***Corporate Insiders’ Trading Behavior: Does Country-level***

***Governance matter?***

Abstract

We investigate whether corporate insiders in European countries with different levels of governance and shareholder protection earn different abnormal returns on their insider trading. We also investigate how insiders’ trading behavior in these countries has changed due to the financial crisis in 2008-09. In contrast to common belief, we find no evidence that strong country-level governance or shareholder protection would restrict abnormal insider returns. Our results rather point to opposite, i.e. insiders in strong governance or investor protection countries sell more

aggressively before stock price declines to avoid losses, compared to insiders in weak governance and investor protection countries. The negative effect of the country-level governance to insider returns is consistent with the substitution hypothesis. Finally, our results show that although the global financial crisis has increased corporate insiders’ informational advantage over outside investors, it has also reduces the differences in insider returns between countries.