General Solicitation Rule and Voluntary Disclosure

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Abstract: Private capital markets experienced a significant regulatory shift with the SEC's 2013 elimination of the general solicitation ban for certain private offerings through Rule 506(c) of Regulation D. While prior research establishes that information disclosure reduces information asymmetry during equity issuance, the impact of marketing restrictions on voluntary disclosure remains unexplored. This study examines how the General Solicitation Rule affects firms' voluntary disclosure practices through the equity issuance channel. Using a difference-in-differences research design, we analyze changes in voluntary disclosure following Rule 506(c) implementation. Despite theoretical predictions suggesting increased disclosure incentives due to expanded investor reach and competitive pressures, our empirical analysis reveals that firms reduced voluntary disclosure by approximately 5.73% following the rule change. This negative treatment effect remains significant after controlling for firm characteristics, with institutional ownership and firm size emerging as key determinants of disclosure behavior. The findings suggest that general solicitation may serve as a substitute for voluntary disclosure in private placement markets, challenging conventional assumptions about the relationship between marketing freedom and disclosure incentives. This study contributes to the literature by documenting how marketing restrictions affect voluntary disclosure decisions in private markets and provides insights for policymakers considering future regulatory reforms.

INTRODUCTION

The Securities and Exchange Commission's 2013 elimination of the ban on general solicitation for certain private offerings represents a significant shift in how firms can market their securities to potential investors. This regulatory change, implemented through Rule 506(c) of Regulation D, allows companies to publicly advertise private placement offerings, provided they take reasonable steps to verify that purchasers are accredited investors. The rule change particularly affects equity issuance processes, as it expands firms' ability to reach potential investors and raises important questions about information asymmetry in private markets (Dambra et al., 2018; Bernstein et al., 2019). Prior literature documents that information disclosure plays a crucial role in reducing information asymmetry during equity issuance (Healy and Palepu, 2001), yet we know little about how the relaxation of solicitation restrictions affects firms' voluntary disclosure practices.

This study examines how the General Solicitation Rule affects voluntary disclosure through the equity issuance channel. We specifically investigate whether firms adjust their voluntary disclosure practices in response to expanded marketing opportunities for private placements. While existing research demonstrates that disclosure requirements affect the cost of capital (Diamond and Verrecchia, 1991), the impact of marketing restrictions on voluntary disclosure remains unexplored. This gap is particularly relevant given the growing importance of private markets and the potential for disclosure to mitigate information asymmetries in these settings.

The theoretical link between general solicitation and voluntary disclosure operates through several mechanisms. First, the ability to broadly advertise private offerings increases the potential investor base, potentially creating pressure for enhanced disclosure to attract sophisticated investors (Verrecchia, 2001). Second, expanded marketing opportunities may

increase competition among issuers, incentivizing greater voluntary disclosure to differentiate offerings (Lang and Lundholm, 2000). Third, the verification requirements for accredited investor status may lead firms to provide more detailed information to facilitate investor screening processes.

These mechanisms suggest that firms may increase voluntary disclosure following the implementation of Rule 506(c). The expanded reach of general solicitation likely increases the marginal benefit of voluntary disclosure by allowing firms to communicate with a broader pool of potential investors. Additionally, the theoretical framework of information asymmetry suggests that increased disclosure can help firms establish credibility with new investor audiences accessed through general solicitation (Core, 2001; Beyer et al., 2010).

The competitive dynamics of private placement markets further support increased disclosure. As firms compete for capital in an environment with reduced marketing restrictions, they face pressure to signal quality through enhanced voluntary disclosure. This prediction aligns with established models of disclosure in competitive capital markets (Verrecchia, 2001) and extends them to the context of private placements under general solicitation.

Our empirical analysis reveals significant changes in voluntary disclosure following the implementation of Rule 506(c). The baseline specification without controls 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 significant negative treatment effect of -0.0573 (t-statistic = 4.10), indicating that firms ultimately reduced voluntary disclosure in response to the rule change.

The analysis demonstrates strong explanatory power, with an R-squared of 0.2290 in the full specification. Institutional ownership emerges as the strongest predictor of disclosure (coefficient = 0.5015, t-statistic = 18.67), followed by firm size (coefficient = 0.1232, t-statistic = 25.29). These results suggest that firm characteristics significantly influence the relationship between general solicitation and voluntary disclosure through the equity issuance channel.

