

Audit Committee Financial Experts and Insider Trading

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Abstract

Our paper investigates whether there is a cost associated with including financial experts on the audit committee. Using a sample of executive and director transactions from 2003 to 2007, we test whether financial experts obtain information rents and expertise rents on stock purchases. We find that audit committee members obtain significantly higher abnormal returns than other independent board members. This suggests that audit committee members earn information rent due to their access to privileged information in audit committees. Additionally, we find that financial experts on audit committees obtain higher abnormal returns than non-financial experts on audit committees. As financial experts and non-financial experts have access to the same information, our finding suggests that audit committee financial experts earn additional rents due to their information processing abilities. The existence of expertise rents indicates that there is a cost associated with SOX 407.

Keywords: Audit Committee Financial Experts; Insider trading; SOX 407

Audit Committee Financial Experts and Insider Trading

1. Introduction

The Sarbanes Oxley Act (SOX) Section 407 requires firms to disclose if there is a financial expert serving on the audit committee. The intent of this legislation is to strengthen financial reporting quality by increasing the oversight of the financial reporting process (Securities and Exchange Commission, 2003). Consistent with the notion that financial expertise increases financial reporting quality, the extant literature has largely documented SOX 407 benefits, finding that greater financial expertise on the audit committee tends to decrease levels of financial fraud (Farber, 2005), contain earnings management (Carcello et al. 2006), promote accounting conservatism (Krishnan and Visvanathan, 2008), and reduce internal control weaknesses (Krishnan, 2005; Zhang et al., 2007; Hoitash et al., 2009).

In contrast to the aforementioned papers, our paper investigates whether there is a cost associated with SOX 407. Using a sample of executive and director transactions from 2003 to 2007, we test whether financial experts obtain information and expertise rents on stock purchases. Information rent is earned due to access to superior information, whereas expertise rent is earned due to superior processing skill of the same information. Audit committee members enjoy an information advantage over other directors on the board as they (i) discuss the financial statements with management, (ii) engage and communicate with the auditor, (iii) monitor the progress and results of the testing of internal controls, and (iv) review reports from management regarding the company's policies compliance with applicable laws and regulations. While performing these duties the audit committee receives detailed information regarding the performance, internal control systems, and accounting policies of the firm that are not immediately available to outside parties, including other independent directors of the

firm. Consequently, we hypothesize that audit committee members will obtain higher returns than other independent board members, because audit committee members, can earn information rent due to their access to privileged information in audit committees. The information rent earned by all audit committee members cannot be considered a cost of SOX 407, because such information rent would exist with or without SOX 407.

Following the passage of SOX the composition of the audit committee is to contain at least one financial expert or disclose the reason the company lacks such an expert. SOX 407 defines a financial expert as “a person who has, through education and experience as a public accountant, auditor, principal financial officer, controller, or principal accounting officer, of a company,” in its original version, and as “an individual with understanding of financial reporting and related internal controls” in the final version (SEC Rule 33– 8177, 2003). Consistent with the final SOX definition, most firms designate those with public accounting experience or those with CEO, CFO, or controller titles as financial experts on their audit committees. Compared to non-financial experts on audit committees, financial experts on audit committees have superior abilities to process financial information due to their training or experience, and therefore can make better determinations about the future prospects of the firms they serve.

We hypothesize that financial experts on audit committees will obtain higher returns than non-financial experts on audit committees due to their superior information processing skills and financial experience. While financial experts and non-financial experts have access to the same information in audit committees, financial experts can earn expertise rents by timing their trades better than those by non-financial experts or by recognizing opportunities through

superior information processing. The existence of expertise rents will represent a cost associated with SOX 407 because such expertise rent is restricted to those financial experts required by SOX 407 to serve on audit committees.

We test the information rent and expertise rent hypotheses using a sample of executive and director purchases from 2003 to 2007. We find that audit committee members obtain significantly higher abnormal returns than other independent board members. This suggests that audit committee members, including both financial and non-financial experts, earn information rent due to their access to privileged information in audit committees.

Additionally, we find that financial experts on audit committees obtain higher abnormal returns than non-financial experts on the audit committee. The increased returns are consistent with financial experts utilizing their superior information processing skills to obtain higher abnormal returns as they receive the same information set as non-financial experts. The existence of such expertise rents indicates that there is a cost associated with SOX 407.

We believe our study makes two significant contributions to the accounting literature. First, although previous research demonstrates the positive effects of financial expertise on accounting quality this is the first study, to our knowledge, that demonstrates a negative externality of mandating a financial expert on the audit committee. This externality is the fiduciary duty breach by the financial expert through a stock purchase as the director is trading with someone who is already a shareholder of the corporation and, as such, someone to whom the director has a fiduciary obligation (Bainbridge, 2001). Although it does not appear that the size of the median trade of a financial expert on the audit committee (\$58,709)

is significantly large to directly impact price; this finding is important to regulators, researchers, and investors in weighing the costs and benefits of additional financial expertise on the board of directors.

The second contribution is evidence consistent with the information processing of financial experts in comparison to their audit committee peers in self-interested acts. As directors are not homogeneous with respect to their expertise they are unlikely to be homogeneous with respect to their information processing ability. Previous research has demonstrated their information processing skills in providing higher quality financial statements (Carcello and Neal, 2006; Bedard et al., 2004; Farber, 2005; Zhang et al., 2007; Krishnan and Visvanathan, 2008; Hoitash et al., 2009). However, this study demonstrates results consistent with these information processing skills directly benefitting the director.

Previous research on insider trading has found that insiders are found to make positive abnormal returns on their purchases (Jaffe, 1974; Seyhun, 1986; Lin and Howe, 1990; Lakonishok and Lee, 2001). While Aboody and Lev (2000) find that insiders in R&D firms trade on their superior R&D knowledge, Ke et al. (2003) find that insiders trade on forthcoming accounting disclosures as long as two years prior to the disclosure.

Among insider trading studies, our paper is closely related to Ravina and Sapienza (2010). Using a sample of director trades from 1996-2003, they find that independent directors on the audit committee obtain higher returns on stock purchases than other independent directors at the same firm. Our paper differs from their study in that (i) we focus on financial experts on audit committees as required by SOX 407, and (ii) we utilize a post-SOX time period. The results in Ravina and Sapienza (2010) suggest that audit

committee members earn information rent because of their information advantage over other independent board directors, our results suggest that in addition to the information rents financial experts on the audit committee earn expertise rent because of their superior information processing skills. The existence of expertise rent earned only by audit committee financial experts is new to the insider trading literature.

Our paper is also related to the fund manager skill literature. Previous research in the area by Chevalier and Ellison (1999) finds that mutual fund managers with higher SAT scores and from prestigious undergraduate institutions obtain higher excess returns because of either greater individual abilities or better social networks, indirect benefits from a good education. Similarly, Edwards and Caglayan (2001) find that fund manager skill may be a partial explanation for the positive excess returns earned by hedge funds. Kacperczyk and Seru (2007) find that the responsiveness of an equity fund manager's portfolio allocations to changes in public information decreases in the manager's skill. Our finding of superior information processing by financial experts is consistent with this literature where experience and processing abilities results in greater rents. Financial experts appointed on audit committees are seasoned financial professionals, who have worked as a public accountant or have served in the capacity of CEO, CFO, or controller. Consequently, these financial experts have the ability to better process financial information and to execute more profitable trades. Similar to the abnormal profits earned by skilled mutual fund or hedge fund managers, the expertise rent earned by audit committee financial experts are based on superior accounting and financial skills.

The rest of the paper is organized as follows. Section 2 summarizes the background information on insider trading and audit committee financial expertise. Section 3 describes the sample selection and research design. Section 4 presents our empirical findings. Section 5 concludes the paper.

