WHY DON'T GENERAL COUNSELS STOP CORPORATE CRIME?

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Abstract: Corporate fraud is costly, involving hundreds of billions of dollars in lost reputational and out of pocket costs for stakeholders and hundreds of thousands of job losses for employees, suppliers and customers as well as loss of lives. To prevent fraud, general counsels (GCs) are charged as the gatekeepers for the corporation. They understand the law and they are expected to use their legal expertise to advise, intervene and report whenever they are suspicious of fraud. In spite of their legally-mandated central role, however, corporate counsels typically do not appear to discover any corporate wrongdoing. In this paper, we analyze the potential reasons why corporate counsels keep silent in the face of potential wrongdoing in their own firms and propose policy recommendations to better protect shareholders' interests against self-dealing by top management.

Keywords: General Counsels, Corporate Governance, Corporate Fraud, Gatekeepers

JEL Codes: G34, G38, K22, K41, K42 (Corporate Governance, Corporate Regulation, Business and Securities Law, Litigation Process, Illegal Behavior and Enforcement of Law).

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1. INTRODUCTION

Corporate fraud is costly. It involves loss of hundreds of billions of dollars in reputational and out-of-pocket costs for corporations, shareholders, bondholders, and other stakeholders, and hundreds of thousands of jobs for employees, suppliers, and customers.[1] In some cases, it has also resulted in loss of lives and environmental disasters.[2] After more than ten years from the passage of Sarbanes-Oxley Act in 2002 (SOX),[3] designed to make the corporations more transparent, more accountable and less likely to engage in corporate fraud, large-scale corporate scandals show no sign of abating.[4] Recent high level, post-SOX additions to corporate scandals include GM ignition failure, Volkswagen emissions fraud, BP Deepwater accident, LIBOR rate-rigging by large banks, options backdating scandals involving more than 100 companies, and FX fixing scandals by some large banks, just to name a few.[5] Many of these scandals already have, or are expected to, result in multi-billion dollar settlements.[6] What all of these scandals have in common is the failure of the top in-house corporate attorney, or the corporate general counsel, in discovering the institutional dysfunction, fraud and cover-ups, and thus either prevent the corporation from sliding into fraud and criminal wrongdoing or simply report it before it got bigger. Why didn't the top corporate attorneys in these and other cases stop the fraud or blow the whistle on these frauds, cover-ups and illegal activity? This is the key question we try to address in this article.

SOX was the federal government's response to growing corporate fraud around the turn of the century, involving Enron, WorldCom, Tyco, Arthur Andersen, Adelphia, Global Crossing, and

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[1] Dyke, Morse and Zingales estimate that in the 1996-2004 period, one of out seven large publicly traded company was engaged in fraud, while the average cost of fraud was set at $380 billion a year. See Alexander Dyck, Adair Morse & Luigi Zingales, *How Pervasive is Corporate Fraud,* 2014 working paper.

[2] GM ignition scandal has been linked to loss of 124 lives. http://www.wsj.com/articles/michigan-won-t-discipline-lawyers-in-gm-ignition-case-1459080002.

[3] Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745 (codified as amended mainly in scattered sections of 15 U.S.C., 18 U.S.C., and 28 U.S.C.).

[4] See, http://www.economist.com/news/briefing/21635978-some-13-years-after-enron-auditors-still-cant-stop-managers-cooking-books-time-some.

[5] For GM ingition failure scandal, see, http://www.lieffcabraser.com/Personal-Injury/Car-Accidents/GM-ignition-defect-recall.shtml. Some victims also sues GM's top lawyers, see http://www.wsj.com/articles/michigan-won-t-discipline-lawyers-in-gm-ignition-case-1459080002. For VW scandal, see http://www.bbc.com/news/business-34324772; for BP Deepwater scandal see http://response.restoration.noaa.gov/deepwater-horizon-oil-spill, for LIBOR scandal, http://www.cfr.org/united-kingdom/understanding-libor-scandal/p28729, and for FX fixing scandal, see http://www.bbc.com/news/business-26526905.

[6] See http://abcnews.go.com/Business/high-profile-financial-scandals-months/story?id=17023140.

others. These cases convinced the lawmakers that the institutional arrangements for detecting and preventing corporate fraud were inadequate and required strengthening. Consequently, SOX was passed quickly to enhance reporting requirements, strengthen independence of the board of directors, and increase civil and criminal sanctions for violations.[7]

SOX also designated corporate attorneys as a special gatekeeper. SOX imposed requirements on corporate attorneys to report any violation to the chief legal officer or chief executive officer and if the response from these officers is inadequate, then to the board of directors to stop any potential wrongdoing.[8] More than any other executives in the corporation, corporate attorneys are well-versed in law and they are expected to understand violations of law and they are expected to use their legal expertise to advise, intervene and stop wrongdoing.

In spite of these reforms enacted in SOX and explicit provisions and responsibilities given to corporate attorneys, most of the whistle-blowing in case of corporate fraud comes from employees (17%), non-financial market regulators (13%), and media (13%).[9] Clearly absent from this list are top in-house corporate counsels (GCs). In this paper, we investigate the potential reasons for the failure of corporate counsels to report and prevent corporate crime.

We formulate two mutually exclusive hypotheses to characterize GC's actions. The first hypothesis is that fraudulent top-level executives intentionally keep the corporate counsel out of the information loop.[10] As a result, in-house lawyers are generally unaware of the developing violations and therefore unable to report and prevent fraud.[11] Thus, the corporate counsels cannot

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[7] See https://www.sec.gov/news/testimony/090903tswhd.htm.

[8] 15 U.S.C. § 7245; 17 C.F.R. Part 205 (Securities and Exchange Commission's Standards of Professional Conduct for Attorneys Appearing and Practicing Before the Commission in the Representation of an Issuer). Rule 17 C.F.R. § 205.3 states:

> If an attorney, appearing and practicing before the Commission in the representation of an issuer, becomes aware of evidence of a material violation by the issuer or by any officer, director, employee, or agent of the issuer, the attorney shall report such evidence to the issuer's chief legal officer (or the equivalent thereof) or to both the issuer's chief legal officer and its chief executive officer (or the equivalents thereof) forthwith.

17 C.F.R. § 205.3(b)(1).

[9] Alexander Dyck, Adair Morse & Luigi Zingales, *Who Blows the Whistle of Corporate Fraud?*,65 J. FIN. 2213, 2226 (2010).

[10] As a case in point, according to the Examiner's Report, WorldCom CEO Bernard Ebbers simply lied to the general counsel Michael Salsbury that the board approved Intermedia merger agreement when in fact the board had not approved it. *See* Third and Final Report of Dick Thornburgh, Bankruptcy Court Examiner at 399,In re WorldCom, Inc. et al., 377 B.R. 77 (S.D.N.Y. Oct. 15, 2007). .

[11] WorldCom attorneys Michael Salsbury and Bruce Borghardt appear to fall in this category.*Id.* at 278 ("The legal function at WorldCom was decentralized, with no in-house counsel, including former General Counsel Michael Salsbury and Bruce Borghardt, former General Counsel for Corporate Development, charged with responsibility to

fulfil their gatekeeping role since they simply do not have the information about the potential wrongdoings.

A second hypothesis is that in-house corporate counsels participate in planning, creation, execution or cover-up of the fraud alongside other top management. This hypothesis states that corporate counsels are typically not only present at the scene of the crime, but also they help create the crime and thus they are well aware of the crime and subsequent cover-up. In this case, corporate lawyers would have no incentive to report the fraud since they would be turning themselves in by reporting.[12]

A third in-between possibility is that some corporate lawyers do become marginally aware of the violations but they either have incomplete information or they worry about retaliation in case they report the violation, and thus they prefer to keep silent or do not escalate their suspicions.[13] Since this category places the corporate lawyers outside the fraudulent group, we combine them with the first group since they do not have sufficient information about the true extent of the corporate wrongdoing.

Each of these potential explanations have different implications for corporate governance and potential remedies to address corporate fraud. If the first hypothesis (exclusion) is true, then potential remedies might include providing greater access to top-level corporate decision-making authority to the GC. This can include automatic mandated membership in the top decision-making executive committees of the corporation in addition to membership on the board of directors, and GC's written approval for financial statements as well as other major corporate initiatives. If the second hypothesis (instigators and/or aid-and-abettors) is true, then whistle-blowing protections for GCs might be strengthened to encourage GCs not to be tempted into fraud in the first place.

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ensure that proper corporate governance processes were followed. The Examiner concludes that an institutional and organizational defect, rather than failings by particular individuals, contributed to the Company's injuries in this area.").

[12] Corporate Counsels can also take part in illegal activity independently of top management. On February 5,2016, Herbert Sudfelt, an attorney for Fox-Rothchild was convicted of insider trading after he purchased Harleysville stock prior to a merger announcement and made approximately $79,000 in illegal profits.

[13] Enron attorneys Stuart Zisman and Jordan Mintz appear to fall in this category. While both attorneys wrote memos warning that some large transactions appeared as balance sheet manipulations, their warnings were ignored. Neither attorney chose to escalate their suspicions to the board of directors. *See*, Lisa H. Nicholson, *SarbOx 307's Impact on Subordinate In-House Counsel: Between a Rock and a Hard Place*, 2004 MICH. ST. L. REV. 559, 601-03 (2004).

This might include an explicit Securities Exchange Commission's (SEC) Rule stating that corporate counsel are covered by the whistle-blowing protections that are available to other employees.[14] Additional regulatory responses might include removing the exemption granted to corporate counsels by the PSLRA of 1995[15] and allowing private right of action for noncompliance of SOX provisions against general counsels.

We test these hypotheses by examining insider trading by top level executives as well as general counsels before, during, and after the class period in firms involved in securities class action (SCA) settlements. We also compare insider trading in firms with SCA settlements with those firms that were not involved in SCAs. We use insider trading to simply infer the information possessed by the insiders. We assume that this insider trading is not illegal per se.[16]

If GCs are uninformed about violation until the whistle blowers reveal the fraud, then we would not expect GCs to be heavy sellers of their own firms' stocks during the class period, as compared to the control periods before and after the class periods. Similarly, if the GCs are outside the fraudulent group and they are only marginally aware of some of the violations, they are not likely to know the full extent of the fraud. In addition, they may be afraid to report it due to fear of retaliation. In this case, we would again not expect the GCs to sell their own firms' stock. Finally, if the second hypothesis is correct and GCs are part of the fraudulent group, we would expect them to behave similarly to the other top level executives and sell their own firm's stock before the fraud is revealed, and thus benefit from the fraudulent cover-ups.

Our evidence shows that GCs generally behave similar to other top-level executives. They are heavy sellers of their own firm's stocks during the class periods and thus, they profit abnormally by avoiding the stock price declines upon revelation of the fraud at the end of the class periods. Our evidence is consistent with the hypothesis that the GCs are part of the fraudulent group and therefore they should be treated the same. We suggest that policy responses to corporate fraud should include creating of a separate gatekeeper counsel reporting directly to independent board members instead of the CEO and additional penalties for GCs including potential disbarment and allowing for private right of action for fraud against general counsels. A third policy response can include mandated hiring of outside legal-audit firms similar to financial audit firms.

[14] 18 U.S.C. § 1514A.
[15] Pub. L. 104-67, 109 Stat. 737 (codified as amended in scattered sections of 15 U.S.C.
[16] Insider can also legally trade even at a time when they have material, non-public information if they set up 10b5-1 trading plan before they become aware of the material information. *See*, 17 C.F.R. § 240.10b5-1 (2014)

The remainder of the paper is organized as follows. Section 2 reviews the related literature on the role of corporate lawyers, corporate fraud identification and revelation. Section 3 contains information about our data and methodology. Empirical results are discussed in Section 4. Our policy recommendations to reduce corporate wrongdoing are in Section 5. Finally, Section 6 concludes.

2. LITERATURE REVIEW

A. Corporate counsels as gatekeepers

Corporate attorneys perform multiple functions for their clients. The traditional role of an attorney is that of an advocate who is main duty is vigorous representation of the client.[17] In addition to this function, corporate attorney performs as a transaction engineer, namely that of planning, designing and negotiation of particular transactions for their corporate clients. In this role, corporate lawyers act as planners, educators, legal advisors, investigators, and representatives of the client firm.[18] In fact, every legal document corporation prepares is drawn up by a lawyer.[19] Corporate attorney's third function is that of a verification specialist, namely that of drafting and verifying the completeness and accuracy of disclosure documents, in conjunction with new security issues and mergers and acquisitions. This third function is also referred to as the due-diligence function.[20]

While performing these functions, corporate attorneys also interact with general public, investors, and the regulatory system. Moreover, their decisions affect not only their own clients, but also their clients' employees, suppliers, and customers, investors in firm's securities, taxpayers and thus society at large. As a result of the wide-ranging implications of attorney's work, it has

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[17] See JOHN C. COFFEE, GATEKEEPERS: THE PROFESSIONS AND CORPORATE GOVERNANCE (2006), at 192, ABA Model Code of Professional Responsibility EC7-1 (1983).

[18] See JOHN C. COFFEE, GATEKEEPERS: THE PROFESSIONS AND CORPORATE GOVERNANCE (2006) at 192, Sarah Selene Duggin, *The Pivotal Role of the Corporate General Counsel in Promoting Corporate Integrity and Professional Responsibility*, 51 ST. LOUIS U. L.J. 989,1002-12 (2007); and Robert L. Nelson & Laura Beth Nielsen, *Cops, Counsel, and Entrepreneurs: Constructing the Role of Inside Counsel in Large Corporations*, 34 L. & SOC. REV. 457, 463-66 (2007).

