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WORKING PAPER

Corporate insider trading policies: Determinants and effect on insider trading profitability [*]

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March 2013

2013/834

[*] We gratefully acknowledge the financial support from the Ghent University "Special Research Fund" (BOF, Bijzonder Onderzoeksfonds) and the Hercules-project.
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D/2013/7012/05

ABSTRACT

This paper focuses on corporate governance practices related to insider trading. In particular, we explore a unique and comprehensive dataset on the restrictions that companies impose on their insiders in addition to legal requirements, i.e. corporate insider trading policies. We are interested in the stringency of these restrictions and, more specifically, in which firm characteristics provoke differences in the stringency-level. Furthermore, using a unique database on insider trading activity in Belgium, we examine the effectiveness of the restrictions and examine whether abnormal insider trading gains are lower in companies with more strict insider trading policies. We develop a company-specific stringency index and find that restrictions are more stringent in companies with more growth opportunities and in non-financial companies. Furthermore, using hand-collected data on company board structures, we find that a higher representation of independent directors on the board has a positive impact on the stringency of insider trading policies. Analysis of the effectiveness shows no significant impact of policy stringency on insider trading returns. This lack of effectiveness is especially pronounced in smaller companies.