2. Background Information

2.1 Insider Trading

Officers, directors, and owners of more than 10% of the common stock of a firm, are required to report their trades to SEC in a Form 4 under Section 16(a) of the Securities Exchange Act of 1934. In our study, we classify firm insiders into three categories: officers, independent directors, and block holders according to the relationship code reported in the Form 4. Specifically, any insider who has an executive position or a familial tie to an executive is classified as an officer of the firm. All directors that lack familial ties to management and own less than 10% of a class of stock are independent directors. Insiders that hold at least 10% of a class of security as well as directors that have no familial ties to management but own 10% of a class of stock are block holders. We have provided a sample Form 4 in Appendix A.

Until August 2002, insiders are required to report their trades to SEC in a Form 4 with ten days after the close of the calendar month. After that, insiders are required to report their trades to the SEC in a Form 4 with two business days under SOX 403 (Brochet, 2010). Because insiders usually possess more information about their company than outside shareholders (Fidrmuc et al., 2006), SEC Rule 10(b)-5 adopted in 1942 makes it illegal for corporate insiders to trade on material, non-public information so as to nullify the information

asymmetry between insiders and investors. Section 16(b) of the Securities Exchange Act of 1934 further prohibits the round-trip trade, defined as a purchase and a subsequent sale (or a sale and a subsequent a purchase) with the six-month period. Insiders are required to return all profits from such trades to the corporation. Section 16(b) is relatively easy to enforce because it does not require proof that a trade is based on inside information. Nevertheless, it is unlikely to prevent insider trading before announcements of most corporate events because insiders can sell their stocks six months and a day after buying and thus avoid violating Section 16(b) (Agrawal and Jaffe, 1995).

2.2 Audit Committee Financial Experts

SOX 407 requires that a company disclose whether it has at least one "audit committee financial expert" serving on its audit committee, and if so, the name of the expert and whether the expert is independent of management. A company that does not have an audit committee financial expert must disclose this fact and explain why it has no such expert. Further, SOX 407 defines a financial expert as "a person who has, through education and experience as a public accountant, auditor, principal financial officer, controller, or principal accounting officer, of a company," in its original version, and as "an individual with understanding of financial reporting and related internal controls" in the final version (SEC Release No. 33-8177, January 24, 2003). We have provided the relevant text of SOX Section 407 in Appendix B.

We classify financial experts consistent with previous research by DeFond et al. (2005) and Zhang et al. (2007). An audit committee member is a financial expert if he or she can be

classified into the following two categories: (a) an accounting financial expert who has experience as a public accountant, auditor, principal or chief financial officer, controller, or principal or chief accounting officer; or (b) a non-accounting financial expert who has experience as the chief executive officer, president, or chairman of the board in a for-profit corporation, or who has experience as the managing director, partner or principal in venture financing, investment banking, or money management.

3. Sample Selection and Research Design

3.1. Sample Selection

We obtain insider trading data from the Thomson Reuters Insider Filing Data Files. The Insider Filing Data Feed (IFDF) captures all U.S. insider activity as reported on Forms 3, 4, 5, and 144 in line-by-line detail. We begin our sample period in 2003 because under Section 403(a) of Sarbanes-Oxley Act, insider trades are required to be reported to the SEC within two business days after trading. For each insider that files trading actions with the SEC, we require the filing to include the name and position (i.e., CEO, President, Director) of the insider, the date of the transaction, number of shares bought, price paid, and the number of shares remaining after the trade.

Table 1 describes the sample selection process. Our initial sample consists of 1,725,234 observations for open market trades from 2003 to 2007. We focus on the information-driven trade activities and exclude the insider trading that follows mechanically from stock and option grants. We remove financial and utilities firms with the SIC codes between 6000-6999 and 4900-4999 because these firms are in highly regulated industries. After merging insider

trading data with CRSP, we further exclude firms with less than 200 daily stock returns out of the 253 trading days per year. To be included in our final sample, firms are also required to have necessary accounting information from COMPUSTAT and complete profile for each audit committee member from The Corporate Library in the given year.¹

We focus on insider purchases as Lakonishok and Lee (2001) and Brochet (2010) posit that insider purchases are more likely to be information-driven. Furthermore, Jeng et al. (2003) and Jenter (2005) document that insider sales may be driven by diversification motives or the portfolio rebalancing needs. Thus, our sample represents open market purchases made from 2003 to 2007 by the following individuals: (i) executives of the firm, (ii) directors who are neither employees of the firm, nor large block holders (independent directors), and (iii) nonexecutive directors who are large block holders who own more than 10% of the company stock. Our final sample consists of 10,955 transactions representing 2,542 different firms.

3.2 Research Design

3.2.1 Audit Committee and Insider trading

To test our hypothesis that audit committee members earn information rent on stock purchases, we follow Ravina and Sapienza (2010) and model an insider's trading performance as a function of insider classification, transaction size and stock holdings.

Equation (1) summarizes our model specification:

¹ For firms with missing audit committee data we hand collect the audit committee membership from the proxy statements of the stated fiscal year.

$$RET_{t+i} = \beta_0 + \beta_1 AC + \beta_2 NONAC + \beta_3 Block\ Holder + \beta_4 Transaction + \beta_5 Holdings + \beta_{firm} + \varepsilon \quad (1)$$

The dependent variable RET_{t+i} is the market-adjusted buy-and-hold abnormal returns (BHARs) from purchasing one dollar worth of the company stock and then compounding over time i where $i=0, 30, 60, 90, 120$ and 180 respectively. For example, $RET(t+120)$ is the market-adjusted return of holding the individual's position for 120 trading days multiplied by 100. Our variable of interest AC is an indicator variable whose value is set equal to one if the independent director sits on the audit committee, and zero otherwise. $NONAC$ is a dichotomous variable defined as one if the independent director does not sit on the audit committee, and zero otherwise. If audit committee has access to privileged information, we would expect that audit committee members earn information rent. Therefore, we predict that the coefficient on AC is greater than the coefficient on $NONAC$.

Block Holder is an indicator variable equal to one if the board member is not an officer or independent director, and owns at least 10% of the company stock at the beginning of the fiscal year, zero otherwise. Prior research (e.g., Bushee and Goodman, 2007) finds that informed trading is more prevalent when investment advisers and large institutions take large positions. Therefore, we control for transaction size and stock holdings in the regression. We measure transaction size (*Transaction*) as the size of the transaction (number of shares purchased * shares price) as a fraction of market capitalization (measured in \$00,000). We define holdings (*Holdings*) as the dollar value of the individual's holdings scaled by \$10 million. We also include firm fixed effects to control for firm specific characteristics of returns that are constant over time. Consistent with Ravina and Sapienza (2010), we average

the firm fixed effects across all firms in the sample to obtain the average effect of the buy and hold return.

In addition to the baseline model, we also control for firm size and book-to-market because prior research shows that insider trading is more informative in small and high book-to-market firms (e.g., Lakonishok and Lee, 2001; Bushee and Goodman, 2007).² Our empirical model after controlling for these two risk factors is summarized in Equation (2):

$$RET_{t+i} = \beta_0 + \beta_1 AC + \beta_2 NONAC + \beta_3 \text{Block Holder} + \beta_4 \text{Transaction} + \beta_5 \text{Holdings} + \beta_6 \text{Size} + \beta_7 \text{Book-to-Market} + \beta_{\text{firm}} + \varepsilon \quad (2)$$

where *Size* is the natural logarithm of the firm's assets and *Book-to-Market* is the book-to-market calculated as the ratio of book value of equity to the sum of the market value of common equity and total assets minus the book value of equity.

