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Stock Split in Insider Trading: Lessons from Malaysia

Shaharudin Jakpar[1], Michael Tinggi[2], Tan Zhao Yu[3], Norshamsiah Samsudin[4]
[1,2,3]Faculty of Economics and Business, Universiti Malaysia Sarawak, Malaysia,
[1]E-mail: jshaharudin@unimas.my (Corresponding author)
[4]Kementerian Pendidikan Malaysia

Abstract

Average daily cumulative abnormal volume turnover (ACAVT) is an interesting indicator for research purposes to determine the existence of possibly insider trading. The objective of this paper is to examine the existence of the possibly insider trading prior stock split announcement by using ACAVT. A sample of 79 public listed companies in Bursa Malaysia which did stock split within the period of 2013 to 2017 is analyzed. This paper also studies sample with positive ACAVT to determine the relationship between insider trading and independent variables which are market capitalization and major shareholder. One Sample T-Test and Multiple Regression Analysis are used in the study. The results indicate that there is 36.71% or 29 of studies sample involved in suspicious of insider trading. However, the negative value of ACAVT's mean indicates that there is no existence of possibly insider trading prior stock split announcement. Market capitalization and major shareholder are insignificant negatively associated with possibly insider trading.

Key words

Stock Split, Insider Trading, Average Daily Cumulative Abnormal Volume Turnover (ACAVT)

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1. Introduction

Insider trading is a financial crime which comprised of fraud (Bender & Ward, 2005). Insider trading has long been considered as obstacle and tumor in building a healthy, fair, and transparent investment environment for investors. It is a financial crime done by insiders in taking advantages from corporate event for personal benefit. In the light of insider's personal advantage scandals, insider trading activity has obtained significant attention globally and exposed to the spotlight. This issue has been appeared into sights of the public such as regulatory authority, scholars, and individual investors during these recent years. As a result, there are a set of means, method, rules and regulations that has been carried out to supervise and monitor the insider trading activities in order to protect the investors' interest and maintain the rules of game.

Latent confidence crisis which caused by furious insider trading activity and destroyed the effort of government in developing fair and smooth capital market. In some developing countries' market or known as emerging market, loose regulation would derive and furnish relatively solid space for illegal and unethical practices with ambiguous or bad result for local capital market. There are many countries have their own regulatory law to prohibit and eliminate illegal insider trading. A study shows that there are 87 out of 103 countries had enacted insider trading law to reduce the cost of equity related to insider trading (Bhattacharya & Daouk, 2002). However, a question mark is raised on the endeavor of restraining the

insider trading. In this research, a new and interesting supposition has been established which indicates the possibly existence of insider trading in stock split event.

1.1. Background of study

Bursa Malaysia has been committed to law governance in prohibiting insider trading. For this purpose, Securities Commission was established in 1993. In Malaysia, Capital Market Securities Commission 2007 (CMSA) has been enacted to regulate Malaysia market. According to CMSA 2007, a well-defined point of insider trading definition is provided which is "the purchase or sale of a company's securities effect by or on behalf of a person with knowledge of relevant but non-public material information regarding that company". Function and power which applied to monitor and regulate the insider trading is delegated under Part V, Division 1, Subdivision 1 of the Capital Market & Services Act 2007 (CMSA). *PP v Chua Seng Huat* and *SC v Wan Azmi Bin Wan Abdul Rahman* are the minority prosecution of insider trading cases in Malaysia. To form a healthy and competitive investment environment, Malaysia government had formed Security Commission as a regulatory body to better supervise the market framework and also strengthen market transparency and efficiency. A series of acts such as Acts of Parliament including Capital Markets and Services Act 2007, Securities Industry (Central Depositories Act) 1991, Securities Commission Act 1993, Companies Act 1965, Offshore Companies Act 1990 and Labuan Offshore Securities Industry Act 1995 are formulated and used to govern the capital market Malaysia.

