskSpread_{i,t}$	A firm's bid-ask spread, measured as the average of the bid-ask spread over the twelve months until (inclusive of) the month of the quarter end. The bid-ask spread for a month is calculated by subtracting the bid from the ask price for a firm's stock at month end, scaled by the stock price at the end of the month.
$Strategy_{i,t}$	A variable reflecting a firm's business strategy, based on the composite measure by Bentley et al. (2013, Appendix 2, p. 810). This discrete score may receive values between 30 (prospector-type) and 6 (defender-type) while analyzer-type firms receive values in the middle of the variable continuum.
$E - index_{i,t}$	A variable taking the value of 1 of there exist no anti-takeover provisions for a year based on their definition and measurement by the entrenchment index (E-index) of Bebchuk et al. (2009) which represents a measure of the strength of outside monitoring through the number of anti-takeover provisions in place, and 0 otherwise. The Bebchuk et al. (2009) index is constructed by measuring the number of relevant provisions (existence of a staggered board, limits on the amendments of bylaws, limits on the amendments of charter, existence of supermajority, golden parachutes and poison pill, based on Bebchuk *et al.*, 2009). We self-construct the annual E-index for years 2007-2021, using data from Institutional Shareholder Services (ISS), and download values for 2000-2006 directly from the website of Lucian A. Bebchuk. (Source: ISS and http://www.law.harvard.edu/faculty/bebchuk/data.shtml).
$InstOwnershipConc_{i,t}$	A variable taking the value of 1 if a firm's average Herfindahl-Hirschman Index of ownership concentration for institutional ownership (calculated using monthly data) is above the industry-quarter median, and 0 otherwise (Source: Thomson 13-F).

Table 1 Descriptive statistics

	Min	*Q1*	*Mean*	*Median*	*Q3*	*Max*	*StDev*	*N*
Accounting comparability								
$AccComp\_M1_{i,t}$	-0.6898	-0.0080	-0.0120	-0.0031	-0.0015	-0.0002	0.0357	103,066
$AccComp\_M2_{i,t}$	-0.8024	-0.0182	-0.0212	-0.0081	-0.0041	-0.0008	0.0474	101,442
Implied volatility (short-term and long-term) and its term structure								
σ_0^{ST}	0.1274	0.2915	0.4759	0.4171	0.5966	1.9462	0.2522	103,066
$\Delta\sigma_{[-1,-10]}^{ST}$	-0.6609	-0.0249	0.0090	0.0045	0.0394	0.6415	0.0952	103,066
$\Delta\sigma_{[0,-1]}^{ST}$	-0.5003	-0.0352	-0.0107	-0.0062	0.0136	0.4590	0.0760	103,066
$\Delta\sigma_{[+1,-1]}^{ST}$	-0.5582	-0.0689	-0.0347	-0.0273	0.0010	0.5308	0.0888	103,066
$\Delta\sigma_{[+1,0]}^{ST}$	-0.5329	-0.0484	-0.0243	-0.0110	0.0056	0.5066	0.0819	103,066
$\Delta\sigma_{[+10,+1]}^{ST}$	-0.6705	-0.0348	-0.0060	-0.0053	0.0225	0.8366	0.0962	103,066
σ_0^{LT}	0.1189	0.2720	0.4338	0.3783	0.5353	1.7773	0.2240	99,835
$\Delta\sigma_{[-1,-10]}^{LT}$	-0.3988	-0.0128	0.0018	0.0000	0.0142	0.3513	0.0450	99,835
$\Delta\sigma_{[0,-1]}^{LT}$	-0.3016	-0.0095	-0.0019	-0.0015	0.0052	0.2707	0.0300	99,835
$\Delta\sigma_{[+1,-1]}^{LT}$	-0.3200	-0.0169	-0.0057	-0.0051	0.0042	0.3012	0.0362	99,835
$\Delta\sigma_{[+1,0]}^{LT}$	-0.2792	-0.0118	-0.0038	-0.0022	0.0040	0.2952	0.0315	99,835
$\Delta\sigma_{[+10,+1]}^{LT}$	-0.4159	-0.0134	0.0016	-0.0002	0.0141	0.4940	0.0483	99,835
β_0	-1.2310	-0.1302	-0.0882	-0.0362	0.0101	0.4175	0.1954	99,835
$\Delta\beta_{[-1,-10]}$								
$\Delta\beta_{[0,-1]}$	-0.7634	-0.0219	0.0134	0.0062	0.0475	0.7867	0.1530	99,835
$\Delta\beta_{[+1,-1]}$	-0.7538	-0.0051	0.0503	0.0263	0.0997	0.9560	0.1741	99,835
$\Delta\beta_{[+1,0]}$	-0.7197	-0.0096	0.0369	0.0114	0.0703	0.8461	0.1650	99,835
$\Delta\beta_{[+10,+1]}$	-0.8966	-0.0162	0.0414	0.0212	0.1018	1.1017	0.2102	99,835
Control variables								
$Size_{i,t}$	9.2072	13.1992	14.3835	14.2974	15.4540	19.6591	1.6209	103,066
$Return_{i,t}$	-1.5746	-0.1593	0.0985	0.0823	0.3363	2.3039	0.5311	103,066
$Std(Return)_{i,t}$	0.0160	0.0689	0.1357	0.1093	0.1721	0.6307	0.0972	103,066
$Skew(Return)_{i,t}$	-1.7057	-0.2310	0.2573	0.2188	0.7158	2.4296	0.7572	103,066
$StockVolume_{i,t}$	8.8489	12.9771	14.5909	14.6611	16.2938	19.6197	2.3248	103,066
$Beta_{i,t}$	-1.3539	0.7397	1.2712	1.1528	1.6587	5.6105	0.7841	103,066
$Std(CFO/TA)_{i,t}$	0.0006	0.0088	0.0227	0.0158	0.0269	0.8213	0.0273	103,066

$Std(NIBE/TA)_{i,t}$	0.0002	0.0048	0.0226	0.0099	0.0222	4.3162	0.0608	103,066
$Std(Sales/TA)_{i,t}$	0.0000	0.0009	0.2804	0.0063	0.0422	148.9152	2.4020	103,066
Variables used in supplementary analysis								
$BidAskSpread_{i,t}$	0.0262	0.0964	0.1810	0.1501	0.2305	0.6804	0.1175	103,066
$Strategy_{i,t}$	8.000	15.000	17.1327	17.000	19.000	27.000	3.3974	81,699
Binary variables used in supplementary analysis								
	Value of one	Value of zero						
$E-index_{i,t}$	47,932 (47.44%)	53,115 (52.56%)						101,047
$InstOwnershipConc_{i,t}$	15,251 (16.99%)	74,514 (83.01%)						89,765

Notes: This table reports descriptive statistics for all sample firm-quarter observations during 1996-2021, with data availability for our baseline model specification (eq. 11). Detailed variable definitions are provided in Appendix A.

Table 2 Means of short-term implied volatility (STIV) σ_{τ}^{ST} and changes in STIV $\Delta\sigma_{[x,y]}^{ST}$ for ten equal size portfolios formed based on accounting comparability

Panel A: Portfolio formation based on accounting comparability Model 1, De Franco et al. (2011), $AccComp\_M1_{i,t}$

IV Means of Acc. Comparability Portfolios	Accounting Comparability metric *AccComp_M1* Accounting Comparability Model 1, De Franco et al. (2011)					
	σ_{0}^{ST}	$\Delta\sigma_{[-1,-10]}^{ST}$	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	$\Delta\sigma_{[+10,+1]}^{ST}$
1-Lowest Acc. Comparability	0.5593	0.0079	-0.0134	-0.0298	-0.0164	-0.0054
2	0.5781	0.0058	-0.0123	-0.0357	-0.0234	-0.0030
3	0.5628	0.0083	-0.0109	-0.0353	-0.0244	-0.0062
4	0.5489	0.0075	-0.0094	-0.0331	-0.0237	-0.0042
5	0.5316	0.0080	-0.0097	-0.0353	-0.0255	-0.0058
6	0.4995	0.0099	-0.0115	-0.0367	-0.0252	-0.0053
7	0.4607	0.0089	-0.0106	-0.0377	-0.0271	-0.0059
8	0.4246	0.0094	-0.0113	-0.0392	-0.0279	-0.0062
9	0.3905	0.0095	-0.0094	-0.0357	-0.0263	-0.0075
10-Highest Acc. Comparability	0.3561	0.0103	-0.0076	-0.0272	-0.0196	-0.0106
t-stat (Portf. 10 – Portf. 1)	-68.25***	1.61	4.51***	1.77*	-2.38**	-3.44***
p-val (Portf. 10 – Portf. 1)	0.0000	0.1068	0.000	0.0769	0.0175	0.0005

Panel B: Portfolio formation based on accounting comparability Model 2, Basu (1997), $AccComp\_M2_{i,t}$

IV Means of Acc. Comparability Portfolios	Accounting Comparability metric *AccComp_M2* Accounting Comparability Model 2, Basu (1997)					
	σ_{0}^{ST}	$\Delta\sigma_{[-1,-10]}^{ST}$	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	$\Delta\sigma_{[+10,+1]}^{ST}$
1-Lowest Acc. Comparability	0.5853	0.0080	-0.0133	-0.0297	-0.0164	-0.0058
2	0.6047	0.0083	-0.0097	-0.0346	-0.0249	-0.0060
3	0.5859	0.0074	-0.0102	-0.0348	-0.0246	-0.0053
4	0.5579	0.0082	-0.0099	-0.0344	-0.0245	-0.0045
5	0.5208	0.0078	-0.0102	-0.0348	-0.0246	-0.0047
6	0.4838	0.0076	-0.0111	-0.0368	-0.0257	-0.0054
7	0.4401	0.0087	-0.0119	-0.0377	-0.0258	-0.0053
8	0.4028	0.0094	-0.0109	-0.0381	-0.0272	-0.0057
9	0.3810	0.0103	-0.0108	-0.0365	-0.0256	-0.0076
10-Highest Acc. Comparability	0.3570	0.0101	-0.0078	-0.0287	-0.0209	-0.0104
t-stat (Portf. 10 – Portf. 1)	-74.97***	1.37	4.37***	0.74	-3.34***	-3.04***
p-val (Portf. 10 – Portf. 1)	0.0000	0.1702	0.000	0.4598	0.0009	0.0024

Table 3 Means of long-term implied volatility (LTIV) σ_{τ}^{LT} and changes in LTIV $\Delta\sigma_{[x,y]}^{LT}$ for ten equal size portfolios formed based on accounting comparability

