Family Affair?

Insider Trading and Family Firms Evidence From Thailand

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Agenda

Introduction

Data & Methodology

Results

- Event Study

- Regression Analysis

Robustness Check

Conclusion

WHY FAMILY BUSINESS

(Claessens, Djankov and Lang, 2000; Morck, Shleifer, and Vishny, 1988; Bertrand, et al. 2008)

High Ownership Concentrated Firms •• **53%**

Family Firms •••••••••••• **77%**

Family Controlled Firms ••••••••• **53%**

Glaewketgarn (2013)

Agency
Problem I

Appoint one of family members

as CEOs to avoid conflict.

Agency Problem II

Acquire personal benefits
at the minority shareholders' expense

(Shleifer and Vishny 1997, Franks, Mayer and Renneboog, 2001 and Faccio and Lasfer,1999)

Agency
Problem II

TRADE

THEIR COMPANY's SHARES

(Chan, Chen and and Hilary, 2010)

Research Questions

1) How family-controlled structure can influence the information asymmetry of insider trading.

2) How corporate governance factors play a role to mitigate information asymmetry.

3) How effectiveness of a blackout policy in Thai stock market.

Regulations in Thailand

Section 59

INSIDERS

=

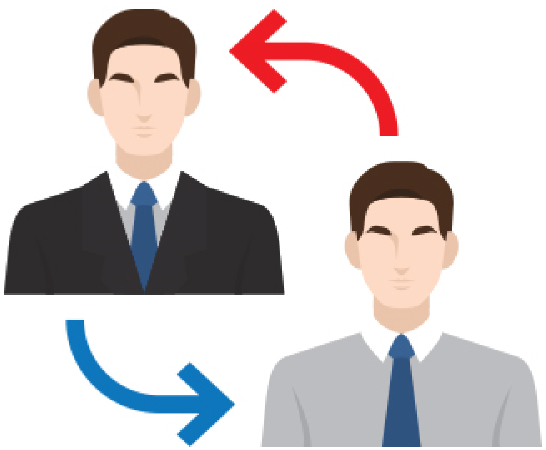
Director
Manager
Auditor

+

their
spouse
minor child
nominees

Regulations in Thailand

Section 241



INSIDER TRADING

=

The purchase or sale of listed (or OTC) securities by any person so as to take advantage of other persons by **using private information** material to changes in the prices of securities to which information he has access **by virtue of his office or position.**

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Insider Trading Data

Sources

59-2 forms provided by Thai Securities Exchange Commission (SEC)

Study Period

From January 2006 - December 2016

Sample

Net Purchases: 15,902 transactions

Net Sales: 10,732 transactions

Insider Trading Data

Exclusion

- Trades after exercise of employee stock options.
- Trades performed by financial institutions' insiders
- The transactions that have stock returns less than 10 months prior to event date.

Aggregation

- Multiple trades on the same days irrespective of whether the trades are conducted by the same or different insiders.

Insider Trading Data

Aggregation Example

DATE	Insider Name	Company	# of shares	Transaction Value
5/1/2016	A	ABC	buy 5,000	5,000
5/1/2016	B	ABC	buy 10,000	10,000
5/1/2016	A&B	ABC	buy 15,000	15,000
6/1/2016	C	CCC	sell 5,000	5,000
6/1/2016	C	CCC	buy 10,000	10,000
6/1/2016	C	CCC	buy 5,000	5,000

Sample Selection

Initial Number of Observations		56,767
Exclude	Prefered Stock & Warrant	1,969
	Stock Transfer & Options Exercise	4,754
	MAI & Financial Institutions	13,835
	Multiple Transactions (same date)	8,330
	Insufficient Data	1,245
Final Number of Observations		26,634

Descriptive Statistics

for Insiders' Transactions

All Transactions	Mean	Median
Net Purchases (15,902 transactions)		
Transaction Value (฿'000)	6,356.67	335.30
% Market Capitalization	0.099%	0.006%
Net Sales (10,732 transactions)		
Transaction Value (฿'000)	15,502.54	750.00
% Market Capitalization	0.226%	0.006%

