



Insider Trading & Market Manipulation Literature Watch

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Each quarter, this newsletter summarizes newly published literature in the areas of Insider Trading and Market Manipulation, as well as one or more papers highlighted by CRA for additional discussion. The authors' own abstracts are included below and are unedited. Links to the full paper are provided. The inclusion of an article in this newsletter does not signify that CRA or any of its experts agree or disagree with the content or conclusions therein.

Quarterly literature watch highlight

This edition's quarterly literature watch highlight features two articles that examine the impact of the SEC's 2022 amendment to Rule 10b5-1, which imposed stricter conditions on pre-scheduled insider trading plans: "Insider Trading After the 2022 Rule 10b5-1 Amendment" and "Governance Through Delay and Disclosure: Market and Insider Response to SEC Trading Reforms" (abstracts and links below).

In the article "Insider Trading After the 2022 Rule 10b5-1 Amendment," the authors evaluate whether the amendment achieved its intended goal of curbing opportunistic insider trading by examining how insider stock transactions have changed. The study finds a sharp drop in insider sales that were executed within 90 days of plan adoption, suggesting that the cooling-off provision enforces a longer waiting period before sales. However, the results also indicate that insiders cluster their trades just beyond the 90-day threshold. Additionally, the paper asserts that the result of their analysis is more consistent with an overall decline in opportunistic trading under 10b5-1 plans after the amendment, rather than a mere migration to alternative trading mechanisms. However, the authors warn that the amendment did not eliminate such behavior entirely, particularly for trades conducted outside of these plans.

The article "Governance Through Delay and Disclosure: Market and Insider Response to SEC Trading Reforms" also addresses whether the amendment curbs opportunistic insider trading, finding that the probability of both non-10b5-1 and 10b5-1 insider sales declines significantly after the rule's adoption, and that insiders shift toward longer cooling-off periods and away from trading ahead of earnings announcements. The authors also study whether the amendment improved shareholder value, using an event study of investor reactions to major news events leading up to the rule's adoption. The event study found that the market reacted positively to key announcements signaling an increased likelihood of the rule's adoption. However, the authors note that their analysis does not fully unpack the reasons for such positive market reaction nor address potential tradeoffs related to insider welfare and price informativeness.

Insider Trading After the 2022 Rule 10b5-1 Amendment

We investigate the impact of the controversial 2022 amendment to Rule 10b5-1, which imposed a cooling-off period and restricted overlapping and single trade plans on prearranged insider transactions. The amendment led insiders to (i) execute stock sales under 10b5-1 plans with longer cooling-off periods; (ii) curtail opportunistic sales under 10b5-1 plans prior to stock price drops or earnings misses; (iii) limit the backdating of stock gifts; and (iv) decrease the granting of options around material information events. Further evidence suggests a reduction in opportunistic 10b5-1 trades rather than a migration toward non-10b5-1 sales. However, we find that firms more affected by the rule amendment experience lower price efficiency after the amendment, implying a potential cost of restricting the flow of information through insider trading. In addition, terminations of 10b5-1 plans are associated with positive subsequent stock returns, suggesting that insiders avoid selling when they expect favorable news. Overall, our findings indicate that while the amendment substantially curtailed the opportunistic use of 10b5-1 plans, it increased the costs of 10b5-1 plans and lowered stock price efficiency.

Kim, Sehwa and Kim, Seil and Rajgopal, Shivaram, Insider Trading After the 2022 Rule 10b5-1 Amendment (July 21, 2025). Columbia Business School Research Paper No. 5362431, Available at SSRN: <https://ssrn.com/abstract=5362431> or <http://dx.doi.org/10.2139/ssrn.5362431>

Governance Through Delay and Disclosure: Market and Insider Response to SEC Trading Reforms

We examine how capital markets and corporate insiders respond to the SEC's 2022 amendments to Rule 10b5-1, which governs pre-scheduled insider trading plans. Prompted by concerns that insiders exploited plans to trade on nonpublic information, the reforms introduced enhanced disclosure and restrictions on plan adoption and execution. We find that markets react positively to the rule's adoption, especially for firms whose officers and directors sold frequently or profitably under 10b5-1. The response is stronger for firms whose insiders exhibit 10b5-1 trading behaviors targeted by the rule—such as short cooling-off periods or trades shortly before earnings announcements—and becomes especially pronounced in response to the SEC's first 10b5-1 enforcement action. We observe a sharp decline in 10b5-1 trading volume and profitability, and changes in firm-level insider trading policy following amendment proposal and implementation. Overall, the findings suggest that targeted regulation and enforcement can deter opportunistic trading and enhance shareholder value.

Brochet, Francois and Henry, Erin and Huang, Ying and Jagolinzer, Alan D. and Rawson, Caleb, Governance Through Delay and Disclosure: Market and Insider Response to SEC Trading Reforms (August 06, 2025). Available at SSRN: <https://ssrn.com/abstract=5382187> or <http://dx.doi.org/10.2139/ssrn.5382187>

Insider Trading

Why is Access to Managers Valuable? Evidence from Mutual Funds' Local Investments

Funds in low-corruption areas demonstrate more local bias, and their trades better predict local stocks' performance. Their advantage is greatest when recent earnings reports are confusing or suspect. Low-corruption area funds' relative advantage diminishes after regulations (Dodd-Frank) caused firms in general to improve disclosure quality. These findings suggest that in less corrupt

areas – where trust levels are higher – access to managers facilitates the interpretation of public information. In contrast, funds' local advantage in *high*-corruption areas is weaker and disappears following salient insider trading cases, suggesting private information sharing may drive abnormal returns in these regions.