In this research, stock split is the common corporate event which is used to examine its connection to insider trading. Stock split has been considered as a normal business practice through the ages. It is a company decision which intends to increase the amount of outstanding share by issuing more shares to present shareholders. Basically, the stock price will face unclear fluctuation and volatility during the whole process of stock split. The process is considered has started from the date which before stock split announcement is released until the date after the stock split is completed. Hence, stock split event is suspected to be utilized by insider to gain personal profit. Stock split was used frequently in the 18th century in British and was referred as stock dividend (Angel, 1997).

1.2. Problem statement

Insider trading could be carried out in a various business event. In the study of Chen *et al.* (2006), they proposed investment is sensitive to quantity of stock price's private information. It can be regarded as an insider's mean to use such private information in corporate event. According to Doffou (2003), insider who possessed monopolistic information can get profit before announcement of mergers, stock split and dividend increment which is considered as influential to share price is released to market. In Malaysia equity market, an interesting research has been conducted by Sarli *et al.* (2014) to determine the probability insider trading exists in merger and acquisition event. It proposed the abnormal average volume turnover appeared before the announcement of merger and acquisition is released.

Theoretically, the purpose of undertaking stock split is to achieve liquidity of stock in order to increase efficiency of share circulation based on a number of literature reviews (Dennis, 2003; Muscarella & Vetsuypens, 1996; Kryzanowski & Zhang, 1996; Schultz, 2000). At the same time, bid ask to spread of shares will be narrowed. It benefits those individual investors who possess small capital. Hence, it enables to attract more capital flow into company. According to Chern *et al.* (2008), a positive relationship and connection between abnormal return and stock split announcement has been demonstrated. However, stock split event has not enough evidence to be regarded as innocent corporate practice by assessing its volume trades prior announcement. The connection between insider trading and stock split is still indistinct.

This research mentioned about illegal form insider trading rather than legal form. Illegal insider trading is one of the significance issues facing our stock markets today. This activity represents an evident element of the market. Self-concern of insider who possessed privileged possession of corporate information allows them to gain an unfair benefit through via various corporate events. A study shows that approximately 25% of merger and acquisition announcements are related to illegal insider trading to earn abnormal return for personal purpose (Augustin *et al.*, 2015).

In fact, based on the study of Sarli *et al.* (2014), insider trading is inferred exist before announcement of mergers and acquisition is released. They found that abnormal volume turnover before releasing a corporate event announcement to the public is suspicious and enough evidence linked to possibly insider trading. Mergers and acquisition and stock split are the common corporate event practiced by Malaysia listed companies In order to determine the appearance of possibly insider trading in stock split event, it is vital that this research be conducted to determine whether the existence of possibly insider trading in Bursa Malaysia in order to raise awareness to investors and regulatory. Besides that, this study aims to examine the relationship of firm ownership structure and firm capitalization level on the abnormal volume turnover prior announcement which is believed.

1.3. Research questions

In this research, there are several questions needed to be pointed out in order to demonstrate the existence of possibly insider trading in Malaysia equity market. Positive Average Daily Cumulative Abnormal Volume Turnover (ACAVT) is considered as possibly insider trading in this study which is suggested by study of Chae (2005) and Sarli *et al.* (2014). Besides, the characteristics of Malaysia's firm which are more likely to undertake stock split associated with intention of possibly insider trading are necessary to be figured out. In the study of Nguyen *et al.* (2017), firms with low market capitalization and high ownership structure are vulnerable by insider trading in stock split event. Hence, these ideas are combined and shaped in this study, to lead to these problem statements.

1. Is possibly insider trading existing prior to stock split announcement in Bursa Malaysia (Kuala Lumpur Stock Exchange)?
2. Is there any relationship between positive ACAVT and market capitalization?
3. Is there any relationship between positive ACAVT and major shareholder?