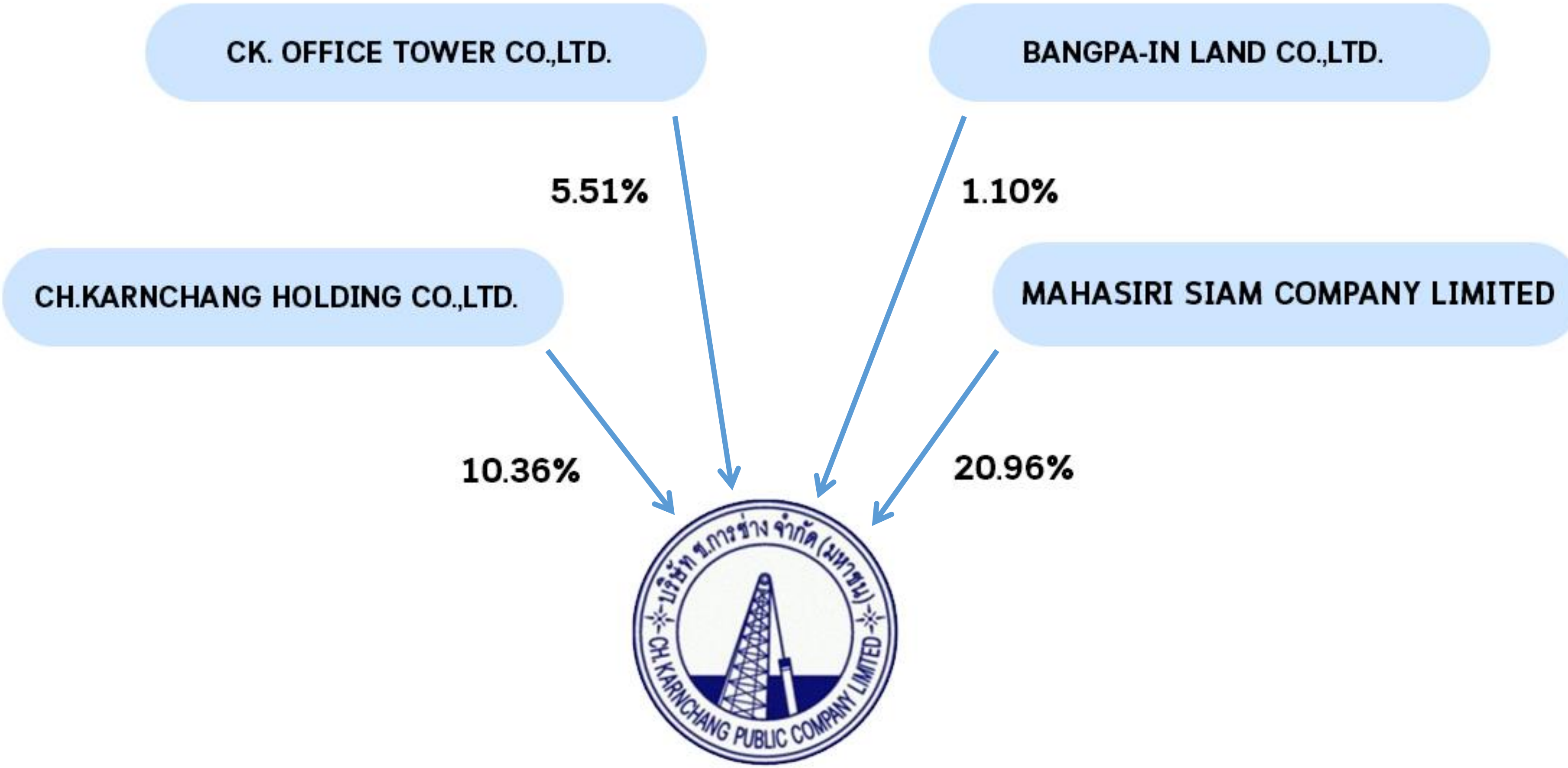
Family Firm Data

Definition

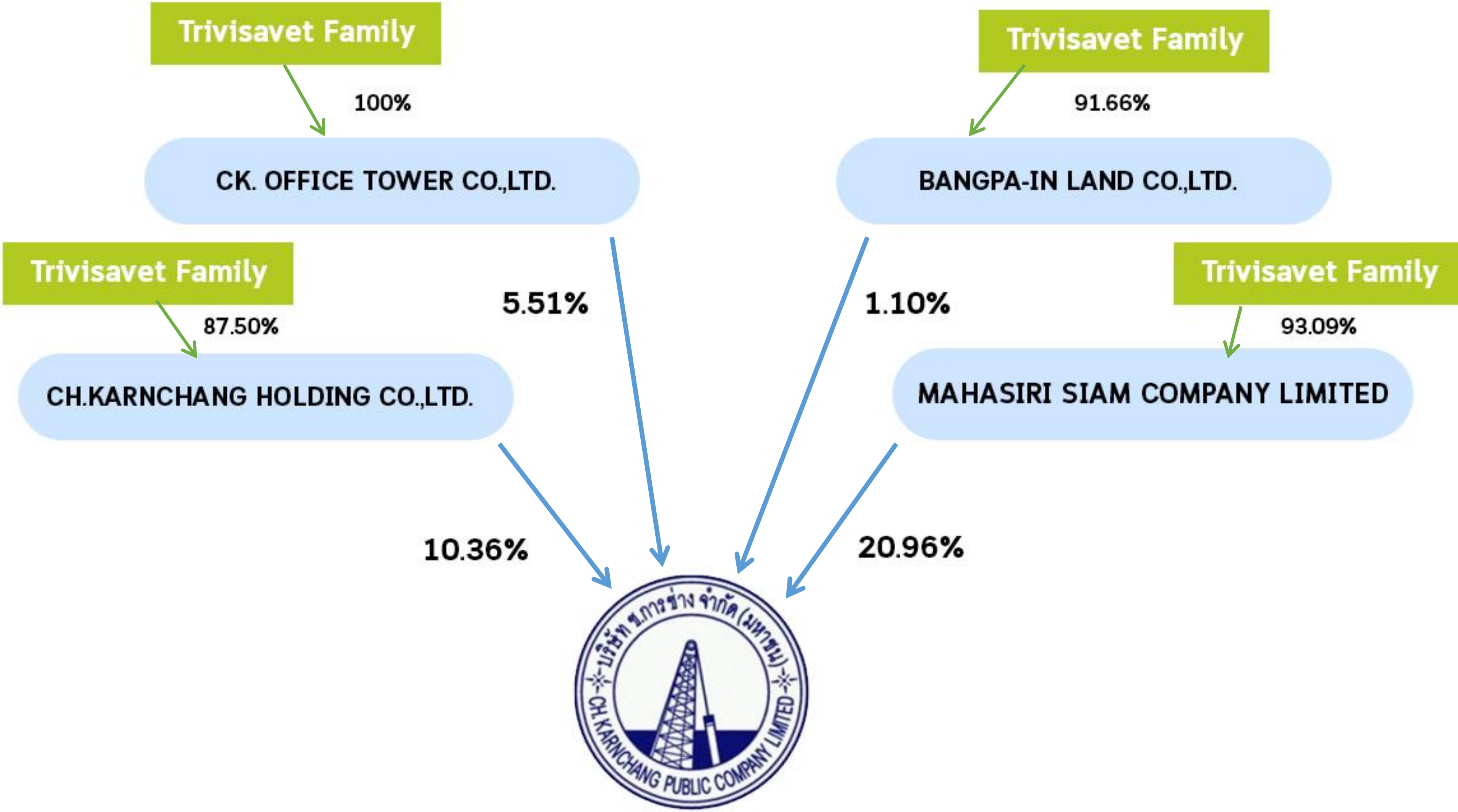
The firm which has family as the ultimate controlling shareholder(s); ultimate controlling is determined by hold at least 25% of voting rights.

