



# **The Equity and Efficiency of the Australian Share Market with respect to Director Trading**

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Finsia-MCFS Banking and Finance Conference



# Introduction

- The Australian Securities Exchange (ASX) requires directors to report trades in their own-company shares within five business days
- The Corporations Act requires trades to be reported within fourteen days



# Overview

- An examination is undertaken of the extent of late reporting by directors in Australia
- An examination is also undertaken of the abnormal returns earned by imitators from a trading strategy of buying (selling) shares when directors report buying (selling) shares in their own company
- An analysis is also undertaken to determine the abnormal returns earned by directors over the period between their trading in shares and the subsequent reporting of those trades

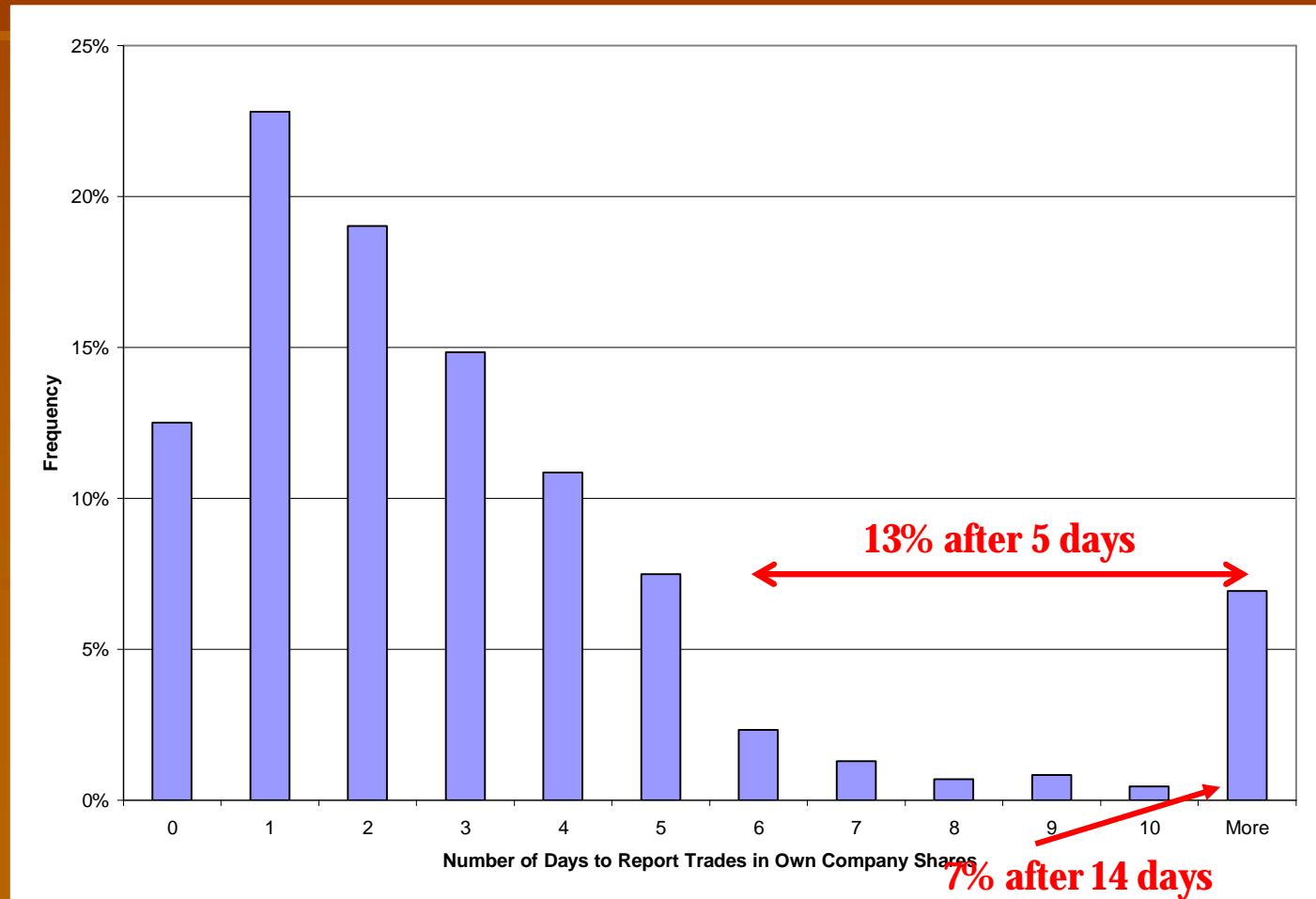


# Data

All trades that were for companies included in the All Ordinaries Index, that were at the discretion of directors, and were reported from 1 January 2005 to 31 December 2007 were included in the sample