3.2.3 Audit Committee Financial Experts and Insider trading

To gain insight into whether audit committee financial experts earn additional expertise rent due to their superior information processing skills and experience we modify equation (1) to differentiate between financial experts and non-financial experts on the audit committee. Specifically, we model the market-adjusted buy-and-hold return as a function of audit committee financial experts, audit committee non-financial experts, non-audit committee independent director controlling for transaction size and stock holdings. The variable of interest is audit committee financial expert (*ACFE*), defined as one if the audit committee member is either accounting financial expert or non-accounting financial expert, and zero

² We present our results prior to controlling for firm size and book-to-market for comparison to the results presented in Ravina and Sapienza (2010).

otherwise. *NONEX* is a dichotomous variable set equal to 1 if the audit committee member is not a financial expert, zero otherwise. *NONAC* is a dichotomous variable set equal to 1 if the independent director does not sit on the audit committee, zero otherwise. All other variables are defined earlier. If audit committee financial experts have superior financial knowledge or information processing skills, we expect them to outperform their non-financial expert counterparts. Thus we predict the coefficient on *ACFE* to be significantly higher than the coefficient on *NONEX*. Equation (3) presents the model specification:

$$RET_{t+i} = \beta_0 + \beta_1 ACFE + \beta_2 NONEX + \beta_3 NONAC + \beta_4 \text{Block Holders} + \beta_5 \text{Transaction} + \beta_6 \text{Holdings} + \beta_{firm} + \varepsilon \quad (3)$$

To address the concern that risk factors may affect the informativeness of insider trading, we also control for firm risk factors that affect stock return by including size and book-to-market in Equation (4):

$$RET_{t+i} = \beta_0 + \beta_1 ACFE + \beta_2 NONEX + \beta_3 NONAC + \beta_4 \text{Block Holders} + \beta_5 \text{Transaction} + \beta_6 \text{Holdings} + \beta_7 \text{Size} + \beta_8 \text{Book-to-Market} + \beta_{firm} + \varepsilon \quad (4)$$

3.2.4 Accounting Financial Experts, Non-accounting Financial Experts and Insider Trading

In the previous subsection, we examine whether audit committee financial experts earn expertise rent by outperforming non-experts. Because SOX section 407 makes a distinction between accounting financial expert and non-accounting financial expert for the audit committee members, we further test whether accounting financial experts perform differently from non-accounting financial experts. We construct two indicator variables. *ACCT* is the indicator variable for accounting expert such as a certified public accountant, auditor,

principal or chief financial officer, controller, or chief accounting officer.³ *FIN* refers to a non-accounting financial expert who has experiences as chief executive officer, chairman of the board, president of a for-profit corporation, management directors, venture capitalist, and investment bankers. We then replace audit committee financial experts *ACFE* in equations (3) and (4) with these two indicator variables and perform the regression analysis to examine whether their trading performances differ from one another.

4. Empirical Results

4.1 Descriptive Statistics

Table 2 displays the descriptive statistics for the full sample. Panel A contains summary statistics for returns over various horizons and control variables. The mean (median) buy-and-hold abnormal returns of holding the position for 0, 30, 60, 90, 120 and 180 trading days for the full sample of the insider purchase, $RET(t)$, $RET(t+30)$, $RET(t+60)$, $RET(t+90)$, $RET(t+120)$ and $RET(t+180)$ are 0.33(0.03), 4.95(2.28), 7.28(3.00), 8.54(2.67), 9.67(2.18) and 11.29(1.75) respectively. Overall, the descriptive statistics indicate that blockholders, executives, and independent directors earn information rents. The mean value of transaction and holdings are 0.02 and 1.24 respectively. The average firm size, measured as the natural logarithm of the firm's assets, is 5.97 whereas the mean book-to-market value is 0.65.⁴

Panel B presents the descriptive statistics of insider purchases. The majority of the stock purchases, 51.63%, are made by executive officers, 38.75% of purchases are made by

³ We classify the director as an accounting expert if the director has experience that requires a relatively high level of accounting sophistication.

⁴ Ravina and Sapienza (2010) report firm size of 5.5 and a book-to-market ratio of 0.5 which is slightly below our reported means. However, this difference is likely due to the difference in sample periods. Ravina and Sapienza (2010) do not report the descriptive statistics of buy and hold abnormal returns for purchases during their sample period.

independent directors, and 9.62% by large outside block holders. Furthermore, the median purchase by executive officers of the firm is \$123,657 compared to \$69,063 for independent directors. In Panel C, we report that for insider purchases made by independent directors, 57.11% of purchases (2,424 purchase transactions) are made by audit committee members. Among these audit committee purchases, 47.07% (1,998 purchase transactions) are made by audit committee financial experts whereas 10.04% (426 purchase transactions) are made by non-financial experts. An additional 42.89% (1,821 transactions) of independent director purchases are made by directors who do not sit on the audit committee during our sample period. The median value of stock purchases made by audit committee financial experts, audit committee non-financial experts, and independent directors on other committees are \$58,709, \$68,772, and \$85,048 respectively.

4.2 Audit Committee vs. Non-audit Committee

Table 3 reports the regression results of equation (1). Consistent with the findings of Ravina and Sapienza (2010) we find that executive directors earn the highest abnormal returns over the reported time periods.⁵ Consistent with audit committee members having an information advantage over their non-audit committee counterparts we find the coefficient on AC is higher than the coefficient on NONAC after holding the stock from 60 through 120 trading days. Although mimicking insider purchases of audit committee members yields a market-adjusted return of 2.68% and 3.44% less than the executives over 90 and 120 trading

⁵ Ravina and Sapienza (2010) report a BHAR, based on 180 trading days, for executive purchases of 16.29 (Table 2, Panel C) compared to our BHAR for executive directors of 12.26. This difference is likely due to the sample periods as executives are less likely to engage in insider trading following the increased corporate scrutiny following SOX and the corporate scandals of 2000-2003.

days respectively, audit committee members earn significantly higher returns than non-audit committee members at the 5% level of significance. For example, after holding the stock for 60, 90 and 120 trading days, audit committee members earn higher returns than non-audit committee members by 0.32%, 0.51%, and 0.09% respectively which are significant at the 5% level.

In Table 4 we estimate equation (2) which includes additional controls for size and book-to-market. We find that after controlling for size and book-to-market, audit committee members continue to earn significantly higher returns than non-audit committee members. Results are qualitatively similar to those reported in Table 3, however, we now find audit committee members continue to obtain information rents on BHAR in excess of 120 days. For example, in column 5 and 6, after holding the stock over 120 and 180 trading days, the BHAR of audit committee members is higher than that of non-audit committee members by 0.44% and 0.32% respectively which is significant at the 5% level. Rule 16(b) of the Securities and Exchange Act of 1934 requires insiders to disgorge all the profits made on “round-trip” transactions, that is, purchase and sales transaction sequences that occur within six months of each other. This rule makes the 120 and 180 trading day horizon of greater interest as the insider must hold the stock for at least 120 trading days to clear any profits.

The coefficients on the control variables are consistent with expectations. The coefficient on *Size* is negative and significant at the 1% level of significance indicating insider trades at larger firms tend to be less profitable. The coefficient on *Book-to-Market* is positive and significant at the 1% level. Thus, firms with greater growth opportunities have more profitable insider trades. These findings are consistent with Lakonishok and Lee (2001) who

find that insider trades are more informative for smaller firms and firms with higher book-to-market ratios.

Following this line of analysis, we plot the buy-and-hold abnormal return of insider purchases compounding over different time horizons for executive officers, independent directors on audit committee, and non-audit committee directors. Figure 1 indicates that mimicking the insiders' buys yields significantly positive market-adjusted returns across all time horizons. Executives earn the highest market-adjusted return, which is consistent with the previous research that executives are on the top of the "information hierarchy" (Seyhun, 1998). Executives have greater access to information regarding firm operations and acquire private knowledge of future firm-specific information regarding trends in customer purchases, supplier lead-times, in a timelier manner than other insiders (Cheng et al., 2007). Overall, we find that audit committee members earn higher market-adjusted returns than non-audit committee members. This result can be interpreted as evidence of increased access to financial information for audit committee members resulting in information rents to the committee members.