Process

1) Collect ownership data from 56-1 form.
2) Check the family linkages through several sources.
3) Combine the fractional equity ownership of family ownership by the sum of weakest link of the chain.



CH. Karnchang Public Company Limited
(2012)



CH. Karnchang Public Company Limited
(2012)

#Trivisavet Family is Ultimate Controlling Shareholders with 37.94% of ownership.

Descriptive Statistics

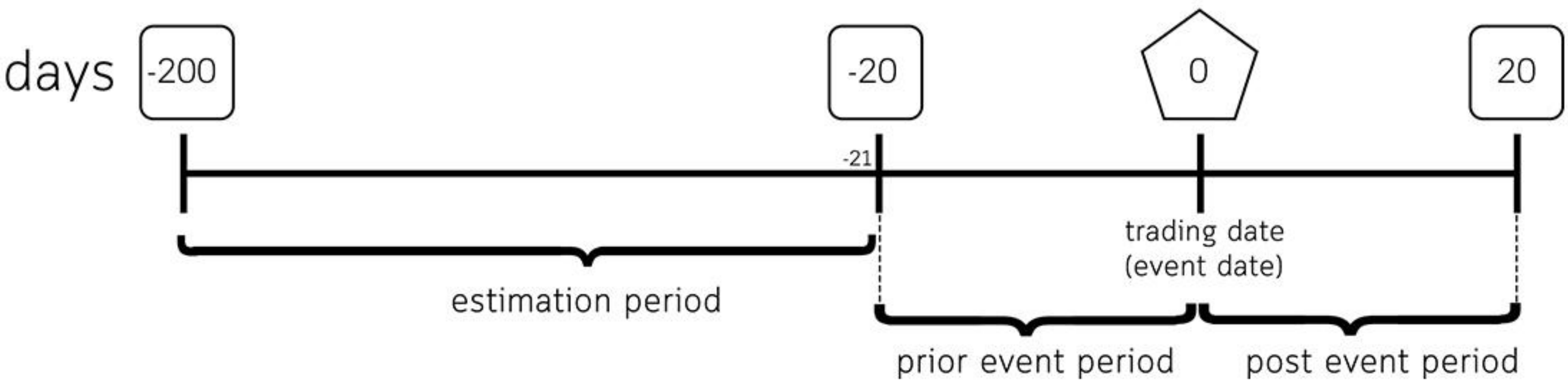
for Ownership and Control Structure

	Firms with	
	Net Purchases	Net Sales
Mean % of Ownership	40.25%	40.28%
Median % of Ownership	38.55%	41.17%
% of Family Firms	62.09%	61.40%
% of Family-controlled Firms	42.27%	44.39%

Methodology

Event Study

- Market Model
- Event Date = Trading Date



Methodology

Ordinary Least Square

Dependent Variable	=	Independent Variable
CAR (1,20)		(TRANS)
		(FAMILY)
		(BLOCK)
		(GOV)
		(CONTROL)

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Hypothesis I

a) Insiders’ purchases result in positive market reaction.

b) Insiders’ sales result in negative market reaction.

c) Absolute value of market reaction from insiders’ purchases is lower compare to sales.

Results (1)