Panel A: Portfolio formation based on accounting comparability Model 1, De Franco et al. (2011), $AccComp\_M1_{i,t}$

IV Means of Acc. Comparability Portfolios	Accounting Comparability metric *AccComp_M1* Accounting Comparability Model 1, De Franco et al. (2011)					
	σ_{0}^{LT}	$\Delta\sigma_{[-1,-10]}^{LT}$	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$	$\Delta\sigma_{[+10,+1]}^{LT}$
1-Lowest Acc. Comparability	0.5360	0.0030	-0.0044	-0.0078	-0.0034	0.0014
2	0.5390	0.0035	-0.0024	-0.0078	-0.0054	0.0032
3	0.5271	0.0033	-0.0020	-0.0060	-0.0040	0.0013
4	0.5097	0.0025	-0.0010	-0.0053	-0.0043	0.0025
5	0.4935	0.0025	-0.0001	-0.0043	-0.0041	0.0014
6	0.4564	0.0033	-0.0020	-0.0054	-0.0033	0.0014
7	0.4103	0.0017	-0.0025	-0.0064	-0.0038	0.0013
8	0.3750	0.0017	-0.0026	-0.0066	-0.0040	0.0009
9	0.3476	0.0012	-0.0015	-0.0058	-0.0042	0.0007
10-Highest Acc. Comparability	0.3118	0.0008	-0.0020	-0.0050	-0.0030	0.0006
t-stat (Portf. 10 – Portf. 1)	-59.89***	-1.85*	2.49**	2.63***	0.43	-0.73
p-val (Portf. 10 – Portf. 1)	0.0000	0.0644	0.0129	0.0085	0.6700	0.4663

Panel B: Portfolio formation based on accounting comparability Model 2, Basu (1997), $AccComp\_M2_{i,t}$

IV Means of Acc. Comparability Portfolios	Accounting Comparability metric *AccComp_M2* Accounting Comparability Model 2, Basu (1997)					
	σ_{0}^{LT}	$\Delta\sigma_{[-1,-10]}^{LT}$	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$	$\Delta\sigma_{[+10,+1]}^{LT}$
1-Lowest Acc. Comparability	0.5632	0.0042	-0.0053	-0.0080	-0.0028	0.0016
2	0.5609	0.0022	-0.0014	-0.0067	-0.0053	0.0009
3	0.5475	0.0040	-0.0010	-0.0059	-0.0048	0.0029
4	0.5204	0.0035	-0.0016	-0.0062	-0.0046	0.0022
5	0.4779	0.0023	-0.0017	-0.0053	-0.0037	0.0025
6	0.4449	0.0020	-0.0024	-0.0056	-0.0032	-0.0002
7	0.3943	0.0024	-0.0025	-0.0059	-0.0035	0.0024
8	0.3551	0.0017	-0.0021	-0.0066	-0.0045	0.0013
9	0.3391	0.0010	-0.0019	-0.0057	-0.0038	0.0006
10-Highest Acc. Comparability	0.3138	0.0009	-0.0018	-0.0052	-0.0033	0.0006
t-stat (Portf. 10 – Portf. 1)	-65.88***	-2.76***	3.64***	2.72***	-0.69	-0.93
p-val (Portf. 10 – Portf. 1)	0.0000	0.0058	0.0003	0.0066	0.4913	0.3536

Table 4 Means of term structure of implied volatility (TSIV) slopes β_τ and changes in term structure slopes $\Delta\beta_{[x,y]}$ for ten equal size portfolios formed based on accounting comparability

Panel A: Portfolio formation based on accounting comparability Model 1, De Franco et al. (2011), $AccComp\_M1_{i,t}$

TSIV Means of Acc. Comparability Portfolios	Accounting Comparability metric *AccComp_M1* Accounting Comparability Model 1, De Franco et al. (2011)					
	β_0	$\Delta\beta_{[-1,-10]}$	$\Delta\beta_{[0,-1]}$	$\Delta\beta_{[+1,-1]}$	$\Delta\beta_{[+1,0]}$	$\Delta\beta_{[+10,+1]}$
1-Lowest Acc. Comparability	-0.0859	-0.0149	0.0185	0.0424	0.0238	0.0094
2	-0.0823	-0.0057	0.0169	0.0494	0.0325	0.0061
3	-0.0859	-0.0077	0.0157	0.0517	0.0360	0.0088
4	-0.0884	-0.0090	0.0129	0.0505	0.0376	0.0099
5	-0.0884	-0.0145	0.0155	0.0567	0.0413	0.0107
6	-0.0825	-0.0149	0.0175	0.0601	0.0425	0.0091
7	-0.0837	-0.0137	0.0143	0.0568	0.0425	0.0107
8	-0.0833	-0.0153	0.0143	0.0583	0.0439	0.0090
9	-0.0865	-0.0146	0.0120	0.0535	0.0415	0.0132
10-Highest Acc. Comparability	-0.0965	-0.0159	0.0110	0.0420	0.0310	0.0214
t-stat (Portf. 10 – Portf. 1)	-3.12***	-0.29	-2.47**	-0.11	2.23**	3.81***
p-val (Portf. 10 – Portf. 1)	0.0018	0.7720	0.0136	0.9112	0.0255	0.0001

Panel B: Portfolio formation based on accounting comparability Model 2, Basu (1997), $AccComp\_M2_{i,t}$

TSIV Means of Acc. Comparability Portfolios	Accounting Comparability metric *AccComp_M2* Accounting Comparability Model 2, Basu (1997)					
	β_0	$\Delta\beta_{[-1,-10]}$	$\Delta\beta_{[0,-1]}$	$\Delta\beta_{[+1,-1]}$	$\Delta\beta_{[+1,0]}$	$\Delta\beta_{[+10,+1]}$
1-Lowest Acc. Comparability	-0.0831	-0.0134	0.0202	0.0419	0.0217	0.0098
2	-0.0871	-0.0104	0.0163	0.0476	0.0313	0.0089
3	-0.0887	-0.0094	0.0108	0.0487	0.0379	0.0087
4	-0.0874	-0.0116	0.0161	0.0550	0.0390	0.0103
5	-0.0850	-0.0099	0.0160	0.0567	0.0407	0.0082
6	-0.0847	-0.0145	0.0154	0.0586	0.0431	0.0098
7	-0.0829	-0.0103	0.0148	0.0568	0.0419	0.0088
8	-0.0839	-0.0149	0.0151	0.0583	0.0433	0.0112
9	-0.0844	-0.0164	0.0121	0.0537	0.0415	0.0133
10-Highest Acc. Comparability	-0.0966	-0.0165	0.0117	0.0434	0.0317	0.0204
t-stat (Portf. 10 – Portf. 1)	-4.02***	-0.90	-2.84***	0.46	3.14***	3.43***
p-val (Portf. 10 – Portf. 1)	0.0000	0.3709	0.0046	0.6482	0.0017	0.0006

Table 5 OLS estimation results of our baseline model specification (eq. 10), when the accounting comparability proxy is given by Model 1, De Franco et al. (2011), $AccComp\_M1_{i,t}$

Panel A: Short-term implied volatility (STIV)

Independent variables	*Dependent variable: STIV*					
	σ_0^{ST}	$\Delta\sigma_{[-1,-10]}^{ST}$	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	$\Delta\sigma_{[+10,+1]}^{ST}$
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.0914*****	**0.0065**	**0.0132***	**-0.0383*****	**-0.0513*****	**-0.0443*****
	(0.0173)	**(0.0082)**	**(0.0068)**	**(0.0076)**	**(0.0068)**	**(0.0097)**
$Size_{i,t}$	-0.0657***	0.0003	-0.0032***	-0.0036***	-0.0003	0.0007***
	(0.0004)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
$Return_{i,t}$	-0.0003	0.0002	-0.0007	-0.0011**	-0.0005	0.0010*
	(0.0010)	(0.0006)	(0.0005)	(0.0005)	(0.0005)	(0.0006)
$Std(Return)_{i,t}$	0.0252***	-0.0015	0.0096***	-0.0013	-0.0108***	-0.0072
	(0.0060)	(0.0034)	(0.0028)	(0.0031)	(0.0029)	(0.0033)
$Skew(Return)_{i,t}$	-0.0004	-0.0004	-0.0007**	-0.0009**	-0.0001	0.0005
	(0.0008)	(0.0004)	(0.0003)	(0.0004)	(0.0004)	(0.0004)
$StockVolume_{i,t}$	-0.0001	0.0001	0.0000	0.0002*	0.0002	-0.0003**
	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0002)	(0.0001)
$Beta_{i,t}$	0.0711***	0.0005	-0.0008**	-0.0059***	-0.0050***	-0.0007
	(0.0009)	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0005)
$Std(CFO/TA)_{i,t}$	0.4806***	0.0464***	-0.0416***	-0.0676***	-0.0223*	-0.0300*
	(0.0386)	(0.0173)	(0.0125)	(0.0142)	(0.0125)	(0.0172)
$Std(NIBE/TA)_{i,t}$	0.2954***	-0.0089	0.0100**	0.0264***	0.0170***	0.0049
	(0.0357)	(0.0058)	(0.0040)	(0.0056)	(0.0051)	(0.0058)
$Std(Sales/TA)_{i,t}$	0.0007**	0.0003**	-0.0004***	-0.0002*	0.0001	0.0001
	(0.0003)	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Intercept	1.3216***	0.0138	0.0417***	0.0522***	0.0065	-0.0427**
	(0.0405)	(0.0169)	(0.0139)	(0.0156)	(0.0118)	(0.0174)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
N	103,066	103,066	103,066	103,066	103,066	103,066
R^2	0.5621	0.0345	0.0228	0.0653	0.0463	0.0496

Panel B: Long-term implied volatility (LTIV)

