General Solicitation Rule and Voluntary Disclosure

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Abstract: This study examines how the Securities and Exchange Commission's 2013 General Solicitation Rule, which lifted the ban on general solicitation for certain private offerings, affects firms' voluntary disclosure practices through the information asymmetry channel. The regulatory change provides a unique setting to investigate how expanded marketing flexibility in private placements influences corporate disclosure decisions. Using a differences-in-differences research design, we analyze firms' voluntary disclosure behavior before and after the rule change. Initial results show a positive treatment effect, with firms increasing voluntary disclosure following the rule implementation. However, after controlling for firm characteristics, we find that firms reduced voluntary disclosure, with a significant negative treatment effect. The analysis reveals strong economic significance, with institutional ownership and firm size emerging as key determinants of disclosure behavior. The negative relationship between calendar risk and voluntary disclosure supports the information asymmetry channel. This study contributes to the literature by providing novel evidence on how regulatory changes affecting private offering marketing influence voluntary disclosure through information asymmetry. The findings advance our understanding of the economic mechanisms linking securities regulation to corporate disclosure policies and have important implications for regulators and practitioners.

INTRODUCTION

The Securities and Exchange Commission's 2013 General Solicitation Rule represents a landmark shift in private capital formation by lifting the decades-old ban on general solicitation for certain private offerings. This regulatory change fundamentally altered how firms can market private placements, potentially affecting information flows between companies and investors (Diamond and Verrecchia, 1991; Healy and Palepu, 2001). The rule's implementation provides a unique setting to examine how changes in marketing restrictions influence firms' voluntary disclosure decisions through the information asymmetry channel. While prior research documents that information asymmetry affects disclosure choices (Verrecchia, 2001), the impact of allowing broader marketing of private offerings on firms' disclosure strategies remains unexplored.

This study investigates how the relaxation of general solicitation restrictions affects voluntary disclosure through changes in information asymmetry between firms and investors. Specifically, we examine whether enhanced marketing flexibility leads firms to adjust their voluntary disclosure practices to address information gaps created by broader dissemination of offering information. Our research addresses two key questions: (1) How does the ability to generally solicit affect firms' voluntary disclosure decisions? (2) To what extent does information asymmetry mediate this relationship?

The theoretical link between general solicitation and voluntary disclosure operates primarily through the information asymmetry channel. When firms can broadly market private offerings, they face increased pressure to provide additional voluntary disclosures to reduce information asymmetry with a wider potential investor base (Myers and Majluf, 1984). This expanded marketing flexibility creates incentives for firms to signal their quality through enhanced voluntary disclosure, consistent with signaling theory (Spence, 1973) and information economics frameworks (Akerlof, 1970).

The information asymmetry channel suggests that firms permitted to generally solicit will increase voluntary disclosure to differentiate themselves and reduce adverse selection concerns. This prediction builds on established theoretical work showing that higher information asymmetry leads to greater voluntary disclosure when firms seek external financing (Verrecchia, 1983; Dye, 1985). Additionally, broader marketing of private offerings likely increases the marginal benefit of voluntary disclosure by expanding the potential investor base (Diamond, 1985).

The relationship between general solicitation and voluntary disclosure through information asymmetry reflects fundamental economic forces in capital markets. As information asymmetry increases with broader marketing permissions, firms face stronger incentives to provide voluntary disclosures that help investors assess firm quality (Lang and Lundholm, 1993). This mechanism suggests that firms permitted to generally solicit will increase voluntary disclosure to reduce information asymmetry costs.

Our empirical analysis reveals that the General Solicitation Rule significantly affected firms' voluntary disclosure practices. The baseline specification shows a positive treatment effect of 0.0313 (t-statistic = 2.06), indicating that firms increased voluntary disclosure following the rule change. However, after controlling for firm characteristics, we find a negative treatment effect of -0.0573 (t-statistic = 4.10), suggesting that firms actually reduced voluntary disclosure when accounting for other factors.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.5015, t-statistic = 18.67) and firm size (coefficient = 0.1232, t-statistic = 25.29) emerging as key determinants of voluntary disclosure behavior. The negative relationship between calendar risk and voluntary disclosure (coefficient = -0.1731, t-statistic = -7.40) further supports the information asymmetry channel, suggesting firms adjust disclosure strategies

based on underlying risk factors.

These findings indicate that the General Solicitation Rule's impact on voluntary disclosure operates primarily through changes in information asymmetry between firms and investors. The contrasting results between our baseline and controlled specifications suggest that firm characteristics significantly influence how companies respond to expanded marketing flexibility through their voluntary disclosure decisions.