[19] Senator Enzi stated that "in almost every transaction there was a lawyer who drew up the documents involved in that procedure." See 148 Cong. Rec. S6554 (daily ed. July 10, 2002).

[20] Supra note 16.

been held by some that the attorneys also owe a duty to "do justice" society as well.[21] Thus, the attorneys' role as gatekeepers refers to their responsibilities to society.

The idea that attorneys owe an ethical obligation to society at large to "do justice" goes back to American Bar Association's (ABA) Canons of Ethics in early Twentieth Century.[22] While stated as an ideal, this responsibility to society-at-large clearly conflicts with attorney's obligation as an advocate for their clients. While ABA has resisted a gatekeeping responsibility for attorneys or corporate counsel, over time, as a result of the numerous financial scandals involving attorney misconduct, the gatekeeping function of the corporate counsel was gradually institutionalized and tightened over time. Finally, Sarbanes Oxley Act (SOX) of 2002 legally mandated the most strict gatekeeping requirements for corporate counsels.

B. SOX and gatekeeper corporate counsels

Section 307 of SOX directed the Securities Exchange Commission (SEC) to adopt "minimum standards of professional conduct for attorneys."[23] Section 307 expands the coverage to outside and in-house attorneys and defines an "up-the-corporate ladder" reporting if the in-house attorney finds material violation of laws within the company.[24] What constitutes "material violation" is defined vaguely in the law, thus creating ambiguity and subjectivity. The Act defines evidence of material violation as "credible evidence, based upon which it would be unreasonable, under the circumstances, for a prudent and competent attorney not to conclude that it is reasonably likely that a material violation has occurred, is ongoing, or is about to occur."[25] When an attorney suspects material evidence of violation, she shall report the violation to chief legal officer or chief executive officer. If she does not get appropriate response in a reasonable time, she goes up the ladder to the audit committee. If the audit committee does not give appropriate response in a

[21] ee JOHN C. COFFEE, GATEKEEPERS: THE PROFESSIONS AND CORPORATE GOVERNANCE (2006), at 193.

[22] ABA's 1908 Canon 30 stated that a "lawyer's appearance in Court should be deemed equivalent to an assertion on his honor tha in his opnion his client's case is one proper for judicial determination." See JOHN C. COFFEE, GATEKEEPERS: THE PROFESSIONS AND CORPORATE GOVERNANCE (2006), at 200.

[23] 15 U.S.C. § 7245. *See* 17 C.F.R. Part 205 – Standards of Professional Conduct for Attorneys Appearing and Practicing Before the Commission in the Representation of an Issuer.

[24] 18 U.C.S. § 7245(1), (2).

[25] 17 C.F.R. § 205.2(e).

reasonable time, the next step is the qualified legal compliance committee (QLCC). QLCC is the highest step to report a fraud or crime within a company.[26]

Section 806 of SOX provides legal protection against discharge or other discrimination for whistle-blowing employees.[27] The law also allows the whistleblowers to file a complaint with the Secretary of Labor or with the appropriate district court. [28] What is not so clear, however, is whether protections of Section 806 extend to general counsels. The issue is whether general counsels are considered employees for the purpose of Section 806 or they are considered part of the management team. This issue has not been clarified so far.[29]

Consequently, SOX added to this structure of formal duties of general counsels a new, fourth responsibility as whistle-blowers. The new rules require general counsels to investigate any reported potential violation and inform the top management so that they can take the necessary steps to stop the violation, or escalate the reporting to a compliance committee, audit committee, or board of directors of the corporation.[30] What SOX did not do is to address how this fourth duty interacts with the three traditional roles and responsibilities of corporate attorneys.

While SOX is explicit about whistle-blowing (reporting) requirements for corporate attorneys,[31] it is pretty much silent on the potential effect of whistle-blower responsibilities on their strong advocacy responsibilities. Gate-keeping requires monitoring company activities to

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[26] 17 C.F.R. § 205.5(c),(d). If the lawyer cannot get appropriate response from the QLCC, she has to quit her job and explain the reasons of quitting to the SEC. This process is called "noisy withdrawal provision." This is the last resort for a lawyer. Noisy withdrawal is enabled by Section 307 of SOX (15 U.S.C. § 7245); however, it has never been put into effect by the SEC.

[27] 18 U.S.C. § 1514A.

[28] 18 U.S.C. § 1514A (b).

[29] Kim T. Vu, *Conscripting Attorneys to Battle Corporate Fraud without Shields or Armor? Reconsidering Retaliatory Discharge in Light of Sarbanes-Oxley*, 105 MICH. L. REV. 209, 212-13 (2006).

[30] Rule 205.3(2) states: "

> The chief legal officer (or the equivalent thereof) shall cause such inquiry into the evidence of a material violation as he or she reasonably believes is appropriate to determine whether the material violation described in the report has occurred, is ongoing, or is about to occur. If the chief legal officer (or the equivalent thereof) determines no material violation has occurred, is ongoing, or is about to occur, he or she shall notify the reporting attorney and advise the reporting attorney of the basis for such determination. Unless the chief legal officer (or the equivalent thereof) reasonably believes that no material violation has occurred, is ongoing, or is about to occur, he or she shall take all reasonable steps to cause the issuer to adopt an appropriate response, and shall advise the reporting attorney thereof. In lieu of causing an inquiry under this paragraph (b), a chief legal officer (or the equivalent thereof) may refer a report of evidence of a material violation to a qualified legal compliance committee under paragraph (c)(2) of this section if the issuer has duly established a qualified legal compliance committee prior to the report of evidence of a material violation.
> 17 C.F.R. 205.3(2).

[31] *See* 15 U.S.C. § 7245.

discover and prevent misconduct before it happens.[32] Gate-keeping responsibilities include advising, advocating, and educating all corporate officers of potential legal consequences of their actions.[33] Clearly, it is difficult for the same person who is required to be a whistle-blower (a confrontational role) to advise, inform, and represent (an advocacy role) at the same time.[34]

SOX also does not address the potential conflict between other duties of the attorneys in their management roles. Conceptually, it is difficult for general counsels who are now part of the top management team to monitor and report on top managements' wrongdoings.[35] The more GCs act like top management, the less they will be able to engage as gate-keepers, let alone the whistle-blowers.[36]

Overall, given that they have multiple potentially conflicting objectives (gatekeepers, advocates, transaction engineers, entrepreneurial and managerial responsibilities, and due-diligence providers), it is not clear how the general counsels will perform as gatekeepers and whistleblowers. Some argue that whistle blowing function will end up suffering the most unless GCs are appointed by and report directly to independent board members.[37] Others show that GCs are able to perform more routine gatekeeping function such a limiting insider trading by other top officers.[38] Conceptual arguments based on managerial incentives also suggest that the duty that will suffer the most should be the gatekeeper and whistle-blower function.[39] Nevertheless, this is an empirical issue and subject of the tests that follow.

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[32] Reinier H. Kraakman, *Corporate Liability Strategies and the Costs of Legal Controls*, 93Yale L.J. 886 (1984).

[33] Tanina Rostani, General Counsel in the Age of Compliance: Preliminary Findings and New Research Questions, 2 Geo. J. Legal Ethics 465, at 466, 467, (2008); *Developments in the Law: Corporations and Societ*,.. 117 HARV. L. REV. 2169, 2248(2004); Henning, supra note 35, at 360; Duggin, supra note 31, at 1003-1020.

[34] *Developments in the Law: Corporations and Societ*,.. 117 HARV. L. REV. 2169, 2248(2004); Henning, supra note 35, at 352, 356; Duggin, supra note 31, at 1030.

[35]Deborah A. DeMott, *The Discrete Roles of General Counsel*, 74 FORDHAM L. REV. 955, (2005); Deborah A. DeMott, *The Stages of Scandal and the Roles of General Counsel*, 2012 WISC. L. REV. 463, 491 (2012); Duggin, *supra* note 31, at 993, 1040-41 ; Thomas G. Bost, *Corporate Lawyers after the Big Quake: The Conceptual Fault Line in the Professional Duty of Confidentiality*, 19 GEO. J. LEGAL ETHICS1089, 1092-93 (2006).

[36] For a discussion of the effects of conflicts of interest between various duty and responsibilities of GCs, see Sung Hui Kim, *The Banality of Fraud: Re-Situating the Inside Counsel as Gatekeeper*, 74 Fordham L. Rev. 983 (2005); Kim, Sung Hui, Inside Lawyers: Friends or Gatekeepers? (May 2, 2016). Fordham Law Review, Vol. 84, No. 1867, 2016; Armstrong, Chris and Jagolinzer, Alan D. and Larcker, David F., Performance-Based Incentives for Internal Monitors (February 15, 2010). Rock Center for Corporate Governance at Stanford University Working Paper Series No. 76 ; Stanford University Graduate School of Business Research Paper No. 2052. Available at SSRN:http://ssrn.com/abstract=1553116 or http://dx.doi.org/10.2139/ssrn.1553116.

[37] Hamermesh, Lawrence A., Who Let You into the House? Wisconsin Law Review, Vol. 2012, no. 2, p. 359

[38] Jagolinzer, Alan D. and Larcker, David F. and Taylor, Daniel J., Corporate Governance and the Information Content of Insider Trades (June 1, 2011). Journal of Accounting Research 49 (Dec 2011): 1249-1274.

[39] Duggin, supra note 31, at 1030.

C. In-house counsel versus outside corporate counsel and fragmentation of legal advice

Over the past several decades, corporations have hired increasing number of lawyers, using both outside law firms as well as in-house lawyers, with increasing compensation, status, and responsibilities for all attorneys. Initially, corporations typically had a single legal firm responsible for all of their legal work. Over time, with competition, this role got fragmented between the in-house attorneys and outside counsel. Evidence strongly supports the idea that the in-house attorneys have done an effective job of taking care of routine tasks while outside counsel was relied upon for specialized skills. This separation resulted in increasing quality of financial reporting, earnings forecasts, legal astuteness, and tax avoidance.[40]

Another accompanying change put the in-house counsel in a unique position of representing the firm, becoming part of the management team and thus becoming the main channel of interaction with outside counsel. As in-house counsels increased in number, the role of the chief-legal officer, the General Counsel (GC) also changed over the past several decades. GCs increasingly became members of the board and they became responsible for basic routine regulatory compliance, risk management, and corporate ethics.[41] At the same time, the managerial influence and responsibilities of the general counsel increased. Top management also came to rely on in-house legal team for legal strategy rather than external law firms. In-house lawyers headed by GCs now deal with a range of issues, including legal strategy, breaches of anti-trust laws,

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[40] *See, e.g.,* Justin J. Hopkins et al., *Corporate General Counsel and Financial Reporting Quality*. 61 MGMT. SCI. 129, 140 (2015); Byungjin Kwak et al., *The Composition of Top Management with General Counsel and Voluntary Information Disclosure*, 54 J. ACCT. & ECON. 19, 39 (2012); Jayanthi Krishnan et al., *Legal Expertise on Corporate Audit Committees and Financial Reporting Quality*, 86 ACCT. REV. 2099, 2126 (2011); Constance E. Bagley, *Winning Legally: The Value of Legal Astuteness*, 33 ACAD. MGMT. REV. 378, 386-87 (2008); Beng Wee Goh et al., *The Inclusion of General Counsel in Top Management and Tax Avoidance* 34-35 (July 8, 2015), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2538292; Lubomir P. Litov et al., *Lawyers and Fools: Lawyer-Directors in Public Corporations*, 102 GEO. L.J. 413, 472, 473 (2014); BEYOND THE LAW, KPMG'S GLOBAL STUDY OF HOW GENERAL COUNSEL ARE TURNING RISK TO ADVANTAGE 25 (2012), *available at* https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/general-counsel-survey-O-201212.pdf; Adair Morse et al., *Executive Lawyers: Gatekeepers or Totems of Governance?* 25-26 (Sept. 2015), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2446611.

[41] Duggin, *supra* note 31, at 1001- 1023.

breaches of directors' and officers' duties, insider trading, fraud, and stock market disclosures.[42] GCs are also involved in formulating and applying corporate governance principles.[43]

In addition, SOX further contributed to the change in the position of in-house counsels, since it mandated changes the structure of publicly-traded companies' boards.[44] As a result, directors' legal responsibilities and financial risks increased, thereby increasing the demand for directors and directors with legal experience.[45] Consequently, post-SOX directors are more likely to be attorneys or consultants.[46] The increasing number of in-house attorneys on board also meant that boards were more self-sufficient regarding legal issues and they relied less on external law firms.[47]

Outside counsel was hired by the GCs for their specialized skills for a specific transaction. This transaction engineering function means that while the outside counsel is more specialized and more independent to render unbiased advice, it also meant that they were typically outside the firm, they had less information about the client and could not render holistic advice. Thus, the separation of in-house and outside counsel roles also accompanied a fragmentation of legal advice along with a reduced ability to monitor and provide guidance.