4.3 Audit Committee Financial Experts vs. Audit Committee Non-Financial Experts

In this subsection we examine whether audit committee financial experts earn additional expertise rent due to their superior financial knowledge and experience. Table 5 presents the regression results of Equation (3). If financial experts have superior information processing ability, we would expect that they outperform their non-financial expert peers. Consistent with financial experts having superior information processing skills, we find that

audit committee financial experts earn higher returns than non-financial experts across all time horizons greater than 90 days following the purchase. Specifically, the audit committee financial experts earn significantly higher returns than audit committee non-financial experts by 1.75%, 1.89% and 0.83% over 90, 120 and 180 trading days respectively. Because financial experts and non-financial experts have access to the same set of information in audit committees, our finding suggests that audit committee financial experts have superior information processing ability than non-financial experts. The accumulation of expertise rents by financial experts would be an unintended externality of SOX as the director is likely trading with someone who is already a shareholder of the corporation and, as such, someone to whom the director has a fiduciary obligation to (Bainbridge, 2001).

Consistent with our previous findings in Tables 3 and 4 we find that the BHAR of audit committee financial experts are higher than that of non-audit committee directors by 0.81% and 0.43% over 90 and 120 trading days respectively. This is consistent with our conjecture that audit committee financial experts have better access to the financial information and superior information processing and trading skills than non-audit committee directors. Moreover, our results indicate that executive officers yield a market-adjusted return of 3.10% and 3.79% higher than audit committee financial experts over 120 and 180 trading days respectively. Surprisingly, audit committee members who are not financial experts have lower abnormal returns than independent directors serving on other committees. Thus, the informational advantage of the audit committee may not be superior to other committees unless the director has financial expertise. We continue to find executive officers have the

largest abnormal return as they have greater access to information regarding the firms operations and financial position compared to independent directors and blockholders.

In Table 6 we estimate equation 4 and find results qualitatively similar to those reported in Table 5. In particular, BHARs of financial experts are significantly higher than those of non-financial experts by 1.21%, 1.50% and 0.15% over 90, 120 and 180 trading days respectively. Overall, our results are consistent with financial experts obtaining expertise rents due to their familiarity with financial reporting and information processing skills.

Paralleling our findings in Table 5 and 6, Figure 2 plots buy-and-hold abnormal returns of insider purchases for executives, audit committee financial experts, audit committee non-financial experts, and non-audit committee directors. Executives earn the highest market-adjusted returns, which is consistent with our previous findings. Audit committee financial experts earn the second highest returns consistent with audit committee financial experts having superior information processing abilities and trading skills. We find that non-audit committee members outperform audit committee non-financial experts. One possible reason could be some independent directors such as a CEO, COO, or an investment bankers with trading experience may sit on other committees, which is consistent with our conjecture that financial skills matter. Furthermore, information in other committees such as the compensation committee or nominating committee may provide additional information rents superior to the audit committee.

4.4 Accounting Financial Experts vs. Non-Accounting Financial Experts

Thus far, we have provided evidence that audit committee financial experts earn information rent and additional expertise rent. In this subsection, we further investigate whether the expertise rent is different between accounting financial experts and non-accounting financial experts on audit committees. We therefore categorize audit committee financial experts into two types: accounting financial expert and non-accounting financial expert. We then replace financial expert (*ACFE*) with indicator variables for accounting expert (*ACCT*) and non-accounting financial expert (*FIN*) in Equations (3) and (4). In Tables 7 and 8, we present the regression results. We find that non-accounting financial experts earn significantly higher return than accounting financial experts after 120 trading days. In Table 7, BHARs of non-accounting financial experts are higher than those of accounting financial experts by 0.38%, 1.46%, 1.19%, 0.94% and 2.84% over 30, 60, 90, 120 and 180 trading days. The difference is statistically significant at the 10% (5%) level at 120 (180) trading days. Table 8 shows that after controlling for size and book-to-market, non-accounting financial experts still earn higher returns than accounting financial experts, especially by 1.25%, 1.00% and 2.85% over 90, 120 and 180 trading days. The difference is statistically significant at the 10% level over 90, 120, and 180 trading days.

Non-accounting financial experts may have higher returns on their trades for two reasons. First, non-accounting financial experts are represented by CEOs, venture capitalists, managing directors of investment banks and may be more experienced traders as well as superior information processing skills regarding different types of information, not necessarily constrained to the financial statement information. Second, accounting financial

experts, such as a CPA, CFO, and accounting professors may have differential ethics and be less likely to engage in insider trades.

We explore these explanations by examining the transaction value and frequency for these two groups of experts. If non-accounting financial experts are more informed than accounting experts, we would expect that they take larger positions in a stock and trade more frequently than accounting experts. Supporting our conjecture, Figure 3 reports that the average transaction value of non-accounting financial experts is nearly three times larger than that of accounting financial experts each year over the entire sample period. Consistent with accounting financial experts being less likely to trade on inside information Figure 4 shows that accounting financial experts engage in fewer trades than non-accounting financial experts. Taken together, our findings suggest that non-accounting financial experts' trade more frequently and engage in larger trades than their accounting expert counterparts.

5. Conclusion

Previous research in accounting and finance has documented the benefits of financial expertise on the audit committee. Our study investigates whether there is a cost associated with the inclusion a financial expert on the audit committee. We contribute to the accounting literature by documenting that financial experts on the audit committee obtain higher abnormal returns consistent with the accumulation of expertise rents through superior information processing. The exploitation of this advantage by audit committee financial experts is a cost associated with SOX 407 and a violation of the fiduciary responsibility of the director as they are likely trading with less informed investors.

Using a sample of insider trades from 2003-2007 we find that audit committee members have higher abnormal returns than non-audit committee members consistent with the accumulation of information rents to audit committee members. Furthermore, consistent with audit committee members with financial expertise having superior information processing skills we find that financial experts obtain higher abnormal returns than non-financial expert audit committee members. Surprisingly, after controlling for financial expertise audit committee members without financial expertise have lower abnormal returns than non-audit committee members. In additional testing, we find that accounting financial experts earn lower expertise rents than non-accounting financial experts. Furthermore, non-accounting financial experts engage in more trades and make trades of significantly larger values. Overall, our results demonstrate that financial experts obtain higher abnormal returns given the same level of information as other directors indicating they obtain expertise rents due to their superior information processing.

Appendix A: Example of Form 4 insider trading reported to SEC

FORM 4		UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D. C. 20549				OMB APPROVAL OMB Number: 3235-0287 Expires: February 28, 2011 Estimated average burden hours per response: 0.5				
<input type="checkbox"/> Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b). (Print or Type Responses)		STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940								
1. Name and Address of Reporting Person*		2. Issuer Name and Ticker or Trading Symbol		5. Relationship of Reporting Person(s) to Issuer (Check all applicable) Director _____ 10% Owner _____ Officer (give title below) _____ Other (specify below) _____						
(Last)	(First)	(Middle)	3. Date of Earliest Transaction Required to be Reported (Month/Day/Year)	4. If Amendment, Date Original Filed(Month/Day/Year)		6. Individual or Joint/Group Filing (Check Applicable Line) <input type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person				
(Street)										
(City)	(State)	(Zip)	Table I — Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned							
1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction (s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.
 * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number. (Over) SEC 1474 (01-05)

Appendix B: Relevant Excerpts from the Sarbanes-Oxley Act of 2002

Section 407 -- Disclosure of Audit Committee Financial Expert

- a. **Rules Defining "Financial Expert".** The Commission shall issue rules, as necessary or appropriate in the public interest and consistent with the protection of investors, to require each issuer, together with periodic reports required pursuant to sections 13(a) and 15(d) of the Securities Exchange Act of 1934, to disclose whether or not, and if not, the reasons therefor, the audit committee of that issuer is comprised of at least 1 member who is a financial expert, as such term is defined by the Commission.
- b. **Considerations.** In defining the term "financial expert" for purposes of subsection (a), the Commission shall consider whether a person has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions--
 1. an understanding of generally accepted accounting principles and financial statements;
 2. experience in--
 - A. the preparation or auditing of financial statements of generally comparable issuers; and
 - B. the application of such principles in connection with the accounting for estimates, accruals, and reserves;
 3. experience with internal accounting controls; and
 4. an understanding of audit committee functions.
- c. **Deadline for Rulemaking.** The Commission shall--
 1. propose rules to implement this section, not later than 90 days after the date of enactment of this Act; and
 2. issue final rules to implement this section, not later than 180 days after that date of enactment.