This study contributes to the literature by providing novel evidence on how regulatory changes affecting private offering marketing influence voluntary disclosure through information asymmetry. We extend prior work on disclosure regulation (Leuz and Verrecchia, 2000) and information asymmetry (Bushman and Smith, 2001) by documenting how changes in solicitation rules affect firms' disclosure strategies. Our findings have important implications for understanding how marketing flexibility in private offerings shapes information environments and corporate disclosure policies.

The results also advance our understanding of the economic mechanisms linking regulatory changes to voluntary disclosure decisions. While prior research examines various determinants of voluntary disclosure (Core, 2001; Beyer et al., 2010), we provide new evidence on how marketing restrictions in private offerings influence firms' disclosure choices through the information asymmetry channel. These insights inform both theory and practice regarding the relationship between securities regulation and corporate disclosure policy.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The General Solicitation Rule, implemented through SEC Rule 506(c) of Regulation D in September 2013, represents a significant shift in private offering regulations by lifting the long-standing ban on general solicitation and advertising for certain private placements (Dambra et al., 2015). This regulatory change, mandated by the Jumpstart Our Business Startups (JOBS) Act, allows issuers to publicly advertise private offerings provided they take reasonable steps to verify that all purchasers are accredited investors (Bernstein et al., 2017). Prior to this rule change, private offerings under Regulation D were restricted from any form of general solicitation, limiting firms' ability to reach potential investors.

The implementation of the General Solicitation Rule created a two-track system within Rule 506. While Rule 506(b) maintains the traditional prohibition on general solicitation, Rule 506(c) permits issuers to engage in general solicitation subject to enhanced verification requirements for accredited investor status (Lowry et al., 2017). This regulatory change aimed to modernize capital formation processes and expand access to capital for private companies while maintaining investor protection through strict accreditation requirements (Chaplinsky et al., 2017). The rule became effective on September 23, 2013, following a comprehensive SEC review process and public comment period.

During this period, several other significant securities regulations were implemented, including Title I of the JOBS Act, which created "emerging growth company" status and modified disclosure requirements for certain IPO firms (Barth et al., 2017). However, the General Solicitation Rule was unique in its focus on private offerings and its potential to fundamentally alter how private companies communicate with prospective investors. Research indicates that this rule change occurred during a period of increasing private capital formation and growing importance of private markets in the U.S. economy (Ewens and Farre-Mensa, 2020).

Theoretical Framework

The General Solicitation Rule's impact on voluntary disclosure can be examined through the lens of information asymmetry theory, which posits that information disparities between firms and investors affect capital market outcomes. Information asymmetry creates adverse selection problems in capital markets, where investors demand higher returns to compensate for uncertainty about firm quality (Akerlof, 1970; Diamond and Verrecchia, 1991). In the context of private offerings, information asymmetry is particularly acute due to reduced disclosure requirements and limited public information availability.

The theoretical foundation of information asymmetry suggests that firms have incentives to reduce information gaps through voluntary disclosure when the benefits of disclosure outweigh the costs (Verrecchia, 1983). These benefits include reduced cost of capital, increased liquidity, and broader investor reach, while costs may include proprietary costs and potential litigation risks. The General Solicitation Rule directly affects this cost-benefit calculation by expanding the potential investor base and altering the information environment for private offerings.

Hypothesis Development

The relationship between the General Solicitation Rule and voluntary disclosure through the information asymmetry channel can be analyzed by considering how the rule affects firms' disclosure incentives. When firms can publicly advertise private offerings, they face a broader potential investor base with varying levels of sophistication and information needs (Dambra et al., 2018). This expanded reach increases the importance of credible information transmission to reduce information asymmetry and attract potential investors.

The ability to engage in general solicitation likely increases the marginal benefit of voluntary disclosure for several reasons. First, public advertising exposes firms to a larger pool of potential investors who may have limited prior information about the firm, creating stronger

incentives to provide voluntary disclosures to differentiate themselves from lower-quality firms (Grossman and Hart, 1980). Second, the enhanced verification requirements for accredited investor status under Rule 506(c) may lead firms to provide more detailed information to help potential investors assess their qualification status and investment opportunity (Lowry et al., 2017).

However, the relationship between general solicitation and voluntary disclosure may be moderated by proprietary costs and competitive concerns. Firms must balance the benefits of reduced information asymmetry against the costs of revealing sensitive information to competitors (Verrecchia, 1983). Additionally, the verification requirements under Rule 506(c) may create additional compliance costs that affect firms' overall disclosure strategies.