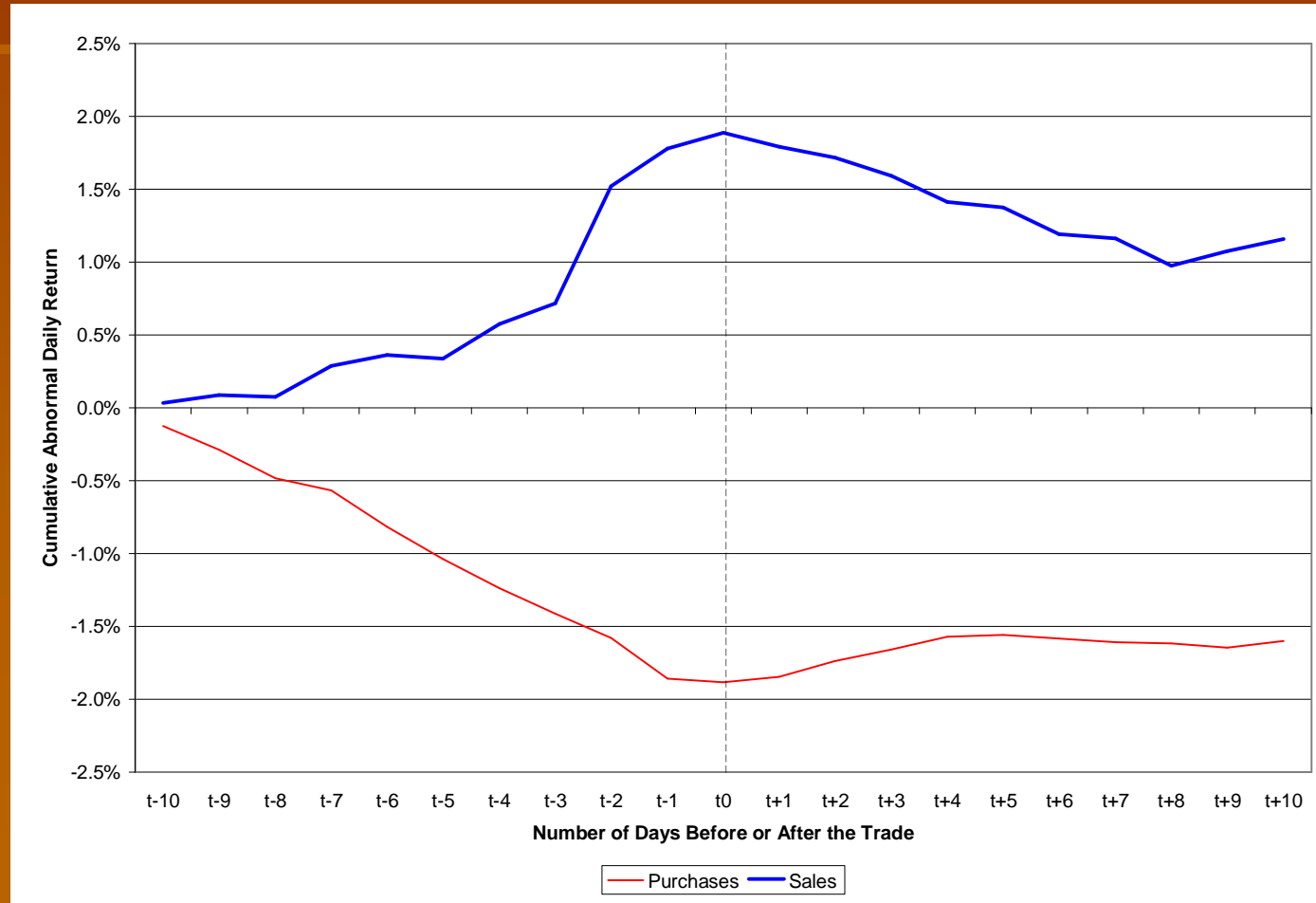
# Length of Time to Report Trades



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# Abnormal Returns Before and After Director Trades in Own-Company Shares





