

# HOW MUCH INSIDER TRADING HAPPENS IN STOCK MARKETS?

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  - (i)-(iii) seem all reasonable
  - (ii) Potential specification robustness test: value of information could also affect prosecution: easier case in court

# MAIN RESULTS: OBSERVATIONS (CONT.)

- (3) Probability of detection:
  - Times series: increases over the last 20 years, especially for earnings (tops at 30%). Coincides with increases in regulatory resources (as in Del Guercio, Odders-White, and Ready, 2017)
  - Also consistent with developments in data/science and AI. Potentially interesting to incorporate evolutions like the adoption of SONAR
  - Cross section: more likely when there are pre-announcement spikes in prices and volume (consistent with De Marzo, Fishman, Hagerty, 1998)
  - Not shocking, but reassuring

## SUGGESTION: ADDRESS WRONG DETECTION?

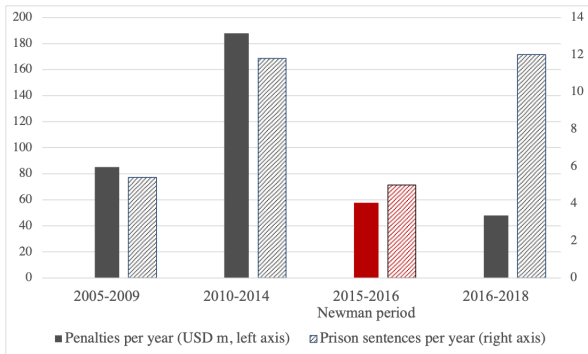
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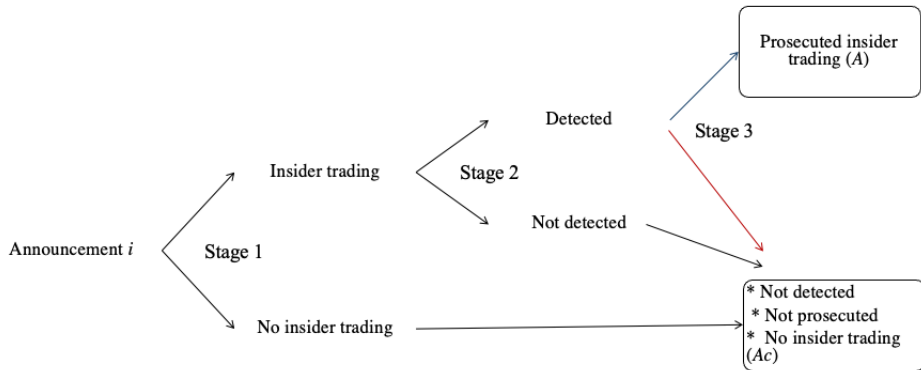
- An implicit assumption of the DME framework is that the SEC does not make mistakes (Feinstein, 1987)
- But the SEC is also subject to political environment, budget-keeping pressures, etc.
  - Example: in SEC v. Ladislav “Larry” Schvacho, the court in the Northern District of Georgia concluded that the SEC had attempted to portray the weak and circumstantial evidence in an “overreaching, self-serving” manner, and dismissed all claims. Civil Action No. 1:12-cv-02557 (N.D. Ga. Decision on January 7, 2014)
- One potential avenue is looking at cases where the SEC is defeated
- Could also evaluate SEC chairs’ tenure

# SUGGESTION: WHAT CONSTITUTES INSIDER TRADING CHANGES OVER TIME

- Evolutions in the judiciary can affect the SEC prosecution success rate
- Issue of what constitutes fiduciary duty is a gray area
- A prominent example is the Newman ruling (December 2014)



# PROSECUTION STAGE?

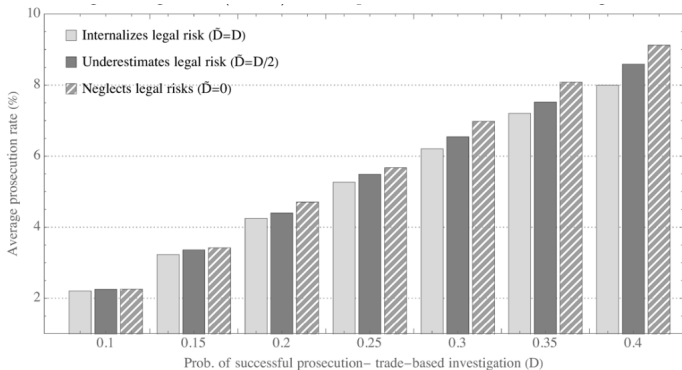


- Other prosecution-specific drivers: number of firms per case, number of defendants



# COMMENT: DETERRENCE EFFECTS

- While the regulator can increase prosecution resources, the equilibrium prosecution rate also depends on to what extent the insider internalizes the legal framework (important for welfare implications)
- Potentially interesting to enrich the joint set of determinants with more drivers of legal risk (currently SEC whistleblower dummy)



# CONCLUDING REMARKS

- Important addition to the insider trading / crime literature.  
Provides sharp answer to long-standing question
- Results reinforce the notion that we can still learn a fair bit about the relation between asymmetric information theories and what market participants do
- **Microstructure is still alive!**

