

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 affects firms' voluntary disclosure practices through their interaction with unsophisticated investors. The rule's elimination of general solicitation restrictions for certain private offerings creates a natural setting to investigate how firms adjust their disclosure strategies when faced with an expanded pool of potentially less sophisticated investors. Using a difference-in-differences research design, we analyze firms' disclosure patterns before and after the rule change. While initial results show a positive treatment effect on disclosure levels, after controlling for firm characteristics, we find that firms ultimately reduce voluntary disclosure when exposed to more unsophisticated investors. The negative relationship between calendar risk and voluntary disclosure suggests firms become more conservative in their disclosure practices when facing greater uncertainty about investor sophistication. These findings are economically significant and robust across multiple specifications, with institutional ownership and firm size emerging as key determinants of disclosure behavior. Our study provides the first systematic evidence of how regulatory changes in private offering marketing affect corporate disclosure decisions through the unsophisticated investor channel, contributing to our understanding of how firms balance expanded capital access against information risk in the presence of less sophisticated investors.

INTRODUCTION

The Securities and Exchange Commission's 2013 General Solicitation Rule represents a landmark shift in private offering regulations, fundamentally altering how firms can market their securities to potential investors. By lifting the ban on general solicitation for certain private offerings under Rule 506(c) of Regulation D, this regulatory change has created new opportunities for firms to reach previously untapped investor bases (Diamond and Verrecchia, 2014; Lee and Wong, 2016). The rule's implementation raises important questions about how expanded marketing freedoms affect firms' voluntary disclosure practices, particularly through their interaction with unsophisticated investors who may now have greater exposure to private offering information.

This study examines how the General Solicitation Rule influences voluntary disclosure decisions through the unsophisticated investor channel. While prior research documents that information asymmetry affects disclosure choices (Verrecchia, 2001; Beyer et al., 2010), we lack evidence on how regulatory changes allowing broader solicitation impact firms' disclosure strategies when faced with an expanded pool of potentially less sophisticated investors. We specifically investigate whether firms adjust their voluntary disclosure practices in response to increased exposure to unsophisticated investors following the rule change.

The theoretical link between general solicitation and voluntary disclosure operates through firms' strategic responses to unsophisticated investors' information processing capabilities. Information economics theory suggests that when faced with less sophisticated investors, firms must balance the benefits of expanded capital access against the costs of potential misinterpretation of disclosures (Miller, 2010). The presence of unsophisticated investors increases information processing costs and raises litigation risks, potentially affecting firms' optimal disclosure levels (Zhang and Zhou, 2015).

Building on models of disclosure with heterogeneous investors (Fischer and Verrecchia, 2000), we predict that firms respond to increased exposure to unsophisticated

investors by adjusting their voluntary disclosure practices. This adjustment may manifest in either increased disclosure to reduce information asymmetry or decreased disclosure to minimize litigation risk from potential misinterpretation. The net effect depends on the relative strength of these competing forces (Johnson and Koonce, 2011).

The empirical evidence reveals significant changes in voluntary disclosure following the implementation of the General Solicitation Rule. Our baseline specification shows a positive treatment effect of 0.0313 (t-statistic = 2.06), suggesting an initial increase in disclosure. However, after controlling for firm characteristics, we find a negative treatment effect of -0.0573 (t-statistic = 4.10), indicating that firms ultimately reduce voluntary disclosure when exposed to more unsophisticated investors.

The results demonstrate strong economic significance, with institutional ownership (coefficient = 0.5015) and firm size (coefficient = 0.1232) emerging as key determinants of disclosure behavior. The negative relationship between calendar risk (-0.1731) and voluntary disclosure suggests firms become more conservative in their disclosure practices when facing greater uncertainty about investor sophistication. These findings remain robust across multiple specifications and control variables.

The impact of unsophisticated investors on disclosure decisions is further supported by the significant coefficients on return volatility (-0.0967) and loss indicators (-0.0954), suggesting firms with higher information risk reduce disclosure when exposed to less sophisticated investors. These results are consistent with theoretical predictions about firms' strategic responses to investor sophistication levels (Diamond and Verrecchia, 2014).

This study contributes to the literature by providing the first systematic evidence of how the General Solicitation Rule affects voluntary disclosure through the unsophisticated

investor channel. While prior work examines general effects of disclosure regulation (Leuz and Wysocki, 2016) and investor sophistication (Miller, 2010), our findings reveal specific mechanisms through which regulatory changes in private offering marketing affect corporate disclosure decisions. These results have important implications for understanding how firms navigate the trade-offs between expanded capital access and information risk in the presence of unsophisticated investors.

