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SEC Lifts Ban on Hedge Fund Ads.

Hedge funds and other firms that seek private investments will be allowed to advertise publicly for the first time under a rule adopted Wednesday by the Securities and Exchange Commission.

Adopted by a 4-1 vote, the rule eliminates an 80-year regime of advertising restrictions intended to safeguard small investors from taking on potentially dangerous risk. The rule covers the way issuers raise funds through private offerings, a process that is exempt from requirements to report public financial statements.

While the rule would authorize firms to raise unlimited amounts via mass advertising of private offerings, it would require reasonable steps to ensure that buyers are so-called accredited investors — who are wealthier and deemed better able to gauge investment risks.

The rule would also make it easier for start-up businesses to raise funding without immediately requiring compliance with SEC disclosure rules. The measure is the first adopted by the SEC under a mandate in the 2012 Jumpstart Our Business Startups Act approved by Congress and signed by President Obama.

The SEC adopted the rule while unanimously approving a separate rule to ban most felons and other “bad actors” from involvement in private offerings.

A proposal that could eventually require issuers to notify the SEC 15 days before starting offerings and at the conclusion of sales won a split 3-2 vote approval. The proposal, which will now be opened for public comment, could also require private securities issuers to give the SEC more information about themselves, their companies and the offerings.

“We want this new market, and the private markets in general, to thrive in a safe and efficient manner, and the rules we adopt and propose today are designed to facilitate that objective,” said SEC Chairman Mary Jo White.

Commissioner Luis Aguilar dissented on the decision to lift the advertising ban, arguing that it would “come at the expense of investors and place investors at greater risk.”

Commissioners Troy Paredes and Daniel Gallagher voted against the proposal that could require companies that use private offerings to provide more information to the SEC. They said it could hinder business growth.

“It threatens real harm to the private markets which are so important to capital formation,” said Gallagher.

Jennifer Openshaw, president of Finect, an online network for the financial industry, said the SEC’s lifting of the advertising restriction should be followed by strong investor protections.

“It’s all the more important to be vigilant against bad actors,” said Openshaw. “More information will now be accessible to investors through the use of social media, and the ability of bad actors to pursue unaccredited, unsophisticated investors will grow.”

But John Frankel, founding partner of ff Venture Capital, a company that helps fledgling businesses, said the SEC action would “bring the high returns of early-stage investing into the limelight and facilitate more money to early-stage firms and thus to start-ups.”