Equity Crowdfunding "Rules": Compliance with Mandated Ongoing Financial Reporting in an Unenforced Environment

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Abstract:

Using the regulated, but largely unenforced setting of U.S. equity crowdfunding (ECF) we consider why managers comply with ongoing financial reporting regulations beyond enforcement and litigation risk. In a market with billions of dollars invested by millions of investors, over half of ECF issuers fail to file their mandated annual report, with only a third issuing timely. Using rich offering-level data, we show compliance is negatively associated with compliance costs and tardy filings are partially explained by the desire to issue additional securities. However, despite our rich data, the overall explanatory power of predicting financial reporting compliance is low using observational data. Using a randomized intervention, we show compliance increases from messages emphasizing the regulatory risk of non-compliance, but not those emphasizing the potential economic benefits of compliance. Further, we show, despite low compliance, investors demand annual report information via EDGAR log data. This paper provides the first evidence on ongoing reporting behaviors of ECF issuers and insights into reasons managers comply with financial reporting mandates more broadly.

Keywords: Equity crowdfunding (ECF), financial reporting, compliance, enforcement, Form C-AR, Regulation Crowdfunding (Reg CF), Securities and Exchange Commission (SEC), JOBS Act Title III, KingsCrowd

JEL classification: G18, G24, G32, K22, M13, M41

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I. INTRODUCTION

Why do managers comply with financial reporting mandates? While enforcement is widely recognized as a key driver of compliance, understanding managers' motives beyond enforcement is crucial for designing an effective, and potentially more efficient, regulatory regime. However, in most U.S. corporate settings, enforcement is sufficiently high to mask alternative incentives managers may have for complying with reporting rules. This study overcomes this constraint by examining the financial reporting behavior of managers issuing securities under Regulation Crowdfunding (Reg CF), a securities market in which issuers are subject to a clear ongoing disclosure mandate yet face minimal enforcement risk—conditions that make non-compliance both feasible and frequent. By observing managerial behavior where enforcement risk is low, we provide novel evidence on the factors that drive compliance with mandatory financial reporting rules. Evidence on such incentives may provide useful feedback to regulators when designing a regulatory regime aimed at maximizing compliance while minimizing oversight costs.

The U.S. equity crowdfunding (ECF) market is the ideal setting in which to study these issues. Since the SEC's adoption of Reg CF in mid-2016, the U.S. ECF market has grown rapidly with nearly $2 billion raised through over 8,000 offerings through June 2024. Not only is this market rapidly growing, but it is subject to a clear yet minimal ongoing reporting requirement: issuers are required to file an annual simplified Form C-AR, which demands minimal disclosure and has no attestation requirement. And despite anecdotal evidence of issuers failing to file this annual report (Marks 2024), there has been no SEC enforcement actions against non-compliant issuers to date to our knowledge. Therefore, because of the low enforcement risk and observed imperfect compliance of issuers in our setting, we can investigate other motivations managers may have for complying with a straightforward mandatory disclosure requirement by observing whether they file their mandated annual report.

To do this, we use a sample of all Reg CF issuers with an annual reporting mandate from 2016 to 2024 to document the low rate of ongoing financial reporting compliance in this market. We find that only 28 percent of issuers file Form C-AR by their first reporting deadline, while 53 percent never file their first-year financials, even after the deadline.

This low level of annual reporting compliance invites questions as to why managers fail to file Form C-AR and, more broadly, what incentives motivate financial reporting compliance beyond enforcement. We consider factors including regulatory risk (via enforcement or private litigation), economic benefit, monitoring, and compliance costs. On the one hand, each of these factors can support compliance with the reporting mandate in our setting. First, failure to file an annual report is a clear violation of securities law thereby increasing regulatory risk. Second, there may be economic benefits to compliance. In particular, non-compliance may limit the ability to raise future capital (Botosan 2006) because of investors' demands for financial information (Donovan 2021; Polzin et al. 2018), investors' views on non-compliance as a signal of poor quality (Burke et al. 2023), or regulatory limitations limiting a non-compliant issuer's ability to offer securities in the future (SEC 2015). Third, other monitors including platforms (Cumming et al. 2019), auditors (Bogdani et al. 2022), and analysts (Burke 2025) may encourage annual reporting from Reg CF issuers. Fourth, compliance costs may be sufficiently low in light of the simplification of Reg CF reporting relative to Form 10-K.

On the other hand, each of these factors can also influence managers to *not* comply with their reporting mandate. First, while non-compliance is a clear violation of securities law, regulatory risk may be low because to date the SEC has not enforced Reg CF annual reporting violations, potentially discouraging compliance (Coffee Jr 2007). Second, there may be little economic benefit to compliance if investors do not demand annual reporting because either they do not find financial reporting useful to evaluate start-up performance, which is often loss making (Hayn 1995), or ECF investors, most of which are retail, may not be aware of nor have the ability to process financial information (Blankespoor et al. 2019). Third, monitors may not monitor beyond the offering period (Rossi and Vismara 2018), thereby not encouraging annual reporting compliance. Fourth, compliance costs may be insurmountable for Reg CF issuers as they are relatively less mature, have relatively fewer resources, and are relatively less sophisticated than registered firms (Allee and Yohn 2009). Our setting is unique to other U.S. securities markets in that it has variation along all these dimensions—variation not dominated by high levels of regulatory risk—allowing us to evaluate each of these factors (regulatory risk, economic benefit, monitoring, and compliance costs) that might determine financial reporting compliance.

Given evidence that issuers are aware of their reporting obligation (Burke and League 2025), we use a rich set of data to assess the firm, offering, and manager characteristics that predict compliance. While we find evidence that high compliance costs are negatively associated with filing Form C-AR, the explanatory power of our determinant model is low, despite the rich data at our disposal. Furthermore, we find evidence that investors demand the information contained in Form C-AR by showing traffic to posted annual reports increases dramatically when new annual reports are posted and, in particular, when issuers launch new offerings. These results suggest that despite the presence of wide variation across potential determinants of compliance, managers' incentives to comply with financial reporting mandates may be difficult to predict using archival data.

To overcome the limitations of our correlational, archival approach, we exploit a randomized intervention by the leading U.S. ECF analyst firm, KingsCrowd (KC). Specifically, we assess managers' responses to the randomized rollout of email reminders emphasizing different reasons to comply with their financial reporting mandate ahead of their Reg CF reporting deadline in late-April 2024.

In this intervention, the content of the reminders managers received varies randomly, emphasizing either the potential economic benefits of compliance or the potential regulatory risk of non-compliance. We find that email reminders that emphasize regulatory risk raise the likelihood of compliance by 20 percent, while emphasizing the potential economic benefits of compliance has no distinguishable effect. Consistent with the literature on the importance of enforcement (Holthausen 2009; Leuz and Wysocki 2016), these results indicate that a primary motivation for compliance with reporting mandates is regulatory risk, while the economic benefits commonly considered in voluntary disclosure environments may be less important. Further, the intervention cross-randomized variation in the preparatory costs of filing Form C-AR using discount codes for a preparatory service provider. We find in conditions when regulatory risk is not emphasized, low preparatory cost may increase compliance, suggesting preparatory costs may have an important but second order effect. Overall, we find that compliance responds strongly to regulatory risk while being less sensitive to other potential determinants.

Our study contributes to three main literatures. First, we advance the literature examining compliance with mandatory financial reporting requirements. Existing research has primarily considered manager's compliance with requirements contained within a larger mandated disclosure, such as Exhibit 21 within a Form 10-K (Dyreng et al. 2020), often focusing on the qualities (e.g., length, detail, defects, etc.) of an existing disclosure (Bischof et al. 2022; Robinson et al. 2011). In addition, other studies have considered correlates with managers' compliance with non-periodic financial reporting disclosure, such as event disclosures (Schwartz and Soo 1996). However, to our knowledge, no studies have considered managers' decision of whether to file a mandated ongoing financial report *at all*. [1]

We make three major advances beyond this literature. First, our randomized research design provides us with a valid control group which is rare when studying financial reporting mandates since regulation is often rolled out universally or based on company size (e.g., accelerated filers). As such, other studies in this literature must rely on non-random subgroups (e.g., non-accelerated filers) or the treated group before treatment as their control group. Given this unique benefit of our research design, our finding that the marginal effect of regulatory risk on compliance is high suggests the returns to increased (perceived or actual) enforcement would be large, providing timely feedback to regulators.

Second, we study a much starker form of financial reporting compliance: whether to report at all. While previous research often quantifies compliance using the information content in already-issued financial reports (e.g., Dyreng et al. 2020), potentially introducing measurement error of evaluating if a particular disclosure's content adheres to complicated regulatory requirements, we consider a much clearer measure of compliance. Furthermore, doing so avoids concerns of evaluating compliance when managers may obfuscate or miscommunicate.

Finally, we are able to assess determinants of compliance beyond regulatory risk alone. Generally, in the U.S. the threat of enforcement is an overwhelming determinant of compliance

[1]The closest study to ours in this dimension is Alford et al. (1994) who find 20 percent of Form 10-Ks are not filed timely which they attribute to the firm's size and performance. However, they are unable to causally examine what motivates reporting compliance.

(e.g., Coffee Jr 2007), such that reporting is nearly universal. However, given the limited enforcement in our setting, we can study potential motivations for compliance with a mandatory reporting requirement that are usually masked by the dominating effect of regulatory risk. To our knowledge, we are the first to consider the determinants of financial reporting compliance in a setting where we can analyze various underlying managerial incentives without enforcement masking such behaviors.

The second literature to which we contribute studies the U.S. ECF market, where we provide the first analysis of ongoing financial reporting. While there exist studies of financial disclosure in the offering statement (Form C), including voluntary financial reporting (Donovan 2021; Pattanapanyasat 2021), the role of assurance (Bogdani et al. 2022; Gong et al. 2022), and the contents of financial disclosure (Aland 2023), no study has considered the role of annual reporting after the close of an ECF offering. Our paper adds to this literature by documenting annual financial reporting (non)compliance, inviting further studies to investigate the content and usefulness of such reports.

Finally, we contribute to the burgeoning literature on regulatory nudges. The bulk of this literature relates to randomizing interventions meant to encourage tax compliance (e.g., Slemrod et al. 2001; Kleven et al. 2011; Perez-Truglia and Troiano 2018; Bergolo et al. 2023) with most research finding raising the salience of regulatory risk in the form of audits is very effective while messages of moral suasion are less effective (e.g. Blumenthal et al. 2001, Fullner et al. 2013, Castro and Scartascini, 2015). We extend this literature to a financial market, where evidence on the effectiveness of nudging is rare (Cai 2020) and randomized field evidence even rarer (Floyd and List 2016), making our findings more directly implementable by a regulator or other monitor.

