

The Effect of Mandatory Disclosure Dissemination on Information Asymmetry among Investors: Evidence from the Implementation of the EDGAR System

How did the SEC's implementation of the EDGAR system impact information asymmetry in financial markets, and how important are disclosure integration costs?

This study by Enrique A. Gomez examines how the U.S. Securities and Exchange Commission's implementation of the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system impacted information asymmetry among investors. Although EDGAR reduced the costs of acquiring public company filings, Gomez finds evidence that it also increased information asymmetry between more and less sophisticated investors.

More sophisticated investors, with greater resources and analytical skills, are better equipped to process (i.e., integrate) the complex information made available in EDGAR. This can leave less sophisticated investors at an informational disadvantage. To support this idea, the study documents that the increase in information asymmetry is greater for firms where investors face higher integration costs, i.e., firms with more complex filings, greater information content, and firms with lower analyst coverage.

The study implies that reducing information acquisition costs alone is not enough to ensure fairness in financial markets. While EDGAR did improve the availability of company filings, investors with the skills and resources to interpret complex information seemed to benefit to a greater extent. Therefore, it is important to consider information integration costs in addition to acquisition costs.

MAJOR TAKEAWAYS:

- EDGAR made financial disclosures easier to access, but it may have provided a way to increase the information gap between investors.
- More sophisticated investors are better at understanding and using complex data, which can give them an advantage over their less sophisticated peers.
- Just making information public might not always be enough, as many investors also need the tools and skills to integrate the information.

WHO NEEDS TO KNOW:

- Regulators
- Academics
- Policy Makers

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