1.4. Significance of the study

The research which purposed to determine the relationship and connection between insider trading and stock split event are very limited and has been neglected in the context of South-East Asia countries especially Malaysia. Moreover, there is no prior research which to demonstrate and authenticate the existence of possibly insider trading activity in the stock split event in Malaysia stock market in term of abnormal volume turnover. Therefore, this research can be deemed as the starting point to disclose the undiscovered and unknown surface of a common corporate event which is stock split in Malaysia stock market through assessing its abnormal volume turnover before announcement is released to the public. Insider trading is informative from purchase action (Lakonishok, 2001). Purchase of stock will lead to a change of volume trades. Hence, abnormal volume turnover before announcement is regarded as an indicator of insider trading. The contribution of this research is to provide opportunity and introduction to future studies for undertake the similar association but in different research period and regions.

In fact, the findings of this research is to figure out whether or not there is a significant relationship between undertaking stock split and existence of possibly insider trading through via Average Daily Cumulative Abnormal Volume Turnover (ACAVT). Clearly, this research provides an awareness and consciousness to policymakers and regulators to enact specify law and strengthen the law enforcement in order to restrain and eliminate the insider trading which exist in various business forms. The result shows them the evidence of existence of possibly insider trading which bring abnormal return to insiders only but not investors. Besides that, investors also benefit from the empirical finding of this research, as it helps investors to deeply understand the secret layer of corporate event stock split. Hence, they have more clearly investment strategy and aspiration in equity market. Strictly legal actions are able to build a fair, transparent and smart investment environment. At the same time, confidence of market and investors can be regained.

2. Literature review

2.1. Misappropriation Theory

Misappropriation theory has proposed a viewpoint that regards to an action of information embezzlement from a people concerned and then do the sales and purchase of certain stock based on the misappropriated insider information. The first application of this theory in real life can be track back to Chiarella v United State cases which judged by Chief Justice Burger. Deliberate bamboozlement on negligence is unfair to investors who trade in other hand. The application of misappropriated theory states motivation to those who is hard working. According to Beeson (1996), a duty is listed to disclose the misappropriated information or repulse from trading will effectively choke the insider trading. In most cases, this theory is commonly related to insider trading.

In United States v. O'Hagan (1997) case, misappropriation theory showed its importance and play decisive roles. In the history of insider trading, this case has been regarded as landmark case for misappropriation theory. The idea of fraud on the source" version in this theory is strengthened. In the study of Boyle (1992), the main point for this theory is to give protection to private information. It provides an alternative standpoint other than classical view which is only verdict a person's offence based on their action of sales or purchase securities by using stolen information. Under this theory, a person who using his/her knowledge on getting such material non-public information to trade securities for profit is able to be considered as guilty. The concept of misappropriation theory is to emphasize the "source of misappropriation information". This theory extends the context of "outsider" who uses the same private and confidential knowledge in securities sales and purchase.

Nagy is the first law scholar that suggest the misappropriate theory should be redefine and attached with the concept of "fraud of investors". Any trading of securities based on misappropriated information should be consider and found as fraud on those securities sellers (Nagy, 1998). The limitation of misappropriation theory is on "non-fiduciary thief". Doffou (2003) describes misappropriation theory illuminate a fiduciary responsibility of a person toward his or her employer. Besides, liabilities imposed by misappropriation theory on investors who accepted the confidential information (Mitchell, 2016). Apart from that, secondary or tertiary receiver of material nonpublic material is responsibility to bear the criminal liability (Baer, 2017).

2.2. Agency Theory

Agency theory has been first promoted by Jensen and Meckling in 1976. It has been widely used by researchers in economic (Spence & Zeckhauser, 1971), accounting (Demski & Feltham, 1978) and finance (Fama, 1980) as well. It expounds the contractual relationship between "suppliers" and "users" of a company's resource. The suppliers are regarded as "principal" whilst users are known as agent. Agents are the personnel who have control power and authority on decision-making over a company. This concept is well put in insider trading issue which indicates the agents or known as insiders are potential in making personal benefit by using confidential information.