Beyond our contributions to the academic literature, we provide feedback to securities market regulators, including the SEC and FINRA. Specifically, and most clearly, we show an email emphasizing regulatory risk increases reporting compliance, providing a simple cost-effective tool that could be adopted by regulators (Cai 2020). More broadly, taken together our findings of the high marginal effect of regulatory risk, the low compliance rate in the absence of enforcement, and the relatively weak response to non-regulatory risk incentives indicate that high levels of regulatory risk are necessary to ensure compliance with financial reporting rules. These findings provide timely feedback as the SEC undergoes enforcement changes under a new presidential administration in the context of a simultaneous push for deregulation of securities markets (Coffee Jr and Seligman 2024).

In summary, using a unique setting to study incentives for financial reporting compliance, we show the importance of high levels of regulatory risk for ensuring compliance and the extent to which compliance can be achieved under lower levels of regulatory risk. Understanding the motivations managers have to comply with regulations informs the necessity of costly enforcement and monitoring practices for achieving widespread compliance and whether alternative motivations can be leveraged at lower implementation costs.

II. INSTITUTIONAL SETTING

The adoption of Reg CF in May of 2016 marked the start of the U.S. ECF market, providing entrepreneurs the regulatory framework to issue unregistered securities to accredited and non-accredited investors over an Internet-based platform without going through the costly and onerous initial public offering (IPO) process.[2] And due to some of these unique features, Reg CF has

[2] While Reg A+ can be used to offer ECF securities, most offerings (over 95% in 2022) rely on Reg CF, which is the focus of my analysis. In addition, Rule 147A technically permits intrastate ECF subject to individual state-level Blue Sky Laws. And while some states allow for intrastate ECF, regulations vary and investment is limited to firms and

become a popular form of raising capital among U.S. start-ups, accounting for nearly $2 billion raised through over 8,000 offerings since the first ECF offering in mid-2016. Borrowed from Burke (2025), Figure 1 illustrates where Reg CF fits into the regulatory framework for entrepreneurs wishing to issue securities in the U.S. and Figure 2 summarizes crowdfunding types and their popular platforms. For additional details on how Reg CF differs from other transaction exemptions available to issue unregistered securities as well as the popular alternative rewards-based crowdfunding where no securities are issued, see Burke (2025).

Annual financial disclosure is of particular importance to the overall information environment of ECF issuers because these companies are mostly privately held, have little operating history, have little to no media/analyst attention, and primarily attract retail investors. In many cases, the only source of ongoing financial information from these firms is via their annual report. In contrast, registered firms have a relatively rich information environment, including nearly universal quarterly/annual reporting compliance, years of operating history (Siev and Qadan 2022), higher levels of media/analyst attention (Bonsall IV et al. 2020), and significant participation by institutional investors (Abramova et al. 2020).

Unlike registered issuers that are required to file quarterly (Form 10-Q) and annual (Form 10-K) financial reports that are subject to CPA assurance, under Rule 202, Reg CF issuers only need to file an annual financial report via Form C-AR, which has materially fewer disclosures and no attestation requirement. If Reg CF securities are outstanding, issuers must file their annual report and financial statements via Form C-AR on EDGAR no later than 120 days after the fiscal year

investors of the same state. Given these state-by-state differences and limited data availability, intrastate ECF offerings are not considered in this analysis.

end.[3] Since approximately 90 percent of Reg CF issuers have a December 31st year end, this means Form C-AR is due for most issuers by the end of April (or beginning of May). And while Form C-AR has no formal attestation requirement, it must be certified by the principal executive officer of the issuer. Instead of reporting, if an issuer meets one of five termination criteria, they may terminate their ongoing reporting obligation by filing Form C-TR indicating such termination.[4] As the first paper to investigate financial reporting compliance in this market, we focus on the decision of whether to comply with annual reporting rules. Therefore, in this paper, compliance is defined as an issuer filing their Form C-AR (or Form C-TR) by their annual deadline, regardless of the contents of the report.

If an issuer fails to comply with their ongoing disclosure requirement without qualifying for termination and filing Form C-TR, they are in violation of Reg CF and cannot issue further securities. Knowing Reg CF issuers may fail to comply with their ongoing reporting obligation, the SEC crafted a safe harbor whereby the availability of the Reg CF exemption is not conditioned on compliance with the annual reporting obligation. Therefore, even though non-compliance is a violation of Reg CF, this safe harbor protects Reg CF issuers from a broader and more serious Section 5 violation which would otherwise open them up to significant liability from issuing securities without registration or exemption from registration. There are two potential exceptions to this safe harbor such that non-compliance would have more serious consequences. First, if the issuer knowingly violates ongoing disclosure obligations, they may be liable under Rule 10b-5 (i.e. securities fraud). Second, if Reg CF is violated, the issuer no longer has exemption from Rule

[3] If a Reg CF offering is open as of the reporting deadline and the related financial statements are not already available in the offering documents (Form C), the issuer is required to amend the offering via Form C/A with the associated financial statements and file it on EDGAR. This applies requirement applies regardless of if the issuer has filed a Form C-AR for the same fiscal year, if an offering is open.

[4] These criteria relate to having 1) few (or no) outstanding investors, 2) few assets, 3) more onerous SEC reporting requirements, and 4) gone out of business.

12(g). Therefore, if a delinquent issuer crosses the asset or shareholder Rule 12(g) thresholds, they are required to register with the SEC and are subject to all the rules and regulations of a registered firm. Failure to do so may open the issuer up to significant liability as the SEC has historically treated Rule 12(g) as a bright line. In short, annual reporting violations are generally constrained to a Reg CF violation, but in certain cases, especially for large firms, non-reporting can become a broader and much more serious securities law violation.

Barring the aforementioned exceptions, if an issuer does not file their Form C-AR within 120 days of year end, they can "catch up" with their reporting obligation by filing after this deadline. Filing a late Form C-AR regains an issuers ability to rely on Reg CF for future securities offerings. However, even if they "catch up," tardy filers can still face an enforcement action by the Commission. That said, to date, we are unaware of any such enforcement actions relating to ongoing reporting compliance violations after an issuer has "caught up" with tardy filings.

Interestingly, there exists anecdotal evidence that issuers, platforms, and even some securities lawyers may be confused by part of Reg CF's annual reporting requirement. From conversations with these stakeholders as well as a member of the SEC staff, we learned the most common misconception is that Reg CF ongoing disclosure requirements do not come into force until a year after the offering is closed. We confirmed with the SEC staff that this is incorrect. Instead, annual reporting is required immediately after an issuer has "offered and sold" Reg CF securities (SEC 2015).

In terms of preparation, issuers may complete Form C-AR independently or they can enlist the support of a third party. Some of the major platforms, including Wefunder and StartEngine offer preparation services ranging in price from $500 to $1,000, reflecting the relatively simple disclosure requirement of Form C-AR. In addition to platforms, there exists firms that specialize in filing SEC forms for small companies. One example is raisepapers, owned by KingsCrowd, who charges a Form C-AR preparation fee ranging from $375 to $975.

As part of our study, we rely on the randomized email intervention by KingsCrowd (KC), the leading subscription-based analyst and ratings service covering U.S. ECF offerings (Burke 2025). As an analyst, KC is motivated to understand and increase annual reporting compliance to improve the financial data available to them in their analysis. To assist in Form C-AR compliance, KC provides preparation services through their subsidiary raisepapers. As part of a marketing campaign for raisepapers, KC implemented a randomized email intervention to Reg CF issuers hoping to increase sales of their preparation services as well as learn effective messaging to increase compliance and determine optimal pricing. To do this, KC cross-randomized their treated sample with two different messages as well as five different discount codes for raisepapers' preparation service. We discuss this intervention in more detail in Section VI.

III. HYPOTHESIS DEVELOPMENT

While there exist many papers studying the effects of mandatory financial reporting and disclosure, none, to our knowledge, study managers' decision to comply with mandated ongoing financial reporting in the U.S.[5] Although there exist studies on the importance of financial reporting enforcement (e.g., Christensen et al. 2013), few consider non-enforcement motives in a mandatory regime. And while the voluntary disclosure literature has identified reasons managers may choose to disclose information voluntarily, including cost of capital, proprietary costs,

[5] There exist some papers which we are aware of that study imperfect disclosure compliance to SEC mandates, however all focus on larger registered firm, not start-ups using exempt securities offerings, and none consider the decision to completely forgo ongoing financial disclosure. That is, they all consider settings where both the risk of enforcement and the rate of compliance are much, much higher. First, Alford et al. (1994) document the existence of tardy Form 10-K filings and their correlates and Bartov and Konchitchki (2017) study the market response to firms announcing they will file Form 10-K or 10-Q filing late, not the decision of whether or not to file. Second, Schwartz and Soo (1996) and Ettredge et al. (2011) study compliance with an Form 8-K disclosure triggered by the change of an external auditor. Third, Peters and Romi (2013) study the inclusion of mandated environmental disclosures in SEC filings. Forth, Alexander et al. (2011) study incomplete compliance with FIN 48 disclosures.

litigation costs, preparation costs, etc. (see Healy and Palepu 2001), it is unclear ex ante if and to what extent these reasons apply in a mandatory setting. Therefore, it remains an empirical question to if and why managers comply with a financial reporting mandate in the absence of enforcement.

On the one hand, managers are likely to comply with their reporting mandate for four reasons. First, managers may fear potential enforcement or litigation risk, hereafter regulatory risk. Under Reg CF, non-compliance with the ongoing disclosure mandate is a clear violation of securities law. And while no Reg CF issuer has faced an enforcement action from the SEC or investor litigation relating to ongoing disclosure, it may be that managers view the expected risk as high enough to justify complying. This argument aligns with the literature on the importance of financial reporting enforcement (see Leuz and Wysocki 2016).