H1: Following the implementation of the General Solicitation Rule, firms engaging in private offerings under Rule 506(c) increase their voluntary disclosure compared to firms conducting traditional private placements under Rule 506(b).

MODEL SPECIFICATION

Research Design

We identify firms affected by the General Solicitation Rule through a comprehensive review of SEC filings and regulatory documents following the implementation of the JOBS Act Title II in 2013. The Securities and Exchange Commission (SEC) mandated that firms conducting private placements under Rule 506(c) must file Form D, which we use to identify treatment firms. Following Dambra et al. (2015), we classify firms as treated if they conducted private placements after the rule change.

To examine the impact of General Solicitation Rule on voluntary disclosure through information asymmetry, we employ the following difference-in-differences specification:

$$FreqMF = \beta_0 + \beta_1 Treatment\ Effect + \gamma Controls + \varepsilon$$

where FreqMF represents the frequency of management forecasts, our primary measure of voluntary disclosure (Lang and Lundholm, 1996). Treatment Effect is an indicator variable equal to one for firm-years after the implementation of General Solicitation Rule for treated firms, and zero otherwise. We include firm and year fixed effects to control for time-invariant firm characteristics and temporal trends (Bertrand and Mullainathan, 2003).

Our model includes several control variables identified in prior literature as determinants of voluntary disclosure. We control for institutional ownership (Ajinkya et al., 2005), firm size (Bamber and Cheon, 1998), book-to-market ratio (Rogers and Van Buskirk, 2009), return on assets, stock returns, earnings volatility, loss indicator, and litigation risk (Skinner, 1994). These variables account for various firm characteristics that influence disclosure decisions through the information asymmetry channel.

Variable Definitions

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year. Following Healy and Palepu (2001), we include both qualitative and quantitative forecasts to capture the breadth of voluntary disclosure practices.

Treatment Effect captures the impact of General Solicitation Rule implementation, coded as one for treated firms in the post-period and zero otherwise. This variable design follows the difference-in-differences methodology established in accounting literature (Roberts

and Whited, 2013).

Control variables are defined as follows: Institutional Ownership is the percentage of shares held by institutional investors; Firm Size is the natural logarithm of total assets; Book-to-Market is the ratio of book value of equity to market value of equity; ROA is income before extraordinary items scaled by total assets; Stock Return is the buy-and-hold return over the fiscal year; Earnings Volatility is the standard deviation of quarterly earnings over the previous five years; Loss is an indicator variable equal to one if net income is negative; and Litigation Risk is estimated following Kim and Skinner (2012).

Sample Construction

Our sample period spans from 2011 to 2015, encompassing two years before and after the 2013 implementation of General Solicitation Rule. We obtain financial data from Compustat, stock return data from CRSP, institutional ownership data from Thomson Reuters, and management forecast data from I/B/E/S. We merge these databases using standard identifiers and retain firms with complete data for our primary variables of interest.

The treatment group consists of firms that conducted private placements under Rule 506(c) after the regulatory change, while the control group comprises firms that did not utilize the new general solicitation provisions. We exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments (Leuz and Verrecchia, 2000).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 14,654 firm-quarter observations representing 3,765 unique firms across 253 industries from 2011 to 2015. We observe broad coverage across different industry sectors, suggesting our sample is representative of the broader economy.

The institutional ownership variable (linstown) shows a mean (median) of 0.563 (0.648), indicating that institutional investors hold, on average, more than half of our sample firms' shares. The interquartile range of 0.243 to 0.860 suggests considerable variation in institutional ownership across firms. These statistics are comparable to those reported in prior studies (e.g., Bushee and Miller, 2012).

Firm size (lsize), measured as the natural logarithm of market capitalization, exhibits a mean of 6.397 with a standard deviation of 2.093, suggesting our sample includes both small and large firms. The book-to-market ratio (lbtm) has a mean of 0.613 and a median of 0.493, with substantial variation as evidenced by the standard deviation of 0.594.

We find that profitability (lroa) shows a mean of -0.024 but a median of 0.027, indicating a left-skewed distribution. The presence of loss-making firms is further confirmed by the lloss variable, which shows that 28.7% of our sample observations report negative earnings. Stock returns (lsaret12) display a mean of 0.016 and a median of -0.039, with considerable volatility as shown by the standard deviation of 0.427.

Return volatility (levol) and calculated risk (lcalrisk) measures indicate significant variation in firm risk characteristics. The mean return volatility is 0.132, with a notably lower median of 0.052, suggesting the presence of some highly volatile firms in our sample.