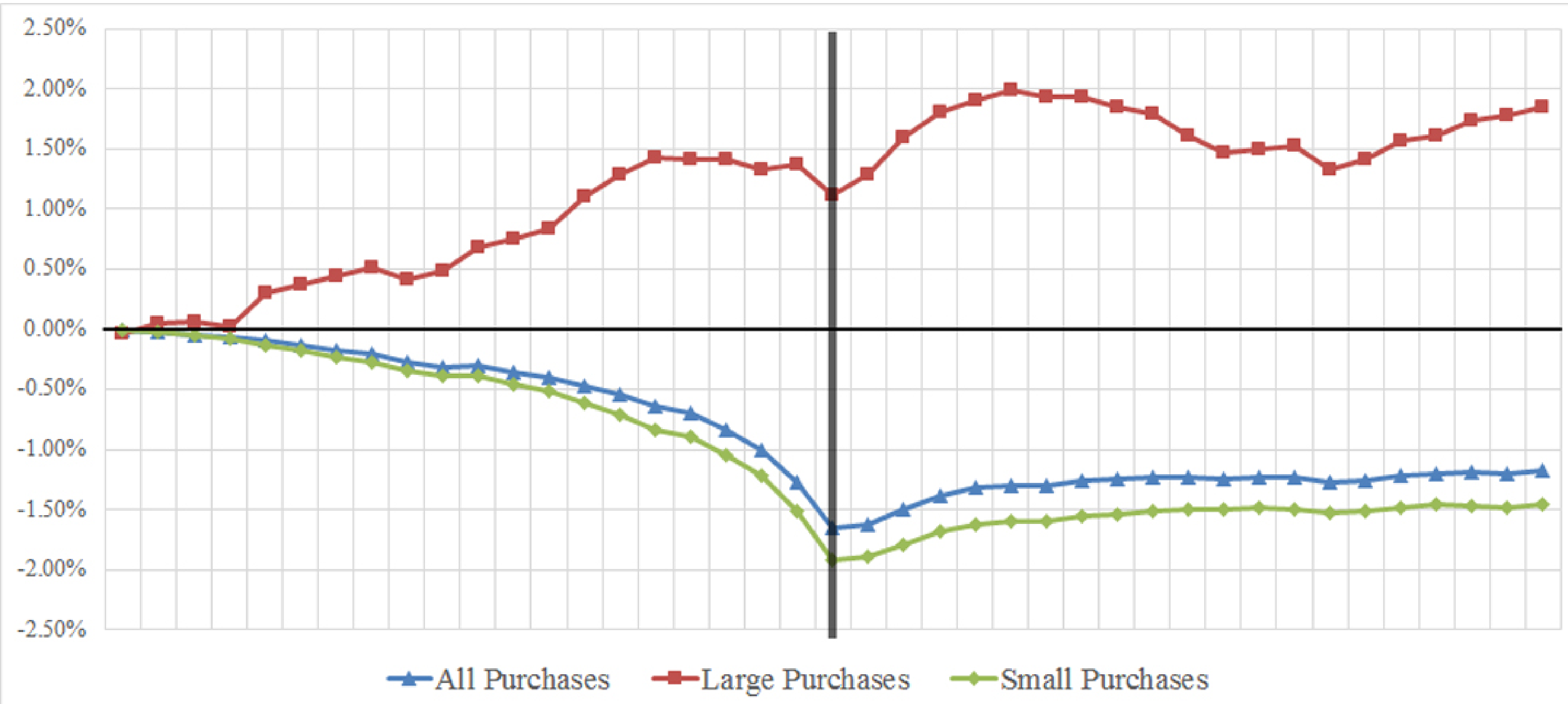
Abnormal Returns around Insider Trading

	Cumulative Average Abnormal Returns		
	(-20,0)	**(1,20)**	**(-20,20)**
All Trades			
Purchases	-1.65%	0.48%	-1.17%
Sales	4.15%	-1.95%	2.20%
Large Trades			
Purchases	1.12%	0.73%	1.85%
Sales	5.07%	-3.96%	1.11%