Second, managers may view compliance as economically beneficial. If investors demand financial information in the ECF market (Donovan 2021; Polzin et al. 2018), value compliance for its own sake, or view non-compliance as a signal of poor quality (Burke et al. 2023), non-compliance may increase an issuer's cost of capital, potentially so high that they are unable to successfully attract investment (Botosan 1997, 2006; Diamond and Verrecchia 1991). Additionally, from a regulatory perspective, a violation of Reg CF reporting requirements limits an issuer's ability to offer further securities, potentially incentivizing them to comply if they anticipate issuing securities in the future (SEC 2015).[6]

Third, other monitors may apply sufficient pressure to which managers remain in compliance, including platforms hosting the offering (Cumming et al. 2019), auditors reviewing the financials (Bogdani et al. 2022; Gong et al. 2022; Burke et al. 2023), and analysts providing information

[6] Even if a manager does not believe the SEC will stop a future securities offering due to a lapse in their Reg CF reporting requirement, they may believe platforms may deny them the ability to launch a future offering after their due diligence process.

intermediation services to investors (Burke 2025). More specifically, since platforms are monitored by FINRA and are expected to screen the offerings they host, it may be that platforms ensure managers continue to comply with Reg CF annual reporting requirements or are in compliance when they go to raise a subsequent offering. Additionally, auditors might monitor the offerings they audit or review. They may remind managers when Form C-AR deadlines are approaching for the purposes of maintaining their client base or to minimize liability/reputation costs from their clients not complying with reporting obligations. Finally, the ECF analyst KC may either directly request issuers comply to help them support their subscribers or may penalize issuers who have violated Reg CF in their recommendations.

Fourth, the cost of compliance may be sufficiently low that it does not materially prevent managers from filing Form C-AR. Aware Reg CF issuers would be resource constrained, the SEC crafted the Reg CF annual reporting requirements such that they were simplified and materially less burdensome than traditional Form 10-K reporting. The fact that there exist third party services that will complete Form C-AR for clients at fees between $500 and $1,000 a year implies preparation costs are low. In addition, there exist no attestation requirements for these reports, further limiting financial and coordination costs.

On the other hand, managers may have reasons to not file their annual reports. First, while regulatory risk may exist in the abstract, there have been no cases against Reg CF issuers to our knowledge. In fact, anecdotally the SEC staff does not monitor incoming Reg CF filings. Therefore, if managers update their beliefs about these risks based on instances of SEC or shareholder actions, they may believe regulatory risk is sufficiently low that it does not warrant compliance with their annual reporting mandate (Coffee Jr 2007). Further, the higher propensity of risk taking in our population of managers, who are primarily entrepreneurs, may minimize the impact of regulator risk on compliance behavior (Stewart Jr et al. 1999).

Second, managers may not believe there is an economic benefit to compliance. Given the opacity of this market coupled with the difficulty in assessing investment returns to start-ups, which are often loss making, it may be the case that investors rationally do not demand ongoing financial reporting from Reg CF issuers (Hayn 1995). In fact, investors may actually prefer managers not "waste" time complying with ongoing reporting requirements and instead focus their time on the core value proposition of the business. Alternatively, investors may not demand compliance simply because they are unaware of the annual reporting mandate or unable to process financial information (Blankespoor et al. 2019). This is a distinct possibility given the composition of Reg CF investors is largely retail. In either case, managers may not have an economic motive to file their Form C-AR.

Third, the existing ECF monitors may not serve a monitoring role when it comes to annual reporting. In practice, platforms and FINRA appear most concerned about their monitoring role during an offering, with little concern after securities have been issued. This is evidenced by the fact that none of the (few) FINRA actions against platforms have been related to ongoing reporting. Further, there is evidence platforms may not fully understand or care about ongoing reporting of their hosted offerings. In fact, the language regarding annual reporting on the most popular platform, Wefunder, notes "if you complete a successful Regulation Crowdfunding offering, the law requires that you file an annual report in a year to update the SEC and your investors," as of September 2025.This statement leaves enough ambiguity that it may be the case that platforms, like Wefunder, do not believe issuers are required to file Form C-AR the first year following their offering (which would be incorrect). Auditors may also not monitor after the offering since their services are not required for annual reporting, providing less incentive to encourage their clients to file their annual reports. The analyst KC may also not be sufficiently attentive to issuers after the close of an offering as their products are tailored to helping investors make initial investment-related decisions during the offering.

Finally, while the reporting requirements under Reg CF are intended to have relatively low compliance costs, it may be the case that Reg CF issuers are so small that these costs are material. Given Reg CF is designed for start-ups who are relatively small with limited resources, they may not be aware of their annual reporting mandate (Allee and Yohn 2009). Furthermore, Reg CF issuers may face proprietary costs above and beyond the direct costs of preparing their disclosure (Berger and Hann 2007). Supporting this notion, Burke and League (2025) find that issuers in this market are willing to close their offerings early to avoid a similar ongoing reporting requirement.

Taken together, it is an empirical question as to if and to what extent Reg CF issuers comply with their annual financial reporting obligation. With these competing arguments, it is unclear whether U.S. ECF issuers will comply with the Reg CF annual reporting mandate. Stated formally in null form:

H1: *U.S. ECF issuers comply with Reg CF annual financial reporting requirements.*

Assuming compliance is not universal, we seek to understand the barriers to ongoing reporting using a randomized intervention of email reminders by KC to encourage managers to file their Form C-AR. Given the arguments for and against annual reporting compliance above as well as the intervention implemented by KC, we focus our subsequent analysis on regulatory risk and economic incentives.

First, KC increases the perceived regulatory risk among a random set of issuers by sending email reminders that use language that increases the saliency of the reporting mandate and potential violation of securities law arising from non-compliance. If issuers already understand their obligation or do not fear potential regulatory risk, we do not expect them to respond to this randomized treatment.

Second, as an alternative incentive to comply with regulation, KC increases the perceived economic benefit of compliance among a random set of issuers by highlighting that compliant companies have more successful subsequent offerings on average. This aligns with findings that managers are more likely to comply with regulations when they have a greater need for external financing (Ettredge et al. 2011) and the possibility that the benefits of reporting are not as salient as the costs (Lisowsky and Minnis 2020). If managers already consider these potential upsides or do not believe investors are responsive to reporting compliance, we expect they will not respond to this treatment. In testing the relative import of these two treatments we also test the relative effectiveness of prescriptive/injunctive versus descriptive norms (Cialdini et al. 1990), respectively, in the setting of financial reporting compliance.

Ex ante it is unclear whether U.S. ECF issuers will respond to reminders for them to comply with their Reg CF annual reporting mandate or the language used in those reminders. Stated formally in null form:

H2a: *U.S. ECF issuers do not respond to reminders to comply with Reg CF annual reporting requirements emphasizing the potential regulatory risk of non-compliance.*

H2b: *U.S. ECF issuers do not respond to reminders to comply with Reg CF annual reporting requirements emphasizing the potential economic benefits of compliance.*

IV. DATA AND SAMPLE SELECTION

Our data come from four sources. First, we obtain SEC filing data from the SEC's Crowdfunding Offerings Data Sets, which includes details from all Form C submissions, including amendments, withdrawals, updates, termination of annual reporting, and, most importantly, annual reports. We use these data to determine annual ongoing reporting compliance. Second, we download all Form C filings, which we use to identify the likely fiscal year end of the initial offering disclosure.[7] Third, we obtain data on all Reg CF offerings from KingsCrowd, Inc. (KC) which include offering, entrepreneur, and issuer-level variables. Fourth, to investigate investor use of Form C-AR reports, we use daily EDGAR log files obtained from the SEC.

Table 1 outlines the sample used in hypothesis testing. Starting with all Reg CF offerings followed by KC, we limit our sample by dropping offerings that do not link to an SEC Form C filing, were withdrawn, or did not successfully close. For our archival analysis of H1, we further drop offerings whose first Form C-AR reporting deadline was after May 1, 2023. The resulting sample includes 3,918 offerings from 3,335 unique firms. To analyze the impact of the randomized KC intervention in testing H2, we instead limit our sample to offerings that faced a reporting deadline on May 1, 2024.[8] This sample includes 4,436 offerings and 3,682 firms. Further, we limit our analysis to the sample of issuers which KC emailed as part of their marketing campaign resulting in a final sample of 2,897 offerings from 2,280 issuers.[9]

V. STATE OF ANNUAL FINANCIAL REPORTING COMPLIANCE

[7] We convert all filings to text and then use a script to identify all dates across all filing documents. We assign the likely year-end based on the highest frequency of dates that appear to be the fiscal year end, which are determined based on proximity to key words or phrases and being the end of a month.

[8] This sample selection step begins with the sample of 5,877 offerings as documented in Table 1. An offering can be in the archival sample but not the experimental sample if its reporting obligation was terminated between May 1, 2023 and April 1, 2024. Conversely, an offering can be in the experimental sample but not the archival sample if its first reporting obligation was for fiscal year 2023.

[9] KC's sample of email reminders was intended to be randomized, however, due to a potential failure to the initial randomization, we focus our analysis on the randomization between messages after conditioning on inclusion in the email campaign.

In this section, we test H1 by assessing the level of compliance with Reg CF reporting requirements.[10] First, we demonstrate that this market exhibits low rates of compliance. Second, we consider if there exists evidence that managers are aware of their reporting obligation by examining the timing of offerings and financial reporting. Third, we investigate the determinants of compliance by assessing the offering attributes that correlate with subsequent reporting. Finally, we evaluate investor use of Form C-AR information.

Rate of compliance

Table 2 reports summary statistics on the level of compliance with ongoing disclosure requirements using various measures of compliance. First, we consider the first fiscal year that the manager faces a reporting obligation.[11] For each of the 3,918 offerings in our sample, we report whether a Form C-AR or C-TR no more than 5 days later than the associated reporting deadline. Despite this reporting mandate, we find that only 27.7 percent of offerings satisfy this measure of compliance. To assess if managers file the necessary forms, but fail to do so timely, we assess whether the first year's Form C-AR or C-TR was ever filed for the offering.[12] We find that only 47.2 (an additional 19.5) percent of offerings satisfy this more lenient measure of compliance which does not consider the reporting deadline. Finally, to evaluate if managers file any form that could plausibly contain the required financial information, we further consider Form C filings for another offering but the same issuer or Form C/A filings that indicate the inclusion of financial

[10] For the purposes of this study, we limit our definition of disclosure compliance to filing the correct financial report by the mandated deadline. We do not consider compliance with the substance of the financial report nor the correct application of accounting standards.
[11] We focus our analysis on the first year after the offering in order to include as many issuers as possible (who recently completed an offering) and reduce the impact of survival bias.
[12] Our data is limited to all EDGAR filings through July 1, 2024. Therefore, tardy filings after this date are not captured in our analysis.

information and are filed by the reporting deadline by the same issuer regardless of offering.[13] Technically, these additional filings do not satisfy the obligations of the Reg CF annual reporting mandate and may or may not include the financial information that is required. And still only 47.9 (an additional 0.7) percent of offerings satisfy this even more inclusive measure of compliance.

