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Summary:
Researchers found that the SEC's Regulation Fair Disclosure rule curtailed the amount of information that companies disclose to the public. Robert Whaley, co-director of the Financial Markets Research Center at Vanderbilt University summarizes, "While Reg FD gave everyone the same info at the same time, what it's done is it has made firms release less information and it drove up the cost of trading."

Whaley worked with Baljit Sidhu, Tom Smith and Richard Willis. Their research compared the cost components of the bid-ask spreads of NASDQ-listed stocks in the months before and after the Reg FD went into effect.

The study revealed that market makers demanded higher premiums after Reg FD because they were trading against better informed individuals. In fact, adverse selection costs increased about 36 percent after Reg FD was issued as compared to the previous five months.

Whaley now favors the type of continuous disclosure system that companies in Australia and Canada follow by immediately disclosing material information. He adds, "The point is if you want healthy markets news, the material events should be disseminated immediately."

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Did Reg FD Really Level the Playing Field?