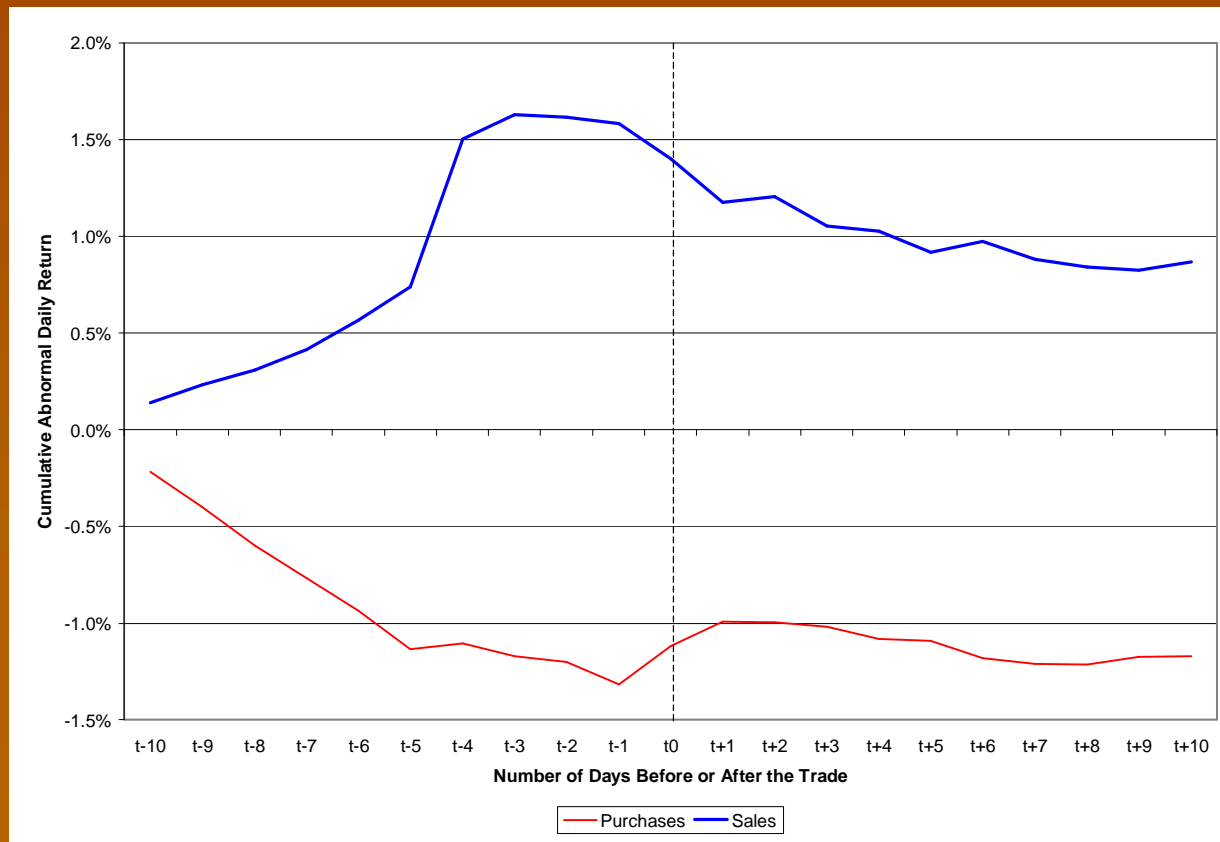
# Abnormal Returns Before and After Director Trades in Own-Company Shares

