

## Abstract

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Project Code: MRG6680200

Project Title: Earnings Management, Corporate Governance and Insider Trading: Evidence from Thailand

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### Abstract:

Earnings- one of important items in financial report- are typically used to portray the economic health of the firm and are closely monitored by many related bodies including board of directors, external auditor and market regulators. Earnings are also linked with executives' compensation and their employment, so executives have incentives to manage earnings. Earnings management is reasonable and legal decision making. Besides, insiders can take advantage on information asymmetry to manage earnings for their private benefits from their stock market transactions.

Using empirical evidence in Thailand from 2002-2010, this study examines the effectiveness of corporate governance mechanisms to align managers' decision with shareholders' interest, as well as investigates its relationship with insider trading and the impact of corporate governance. Our result suggests that earnings quality does not increase after corporate governance reforms. In case of non-financial firms, directors with accounting or financial expertise, the split of chairman and CEO positions and the interaction of family firm and reported ROA can reduce earnings management. With regard to the size of earnings management, insider buying in conjunction with higher ROA is more likely to have larger earnings management in financial firms, whereas insider trading does not have an effect in non-financial firms. However, corporate governance practices can have an impact on restricting size earnings management: the interaction of non-executives and big 4 auditors for financial firms, the split of chairman and CEO for non-financial firms. With regard to the sign of earnings management, abnormal insider selling relates with upward earnings adjustment only in non-financial firms. The only corporate governance practices associated with earnings adjustment are NED and the involvement of family shareholders on board for financial firms, but the financial experts on board for non-financial firms. Further, positive excess returns of hedge portfolio in abnormal insider buying and high/low earnings manage can indicate the possibility for insiders to exploit informational advantage. These findings can suggest the contributions to accounting professional body on the accuracy of earnings disclosures, to market regulators on information asymmetry and the implementation of corporate governance, as well as to investors on stock selection.

Keywords: Insider Trading; Information Asymmetry; Corporate Governance; Earnings Management; Earnings quality

Final report content:

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