

MEET THE AUTHOR

PROFESSOR MENESH S. PATEL

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An interview with Professor Patel on his Article, *Does Insider Trading Law Change Behavior? An Empirical Analysis*

Q: What inspired you to start writing this piece? How did you first come upon the idea?

A: What inspired me to start writing the piece was thinking about how legal scholars and others spend a lot of time thinking about various issues in insider trading, and we also discuss those issues in a number of our courses like Business Associations, Securities Regulation, and White-Collar Crime. We've thought about a lot of issues, but then I realized that we hadn't spent much time asking a basic question which is, do changes in insider trading law actually affect the amount of insider trading that occurs? So I started thinking about that question, and that became the genesis of my paper.

Q: What would you say is the main argument of your piece?

A: I think there are two main pieces. First is more about the methodology, and the second is the substantive position. The methodology is that one of the reasons that it's hard to evaluate whether or not insider trading responds to insider trading law is because you can't directly measure insider trading, because no one is going to tell you that they traded on material, nonpublic information. But you can look at indirect measures of it, and so my paper methodologically looks at one measure of insider trading which is what happens to stock prices in advance of mergers, and that serves as sort of a proxy for the amount of insider trading that occurs. So that's the first piece of the paper, which is to employ a methodology that can identify the amount of insider trading that occurs.

The second is the substantive component, which uses a well-known insider trading decision, the Second Circuit's decision in *Newman*, a 2014 decision, as a mechanism to see if insider trading is responsive to changes in insider trading law. That decision restricted insider trading law along a particular dimension so you can use that decision to see if insider trading changed because of it, using the methodology that I mentioned in the first part of the question.

Q: Could you tell us a little bit about yourself?

A: This is my second year teaching at King Hall. Before I started here, I had experience practicing law and in academic settings. I practiced for about ten years, doing commercial litigation and handling transactional matters at firms in Chicago and San Francisco, and then I took research positions at Stanford and Columbia for purposes of teaching.

Q: How did you first get into securities law?

A: I got into securities law primarily through practice, but my practice was focused in a bunch of areas, primarily in antitrust litigation and antitrust transactional work. The securities piece came in the non-antitrust part of my work, so it was primarily through my practice.

Q: Favorite sports team?

A: Oh, the UC Davis Aggies. Easy one.

Q: Favorite place to eat/get coffee in Davis?

A: If I get coffee, I get it at Temple. I find myself eating more in Sacramento than in Davis, and in Sacramento the place I go to most often is Hook & Ladder.

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Q: Did anything surprise you about your findings? Is this what you expected?

A: I think at the most general level the core question of the paper is "Do agents respond to changes in law?" Ordinarily, you think that the answer to that is going to be yes or we wouldn't all be involved in this enterprise and go home, and you'd think that that's especially true with respect to insider trading because there's a lot of professional traders that are in the market and that calculate the benefits and the costs and so you'd think that they're especially going to be responsive to changes in law. But, on the other hand, there are findings in behavioral economics and elsewhere that show that maybe people aren't as rational as we think they are. So, on net, I thought that there would be some effect, but what I didn't expect is how strong the effect would be. The empirical findings show that this particular decision in the short term, at least as measured by the metric that I used, had a three-fold increase in insider trading, so that was surprising. I expected a somewhat yes, but I didn't expect a resounding yes.

Q: Do you have any advice for students interested in securities law related research in preparation for writing a Note/paper?

A: Yes, and this would apply to securities law but also business law topics generally, one of the things to keep in mind is that those of us that do research in business law areas find it all very interesting, but those that don't may not find it as interesting. So, one of the things to do is to try to motivate the question to make it timely and interesting to those that are outside of the field. You can usually do that, and you should do that, in the first few paragraphs of your Note, so you find a way to hook the reader into the subject matter. For instance in my paper, it's about insider trading, which some people find interesting, but there's a section that talks about insider trading prosecutions which draws more people into the conversation.

Q: Any memorable stories from your experience as a law student that may be of interest to King Hall students?

A: I don't know if there are necessarily stories, but I think one of the things that I found surprising is that at the end of law school I thought I knew what the practice of law would be like, but I was surprised at many, many points during my first few years as a lawyer. So, the takeaway for law students is to do as much research and information gathering as you can while you're a law student to try to determine what your practice area is going to be like.

Q: Did you come across anything that surprised you as you were writing this piece?

A: I wouldn't say I came across anything that surprised me, but I certainly came across a bunch of different issues and questions that I have for future research that I'm really excited about. A project that I'm just about finishing up now looks at how the public defender office is created in general, and how each state manages the public defender. I think the separation of powers language would be familiar to most students, but a number of states do it under the executive branch and a number of states do it under the judicial branch. I think that for those of us who have studied professional responsibility might be a bit surprised that some states do it under the executive branch, because that is also the same branch that the prosecutor is under. It seems like there might be some sort of inherent conflict. My research so far, however, seems to suggest that that might actually be the better place for it. More so because there is a sort of political dimension in making sure that the public defender can do the job that they need to do under the Constitution. I'm still sort of exploring all of that, but developing that idea was a great side benefit to the already beneficial task of completing the UC Davis article.

Q: Do you have any advice for students interested in criminal law related research in preparation for writing a Note/paper?

A: I would say to speak with as many professors as you can. I would also really pay attention to the news. I remember when I was a law student, and it's completely understandable, but I was sort of living in a bubble (as much as you can live in a bubble while in law school). It is so necessary because you have so much work and for many of you, as it was for me, it might be a completely different environment than you or anybody in your family has ever experienced have ever experienced. But I think it's really important to know what's going on in the real world as much as possible. Pretty soon you're going to be in a position where you're out there effectuating change in the world, and you can spend the time here in law school really developing your critical thinking skills on some of those issues provided you remain aware of them.