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Table 1
Sample Selection

	No of Observations
Total insider trading 2003-2007 from TFN data	3,385,338
<i>Less insider trading of exercising stock or option grants</i>	<u>(1,660,104)</u>
<i>Total open market trades</i>	1,725,234
<i>Less insider trading without available CRSP information</i>	(156,682)
<i>Less observations in utilities and financial firms</i>	(294,580)
<i>Less observations with less than 200 daily returns prior to transaction date</i>	(1,047,393)
<i>Less insider sales from 2003 to 2007</i>	(190,769)
<i>Less insider purchase with incomplete transaction and holdings data</i>	(21,720)
<i>Less insider purchase without audit committee data from Corporate Library</i>	(2,537)
<i>Less insider purchase without necessary accounting data from Compustat</i>	(598)
Final sample	10,955

The insider trading data is from the Thomson Reuters Insider Filing Data Files. The Insider Filing Data Feed (IFDF) is designed to capture all U.S. insider activity as reported on Forms 3, 4, 5, and 144. Corporate insiders are defined broadly to include those that have "access to non-public, material, insider information" and these insiders are required to file SEC form 3, 4, and 5 when they trade in their companies stock. We restrict our sample to the open market purchase made from 2003 to 2007 by the following individuals: (i) executive officers of the firm, (ii) directors who are neither employees of the firm, nor large block holders (independent directors), and (iii) nonexecutive directors who are large block holders (own more than 10% of the company stock). We exclude utilities and financial firms, which are subject to specific regulations, and also firms with less than 200 daily returns available in CRSP prior to the transaction date. We then merge the insider purchase sample with our audit committee data. We download audit committee members' profile from Corporate Library and supplement the missing profile data by hand collecting from each firm's proxy statement.

Table 2
Summary Statistics

Panel A: Returns and firm characteristics

Variable	N	Mean	Std Dev	25 th Percentile	Median	75 th Percentile
RET (t)	10,955	0.33	4.28	-1.35	0.03	1.65
RET (t+30)	10,933	4.95	21.13	-5.37	2.28	11.28
RET (t+60)	10,914	7.28	30.65	-8.08	3.00	16.64
RET (t+90)	10,892	8.54	42.79	-10.55	2.67	19.45
RET (t+120)	10,856	9.67	49.66	-13.15	2.18	21.43
RET (t+180)	10,768	11.29	57.90	-17.72	1.75	25.90
Holdings	10,954	1.24	25.25	0.00	0.01	0.08
Transaction	10,954	0.02	0.16	0.00	0.00	0.00
Size	10,955	5.97	1.90	4.61	5.95	7.21
Book-to-Market	10,607	0.65	0.35	0.42	0.64	0.83

Panel B: Descriptive statistics of insider purchases

	Percentage	Mean	Median	Std. Dev	Number of transactions
<u>% purchases</u>					
Executive Officers	51.63%				5,656
Independent Directors	38.75%				4,245
Block Holders	9.62%				1,054
<u>No of shares</u>					
Executive Officers		386,675	21,249	2,120,280	5,656
Independent Directors		158,629	7,422	3,400,368	4,245
Block holders		6,739,172	1,615,200	35,642,324	1,054

Table 2 (Continued)

<u>Value</u>				
Executive Officers	\$3,773,181	\$123,657	\$33,225,093	5,656
Independent Directors	\$3,102,235	\$69,063	\$81,288,294	4,245
Block Holders	\$95,726,751	\$7,861,737	\$789,788,634	1,053

Panel C: Descriptive statistics of independent director purchasesIndependent Directors% purchases of independent directors

ACFE	47.07%			1,998
NONEX	10.04%			426
NONAC	42.89%			1,821

Independent Directors PurchasesValue

ACFE	\$907,047	\$58,709	\$7,214,434	1,998
NONEX	\$413,832	\$68,772	\$1,475,056	426
NONAC	\$6,139,711	\$85,048	\$123,833,179	1,821

Panel A contains summary statistics for the full sample. We calculate the market-adjusted buy-and-hold abnormal returns (BHARs) from purchasing one dollar worth of the company stock, subtracting the market return from the firm return and then compounding it over time. RET_{t+i} is the buy and hold abnormal return compounding over 0, 30, 60, 90, 120 and 180 trading days, where $i=0, 30, 60, 90, 120$ and 180 ; *Holdings* is the dollar value of the individual's holdings scaled by \$10 million; *Transaction* is the size of the transaction (Number of Shares purchased * shares price) as a fraction of market capitalization (measured in \$00,000); *Size* is the natural logarithm of the firm's assets; *Book-to-Market* is constructed from Compustat as $AT/((PRCC_F*CSHO) + AT - CEQ)$ where all variables are lagged one year.

Panel B contains summary statistics for the full sample. The percentages, means, medians, and standard deviations are calculated over the total transactions by all independent directors, executive officers, and block holders.

Panel C presents the summary statistics of independent directors only. ACFE and NONEX are audit committee members, in which ACFE is audit committee financial experts, NONEX is audit committee non-financial experts. NONAC is independent director sitting on other committees.

Table 3
Audit Committee Members (AC) vs Non-Audit Committee Members (NONAC)

	(1)	(2)	(3)	(4)	(5)	(6)
	RET(t)	RET(t+30)	RET(t+60)	RET(t+90)	RET(t+120)	RET(t+180)
Constant (Officer)	0.25*** (0.07)	5.44*** (0.34)	7.69*** (0.49)	8.44*** (0.68)	10.16*** (0.77)	12.26*** (0.88)
AC	0.03 (0.13)	-1.09** (0.60)	-1.75** (0.87)	-2.68** (1.20)	-3.44** (1.38)	-3.93*** (1.56)
NONAC	0.04 (0.14)	-1.17** (0.64)	-2.07** (0.93)	-3.19*** (1.28)	-3.53*** (1.47)	-3.76** (1.67)
Block Holder	0.53*** (0.20)	-2.40*** (0.92)	-2.21* (1.34)	0.09 (1.85)	0.23 (4.43)	1.67 (2.43)
Transaction	0.70** (0.38)	3.56** (1.91)	0.79 (2.79)	7.19** (3.87)	-0.94 (5.05)	-0.66 (4.97)
Holdings	-0.00 (0.00)	-0.05* (0.03)	-0.10** (0.05)	-0.08 (0.07)	-0.11* (0.08)	-0.15** (0.09)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,954	10,932	10,913	10,891	10,855	10,767
Adjusted R ²	0.38	0.45	0.44	0.46	0.47	0.50
Test of hypothesis : p-values for F-tests comparing coefficients						
AC=NONAC	0.95	0.10	0.04	0.02	0.02	0.02

RET_{t+i} is the buy and hold abnormal return compounding over 0, 30, 60, 90, 120 and 180 trading days, where $i=0, 30, 60, 90, 120$ and 180 ; AC is a dichotomous variable set equal to 1 if the individual is an independent director sitting on the audit committee, zero otherwise; $NONAC$ is an indicator variable set equal to 1 if the independent director is not on the audit committee, zero otherwise; $Block\ holder$ is a dichotomous variable set equal to 1 if the board member is not an officer or independent director and holds more than 10% of the company stock at the beginning of the fiscal year, zero otherwise; $Transaction$ is calculated as the size of the transaction (number of shares purchased * shares price) as a fraction of market capitalization (measured in \$00,000); $Holding$ is the dollar value of the individual's holdings scaled by \$10 million. The coefficient standard errors are in parentheses. ***, **, and * denote two-tailed significance at the 1%, 5%, and 10% levels, respectively.

