

Internet Appendix for Blackburne, Kepler, Quinn, and Taylor (2020)

This appendix contains additional analyses referenced in our paper, and is organized as follows:

- Analysis of who sells around SEC investigation openings (Table IA1)
- Analysis of insider selling conditional on subsequent investigation disclosure (Table IA2)
- Falsification tests: insider purchasing and stock market reaction (Table IA3)

Table IA1. Who Trades Around Undisclosed Investigations

Panel A. Officers				
	Dependent Variable: <i>InsiderSalesVolume_Officer_{i,t}</i>		Dependent Variable: <i>Pr(InsiderSeller_Officer_{i,t})</i>	
Variable	(1)	(2)	(3)	(4)
<i>Day[0,+10]* Severe</i>	0.015** (2.46)	0.013** (2.32)	0.007** (2.04)	0.008** (2.31)
<i>Day[0,+10]</i>	-0.010* (-1.87)	-0.010* (-1.94)	-0.000 (-0.12)	-0.001 (-0.55)
Controls	yes	yes	yes	yes
Date Effects	no	yes	no	yes
Firm-quarter Effects	no	yes	no	yes
<i>F</i>	3.853	3.184	12.26	10.22
<i>N-obs</i>	105,169	105,169	105,169	105,169

Panel B. Independent Directors				
	Dependent Variable: <i>InsiderSalesVolume_IndepDir_{i,t}</i>		Dependent Variable: <i>Pr(InsiderSeller_IndepDir_{i,t})</i>	
Variable	(1)	(2)	(3)	(4)
<i>Day[0,+10]* Severe</i>	0.009 (1.55)	0.007 (1.02)	0.003 (1.21)	0.004 (1.47)
<i>Day[0,+10]</i>	-0.008* (-1.65)	-0.015 (-1.41)	-0.000 (-0.03)	-0.000 (-0.19)
Controls	yes	yes	yes	yes
Date Effects	no	yes	no	yes
Firm-quarter Effects	no	yes	no	yes
<i>F</i>	2.773	1.029	7.331	5.753
<i>N-obs</i>	105,169	105,169	105,169	105,169

This table presents results from estimating Eq. (2) for our measures of insider selling activity after differentiating between trades placed by officers and independent directors. Panel A presents results for all officers. Panel B presents results for independent directors. All variables are defined in Table 5. For parsimony, we do not tabulate coefficients on control variables or main effects. *t*-statistics appear in parentheses and are clustered by firm and date. *, **, *** indicate statistical significance (two-sided) at the 0.1, 0.05, and 0.01 levels, respectively.

Table IA2. Insider Selling around Undisclosed Investigations: Undisclosed v. Disclosed

Panel A. Undisclosed Investigations				
	Dependent Variable: <i>InsiderSalesVolume_{i,t}</i>		Dependent Variable: <i>Pr(InsiderSeller_{i,t})</i>	
Variable	(1)	(2)	(3)	(4)
<i>Day[0,+10]* Severe</i>	0.066** (2.27)	0.044 (1.30)	0.018*** (2.93)	0.021*** (2.78)
<i>Day[0,+10]</i>	-0.015 (-1.08)	-0.018 (-1.25)	0.000 (0.10)	-0.000 (-0.18)
Controls	yes	yes	yes	yes
Date Effects	no	yes	no	yes
Firm-quarter Effects	no	yes	no	yes
<i>F</i>	4.744	3.377	10.54	9.347
<i>N-obs</i>	70,423	70,423	70,423	70,423
Panel B. Subsequently Disclosed Investigations				
	Dependent Variable: <i>InsiderSalesVolume_{i,t}</i>		Dependent Variable: <i>Pr(InsiderSeller_{i,t})</i>	
Variable	(1)	(2)	(3)	(4)
<i>Day[0,+10]* Severe</i>	0.045 (1.53)	0.045 (1.38)	0.008 (1.51)	0.007 (1.20)
<i>Day[0,+10]</i>	-0.003 (-0.45)	-0.021** (-2.08)	-0.002 (-0.88)	-0.005 (-1.59)
Controls	yes	yes	yes	yes
Date Effects	no	yes	no	yes
Firm-quarter Effects	no	yes	no	yes
<i>F</i>	0.003	0.311	0.015	0.365
<i>N-obs</i>	34,746	34,746	34,746	34,746