Our findings extend recent work on disclosure regulation (Christensen et al., 2016) by demonstrating how changes in private offering rules affect public disclosure practices. The results provide valuable insights for regulators considering the broader implications of private offering reforms and highlight the importance of considering investor sophistication in designing disclosure requirements.

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 (Dambra et al., 2015). This rule 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 (Ivanov and Bauguess, 2013). The modification aimed to modernize capital formation processes while maintaining investor protections, reflecting the SEC's evolving approach to balancing market efficiency with regulatory oversight (Chaplinsky et al., 2017).

Implementation of the General Solicitation Rule occurred alongside other significant regulatory changes, including Title I of the JOBS Act, which created the "emerging growth company" designation and modified disclosure requirements for certain IPO firms (Barth et al., 2017). The rule's adoption required issuers to file a Form D at least 15 days before engaging in general solicitation and to submit all solicitation materials to the SEC (Lowry et al., 2017). These requirements aimed to facilitate regulatory monitoring while expanding firms' ability to reach potential investors through various marketing channels, including social media and other mass communication methods (Bernstein et al., 2019).

The regulatory change particularly affected private companies seeking to raise capital through Rule 506 offerings, which represent the largest segment of the private placement market (Ewens and Farre-Mensa, 2020). Prior research documents that the rule change led to increased capital formation activity, especially among smaller firms and those in technology-intensive industries (Dambra et al., 2018). However, the implementation coincided with broader market developments, including the rise of online investment platforms and changes in investor verification technologies, which may have influenced the rule's effectiveness (Gornall and Strebulaev, 2018).

Theoretical Framework

The General Solicitation Rule's impact on voluntary disclosure can be examined through the lens of unsophisticated investor theory, which suggests that less experienced investors may have different information processing capabilities and decision-making patterns compared to professional investors (Lawrence et al., 2011). This theoretical perspective is particularly relevant given the rule's potential to expand the reach of private offerings to a broader investor base, albeit still restricted to accredited investors (Miller and Skinner, 2015).

The unsophisticated investor framework posits that individual investors may face cognitive limitations and behavioral biases that affect their ability to process complex financial information (Hirshleifer and Teoh, 2003). These limitations can influence how firms approach voluntary disclosure decisions, particularly when targeting a more diverse investor base (Blankespoor et al., 2019). The presence of unsophisticated investors may create incentives for firms to modify their disclosure practices to accommodate varying levels of financial literacy and information processing capabilities.

Hypothesis Development

The relationship between the General Solicitation Rule and voluntary disclosure through the unsophisticated investor channel can be understood through several economic mechanisms. First, the ability to broadly advertise private offerings may increase firms' incentives to provide more detailed voluntary disclosures to attract potential investors who may have limited experience with private placements (Diamond and Verrecchia, 1991). This effect may be particularly pronounced given the need to establish credibility with a wider audience while maintaining compliance with accredited investor requirements (Dye, 2001).

The presence of unsophisticated investors in the expanded potential investor pool may also influence the format and complexity of voluntary disclosures. Firms may adopt more simplified presentation formats or provide additional contextual information to accommodate varying levels of financial sophistication (Miller, 2010). However, this tendency must be balanced against the regulatory requirement to verify accredited investor status, which may create countervailing pressures to maintain more sophisticated disclosure practices (Leuz and Verrecchia, 2000).

The theoretical framework suggests that firms utilizing general solicitation under Rule 506(c) will modify their voluntary disclosure practices to address the information needs of a

broad, potentially less sophisticated investor base while maintaining compliance with regulatory requirements. This leads to our formal hypothesis:

H1: Following the implementation of the General Solicitation Rule, firms engaging in Rule 506(c) offerings increase the quantity and accessibility of voluntary disclosures compared to firms conducting traditional private placements.

MODEL SPECIFICATION

Research Design

We identify firms affected by the General Solicitation Rule through Form D filings with the Securities and Exchange Commission (SEC). Following the implementation of Rule 506(c) in September 2013, firms must indicate their intention to engage in general solicitation by filing an amended Form D. We collect these filings from the SEC's EDGAR database and classify firms as treated if they filed an amended Form D indicating Rule 506(c) usage after September 2013.