Table 4
Audit Committee Members (AC) vs Non-Audit Committee Members (NONAC) Controlling
for Size and BM

	(1)	(2)	(3)	(4)	(5)	(6)
	RET(t)	RET(t+30)	RET(t+60)	RET(t+90)	RET(t+120)	RET(t+180)
Constant (Officer)	1.32*	35.46***	56.69***	87.04***	97.40***	131.28***
	(0.96)	(4.43)	(6.44)	(8.05)	(9.61)	(11.34)
AC	0.03	-0.92*	-1.43**	-2.32**	-2.82**	-3.26**
	(0.13)	(0.59)	(0.86)	(1.07)	(1.27)	(1.50)
NONAC	-0.00	-1.04**	-1.92**	-2.97***	-3.26***	-3.58**
	(0.14)	(0.63)	(0.92)	(1.14)	(1.36)	(1.60)
Block Holder	0.53***	-2.25***	-1.87*	0.85	1.48	2.44
	(0.20)	(0.90)	(1.31)	(1.64)	(1.96)	(2.32)
Transaction	0.49*	2.53*	-0.73	4.64*	-2.96	-4.18
	(0.38)	(1.87)	(2.72)	(3.41)	(4.06)	(4.79)
Holdings	-0.004	-0.03	-0.06*	-0.03	-0.06	-0.08
	(0.007)	(0.03)	(0.05)	(0.06)	(0.07)	(0.08)
Size	-0.26*	-6.44***	-11.23***	-17.17***	-19.62***	-26.10***
	(0.16)	(0.74)	(1.09)	(1.36)	(1.62)	(1.90)
Book-to-Market	0.71***	11.28***	24.86***	32.17***	40.92***	50.59***
	(0.21)	(0.98)	(1.43)	(1.79)	(2.13)	(2.51)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,606	10,584	10,565	10,544	10,508	10,426
Adjusted R ²	0.38	0.46	0.47	0.48	0.50	0.54
Test of hypothesis : p-values for F-tests comparing coefficients						
AC=NONAC	0.97	0.17	0.08	0.02	0.03	0.03

RET_{t+i} is the buy and hold abnormal return compounding over 0, 30, 60, 90, 120 and 180 trading days, where $i=0, 30, 60, 90, 120$ and 180 ; *AC* is a dichotomous variable set equal to 1 if the individual is an independent director sitting on the audit committee, zero otherwise; *NONAC* is an indicator variable set equal to 1 if the independent director is not on the audit committee, zero otherwise; *Block holder* is a dichotomous variable set equal to 1 if the board member is not an officer or independent director and holds more than 10% of the company stock at the beginning of the fiscal year, zero otherwise; *Transaction* is calculated as the size of the transaction (number of shares purchased * shares price) as a fraction of market capitalization (measured in \$00,000); *Holding* is the dollar value of the individual's holdings scaled by \$10 million; *Size* is the natural logarithm of the firm's assets; *Book-to-Market* is constructed from Compustat as $AT/((PRCC_F*CSHO) + AT - CEQ)$ where all variables are lagged one year. The coefficient standard errors are in parentheses. ***, **, and * denote two-tailed significance at the 1%, 5%, and 10% levels, respectively.

Table 5
Audit Committee Financial Experts (ACFE) vs Non-Financial Experts (NONEX)

	(1)	(2)	(3)	(4)	(5)	(6)
	RET(t)	RET(t+30)	RET(t+60)	RET(t+90)	RET(t+120)	RET(t+180)
Constant (Officer)	0.25*** (0.07)	5.44*** (0.34)	7.69*** (0.49)	8.44*** (0.68)	10.16*** (0.77)	12.26*** (0.88)
ACFE	0.04 (0.14)	-0.96** (0.63)	-1.67** (0.92)	-2.37** (1.27)	-3.10** (1.46)	-3.79** (1.65)
NONEX	-0.01 (0.24)	-1.71** (1.12)	-2.13* (1.63)	-4.12** (2.25)	-4.99** (2.58)	-4.62* (2.92)
NONAC	0.04 (0.14)	-1.17** (0.64)	-2.07** (0.93)	-3.18*** (1.28)	-3.53*** (1.47)	-3.76** (1.67)
Block Holder	0.53*** (0.20)	-2.40*** (0.92)	-2.21** (1.34)	0.09 (1.85)	0.61 (2.13)	1.67 (2.43)
Transaction	0.70** (0.38)	3.55** (1.91)	0.78 (2.79)	7.17** (3.87)	0.21 (0.96)	-0.95 (5.05)
Holdings	-0.005 (0.007)	-0.05** (0.03)	-0.10** (0.05)	-0.08 (0.07)	-0.11* (0.08)	-0.15** (0.09)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,953	10,931	10,912	10,890	10,854	10,766
Adjusted R ²	0.38	0.45	0.44	0.46	0.47	0.50
Test of hypothesis : <i>p</i>-values for <i>F</i>-tests comparing coefficients						
ACFE=NONEX	0.94	0.15	0.13	0.06	0.03	0.04
ACFE=NONAC	0.94	0.14	0.05	0.03	0.03	0.03

ACFE is a dichotomous variable set equal to 1 if the individual is a financial expert sitting on the audit committee, zero otherwise; NONEX is a dichotomous variable set equal to 1 if the individual is not a financial expert but sits on the audit committee, zero otherwise; NONAC is a dichotomous variable set equal to 1 if the independent director does not sit on the audit committee, zero otherwise. All other variables are as previously defined. The coefficient standard errors are in parentheses. ***, **, and * denote two-tailed significance at the 1%, 5%, and 10% levels, respectively.

Table 6
Audit Committee Financial Experts (ACFE) vs Non-Financial Experts (NONEX) Controlling for Size and BM

	(1)	(2)	(3)	(4)	(5)	(6)
	RET(t)	RET(t+30)	RET(t+60)	RET(t+90)	RET(t+120)	RET(t+180)
Constant (Officer)	1.32* (0.96)	35.45*** (4.43)	56.69*** (6.44)	87.00*** (8.05)	97.36*** (9.61)	131.28*** (11.34)
ACFE	0.03 (0.14)	-0.85* (0.62)	-1.44* (0.91)	-2.11** (1.13)	-2.55** (1.35)	-3.24** (1.58)
NONEX	-0.01 (0.24)	-1.28 (1.10)	-1.37 (1.60)	-3.32** (2.00)	-4.05** (2.38)	-3.39 (2.80)
NONAC	-0.00 (0.14)	-1.04** (0.63)	-1.92** (0.92)	-2.97*** (1.14)	-3.25** (1.36)	-3.58** (1.60)
Block Holder	0.53*** (0.20)	-2.25*** (0.90)	-1.87* (1.31)	0.85 (1.64)	1.47 (1.96)	2.44 (2.32)
Transaction	0.49* (0.38)	2.53* (1.87)	-0.73 (2.72)	4.63* (3.40)	-2.97 (4.06)	-4.18 (4.80)
Holdings	-0.004 (0.007)	-0.03 (0.03)	-0.06* (0.05)	-0.03 (0.06)	-0.06 (0.07)	-0.08 (0.08)
Size	-0.27* (0.16)	-6.44*** (0.75)	-11.23*** (1.09)	-17.16*** (1.36)	-19.61*** (1.62)	-26.10*** (1.90)
Book-to-Market	0.71*** (0.21)	11.27*** (0.98)	24.87*** (1.43)	32.16*** (1.79)	40.91*** (2.13)	50.59*** (2.51)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,617	10,595	10,576	10,555	10,519	10,437
Adjusted R ²	0.38	0.46	0.47	0.48	0.51	0.55
Test of hypothesis : <i>p</i>-values for <i>F</i>-tests comparing coefficients						
ACFE=NONEX	0.96	0.27	0.25	0.08	0.07	0.09
ACFE=NONAC	0.96	0.20	0.08	0.02	0.04	0.04

All variables are as previously defined. The coefficient standard errors are in parentheses. ***, **, and * denote two-tailed significance at the 1%, 5%, and 10% levels, respectively.