Interestingly, while the reporting deadline is within 120 days of the fiscal year end, we show the average reporting timeliness for first-year Form C-AR filers is 157 days. Therefore, even for offerings that correctly file a C-AR, the average filing misses the deadline by over a month. We further investigate disclosure timeliness in the next subsection.

While our primary measures of compliance focus on the first Form C-AR reporting deadline after an offering, Table 2 also reports measures of compliance relating to subsequent reporting deadlines. As discussed in Section II, firms are required to file an annual report every year after the offering until they terminate their reporting obligation. Given this definition, on average, offerings in our sample have had 3.35 years with a reporting requirement. The average share of years with a reporting requirement that an offering files Form C-AR or C-TR in a timely manner is only 25.4 percent, with similarly low shares of years satisfying our more lenient measures of compliance. The fact that the average share of years compliant is lower than the corresponding share of offerings that are compliant in their first fiscal year after the offering is consistent with the notion that overall annual reporting compliance is low and managers are more attentive to their disclosure mandate the first year after an offering is closed.

[13] We infer the fiscal year end related to Form C and Form C/A using the timing of when they are filed. Specifically, we only consider Form C filings posted 90 to 125 days following the related fiscal year end and Form C/A filings posted 30 to 125 days following the related fiscal year end. Further, the description of the amendment, per the SEC structured data, must include a keyword indicating the inclusion of financial information to be considered in our evaluation.

To capture all offerings that are ever compliant with their annual reporting obligation, we consider whether an offering has ever filed an annual report, regardless of the fiscal year end. We find that only 43.4 percent of offerings ever timely file either Form C-AR or C-TR for any of the years they have a reporting obligation. This means less than half of issuers are *ever* in compliance with their annual reporting obligation for any fiscal year.[14] Similarly, we find that only 57.0 percent of issuers ever file a C-AR or C-TR (including untimely filings) and only 57.5 percent of firms ever file anything potentially resembling financials with the SEC following the offering. In short, we find that across many different measures, compliance with the Reg CF annual reporting requirements is low. Taken together, we reject H1.

Disclosure timeliness and offering timing

As reported in Table 2, the average time from the end of a firm's fiscal year and the filing of a Form C-AR—if such a filing occurs at all—is over 150 days, indicating that annual reporting is often untimely. This average, though, masks significant heterogeneity. Figure 3 reports a histogram of this reporting lag. Clearly, many of these Form C-AR filings happen around the 120-day reporting deadline, with 667 of the 1,825 offerings filing in the 10 days prior to the deadline. However, there is a long right tail in timeliness, with 15.5 percent of filings occurring over 180 days after the fiscal year end and 5.5 percent of filings taking over a year.

One possible explanation of why an issuer may file an annual report after its deadline may be related to the desire to offer future ECF securities. This may occur for four reasons. First, since Reg CF clearly states issuers must be current with their annual reporting to rely on the exemption for a subsequent offering, managers may file late annual reports if they are concerned offering

[14] This is based on a definition of compliance whereby an issuer files the correct form by the correct deadline, thereby technically fully satisfying their Reg CF annual reporting obligation. It does not consider alternative forms that may resemble the correct forms nor the correct forms that are filed tardy.

future securities may expose them to greater regulatory (detection) risk relating to unfiled annual reports. Second, managers may believe there is a positive economic benefit of "catching up" if potential investors value their disclosures, either because of the information the disclosures contain, the quality it signals, or investors' taste for compliance. Third, external monitors, such as a CPA, analyst, or platform, may encourage the manager to "catch up" before their next offering.[15] Fourth, the cost of compliance may be reduced if managers were previously unaware of their annual reporting requirement and learn of it when planning a subsequent offering. To investigate if subsequent offerings explain tardy filings, we consider if issuers file their first required Form C-AR around the time of a subsequent offering (when they post their next Form C). Specifically, in Figure 4 we plot the annual reporting lag against the days from the issuer's first fiscal year end following an offering to the date of the filing of their next Form C (which initiates another offering). Within the sample of offerings that are followed by a subsequent offering and for which the first-year's Form C-AR was filed, Figure 4 shows the lag in reporting is closely linked to the timing of the subsequent offering. The vertical red line shows the mandatory reporting deadline, 120 days, where we observe many of the filings fall around this deadline regardless of the timing of subsequent offerings, as we observed in Figure 3. More interestingly, we see that first-year filings commonly occur in close proximity to the timing of a subsequent offering as indicated by the density of points along the diagonal red line, which denotes when the reporting lag is equal to the time to the next offering (45-degree line). That is, points just above and to the left of the line represent firms that file Form C-AR just before filing Form C for a subsequent offering. As the figure shows, this filing behavior happens with regularity. In fact, Form C-AR is filed within the 10 days preceding a subsequent Form C for 12.9 percent of offerings, with this percentage rising

[15] ECF platforms screen offerings before hosting them. While the specific screening process varies across platforms and is often not clear, annual reporting compliance may be considered by some platforms.

to 32.1 percent when conditioning on offerings that file a tardy Form C-AR. In short, we provide clear evidence that issuers increase their compliance with the ongoing reporting requirement in advance of subsequent offerings.

In addition to the striking patterns in the timing of annual reporting, in a concurrent working paper, Burke and League (2025) consider the relationship between reporting deadlines and the timing of offerings. They find a clear drop off in offerings available for investment in May which is driven by closures in April, right before the annual reporting deadline. This observed pattern is consistent with managers strategically closing their offerings before their reporting deadline to avoid the requirement to file Form C/A, if the offering remained open, indicating an awareness of the Reg CF reporting obligation.[16] Given evidence issuers manipulate the timing of offerings to avoid financial reporting, Burke and League (2025) estimate a model of the cost of financial reporting to these start-up firms via lost potential capital from closing early. Taken together, patterns in the timing of Form C-AR filing and offering closure indicate at least some awareness among managers of their reporting obligation.

Determinants of compliance

While the timing of financial reporting and offering closures may help us understand the overall Reg CF reporting landscape and managers' awareness of their reporting requirements, it fails to inform our understanding as to why specific managers file their Form C-AR and others do not. To provide a more systematic investigation, we consider what correlates with annual reporting compliance using offering, issuer, and manager characteristics as predictors of subsequent

[16] This strategic closure may be partially explained by the incorrect belief that issuers can skip their first year of Form C-AR reporting, whereby issuers believe if they close in April they do not need to prepare financial statements for a full year. However, only 14% of offerings that close in April skip their first year of Form C-AR filings before ever filing subsequent-year financials, indicating that this potential confusion is likely a small contributor to the rate of closures. Regardless, these closures still indicate an awareness of the reporting requirement.

compliance. Because of the extensive information we have on each offering, we use principal component analysis to reduce the dimensionality of our data to nine factors relating to three potential motivators of compliance discussed in our hypothesis development. First, we consider the economic benefit of reporting, which includes factors for investor demand, whether the firm is likely to have good news, proprietary costs, and the underrepresented status of the founder. Second, we construct a factor for monitoring, which includes proxies for exposure to external monitors such as platforms, auditors, analysts, or advisors. Third, we consider compliance cost, which includes factors for the issuer's resources, prior Reg CF experience, manager experience, and preparatory costs. These principal components are then normalized to have a mean of zero and a standard deviation of one so that they can be directly compared to one another.

Table 3 reports the correlation of these potential determinants with our three measures of first-year compliance. Factors related to compliance cost are most consistently associated with our measures of compliance. More specifically, the correlation between firm resources (e.g., assets, sales, firm maturity, etc.) and compliance is 0.096 to 0.115 while in the correlation of compliance with prior Reg CF experience (e.g., prior offerings, filing amendments, prior offering success, etc.) is 0.069 to 0.074 percentage points. There is mixed evidence on the importance of monitoring and the factors related to potential economic benefit. Overall, it is important to note that even the factors consistently correlated with compliance are generally only weakly so, while all these factors are highly correlated with one another, with correlations ranging from 0.36 to 0.96.

Table 4 presents the results of including all potential determinates of compliance in the same regression as independent variables. Given the high degree of correlation between these independent variables, we caution against overinterpreting the multivariate regression results. With that caveat, we note when controlling for other potential determinants, the factors related to potential economic benefit and monitoring are reliably associated with compliance. When considering the specific factors underpinning potential economic benefit, we show compliance increases with the likelihood the firm has good news (e.g., Beck 2018), but decreases when proprietary costs (e.g., patents, competition, etc.) are low and the founder is a member of an underrepresented group(e.g., race, sexual orientation, etc.). While existing literature suggests firms with low proprietary costs would be more likely to disclose (e.g., Ellis et al. 2012) and minority founders would be more likely to disclose to overcome other barriers to investment capital (e.g., Fairlie et al. 2022), we find evidence that in our context this is not the case. One possibility is that these factors are capturing something related to compliance costs (e.g., firm resources) instead of potential economic benefits. This conjecture is consistent with the fact that when included in a multivariate regression the effect of firm resources on compliance is attenuated. Given the somewhat inconsistent results between the univariate and multivariate tests, coupled with an R^2 of between 3.69 and 7.39 percent, we conclude it is difficult to *ex ante* predict annual reporting compliance but find evidence consistent with compliance costs playing a potentially meaningful role.[17]

Discipline from investors

Given the difficulty of predicting compliance, we investigate whether investors use the information contained in Form C-AR when making investment decisions. To do this, we investigate web traffic using EDGAR log files and find strong evidence that potential investors access Form C-AR when making investment decisions.

[17] In untabulated results, we use various machine learning techniques to attempt to predict later compliance using the roughly one thousand offering characteristics in our data. The highest cross-validated R-squared we can achieve is 0.130 using a probit LASSO model. This further suggests predicting compliance is difficult *ex ante*.

First, we show that traffic to Form C-AR makes up a meaningful share of the traffic to firm financial information available on EDGAR, and that the timing of this traffic is consistent with investors demanding timely information from managers. Figure 5 Panel A shows the weekly share of EDGAR traffic attributable to Form C-AR. Overall, visits to Form C-AR make up 9.8% of EDGAR traffic associated with Reg CF issuers, with traffic increasing dramatically at the annual reporting deadline. For example, in the week of the 2022 reporting deadline, traffic to Form C-AR represented over 60% of EDGAR traffic among Reg CF issuers. The coincidence of traffic to Form C-AR with the reporting deadline is consistent with investors seeking out timely financial information.

