

An Empirical Analysis of Order Flow Prior to the Announcement of Major Negative Information

Using a data set comprising the limit order book for TOPIX Core 30 firms listed on the Tokyo Stock Exchange, we investigate the changes in order flow prior to the announcement of downward revisions in earnings forecasts during the period from 2007 to 2009. Our main findings are as follows. First, market depth at the best-ask quote increases on preannouncement days. Second, sell limit orders tend to increase significantly during early preannouncement days, whereas aggressive sell orders sharply increase immediately prior to the release of information. Finally, both market and limit orders become more informative on preannouncement days.