The negative treatment effect appears economically significant, representing approximately 5.73% reduction in voluntary disclosure. This finding challenges the theoretical prediction that expanded marketing opportunities would increase disclosure incentives. The results suggest that general solicitation may serve as a substitute for voluntary disclosure in private placement markets, particularly when controlling for firm characteristics and market conditions.

This study contributes to the literature on disclosure regulation and private capital markets in several ways. We extend prior work on information environments in private markets (Dambra et al., 2018) by documenting how marketing restrictions affect voluntary disclosure decisions. Our findings challenge conventional wisdom about the relationship between marketing freedom and disclosure incentives, suggesting more complex interactions than previously theorized.

The results also advance our understanding of how regulatory changes affect the equity issuance channel. While prior research focuses primarily on public markets (Healy and Palepu, 2001), we provide novel evidence on how regulatory changes affect information flows in private markets. These findings have important implications for policymakers considering further reforms to private placement regulations and for firms developing their disclosure strategies in response to regulatory changes.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The General Solicitation Rule, implemented through SEC Rule 506(c) of Regulation D in September 2013, marked a significant shift in private offering regulations by lifting an 80-year ban on general solicitation and advertising of private placements (Dambra et al., 2018). This regulatory change, mandated by the Jumpstart Our Business Startups (JOBS) Act of 2012, aimed to modernize capital formation processes and expand access to private capital markets (Bernstein et al., 2019). The rule allows issuers to publicly advertise private offerings, provided they take reasonable steps to verify that all purchasers are accredited investors.

The implementation of Rule 506(c) created a two-track system within Regulation D: the traditional Rule 506(b) that maintains the prohibition on general solicitation, and the new Rule 506(c) that permits it (Ewens and Farre-Mensa, 2020). This regulatory change affected all private issuers seeking to raise capital through private placements, though it particularly impacted emerging growth companies and smaller firms previously constrained by limited access to accredited investors (Lowry et al., 2017). The SEC instituted this change to facilitate capital formation while maintaining investor protection through the accredited investor requirement.

During this period, several other significant securities regulations were enacted, including Title I of the JOBS Act, which created "emerging growth company" status and modified IPO requirements (Barth et al., 2017). Additionally, the SEC adopted rules requiring disclosure of the ratio of CEO to median employee pay and proposed changes to crowdfunding regulations (Chaplinsky et al., 2017). However, the General Solicitation Rule represents the most substantial change to private offering communications since the Securities Act of 1933.

Theoretical Framework

The General Solicitation Rule's impact on voluntary disclosure can be understood through the lens of equity issuance theory, which suggests that firms strategically manage information disclosure to optimize capital raising outcomes. Information asymmetry between issuers and potential investors creates friction in capital markets, affecting both the cost and availability of capital (Myers and Majluf, 1984). The ability to generally solicit potentially alters these dynamics by expanding the pool of potential investors and changing the information environment.

Equity issuance theory posits that firms face a trade-off between the benefits of broader investor reach and the costs of increased disclosure (Rock, 1986). The removal of general solicitation restrictions may affect this trade-off by changing the marginal benefits and costs of voluntary disclosure. This theoretical framework suggests that firms' disclosure decisions are influenced by their need to signal quality to potential investors while managing proprietary costs (Verrecchia, 1983).

Hypothesis Development

The relationship between the General Solicitation Rule and voluntary disclosure through the equity issuance channel operates through several economic mechanisms. First, the ability to generally solicit expands the potential investor base, potentially increasing competition among investors and reducing the cost of capital (Dambra et al., 2018). This broader reach may incentivize firms to provide more voluntary disclosure to differentiate themselves and attract sophisticated investors.

Second, the requirement to verify accredited investor status creates additional screening costs and potential liability risks (Bernstein et al., 2019). Firms may respond by increasing voluntary disclosure to help potential investors self-select and reduce verification

costs. However, this benefit must be weighed against the potential costs of disclosing proprietary information to competitors and the increased scrutiny from a broader audience (Verrecchia, 1983).

The theoretical framework suggests that firms utilizing general solicitation will increase voluntary disclosure to reduce information asymmetry and facilitate successful capital raising. While increased disclosure may impose proprietary costs, the benefits of attracting a larger pool of sophisticated investors and reducing verification costs likely outweigh these concerns for firms choosing to generally solicit. This leads to our formal hypothesis:

H1: Firms utilizing general solicitation under Rule 506(c) exhibit increased voluntary disclosure compared to firms conducting traditional private placements under Rule 506(b).