Literature suggests that, given these potential conflicts and road-blocks, some attorneys see their role as implementers or transaction engineers, narrowly focused on a single issue, rather than as broadly-gauged corporate counselors or advisors."[48] Second, in-house attorneys may be reluctant to constrain managers because they want to be perceived as a part of the management, rather than as an obstacle in front of the management.[49] It is also difficult for in-house lawyers to separate company objectives from legal objectives.[50] Therefore, they are likely to limit their gatekeeping functions and defer to management's judgements about legal risk.[51]

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[42] DELOITTE GLOBAL CORPORATE COUNSEL REPORT HOW THE GAME IS CHANGING? 2 (2011), http://s3.amazonaws.com/zanran_storage/www.deloitte.com/ContentPages/2513816748.pdf..

[43] Duggin, *supra* note 31, at 1026, 1038.

[44] See for instance, http://www.insidecounsel.com/2012/01/01/8-ways-sox-changed-corporate-governance.

[45] See, http://www.ey.com/Publication/vwLUAssets/The_Sarbanes-Oxley_Act_at_10_-_Enhancing_the_reliability_of_financial_reporting_and_audit_quality/$FILE/JJ0003.pdf and http://www.stblaw.com/docs/default-source/cold-fusion-existing-content/publications/publication210_0.pdf?sfvrsn=2.

[46] James S.Linck et al., *The Effects of Unintended Consequences of the Sarbanes-Oxley Act on the Supply and Demand for Directors*, 22 REV. FIN. STUD. 3287, (2009).

[47] Robert Charles Clark, *Corporate Governance Changes in the Wake of the Sarbanes- Oxley Act: A Morality Tale for the Policy Makers too.* Harvard Law School Discussion Paper, No: 525 (2005), p.18.

[48] Thomas G. Bost, *supra* note 55, at 1092.

[49] Nelson and Nielson, supra Note 31; Duggin, supra note 31, at 1022..

[50] Nelson and Nielson, supra note 31.

[51] Nelson and Nielson, *supra* note 31.

Another development also points in the direction of fragmentation. Surveys indicate that only about 60% of the GCs directly report to the CEO.[52] This means in about 40% of the firms, the CEOs do not have access to legal advice from their chief legal officer. Inability to directly access the CEO also means that GCs will not be informed about the entire enterprise. This fragmentation could be an important factor in GCs being left out of the information loop for them to suspect any material wrongdoing is underway. Overall, there is a lot of evidence that in-house counsels have created value for the shareholders. There is less agreement as to whether in-house counsels have reduced corporate crime.[53]

D. Control mechanisms to deter and detect corporate fraud

The finance literature presents three different perspectives on control mechanisms that should deter or detect corporate fraud.[54] The first perspective is the legal-control mechanism, which states that corporate fraud should be investigated and detected by traditional gatekeepers that are mandated to do so, such as corporate lawyers, auditors, and securities regulators (represented in the United States by the SEC). Another perspective is the private-litigation mechanism. This perspective states that private parties injured by the fraud should monitor the corporations for fraudulent activity.[55] The last perspective of monitoring is the financial-risk mechanism. This view suggests all stakeholders of a company, such as stockholders, bondholders, anaysts, and banks, should monitor the company; however the final and responsible monitor should be shareholders since they are the residual claimants.[56]

Previous research provides limited support for legal and private-litigation views.[57] Market regulators, auditors, and private litigation lawyers are more successful in detection of fraud relative

[52] See JOHN C. COFFEE, GATEKEEPERS: THE PROFESSIONS AND CORPORATE GOVERNANCE (2006).
[53] Adair Morse et al., , *supra* note 34, at 15; Peter J. Henning, *Sarbanes- Oxley Act . § 307 and Corporate Counsel: Who Better to Prevent Corporate Crime?* 8(1) Buffalo Criminal Law Review, (April 2004) explains why lawyers cannot reduce corporate crime. Ribstein, supra note 23, also argues that SOX cannot stop corporate crime.
[54] Dyck et al (2010), *Supra* note 7, at 2227.
[55] John C. Coffee, *Understanding the Plaintiff's Attorney: The Implications of Economic Theory for Private Enforcement of Law Through Class and Derivative Actions*, 86 COLUM. L. REV. 669, 669-70(1986); Rafael La Porta, Florencio Lopez-de-Silanes & Andrei Schleifer, *What Works in Securities Laws*?, 61 J. FIN. 1, 5-6, 1-32 (2006).
[56] Eugene F. Fama, *Contract Costs and Financing Decisions*, 63 J. BUS. S71, S79, S89 (1990) vol. 63, 1, pp. 71-91.
[57] Dyck et al., *supra* note 7, at 2230.

to shareholders.[58] Non-financial market regulators are at 13%, media at 13%, SEC at less than 7% and law firms only at 3% of the detected fraud cases. In contrast, the largest group is employees, accounting for 17% of the whistle-blowing cases. Internal governance mechanism covers less than 30% of all whistle blowing cases, while external whistle blowing come mostly from non-financial industry agents. [59] Among external whistle blowers, private litigation appears to be more successful in detecting fraud than public litigation sources.[60]

Evidence on the types of whistle-blowers indicates that costs of accessing to private information, career-building opportunities and monetary awards are major determinants of whistle blowing.[61] Anybody blowing the whistle on a large scale fraud can win significant monetary awards. The sucess of employees appear to be due to low costs of accessing information to discover the fraud, since employees can access the necessary private information for fraud detection at low or zero cost.[62] Journalists have some private information advantages and can enjoy great career advancement opportunities after they blow the whistle on important cases. On the other hand, auditors not only do not gain from whistle blowing, but they can lose a significant portion of their business as a result. Therefore, they do not have any incentives to blow the whistle.[63]

SOX implicitly assumes that corporate fraud can be detected and prevented through the regulatory channel. Consequently, SOX is designed to increase transparency, accountability and sanctions, however it comes at significant compliance costs for public firms. One view against SOX is that compliance costs of SOX exceed its benefits, thereby making society worse off even if it leads to greater fraud detection. [64] A second view is that regulatory enforcement is not the main channel that controls corporate fraud. Instead, private actions, shareholder monitoring and takeovers are important channels to control corporate fraud.[65] However, SOX has not addressed

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[58] *Id.*

[59] *Id.* at 2224, 2226, 2230.

[60] James D. Cox & Randall S. Thomas, (2003) *SEC Enforcement Heuristics: An Empirical Inquiry*, 53 Duke L.J., 737, 763 (2003)..

[61] Dyck et al. (2010), *supra* note 7, at 2231-2248.

[62] *See* Friedrich Hayek, *The Use of Knowledge in Society*, 34 AM. ECON. REV. 519, 519-20 (1945).

[63] Dyck et al. (2010), *supra* note 7, at 2215,2232-2235.

[64]Larry E. Ribstein, *Market vs. Regulatory Responses to Corporate Fraud: A Critique of the Sarbanes Oxley Act of 2002*, 28 J. CORP. L. 1, 3 (2002).

[65] Dyck et al., *supra* note 7, at 2214, 2227; Larry E. Ribstein, supra note 23, at 2003.

strengthening shareholder involvement in fraud detection and prevention. This idea is due to Professor Eugene Fama[66] but it is only partly supported by empirical evidence.[67]

The evidence on the effect of SOX on fraud reduction is mixed.[68] In post-SOX era, auditors identified more fraud, analysts identified about the same, while employees detected less fraud than in pre-SOX era.[69] The decline in whistle-blowing for the most important segment (employees) suggests that while SOX is effective in protecting employees from being fired, it is ineffective against loss of career adhencement opportunities or even as a shield against harassment.[70] This evidence indicates that more needs to be done for fraud detection and prevention.

E. Relation to insider trading literature

Our paper also expands the literature on insider trading. Previous research has shown that insiders trade profitably. They buy when they have positive non-public information and they sell when they have negative, nonpublic information. The ability of insiders to trade profitably is directly related to the position and responsibility within the firm: Top executives typically earn a higher rate of return than officers and directors, who also earn a higher rate of return than outside large shareholders.[71] Consequently, access to privileged information directly arises as a result of day-to-day activities of the top executives.

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[66] Dyck et al. (2010), *supra* note 7, at 2214, 2227.
[67] *Id.* at 2230.
[68]*Id.* at 2249.
[69] *Id.* at 2249, 2250.
[70] *Id.* at 2241, 2245.
[71] *See*, *e.g.,* H. Nejat Seyhun, *Insiders' Profits, Costs of Trading, and Market Efficiency*, 16 J. FIN. ECON. 189, 210 (1986); Arturo Bris, *Do Insider Trading Laws Work?* 23 (Yale ICF Working Paper No. 00-19, 2010); H. Nejat Seyhun, *The Information Content of Aggregate Insider Trading*, 61 J. BUS. 1,22 (1988); H. Nejat Seyhun, *Why Does Aggregate Insider Trading Predict Future Stock Returns?,* Quarterly J. Econ. 1302, 1329(1992); Bin Ke et al., *What Insiders Know About Future Earnings and How They Use It: Evidence from Insiders' Trade*,35 J. ACCT. & ECON. 315, 315 (2003); John E. Core et al., *Stock Market Anomalies: What Can We Learn from Repurchases and Insider Trading?* 25 (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=533323, 2005); Albert S. Kyle, *Continuous Auctions and Insider Trading*, 53 Econometrica 1315, 1315 (1985); H. Nejat Seyhun & Michael Bradley, *Corporate Bankruptcy and Insider Trading*, 70 J. BUS. 189, 203, 214 (1997).

In this paper, we utilize the fact that insiders trade profitably to infer what insiders and GCs know around Securities Class Actions (SCAs). If insiders increase their purchases, we infer that they possess positive information. If insiders increase their selling, we infer that they possess negative information.

We analyze the profitability of general counsels not only in the firms with SCAs but in all other firms as well. We compare the profitability of general counsels with other top level executives. To the extent GCs make similar trading profits as the rest of top level executives outside the SCA periods, we gauge that the level of involvement and responsibilities of general counsels within the firm to be similar to other top level executives such as CEOs, CFOs, and chairmen of the board. On the other hand, if we find that, in general, GCs make less trading profits than the fellow top executives but similar to officers and directors, this finding would tell us that the level of responsibility of GCs would be comparable to other directors or officers.

Another strand of literature ties the profitability of insider trading to corporate governance and internal control mechanisms.[72] Comparing the profitability of insider trading in firms with large financial settlements to a broad set of control group also allows us to examine the relation between the profitability of insider trading in firms with good and deficient control mechanisms and corporate governance structures.

Finally, a word of caution. Given that we analyze the level and profitability of insider trading by GCs for SCA-involved firms, our results are only strictly applicable to the firms that end up in our sample. If a firm is not involved in SCA, then it is not in our sample and strictly speaking we cannot comment on the degree to which the GCs may have played in preventing the corporation from being sued in the first place. To shed more light on this issue, we do examine the sensitivity of our results to the settlement amounts paid later in the paper.

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[72] Taylan Mavruk & H. Nejat Seyhun, Do SEC's 10b5-1 Safe Harbor Rules need to be rewritten, 2016 Colum. Bus. L. Rev. 153 (2016); Cindy A. Schipani and H. Nejat Seyhun, *Defining "Material, Nonpublic": What Should Constitute Illegal Insider Information?*, 21 FORDHAM J. CORP. & FIN. L. 327 (2016); S. Burcu Avci, Cindy A. Schipani and H. Nejat Seyhun, Ending Executive manipulations of incentive compansation, J. CORP. L. 2016; S. Burcu Avci, Cindy A. Schipani and H. Nejat Seyhun, Manipulative games of gifts by corporate executives, U. PENN. J. BUS. L., 18, 2016, Hollis A.Skaife et al., *Internal Control over Financial Reporting and Managerial Rent Extraction: Evidence from the Profitability of Insider Trading*, 55 J. Acct. & Econ. 91, 107 (2013); Anup Agrawal & Sahiba Chadha, *Corporate Governance and Accounting Scandals,* 68 J L. & ECON. 371, 403 (2005); Scott L. Summers & John T. Sweeney, *Fraudulently Misstated Financial Statements and Insider Trading: An Empirical Analysis*, 73 Acct. Rev. 131, 144 (1998); Enrichetta Ravina & Paola Sapienza, *What Do Independent Directors Know? Evidence from Their Trading*, 23 REV. FIN. STUD. 962, 1001 (2010).

3. DATA AND METHODOLOGY

A. Data

This study analyzes the insider trading activities of top executives, general counsels and other officials in the companies listed in Stanford Law School Securities Class Action Clearinghouse (SCAC).[73] SCAC keeps track of more than 4,000 class action lawsuits filed in Federal Court since Private Securities Litigation Reform Act of 1995 has been enforced.[74]

A Securities Class Action (SCA) contains allegations that the company or its managers violated at least one federal or state securities law that caused damages for a number of parties. A file is called a class action because number of injured parties is so numerous that it is not practical to adjudicate each case separately. Furthermore, commonality of interest is required to call a case class action and plaintiffs must demonstrate that the claims of the representatives of class are typical of every class member.[75]

The analysis period of the study is 1996–2014, containing 4,041 cases filed in the dataset. Since law firms automatically file a class action lawsuit if any large negative shock occurs in share prices, it is not likely that any large class-action lawsuit would be excluded in this file.[76] After getting data from SCAC, we applied some filters to get rid of small or frivolous cases. First, we eliminated the cases that were dismissed or ongoing. After the first elimination, we had 2054 cases in the dataset. Second, we eliminated cases with the settlement amount lower than $25 million. We chose a sizable minimum settlement amount in order to ensure that the fraud and estimated

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[73] Stanford Law School, Securities Class Action Clearinghouse (hereunder as "SCAC"), http://securities.stanford.edu/index.html.