Independent variables	Dependent variable: LTIV					
	σ_0^{LT}	$\Delta\sigma_{[-1,-10]}^{LT}$	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$	$\Delta\sigma_{[+10,+1]}^{LT}$
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.0511***	**0.0146****	**0.0077***	**0.0015**	**-0.0076***	**-0.0019**
	(0.0267)	**(0.0072)**	**(0.0047)**	**(0.0050)**	**(0.0046)**	**(0.0067)**
$Size_{i,t}$	-0.0567***	-0.0007***	-0.0006***	-0.0003**	0.0003***	0.0005***
	(0.0005)	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0002)
$Return_{i,t}$	0.0004	0.0004	0.0001	-0.0003	-0.0004*	-0.0001
	(0.0012)	(0.0004)	(0.0003)	(0.0003)	(0.0003)	(0.0004)
$Std(Return)_{i,t}$	0.0172**	-0.0004	0.0016	-0.0008	-0.0018	-0.0031
	(0.0069)	(0.0021)	(0.0015)	(0.0019)	(0.0016)	(0.0023)
$Skew(Return)_{i,t}$	-0.0014	-0.0005*	-0.0002	0.0002	0.0003*	0.0002
	(0.0009)	(0.0003)	(0.0002)	(0.0002)	(0.0002)	(0.0003)
$StockVolume_{i,t}$	-0.0004	0.0001	0.0000	0.0001*	0.0001*	-0.0001
	(0.0003)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
$Beta_{i,t}$	0.0719***	-0.0005*	-0.0001	-0.0007***	-0.0006**	-0.0005
	(0.0011)	(0.0003)	(0.0002)	(0.0003)	(0.0002)	(0.0003)
$Std(CFO/TA)_{i,t}$	0.5831***	0.0172	-0.0128	-0.0118	0.0049	-0.0070
	(0.0470)	(0.0136)	(0.0085)	(0.0105)	(0.0094)	(0.0143)
$Std(NIBE/TA)_{i,t}$	0.2247***	-0.0039	0.0014	0.0078**	0.0060**	-0.0027
	(0.0347)	(0.0037)	(0.0023)	(0.0030)	(0.0027)	(0.0039)
$Std(Sales/TA)_{i,t}$	0.0013**	-0.0003	-0.0001	0.0001	0.0002	-0.0001
	(0.0006)	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0002)
Intercept	1.1207***	0.0265	0.0242	0.0284	-0.0004	-0.0363***
	(0.0891)	(0.0200)	(0.0181)	(0.0193)	(0.0065)	(0.0114)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
N	99,835	99,835	99,835	99,835	99,835	99,835
R^2	0.6210	0.0541	0.0111	0.0224	0.0145	0.0769

Notes: Panel A reports estimation results for baseline eq. (10) when the dependent variable is STIV (and its changes), while Panel B reports estimation results when the dependent variable is LTIV (and its changes). Detailed variable definitions are provided in Appendix A. Standard errors robust to heteroscedasticity and autocorrelation are reported in parentheses. ***, ** and * indicate statistical significance at 1%, 5% and 10% respectively.

Table 6 OLS estimation results of our baseline model specification (eq. 10), when the accounting comparability proxy is given by Model 2, Basu (1997), $AccComp\_M2_{i,t}$

Panel A: Short-term implied volatility (STIV)

Independent variables	*Dependent variable: STIV*					
	σ_0^{ST}	$\Delta\sigma_{[-1,-10]}^{ST}$	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	$\Delta\sigma_{[+10,+1]}^{ST}$
$\boldsymbol{AccComp\_M2_{i,t}}$	**-0.0151**	**0.0061**	**0.0142*****	**-0.0294*****	**-0.0437*****	**-0.0193****
	(0.0460)	**(0.0067)**	**(0.0053)**	**(0.0059)**	**(0.0053)**	**(0.0093)**
$Size_{i,t}$	-0.0654***	0.0003	-0.0032***	-0.0036***	-0.0002	0.0008***
	(0.0004)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0002)
$Return_{i,t}$	-0.0003	0.0002	-0.0006	-0.0011**	-0.0006	0.0009
	(0.0011)	(0.0006)	(0.0004)	(0.0005)	(0.0005)	(0.0006)
$Std(Return)_{i,t}$	0.0240***	-0.0014	0.0093***	-0.0014	-0.0108***	-0.0074**
	(0.0061)	(0.0034)	(0.0028)	(0.0032)	(0.0030)	(0.0034)
$Skew(Return)_{i,t}$	-0.0004	-0.0004	-0.0007**	-0.0009**	-0.0001	0.0005
	(0.0008)	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0004)
$StockVolume_{i,t}$	-0.0000	0.0000	0.0000	0.0002*	0.0002	-0.0003**
	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
$Beta_{i,t}$	0.0705***	0.0004	-0.0008**	-0.0059***	-0.0051***	-0.0007
	(0.0009)	(0.0005)	(0.0004)	(0.0004)	(0.0004)	(0.0005)
$Std(CFO/TA)_{i,t}$	0.4786***	0.0447**	-0.0436***	-0.0682***	-0.0218*	-0.0295*
	(0.0395)	(0.0176)	(0.0127)	(0.0144)	(0.0126)	(0.0173)
$Std(NIBE/TA)_{i,t}$	0.3018***	-0.0082	0.0117	0.0271***	0.0161***	0.0034
	(0.0377)	(0.0061)	(0.0040)	(0.0055)	(0.0052)	(0.0058)
$Std(Sales/TA)_{i,t}$	0.0007**	0.0003	-0.0004***	-0.0002	0.0002	-0.0001
	(0.0003)	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Intercept	1.3062***	0.0100	0.0379***	0.0525***	0.0114	-0.0405**
	(0.0402)	(0.0167)	(0.0135)	(0.0158)	(0.0101)	(0.0175)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
N	101,442	101,442	101,442	101,442	101,442	101,442
R^2	0.5614	0.0342	0.0229	0.0652	0.0464	0.0498

Panel B: Long-term implied volatility (LTIV)

Independent variables	Dependent variable: LTIV					
	σ_0^{LT}	$\Delta\sigma_{[-1,-10]}^{LT}$	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$	$\Delta\sigma_{[+10,+1]}^{LT}$
$\boldsymbol{AccComp\_M2_{i,t}}$	**-0.1229*** **	**0.0169*** **	**0.0081** **	**0.0023**	**-0.0065* **	**-0.0012**
	(0.0229)	**(0.0052)**	**(0.0037)**	**(0.0040)**	**(0.0037)**	**(0.0055)**
$Size_{i,t}$	-0.0561***	-0.0007***	-0.0006***	-0.0003**	0.0004***	0.0006***
	(0.0005)	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0002)
$Return_{i,t}$	0.0003	0.0004	0.0001	-0.0003	-0.0005*	-0.0001
	(0.0012)	(0.0004)	(0.0003)	(0.0003)	(0.0003)	(0.0004)
$Std(Return)_{i,t}$	0.0169**	0.0001	0.0014	-0.0008	-0.0015	-0.0031
	(0.0069)	(0.0021)	(0.0015)	(0.0019)	(0.0016)	(0.0023)
$Skew(Return)_{i,t}$	-0.0013	-0.0005*	-0.0002	0.0002	0.0003	0.0002
	(0.0009)	(0.0002)	(0.0002)	(0.0002)	(0.0002)	(0.0003)
$StockVolume_{i,t}$	-0.0003	0.0001	0.0000	0.0001	0.0001	-0.0001
	(0.0003)	(0.0001)	(0.0001)	(0.0001)	(0.0001)	(0.0001)
$Beta_{i,t}$	0.0709***	-0.0001	-0.0001	-0.0007***	-0.0005**	-0.0006*
	(0.0011)	(0.0003)	(0.0002)	(0.0003)	(0.0002)	(0.0003)
$Std(CFO/TA)_{i,t}$	0.5897***	0.0174	-0.0141	-0.0116	0.0059	-0.0079
	(0.0476)	(0.0137)	(0.0086)	(0.0106)	(0.0095)	(0.0144)
$Std(NIBE/TA)_{i,t}$	0.2231***	-0.0051	0.0021	0.0089***	0.0066**	-0.0042
	(0.0355)	(0.0038)	(0.0024)	(0.0030)	(0.0028)	(0.0038)
$Std(Sales/TA)_{i,t}$	0.0014**	-0.0003	-0.0001	0.0001	0.0002	-0.0001
	(0.0006)	(0.0002)	(0.0001)	(0.0001)	(0.0001)	(0.0002)
Intercept	1.1065***	0.0267	0.0247	0.0284	-0.0009	-0.0361***
	(0.0893)	(0.0201)	(0.0182)	(0.0193)	(0.0065)	(0.0115)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
N	93,929	93,929	93,929	93,929	93,929	93,929
R^2	0.6215	0.0539	0.0112	0.0224	0.0147	0.0771

Notes: Panel A reports estimation results for baseline eq. (10) when the dependent variable is STIV (and its changes), while Panel B reports estimation results when the dependent variable is LTIV (and its changes). Detailed variable definitions are provided in Appendix A. Standard errors robust to heteroscedasticity and autocorrelation are reported in parentheses. ***, ** and * indicate statistical significance at 1%, 5% and 10% respectively.

Table 7 OLS estimation results of our baseline model specification (eq. 10), for positive ($Earnings\_Surprise_{i,t} > 0$) and negative ($Earnings\_Surprise_{i,t} \leq 0$) earnings surprises

Panel A: The relationship between accounting comparability (Model 1, $AccComp\_M1_{i,t}$) and IV (short-term and long-term) for $Earnings\_Surprise_{i,t} > 0$

	Dependent variable: STIV				*Dependent variable: LTIV*			
Independent variables	σ_0^{ST}	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	σ_0^{LT}	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.1337*****	**0.0078**	**-0.0477*****	**-0.0551*****	**0.0371**	**0.0041**	**-0.0061**	**-0.0912***
	(0.0200)	**(0.0077)**	**(0.0089)**	**(0.0080)**	**(0.0302)**	**(0.0051)**	**(0.0057)**	**(0.0053)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
N	64,810	64,810	64,810	64,810	64,682	64,682	64,682	64,682
R^2	0.5693	0.0264	0.0759	0.0559	0.6261	0.0131	0.0285	0.0226

Panel B: The relationship between accounting comparability (Model 1, $AccComp\_M1_{i,t}$) and IV (short-term and long-term) for $Earnings\_Surprise_{i,t} \leq 0$

	Dependent variable: STIV				*Dependent variable: LTIV*			
Independent variables	σ_0^{ST}	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	σ_0^{LT}	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.0331**	**0.0231***	**-0.0281****	**-0.0516*****	**-0.2730*****	**0.0128**	**0.0135**	**-0.0095**
	(0.0343)	**(0.0134)**	**(0.0143)**	**(0.0127)**	**(0.0522)**	**(0.0099)**	**(0.0103)**	**(0.0091)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
N	38,256	38,256	38,256	38,256	35,153	35,153	35,153	35,153
R^2	0.5204	0.0220	0.0532	0.0360	0.6196	0.0143	0.0234	0.0142

