Accepted Manuscript

Information design and capital formation

Andrés Carvajal, Marzena Rostek, Guillaume Sublet

PII: S0022-0531(18)30087-5
DOI: https://doi.org/10.1016/j.jet.2018.03.004
Reference: YJETH 4759

To appear in: *Journal of Economic Theory*

Received date: 16 November 2016
Revised date: 1 March 2018
Accepted date: 6 March 2018

Please cite this article in press as: Carvajal, A., et al. Information design and capital formation. *J. Econ. Theory* (2018), https://doi.org/10.1016/j.jet.2018.03.004

Information Design and Capital Formation*

Andrés Carvajal†
Marzena Rostek‡
Guillaume Sublet§

April 3, 2018

Abstract

Could a firm benefit from not disclosing all of its private information before its stock is traded in public financial markets? So long as the investors' marginal utility function is convex and the investors differ only in their risk-sharing needs, three substantive results hold: (1) a full disclosure policy *minimizes* the value of the firm; (2) lifting a mandate of full disclosure does *not* imply that firms will necessarily choose to withhold information maximally; and (3) with many firms that strategically choose disclosure policies, all Nash equilibria display only partial disclosure. Our insight is based on the role that the firm's equity can play as a risk-sharing device: if the firm chooses to keep some information private, its stock can be used by investors to hedge against risk.

The problem that we study is of theoretical interest, but it is also topical: the *Jumpstart Our Business Startups (JOBS) Act*, which was signed into law in April 2012, substantially eases securities regulations for small companies going public. The declared intent of this change in regulation was to promote capital formation in new and small companies. Our results indicate that the provisions of this new legislation are in line with its intentions. Less stringent requirements on information disclosure for smaller firms may also benefit investors. (*JEL* G18, G32, G38, D80)

KEYWORDS: Information disclosure; Information design; Value of information; Financial regulation; Crowdfunding; Initial Public Offerings;

---

* The authors thank seminar participants at EUI, EPGE-FGV, Minnesota, Rice, UC Davis, and Western Ontario, and conference participants at SITE (Paris) for comments and suggestions. Special thanks are also due to Gilles Chemla, Gonçalo Farias, Burkhard Schipper, Pierre-Olivier Weill, and Nathan Yoder.

† University of California, Davis, and FGV, EPGE Escola Brasileira de Economia e Finanças.

‡ University of Wisconsin, Madison.

§ Université de Montréal, and University of Minnesota.