Significance at 1% level Significance at 5% level Significance at 10% level

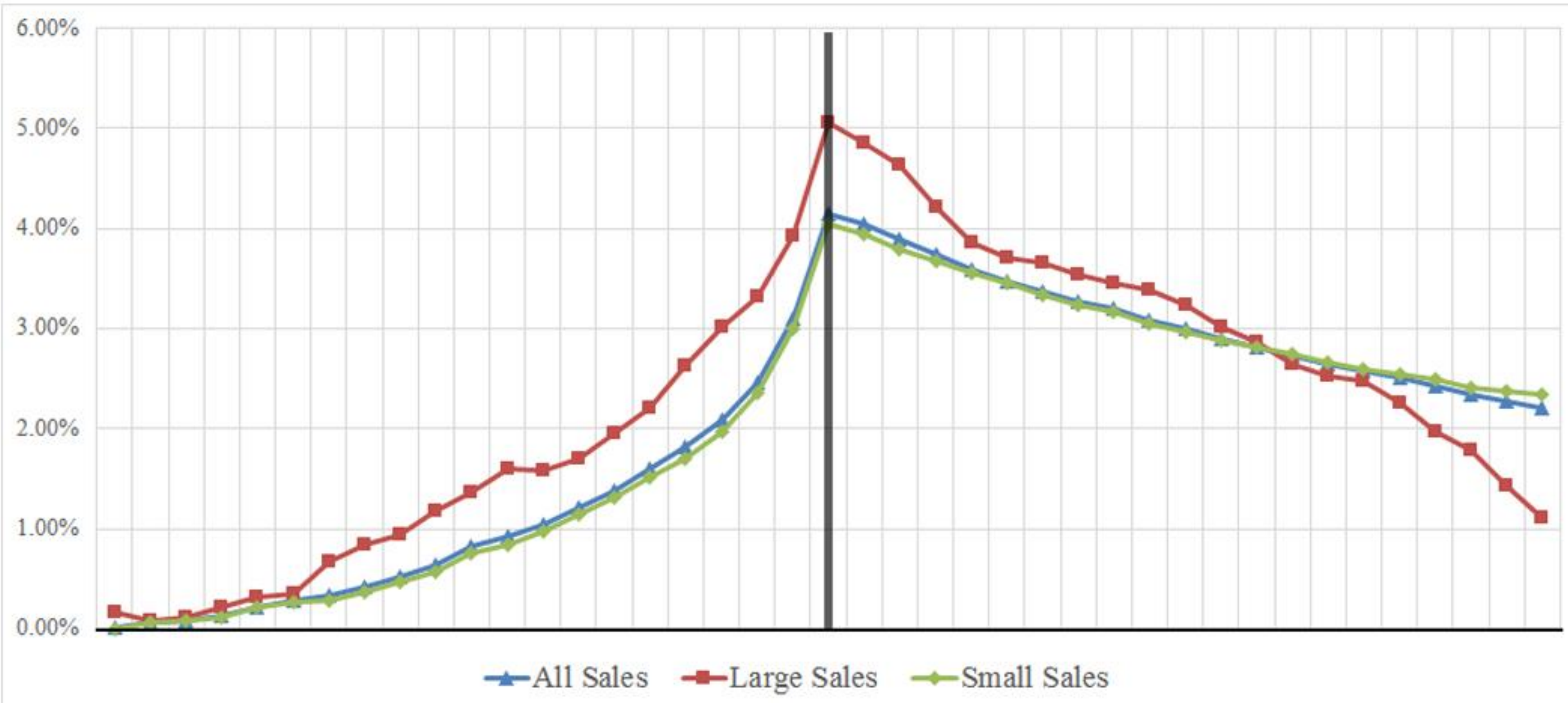
Results (1)

CAARs around Insider Trading (Purchases)



Results (1)

CAARs around Insider Trading (Sales)



Discussions (1)

Why the abnormal returns are comparatively small?

i) The differences of the insiders' definition in Thailand.

ii) The entrenchment effect due to firms' highly concentrated ownership structure.

iii) The lack of regulatory surveillance mechanism to detect the informed trading patterns

Hypothesis II

a) The market reaction to the transactions of family firms' insiders is larger than non-family firms' insiders.

b) The market reaction to the insiders' transactions of family firms with family member as CEOs is higher than the transactions of family firms with outsiders as CEOs.

Results (2)

Effect of Family Ownership and Control

	Purchases		Sales	
	Cumulative Average Abnormal Returns			
All Trades	**(-20,0)**	**(1,20)**	**(-20,0)**	**(1,20)**
Family Firms	-1.43%	0.50%	4.36%	-2.71%
Non-family Firms	-2.08%	0.44%	3.87%	-0.87%
Family CEOs	-1.60%	0.65%	4.47%	-2.54%
Non-family CEOs	-1.15%	0.26%	4.23%	-3.10%

Significance at 1% level   Significance at 5% level   Significance at 10% level

Discussions (2)

Entrenchment Effect v.s. Market Signaling

Firm's performance improves from higher managerial ownership until the certain point that they pursue for their own interest which may not align with the interests of minority shareholders.