Cicero, David C. and Wang, Albert Y. and Wang, Huijun, Why is Access to Managers Valuable? Evidence from Mutual Funds' Local Investments (August 27, 2024). Available at SSRN: <https://ssrn.com/abstract=5331890> or <http://dx.doi.org/10.2139/ssrn.5331890>

Institutional Investor Distraction and Opportunistic Insider Sales: Evidence from the Financial Sector

This study examines the relationship between institutional investor distraction and insider trading in the financial sector. Using a sample of U.S. firms in the financial sector during the period from 2003 to 2019, we find evidence that institutional investor distraction is related to higher insider sales relative to purchases. Furthermore, we find that insiders tend to earn greater abnormal returns from sales when they trading [*sic*] opportunistically, as opposed to purchases and routine trading. We find that the group of insiders who profited from insider trading is non-CEOs, i.e., Chief Financial Officer (CFO), Chief Investment Officer (CIO), Chief Technology Officer (CTO), members of the Advisory Committee, and directors. The positive relationship between institutional investor distraction and insider trading is driven by institutional investors in the quasi-indexers group who passively manage their portfolios and have long-term investment horizons. Our findings highlight a public concern that non-CEO corporate insiders can engage in insider sales to benefit their personal wealth, particularly within the financial sector, which is inherently more exposed to systemic risk when passive long-term institutional investors are distracted.

Joo, Sunghoon and Harjoto, Maretno Agus, Institutional Investor Distraction and Opportunistic Insider Sales: Evidence from the Financial Sector. Available at SSRN: <https://ssrn.com/abstract=5340804> or <http://dx.doi.org/10.2139/ssrn.5340804>

Strategic Informed Trading and the Value of Private Information

We consider a market of risky financial assets whose participants are an informed trader who receives a noisy signal about the asset terminal payoff, a representative uninformed trader, and noisy liquidity providers. We prove the existence of a market clearing equilibrium when the insider internalizes her power to impact prices, but the uninformed trader takes prices as given. Compared to the associated competitive economy, in equilibrium the insider strategically reveals a noisier signal, and prices are less reactive to publicly available information. Additionally, and in direct contrast to the related literature, in equilibrium the insider's indirect utility increases with the precision of her signal. Therefore, the insider is motivated not only to obtain, but also to refine, her signal. Lastly, we show that compared to the competitive economy, the insider's internalization of price impact is utility improving for the uninformed trader, but somewhat surprisingly may be utility decreasing for the insider herself. This utility reduction occurs provided the insider is sufficiently risk averse compared to the uninformed trader, and provided the signal is of sufficiently low quality.

Anthropelos, Michail and Robertson, Scott, Strategic Informed Trading and the Value of Private Information. Available at SSRN: <https://ssrn.com/abstract=5357511> or <http://dx.doi.org/10.2139/ssrn.5357511>

Market Manipulation

Opening Call Auction Designs and Price Manipulation for Price Discovery: An Experimental Study

This study investigates how different opening call auction designs affect price discovery and manipulation through laboratory experiments. The first design replicates major stock exchange openings, allowing order placements and cancellations before announcing the opening price. We alternatively investigate two call auction designs in which traders are not allowed to cancel orders during the session, while the call auction time is divided into sub-periods and orders are executed every sub-period before the opening price is announced. We first demonstrate that allowing cancellations leads to price manipulation, while restricting them or introducing periodic clearings significantly reduces manipulative behavior. Second, we find a gradual price discovery process in economies with and prohibiting cancellations. However, price discovery can be quickly achieved in periodic clearings. These results indicate that price manipulations and longer non-trading minutes result in slower price discoveries. Third, we show that reinforcement learning, by which traders attempt to find profitable strategies from past performances, explains the order choices of our lab participants, and thus, price manipulations and price discovery. Lastly, we develop an equilibrium model of an opening call auction, which predicts uniform price discovery and trend-following strategies in all three designs, but experimental results reveal that real traders act more strategically and adaptively, improving price discovery and enabling manipulation absent in the model. We contribute to the literature by emphasizing the significant role of reinforcement learning on price manipulations and the price discovery process under different opening call auction designs. Our study has important policy implications regarding which call auction design is better for the opening call market.

Yamamoto, Ryuichi and Fang, Xin and Funaki, Yukihiro, Opening call auction designs and price manipulation for price discovery: An experimental study (August 03, 2025). Available at SSRN: <https://ssrn.com/abstract=5377463> or <http://dx.doi.org/10.2139/ssrn.5377463>

Ai-Powered Trading, Algorithmic Collusion, and Price Efficiency

The integration of algorithmic trading with reinforcement learning, termed AI-powered trading, is transforming financial markets. Alongside the benefits, it raises concerns for collusion. This study first develops a model to explore the possibility of collusion among informed speculators in a theoretical environment. We then conduct simulation experiments, replacing the speculators in the model with informed AI speculators who trade based on reinforcement-learning algorithms. We show that they autonomously sustain collusive supra-competitive profits without agreement, communication, or intent. Such collusion undermines competition and market efficiency. We demonstrate that two separate mechanisms are underlying this collusion and characterize when each one arises.

Dou, Winston Wei and Goldstein, Itay and Ji, Yan, Ai-Powered Trading, Algorithmic Collusion, and Price Efficiency (July 2025). NBER Working Paper No. w34054, Available at SSRN: <https://ssrn.com/abstract=5359603>

This *Insider Trading & Market Manipulation Literature Watch* is prepared by:

Michael G. Mayer, CFA, CFE

Vice President

Chicago

+1 312-377-9228

mmayer@crai.com

Aaron Dolgoff, CFA

Vice President

Boston

+1 617-425-3623

adolgoff@crai.com

Monika Cwikla

Associate Principal

Chicago

+1 312-377-5206

mcwikla@crai.com

Dylan Petrello

Consulting Associate

New York

+1 617-425-3097

dpetrello@crai.com



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