[74] Stanford Law School, Securities Class Action Clearinghouse, About Us, http://securities.stanford.edu/about-the-scac.html#about (last accessed Feb. 25, 2016).

[75] Rules 23(a) and (b) of the Federal Rules of Civil Procedure govern the requirements for class certification. Rule 23(a) sets forth four threshold requirements for class certification, each of which must be met: (1) the class is so numerous that joinder of class members is impracticable (numerosity); (2) there are questions of law or fact common to the class (commonality); (3) the claims or defenses of the class representatives are typical of those of the class (typicality); and (4) the class representatives will fairly and adequately protect the interests of the class (adequacy). Courts have added additional requirements: The courts require (1) that a definable class exists, (2) the named representatives are members of that class, and (3) the claim of the class is live, rather than moot. See, http://www.federalpracticemanual.org/node/42

[76] Stephen J. Choi et al., *The Screening Effect of the Securities Litigation Reform Act*, 6 J. EMPIRICAL LEGAL STUD. 35, 46 (2009); Paul A. Griffin et al., *Stock Price Response to News of Securities Fraud Litigation: Market Efficiency and the Slow Diffusion of Costly Information*, 2 (Stan. L. Sch. John M. Olin Program in L. & Econ. Working Paper No 208, 2000), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=251766.

damages were sufficiently large and that insiders would take into account the anticipated stock price effects. For these large settlement cases, the median settlement amount represented about 1.1% of the estimated damages.[77] Based on these numbers, the estimated damages for the minimum settlement amount are about $2.3 billion.

Applying the $25 million minimum settlement filter left us with only 169 companies. Next, we eliminated a few companies which are traded privately and did not match with CRSP CUSIP number and name.[78] Finally, we eliminated companies that had no open market transactions by insiders in our insider trading database. In the end, we have a sample with 131 companies.

We collected insider trading data from Thomson Reuters (TFN)[79] for the analysis period. The dataset contains the volume and amount of sales and purchases of insider trading. The database is constituted by the legally-mandated reporting of all insider transactions.[80] We use the information on insider trading of top executives, general counsels, and other officers. Top executives, directors, and other officers, and general counsels are classified using role codes in the TFN database. Top executives are limited to officer and director ('OD'), officer, director, and beneficial owner ('H'), chairman of the board ('CB'), CEO ('CEO'), CFO ('CFO'), controlling person ('CP'), general partner ('GP'), and president ('P'). General counsels are coded with 'GC.' Directors and other officers are defined as all other officers.[81] We include any large shareholder with any officer title. We exclude outside large shareholders ('SH') and outside beneficial owner of more than 10% of a class security ('B'). These outside groups are typically hurt by the corporate fraud and thus they not likely to be aware of any ongoing corporate fraud.

As a next step, we combine SCAC and insider trading information and we are left with the insider trading activities of companies which were involved in fraud settlements after Private Securities Litigation Reform Act of 1995.[82] As control periods, we construct pre-class and post-class periods that are exactly the same number of days as the class period. Hence, if the class

[77] See, http://securities.stanford.edu/research-reports/1996-2013/Settlements-Through-12-2013.pdf, at 9.
[78] CUSIP numbers refer to unique eight digit alphanumeric identification numbers assign to all publicly listed securities by the Committee for Uniform Security Identification Procedures. See, https://www.cusip.com/cusip/index.htm
[79] See https://wrds-web.wharton.upenn.edu/wrds/
[80] 15 U.S.C. § 78p, Securities and Exchange Act of 1934, Section 16(a). See, https://www.law.cornell.edu/uscode/text/15/78p.
[81] http://www.whartonwrds.com/datasets/thomson-reuters-2/

[82] Private Securities Litigation Reform Act of 1995, Pub. L. No. 104-67, 109 Stat. 737 (codified as amended in scattered sections of 15 U.S.C.).

period is 200 days, then the pre-class period is also comprised of 200 days that end one day before the beginning of the class period. Similar, post-class period is also 200 days that start from the end of the class period. We test the timing of insider trading activities for the pre-class period before class action starts, during the class action period, and for the post-class period. We also compare the results with the insider trading activities of companies which are not involved in fraudulent activities.

Table 1A displays sample characteristics of insider trading in all firms in the CRSP database between 1996 and 2014. This table provides information about trades of different insider groups in the whole sample. Purchases and sales are reported separately. We also classify companies into three categories: Small-cap firms are the ones with less than $1 billion market capitalization. Mid-cap firms are the ones with market capitalization between $1 billion and $5 billion. Large-cap firms have higher than $5 billion market capitalization.

The table shows that the number of firms involved in insider trading and number of trades are decreasing with market capitalization, while the average trade size is increasing with market capitalization. It is worth considering the differences in number of trades: 894,623 purchases versus 2,862,353 sales realized during the analysis period. Hence, sales are about three times more frequent than purchases. Ratio of number of shares purchased to number of shares sold is also dependent on firm size. In small-cap firms, this purchase to sale ratio equals 61% (9.7 billion to 16.0 billion). In mid-cap firms this ratio falls to about 12% (1.2 billion to 10.1 billion). In large-cap firms, purchase to sale ratio falls further to 4.8% (465.2 million to 9.6 billion).

The ratio of purchases to sales follows similar patterns for officers, directors and top executives. However, the pattern of general counsels' trades is different: The general counsels tend to sell about 85 times more shares than they buy (16.5 million purchased versus 1.4 billion shares sold). This pattern indicates that general counsels typically sell the shares they receive from the corporation as incentive compensation.

Table 1B displays additional sample characteristics of insider trading with firms with securities fraud settlement during the same period (1996 through 2014). The total number of firms with insider trading in the dataset is 131. Number of firms and number of trades are increasing along with market capitalization of firms. These numbers show that there is more insider trading activity in big, SCA-settled firms. The average class period is around 600 calendar days, or a little over 1.5 years. The class period appears to be slightly shorter in smaller firms.

Average settlement amount is increasing monotonically with firm size. This finding indicates that larger firms with deeper pockets tend to settle for larger amounts. In small-cap stocks, the average settlement amount is around $60-$90 million. In large-cap stocks, this amount grows to about $280 million, while the average settlement is about $170 million.

The number of sales is 31,704, which is about ten times as big as the number of purchases, namely 3,012. Compared to the overall sample, firms with SCA settlements have a greater sale-purchase ratio, more than 10 as compared to the overall sample, which is about 3 in Panel A.

Average size for purchases is higher than average size of sales, 50,000 versus 21,000 shares in firms with SCA settlements. Thus, we can say that insiders in SCA companies sell in small amounts, while their sales are more frequent than their purchases.

Using the ratio of settlements to damages, we can also compute an approximate figure for stakeholder damages. Based on these settlement amount, the estimated range of damages caused by the alleged fraud is between $6 billion to $30 billion.[83] These damage amounts are very large and indicate that they are likely to involve substantial stock price effects.

Table 1A also shows that the total sales exceed total purchases by a factor of seven ($660 billion is sales to $90 billion in purchases). Similar patterns are observed for officers, top executives and general counsels, with increasing sales to purchase ratio. For top executives sales to purchase ratio is around nine ($227 billion to $25 billion) and around 30 for general counsel ($.4.3 billion to $130 million). Our results indicate that general counsels in SCA-settled firms are more aggressive sellers compared to top executives and officers and directors.

Tables 1B, 1C and 1D compare insider trading for the pre-Class, Class and post-Class periods. Overall insider sales increase more than 50% during the Class period as compared to the pre-Class Period. During the pre-Class period, insiders have sold $215 million shares (Table 1B). During the Class Period, insider sales reach over $350 million shares, an increase of 63%. This increased selling is consistent with the hypothesis that insiders are aware of the overvaluation of their common stock and they are acting proactively to reduce their potential losses by reducing their holdings. Table 1B and Table 1C show that the increase in sales holds for each insider group. The number of shares sold increased 116% for officers and directors, 13% for top executives and 91% for general counsel, respectively.

[83] The ratio of settlements to damages is about 1% for large settlements. See, http://securities.stanford.edu/research-reports/1996-2015/Settlements-Through-12-2015-Review.pdf

During the post-Class Period, insider selling declines substantially. In Table 1D, insider selling equals 95 million shares. This represents a decline of more than 70% from 350 million shares sold during the Class period. Furthermore, selling declines for every insider group. The decline equals 80% for officers and directors (from 219.5 million to 44.3 million), 61% for top executives (from 128.7 million to 49.8 million), and 48% for the general counsel (from 2.5 million to 1.3 million).

While not shown here, we also explore insiders' trading patterns before and after SOX. We find similar purchase and sales patterns both before and after SOX. For all three insiders groups, insiders increase their sales from pre-Class period to Class period, and then reduce their sales during the post-Class period. Hence, our finding indicates that SOX has not changed insider trading patterns.

Overall, the fact that sales first increase substantially from pre-Class period to the Class period and then decline substantially during the post-Class Period is consistent with the hypothesis that all three groups of insiders are aware of the implications of SCA allegations on their own firms' stock prices. To reduce their potential losses from overvalued shares, insiders sell during the Class period. During the post-Class Period, stock prices are closer to fundamental values and the need to sell shares is reduced. Next, we analyze the profitability of insider trading patterns during the Pre-Class, Class and post-Class Periods.

B. Measuring Insiders' Abnormal Stock Profits

First, we run a standard event study analysis to determine abnormal returns using our sample companies. Event date (day 0) is the insider trading date for each trade. We measure abnormal returns, AR around insiders' trades by computing the market-adjusted daily stock returns.

$$AR_{i,t} = (r_{i,t} - r_{m,t})$$

Where $r_{i,t}$ is the return to stock i that insiders have traded for day t, and $r_{m,t}$ is the return to the CRSP value-weighted portfolio of all NYSE, AMEX, NASDAQ, and ARCA for day t following the insider trading day. Next, we compute insiders' abnormal profits, AP for each day around the insider trading day:

$$AP_{i,t} = H^* \, (r_{i,t} - r_{m,t})$$

To compute insiders' abnormal profits, we normalize insiders' trades by multiplying insiders' abnormal returns with one for insiders' purchases and minus one for insiders' sales. Hence, the parameter H takes the value 1 for insiders' purchases and -1 for insiders' sales. Abnormal profitability is measured relative to market movements. Thus, following insiders' purchases, insiders are deemed to make an abnormal profit if the stock price increases more than the increase in the market return. If the stock market falls, then to be deemed abnormally profitable, insiders' stock must fall less than the market. Following insiders' sales, insiders are deemed to make an abnormal profit if the stock price falls more than the fall in market return. If the stock market rises, then to be deemed abnormally profitable, insiders' stock price must rise less than the market We then cumulate insiders' abnormal profits around insiders' transactions over longer-window horizons, T.

$$CAP_{i,T} = \sum_{t=0}^{T} H * \; (r_{i,t} - r_{m,t})$$

$CAP_{i,T}$ represents cumulative abnormal profits over T days before or following the insider trading day, $r_{i,t}$ is the return to stock i for day t, and $r_{m,t}$ is the return to the CRSP value-weighted portfolio of all NYSE, AMEX, NASDAQ, and ARCA for day t following the insider trading day. We compute cumulative abnormal returns for 10-, 20-, 50-, 100-, 200-, and 250-day holding periods in order to follow patterns in return around each insider trading date. For comparison purposes we also measure abnormal price movements prior to the insider trading day.

4. EMPIRICAL RESULTS

We provide the main results of our paper in this section. Table 2 displays insiders' abnormal profits computed in non-litigation firms between 1996 and 2014. All three groups of insiders trade profitably. Our database contains over 2 million trades for officers. Following these transactions, officers and directors earn about 4.1% in abnormal returns. For top executives, our database

contains over one million trades. Following these trades, top executives earn about 5.6%. Finally, our database contains over 63,000 trades for the general counsels. Following these trades, the general counsels earn about 3.6%. Abnormal returns for all event periods are statistically at about the 1% level for officers, top executives, and general counsels. Overall, general counsels' profits are comparable to those of officers and directors.

Next we turn our attention to SCA-settled firms. Table 3 displays insiders' abnormal profits in firms subject to securities fraud lawsuits between 1996 and 2014 that resulted in settlements. We examine insider trading separately before the Class Period, during the Class Period, as well as post-Class Period. The first column shows number of observations in each period. As expected, number of insider trading by general counsels is comparably less than that of officers and top executives since there is only one general counsel in each firm.

Examining number of transactions, we see that insider trading is more numerous during the Class Period as compared to pre-Class or post-Class periods even though the length of the periods are identical. This finding indicates that for SCA-settled firms, Class-Period represents a period of greater information asymmetry and therefore a period that is offering potentially greater profitability as compared to pre- or post-Class periods. While this pattern holds for all three insider groups, it is especially true for general counsel, again suggesting that the source of information asymmetry has legal connotations.

We analyze insider profitability next. The first three lines of Table 3 show the abnormal returns from insider trading of officers and directors before, during, and after the class period. Pre-class period results are not significant for 6,741 insider transactions. During the Class period, officer and directors increase the number of trades to 9,466. The abnormal profitability of officers and directors' transactions during the Class period reach as high as 29.4% during the 250 days after insider trading day. Further, officer and directors' transactions display statistically abnormal profitability immediately after the insider trading day. This finding insiders that officers and directors do not refrain from trading close to the revelation of the material non-public information. During the post-Class Period, officers and directors execute 3,846 transactions. Profitability of officer and directors' transactions continue in this period, with abnormal profits reaching about 28.4% after 250 days.

