Referee report on MS 382

"Disclosure requirements, the release of new information and market efficiency: new insights from agent-based models"

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This paper uses three agent-based models to study how disclosure requirements impact on market efficiency. The authors find that higher frequencies in disclosure requirements decrease extreme return outcomes without changing the return volatility. These findings hold in all three agent-based models considered. Therefore, the authors' policy recommendation is that firms should disclose new information continuously.

I have one major and one minor remark.

My major remark is related to how disclosure requirements are modeled. The agent-based models used in the paper allow the authors to investigate the effects of frequencies but not levels or styles of disclose requirements on market efficiency. In addition, the models do not allow the authors to study how the frequency of disclosure requirements impacts on firms' financing and investment decisions. It might be worthwhile to look at and to discuss the literature dealing with the relationship between disclosure requirements and firm behavior because more disclosure requirements may not always imply more efficient investment decisions (e.g., Admati and Pfleiderer 2000, Holmström and Kaplan 2003, Östberg 2006). Although this literature focuses on the level rather than the frequency of disclosure requirements, it might give useful insights on what happens to firms' investment policies. Without considering the impact of disclosure requirements on firm behavior, the authors' policy recommendations do not stand on a solid basis. Modeling the effects of disclosure requirements on firm behavior in an agent-based model approach might be tricky and too ambiguous. However, a discussion of the many different kinds of disclosure requirements (e.g., Boot and Thakor 2001) may give the reader more guidance when interpreting the paper's results. While practical issues, especially transaction costs, might be a strong argument against high frequencies of several kinds of disclosure requirements, ad hoc publicity reporting obligations nicely fit into the authors' story.

My minor remark is related to the model choice. While it is valuable that the main findings hold for different agent-based models (although the models are somewhat similar), it seems necessary to better motivate the study of the three different models. Moreover, are there any reasons to believe that the models should produce different outcomes? More guidance would certainly help the reader to get the full contribution of this work.

References

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