Next, we find evidence suggesting that Form C-AR traffic is not driven by *existing* investors checking the annual report for their current holdings, but rather *potential* investors accessing the information. To test this, we investigate traffic to existing (already posted) reports responds when the firm launches a new offering. Limiting the sample of Form C-ARs to those from issuers that subsequently open another offering, we estimate the following regression,

$$Y_{it} = \sum_{e\in\{-8,7\}/\{-1\}} \beta_e WeeksToTreat_{it}(e) + \alpha_1 Post2023_t + \gamma_t + \gamma_i + \delta_{it} + \varepsilon_i \qquad (1)$$

where Y_{it} gives the traffic to Form C-AR i in week t, $WeeksToTreat_{it}(e)$ is an indicator for being e weeks from the posting of a subsequent C-AR, $Post2023_t$ is an indicator for being in 2023 or later, γ_t and γ_i are week and Form C-AR fixed effects, and δ_i is a fixed effect for the number of weeks from the posting of the report to week γ_t.[18] The coefficients of interest are the

[18] The post-2023 indicator is necessary because of a change in the way EDGAR traffic is reported in 2023. The series of report age fixed effects account for the possibility that as reports age, the traffic to them changes.

set of α_e, which give the differential change in traffic to existing C-ARs when a subsequent offering is opened.

Figure 5 Panel B reports estimates of α_e. We see that traffic to Form C-AR spikes when the issuer launches an offering. In particular, we estimate that in the week an offering opens, traffic to existing Form C-ARs from that issuer increases by 0.45 log points (57 percent) relative to the week before. This effect decreases over the following four weeks. In sum, showing that traffic to historical financial information via previously posted Form C-ARs jumps when a new offering opens and investors have an opportunity to invest is consistent with investors using Form C-AR when making their investment decisions.

VI. EXPERIMENTAL EVIDENCE

Experimental design

To better understand why managers comply with mandatory reporting requirements, we turn to analyzing a randomized intervention by the leading analyst firm in this market, KingsCrowd (KC). In April and May of 2024, KC sent emails encouraging managers to comply with their annual reporting requirement. Specifically, KC sent emails to managers for which a functioning email could be found, with email addresses associated with the same manager receiving the same treatment.[19] Emails were sent to managers on April 3rd, April 17th, and May 15th, 2024.[20]

Within the experimental sample presented in Table 1, offerings were randomized to receive email reminders emphasizing different potential motivations for compliance. Each email contained either language emphasizing regulatory risk via the salience of the mandatory nature of annual

[19] Some managers were randomized not to receive emails. However, we concluded this initial randomization failed due to a lack of balance in offering characteristics between those that received emails and those that did not. Thus, we limit our analysis to those that received some email, where we are confident the randomization between email content was successful.
[20] Following the April 3, 2024 email, KC reviewed EDGAR filings and removed email addresses from subsequent reminders associated with managers of issuers who completed all necessary annual reporting filings.

reporting, economic incentives via the potential economic benefit of compliance, no language regarding either potential incentive, or language emphasizing both incentives. Managers were also offered cross-randomized discounts of \$50 to \$400 for Form C-AR filing assistance from the KC-owned company raisepapers. Figure 6 displays an example email. Due to this randomized design, any differences in the subsequent reporting behavior between managers can be causally attributed to the messages they received, overcoming the endogeneity of reporting with respect to unobserved offering, issuer, and manager characteristics.[21]

In order to estimate the effect of the randomized content in the email reminders, we estimate the following equation:

$$Y_i = \beta_0 + \beta_1 Reg.Risk_i + \beta_2 Econ.Benefit_i + \beta_3 Log\_Price_i + \varepsilon_i \qquad (2)$$

where $Reg.Risk_i$ denotes whether an email address associated with the offering received an email containing language emphasizing the potential regulatory risks of non-compliance, $Econ.Benefit_i$ denotes whether the message contained language emphasizing the potential economic benefits of compliance, and Log_Price_i denotes the natural logarithm of the discounted price offered in the email. The outcomes, Y_i, are the compliance measures previously discussed, including timely filing of a C-AR or C-TR, the filing of C-AR or C-TR including late filings, and the filing of any forms that plausibly contain financial information. Our EDGAR filings data is truncated at July 1, 2024, two months after the reporting deadline. We also assess the effect of the intervention on the take-up of a service that helps managers fulfill their ongoing reporting obligation called raisepapers.

Table 5 presents summary statistics between those that received different messaging. Using an F-test of equality of all the means across the four groups, we find that even without multiple

[21] We provided feedback to KC in their design of their email intervention. We shared the nature of our involvement with KC with our respective IRB's and agreed review was not necessary.

testing adjustments, only one of the characteristics is statistically different across groups at the 10% significance level: the probability of filing anything in the prior year. The other 18 characteristics are statistically equivalent across messages. We also see no qualitatively large differences across groups. In total, we interpret this as indicating that there are no systematic differences across messaging groups, consistent with successful randomization.

Findings and discussion

KC's email reminders were successful at reaching their intended recipients. Across the three email reminders, 72% of issuers opened at least one of the emails, with 62% opening the first email reminder alone.[22] This is very high compared to typical open rates for unsolicited email advertising, indicating that the emails likely reached their intended recipients (Sahni et al. 2018).

Table 6 presents estimates of equation (2). We find that emails emphasizing the potential regulatory risks of non-compliance significantly increase the filing of annual reports and the take-up of raisepapers. Specifically, we find that offerings treated with $Reg.Risk_i$ are 3.3 percentage points more likely to file a timely annual report, representing a 20 percent increase in compliance relative to the baseline compliance rate of 16.9 percent among the control group that received emails without any emphasis added. We see effects of similar magnitude on the propensity to file an annual report or anything that might contain financial statements after the deadline, but by July 1st. Finally, we find receiving mandatory language increases the likelihood an offering uses raisepapers by 1.5 percentage points.

[22] For emails associated with Apple devices, we are unable to distinguish between email opens that happen automatically for privacy screening purposes or those that were initiated by the user. This means shares reported above are upper bounds on the "true" rate of openings. Assuming none of the email opens on Apple devices are manual and initiated by the user, we find a lower bound on the opening rate of 41% for the first email reminder, which is still very high.

To further validate the causal interpretation of this difference, we show the timing of filing an annual report coincides with the email intervention. Figure 7 shows the difference in the share of offerings filing an annual report over time by whether the messages emphasize the regulatory risk of non-compliance. We see that after the intervention began, those that received messages emphasizing regulatory risk rapidly began filing annual reports at a higher rate, consistent with these messages facilitating compliance. The fact that the filing effect coincides with the timing of the randomized treatment, further validates that the messages emphasizing the regulatory risks of non-compliance causally increased the rate of filing. Therefore, we reject H2a.

In contrast to the effectiveness of the regulatory risk messages, we find no evidence that messages emphasizing the potential economic benefits of compliance nor offering larger discounts on the raisepapers service induced additional compliance, on average. As shown by Table 6, we find that offerings that received emails emphasizing the potential economic benefits of annual reporting were no more or less likely to comply. Looking at column (1) of Table 6, we can rule out an increase in timely filing of 1.8 percentage points or a change of less than 11% relative to the baseline rate at the 95% confidence level.[23] Thus, our estimates indicate a relatively precise null effect. Therefore, we are unable to reject H2b.

Similarly, we find a null effect of offering raisepapers discounts on filing an annual report or using raisepapers. In terms of the effect on annual reporting, we can rule out an increase in timely compliance of larger than 0.08 percentage points for a 1 percent decrease in the price of raisepapers at the 95% confidence level, suggesting the saliency of low preparatory costs does not induce the filing of an annual report, on average.[24] In terms of the direct effect on the take-up of the raisepapers service, we find no evidence that offering larger discounts increases the use of

[23] -0.00976 + (0.0142 * 1.96) = 0.0181, 0.181 / 0,169 = 0.107
[24] -0.0172 - (0.0297 * 1.96) = -0.075

raisepapers on average, ruling out increases of larger than 0.005 percentage points for a 1 percent decrease in price at the 95% confidence level.[25] Relative to the baseline take-up rate of raisepapers, we can rule out price elasticities of demand for the service of less than -0.58, indicating a precisely estimated null effect of price on raisepapers use.[26] These precise null effects indicate that while the overall costs of preparing annual reports may be a meaningful determinant of compliance (Burke and League 2025), the preparatory costs defrayed by the raisepapers service, on average, are not.

Given evidence that language emphasizing regulatory risk increases the propensity to file an annual report, we explore whether the other treatments matter conditional on whether regulatory risk is emphasized. In Table 7 columns (1)-(4), we see that conditional on receiving the regulatory risk language there remains no evidence that either of the other two treatments are effective. By contrast, in columns (5)-(8), we see that conditional on *not* receiving the regulatory risk language, offering greater discounts on the raisepapers service induces more filing, albeit without differences in the direct usage of raisepapers. We estimate that a 1 percent decrease in the price offered in the email led to a 0.08 percentage point increase in the likelihood of compliance, a price elasticity of -0.5 relative to baseline.[27] Consistent with our estimates in Table 6, this indicates that the annual reporting response to the price of raisepapers is inelastic,[28] but that issuer perceptions of preparatory costs may still be a determinant of compliance when regulatory risk is not salient.

Taken together, the randomized intervention provides four takeaways. First, the regulatory risk of non-compliance is a primary driver of annual reporting compliance. Second, the potential

[25] 0.0128 - (0.00861 * 1.96) = 0.004
[26] -0.0004 / 0.00708 = -0.576
[27] -0.0788 / 0.169 = -0.466
[28] We are able to rule out demand being unit elastic at the 95% confidence level, with the lower bound on this confidence interval being (-0.0788 – (0.0398 * 1.96)) / 0.169 = -0.928.

economic benefit of compliance does not induce compliance. Third, when the saliency of regulatory risk is low, increasing the saliency of low preparatory costs may increase compliance, but when the saliency of regulatory risk is high the saliency of preparatory costs has no impact on compliance. And, fourth, simple email reminders that emphasize regulatory risk may be an effective method of increasing annual reporting compliance.