Top executives' profitability is shown in the next three rows. Pre-Class period results are not significant for 3,887 transactions by top executives. During the Class period, top executives

increase their number of trades to 6,644. The abnormal profitability of top executives' profits during the Class period reach as high as 21.9% during the 250 after insider trading day. Further, top executives' transactions display statistically abnormal profitability immediately after the insider trading day. This finding indicates that top executives also do not refrain from trading close to the revelation of the material non-public information. During the post-Class Period, top executives engage in 2,490 transactions. Profitability of top executives' transactions continues in this period, with abnormal profits reaching about 41.7% after 250 days. Once again, top executives' transactions display statistically abnormal profitability immediately after the insider trading day.

Finally, general counsels' trading profitability is shown in the last three rows. Pre-class period abnormal returns are negative and significant for 260 transactions by GCs. Hence, GCs do not trade profitably prior to the Class Period.

During the Class period, GCs increase the number of trades to 1,300, which is a four-fold increase from the pre-Class period. The abnormal profitability of GCs' profits during the Class period reach as 17.7% during the 250 after insider trading day. However, GCs abnormal profits do not attain statistical significance until about 200 days after the insider trading day. This evidence indicates that GCs trade more intensely, based on material nonpublic information as well as in advance of the material non-public information.

During the post-Class Period, GCs engage in only 69 transactions. Profitability of GCs' transactions occurs early immediately after the insider trading day. For long horizon windows, the abnormal profits are not significant.

To explore the timing issues in more detail, insiders' abnormal profits during the pre-Class periods, Class periods and post-Class periods for all three groups of insiders are also plotted in Figures 1, 2 and 3. In Figure 1, abnormal profits fall for all three groups prior to the insider trading day. Following the insider trading day, abnormal profits remain flat or continue to fall. This figure indicates that while insiders tend to buy shares after price falls and sell shares after price increases, there are no systematic price movements following the insider trading day that would create abnormal profits. Thus, for our sample of SCA-settled firms, the pre-Class period does not seem to offer profitable trading opportunities for any group of insiders.

Figure 2 shows the price patterns for the Class Periods for all three groups of insiders. The V-shaped figure around the insider trading day indicates that stock prices rise abnormally prior to insiders' sales and they fall abnormally after insiders' sales. Similarly, stock prices fall abnormally prior to insiders' purchases and they rise abnormally following insiders' purchases. Thus insiders buy at low price and they sell at high prices and they avoid the loss associated with the subsequent fall in process.

From Figure 2, for officers and directors, stock prices rise abnormally about 15% prior to the sale day and they fall abnormally about 30% after the sale days. For top executives, stock prices rise abnormally about 25% prior to the sale day and they fall abnormally about 22% after the sale days. Finally for general counsels, stock prices rise abnormally about 40% prior to the sale day and they fall abnormally about 18% after the sale days. These findings indicate that generals counsels time their sales to occur soon after the stock prices have peaked.

Figure 2 also indicates that for officers and directors as well as top executives, insiders transactions become profitable immediately. In contrast, general counsels' transactions do not attain profitability for about 80 trading days (about four calendar months) after insider trading day. This finding indicates that general counsels tend to execute their sales transactions earlier in the Class period as compared to the other executives.

Post-Class period abnormal profits are shown in Figure 3 for all three groups of insiders. This figure is mostly similar to Figure 2. Insiders are able to time their purchases and sales during the post-Class periods to make abnormal profits as well.

Next, we separate insiders' transactions into purchases and sales and examine their profitability separately. These results are shown in tables 4A and 4B. As one can see from these tables, the profitability of insider trading during the Class-Period is driven by sales only. Insiders' purchases during the Class Period are not profitable for any of the three insider groups. Typically, insiders purchases do become positive and statistically significant during the pre-Class period for officers and post-Class Period for the general counsels. In contrast, sales are highly profitable both during the Class Period for all three groups of insiders. In addition, insiders' sales are also profitable for officers and top executives during the post-Class Period.

Next we examine the relation profitability of insider trading and volume of trading. For officers and directors, these relations are shown in tables 5A. The general finding from the

literature is that profitability of insider trading increases with insider trading volume.[84] One concern here is that insiders might worry about trading larger volumes when they have more precise information since these transactions can increase the likelihood that they would be named as defendants in a subsequent lawsuit. Hence whether insiders in SCA-settled firms trade large amounts when they have more precise information is an open question.

Examining tables 5A, we see that profitability of officers and directors transactions in fact do not increase monotonically during the Class period. Officers and directors earn 36.5% when they trade less than 1,000 shares, 24.3% when they trade between 1,000 and 10,000 shares, and 27.2% when they trade greater than 10,000 shares. This finding is consistent with risk aversion hypothesis.

The relation between profitability and trading volume for top executives is shown in table 5B. For top executives, abnormal profits during the Class period increase monotonically. Top executives earn 16.3% when they trade less than 1,000 shares, 27.1% when they trade between 1,000 and 10,000 shares, and 35.1% when they trade greater than 10,000 shares. These results suggests that top executives do not appear to worry about increased likelihood of being subject to a lawsuit.

Finally, we examine the abnormal profitability for GCs. The relation between profitability and trading volume for GCs is shown in table 5C. GCs do not earn a statistically significant profit when they trade less than 1,000 shares during the Class period. Their profits rise to 31.3% when they trade between 1,000 and 10,000 shares and then level off to 26.3% when they trade more than 10,000 shares. However, there are only 28 such observations with more than 10,000 shares traded during the Class Period.

Overall, our evidence indicates that top executives do trade larger volumes when they have more precise information during the Class period. For general counsels profitability generally increases with greater trading volumes, however the relation is not monotonic. Our evidence is consistent with the hypothesis that the general counsels do worry about being subject to a greater probability of being named a defendant in case of a lawsuit and they hold back trading very aggressively.

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[84] See for instance, H. Nejat Seyhun, *Insiders' Profits, Costs of Trading, and Market Efficiency*, 16 J. FIN. ECON. 189, 210 (1986).

Next we analyze the impact if any that SOX may have had on insider trading behavior of SCA-settled firms. These results are shown in tables 6A and 6B. Our evidence indicates that SOX did not affect the profitable trading behavior of insiders during the Class period. For the pre-SOX period, all three groups of insiders trade profitably during the Class Period. Similarly , for the post-SOX period, all three groups of insiders continue to trade profitably for the Class Period. Our evidence is consistent with the hypothesis that SOX has been ineffective in controlling profitable trading behavior of any group of insiders.

As a sensitivity test, we also examine profitability of insider trading for smaller settlements. For this purpose, we used $3 million to $25 million settlements. There were a total of 307 firms that fit this criterion.

These results are shown in table 7. Our evidence in table 7 indicates that even for smaller settlements, insiders as well as the GC continue to trade profitably. Comparing our larger-settlement results in table 3 with smaller settlement results in table 7, we observe that for profitability of insider trading actually increases for smaller settlements for all three groups of insiders. One possible explanation for these results is that insiders may be viewing the costs of profitable trading to be smaller in smaller settlement cases. As a consequence, all three groups of insiders are taking more aggressive trading positions to exploit their asymmetric information.

While not shown separately, our results also indicate that all three groups of insiders sell much more heavily during the Class Periods than they do during the pre-Class or post-Class Periods for the expanded sample. Overall, our evidence shows that GC behave similarly to other top executives even in firms with smaller settlements. Hence, our results are more general that just the firms with large settlements. These findings further corroborate the conclusion that in general GCs act in concert with other top executives.

5. POLICY RECOMMENDATIONS

Our evidence suggests that the lack of action on the part of the general counsels in stopping corporate wrongdoing is not lack of access to top-level information. Instead, our evidence indicates that general counsels act in concert with the other top executives and they are aware of

the corporate wrongdoing. To gain greater co-operation from the general counsels' office, we suggest the following policy recommendations.

Our first recommendation is that the whistle-blowing protections for GCs might be strengthened to encourage GCs not to be tempted into fraud in the first place and to gain greater co-operations from the general counsels to actively stop corporate fraud. Currently, there is ambiguity about whether the general counsels are covered by the whistle blowing protections afforded to other employees. Including the general counsels under this protection will encourage more general counsels to step forward and stop corporate wrongdoing before it engulfs the entire firm. This might include an explicit Securities Exchange Commission's (SEC) Rule stating that corporate counsel are covered by the whistle-blowing protections that are available to other employees.[85]

We suggest a second policy response should be to remove the exemption granted to corporate counsels by the PSLRA of 1995[86] and allow private right of action for noncompliance of SOX provisions against general counsels. By allowing private right of action against the GCs, the costs of passively watching corporate fraud take hold will be increased. Consequently, we would expect more general counsels to actively stop corporate wrongdoing.

We suggest that a third policy response should be creation of an independent corporate counsel tasked with the sole responsibility as a gatekeeper. This could mimic the function of an internal auditor, protected with similar authority and responsibilities. We would expect the gatekeeper counsel to report directly to independent board members instead of the CEO. An additional policy response can include mandated hiring of outside legal-audit firms similar to independent financial audit firms.

Finally, our last policy recommendation is for the SEC to ban any general counsel of any SCA-settled firm from representing any client in any SEC business. This blanket ban will ensure that even if in some cases, the general counsel was not aware of the fraud, they would be encouraged to be more vigilant in seeking out potential wrongdoing. Consequently, such a ban should be effective in encouraging more general counsels to actively stop corporate wrongdoing.

[85] 18 U.S.C. § 1514A.
[86] Pub. L. 104-67, 109 Stat. 737 (codified as amended in scattered sections of 15 U.S.C.

6. CONCLUSIONS

In this article, we investigate the potential reasons for the failure of corporate counsels to report and prevent corporate crime. Since corporate attorneys are well-versed in law and they are expected to use their legal expertise to advise, intervene and stop wrongdoing, SOX has designated corporate attorneys as a special gatekeeper. SOX imposed reporting requirements on corporate attorneys to report any violation to the chief legal officer or chief executive officer and if the response from these officers is inadequate, then to the board of directors to stop any potential wrongdoing.[87]

We formulate two mutually exclusive hypotheses to characterize corporate counsels' lack of actions in stopping corporate wrongdoing. The first hypothesis is that fraudulent top-level executives intentionally keep the corporate counsels out of the information loop. As a result, in-house lawyers are generally unaware of the developing violations and therefore unable to report and prevent fraud. Thus, the corporate counsels cannot fulfil their gatekeeping role since they simply do not have the information about the potential wrongdoings.

A second hypothesis is that in-house corporate counsels are actually present at the scene of the crime. They participate in planning, creation, execution or cover-up of the fraud alongside other top management. This hypothesis states that corporate counsels are well aware of the fraud. In this case, corporate lawyers would have no incentive to report the fraud since they would be turning themselves in by reporting.

Our evidence is consistent with the hypothesis that general counsels are aware of the corporate wrongdoing. Insider trading behavior of GCs is similar to other top-level executives. General counsels are heavy sellers of their own firm's stocks during the Class periods and they profit

[87] 15 U.S.C. § 7245; 17 C.F.R. Part 205 (Securities and Exchange Commission's Standards of Professional Conduct for Attorneys Appearing and Practicing Before the Commission in the Representation of an Issuer). Rule 17 C.F.R. § 205.3 states:

> If an attorney, appearing and practicing before the Commission in the representation of an issuer, becomes aware of evidence of a material violation by the issuer or by any officer, director, employee, or agent of the issuer, the attorney shall report such evidence to the issuer's chief legal officer (or the equivalent thereof) or to both the issuer's chief legal officer and its chief executive officer (or the equivalents thereof) forthwith.

17 C.F.R. § 205.3(b)(1).

abnormally by avoiding the stock price declines upon revelation of the fraud at the end of the class periods. Our evidence is consistent with the hypothesis that the GCs are part of the fraudulent group and therefore they should be treated the same.