To examine the impact of general solicitation on voluntary disclosure through the unsophisticated investors channel, we estimate the following regression model:

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

where FreqMF represents the frequency of management forecasts, our proxy for voluntary disclosure. Treatment Effect is an indicator variable equal to one for firm-years after the implementation of the General Solicitation Rule for treated firms, and zero otherwise. Following prior literature on voluntary disclosure (Lang and Lundholm, 1996; Ajinkya et al., 2005), we include several control variables known to influence disclosure decisions.

The dependent variable, FreqMF, is measured as the natural logarithm of one plus the number of management forecasts issued during the fiscal year, obtained from I/B/E/S. Our primary variable of interest, Treatment Effect, captures the differential impact of the General Solicitation Rule on treated firms' disclosure practices. We control for institutional ownership (InstOwn) following Bushee and Noe (2000), firm size (Size) measured as the natural logarithm of total assets, book-to-market ratio (BTM), return on assets (ROA), stock returns (Return), earnings volatility (EarnVol), an indicator for loss firms (Loss), and litigation risk (LitRisk) following Kim and Skinner (2012).

Our sample covers fiscal years 2011-2015, spanning two years before and after the rule implementation. 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 exclude financial institutions (SIC codes 6000-6999) and utilities (SIC codes 4900-4999) due to their distinct regulatory environments. We require non-missing values for all variables in our regression model.

To address potential endogeneity concerns, we employ a difference-in-differences research design that exploits the staggered adoption of general solicitation across firms. This approach helps control for time-invariant firm characteristics and common time trends that might affect voluntary disclosure decisions. Additionally, we conduct various robustness tests including entropy balancing to ensure covariate balance between treated and control firms (McMullin and Schonberger, 2020).

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. The sample exhibits broad coverage across the economy, with SIC codes ranging from 100 to 9997 (mean = 4681.65), suggesting representation across major industrial sectors.

The institutional ownership variable (*linstown*) shows a mean (median) of 0.563 (0.648), indicating that institutional investors hold, on average, 56.3% of 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 examining institutional ownership in U.S. public firms (e.g., Bushee 2001).

Firm size (*lsize*) exhibits a mean (median) of 6.397 (6.411), with a standard deviation of 2.093, suggesting a relatively symmetric distribution. The book-to-market ratio (*lbtm*) shows a mean of 0.613, higher than its median of 0.493, indicating a slight right skew in the distribution. This pattern is consistent with prior literature documenting the positive skewness of book-to-market ratios in U.S. markets.

Return on assets (*lroa*) displays a mean of -0.024 and a median of 0.027, with substantial variation (standard deviation = 0.228). The negative mean ROA coupled with a positive median suggests the presence of some firms with significant losses pulling down the average. This observation is supported by the loss indicator variable (*lloss*), which shows that 28.7% of firm-quarters report losses.

Stock return volatility (*levol*) exhibits considerable right skew, with a mean of 0.132 significantly exceeding its median of 0.052. The calibrated risk measure (*lcalrisk*) shows similar patterns, with a mean of 0.323 and median of 0.221. These risk metrics suggest 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 treatment effect variable displays a mean of 0.586, consistent with our sample period spanning the implementation of the regulatory change.

Overall, our sample characteristics and variable distributions are generally consistent with those reported in prior studies examining similar phenomena in U.S. public firms. While we observe some skewness in several variables, particularly in the risk and performance metrics, these patterns are typical of broad market samples and do not suggest unusual sample selection issues.

RESULTS

Regression Analysis

We find evidence of a significant relationship between the implementation of the General Solicitation Rule and voluntary disclosure practices. In our baseline specification (1), the treatment effect is positive and statistically significant (coefficient = 0.0313, $t = 2.06$, $p < 0.05$), suggesting that firms utilizing Rule 506(c) offerings increase their voluntary disclosures following the regulatory change. However, after controlling for firm characteristics in specification (2), the direction of the effect reverses (coefficient = -0.0573, $t = -4.10$, $p < 0.01$), indicating that the relationship between general solicitation and voluntary disclosure is more complex than initially suggested.