Entrenchment Effect

V.S.

Market Signaling

The positive (negative) news about firm's future earnings implied from insiders' transaction.

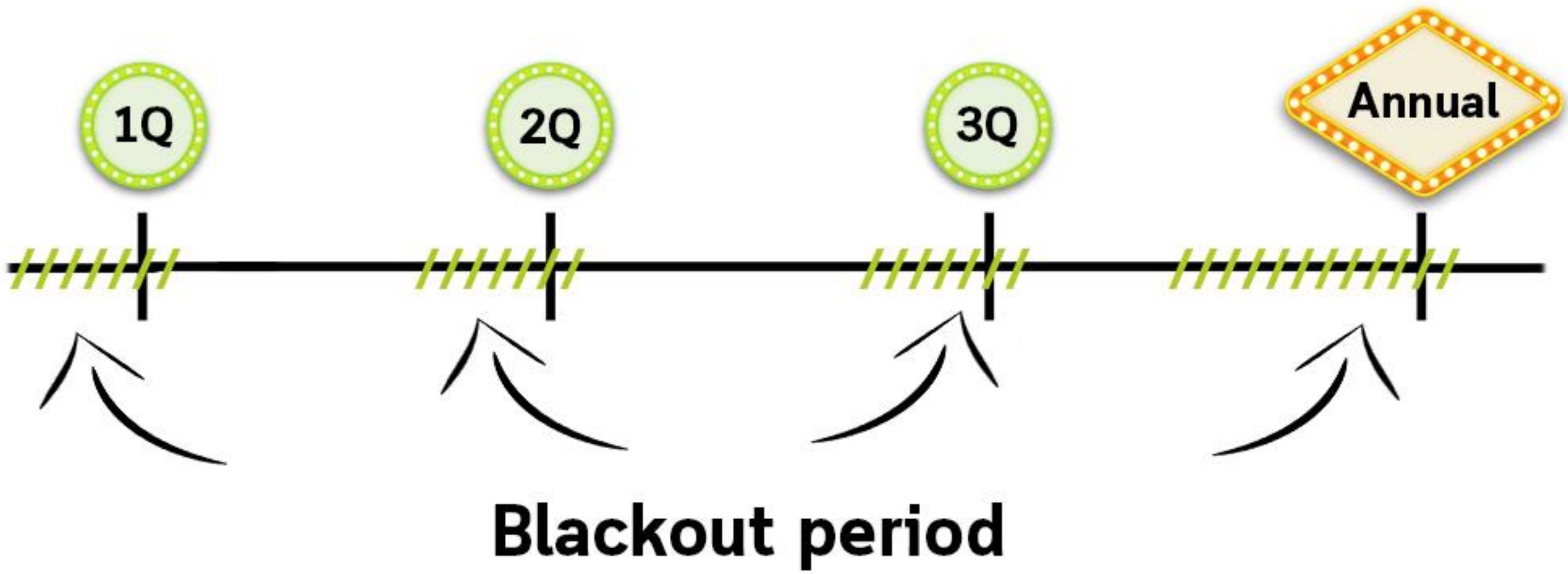
Hypothesis III

a) The market reaction to the insiders' transactions is weakened by the presence of an outside blockholders

b) The market reaction to insiders' transactions can be mitigated by the good governance structure.

c) The market reaction to insiders' transactions during blackout period is larger than insiders' transactions at other times.

Blackout Period



The restricted trading period for insiders; one month preceding the quarterly earnings announcement and two months prior to annually earnings announcement.