Table 1A

Sample Characteristics of Insider Trading in All Firms

	Small- Cap Firms	Mid-Cap Firms	Large-Cap Firms	All Purchase firms	Small- Cap Firms	Mid-Cap Firms	Large- Cap Firms	All Sale Firms
	Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion		Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion	
Panel A: All Firms	Purchases				Sales			
Number of Firms	17,187	1,712	496	19,395	16,250	1,765	518	18,533
Number of Trades	775,659	88,756	30,208	894,623	1,409,700	820,335	632,318	2,862,353
Average Trade Size	12,533.57	13,464.28	15,398.24	12,722.64	11,320.29	12,273.79	15,190.64	12,448.55
Total Trades by Officers and Directors (Mill.)	7,411.75	862.87	333.95	8,608.57	10,418.73	6,956.10	1,313.73	18,688.55
Total Trades by Top Executives (Mill.)	2,296.03	330.34	130.56	2,756.93	5,460.95	3,005.00	1,101.62	9,567.57
Total Trades by General Counsel (Mill.)	14.00	1.82	0.64	16.46	78.53	105.55	1,219.77	1,403.85
Total Shares Traded (Mill.)	9,721.78	1,195.04	465.15	11,381.96	15,958.21	10,068.62	9,605.31	35,632.14

Table 1B

Sample Characteristics of Insider Trading in Firms with Securities Fraud Settlements

	Small- Cap Firms	Mid-Cap Firms	Large-Cap Firms	All Purchase firms	Small- Cap Firms	Mid-Cap Firms	Large- Cap Firms	All Sale Firms
	Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion		Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion	
Panel A: All Firms	Purchases				Sales			
Number of Firms	21	46	49	116	28	50	53	131
Length of Class Period (days)	531	642	604	606	456	618	580	568
Average Settlement ($Mill.)	$ 63.50	$ 108.49	$ 279.70	$ 172.66	$ 88.44	$ 111.56	$ 277.67	$ 173.82
Number of Insider Trades	1,023	999	990	3,012	2,830	14,032	14,842	31,704
Average Insider Trade Size	17,023.60	25,352.75	49,750.62	30,543.05	10,523.06	10,666.05	32,489.85	20,869.94
Total Trades by Officers and Directors (Mill.)	12.88	16.73	37.14	66.76	18.76	95.80	250.60	365.16
Total Trades by Top Executives (Mill.)	4.46	8.58	12.07	25.10	10.83	53.21	227.33	291.38
Total Trades by General Counsel (Mill.)	0.08	0.02	0.04	0.13	0.19	0.65	4.28	5.13
Total Shares Traded (Mill.)	17.42	25.33	49.25	92.00	29.78	149.67	482.21	661.66

Table 1B

Sample Characteristics of Insider Trading in Firms with Securities Fraud Settlements before Class- Period

	Small- Cap Firms	Mid-Cap Firms	Large-Cap Firms	All Purchase firms	Small- Cap Firms	Mid-Cap Firms	Large- Cap Firms	All Sale Firms
	Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion		Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion	
Panel A: All Firms	Purchases				Sales			
Number of Firms	11	33	32	76	16	41	45	102
Number of Trades	108	236	308	652	898	4,381	4,957	10,236
Average Trade Size	10,776.94	24,570.85	4,421.86	12,767.73	7,539.70	16,057.02	27,942.83	21,065.75
Total Trades by Officers and Directors (Mill.)	0.56	5.43	0.72	6.71	3.15	46.66	51.56	101.37
Total Trades by Top Executives (Mill.)	0.60	0.37	0.62	1.59	3.49	23.34	86.12	112.95
Total Trades by General Counsel (Mill.)	0.01	-	0.02	0.02	0.13	0.34	0.83	1.31
Total Shares Traded (Mill.)	1.16	5.80	1.36	8.32	6.77	70.35	138.51	215.63

Table 1C
Sample Characteristics of Insider Trading in Firms with Securities Fraud Settlements During Class- Period

	Small- Cap Firms	Mid-Cap Firms	Large-Cap Firms	All Purchase firms	Small- Cap Firms	Mid-Cap Firms	Large- Cap Firms	All Sale Firms
	Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion		Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion	
Panel A: All Firms	Purchases				Sales			
Number of Firms	16	39	37	92	19	44	48	111
Number of Trades	125	415	345	885	478	8,214	7,833	16,525
Average Trade Size	33,158.52	20,402.35	67,004.88	40,371.16	13,291.26	5,575.29	38,105.98	21,218.32
Total Trades by Officers and Directors (Mill.)	1.76	0.71	20.60	23.07	4.90	31.10	183.46	219.46
Total Trades by Top Executives (Mill.)	2.36	7.76	2.51	12.63	1.44	14.42	112.80	128.66
Total Trades by General Counsel (Mill.)	0.03	0.00	0.00	0.03	0.01	0.27	2.23	2.51
Total Shares Traded (Mill.)	4.14	8.47	23.12	35.73	6.35	45.80	298.48	350.63

Table 1D
Sample Characteristics of Insider Trading in Firms with Securities Fraud Settlements After Class- Period

	Small- Cap Firms	Mid-Cap Firms	Large-Cap Firms	All Purchase firms	Small- Cap Firms	Mid-Cap Firms	Large- Cap Firms	All Sale Firms
	Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion		Market Capitalization is less than $1 Billion	Market Capitalization is between $1 Billion and $5 Billion	Market Capitalization is more than $5 Billion	
Panel A: All Firms	Purchases				Sales			
Number of Firms	14	29	39	82	10	31	41	82
Number of Trades	790	348	337	1,475	1,441	1,437	2,052	4,930
Average Trade Size	15,324.58	31,786.50	73,514.84	32,503.47	11,558.90	23,329.73	22,035.84	19,350.65
Total Trades by Officers and Directors (Mill.)	10.56	10.60	15.82	36.98	10.71	18.04	15.58	44.32
Total Trades by Top Executives (Mill.)	1.50	0.45	8.94	10.88	5.91	15.45	28.41	49.77
Total Trades by General Counsel (Mill.)	0.05	0.01	0.02	0.08	0.04	0.03	1.22	1.30
Total Shares Traded (Mill.)	12.11	11.06	24.77	47.94	16.66	33.52	45.22	95.40

Table 2

Insiders' Abnormal Profits in non SCA Firms between 1996 and 2014.

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
All Officers	2,310,029	**0.59%**	**0.84%**	**1.63%**	**2.43%**	**2.85%**	**3.36%**	**4.05%**
		(5.78)	**(5.86)**	**(7.18)**	**(7.52)**	**(7.17)**	**(7.31)**	**(7.88)**
Top Executives	1,237,428	**0.74%**	**1.09%**	**1.92%**	**3.04%**	**4.08%**	**4.69%**	**5.59%**
		(6.49)	**(6.71)**	**(7.48)**	**(8.36)**	**(9.14)**	**(9.08)**	**(9.68)**
General Counsel	63,530	**0.49%**	**0.73%**	**1.58%**	**2.42%**	**2.80%**	**3.31%**	**3.58%**
		(2.40)	**(2.52)**	**(3.43)**	**(3.73)**	**(3.51)**	**(3.59)**	**(3.47)**

*Bold are statistically significant at the 5% level or better.

Table 3

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million, 1996 - 2014.

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
Officers-Before Class Period	6,741	0.72%	0.49%	0.02%	-1.67%	-1.31%	-2.27%	-1.45%
		(1.04)	(0.49)	(0.01)	(-0.76)	(-0.49)	(-0.73)	(-0.42)
Officers-During Class Period	9,466	**1.51%**	**2.29%**	**4.65%**	**8.57%**	**15.99%**	**24.27%**	**29.42%**
		(2.50)	**(2.68)**	**(3.44)**	**(4.50)**	**(6.84)**	**(8.98)**	**(9.75)**
Officers-After Class Period	3,846	**2.39%**	0.77%	0.19%	0.46%	8.20%	**22.23%**	**28.39%**
		(2.19)	(0.50)	(0.08)	(0.13)	(1.95)	**(4.54)**	**(5.18)**
Top Executives-Before Class Period	3,887	0.08%	-0.78%	-0.47%	-0.01%	1.97%	-1.65%	2.33%
		(0.09)	(-0.62)	(-0.24)	(-0.00)	(0.57)	(-0.41)	(0.52)
Top Executives-During Class Period	6,644	**2.15%**	**4.48%**	**7.58%**	**10.14%**	**16.95%**	**20.69%**	**21.90%**
		(2.12)	**(3.14)**	**(3.36)**	**(3.17)**	**(4.33)**	**(4.58)**	**(4.33)**
Top Executives-After Class Period	2,490	**2.68%**	**1.91%**	**4.90%**	**15.35%**	**21.84%**	**30.77%**	**41.68%**
		(5.82)	**(2.93)**	**(4.80)**	**(10.52)**	**(12.28)**	**(14.98)**	**(18.07)**
General Counsels-Before Class Period	260	-0.22%	0.20%	-2.21%	-6.20%	**-17.50%**	**-22.85%**	**-22.53%**
		(-0.11)	(0.07)	(-0.49)	(-0.98)	**(-2.25)**	**(-2.55)**	**(-2.25)**
General Counsels-During Class Period	1,300	-0.94%	-0.86%	0.70%	4.44%	6.45%	**13.51%**	**17.74%**
		(-0.61)	(-0.40)	(0.20)	(0.91)	(1.08)	**(1.97)**	**(2.31)**
General Counsels-After Class Period	69	**3.87%**	**4.82%**	**7.30%**	4.18%	11.39%	10.35%	6.96%
		(2.55)	**(2.25)**	**(2.15)**	(0.87)	(1.94)	(1.52)	(0.92)

*Bold are statistically significant at the 5% level or better.

Table 4A

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million 1996 - 2014.
Purchases Only.

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
Officers-Before Class Period	558	0.18%	0.54%	-0.40%	-2.39%	0.65%	0.72%	-1.80%
		(0.21)	(0.45)	(-0.21)	(-0.89)	(0.20)	(0.19)	(-0.43)
Officers-During Class Period	559	0.89%	2.07%	-4.25%	**-15.90%**	**-25.78%**	**-31.61%**	**-36.95%**
		(0.71)	(1.17)	(-1.52)	**(-4.01)**	**(-5.31)**	**(-5.64)**	**(-5.89)**
Officers-After Class Period	1,287	4.31%	-1.00%	-2.06%	-13.81%	-2.67%	**32.93%**	**44.28%**
		(1.42)	(-0.23)	(-0.30)	(-1.46)	(-0.23)	**(2.43)**	**(2.93)**
Top Executives-Before Class Period	85	3.66%	4.27%	7.35%	7.33%	13.30%	12.31%	8.39%
		(1.59)	(1.31)	(1.42)	(1.00)	(1.49)	(1.19)	(0.73)
Top Executives-During Class Period	311	**5.97%**	4.62%	-2.91%	**-30.30%**	**-45.74%**	**-61.41%**	**-53.99%**
		(2.74)	(1.49)	(-0.59)	**(-4.36)**	**(-5.39)**	**(-6.31)**	**(-4.91)**
Top Executives-After Class Period	171	**3.94%**	**6.04%**	**12.21%**	**14.70%**	**13.73%**	**17.55%**	11.11%
		(2.39)	**(2.59)**	**(3.32)**	**(2.82)**	**(2.15)**	**(2.38)**	(1.34)
General Counsels-Before Class Period	9	**20.86%**	**20.59%**	**31.90%**	27.99%	44.19%	**67.72%**	**70.83%**
		(3.10)	**(2.16)**	**(2.11)**	(1.31)	(1.69)	**(2.24)**	**(2.10)**
General Counsels-During Class Period	15	1.96%	11.53%	-4.94%	-24.85%	**-35.25%**	**-66.16%**	**-89.62%**
		(0.45)	(1.89)	(-0.51)	(-1.81)	**(-2.10)**	**(-3.40)**	**(-4.12)**
General Counsels-After Class Period	17	**18.25%**	**20.12%**	**24.22%**	18.93%	35.98%	28.38%	12.79%
		(3.58)	**(2.78)**	**(2.11)**	(1.17)	(1.81)	(1.24)	(0.50)

*Bold are statistically significant at the 5% level or better.

Table 4B

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million 1996 - 2014.
Sales Only

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
All Officers-Before Class Period	6,183	0.77%	0.48%	0.06%	-1.60%	-1.49%	-2.54%	-1.42%
		(1.03)	(0.45)	(0.03)	(-0.67)	(-0.51)	(-0.76)	(-0.38)
All Officers-During Class Period	8,907	**1.55%**	**2.30%**	**5.20%**	**10.11%**	**18.61%**	**27.78%**	**33.59%**
		(2.44)	**(2.56)**	**(3.67)**	**(5.05)**	**(7.57)**	**(9.78)**	**(10.58)**
All Officers-After Class Period	2,559	**1.43%**	1.66%	1.32%	**7.64%**	**13.67%**	**16.85%**	**20.39%**
		(2.09)	(1.72)	(0.86)	**(3.54)**	**(5.17)**	**(5.52)**	**(5.98)**
Top Executives-Before Class Period	3,802	-0.00%	-0.89%	-0.64%	-0.17%	1.71%	-1.96%	2.20%
		(-0.00)	(-0.70)	(-0.32)	(-0.06)	(0.49)	(-0.49)	(0.49)
Top Executives-During Class Period	6,333	1.96%	**4.48%**	**8.10%**	**12.13%**	**20.03%**	**24.72%**	**25.63%**
		(1.86)	**(3.00)**	**(3.44)**	**(3.63)**	**(4.91)**	**(5.25)**	**(4.86)**
Top Executives-After Class Period	2,319	**2.58%**	**1.60%**	**4.37%**	**15.40%**	**22.43%**	**31.74%**	**43.93%**
		(5.41)	**(2.38)**	**(4.14)**	**(10.20)**	**(12.20)**	**(14.96)**	**(18.37)**
General Counsels-Before Class Period	251	-0.98%	-0.53%	-3.43%	-7.42%	**-19.72%**	**-26.10%**	**-25.88%**
		(-0.48)	(-0.18)	(-0.75)	(-1.15)	**(-2.49)**	**(-2.86)**	**(-2.53)**
General Counsels-During Class Period	1,285	-0.97%	-1.01%	0.77%	4.78%	6.94%	**14.44%**	**19.00%**
		(-0.63)	(-0.46)	(0.22)	(0.97)	(1.15)	**(2.08)**	**(2.45)**
General Counsels-After Class Period	52	-0.83%	-0.18%	1.77%	-0.65%	3.35%	4.46%	5.06%
		(-0.58)	(-0.09)	(0.55)	(-0.14)	(0.60)	(0.69)	(0.70)

*Bold are statistically significant at the 5% level or better.

Table 5A

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million 1996 - 2014.