This table presents results from estimating Eq. (2) separately based on whether the investigation was subsequently disclosed for our measures of insider selling activity. Firm-quarter fixed effects subsume the coefficients on all of our control variables except for *BlackoutPd*, *DailyAbReturn*, and *DailyVolatility*. Panel A presents results for undisclosed investigations. Panel B presents results for investigations that are subsequently disclosed after our [0,+10] window. All variables are defined in Table 5. For parsimony, we do not tabulate coefficients on control variables. *t*-statistics appear in parentheses and are clustered by firm and date. *, **, *** indicate statistical significance (two-sided) at the 0.1, 0.05, and 0.01 levels, respectively.

Table IA3. Falsification Tests

Panel A. Insider Purchasing around the SEC Investigation Opening				
Variable	Dependent Variable: <i>InsiderBuyVolume_{i,t}</i>		Dependent Variable: <i>Pr(InsiderBuy_{i,t})</i>	
	(1)	(2)	(3)	(4)
<i>Day[0,+10]* Severe</i>	-0.011 (-0.87)	0.002 (0.16)	0.001 (0.24)	0.001 (0.53)
<i>Day[0,+10]</i>	0.007 (0.66)	0.009 (0.73)	-0.001 (-0.74)	-0.000 (-0.51)
Controls	yes	yes	yes	yes
Date Effects	no	yes	no	yes
Firm-quarter Effects	no	yes	no	yes
<i>F</i>	3.180	1.659	6.853	9.452
<i>N-obs</i>	105,169	105,169	105,169	105,169

Panel B. Stock Market Reaction around the SEC Investigation Opening				
Variable	Dependent Variable: <i> Return_{i,t} </i>		Dependent Variable: <i>PublicVolume_{i,t}</i>	
	(1)	(2)	(3)	(4)
<i>Day[0,+10]* Severe</i>	-0.009 (-0.24)	-0.017 (-0.39)	-0.015 (-0.46)	-0.007 (-0.23)
<i>Day[0,+10]</i>	-0.016 (-1.19)	-0.027* (-1.80)	-0.028** (-2.44)	-0.028** (-2.49)
Controls	yes	yes	yes	yes
Date Effects	no	yes	no	yes
Firm-quarter Effects	no	yes	no	yes
<i>F</i>	2000	1520	43.83	205.9
<i>N-obs</i>	105,169	105,169	105,169	105,169

This table presents results from two falsification tests. Panel A presents results from estimating Eq. (2) using measures of insider purchasing. Columns (1) and (2) present results when the dependent variable is insider buying volume (*InsiderBuyVolume*). Columns (3) and (4) present results when the dependent variable is the probability that insiders are net buyers (*InsiderBuy*). *InsiderBuyVolume* is insider buying volume scaled by shares outstanding and normalized using the sample average and standard deviation. *InsiderBuy* is an indicator variable equal to one if insiders at the firm are net buyers on that day and zero otherwise. Panel B presents results from estimating Eq. (2) using measures of public trading volume and unsigned returns. Columns (1) and (2) present results when the dependent variable is public trading volume (*PublicVolume*). Columns (3) and (4) present results when the dependent variable is absolute value of daily returns

($Return_{i,t}$). *PublicVolume* is daily CRSP trading volume less daily insider trading volume, scaled by shares outstanding, and normalized using the sample average and standard deviation. $|Return_{i,t}|$ is the absolute value of the daily buy-and-hold returns listed on CRSP (inclusive of dividends). All other variables are as defined in Table 5. Columns (2) and (4) of each panel present results from including firm-quarter fixed effects. For parsimony, we do not tabulate coefficients on control variables or main effects. t -statistics appear in parentheses and are clustered by firm and date. *, **, *** indicate statistical significance (two-sided) at the 0.1, 0.05, and 0.01 levels, respectively.