

Informed Investor Alert

PRIVATE PLACEMENTS

The Department of Business Regulation

ISSUES INVESTOR ADVISORY ON PRIVATE PLACEMENT OFFERINGS

Lifting the Advertising Ban Will Expose Investors to Greater Risk of Fraud

August 28, 2013 – In advance of a federal rule to allow advertising of high-risk and potentially fraudulent private placement offerings, the Department of Business Regulation (“DBR”) today issued advisory cautioning investors about the risks these offerings carry.

The advisory is available at: http://www.dbr.ri.gov/documents/divisions/banking/securities/SD-Investor_Alert-Private_Placements.pdf

Private placement offerings allow companies to raise money by selling stocks, bonds and other instruments. These offerings may be exempt from federal securities registration requirements. As a result, this exemption allows a company to raise business capital without having to comply with the registration requirements of a public securities offering.

Currently, Rule 506 of Regulation D of the Securities Act of 1933 does not permit general solicitation or advertising of private placement offerings. The JOBS Act directed the Securities and Exchange Commission (SEC) to lift this ban as long as the sales are limited to “accredited” investors – people who have sufficient wealth or access to information that would presumably allow them to make completely informed investment decisions. The SEC is finalizing its proposed rule lifting the ban.

“I am concerned that Main Street investors in Rhode Island will be lured into high-risk or fraudulent investments when the ban on general solicitation of private placement offerings is lifted,” said Deputy Director Maria D’Alessandro.

Once implemented, this rule will allow companies and promoters to offer securities through direct mail, cold calls, free lunch seminars and television or radio commercials. “As a result, unscrupulous companies and promoters may take advantage of the new rules to offer potentially fraudulent investments,” the advisory says.

Because private placement offerings made in reliance on Rule 506 of Regulation D are not reviewed by regulators, they have become a haven for fraud. According to the most recent statistics from the North American Securities Administrators Association, of which the DBR is a member, private placement offerings are the most frequent source of enforcement cases conducted by state securities regulators.

The advisory includes information on the risks associated with private placement offerings and tips on how to protect yourself when considering such an offering.

“Rule 506 has been used by legitimate small businesses as an important source of capital, and state securities regulators want those businesses to be able to thrive and create jobs without unnecessary regulatory impediments,” D’Alessandro said. “However, a healthy private placement marketplace requires investors who feel adequately protected.”

For more information about the risks associated with private placement offerings, contact the Securities Division of the Department of Business Regulation at securitiesinquiry@dbr.ri.gov or by phone (401) 462-9500.