Management forecast frequency (freqMF) shows a mean of 0.629 with a standard deviation of 0.909, indicating substantial variation in firms' voluntary disclosure practices. The post-law indicator variable shows that 58.6% of our observations fall in the post-treatment period.

Overall, our descriptive statistics reveal considerable cross-sectional variation in firm characteristics, suggesting our sample captures a diverse set of firms. The distributions of our key variables are generally consistent with those reported in prior studies examining information asymmetry and disclosure (e.g., Lang and Lundholm, 1996). While we observe some extreme values, particularly in return volatility and profitability measures, these appear to represent genuine firm characteristics rather than data errors.

RESULTS

Regression Analysis

We find that the implementation of the General Solicitation Rule has a significant effect on firms' voluntary disclosure practices, though the direction of this effect varies depending on model specification. In our baseline specification (1), we document a positive treatment effect of 0.0313 ($t=2.06$, $p<0.05$), suggesting that firms utilizing Rule 506(c) increase their voluntary disclosure relative to firms conducting traditional private placements under Rule 506(b). However, after incorporating firm-specific control variables in specification (2), we observe a negative treatment effect of -0.0573 ($t=-4.10$, $p<0.01$).

The statistical significance of our results is robust across both specifications, with t-statistics exceeding conventional thresholds. The economic magnitude of the effect is meaningful, representing approximately a 3.1% increase in voluntary disclosure in specification (1) and a 5.7% decrease in specification (2). The substantial difference in R-squared values between specification (1) (0.0003) and specification (2) (0.2290) suggests that firm characteristics explain a considerable portion of the variation in voluntary disclosure practices, and their omission may lead to omitted variable bias in the baseline specification.

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure determinants. We find positive associations between voluntary disclosure and institutional ownership (0.5015, t=18.67), firm size (0.1232, t=25.29), and return on assets (0.0697, t=2.67), consistent with the notion that larger, more profitable firms with greater institutional ownership tend to provide more voluntary disclosure. Negative associations with book-to-market ratio (-0.0608, t=-6.33), stock return volatility (-0.0967, t=-4.72), and loss indicators (-0.0954, t=-5.56) align with previous findings that firms with higher growth opportunities and lower risk profiles engage in more voluntary disclosure. These results partially support our hypothesis, as the baseline specification shows the predicted positive relationship between general solicitation and voluntary disclosure. However, the negative treatment effect in the more robust specification (2) suggests that the relationship is more complex than initially theorized, possibly due to proprietary costs and compliance considerations outweighing the benefits of reduced information asymmetry for firms utilizing Rule 506(c).

Note: The analysis reveals a correlation between the General Solicitation Rule and voluntary disclosure but does not establish causation due to potential endogeneity concerns and the observational nature of the data.

CONCLUSION

In this study, we examined how the 2013 General Solicitation Rule affected voluntary disclosure practices through the information asymmetry channel. Specifically, we investigated whether the relaxation of marketing restrictions for private placements influenced firms' disclosure behavior and the subsequent impact on information environments. Our analysis focused on understanding how the reduction in communication barriers between firms and

potential investors affected the equilibrium level of voluntary disclosure.

While our empirical analysis was limited by data availability, our theoretical framework suggests that the General Solicitation Rule likely had significant implications for information asymmetry in private capital markets. The removal of the general solicitation ban potentially created new incentives for firms to provide voluntary disclosures, as they could now directly communicate with a broader pool of potential investors. This regulatory change fundamentally altered the cost-benefit calculation firms face when deciding on their disclosure policies.

Our conceptual analysis builds on prior literature examining the relationship between disclosure and information asymmetry (e.g., Diamond and Verrecchia, 1991; Lang and Lundholm, 1996). The rule change represents an important setting to examine how regulatory shifts affecting information dissemination influence firms' disclosure choices and market outcomes. The ability to broadly solicit likely reduced some information frictions in private markets, though the net effect depends on how firms adjusted their voluntary disclosure practices in response.

These findings have important implications for regulators and policymakers. The interaction between general solicitation and voluntary disclosure suggests that regulators should consider how communication rules affect firms' disclosure incentives when designing private offering regulations. Our analysis indicates that reducing barriers to information dissemination may help mitigate information asymmetry concerns in private markets, though careful attention must be paid to potential unintended consequences.

For managers and investors, our study highlights the strategic importance of voluntary disclosure policies in private capital markets. Managers need to carefully consider how their disclosure choices interact with their capital raising strategies, particularly given the expanded

marketing options under the new regulatory regime. Investors benefit from understanding how the rule change affects the information environment and firms' disclosure incentives when evaluating private investment opportunities.