VII. CONCLUSION

Given the high levels of regulatory risk in most settings, there exists little evidence on alternative reasons why managers comply with U.S. financial reporting mandates (Coffee Jr 2007). This paper provides initial insights into this question by studying a setting where there exists a clear financial reporting mandate, yet lax enforcement and imperfect compliance: the U.S. equity crowdfunding market. Using such a setting allows us to consider other factors that might explain managers' incentive to comply with mandated reporting beyond regulatory risk. Additionally, and more specifically, our study provides the first evidence on the ongoing financial reporting behavior of U.S. ECF issuers in this emerging capital market.

We find ongoing reporting compliance among Reg CF issuers is strikingly low, despite evidence they are aware of the disclosure mandate. Specifically, only 28 percent of issuers file Form C-AR by their first reporting deadline, while 53 percent never file their first-year financials, even after the deadline. Looking beyond just the first year after the offering, over half of issuers never file Form C-AR by the mandated deadline. To understand what factors drive compliance, we assess potential correlates with compliance, finding some evidence that having low compliance costs is positively associated with compliance but that compliance is generally difficult to predict *ex ante*. And, despite low levels of compliance, we show evidence that investors access Form C-AR, especially during subsequent Reg CF offerings.

We also use a randomized intervention to estimate the relative causal effect of reminders emphasizing two possible determinants of compliance: regulatory risk and economic benefit. We find reminders emphasizing regulatory risks are more effective in driving compliance than those focusing on the potential economic benefits, suggesting that legal repercussions remain a key motivator, even in low-enforcement settings. Furthermore, in reminders that do not emphasize regulatory risk, we find evidence suggesting increasing the salience of low preparatory costs may increase compliance.

These results have important implications for regulators and academics alike. For regulators and monitors, such as the SEC, FINRA, and ECF platforms, we bring attention to widespread non-compliance to ongoing disclosure mandates, show correlates that predict non-compliance, and provide evidence of a low-cost method to increase reporting compliance. For academics, we are the first study to consider annual financial disclosure in the ECF market and, more broadly, provide evidence that even in the absence of enforcement, regulatory risk dominates other motives of why managers may comply with mandated financial reporting regulations.

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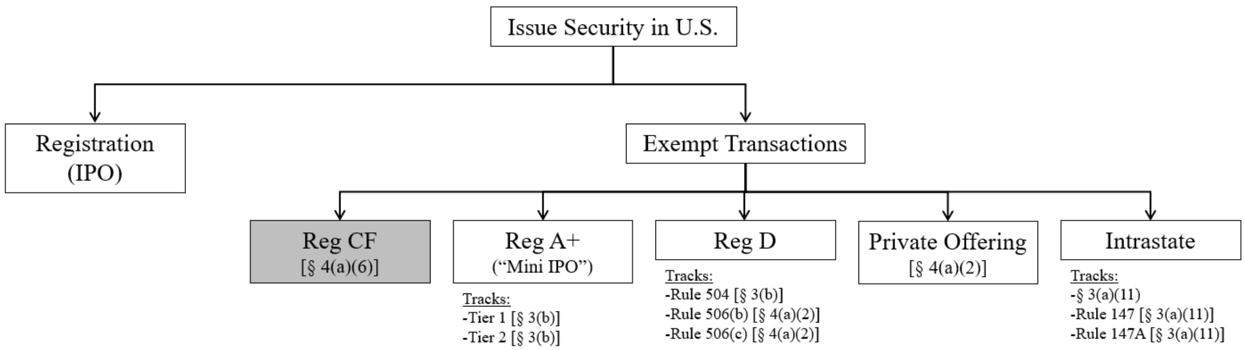
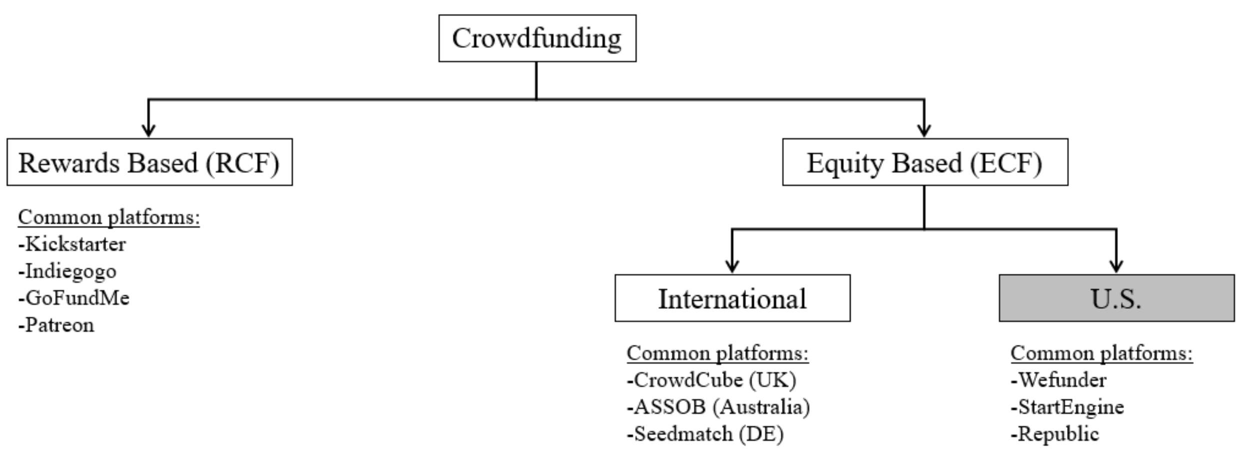
Figure 1 – U.S. Securities Offerings and Transaction Exemptions



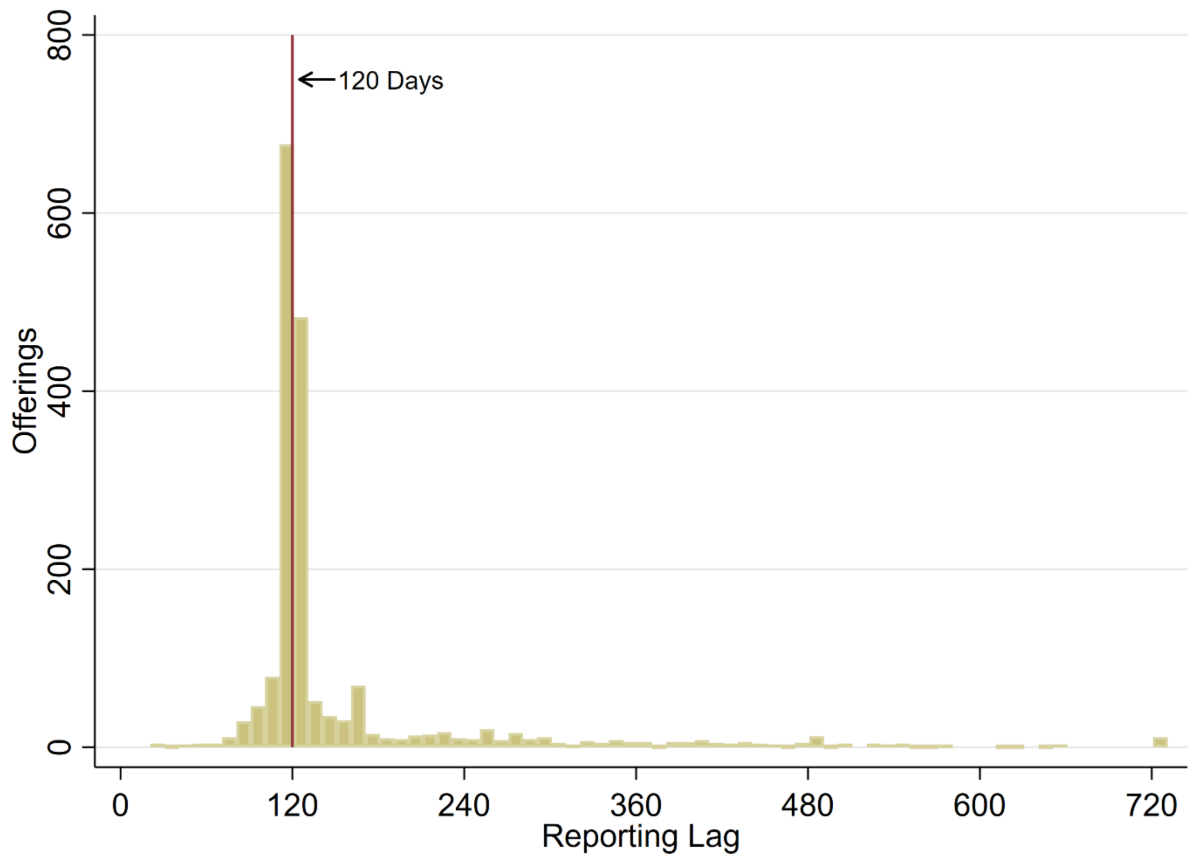
Note: Borrowed from (Burke 2025), this figure displays the regulatory framework in the U.S. for entrepreneurs who wish to issue a security, highlighting the exempt transactions available under Sections 3 and 4 of the 1933 Act to avoid SEC registration (IPO). This paper studies issuances that constitute ECF and fall under the Reg CF exemption, as indicated by the shaded box. Reg A+ is not explicitly studied in this paper but is another available exemption for larger ECF offerings which is far less common in practice. Reg D is typically associated with venture capital offerings (i.e., accredited investors with high net worth). Private Offerings are generally not ECF. Rule 147A permits intrastate ECF subject to individual state-level Blue Sky Laws. And while some states allow for intrastate ECF, regulations vary by state and investment is limited to firms and investors of the same state. In addition, there are limited data on these offerings. For these reasons, such intrastate ECF offerings are not considered in this analysis. [§ #(ABC)(#)] identifies the statutory authority relied upon, at least in in part, for the identified safe harbor exemption. For a more detailed overview of exemptions available, see https://www.sec.gov/education/smallbusiness/exemptofferings/exemptofferingschart.