Panel C: The relationship between accounting comparability (Model 2, $AccComp\_M2_{i,t}$) and IV (short-term and long-term) for $Earnings\_Surprise_{i,t} > 0$								
	Dependent variable: STIV				*Dependent variable: LTIV*			
Independent variables	σ_0^{ST}	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	σ_0^{LT}	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$
$\boldsymbol{AccComp\_M2_{i,t}}$	**-0.0858*****	**0.0107**	**-0.0467*****	**-0.0568*****	**-0.0234**	**0.0048**	**-0.0057**	**-0.0085***
	(0.0188)	**(0.0070)**	**(0.0079)**	**(0.0070)**	**(0.0293)**	**(0.0047)**	**(0.0052)**	**(0.0047)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
N	64,810	64,810	64,810	64,810	64,682	64,682	64,682	64,682
R^2	0.5691	0.0264	0.0760	0.0561	0.6261	0.0132	0.0285	0.0226

Panel D: The relationship between accounting comparability (Model 2, $AccComp\_M2_{i,t}$) and IV (short-term and long-term) for $Earnings\_Surprise_{i,t} \leq 0$								
	Dependent variable: STIV				*Dependent variable: LTIV*			
Independent variables	σ_0^{ST}	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	σ_0^{LT}	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$
$\boldsymbol{AccComp\_M2_{i,t}}$	**-0.0733****	**0.0275****	**-0.0218***	**-0.0491*****	**-0.3007*****	**0.0151***	**-0.0160***	**-0.0082**
	(0.0318)	**(0.0120)**	**(0.0128)**	**(0.0114)**	**(0.0499)**	**(0.0086)**	**(0.0089)**	**(0.0083)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
N	36,632	36,632	36,632	36,632	29,247	29,247	29,247	29,247
R^2	0.5204	0.0220	0.0531	0.0361	0.6201	0.0144	0.0235	0.0142

Notes: Panels A and B report estimation results for baseline eq. (10) for the accounting comparability Model 1 ($AccComp\_M1_{i,t}$) and IV (short-term and long-term) for positive earnings surprises ($Earnings\_Surprise_{i,t} > 0$, Panel A) and negative earnings surprises ($Earnings\_Surprise_{i,t} \leq 0$, Panel B). Panels C and D report estimation results for the accounting comparability Model 2 ($AccComp\_M2_{i,t}$) and IV (short-term and long-term) for positive earnings surprises ($Earnings\_Surprise_{i,t} > 0$, Panel C) and negative earnings surprises ($Earnings\_Surprise_{i,t} \leq 0$, Panel D). Detailed variable definitions are provided in Appendix A. Standard errors robust to heteroscedasticity and autocorrelation are reported in parentheses. ***, ** and * indicate statistical significance at 1%, 5% and 10% respectively.

Table 8 OLS estimation results of our baseline model specification (eq. 10) after entropy balancing

Panel A: Differences in Observables (covariates) before Entropy Balancing, when Treated and Control firms are determined by Model 1, $AccComp\_M1_{i,t}$									
Covariates	Mean Treated	Mean Control	Diff.	Variance Treated	Variance Control	Diff.	Skewness Treated	Skewness Control	Diff.
$Size_{i,t}$	14.26	13.00	1.26	3.165	3.565	-0.400	0.0362	0.1729	-0.1367
$Return_{i,t}$	0.0987	0.1017	-0.003	0.2794	0.2883	-0.0089	0.3969	0.3954	0.0015
$Std(Return)_{i,t}$	0.1346	0.1374	-0.0028	0.0095	0.0095	0.0000	1.907	1.873	0.034
$Skew(Return)_{i,t}$	0.2504	0.2658	-0.0154	0.5784	0.5705	0.0079	0.2252	0.2232	0.002
$StockVolume_{i,t}$	14.56	14.52	0.04	5.487	5.234	0.253	-0.1139	-0.1446	0.0307
$Beta_{i,t}$	1.081	1.453	-0.372	0.4751	0.8792	-0.4041	1.0400	0.8937	0.1463
$Std(CFO/TA)_{i,t}$	0.0200	0.0365	-0.0165	0.0006	0.0027	-0.0021	8.422	7.834	0.588
$Std(NIBE/TA)_{i,t}$	0.0128	0.0547	-0.0419	0.0005	0.0217	-0.0212	11.18	14.19	-3.01
$Std(Sales/TA)_{i,t}$	0.4352	0.8786	-0.4434	14.32	36.07	-21.75	24.68	14.94	9.74
Panel B: Differences in Observables (covariates) after Entropy Balancing, when Treated and Control firms are determined by Model 2, $AccComp\_M2_{i,t}$									
Covariates	Mean Treated	Mean Control	Diff.	Variance Treated	Variance Control	Diff.	Skewness Treated	Skewness Control	Diff.
$Size_{i,t}$	14.26	14.25	0.01	3.165	3.393	-0.228	0.0362	-0.0525	0.0887
$Return_{i,t}$	0.0987	0.0987	0.00	0.2794	0.2766	0.0028	0.3969	0.4363	-0.0394
$Std(Return)_{i,t}$	0.1346	0.1347	-0.0001	0.0095	0.0092	0.0003	1.907	1.959	-0.052
$Skew(Return)_{i,t}$	0.2504	0.2505	-0.0001	0.5784	0.5673	0.0111	0.2252	0.2244	0.0008
$StockVolume_{i,t}$	14.56	14.56	0.00	3.165	3.393	-0.228	-0.1139	-0.1494	0.0355
$Beta_{i,t}$	1.081	1.081	0.00	0.4751	0.4870	-0.0119	1.0400	0.8144	0.2256
$Std(CFO/TA)_{i,t}$	0.0200	0.0200	0.00	0.0006	0.0005	0.0001	8.422	4.125	4.297
$Std(NIBE/TA)_{i,t}$	0.0128	0.0129	-0.0001	0.0005	0.0002	0.0003	11.18	2.988	8.192
$Std(Sales/TA)_{i,t}$	0.4352	0.4370	-0.0018	14.32	22.41	-8.09	24.68	21.91	2.77

Panel C: The relationship between accounting comparability (Model 1, $AccComp\_M1_{i,t}$) and IV (short-term and long-term) after Entropy Balancing								
	Dependent variable: STIV				*Dependent variable: LTIV*			
Independent variables	σ_0^{ST}	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	σ_0^{LT}	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.2244*****	**0.0034**	**-0.0452*****	**-0.0493*****	**-0.1556*****	**0.0006**	**-0.0244*****	**-0.0249*****
	(0.0148)	**(0.0065)**	**(0.0072)**	**(0.0064)**	**(0.0185)**	**(0.0036)**	**(0.0040)**	**(0.0036)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
N	103,066	103,066	103,066	103,066	93,929	93,929	93,929	93,929
R^2	0.5351	0.0265	0.0793	0.0527	0.5953	0.0126	0.0278	0.0187
Panel D: The relationship between accounting comparability (Model 2, $AccComp\_M2_{i,t}$) and IV (short-term and long-term) after Entropy Balancing								
	Dependent variable: STIV				*Dependent variable: LTIV*			
Independent variables	σ_0^{ST}	$\Delta\sigma_{[0,-1]}^{ST}$	$\Delta\sigma_{[+1,-1]}^{ST}$	$\Delta\sigma_{[+1,0]}^{ST}$	σ_0^{LT}	$\Delta\sigma_{[0,-1]}^{LT}$	$\Delta\sigma_{[+1,-1]}^{LT}$	$\Delta\sigma_{[+1,0]}^{LT}$
$\boldsymbol{AccComp\_M2_{i,t}}$	**-0.2090*****	**0.0015**	**-0.0445*****	**-0.0467*****	**-0.1431*****	**-0.0011**	**-0.0066***	**-0.0062***
	(0.0139)	**(0.0061)**	**(0.0066)**	**(0.0060)**	**(0.0171)**	**(0.0034)**	**(0.0039)**	**(0.0034)**
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES
N	101,442	101,442	101,442	101,442	93,929	93,929	93,929	93,929
R^2	0.5204	0.0275	0.0820	0.0546	0.5811	0.0136	0.0292	0.0205

Notes: This Table presents our entropy balancing matching estimation that ensures better covariate balance between treatment (High Accounting Comparability) and control (Low Accounting Comparability) groups by weighing observation such that the post-weighing mean of treated and control samples are equal. Panel A shows the descriptive statistics before employing the entropy balancing method, whereas Panel B presents the descriptive statistics after employing the entropy balancing method. Panel C summarizes the estimation results of eq. (10) after employing the entropy balance method (Hainmueller, 2012). Detailed variable definitions are provided in Appendix A. Standard errors robust to heteroscedasticity and autocorrelation are reported in parentheses. ***, ** and * indicate statistical significance at 1%, 5% and 10% respectively.

Table 9 Supplementary analysis

Panel A: Short-term implied volatility (STIV)

Independent variables	σ_0^{ST}	σ_0^{ST}	σ_0^{ST}	σ_0^{ST}
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.0773****	**-0.5569*****	**-0.0612****	**-0.5270*****
	(0.0348)	**(0.0645)**	**(0.0265)**	**(0.1533)**
$\boldsymbol{BidAskSpread_{i,t}}$	**0.0255****			
	(0.0104)			
$\boldsymbol{BidAskSpread_{i,t} \times AccComp\_M1_{i,t}}$	**0.6677*****			
	(0.1339)			
$\boldsymbol{E - index_{i,t}}$		**0.0345*****		
		(0.0012)		
$\boldsymbol{E - index_{i,t} \times AccComp\_M1_{i,t}}$		**0.7476*****		
		(0.0661)		
$\boldsymbol{InstOwnership_{i,t}}$			**0.0350*****	
			(0.0020)	
$\boldsymbol{InstOwnership_{i,t} \times AccComp\_M1_{i,t}}$			**0.0980*****	
			(0.0364)	
$\boldsymbol{Strategy_{i,t}}$				**0.0062*****
				(0.0002)
$\boldsymbol{Strategy_{i,t} \times AccComp\_M1_{i,t}}$				**0.0321*****
				(0.0085)
Controls	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES
N	102,769	100,760	89,541	81,489
R^2	0.5641	0.5736	0.5666	0.5501

Panel B: Long-term implied volatility (LTIV)

