

**INFORMATION CONTENT OF INSIDER TRADING:
EVIDENCE FROM THE COLOMBO STOCK EXCHANGE**

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The information asymmetry between insiders and outsiders is a fundamental concern for the market. The market could perceive that insiders trade in order to obtain an advantage from inside information to which they have access even though it may not be necessarily true for all the trades of insiders. If insider trades are considered as informative by the market, insider purchases (sales) could be perceived as positive (negative) signals. Hence, the objective of this study was to examine whether insider purchases (sales) are perceived as informative by the Colombo Stock Exchange (CSE) and then to examine how quickly the market reacts to this information. Due to the fact that the Sri Lankan law requires the disclosure of directors' insider trades only, this study investigated purchases and sales reported to the CSE from September, 2004 to August, 2012 using a total sample of 2201 insider purchase events and 941 insider sales events of directors. The standard event study methodology was adopted with an event window of 20 days around the event day and an estimation window of 41 days before the pre event period. The abnormal returns were measured using both the Market Adjusted Return (MAR) Model and the Risk Adjusted Return (RAR) Model. The Average Abnormal Return (AAR) and the Cumulative Average Abnormal Return (CAAR) were calculated to test the hypotheses. The findings of this study revealed that abnormal returns subsequent to insider purchases are positively significant on the next day following the event day which could be justified by the delay in reporting and disclosing insider trading information to the securities market as explained by other researches. However, abnormal returns subsequent to insider sales were positively significant on the event day which contradict the above premise. The literature suggests that this contradictory market reaction for insider sales could be due to the fact that the market might have relied more on some other positive information or might have just ignored the impact of the negative information.