Nevertheless, agency theory demonstrated that agency cost is negligibility if agents are the principle at the same time. However, agency cost in a corporation is believed would never disappear as if a company's ownership and control power are two different parts (Jensen & Meckling 1976). According to Eisenhardt (1989), agency theory provides different angle of view to understand better about the flow and cycle of information in a firm. According to Omar *et al.* (2017), conceal and risky relationship between principal and agent caused asymmetry of information. The dual-principal problem generally appear if as state and non-state stakeholder possess state-controlled public firms and have various aim and purpose (Thomsen & Pedersen, 2000).

2.3. Insider Trading

Insider trading is a controversial and inconclusive issue among scholars. The polarization of viewpoints of researchers is obvious on impact of insider trading. Discussions and debates among benefits or harm of insider trading are enthusiastic.

Manne (1966) suggested that to allow investors includes insiders such as managers and shareholders to get profit from their own financial activities in order to control and even eliminate the agency problem. In view of Jensen & Meckling (1976), an alternative to increase a company's value is to meliorate a firm's decision-making quality due to insider trading. Proposition of Chau & Vayanos (2008) is the profit of insider in trading would not be affected in strong-form efficiency market. Efficiency of market could be approved via through spread of insider's information (John & Lang, 1991).

In other views among scholars, insider trading can be categorized into two which are legal and illegal. Insider trading would be considered as illegal activity if the information utilized is non-public and substantial (Thompson, 2013). In fact, existence of insider trading disproves the confidence level of efficient market hypothesis. Insider trading can be defined as legal activity if insiders disclose every transaction they made on company shares under regulation and rules to the public. According to Aktas *et al.* (2008), US companies undertake legal insider trading every day and report every transaction to the Securities and Exchange Commission (SEC). Fishman and Hagerty (1992) promoted the mandatory disclosure rule which is the disclosure of private information to public that can effectively control the active of insider trading. In spite of this, there is lack of study to set up a standard to determine the insider trading. Most of study is to discuss the existence of insider trading.

2.4. Stock Split

According to Angel (1997), stock split is usually been undertaken because of maintaining optimal tick size relative to stock price. This point is supported by liquidity theory which is proposed by Dennis (2003), Muscarella & Vetsuypens (1996), Kryzanowski & Zhang (1996), and Schultz (2000). Stock split is believed that able to adjust stock price in order for adapting industry norms (Lakonishok & Lev, 1987). Liquidity of stock would be better after stock split (Copeland, 1979). According to Fama *et al*. (1969), Grinblatt *et al.* (1984), Brennan & Copeland (1988b), Desai & Jain (1997), and Ikenberry & Ramnath (2002), undertaking stock split is believed to be associated with abnormal return.

As we know, abnormal return can be easily achieved by insiders who possess material non-public material through via illegal insider trading. Objection of insider trading existence in stock split practice should be given awareness and attention. Stock split has long been deemed as market preferable corporate event even though it is a possibly delusive corporate phenomenon (Ikenberry *et al.*, 1996). In fact, the aim of corporate undertakes stock split can be briefly explained by several approaches which are signaling approach, trading-range approach and liquidity approaches even though the latent purpose is remain ambiguous. Asymmetry information is believed to exist between insiders and outsiders. Signaling approach shows that a subtle signal associated with insider's action will be released to market and drive the investor's sentiment.

There are several studies indicate that there is information hidden under various business forms especially stock split. Huang *et al.* (2009) indicated that the hidden information of corporate stock split is a signal of company's better future financial condition. A better operating performance has been found during the announcement year of stock split. Besides that, according to Chen *et al.* (2011), company intends to liberate signal positive information through via stock split. Louis and Robinson (2005) found that insiders inform significantly positive discretionary accruals in the quarter before the stock split is announced. Besides, a number of researches about announcement effect of stock split has been carried out and studied globally. Fama Fisher *et al.* (1969) demonstrate that market is considered as "efficient" due to market reaction on stock price reflects rapidly to stock split announcement (known as new information) because of dividend distribution. Beladi *et al.* (2016) had verified the existence of January effect which is corporate is more likely to split their stock in January to gain abnormal return. An abnormal return has a positive and statistically relationship with stock split announcement (Kryzanowski & Zhang, 1991). However, according to Grinblatt *et al.* (1984), top management will not do stock split event if they have negative information in case bring negative impact to the stock price.

