Insider Trading Reforms and Corporate Transparency: Evidence from the STOCK Act

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Amanda Heitz, Tulane University

Youan Wang, Xiamen University

Zhige Yu, Xiamen University

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*Amanda Heitz (aheitz@tulane.edu), Department of Finance, Tulane University, New Orleans, LA, United States; Youan Wang (wangyouan@xmu.edu.cn), MOE Key Laboratory of Econometrics, Wang Yanan Institute for Studies in Economics (WISE), Xiamen University, China; Zhige Yu (chowchow7@xmu.edu.cn), Institute for Financial & Accounting Studies, Xiamen University, China. This paper extends the first chapter of Zhige's PhD thesis. We are grateful for comments from Julian Atanassov, Yixing Che, Xiwen Deng, Zhongwen Fan, Nicola Fiore, Pingyang Gao, Karel Hrazdil (discussant), Alina Lerman (discussant), Jing Li, Junqi Liu, Ankit Singhal (discussant), Ariel Viale (discussant), Xin Wang, Xincheng Wang, Liyan Yang, Zhiyi Yang, Haifeng You, Bangxing Yu, Min-Teh Yu, Guochang Zhang, and Haotian Zhang. We are also thankful for comments from seminar participants at the University of Nebraska, University of Hong Kong, and Xiamen University, as well as conference participants at the New Zealand Finance Meeting, the Swiss Accounting Research Alpine Camp, the Accounting Perspectives Emerging Scholars Virtual Symposium, the 15th TJAR conference, and the Vietnam Symposium in Banking and Finance and Vietnam Entrepreneurship, Finance and Innovation, for their valuable feedback. All remaining errors are our own.This research was supported by the National Natural Science Foundation of China Youth Project (No. 72302194) and the Fundamental Research Funds for the Central Universities (No. 20720231027).

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Abstract

We examine how insider trading restrictions on government officials affect corporate transparency. The 2012 STOCK Act prohibited executive branch officials from profiting from non-public information, potentially limiting firms' access to policy insights used in forecasting. Using a difference-in-differences design, we find that firms with significant government contracts reduced the frequency and precision of management forecasts following the Act. These firms also experienced declines in price informativeness and increases in implied cost of capital, suggesting weakened capital market information environments. Effects are strongest among politically engaged firms and those heavily reliant on government business, suggesting that the response reflects a loss of privileged information rather than heightened uncertainty. Text-based evidence from earnings calls reveals fewer procurement-related discussions and a rise in policy risk language. Our results suggest that insider trading reforms, while enhancing accountability, may inadvertently reduce firms' access to discretionary information, weakening disclosure quality and impairing market transparency.

Keywords: STOCK Act, disclosure, management forecast, private communication
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