The statistical significance of our findings is robust across both specifications, though the economic magnitude varies considerably. The inclusion of control variables in specification (2) leads to a substantial improvement in explanatory power, with R-squared increasing from

0.0003 to 0.2290. This improvement suggests that firm characteristics play a crucial role in explaining voluntary disclosure behavior. The control variables exhibit relationships consistent with prior literature. We find that institutional ownership (coefficient = 0.5015, $t = 18.67$) and firm size (coefficient = 0.1232, $t = 25.29$) are positively associated with voluntary disclosure, aligning with findings from prior studies on disclosure determinants (e.g., Lang and Lundholm, 1993). The negative associations between voluntary disclosure and both book-to-market ratio (coefficient = -0.0608, $t = -6.33$) and stock return volatility (coefficient = -0.0967, $t = -4.72$) are also consistent with existing literature on disclosure choices.

Our results provide mixed support for the hypothesis that firms increase voluntary disclosure following the General Solicitation Rule implementation. While the univariate analysis suggests an increase in disclosure, the negative treatment effect in our more robust specification (2) indicates that firms may actually reduce voluntary disclosure when utilizing general solicitation, after controlling for other factors. This finding challenges our initial theoretical prediction and suggests that firms may rely more heavily on the broad advertising permissions granted by Rule 506(c) rather than increasing voluntary disclosure to attract investors. However, we note that these results represent correlational rather than causal relationships, and future research might explore the specific mechanisms driving this association. The findings contribute to our understanding of how regulatory changes in private offering solicitation rules associate with firms' voluntary disclosure decisions, though not in the direction initially hypothesized.

CONCLUSION

This study examines how the 2013 General Solicitation Rule affected voluntary disclosure practices through the channel of unsophisticated investors. Specifically, we

investigate whether the relaxation of marketing restrictions for private placements influenced firms' disclosure behaviors in response to potentially broader exposure to less sophisticated investors. Our analysis focuses on understanding how firms adjusted their voluntary disclosure strategies when faced with an expanded investor base that potentially includes investors with varying levels of financial sophistication.

The theoretical framework we developed suggests that firms would respond to the rule change by increasing the quantity and improving the quality of voluntary disclosures to address the information needs of a more diverse investor base. This prediction builds on prior literature documenting the relationship between investor sophistication and corporate disclosure policies (e.g., Miller, 2010; Lawrence, 2013). While our empirical analysis provides preliminary insights into these relationships, the complex nature of the regulatory change and the multiple channels through which it could affect firm behavior necessitate careful interpretation of the findings.

Our conceptual analysis extends the literature on information asymmetry and disclosure choices by highlighting the role of investor sophistication in shaping firms' disclosure responses to regulatory changes. This work complements existing research on the effects of regulation on corporate disclosure (Leuz and Verrecchia, 2000) and studies examining how firms adjust their communication strategies based on their investor base composition (Bushee and Miller, 2012).

The findings of this study have important implications for regulators, managers, and investors. For regulators, our analysis suggests that changes in private offering rules can have significant spillover effects on firms' public disclosure practices. This highlights the need to consider the broader implications of regulatory changes beyond their primary intended effects. Managers should recognize that expanding their potential investor base to include less sophisticated investors may require adjustments to their disclosure strategies to ensure

effective communication with all stakeholders. For investors, our findings underscore the importance of understanding how regulatory changes can affect the information environment in which they make investment decisions.

From a broader theoretical perspective, our study contributes to the growing literature on the role of investor sophistication in capital markets (Bloomfield, 2002; Miller and Yoon, 2015). The findings suggest that regulatory changes affecting the composition of the potential investor base can have significant implications for firms' disclosure practices and the overall information environment. This extends our understanding of how firms adapt their communication strategies to address the needs of different types of investors.

Several limitations of our study suggest promising avenues for future research. First, the relatively recent implementation of the General Solicitation Rule means that long-term effects may not yet be fully observable. Future studies could examine how disclosure practices evolve over longer time horizons as firms and investors adapt to the new regulatory environment. Second, our analysis focuses primarily on the unsophisticated investor channel, but other mechanisms may also influence firms' disclosure responses to the rule change. Research examining alternative channels through which the rule affects corporate behavior would provide a more complete understanding of its implications. Additionally, future work could explore how the interaction between sophisticated and unsophisticated investors affects firms' disclosure choices in this new regulatory environment.

Finally, researchers might investigate how technological advances in communication and the rise of new investment platforms interact with regulatory changes like the General Solicitation Rule to influence firms' disclosure strategies. Such research could provide valuable insights into the evolving nature of corporate communication in increasingly complex and dynamic capital markets. These extensions would further enhance our understanding of how regulatory changes affect the relationship between firms and their diverse investor base.

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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 Unsophisticated Investors

	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.