Independent variables	σ_0^{LT}	σ_0^{LT}	σ_0^{LT}	σ_0^{LT}
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.3281***** **(0.0558)**	**-0.6407***** **(0.0796)**	**-0.0675*** **(0.0368)**	**-0.9010***** **(0.2467)**
$\boldsymbol{BidAskSpread_{i,t}}$	**0.0332***** **(0.0122)**			
$\boldsymbol{BidAskSpread_{i,t} \times AccComp\_M1_{i,t}}$	**1.1137***** **(0.2015)**			
$\boldsymbol{E - index_{i,t}}$		**0.0325***** **(0.0014)**		
$\boldsymbol{E - index_{i,t} \times AccComp\_M1_{i,t}}$		**0.7179***** **(0.0834)**		
$\boldsymbol{InstOwnershipConc_{i,t}}$			**0.0353***** **(0.0025)**	
$\boldsymbol{InstOwnershipConc_{i,t} \times AccComp\_M1_{i,t}}$			**0.1206**** **(0.0525)**	
$\boldsymbol{Strategy_{i,t}}$				**0.0061***** **(0.0002)**
$\boldsymbol{Strategy_{i,t} \times AccComp\_M1_{i,t}}$				**0.0395***** **(0.0134)**
Controls	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES
N	84,550	83,561	87,627	83,707
R^2	0.6230	0.6328	0.6274	0.6168

Notes: Panel A reports estimation results for eq. (10) when the dependent variable is STIV (and its changes), while Panel B reports estimation results when the dependent variable is LTIV (and its changes). $BidAskSpread_{i,t}$ is the mean, stock price bid-ask spread over the last 12 months. $E - index_{i,t}$ is a binary variable taking the value of 1 if there exist no anti-takeover provisions for a year based on their definition and measurement by the entrenchment index (E-index) of Bebchuk et al. (2009), and 0 otherwise. $InstOwnershipConc_{i,t}$ is a binary variable taking the value of 1 if a firm's average Herfindahl-Hirschman Index of ownership concentration for institutional ownership over the last quarter of the fiscal year (calculated using monthly data) is above the industry-year median at the end of the fiscal year, and 0 otherwise. $Strategy_{i,t}$ is the business strategy composite measure of Bentley et al. (2013, Appendix 2, p. 810). Detailed variable definitions are provided in Appendix A. Standard errors robust to heteroscedasticity and autocorrelation are reported in parentheses. ***, ** and * indicate statistical significance at 1%, 5% and 10% respectively.

Table 10 Robustness analysis

Panel A: The relationship between accounting comparability (Model 1, $AccComp\_M1_{i,t}$) and IV (short-term and long-term)-Robustness analysis						
	Dependent variable: STIV			*Dependent variable: LTIV*		
Independent variables	σ_0^{ST} (Calls only)	σ_0^{ST} (Puts only)	σ_0^{ST} (Delta-Interpolated)	σ_0^{LT} (Calls only)	σ_0^{LT} (Puts only)	σ_0^{LT} (Delta-Interpolated)
$\boldsymbol{AccComp\_M1_{i,t}}$	**-0.1169******	**-0.0665******	**-0.0670******	**-0.0175**	**-0.0786******	**-0.0744******
	(0.0174)	**(0.0186)**	**(0.0182)**	**(0.0261)**	**(0.0278)**	**(0.0271)**
Controls	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
N	103,066	103,066	103,066	93,929	93,929	93,929
R^2	0.5370	0.5384	0.05452	0.6131	0.6076	0.6168

Panel B: The relationship between accounting comparability (Model 2, $AccComp\_M2_{i,t}$) and IV (short-term and long-term)-Robustness analysis						
	Dependent variable: STIV			*Dependent variable: LTIV*		
Independent variables	σ_0^{ST} (Calls only)	σ_0^{ST} (Puts only)	σ_0^{ST} (Delta-Interpolated)	σ_0^{LT} (Calls only)	σ_0^{LT} (Puts only)	σ_0^{LT} (Delta-Interpolated)
$\boldsymbol{AccComp\_M2_{i,t}}$	**-0.0685******	**-0.0218**	**-0.0227**	**-0.0688******	**-0.1293******	**-0.1241******
	(0.0162)	**(0.0174)**	**(0.0171)**	**(0.0250)**	**(0.0268)**	**(0.0261)**
Controls	YES	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
N	101,442	101,442	101,442	93,929	93,929	93,929
R^2	0.5369	0.5383	0.5452	0.6132	0.6078	0.6170

Notes: This Table reports estimation results for our baseline eq. (10), when the dependent variable is the (short-term and long-term) implied volatility from call options only, from put options only or the delta-interpolated (call and put) implied volatility. Panel A reports estimation results for baseline eq. (10) when the accounting comparability proxy is Model 1, $AccComp\_M1_{i,t}$, while Panel B reports estimation results when the accounting comparability proxy is Model 2, $AccComp\_M2_{i,t}$. Detailed variable definitions are provided in Appendix A. Standard errors robust to heteroscedasticity and autocorrelation are reported in parentheses. ***, ** and * indicate statistical significance at 1%, 5% and 10% respectively.

Table 11 Trading strategy

	Trading strategy, Leg 1	Trading strategy, Leg 2	Combined strategy
	Long position in a straddle of most comparable firms (Portfolio 10) over the [-10, -1] time window, financed by a short position in a straddle of least comparable firms (Portfolio 1) over the [-10, -1] time window	Long position in a straddle of least comparable firms (Portfolio 1) over the [+1, +10] time window, financed by a short position in a straddle of most comparable firms (Portfolio 10) over the [+1,+10] time window	Leg 1 and Leg 2 together
Mean profit (across all quarters, in $)	17.62***	1.53	9.41***
Sum of profits (across all quarters, in $)	469,254	42,522	511,776

Notes: The Table reports the mean profit and the sum of all profits (pooled, across all quarters) from the trading strategy. ***, ** and * indicate statistical significance at 1%, 5% and 10% respectively.

Figure 1, Panel A Mean daily change in STIV for high and low accounting comparability sample firms

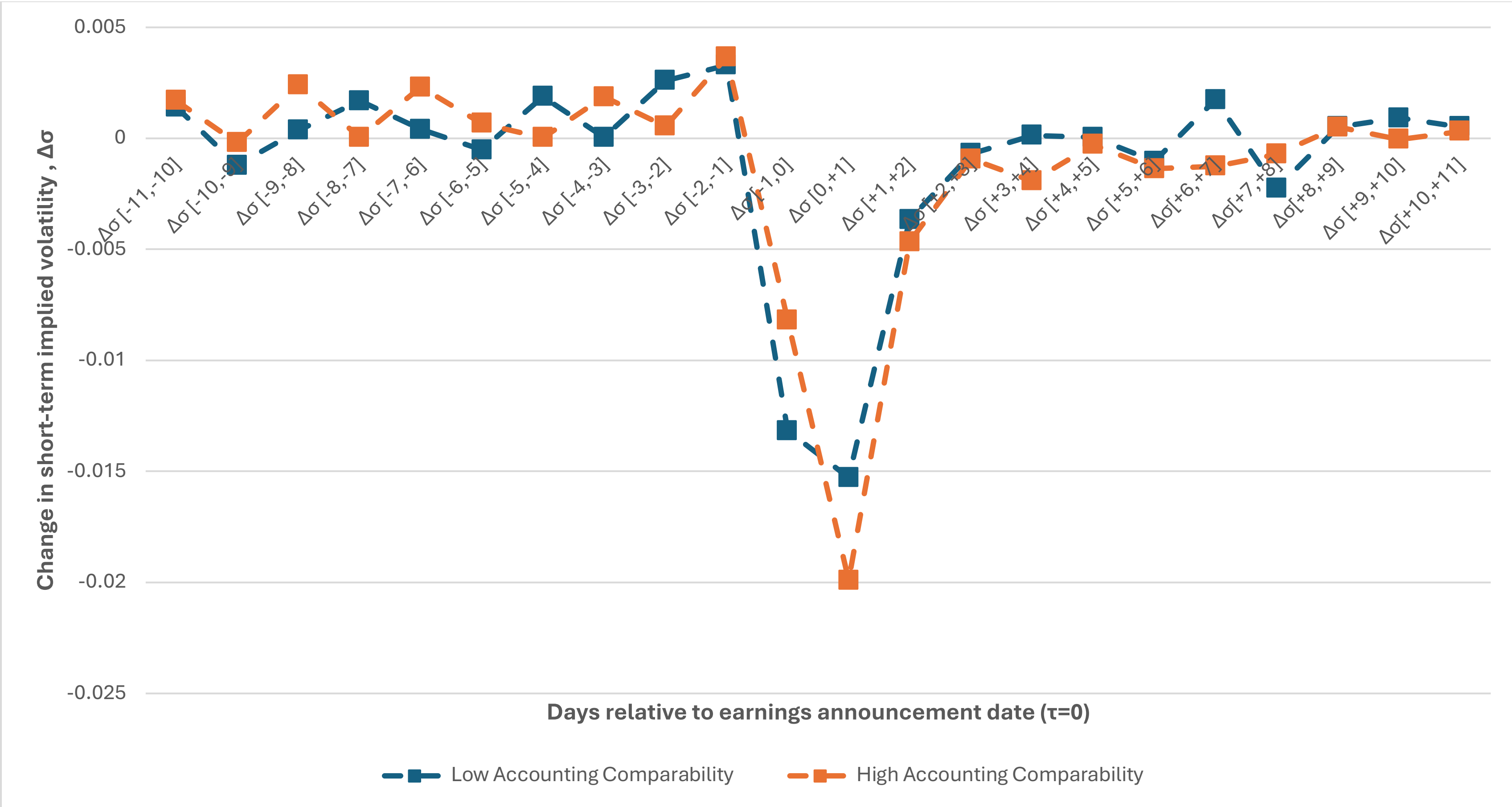


Figure 1, Panel B Mean daily change in LTIV for high and low accounting comparability sample firms