Figure 2 – Types of Crowdfunding



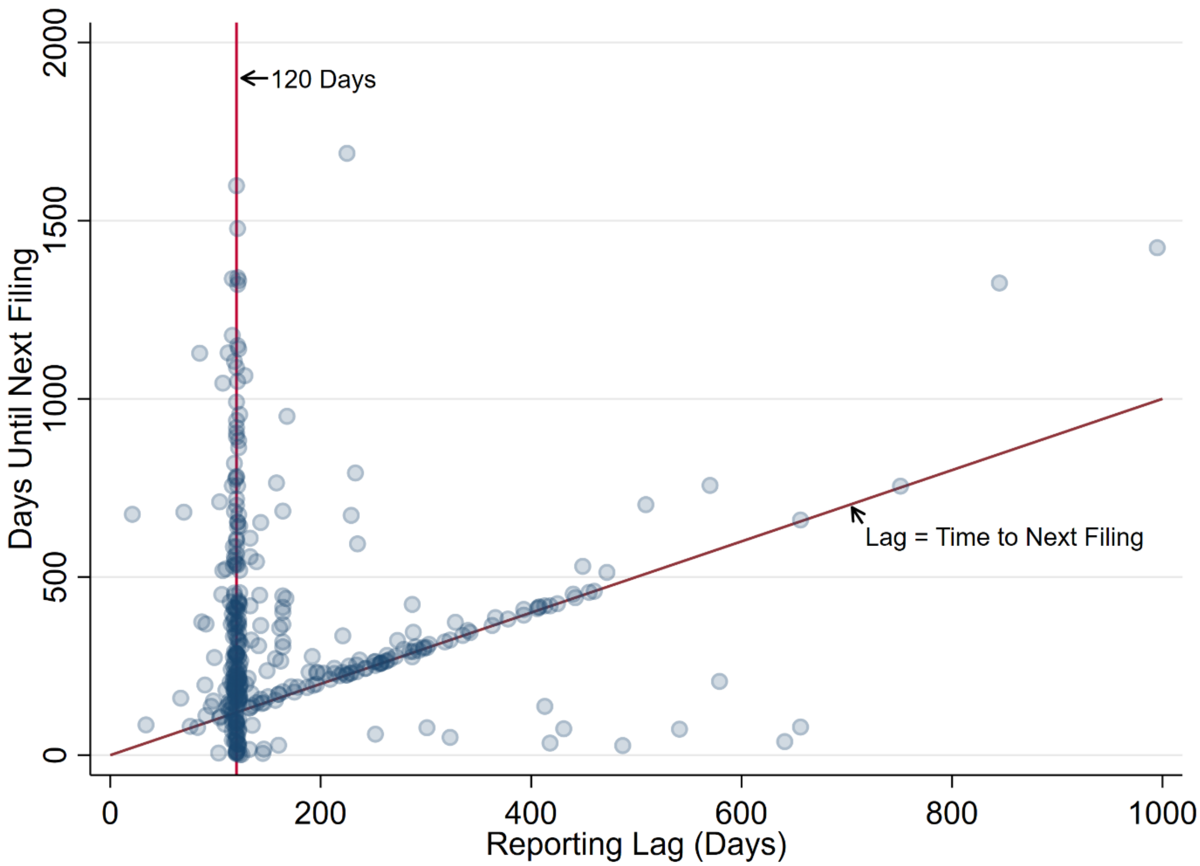
Note: Borrowed from (Burke 2025), this figure displays the different types of crowdfunding and their most common associated platforms. My analysis relates to U.S. ECF, as indicated by the grey shaded box.

Figure 3 – Reporting Lag



Note: This figure displays a histogram of the lag from the fiscal year end to the filing of Form C-AR the first year an offering faces an annual reporting requirement. The sample is limited to offerings for which a C-AR was reported. The reporting lag is winsorized to 721 days

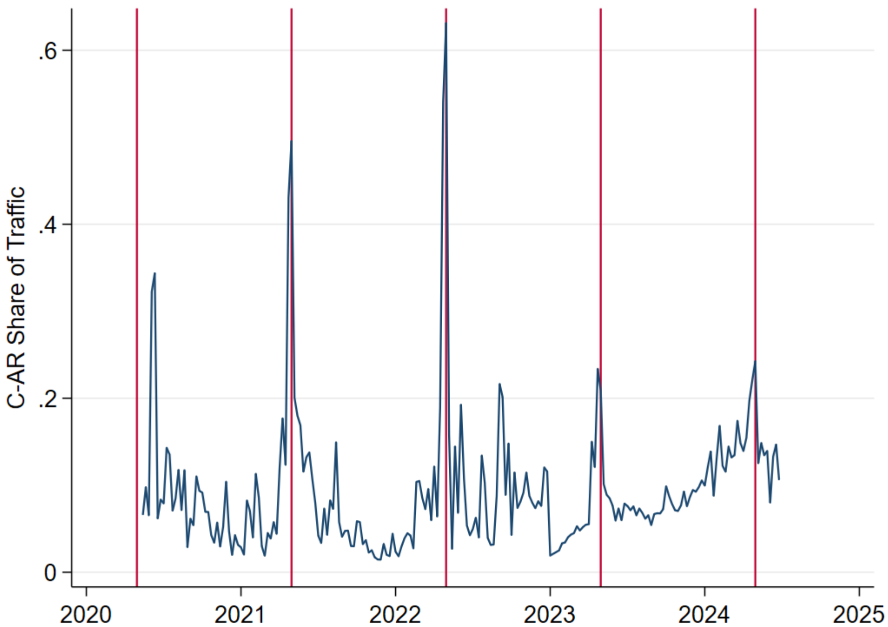
Figure 4 – Reporting Lag and Subsequent Offering Timing



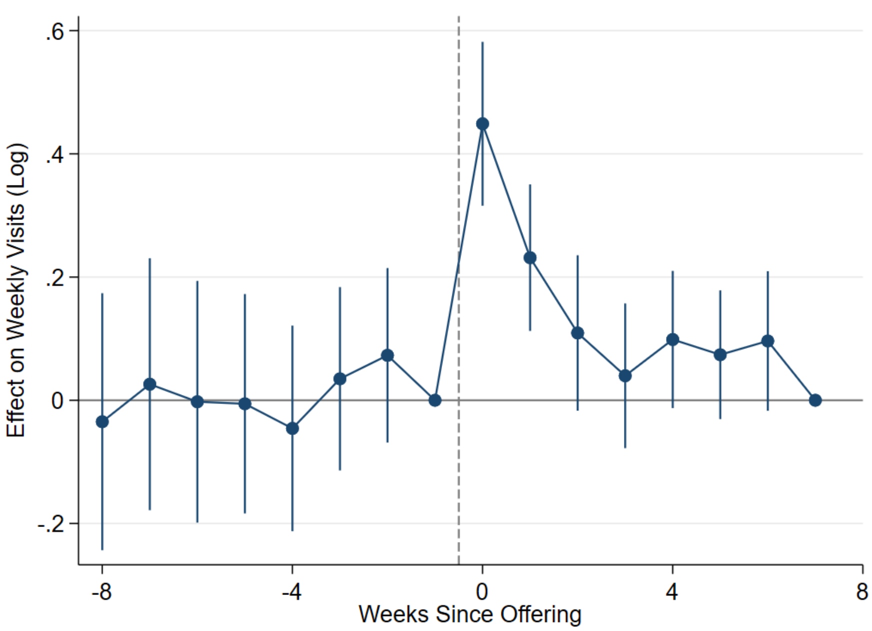
Note: This figure displays a scatterplot of the lag from the fiscal year end to the filing of Form C-AR the first year an offering faces an annual reporting requirement (on the horizontal axis) against the lag from the same fiscal year end to the filing of a Form C for a subsequent offering. The sample is limited to offerings for which the first Form C-AR was filed and that have a subsequent offering (via Form C filing). The vertical red line denotes the mandatory reporting deadline of 120 days. The diagonal red line denotes the points at which the horizontal and vertical axis values are equal (45 degrees).

Figure 5 – Investor use of Form C-AR

Panel A:



Panel B:



Note: Panel A gives the weekly share of web traffic to Form C-AR relative to other documents posted by issuers with at least one Reg-CF offering from May 2020 through June 2024. The vertical red lines denote the reporting deadline for Form C-AR for firms with a December 31 fiscal year end. Panel B reports estimates of β_e for $e \in \{-8,8\}/\{-1\}$. The sample is limited to Form C-ARs posted by issuers that open a subsequent offering at least 8 weeks later. Standard errors are clustered by Form C-AR.

Figure 6 – Example Email

KINGSCROWD

Dear Riley,

Congratulations on your equity crowdfunding campaign! As the leading analyst in this market, KingsCrowd is a strong believer in the importance of equity crowdfunding to support important ventures like yours. Today, we are encouraging you to complete your ongoing annual reporting requirement with the SEC.

All firms who have issued securities or have an active campaign under Regulation Crowdfunding are required to file an annual report no later than 120 days after each fiscal year end.[1] Therefore, if your company has a December 31 year end, you are required to file your December 31, 2023 annual report **no later than April 30, 2024**. Form C-AR is required if you have issued securities and Form C/A is required if you have an ongoing campaign.

Ongoing reporting compliance is **mandatory**. It is not a choice. Failure to file your annual report is a violation of securities laws and may result in legal liability, the inability to issue securities in the future, or both.

Filing annual reports can boost investor trust and confidence in your ability and ethics, increasing their interest in your company. Companies that file annual reports after their first crowdfunding campaign raise, on average, 5 times more capital through subsequent crowdfunding offerings.

If you would like assistance in filing your annual report, there are resources available to you, including KingsCrowd's raisepapers which is offering you the exclusive price of $375 to help you file with the SEC, a discount of $400. Please follow this link or use APPLE at checkout. This offer expires **April 30**.

Start My Form C-AR Filing

Best of luck in completing your annual report!

Best,

Chris

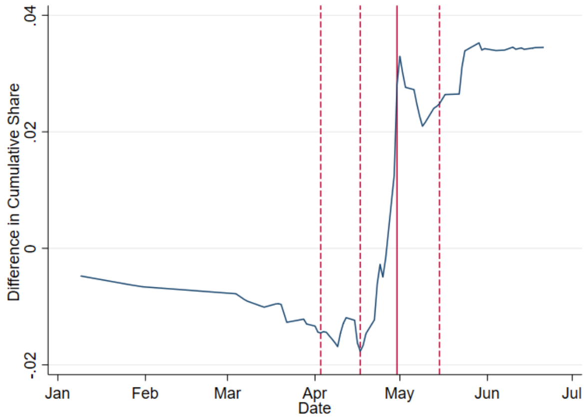
Chris Lustrino
Founder and CEO
KingsCrowd

[1]Annual reporting is mandated until your company meets the criteria to terminate reporting requirements and you file a Form C-TR. For further details, please see the SEC's Compliance Guide for Issuers.

