Summary

This study examines the impact of continuous disclosure reforms introduced in December 2002. The paper investigates the level of information-based trading and market spreads in a sample of 71 NZX-listed stocks. Empirical results derived from transaction data and two microstructure models show the reforms had no measureable impact on either the level of information-based trading or the adverse selection component of market spreads in the broad sample of NZX-listed stocks.

Key Findings

- The results suggest that the reform had no discernible impact on the information parameters; the probability of a private information event occurring, or the probability of a private information event occurring
- The estimation results and test statistics show that there is little evidence of any significant changes in the arrival rate of uninformed traders, or the arrival rate of informed traders
- The estimation results in the pre and post-reform period show no significant impact on the adverse selection component of the market spreads.

Practical Application

The findings provide an initial assessment of the impact of the reform package introduced in December 2002 and thus should be of interest to both sides of the regulatory debate in New Zealand. Furthermore, the lack of results may also lend weight to the claim that the monitoring and compliance costs incurred by the Securities Commission, NZX and listed companies outweigh any of the purported benefits to investors of enhanced disclosure.