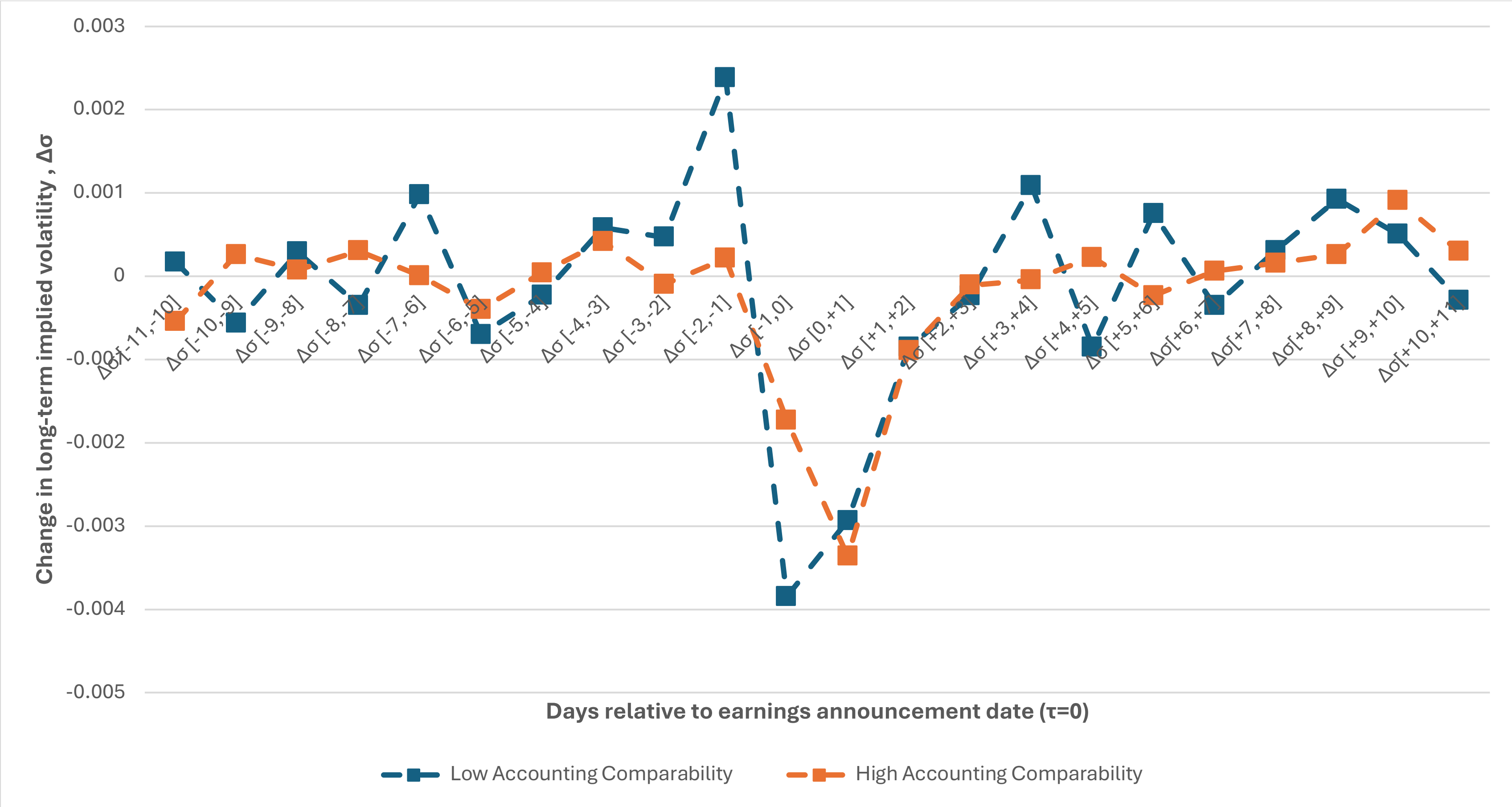
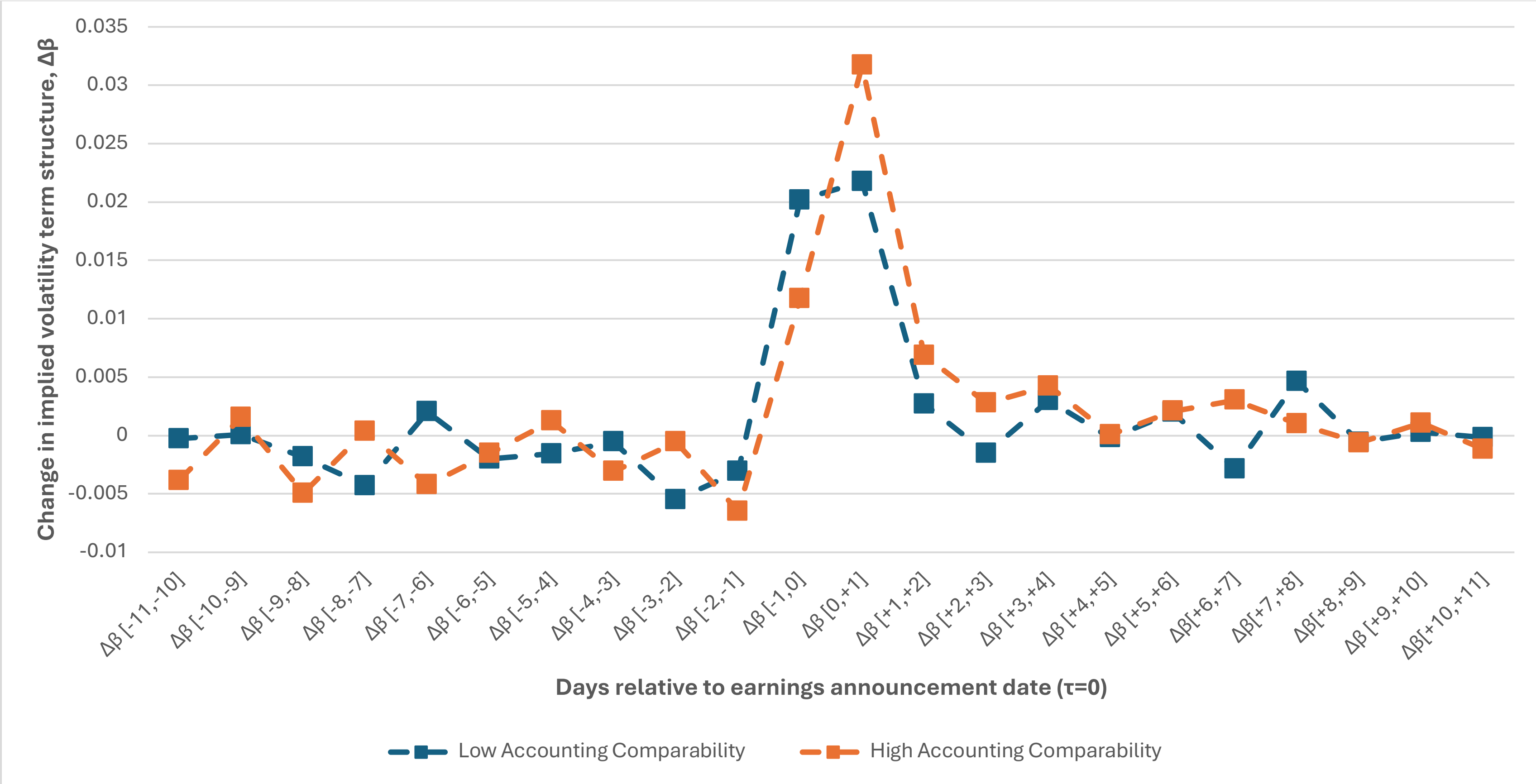


Figure 1, Panel C Mean daily change in TSIV for high and low accounting comparability sample firms



The Figure plots the average daily change of STIV, LTIV, and TSIV around EA for sample firms in portfolios 1 (lowest accounting comparability) and 10 (highest accounting comparability) only. Means of portfolio TSIV changes are plotted for days [-11, -10] up to and including [+10, +11] relative to the EA day (day τ=0).

Figure 2, Panel A Cumulative mean daily change in STIV for high and low accounting comparability sample firms

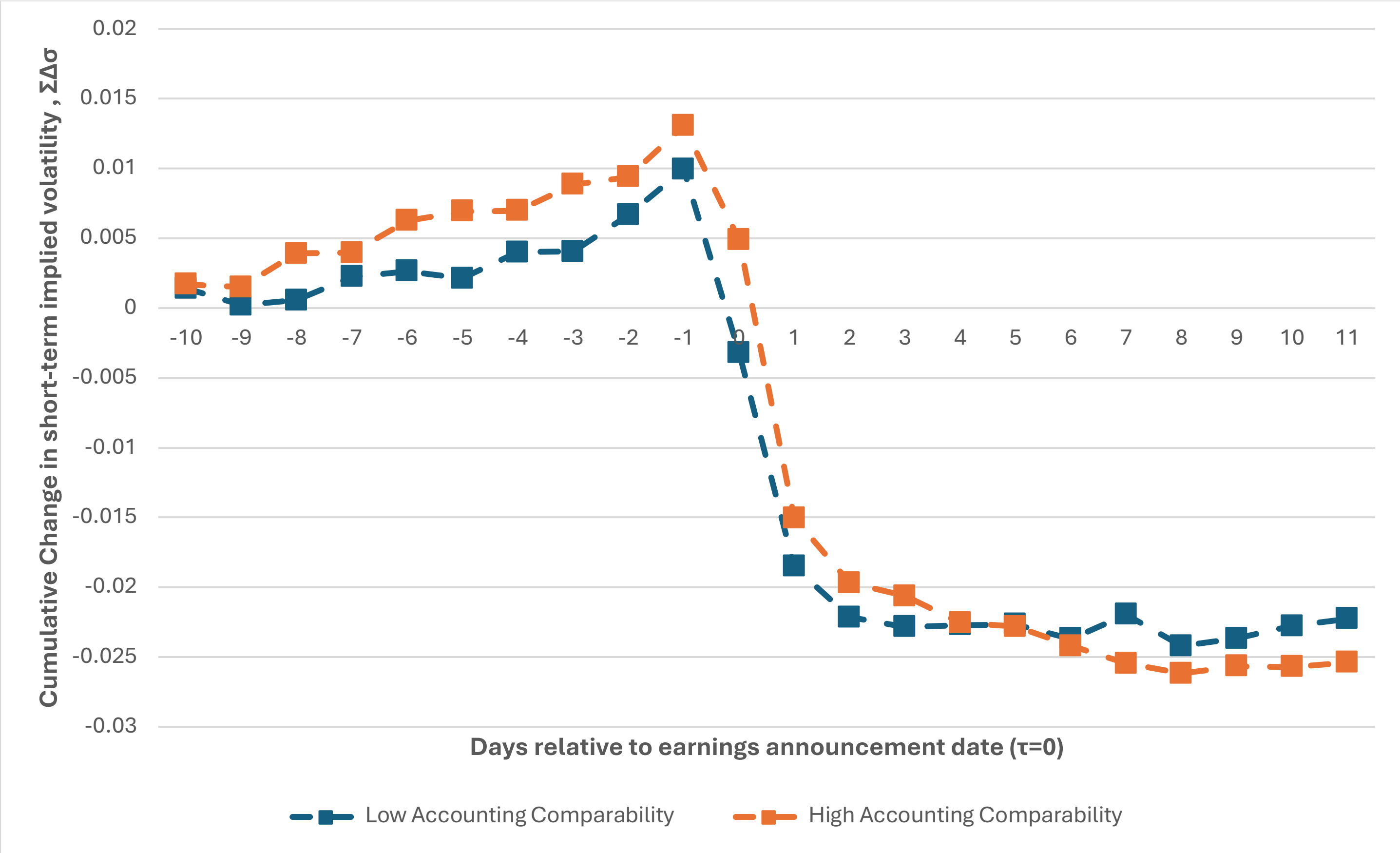


Figure 2, Panel B Cumulative mean daily change in LTIV for high and low accounting comparability sample firms