Table 7
Accounting Financial Experts (ACCT) vs Non-Accounting Financial Experts (FIN)

	(1)	(2)	(3)	(4)	(5)	(6)
	RET(t)	RET(t+30)	RET(t+60)	RET(t+90)	RET(t+120)	RET(t+180)
Constant (Officer)	0.25*** (0.07)	5.44*** (0.34)	7.68*** (0.49)	8.43*** (0.68)	10.16*** (0.77)	12.25*** (0.88)
ACCT	0.05 (0.20)	-1.21* (0.93)	-2.65** (1.36)	-3.16** (1.88)	-3.73** (2.15)	-5.68** (2.44)
FIN	0.04 (0.15)	-0.83 (0.72)	-1.19 (1.05)	-1.97* (1.45)	-2.79** (1.66)	-2.84* (1.88)
NONEX	-0.01 (0.24)	-1.71* (1.12)	-2.13* (1.63)	-4.12** (2.25)	-4.99** (2.58)	-4.61* (2.92)
NONAC	0.04 (0.14)	-1.17** (0.64)	-2.07** (0.93)	-3.18*** (1.28)	-3.53*** (1.47)	-3.76** (1.67)
Block Holder	0.53*** (0.20)	-2.40*** (0.92)	-2.21** (1.34)	0.09 (1.85)	0.61 (2.13)	1.67 (2.43)
Transaction	0.70** (0.38)	3.56** (1.91)	0.79 (2.79)	7.17** (3.87)	0.21 (4.43)	-0.95 (5.05)
Holdings	-0.00 (0.01)	-0.05* (0.03)	-0.10** (0.05)	-0.08 (0.07)	-0.11* (0.08)	-0.15** (0.09)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,954	10,932	10,913	10,891	10,855	10,767
Adjusted R ²	0.38	0.45	0.44	0.46	0.47	0.50
Test of hypothesis : <i>p</i>-values for <i>F</i>-tests comparing coefficients						
ACCT=NONEX	0.97	0.18	0.09	0.07	0.05	0.03
FIN=NONEX	0.96	0.22	0.30	0.11	0.07	0.14
ACCT=FIN	0.95	0.30	0.12	0.15	0.10	0.04

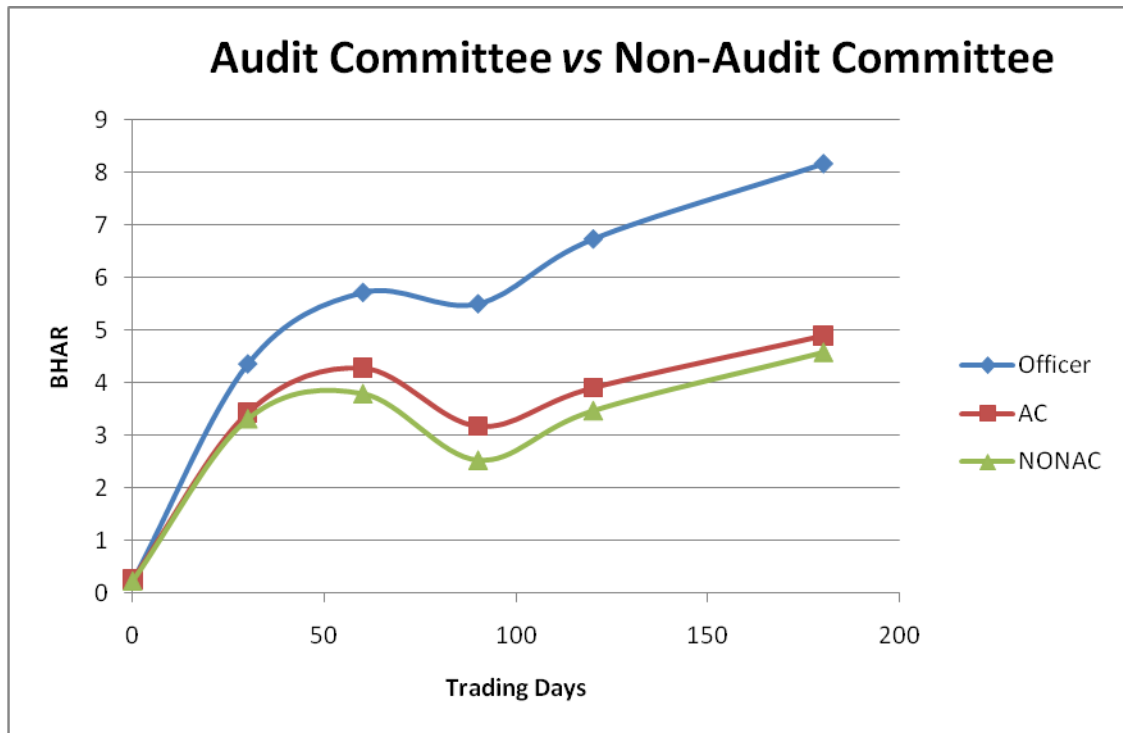
ACCT is a dichotomous variable set equal to 1 if the individual is an accounting financial expert as the definition in DeFond et al. (2005) and Zhang et al. (2007), zero otherwise; FIN is a dichotomous variable set equal to 1 if the individual is a non-accounting financial expert, and zero otherwise; all other variables are as previously defined. The coefficient standard errors are in parentheses. ***, **, and * denote two-tailed significance at the 1%, 5%, and 10% levels, respectively.

Table 8
Accounting Financial Experts (ACCT) vs. Non-Accounting Financial Experts (FIN)
Controlling for Size and BM

	(1)	(2)	(3)	(4)	(5)	(6)
	RET(t)	RET(t+30)	RET(t+60)	RET(t+90)	RET(t+120)	RET(t+180)
Constant (Officer)	1.32*	35.46***	56.72***	87.03***	97.38***	131.35***
	(0.96)	(4.43)	(6.44)	(8.05)	(9.62)	(11.34)
ACCT	0.07	-1.09	-2.38**	-2.94**	-3.22*	-5.14**
	(0.20)	(0.92)	(1.34)	(1.67)	(1.99)	(2.34)
FIN	0.01	-0.72	-0.97	-1.69*	-2.22*	-2.29
	(0.15)	(0.71)	(1.03)	(1.29)	(1.53)	(1.80)
NONEX	-0.007	-1.28	-1.36	-3.31**	-4.05**	-3.38
	(0.24)	(1.10)	(1.60)	(2.00)	(2.38)	(2.80)
NONAC	-0.002	-1.04**	-1.93**	-2.97***	-3.26***	-3.59**
	(0.14)	(0.63)	(0.92)	(1.14)	(1.36)	(1.60)
Block Holder	0.53***	-2.25***	-1.87*	0.85	1.47	2.44
	(0.20)	(0.90)	(1.31)	(1.64)	(1.95)	(2.31)
Transaction	0.49*	2.53*	-0.73	4.63*	-2.97	-4.17
	(0.38)	(1.87)	(2.72)	(3.41)	(4.06)	(4.80)
Holdings	-0.004	-0.03	-0.06*	-0.03	-0.06	-0.08
	(0.007)	(0.03)	(0.05)	(0.06)	(0.07)	(0.08)
Size	-0.26*	-6.44***	-11.23***	-17.17***	-19.62***	-26.11***
	(0.16)	(0.74)	(1.09)	(1.36)	(1.62)	(1.90)
Book-to-Market	0.71***	11.27***	24.85***	32.15***	40.90***	50.56***
	(0.21)	(0.98)	(1.43)	(1.79)	(2.13)	(2.51)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	10,606	10,584	10,565	10,544	10,508	10,426
Adjusted R ²	0.38	0.46	0.47	0.48	0.50	0.54
Test of hypothesis : <i>p</i>-values for <i>F</i>-tests comparing coefficients						
ACCT=NONEX	0.99	0.37	0.51	0.16	0.13	0.28
FIN=NONEX	0.94	0.37	0.18	0.14	0.15	0.07
ACCT=FIN	0.93	0.30	0.17	0.08	0.09	0.06