	Purchases		Sales	
	Pre-trade	Post-trade	Pre-trade	Post-trade
<b>All Trades</b>				
Mean	-1.6%	0.4%	1.8%	-0.8%
Number	1,949	1,949	632	632
P Value	0%	3%	0%	0%
<b>Trades Reported Within 5 days</b>				
Mean	-1.7%	0.4%	2.1%	-0.8%
Number	1,706	1,706	540	540
P Value	0%	3%	0%	1%
<b>Trades Reported Between 5 and 10 days</b>				
Mean	-0.9%	0.8%	0.2%	-2.1%
Number	113	113	43	43
P Value	22%	25%	91%	1%
<b>Trades Not Reported Within 10 days</b>				
Mean	-1.4%	-0.1%	0.4%	-0.1%
Number	130	130	49	49
P Value	24%	93%	76%	90%
<b>Resource Firms</b>				
Mean	-2.3%	1.2%	2.0%	-2.0%
Number	178	178	56	56
P Value	0%	6%	5%	7%
<b>Non-Resource Firms</b>				
Mean	-1.6%	0.3%	1.8%	-0.8%
Number	1,771	1,771	576	576
P Value	0%	8%	0%	0%

estimation window (-250 to -20)  
 Cumulative Abnormal Returns are calculated from t-10 to t-1 then from t0 to t10  
 P Value is for a two tailed test



# Abnormal Returns Before and After Director Discloses Trades in Own-Company





# Abnormal Returns Before and After Director Discloses Trades in Own-Company

	Purchases		Sales	
	Pre-trade	Post-trade	Pre-trade	Post-trade
<b>All Trades</b>				
Mean	-1.1%	0.2%	1.1%	-1.1%
Number	1,949	1,949	632	632
P Value	0%	8%	6%	0%
<b>Trades Reported Within 5 days</b>				
Mean	-1.3%	0.2%	1.3%	-0.9%
Number	1,706	1,706	540	540
P Value	0%	28%	1%	0%
<b>Trades Reported Between 5 and 10 days</b>				
Mean	-0.7%	0.6%	-1.3%	-3.6%
Number	113	113	43	43
P Value	29%	25%	19%	0%
<b>Trades Not Reported Within 10 days</b>				
Mean	1.5%	0.9%	0.7%	-1.1%
Number	130	130	49	49
P Value	20%	33%	18%	12%
<b>Resource Firms</b>				
Mean	-1.7%	1.2%	1.5%	-2.2%
Number	178	178	56	56
P Value	1%	1%	20%	3%
<b>Non-Resource Firms</b>				
Mean	-1.2%	0.2%	1.6%	-1.2%
Number	1,771	1,771	576	576
P Value	0%	22%	1%	0%

estimation window (-250 to -20)  
 Cumulative Abnormal Returns are calculated from t-10 to t-1 then from t0 to t10  
 P Value is for a two tailed test



# Abnormal Returns After Director Trades in Own-Company Shares and Before Disclosure is Made

	Purchases Post-trade	Sales Post-trade
<b>All Trades</b>		
Mean	0.0%	-0.2%
Number	1,714	564
P Value	41%	0%
<b>Trades Reported Within 5 days</b>		
Mean	0.2%	-0.2%
Number	1,471	472
P Value	1%	1%
<b>Trades Reported Between 5 and 10 days</b>		
Mean	0.0%	-0.5%
Number	113	43
P Value	85%	5%
<b>Trades Not Reported Within 10 days</b>		
Mean	-0.1%	0.2%
Number	130	49
P Value	34%	28%
<b>Resource Firms</b>		
Mean	0.3%	0.0%
Number	155	47
P Value	17%	96%
<b>Non-Resource Firms</b>		
Mean	0.0%	-0.3%
Number	1,559	517
P Value	50%	0%

from an estimation window (-250 to -20)  
 Number of trades is for the first day after the trades occur  
 P Value is for a two-tailed test



# Abnormal Returns Subsequent to the ASX Required Reporting Date up to the Day the Trade is Reported

	Purchases Post-trade	All Trades	Sales Post-trade
Mean		0.0%	-0.6%
Number		243	92
P Value		79%	0%

Cumulative Abnormal Returns are based on market model estimates from an estimation window (-250 to -20)

Number of trades is for the sixth day after the trades occur

P Value is for a two-tailed test



# Summary

- There is considerable late reporting by directors in Australia
- Breaches of regulations are important given that directors tend to purchase (sell) shares when the price is low (high), thereby achieving abnormal returns
- Imitators may earn small abnormal returns by imitating directors, especially with respect to sales