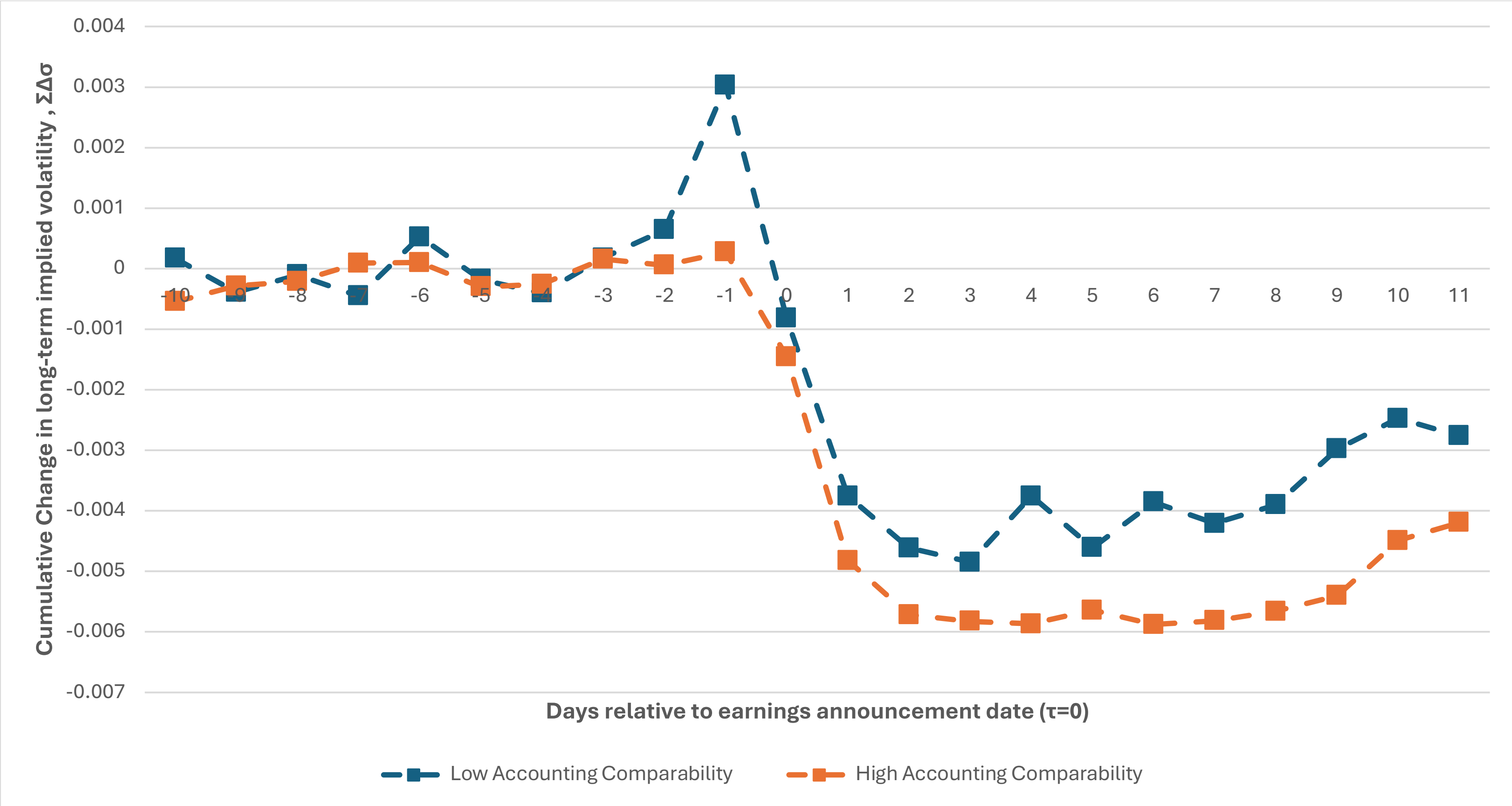
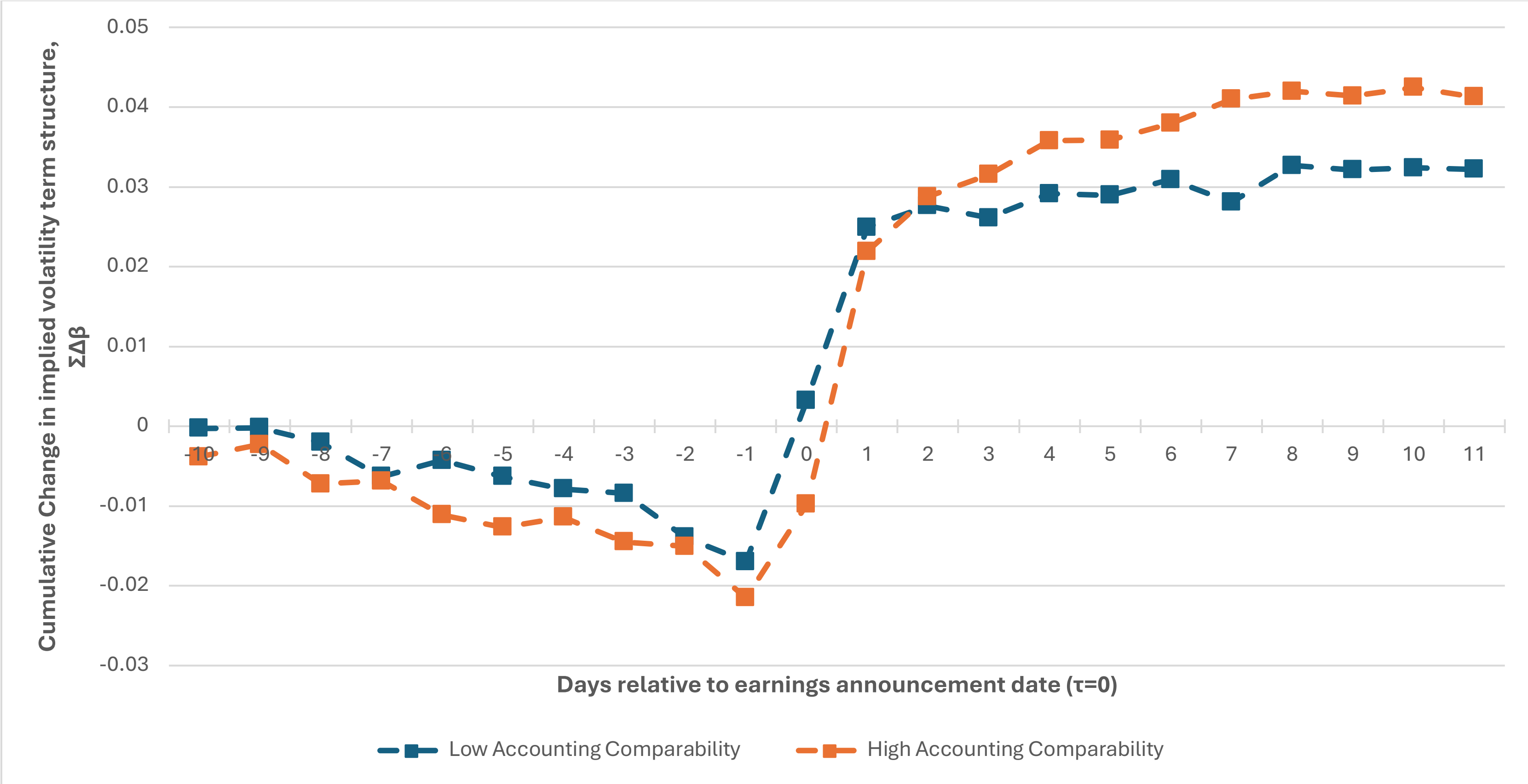
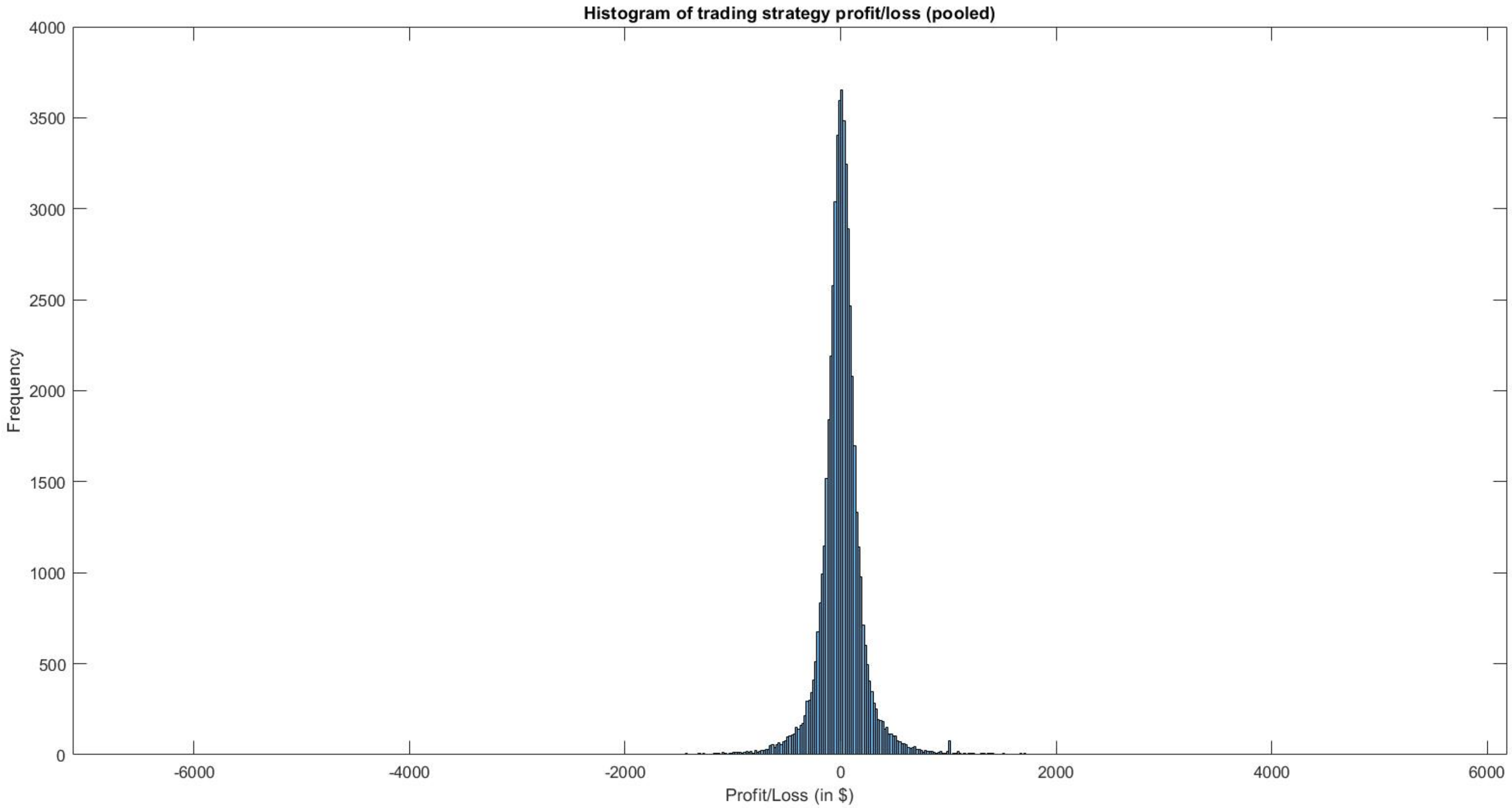