2.5. Volume Trading

The study regarding volume traded is one of the most commonly research issue in the literature of price-volume relation. Stock volume trading is an important and useful indicator for investor to do

investment decision. In fact, stock price is always reflecting the reaction of evaluation information by market players, while the change of volume trading could be regarded as interpretation investors on that information. According to Karpoff (1987), price-volume relation is vital for event study methodology. Volume changes can be traced to their common sense on the information flow on the market (Karpoff, 1987). In the study of Richardson *et al.* (1986), the change of price and volume traded was used to test for the existence of dividend clientele. In the study of Kim & Verrecchia (1991), volume studies can to a large extent substitute for return studies.

It might be a noisier indicator of information variables than the price change. Volume traded can be used in event studies in order to identify whether an event has informational content (Karpoff, 1986). According to Karpoff (1986), further restriction such as timing of new release must be imposed if volume traded is used to infer the degree of investor consensus. Motive of investors is supported by study of Lakonishok & Smidt (1986) which mentioned that tax incentives affect volume trading however it is not main factor. Study of Campbell & Wasley (1996) showed the empirical properties of daily trading volume and alternative methods to detect abnormal trading volume by using parametric and non-parametric test statistic. An interesting finding is obtained in study of Barron *et al.* (2017). They mentioned the earnings announcement will influence the volume traded. The reaction of trading volume is more heavily in large firm as compare to small firm. Firm size and volume reaction has positive relationship. Study of Rogers *et al.* (2016) examined the role of media and the response of volume trading towards insider trading news. In fact, unofficial and unconfirmed news has impact to the securities price and volume.

3. Methodology of research

The aim of this study is to decode likelihood of insider trading exist through via stock split prior stock split announcement in Bursa Malaysia. Besides, this study will investigate the relationship of insider trading and independent variables which are market capitalization and major shareholder.

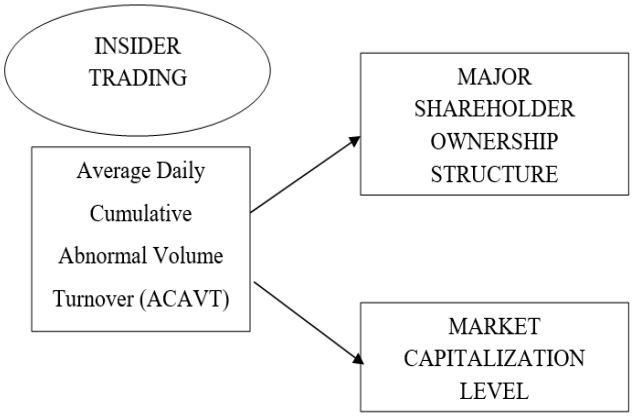

Figure 1. Conceptual Framework of the Study

3.1. Econometric Model

The estimated econometric model is developed as below:

$ACAVT_i = \alpha_i + \beta_1 Own_i + \beta_2 Cap_i + \mu_i$

Here, $ACAVT_i$ is the Average Daily Cumulative Abnormal Volume Turnover (ACAVT) in 84 working days. Own_i is the major shareholder ownership structure. Cap_i is the market capitalization level. β_1 and β_2 are the coefficient for market capitalization and market capitalization. Lastly, μ_i is the error term.

3.2. Dependent Variable

Average abnormal volume turnover (ACAVT) in 84-days event window of certain listed company prior stock split announcement is used to demonstrate the likelihood existence of insider trading activity or spreading insider information in the sample.