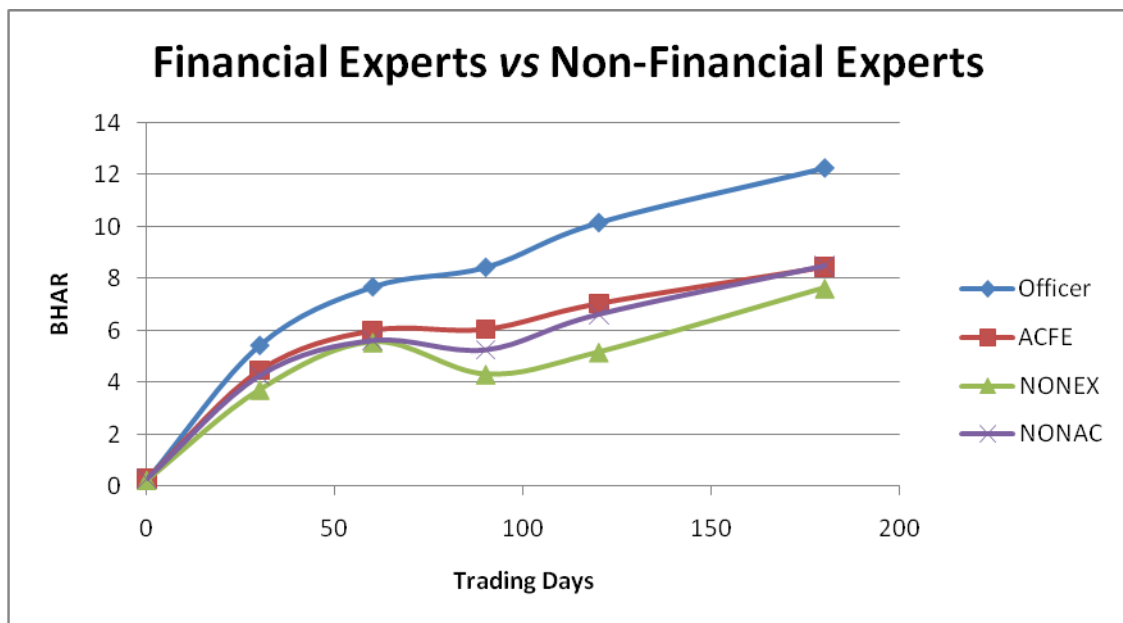
All variables are as previously defined. The coefficient standard errors are in parentheses. The symbols ***, **, and * denote two-tailed significance at the 1%, 5%, and 10% levels, respectively.

Figure 1



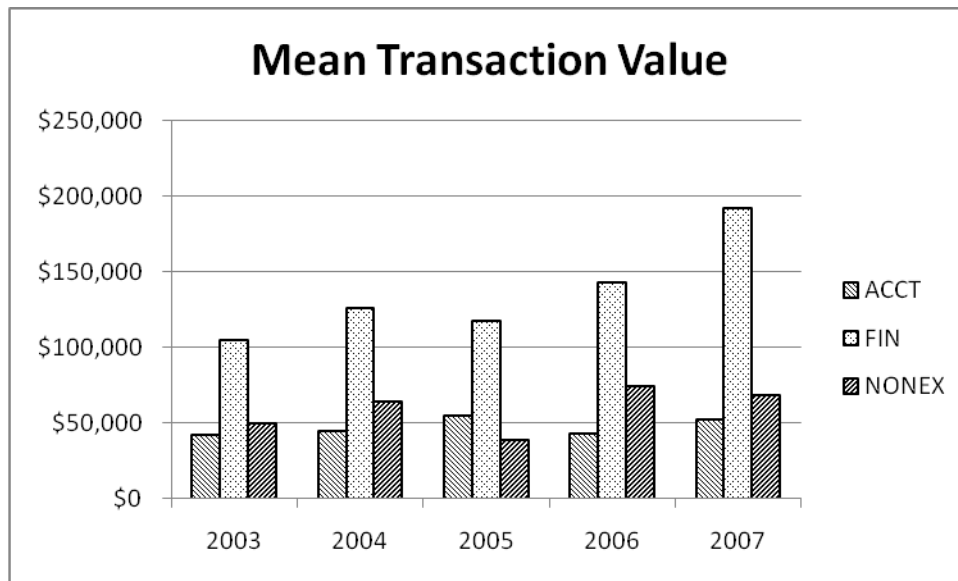
Buy-and-hold abnormal return of insider purchase of executive officers, independent directors on audit committees and on non-audit committees.

Figure 2



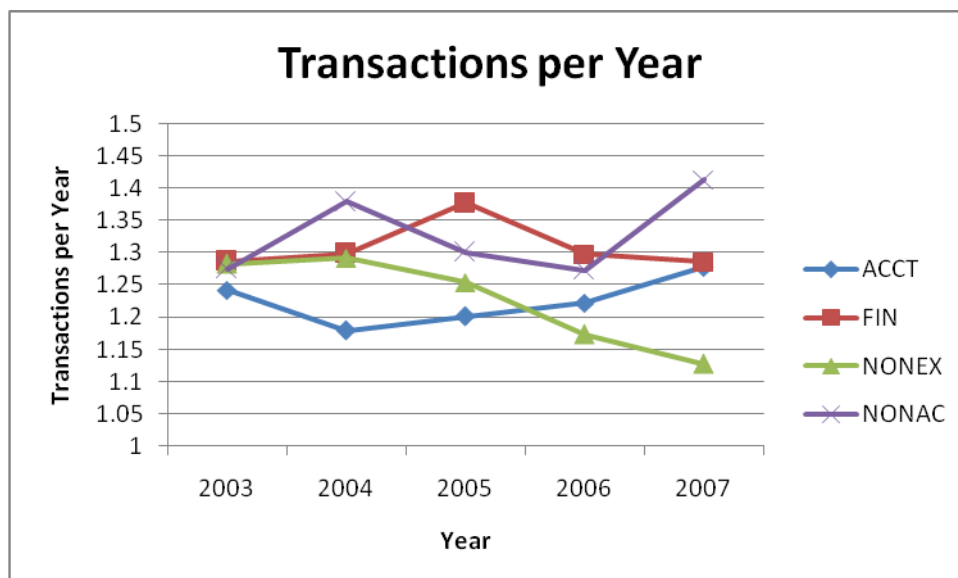
Buy-and-hold abnormal return of insider purchase of executive officers, audit committee financial experts, audit committee non-financial experts and non-audit committee directors.

Figure 3.



ACCT is an accounting financial expert that sits on the audit committee, FIN is a non-accounting financial expert that sits on the audit committee, NONEX is an audit committee director who is not a financial expert. The mean transaction value is the average transaction value (transaction price*number of shares) for each director category.

Figure 4



Transactions per year is the total number of transactions for each director category divided by the number of directors in the category.