Figure 2, Panel C Cumulative mean daily change in TSIV for high and low accounting comparability sample firms



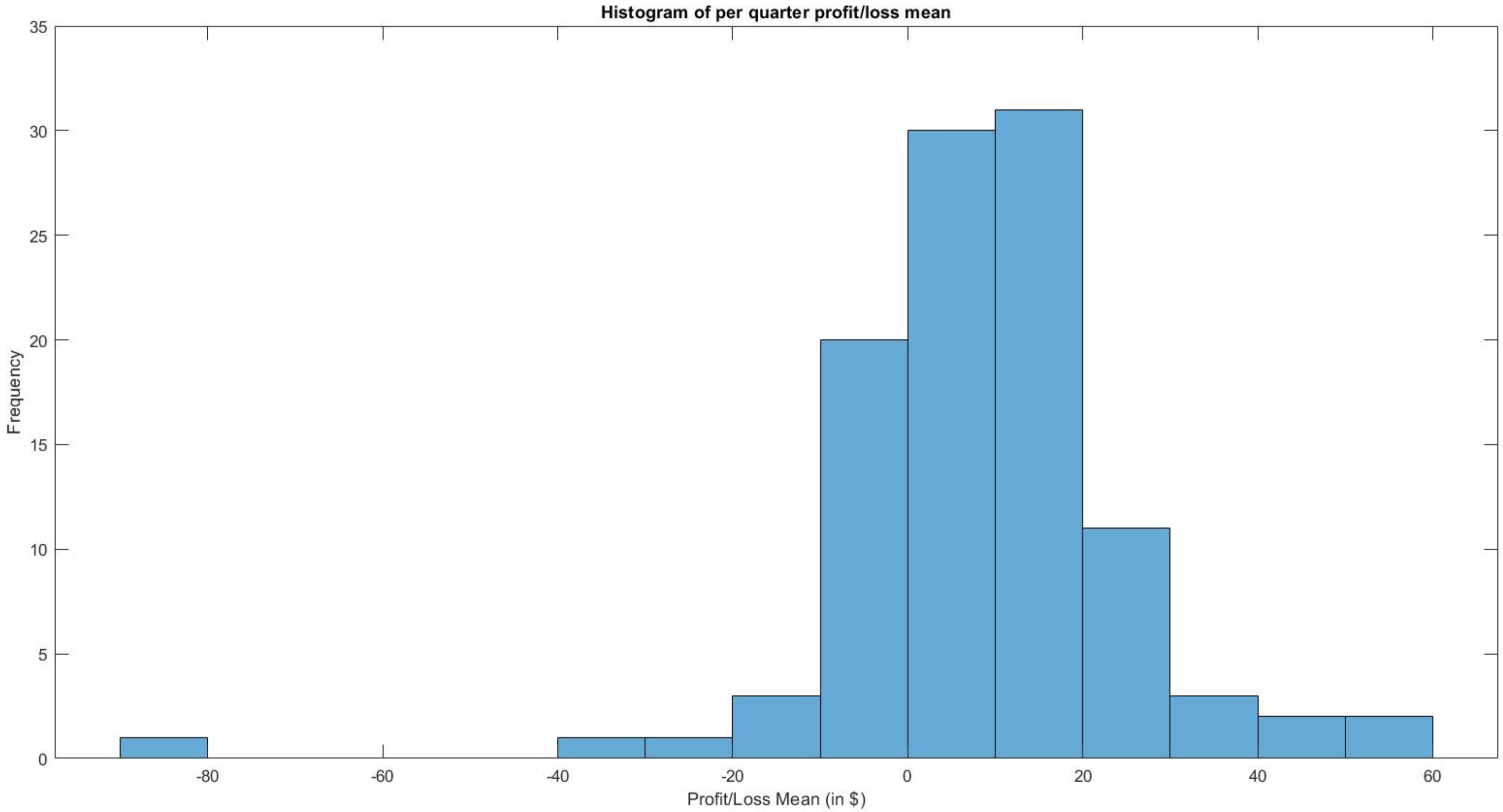
The Figure plots the cumulative average daily change of STIV, LTIV, and TSIV around EA for sample firms in portfolios 1 (lowest accounting comparability) and 10 (highest accounting comparability) only. This is identical to Figure 1, only portfolio daily averages are accumulated, on a daily basis, from day -10, up to and including day +11 relative to the EA day (day τ=0).

Figure 3 Histogram of trading profit/loss (pooled, across all quarters)



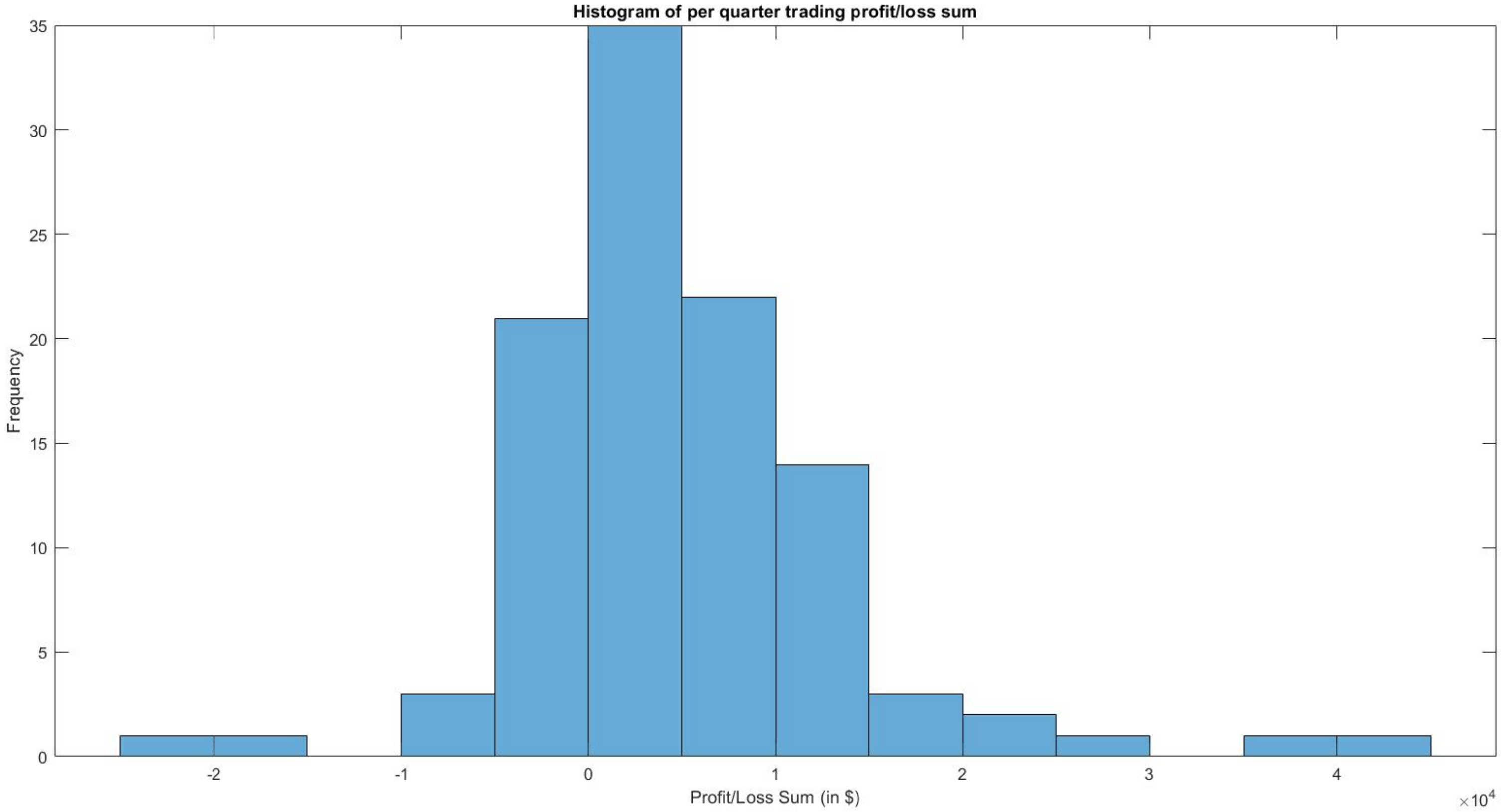
For the trading strategy described in Section 4.5, the Figure provides a histogram of the profit/loss (in $). These are the profits and losses of the combined strategy (Leg 1 and Leg 2 together), across all sample quarters (pooled).

Figure 4 Histogram of trading profit/loss mean per quarter



For the trading strategy described in Section 4.5, the Figure provides a histogram of the profit/loss mean per quarter (in $). These are the mean profits and losses of the combined strategy (Leg 1 and Leg 2 together) per quarter.

Figure 5 Histogram of trading profit/loss sum per quarter



For the trading strategy described in Section 4.5, the Figure provides a histogram of the profit/loss sum per quarter (in $). These are the sums of profits and losses of the combined strategy (Leg 1 and Leg 2 together) per quarter.