Log Turnover:

$$\tau_{i,t} = \ln\left(\frac{\text{Trading Volume}_{i,t}}{\text{Outstanding Shares}_{i,t}}\right) \quad (1)$$

Log Expected Turnover:

$$\tau_{e\,i,t} = \left(\frac{\sum_{t=-84}^{t=-22}\tau_{i,t}}{63}\right) \quad (2)$$

Abnormal Turnover ($\xi_{i,t}$) = Log turnover – Log Expected turnover

$$\xi_{i,t} = \tau_{i,t} - \tau_{e\,i,t} \quad (3)$$

Average Daily Cumulative Abnormal Volume Turnover (ACAVT)

$$ACAVT = \left(\frac{\sum_{t=-21}^{t=-1}\xi_{i,t}}{21}\right) \quad (4)$$

T=0 indicates the stock split announcement is published to the public. Insider trading will be demonstrated as exist in certain company prior stock split announcement if ACAVT is significantly more than zero and vice versa.

3.3. Independent Variables

The market capitalization level and major shareholder ownership structure are considered as explanatory variables to investigate the relationship with abnormal volume trading which have probable insider trading. Major Shareholder Ownership structure = Total percentage of the shares held by major shareholders who possessed more than 5% shares.

Market Capitalization level = Market Capitalization

3.4. Analysis Method

Multiple regression model is used in this research to do statistical analysis. In this research, One Sample T-Test is used to determine overall mean of ACAVT to determine the existence of possibly insider trading in general.

3.5. One Sample T-Test

According to Ross & Willson (2017), one sample t-test compares the mean of a sample to a population mean. It is used to determine whether a sample of observations could have been generated by a process with a specific mean. Statistical significance is determined by assessing the p-value. Null hypothesis will be rejected if the p-value is less than 0.05. It indicates that there is an above normal change in volume turnover of shares prior stock split announcement.

H_0: ACAVT= 0

H_1: ACAVT ≠ 0

3.6. Diagnostic Test

ViF test of Multicollinearity

Multicollinearity problem exists if an explanatory variable can be linearly predicted from the other explanatory variables with a massive accurate level in the multiple regression models. In this research, Variance Inflation Factor (ViF) is conducted to determine the multicollinearity problem. According to Gujarati and Porter (2009), the null hypothesis will be rejected if value of ViF is more than 10.

H_0 = There is no multicollinearity problem.

H_1 = There is a multicollinearity problem.

Wald Test of heteroscedasticity

Heteroscedasticity problem indicates the error term is spread unequally and out of the range of measured value. In ordinary least square (OLS) regression model, variance of error term in population is

considered as consistent which is also known as homoscedasticity. The null hypothesis is stated as followed:

H_0 = There is no heteroscedasticity problem

H_1 = There is heteroscedasticity problem

The heteroscedasticity problem is demonstrated exists if the p-value is smaller or equal to the significance level which means to reject the null hypothesis.

Durbin-Watson Autocorrelation Test

Durbin-Watson test is shown to approximately locally best steady against regression models based on cross-sectional data. This test aim to determine the residuals from a linear regression or multiple regressions are independent.

H0: $\rho = 0$

H1: $\rho > 0$

Null hypothesis will be rejected if d is smaller than d_L as lower critical values. If d is greater than d_U, null hypothesis would not be rejected. Test is considered as inconclusive if d is located at range between d_L and d_U.

4. Findings

4.1. Abnormal Volume Trading Prior Announcement and Insider Trading

The data analysis is based on the Average Daily Cumulative Abnormal Volume Turnover (ACAVT) of the data which suggested by work of Chae (2005). The event windows in this study are 21 days and 84 days prior stock split announcement and make the comparison by using these 2 different event windows. In this study, overall results ACAVT calculated from stock split announcements in Bursa Malaysia are negative. In this study, trend and pattern of volume turnover change prior stock split announcement is used as an indicator of insider trading.

One Sample T Test is conducted to determine whether a sample of observations could have been generated by a process with a specific mean. In this study, One Sample T-Test is used to evaluate whether the ACAVT of stock split announcement is significantly different from zero. P-value of ACAVT of entire sample is 0.020 which is less than the significance of 0.05. There is sufficient evidence to reject the null hypothesis, and thus, there is an abnormal trading volume before the company announces a stock split. For entire sample, mean difference of -0.290195143 indicates that the average ACAVT of the sample is about 0.290195143 lower than 0. In this study, result shows that overall result ACAVT calculated from stock split announcement in Bursa Malaysia are negative in general. Interesting, overall negative ACAVT prior stock split indicates that there is no existence of insider trading before a stock split announcement is released to the public.