Results (3)

Transactions during Blackout Period

All Trades during	Purchases		Sales	
	Cumulative Average Abnormal Returns			
	(-20,0)	(1,20)	(-20,0)	(1,20)
Blackout Period	-0.86%	1.09%	5.32%	-2.22%
Other Times	-2.04%	0.18%	3.59%	-1.82%

Significance at 1% level Significance at 5% level Significance at 10% level

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Hypothesis III

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Results (4)

Regression Analysis (Blockholders & Governance)

	Purchases	Sales
(BLOCK)		
Individuals/families	-0.00136 (0.00220)	-0.00612** (0.00278)
Corporations	0.00307 (0.00261)	0.00773** (0.00366)
Institutional Investors	0.00117 (0.00302)	0.000574 (0.00327)

*** p<0.01, ** p<0.05, * p<0.1; The standard errors are reported in parentheses.

Results (4)

Regression Analysis (Blockholders & Governance)

	Purchases	Sales
(GOV)		
Separation	0.00195 (0.00221)	-0.000976 (0.00288)
Board Size	0.00126*** (0.000395)	-0.000903 (0.000584)
Fraction of Independent Directors	0.00354 (0.0121)	-0.00458 (0.00878)
Blackout Policy	-0.00423** (0.00209)	0.00533** (0.00265)

*** p<0.01, ** p<0.05, * p<0.1; The standard errors are reported in parentheses.

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Robustness Check

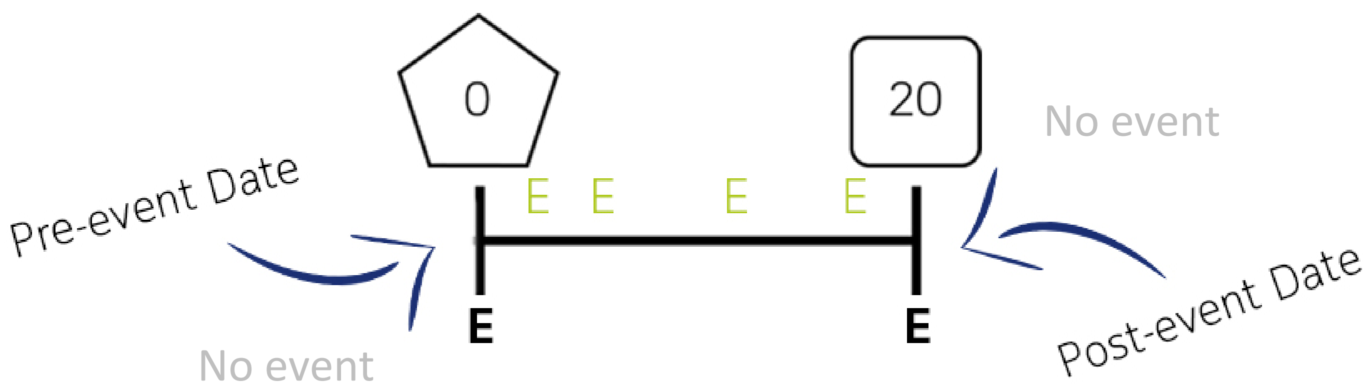
Event Clustering might be serious in Thailand due to…

i) Around 6.7 transactions per firm-year.

ii) Some insiders execute several transactions consecutively or in short period of time.

Solution:

Construct the data sets that are free from event window overlapping.



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Summary of Findings (1)

	Purchases		Sales	
Hypothesis	Expected Reaction	Result	Expected Reaction	Result
H1 (a)/(b)	Positive	Yes	Negative	Yes
H1 (c)	Lower than sales	Yes	Higher than purchases	Yes
H2 (a)	More positive for family firms	Yes	More Negative for family firms	Yes
H2 (b)	More positive for family-controlled firms	Yes	More Negative for family-controlled firms	No

Summary of Findings (2)

Hypothesis	Purchases: Expected Reaction	Purchases: Result	Sales: Expected Reaction	Sales: Result
H3 (a)	Less positive in the presence of blockholders	No	More positive in the presence of blockholders	Yes [1]
H3 (b)	Less positive in the firm with good gov. structure	Yes [2]	More positive in the firm with good gov. structure	Yes [3]
H3 (c)	More positive prior to earnings announcement	Yes	More negative prior to earnings announcement	Yes

* 1 - for corporations blockholders
2 - for boardsize and voluntary blackout policy
3 - for boardsize

Q&A