Internet Appendix A221: Finance: Insider Trading
Illustrative Reverse Engineered Pitch Template Example

Pitcher's Name	The authors Lin Mi	FoR category	1502 Banking, Finance and Investment	**Date Completed**	14 January 2018
(A) Working Title	Hodgson, A., Lim, W. D., & Mi, L. (forthcoming). Insider Sales vs. Short Selling: Negative Information Trading in Australia. Pacific-Basin Finance Journal.				
(B) Basic Research Question	1. Do short sellers in Australia front-run insider sales? 2. Do short sellers in Australia front-run on public accounting information (i.e. book-to-market, intangible and accrual ratios)?				
(C) Key paper(s)	1. Khan, M., & Lu, H. (2013). Do short sellers front-run insider sales? Accounting Review, 88(5), 1743-1768. 2. Massa, M., Qian, W., Xu, W., & Zhang, H. (2015). Competition of the informed: Does the presence of short sellers affect insider selling? Journal of Financial Economics, 118(2), 268-288.				
(D) Motivation/Puzzle	Short sellers and corporate insiders (directors, senior management) derive their trading advantage from access to information not generally available to the investing public. Hence, their individual trading represents a potential leading signal for negative information cues. A recent study by Khan and Lu (2013) reports that short sellers in the U.S. provide the major price information lead by front-running the trading of corporate insiders. However, the business culture, litigation risk and reporting requirements in Australia are different from those in the U.S. Therefore, we are motivated to offer the first Australian study to contemporaneously extract negative price discovery from the two informed trading sources.				
THREE	**Three** core aspects of any empirical research project i.e. the "**ID**io**T**s" guide				
(E) Idea?	To reveal which informed trader provides the superior negative information lead to the market, we first examine whether short sellers in Australia front-run insider sales. We then seek to answer whether there are specific publicly available circumstances when short sellers front-run and when they mimic. Specifically, we focus on accounts that tend to be more opaque to outside investors and examine the high/low extremities of book-to-market, intangible and accrual ratios. We also determine the economic impact of the trading interaction between short sellers and corporate insiders by examining if trading volume transforms into profitability.				
(F) Data?	Short selling data are hand collected for the period January 2010 to March 2013 from the daily gross short sales reports released by the Australian Stock Exchange (ASX). The insiders considered in our study are corporate directors. The data on directors' transactions on Australian stocks (including the transaction date, announcement date, type of financial instrument traded, identity of the director, nature of ownership, transaction type, and share price and volume for each transaction) are sourced from Directors Deals over the same period.				
(G) Tools?	To test whether short sellers front-run insider sales, we follow Khan and Lu (2013) by employing an event based study method, and defining the event day [0] as the day of an insider sale transaction. The test window is set at [-10, +10] trading days around the event day and the estimation window used for calculating the expected level of short sales is [-60, -11] trading days (Christophe et al., 2004). To examine profitability around insider sales, we calculate cumulative abnormal returns (CARs).				

TWO	**Two** key questions
(H) What's New?	Khan and Lu (2013) report that short sellers in the U.S. front-run corporate insiders. In contrast, we find that in Australia short sellers mainly mimic large insider sales. The contradicting results are attributed to the disparities in business culture, litigation risk and reporting requirements between the U.S. and Australia. We also add a methodological improvement by using Australian Regulatory Guide 196 (RG196) to track actual daily short sales rather than using short selling potential (i.e. lendable shares) or monthly measures to estimate the competition from short sellers (per Khan and Lu, 2013; Massa et al., 2015). In addition, real time short sales data is hand collected and this allows us to more efficiently trace, on a micro basis, the inter-temporal daily transfer of information.
(I) So What?	Our study has two major price implications. A first order impact is that the combination of abnormal short selling with large insider sales results in insignificant post traded abnormal returns—in other words, corporate insiders are constrained from rent extracting. A secondary impact, is that contemporary abnormal short selling with large insider sales, results in a substantial contrarian price dampening signal to markets. Results also indicate the effectiveness of the daily reporting requirements of RG196 in providing competitive and rapid price signals—effectively reducing insider monopoly power and inducing larger trading blocks (per Kyle, 1985). Finally, we emphasise that results shed light on information channels that alert investors to negative information and the role changes in the commercial and legal business environment play in diverting information cues.
ONE	**One** bottom line
(J) Contribution?	Our paper is the first Australian study to contemporaneously extract negative price discovery from two trading sources and to show how the business environment can affect information flow direction. Our study also affirms the importance of conditioning informed selling and in anchoring on accounting numbers.
(K) 3 Key Findings	1. Short sellers in the main mimic large insider sales. 2. The combination of insider sales and short selling provides a contrarian signal that dampens prior overpricing, but is not associated with subsequent abnormal returns. 3. Results contradict front-running by short sellers in the U.S. and this can be explained by the different business environment in Australia.