

To benefit or Signal? Insider trading and contract redactions

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This version: 2025 May

Abstract: Using redacted and non-redacted material contracts filed between July 2008 and December 2018, we show that insiders trade on the redacted private information and that insider sales appear to be more pronounced and last longer than insider purchases. Insider purchases are likely to happen only when firms experience widened bid-ask spreads and lower abnormal returns around the filings of redacted contracts, and these purchases on average are not profitable, suggesting that insider purchases are to signal firm prospects rather than to exploit information advantage for personal gains. By contrast, insider sales following the filings of redacted contracts are associated with higher profits over the subsequent six months, particularly when the redacted contracts relate to R&D, license and royalty, or when redacting firms possess private bad news or trade secrets. Overall, we offer interesting evidence on the interplay between strategic (non)disclosure and insider trading in a mandatory disclosure setting.

JEL classifications: D82, G14, M41

Keywords: Contract Redaction, Insider Trading, Signalling, Information Withholding

Data availability: Data available from the sources cited in the text

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