The result of this study is inconsistent with the literature of existence abnormal volume turnover before merger announcement which provided by Ascioglu, McInish and Wood (2002). However, 36.71% of analyzed stock split of public listed companies in Malaysia Stock Market had significant ACAVT values higher than zero for the studied period which is 84-days prior stock split announcement is released. It indicates the particular studied samples has shown possibly insider trading from the entire sample. The possibly explanation for the unusual result could be the law and regulation about insider trading in Malaysia stock market is success and sufficient strict to restrain the insider trading.

4.2. Market Capitalization and Possibly Insider Trading

From regression model analysis, market capitalization is insignificantly negatively associated with the insider trading. Since its p-value of the variable as stated is 0.645 which is higher than the significance level of 0.05. However, there is not any influence to insider trading. This result is inconsistent with the hypothesis stated of this study. This study failed to accept the hypothesis which is there is significant relationship between market capitalization and possibly insider trading.

4.3. Major Shareholder and Possibly Insider Trading

The result obtained from the regression analysis shows that major shareholder as indicator of ownership structure in this study is insignificantly negatively associated with insider trading. The p-value of 0.645 is higher than the significant level of 0.05. Meanwhile, its variable's coefficient is -0.094. In this study, major shareholder fails to prove its significant relationship with insider trading but there is a negative relationship between them.

5. Conclusions

This study purposes to determine whether there is illegal insider trading exists prior stock split announcement in Bursa Malaysia. The second key point is to examine the relationship between possibly insider trading and 2 independent variables which are market capitalization and major shareholder. There are 79 public listed companies in Malaysia stock market are chosen as samples for the period from 2013 to 2017. For hypothesis 1, Average Daily Cumulative Abnormal Turnover (ACAVT) is used as indicator to determine the possibly insider trading activity prior stock split announcement at the primary step. In the phrase two, One Sample T-Test is used to access and evaluate the overall ACAVT for the samples and judges the existence of possibly insider trading. For hypothesis 2, samples are consisting of 29 studies companies with positive ACAVT. By using SPSS Software, multiple regression analysis is used as the method of this study. The other tests conducted include descriptive statistic, One Sample T-Test, diagnostic tests, and multiple regression analysis.

The results show there is no existence of insider trading prior stock split announcement in Bursa Malaysia with a mean of -0.29019514 in overall. In spite of this, 36.71% or 29 studies samples are detected have positive ACAVT which is an indicator of possibly insider trading. By using this 29 studied sample, market capitalization and major shareholder as independent variables are insignificant negative correlated to the insider trading. Hence, there is failed to accept the null hypothesis 2 and 3 which is market capitalization and major shareholder. In this study, market capitalization and major shareholder is insignificant negative associated with possibly insider trading.

It provides an existence of possibly insider trading in term of company size and the voting power held by shareholder. One of the finding in this research is the smaller company is vulnerable be attacked by insider trading. It is consistent with the study conducted by Nguyen, Tran and Zeckhauser (2017) who mentioned that the smaller the company capitalization level, the easier for insider to create volatility and impetus to its price. For second independent variables, major shareholder is measured in term of total shares held by major shareholder who hold more than 5% in particular company. It is also insignificant and negatively related to insider trading. However, the unfavorable result is inconsistent with the study of Maug (2002), dominant shareholders is easily to collude with management at the expense of small shareholders if insider law is loose. Maug (2002) mentioned that the more power dominant the shareholder, the high possibly undergo insider trading.

As a conclusion, insider trading is not exist prior stock split announcement in Bursa Malaysia and 2 explanatory variables (market capitalization and major shareholder) found to be insignificant negative associated with possibly insider trading in this study. In general, the main purpose which is to determine the existence of possibly insider trading has been reached.

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