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
Panel 1: Shares Traded less than 1,000 Only								
All Officers-Before Class Period	2,526	1.62%	1.81%	0.22%	-2.62%	-1.92%	-3.80%	-3.44%
		(1.02)	(0.81)	(0.06)	(-0.52)	(-0.31)	(-0.54)	(-0.43)
All Officers-During Class Period	3,967	1.66%	1.86%	**5.23%**	**8.93%**	**17.92%**	**31.01%**	**36.46%**
		(1.51)	(1.19)	**(2.12)**	**(2.57)**	**(4.20)**	**(6.28)**	**(6.61)**
All Officers-After Class Period	1,137	0.66%	-1.57%	-2.92%	-3.15%	6.42%	**20.47%**	**25.03%**
		(0.53)	(-0.90)	(-1.07)	(-0.82)	(1.35)	**(3.71)**	**(4.06)**
Panel 2: Shares Traded between 1,000 and 10,000 Only								
All Officers-Before Class Period	4,215	0.18%	-0.31%	-0.10%	-1.10%	-0.95%	-1.36%	-0.26%
		(0.38)	(-0.46)	(-0.09)	(-0.73)	(-0.51)	(-0.64)	(-0.11)
All Officers-During Class Period	5,499	**1.40%**	**2.60%**	**4.22%**	**8.31%**	**14.60%**	**19.41%**	**24.34%**
		(3.27)	**(4.30)**	**(4.41)**	**(6.14)**	**(8.79)**	**(10.12)**	**(11.36)**
All Officers-After Class Period	2,709	**3.12%**	1.75%	1.49%	1.97%	**8.95%**	**22.97%**	**29.80%**
		(2.68)	(1.06)	(0.57)	(0.54)	**(2.00)**	**(4.41)**	**(5.12)**
Panel 3: Shares Traded greater 10,000 Only								
All Officers-Before Class Period	1,394	-0.40%	-1.12%	-2.04%	**-4.58%**	**-5.35%**	-4.45%	-2.08%
		(-0.62)	(-1.21)	(-1.39)	**(-2.22)**	**(-2.12)**	(-1.53)	(-0.64)
All Officers-During Class Period	1,604	**1.35%**	**3.24%**	**6.44%**	**9.27%**	**15.94%**	**20.78%**	**27.16%**
		(2.99)	**(5.08)**	**(6.38)**	**(6.50)**	**(9.11)**	**(10.29)**	**(12.03)**
All Officers-After Class Period	843	**6.30%**	**5.39%**	4.33%	2.78%	7.64%	**17.16%**	**22.18%**
		(3.99)	**(2.40)**	(1.22)	(0.55)	(1.24)	**(2.41)**	**(2.79)**

*Bold are statistically significant at the 5% level or better.

Table 5B

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million 1996 - 2014.

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
Panel 1: Shares Traded less than 1,000 Only.								
Top Executives-Before Class Period	1,153	0.16%	0.71%	-0.92%	-1.44%	0.79%	-3.67%	-0.21%
		(0.09)	(0.28)	(-0.23)	(-0.26)	(0.11)	(-0.46)	(-0.02)
Top Executives-During Class Period	3,170	1.56%	**4.79%**	**9.77%**	**11.06%**	**15.09%**	**16.52%**	**16.26%**
		(1.00)	**(2.18)**	**(2.81)**	**(2.25)**	**(2.50)**	**(2.37)**	**(2.09)**
Top Executives-After Class Period	834	1.34%	0.91%	**3.83%**	**18.37%**	**27.44%**	**40.90%**	**55.69%**
		(1.54)	(0.75)	**(2.00)**	**(6.71)**	**(8.21)**	**(10.57)**	**(12.84)**
Panel 2: Shares Traded between 1,000 and 10,000 Only.								
Top Executives-Before Class Period	2,734	0.05%	-1.41%	-0.28%	0.60%	2.46%	-0.79%	3.40%
		(0.06)	(-1.36)	(-0.17)	(0.26)	(0.86)	(-0.24)	(0.93)
Top Executives-During Class Period	3,474	**2.68%**	**4.20%**	**5.59%**	**9.30%**	**18.66%**	**24.49%**	**27.05%**
		(3.39)	**(3.76)**	**(3.15)**	**(3.71)**	**(6.08)**	**(6.92)**	**(6.83)**
Top Executives-After Class Period	1,656	**3.35%**	**2.41%**	**5.44%**	**13.83%**	**19.02%**	**25.67%**	**34.63%**
		(6.38)	**(3.22)**	**(4.60)**	**(8.25)**	**(9.28)**	**(10.86)**	**(13.08)**
Panel 3: Shares Traded greater than 10,000 Only.								
Top Executives-Before Class Period	870	0.39%	-0.65%	-0.88%	-2.80%	-2.73%	-1.55%	3.43%
		(0.65)	(-0.76)	(-0.65)	(-1.46)	(-1.16)	(-0.58)	(1.13)
Top Executives-During Class Period	1,227	**3.38%**	**5.14%**	**8.76%**	**13.02%**	**24.53%**	**30.62%**	**35.05%**
		(4.82)	**(5.18)**	**(5.57)**	**(5.84)**	**(9.01)**	**(9.74)**	**(9.95)**
Top Executives-After Class Period	520	**4.61%**	**3.20%**	**7.14%**	**14.58%**	**10.23%**	**8.94%**	**13.80%**
		(5.18)	**(2.51)**	**(3.55)**	**(5.16)**	**(2.93)**	**(2.22)**	**(3.06)**

*Bold are statistically significant at the 5% level or better.

Table 5C

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million 1996 - 2014.

Panel 1: Shares Traded less than 1,000 Only.

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
General Counsels-Before Class Period	100	0.40%	1.81%	1.34%	-6.47%	**-19.99%**	**-25.90%**	**-26.26%**
		(0.17)	(0.55)	(0.26)	(-0.88)	**(-2.22)**	**(-2.49)**	**(-2.26)**
General Counsels-During Class Period	894	-2.23%	-2.47%	0.70%	2.25%	1.57%	8.83%	11.58%
		(-1.08)	(-0.85)	(0.15)	(0.34)	(0.20)	(0.96)	(1.12)
General Counsels-After Class Period	7	4.75%	4.06%	6.10%	12.19%	17.95%	10.13%	9.65%
		(1.42)	(0.86)	(0.82)	(1.15)	(1.39)	(0.68)	(0.58)
Panel 2: Shares Traded between 1,000 and 10,000 Only.								
General Counsels-Before Class Period	160	-0.61%	-0.81%	-4.42%	-6.03%	**-15.95%**	**-20.95%**	**-20.20%**
		(-0.30)	(-0.28)	(-0.99)	(-0.95)	**(-2.06)**	**(-2.34)**	**(-2.02)**
General Counsels-During Class Period	406	**1.92%**	**2.69%**	0.71%	**9.25%**	**17.19%**	**23.82%**	**31.32%**
		(2.09)	**(2.07)**	(0.35)	**(3.19)**	**(4.83)**	**(5.80)**	**(6.82)**
General Counsels-After Class Period	62	**3.77%**	**4.90%**	**7.44%**	3.27%	10.65%	10.37%	6.66%
		(2.34)	**(2.15)**	**(2.06)**	(0.64)	(1.70)	(1.44)	(0.82)
Panel 3: Shares Traded greater than 10,000 Only.								
General Counsels-Before Class Period	29	-0.14%	1.33%	-0.32%	1.88%	2.66%	5.89%	8.47%
		(-0.09)	(0.58)	(-0.09)	(0.37)	(0.42)	(0.81)	(1.05)
General Counsels-During Class Period	28	-0.79%	-2.31%	2.97%	**12.87%**	**17.09%**	**18.06%**	**26.30%**
		(-0.51)	(-1.06)	(0.86)	**(2.63)**	**(2.85)**	**(2.61)**	**(3.40)**
General Counsels-After Class Period	26	-2.84%	-3.55%	1.26%	-0.06%	5.13%	12.45%	15.47%
		(-1.52)	(-1.34)	(0.30)	(-0.01)	(0.71)	(1.48)	(1.65)

*Bold are statistically significant at the 5% level or better.

Table 6A

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million 1996 - 2014.
Pre-Sox Period Only

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
All Officers-Before Class Period	3,094	0.43%	-0.57%	-0.50%	-0.57%	0.10%	-0.59%	0.75%
		(0.58)	(-0.55)	(-0.30)	(-0.24)	(0.04)	(-0.18)	(0.20)
All Officers-During Class Period	1,885	**2.64%**	**5.64%**	**9.09%**	**12.11%**	**19.80%**	**24.92%**	**31.41%**
		(4.26)	**(6.48)**	**(6.56)**	**(6.16)**	**(8.23)**	**(8.96)**	**(10.11)**
All Officers-After Class Period	800	**10.05%**	7.28%	1.15%	-9.70%	-0.71%	**37.50%**	**52.55%**
		(2.85)	(1.45)	(0.14)	(-0.87)	(-0.05)	**(2.37)**	**(2.97)**
Top Executives-Before Class Period	1,642	-0.35%	-1.60%	0.29%	3.71%	**11.09%**	9.09%	**12.49%**
		(-0.33)	(-1.08)	(0.12)	(1.12)	**(2.73)**	(1.93)	**(2.38)**
Top Executives-During Class Period	975	**3.64%**	**6.65%**	**9.62%**	**14.72%**	**27.73%**	**35.07%**	**45.49%**
		(4.01)	**(5.19)**	**(4.73)**	**(5.13)**	**(7.87)**	**(8.62)**	**(10.01)**
Top Executives-After Class Period	529	2.35%	1.08%	-1.52%	7.94%	**23.33%**	**30.33%**	**37.67%**
		(1.52)	(0.49)	(-0.44)	(1.63)	**(3.89)**	**(4.38)**	**(4.87)**
General Counsels-Before Class Period	31	**5.50%**	6.36%	**10.80%**	12.36%	**23.50%**	**38.70%**	**49.74%**
		(2.26)	(1.84)	**(1.98)**	(1.60)	**(2.49)**	**(3.54)**	**(4.08)**
General Counsels-During Class Period	233	**2.87%**	**4.92%**	1.20%	**9.61%**	**12.87%**	**21.55%**	**22.72%**
		(3.48)	**(4.24)**	(0.65)	**(3.68)**	**(4.02)**	**(5.85)**	**(5.51)**
General Counsels-After Class Period	21	**9.04%**	**11.06%**	**30.15%**	**25.10%**	**36.62%**	**34.46%**	23.79%
		(2.45)	**(2.11)**	**(3.67)**	**(2.15)**	**(2.56)**	**(2.08)**	(1.28)

*Bold are statistically significant at the 5% level or better.

Table 6B

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements Exceeding $25 Million 1996 - 2014.
Post-SOX Period Only.

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
All Officers-Before Class Period	3,647	0.97%	1.38%	0.46%	-2.60%	-2.51%	-3.70%	-3.32%
		(0.85)	(0.86)	(0.18)	(-0.72)	(-0.57)	(-0.73)	(-0.58)
All Officers-During Class Period	7,581	1.23%	1.46%	**3.54%**	**7.69%**	**15.04%**	**24.11%**	**28.93%**
		(1.67)	(1.40)	**(2.15)**	**(3.30)**	**(5.26)**	**(7.30)**	**(7.84)**
All Officers-After Class Period	3,046	0.38%	-0.94%	-0.06%	3.13%	**10.54%**	**18.22%**	**22.04%**
		(0.38)	(-0.67)	(-0.03)	(1.00)	**(2.73)**	**(4.09)**	**(4.43)**
Top Executives-Before Class Period	2,245	0.39%	-0.18%	-1.02%	-2.72%	-4.70%	-9.50%	-5.10%
		(0.29)	(-0.09)	(-0.34)	(-0.64)	(-0.90)	(-1.58)	(-0.76)
Top Executives-During Class Period	5,669	1.89%	**4.11%**	**7.23%**	**9.35%**	**15.10%**	**18.22%**	**17.84%**
		(1.61)	**(2.48)**	**(2.76)**	**(2.52)**	**(3.33)**	**(3.48)**	**(3.05)**
Top Executives-After Class Period	1,961	**2.76%**	**2.13%**	**6.64%**	**17.35%**	**21.43%**	**30.89%**	**42.76%**
		(3.99)	**(2.17)**	**(4.28)**	**(7.90)**	**(8.01)**	**(9.99)**	**(12.33)**
General Counsels-Before Class Period	229	-0.99%	-0.64%	-3.97%	-8.71%	**-23.05%**	**-31.18%**	**-32.31%**
		(-0.45)	(-0.20)	(-0.80)	(-1.24)	**(-2.67)**	**(-3.13)**	**(-2.90)**
General Counsels-During Class Period	1,067	-1.77%	-2.12%	0.59%	3.31%	5.05%	11.76%	**16.66%**
		(-0.94)	(-0.80)	(0.14)	(0.56)	(0.70)	(1.40)	**(1.78)**
General Counsels-After Class Period	48	1.61%	2.09%	-2.70%	-4.98%	0.35%	-0.20%	-0.40%
		(1.09)	(1.01)	(-0.82)	(-1.07)	(0.06)	(-0.03)	(-0.05)

*Bold are statistically significant at the 10% level or better.

Table 7

Insiders' Abnormal Profits in Firms Subject to Securities Fraud Lawsuits that Resulted in Settlements 1996 - 2014.