Several limitations of our study suggest promising directions for future research. First, empirical work examining actual changes in disclosure behavior following the rule change would provide valuable insights into how firms responded in practice. Second, researchers could explore heterogeneity in the effects across different types of firms and offerings. Third, future studies might examine how the rule change affected other aspects of private markets, such as the composition of the investor base or the terms of private placements.

Additional research could also investigate how the General Solicitation Rule interacts with other regulatory changes affecting private markets. For example, studies might examine whether the effects vary based on firms' ability to use other JOBS Act provisions or how the rule change influences firms' choices between public and private capital raising. Understanding these interactions would provide valuable insights for both academics and practitioners.

The findings of this study contribute to our understanding of how regulatory changes affecting information dissemination influence voluntary disclosure and information asymmetry in capital markets. As private markets continue to grow in importance, understanding these relationships becomes increasingly crucial for regulators, managers, and investors alike. Future research building on these insights will further enhance our understanding of the complex interactions between regulation, disclosure, and information environments in private capital markets.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	14,654	0.6291	0.9090	0.0000	0.0000	1.6094
Treatment Effect	14,654	0.5861	0.4926	0.0000	1.0000	1.0000
Institutional ownership	14,654	0.5634	0.3400	0.2434	0.6479	0.8602
Firm size	14,654	6.3971	2.0935	4.8936	6.4110	7.8682
Book-to-market	14,654	0.6131	0.5937	0.2629	0.4926	0.8222
ROA	14,654	-0.0244	0.2283	-0.0123	0.0275	0.0688
Stock return	14,654	0.0165	0.4273	-0.2142	-0.0385	0.1616
Earnings volatility	14,654	0.1322	0.2666	0.0228	0.0519	0.1323
Loss	14,654	0.2867	0.4522	0.0000	0.0000	1.0000
Class action litigation risk	14,654	0.3225	0.2826	0.1014	0.2213	0.4711

This table shows the descriptive statistics. All continuous variables are winsorized at the 1st and 99th percentiles.

Table 2
Pearson Correlations
GeneralSolicitationRule Information Asymmetry

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**0.02**	**0.04**	**0.09**	**-0.09**	**-0.03**	**0.02**	0.01	**0.02**	**-0.26**
FreqMF	**0.02**	1.00	**0.40**	**0.44**	**-0.17**	**0.22**	-0.02	**-0.17**	**-0.24**	**-0.04**
Institutional ownership	**0.04**	**0.40**	1.00	**0.62**	**-0.24**	**0.33**	**-0.03**	**-0.24**	**-0.30**	-0.00
Firm size	**0.09**	**0.44**	**0.62**	1.00	**-0.37**	**0.35**	**0.04**	**-0.24**	**-0.40**	**0.06**
Book-to-market	**-0.09**	**-0.17**	**-0.24**	**-0.37**	1.00	**0.07**	**-0.18**	**-0.10**	**0.03**	**-0.02**
ROA	**-0.03**	**0.22**	**0.33**	**0.35**	**0.07**	1.00	**0.12**	**-0.53**	**-0.60**	**-0.14**
Stock return	**0.02**	-0.02	**-0.03**	**0.04**	**-0.18**	**0.12**	1.00	**-0.02**	**-0.12**	**-0.02**
Earnings volatility	0.01	**-0.17**	**-0.24**	**-0.24**	**-0.10**	**-0.53**	**-0.02**	1.00	**0.36**	**0.15**
Loss	**0.02**	**-0.24**	**-0.30**	**-0.40**	**0.03**	**-0.60**	**-0.12**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.26**	**-0.04**	-0.00	**0.06**	**-0.02**	**-0.14**	**-0.02**	**0.15**	**0.18**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of General Solicitation Rule on Management Forecast Frequency

	(1)	(2)
Treatment Effect	0.0313** (2.06)	-0.0573*** (4.10)
Institutional ownership		0.5015*** (18.67)
Firm size		0.1232*** (25.29)
Book-to-market		-0.0608*** (6.33)
ROA		0.0697*** (2.67)
Stock return		-0.0786*** (5.78)
Earnings volatility		-0.0967*** (4.72)
Loss		-0.0954*** (5.56)
Class action litigation risk		-0.1731*** (7.40)
N	14,654	14,654
R^2	0.0003	0.2290

Notes: t-statistics in parentheses. *, **, and *** represent significance at the 10%, 5%, and 1% level, respectively.