## Internet Appendix A79 Insider Trading

**A79.1 Illustrative Pitch Template Example** (NB paper based on this pitch is now forthcoming at Pacific-Basin Finance Journal)

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| **Pitcher's Name** | Marvin Wee & Millicent Chang |
| **(A) Working Title** | Do insider trading policies restrain insiders' opportunistic trading? |
| **(B) Basic Research Question** | We investigate the effectiveness of insider trading policies in restraining insiders from trading and mitigating the profits that they make from non-routine trades. |
| **(C) Key paper(s)** | Jagolinzer, A.D., Larcker, D.F. and Taylor, D.J. (2011) Corporate Governance and the Information Content of Insider Trades, *Journal of Accounting Research*, **49**, 1249-1274.<br>Cohen, L., Malloy, C. and Pomorski, L. (2012) Decoding Inside Information, *The Journal of Finance*, **67**, 1009-1043. |
| **(D) Motivation/Puzzle** | The insider trade policy (ITP) is a particular aspect of a firm's internal governance which ensures corporate transparency is maintained and promotes investor confidence. The first edition of the ASX Corporate Governance Principles and Recommendations was released in 2003 and provides the framework for Australian listed firms. Under ASX Listing Rule 4.10, firms are required to provide a statement in their annual report disclosing the extent to which they have followed the recommendations (specifically, we are interested in Recommendation 3.2 on trading in company securities by directors and executives). In the second edition released at the end of 2007, this recommendation was dropped. And subsequently, the listing rules on trading policies came into effect on 1 January 2011. Under listing rule 12.9: An entity must adopt a policy on trading in the entity's securities by key management personnel and give a copy to the Company's Announcement Platform for release to the market. We examine the effect of the ITP on non-routine (i.e., opportunistic) trading conducted by corporate insiders. In particular, we investigate whether the signal of better governance is stronger in a period when the adoption of better corporate governance is voluntary. |
| **THREE** | **Three** core aspects of any empirical research project i.e. the "**ID**io**T**s" guide |
| **(E) Idea?** | We propose that, for firms with more stringent insider trading policies, there should be less occurrence of non-routine trades and that these trades should be less profitable. We exploit the change in the regulatory requirements, expecting to find the effects to be weaker (i.e., effects of ITP on non-routine trades) post 2011 as firms are all required to have a policy – "cheap talk" story.<br>Potential "tension"? |
| **(F) Data?** | 1) What data do you propose to use?<br>• Country/setting – Australia. The changes in the recommendations/listing rules provide a good setting to test the effect of regulatory pressure.<br>• Unit of analysis? Insider transaction data and also firm level data.<br>• Sample period; sampling interval? Annual for the trading policies and daily for the insider transactions<br>• Type of data: Firm specific<br>2) What sample size do you expect?<br>• Cross-sectionally - 300 companies<br>• Time-series - 2007 and 2013.<br>3) Is it a panel dataset? Yes – ASX 300 companies for two years.<br>4) Data Sources? Hand-collected data – collection of policies is completed (2007 & 2013), collection of insider trades is completed.<br>5) Will there be any problem with missing data/observations? Limited to the 2007 and 2013 – costly to acquire the years between 2008 to 2012.<br>6) Will your "test" variables exhibit adequate ("meaningful") variation to give good power? Quality/reliability of data? The measurement of the restrictiveness of the trading policy can be argued to be subjective. |
| **(G) Tools?** | SAS and Stata – Event study framework to examine the abnormal returns for each insider transaction. Regression models to examine the effect of insider trading policy on profits for routine versus non-routine trades. |
| **TWO** | **Two** key questions |
| **(H) What's New?** | Is the novelty in the idea/data/tools?<br>The idea/data is novel as the analysis examines the ITPs in two periods where the recommendations/requirements have changed. Others (e.g., Jagolinzer et al., 2011) have examined aspects of ITP in US. There are also papers on regulatory pressure on firm's voluntary behaviour (e.g., Brown, Taylor and Walter, 1999). The topic is in the intersection of the two. |

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| **(I) So What?** | Policy makers and stakeholders are interested in whether the insider trading policies are effective in mitigating the opportunistic behaviour of insiders. |
| **ONE** | **One** bottom line |
| **(J) Contribution?** | The primary source of the contribution is examining the firm's insider trading policy in two different settings. |
| **(K) Other Considerations** | Is **Collaboration** needed/desirable? – idea/data/tools? Yes - internal<br>**Target** Journal(s)? A as the contribution may not be substantial (?) – Financial Review<br>"**Risk**" assessment<br>• "No result" risk – MEDIUM<br>• "Competitor" risk (ie being beaten by a competitor) – LOW due to the hand collected data<br>• Risk of "obsolescence" – MEDIUM as quite a large body of work on insider trading<br>• Other risks? – Lack of substantial contribution |