Settlements Between $3 Million and $25 Million

	Number of Observations	10-days	20-days	50-days	100-days	150-days	200-days	250-days
All Officers-Before Class Period	7,665	-0.50%	-1.00%	-2.90%	-1.57%	2.89%	**7.33%**	**16.72%**
		(-0.69)	(-0.98)	(-1.82)	(-0.69)	(1.04)	**(2.29)**	**(4.62)**
All Officers-During Class Period	9,154	**2.65%**	**5.64%**	**9.79%**	**17.35%**	**24.55%**	**27.85%**	**33.90%**
		(4.16)	**(6.29)**	**(6.88)**	**(8.63)**	**(9.98)**	**(9.76)**	**(10.63)**
All Officers-After Class Period	4,970	**2.03%**	0.46%	0.10%	-0.11%	2.94%	**12.82%**	**18.37%**
		(1.96)	(0.32)	(0.04)	(-0.03)	(0.74)	**(2.76)**	**(3.54)**
Top Executives-Before Class Period	4,937	1.07%	-0.44%	-2.09%	-0.66%	1.44%	7.16%	9.32%
		(0.69)	(-0.20)	(-0.60)	(-0.14)	(0.24)	(1.03)	(1.20)
Top Executives-During Class Period	6,493	**2.03%**	**4.18%**	**10.22%**	**17.57%**	**21.02%**	**28.01%**	**33.60%**
		(2.89)	**(4.20)**	**(6.51)**	**(7.91)**	**(7.70)**	**(8.89)**	**(9.54)**
Top Executives-After Class Period	3,006	0.48%	2.39%	4.03%	5.15%	7.42%	**12.70%**	**11.97%**
		(0.37)	(1.29)	(1.38)	(1.24)	(1.46)	**(2.17)**	**(1.83)**
General Counsels-Before Class Period	460	4.97%	1.18%	8.93%	25.38%	30.58%	24.89%	32.09%
		(1.00)	(0.17)	(0.80)	(1.61)	(1.58)	(1.12)	(1.29)
General Counsels-During Class Period	186	2.49%	**7.96%**	6.37%	**19.80%**	**25.08%**	**24.82%**	**25.31%**
		(1.34)	**(3.04)**	(1.54)	**(3.38)**	**(3.50)**	**(2.99)**	**(2.73)**
General Counsels-After Class Period	148	2.38%	2.10%	-3.04%	8.63%	11.06%	9.61%	3.62%
		(0.81)	(0.51)	(-0.46)	(0.93)	(0.98)	(0.73)	(0.25)

*Bold are statistically significant at the 10% level or better.

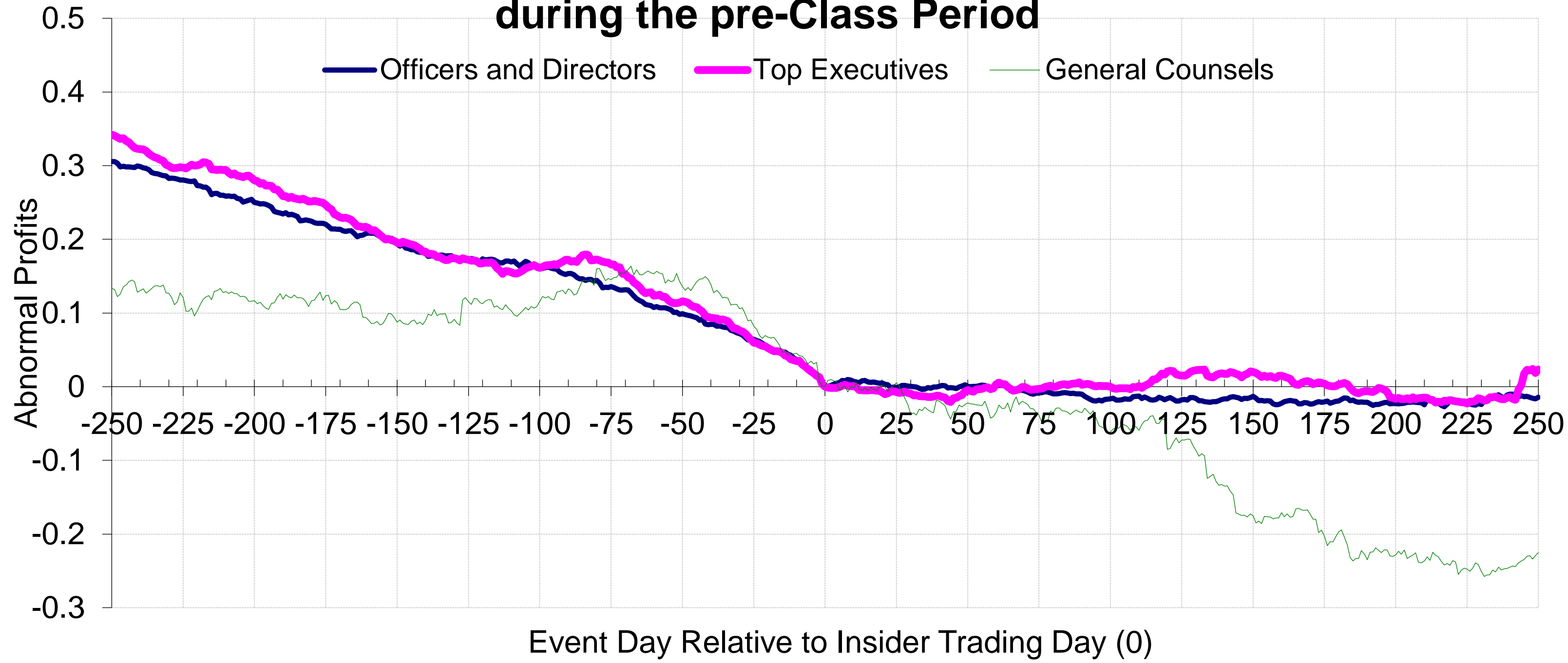
Figure 1: Profitability of Insider Trading in SCA-Settled Firms during the pre-Class Period
Officers and Directors
Top Executives
General Counsels
Abnormal Profits
0.5
0.4
0.3
0.2
0.1
0
-0.1
-0.2
-0.3
-250 -225 -200 -175 -150 -125 -100 -75 -50 -25 0 25 50 75 100 125 150 175 200 225 250
Event Day Relative to Insider Trading Day (0)

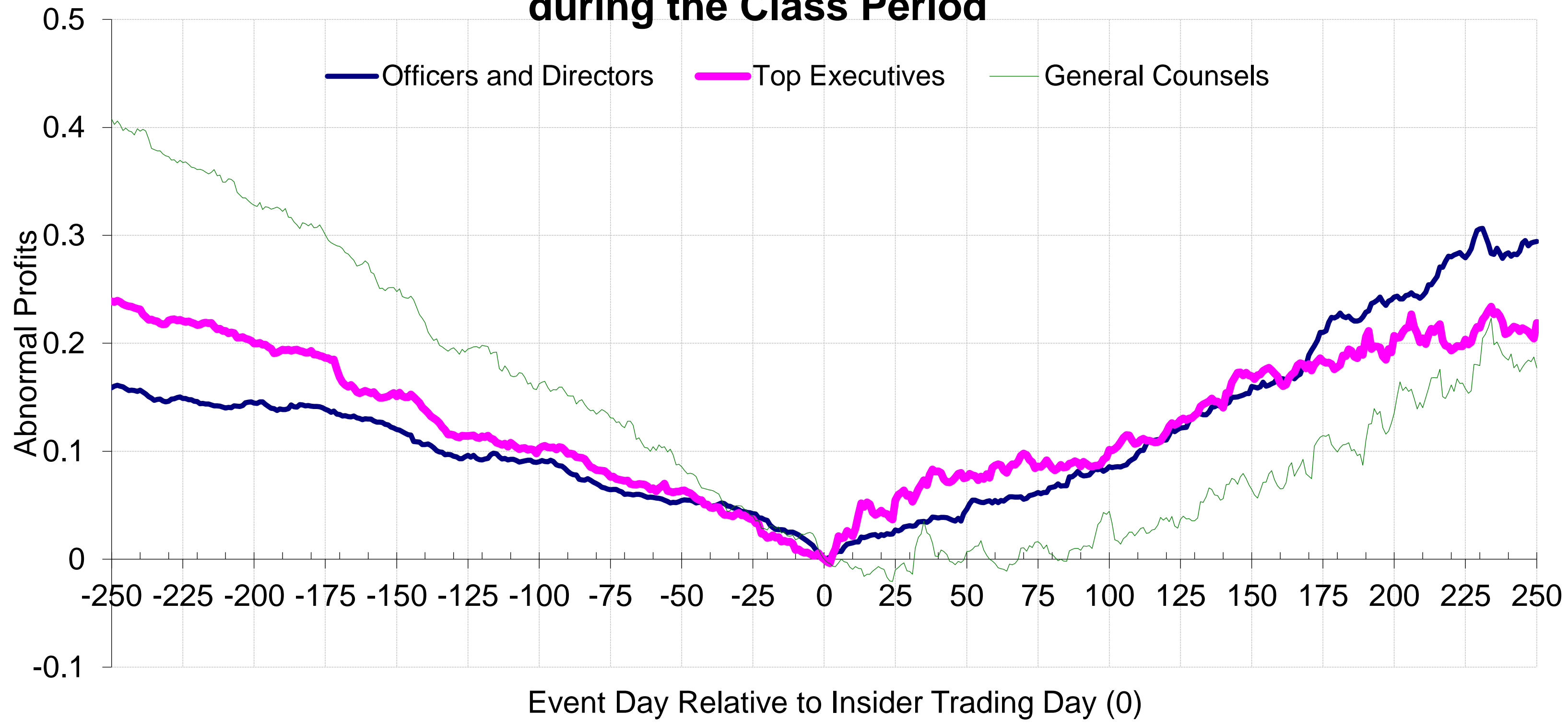
Figure 2: Profitability of Insider Trading in SCA-Settled Firms during the Class Period
Officers and Directors
Top Executives
General Counsels
Abnormal Profits
0.5
0.4
0.3
0.2
0.1
0
-0.1
-250 -225 -200 -175 -150 -125 -100 -75 -50 -25 0 25 50 75 100 125 150 175 200 225 250
Event Day Relative to Insider Trading Day (0)

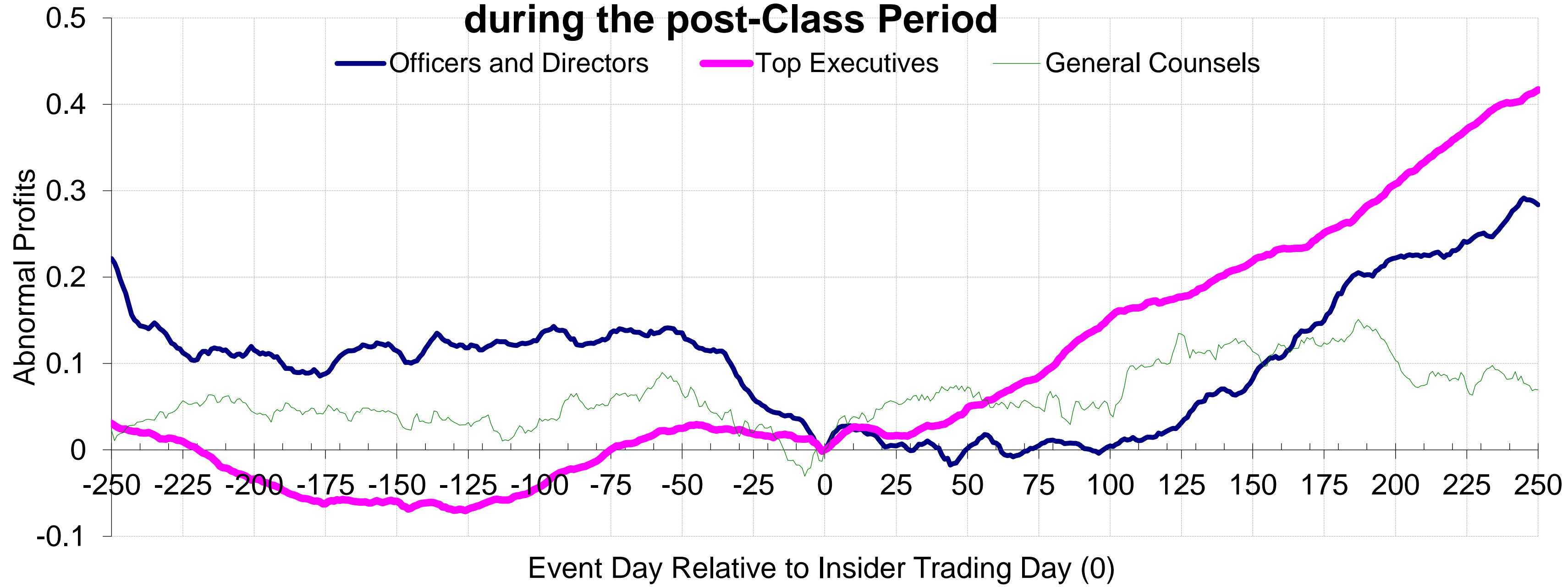
Figure 3: Profitability of Insider Trading in SCA-Settled Firms
during the post-Class Period
Officers and Directors
Top Executives
General Counsels
Abnormal Profits
0.5
0.4
0.3
0.2
0.1
0
-0.1
-250 -225 -200 -175 -150 -125 -100 -75 -50 -25 0 25 50 75 100 125 150 175 200 225 250
Event Day Relative to Insider Trading Day (0)