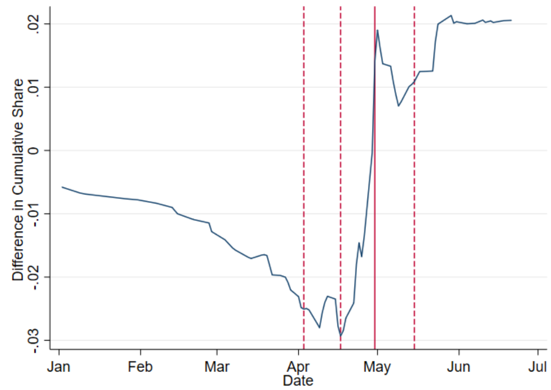
Note: The figure is an example email intervention sent in the first wave of emails on April 3, 2024. The red box contains the first name of the manager. The blue long-dashed box contains the language emphasizing regulatory risk. The green short-dashed box contains the language emphasizing the potential economic benefits of compliance. Highlighted in yellow is the randomized discount offered for assistance in filing Form C-AR.

Figure 7 – Timing of Filings by Regulatory Risk Language Status

Panel A – C-AR and C-TR Filings



Panel B – All Filings



Note: These figures show the difference between offerings that received language emphasizing regulatory risk of non-compliance and those that did not in the cumulative share of offerings having filed for fiscal year 2023 by the date given on the horizontal axis. Panel A reports the difference in the cumulative share that have filed a C-AR or C-TR. Panel B reports the difference in cumulative share that have filed anything with the SEC. The vertical dashed lines denote the dates email reminders were sent. The solid vertical line denotes the filing deadline.

Table 1 - Sample Selection

	Offering N	Issuer N
ECF offerings on KingsCrowd	7,867	6,665
Drop if does not link to SEC Form C filing	7,703	6,530
Drop if offering was withdrawn	6,878	5,815
Drop if offering did not close	5,877	4,921
Drop offerings with a first Form C-AR reporting deadline after May 1, 2023	**3,918**	**3,335**
Keep offerings with a reporting requirement for fiscal year 2023	4,436	3,682
Keep offerings included in KC's email campaign	**2,897**	**2,280**

Note: This table reports the sample selection procedure for our analysis of U.S. ECF offerings. The bolded samples represent analysis samples.

Table 2 – Compliance Summary Statistics

	Mean	Std. Dev.
Filed Timely	0.277	0.448
Filed C-AR	0.472	0.499
Filed Anything	0.479	0.500
Reporting Lag (Days)	156.7	106.1
Years with Reporting Requirement	3.35	1.50
Share of Years Compliant		
Filed Timely	0.254	0.351
Filed C-AR	0.362	0.395
Filed Anything	0.367	0.396
Ever Compliant		
Filed Timely	0.434	0.496
Filed C-AR	0.570	0.495
Filed Anything	0.575	0.494
Observations	3918	

Note: This table present summary statistics on the levels of compliance with ongoing reporting requirement. An observation is an offering.

Table 3 – Determinants of Annual Reporting Compliance – Univariate

	Compliance			Economic Benefit				Monitoring	Low Compliance Cost		
	Filed Timely	Filed C-AR	Filed Anything	Investor Demand	Good News	Low Proprietary Cost	Minority Founder	Monitoring	Firm Resources	Reg-CF Experience	Managerial Experience
Compliance											
Filed C-AR	0.655***										
Filed Anything	0.646***	0.987***									
Economic Benefit											
Investor Demand	0.0809***	0.0248	0.0278*								
Good News	0.0863***	0.0129	0.0165	0.893***							
Low Proprietary Cost	-0.00619	-0.115***	-0.111***	0.770***	0.852***						
Minority Founder	-0.0118	-0.111***	-0.109***	0.712***	0.736***	0.803***					
Monitoring											
Monitoring	0.0678***	0.00235	0.00363	0.867***	0.807***	0.792***	0.716***				
Low Compliance Cost											
Firm Resources	0.115***	0.0960***	0.0972***	0.581***	0.650***	0.420***	0.359***	0.483***			
Reg-CF Experience	0.0739***	0.0688***	0.0725***	0.688***	0.584***	0.463***	0.405***	0.555***	0.484***		
Managerial Experience	0.0194	-0.0817***	-0.0775***	0.802***	0.869***	0.958***	0.743***	0.812***	0.444***	0.503***	
Low Preparatory Cost	0.0168	-0.0981***	-0.0956***	0.558***	0.629***	0.751***	0.543***	0.634***	0.377***	0.378***	0.759***
Observations	3918	3918	3918	3918	3918	3918	3918	3918	3918	3918	3918

Note: This table presents correlations of various measures of compliance with possible predictors of compliance. The independent variables are the first principal component of various measures of the underlying offering, firm, or manager characteristic. ***, **, * represent statistical significance at the 1 percent, 5 percent, and 10 percent levels, respectively.

Table 4 – Determinants of Annual Reporting Compliance – Multivariate

	(1) Timely	(2) Filed AR	(3) Filed
Economic Benefit			
Investor Demand	-0.0168	-0.0245	-0.0236
	(0.0216)	(0.0235)	(0.0236)
Good News	0.129***	0.155***	0.155***
	(0.0233)	(0.0249)	(0.0249)
Low Proprietary Cost	-0.139***	-0.181***	-0.177***
	(0.0281)	(0.0313)	(0.0314)
Minority Founder	-0.0324**	-0.0698***	-0.0707***
	(0.0128)	(0.0138)	(0.0138)
Monitoring			
Monitoring	0.0512***	0.0840***	0.0798***
	(0.0166)	(0.0180)	(0.0180)
Low Compliance Cost			
Firm Resources	0.0129	0.0193*	0.0188*
	(0.00970)	(0.0110)	(0.0111)
Reg-CF Experience	0.00303	0.0273**	0.0292***
	(0.0103)	(0.0109)	(0.0109)
Managerial Experience	0.00881	0.00321	0.00414
	(0.0290)	(0.0317)	(0.0318)
Low Preparatory Cost	0.0126	-0.0323**	-0.0331***
	(0.0119)	(0.0128)	(0.0128)
Constant	0.277***	0.472***	0.479***
	(0.00703)	(0.00769)	(0.00770)
Dep. Var. Mean	0.277	0.472	0.479
R^2	0.0369	0.0739	0.0727
Observations	3918	3918	3918

Note: This table presents coefficient estimates from a regression of various measures of compliance on possible predictors of compliance. The independent variables are the first principal component of various measures of the underlying offering, issuer, or manager characteristic. Heteroskedasticity-robust standard errors are given in parentheses. ***, **, * represent statistical significance at the 1 percent, 5 percent, and 10 percent levels, respectively.

Table 5 – Randomized Intervention Summary Statistics

	No Emphasis Mean	Mandatory Mean	Upside Mean	Both Mean
Email Addresses	1.75	1.77	1.76	1.81
First Raise	0.78	0.75	0.75	0.74
Amount Raised	409299.09	448552.01	364797.71	435558.75
Big 3 Platform	0.69	0.69	0.67	0.70
Male	0.58	0.59	0.59	0.59
Female	0.25	0.25	0.24	0.23
Unknown	0.18	0.16	0.17	0.18
Economic Benefit Z-Score	0.39	0.37	0.38	0.42
Monitoring Z-Score	0.30	0.26	0.27	0.26
Low Compliance Cost Z-Score	-0.01	0.04	0.01	0.04
Raise Year	2020	2020	2020	2020
Years with Reporting Requirement	2	2	2	2
Previous Year Compliance Status				
Reported Timely	0.22	0.21	0.22	0.21
Filed C-AR	0.32	0.28	0.32	0.33
Reported Anything	0.33	0.29	0.34	0.36
Ever Compliant in Past				
Reported Timely	0.34	0.34	0.34	0.32
Filed C-AR	0.5	0.5	0.5	0.5
Reported Anything	0.53	0.52	0.53	0.53
Observations	706	719	735	737

Note: This table presents summary statistics for offerings that received each type of language. Email addresses is the number of email addresses associated with the offering that KC sent messages to. The Z-scores are the normalized first principal component of each offering characteristic as estimated in the archival sample. Past compliance is only defined for offerings that had a reporting requirement prior to the intervention.

Table 6 – Effect of Randomized Intervention

	(1) Timely	(2) Filed AR	(3) Filed	(4) Used Raisepapers
Regulatory Risk Language	0.0325**	0.0367**	0.0305*	0.0145***
	(0.0142)	(0.0158)	(0.0159)	(0.00416)
Economic Benefit Language	-0.00976	-0.00414	-0.00636	-0.00378
	(0.0142)	(0.0158)	(0.0159)	(0.00418)
Price (log)	-0.0172	-0.0112	-0.00960	0.0128
	(0.0297)	(0.0332)	(0.0334)	(0.00861)
Control Mean	0.169	0.228	0.238	0.00708
Observations	2897	2897	2897	2897

Note: This table presents estimates of equation (2). Heteroskedasticity-robust standard errors are given in parentheses. ***, **, * represent statistical significance at the 1 percent, 5 percent, and 10 percent levels, respectively.

Table 7 – Effect of Economic Benefit Language and Price Conditional on Regulatory Risk Language

	Has Regulatory Risk Language				No Regulatory Risk Language			
	(1) Timely	(2) Filed AR	(3) Filed	(4) Used Raisepapers	(5) Timely	(6) Filed AR	(7) Filed	(8) Used Raisepapers
Economic Benefit Language	-0.00491	0.00723	0.00858	-0.00187	-0.0149	-0.0159	-0.0217	-0.00570
	(0.0207)	(0.0229)	(0.0229)	(0.00733)	(0.0194)	(0.0218)	(0.0221)	(0.00397)
Price (log)	0.0402	0.0528	0.0552	0.0126	-0.0788**	-0.0799*	-0.0793*	0.0130
	(0.0438)	(0.0481)	(0.0482)	(0.0146)	(0.0398)	(0.0455)	(0.0461)	(0.00851)
Reg. Risk Language	1	1	1	1	0	0	0	0
Control Mean	0.196	0.253	0.253	0.0195	0.169	0.228	0.238	0.00708
Observations	1456	1456	1456	1456	1441	1441	1441	1441

Note: This table presents estimates of equation (2) conditional on the value of $Reg.Risk_i$. Columns (1)-(4) report estimates conditional on $Reg.Risk_i = 1$ and columns (5)-(8) report estimates conditional on $Reg.Risk_i = 0$. Heteroskedasticity-robust standard errors are given in parentheses. ***, **, * represent statistical significance at the 1 percent, 5 percent, and 10 percent levels, respectively.