MODEL SPECIFICATION

Research Design

To identify firms affected by the General Solicitation Rule, we follow the Securities and Exchange Commission's (SEC) implementation guidelines following the JOBS Act of 2013. The rule eliminated the prohibition on general solicitation under Rule 506 of Regulation D, allowing firms to publicly advertise private offerings to accredited investors. We classify firms as treated if they conducted private placements under Rule 506(c) after September 23, 2013, when the rule became effective.

Our baseline model examines the impact of the General Solicitation Rule on voluntary disclosure through the following specification:

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

where FreqMF represents the frequency of management forecasts, measured as the number of earnings forecasts issued by management during the fiscal year (Ajinkya et al., 2005). 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.

We include several control variables known to influence voluntary disclosure decisions. Institutional Ownership captures monitoring intensity and information demand (Healy and Palepu, 2001). Firm Size, measured as the natural logarithm of total assets, controls for variation in disclosure costs and information environment (Lang and Lundholm, 1993). Book-to-Market ratio proxies for growth opportunities and proprietary costs. ROA and Stock Return control for firm performance, while Earnings Volatility captures underlying business uncertainty (Rogers and Van Buskirk, 2009). Loss is an indicator for negative earnings, and Class Action Litigation Risk controls for disclosure-related legal exposure (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 returns from CRSP, institutional ownership from Thomson Reuters, and management forecast data from I/B/E/S. We require firms to have necessary data available for our main variables and control variables. The treatment group consists of firms that conducted Rule 506(c) offerings, while the control group includes firms that did not utilize the new rule.

To address potential endogeneity concerns, we employ a difference-in-differences design that exploits the exogenous regulatory shock of the General Solicitation Rule. This approach helps control for unobserved time-invariant firm characteristics and common time trends that might affect voluntary disclosure decisions. We also include industry fixed effects to control for industry-specific factors and cluster standard errors at the firm level to account for serial correlation in disclosure choices (Petersen, 2009).

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 size is comparable to recent studies examining equity issuance in U.S. public markets (e.g., Dambra et al., 2018; Clinton et al., 2014).

We find that institutional ownership (linstown) averages 56.3% with a median of 64.8%, indicating a slight negative skew in the distribution. This ownership level aligns with prior studies examining institutional holdings in U.S. public firms. The firm size distribution (lsize) shows considerable variation, with a mean (median) of 6.397 (6.411) and a standard deviation of 2.093, suggesting our sample includes both small and large firms.

The book-to-market ratio (lbtm) exhibits a mean of 0.613 and median of 0.493, with substantial variation (standard deviation = 0.594). We observe that return on assets (lroa) has a mean of -0.024 but a positive median of 0.027, indicating that while the average firm in our sample experiences losses, the typical firm is profitable. This pattern is consistent with the presence of some highly unprofitable firms in the sample, as evidenced by the minimum value of -1.542.

Stock return volatility (levol) shows considerable right-skew, with a mean of 0.132 but a median of 0.052. The loss indicator variable (lloss) reveals that 28.7% of our sample firms report losses, which is consistent with recent studies of public firm performance. Calendar-based risk (lcalrisk) has a mean of 0.323 and median of 0.221, suggesting moderate levels of systematic risk exposure.

The management forecast frequency (freqMF) variable shows that firms in our sample issue, on average, 0.629 forecasts per quarter, though the median of zero indicates that many firms do not regularly provide guidance. The treatment effect variable's mean of 0.586 indicates that 58.6% of our observations occur in the post-treatment period.

We note several potential outliers, particularly in the return on assets and stock return variables, but these extreme values are consistent with the nature of our sample period, which includes periods of significant market volatility. The distributions of our control variables are generally consistent with those reported in prior studies examining similar phenomena in U.S. equity markets (e.g., Armstrong et al., 2016; Christensen et al., 2017).

RESULTS

Regression Analysis

We find that the implementation of the General Solicitation Rule has a significant effect on voluntary disclosure, though the direction of this effect varies based on model specification. In our base specification (1), we document a positive treatment effect of 0.0313 ($t = 2.06$, $p < 0.05$), suggesting that firms utilizing general solicitation under Rule 506(c) increase their voluntary disclosure compared to firms using traditional private placements. However, this relationship reverses when controlling for firm characteristics in specification (2), with a treatment effect of -0.0573 ($t = -4.10$, $p < 0.001$).

The statistical significance of our findings is robust across both specifications, with t-statistics well above conventional thresholds. The economic magnitude of the effect is meaningful, representing approximately a 3.13% increase in voluntary disclosure in specification (1) and a 5.73% 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 specification (1).

The control variables in specification (2) exhibit relationships consistent with prior literature on voluntary disclosure. We find that institutional ownership (0.5015, t = 18.67) and firm size (0.1232, t = 25.29) are positively associated with voluntary disclosure, consistent with the monitoring role of institutional investors and economies of scale in disclosure production. The negative associations between voluntary disclosure and 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 prior research suggesting that firms with greater information asymmetry and poorer performance tend to disclose less. These results provide only partial support for our hypothesis. While specification (1) suggests increased voluntary disclosure following general solicitation, the more robust specification (2) indicates that firms utilizing Rule 506(c) actually reduce their voluntary disclosure after controlling for firm characteristics. This finding contradicts our theoretical prediction that the benefits of increased disclosure would outweigh proprietary costs in the context of general solicitation. The results suggest that firms may view public voluntary disclosure and private placement disclosure as substitutes rather than complements, potentially indicating that firms prefer to provide information directly to verified accredited investors rather than through public channels.

CONCLUSION

This study examines how the 2013 General Solicitation Rule, which lifted the ban on general solicitation for certain private offerings, affects firms' voluntary disclosure behavior through the equity issuance channel. We investigate whether the expanded marketing options

for private placements lead to changes in firms' disclosure strategies and information environment. Our analysis contributes to the growing literature on the intersection of securities regulation and corporate disclosure policies.

The regulatory change created a natural experiment to study how firms adjust their disclosure practices when faced with new opportunities for capital raising. While our study does not establish direct causal relationships, the temporal association between the rule change and subsequent shifts in disclosure patterns suggests that firms actively modify their communication strategies in response to regulatory changes affecting equity issuance. These findings align with prior research documenting the relationship between disclosure policies and capital raising activities (e.g., Lang and Lundholm, 2000; Leone et al., 2007).

Our investigation reveals that the General Solicitation Rule's implementation coincides with meaningful changes in firms' voluntary disclosure practices, particularly for companies more likely to engage in private placements. These results complement existing research on the relationship between disclosure and cost of capital (Botosan, 1997; Diamond and Verrecchia, 1991) and extend our understanding of how regulatory changes influence firms' information environment.

The findings have important implications for regulators, managers, and investors. For regulators, our results suggest that changes in private offering rules can have substantial spillover effects on firms' public disclosure practices. This highlights the need to consider broader information environment effects when implementing securities regulations. For managers, our findings indicate that expanded marketing options for private placements may necessitate a recalibration of disclosure strategies to optimize capital raising efforts. Investors benefit from understanding how regulatory changes affect the quantity and quality of available information, particularly in the context of private placement opportunities.

These results also contribute to the broader literature on equity issuance and information asymmetry. Prior research has established that firms increase disclosure around public equity offerings (Healy and Palepu, 2001). Our findings suggest that similar patterns may exist in private placement contexts when marketing restrictions are relaxed. This extends our understanding of the relationship between disclosure policies and various forms of equity issuance.

Several limitations of our study warrant mention and suggest promising directions for future research. First, the relatively recent implementation of the General Solicitation Rule limits our ability to assess long-term effects. Future studies could examine whether the observed changes in disclosure practices persist over time. Second, our analysis focuses primarily on quantifiable disclosure metrics, potentially overlooking qualitative changes in firms' communication strategies. Additional research could explore how the content and tone of disclosures evolve in response to the regulatory change. Finally, researchers might investigate how the interaction between general solicitation and disclosure affects the success of private placements and subsequent firm performance.

Future research could also explore how the General Solicitation Rule affects different types of firms differently, particularly considering variations in firm size, industry, and existing disclosure practices. Additionally, researchers might examine how the rule change influences the relationship between public and private capital markets, and whether it affects firms' choices between public and private equity issuance. Such investigations would further enhance our understanding of how regulatory changes shape firms' financing and disclosure decisions.

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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 Equity Issuance

	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.