



Risks Associated with Investing in Low-Priced Exchange-Listed Securities

Customers should be aware that investing in low-priced securities (below \$5.00) may present considerable economic risks even if the securities are listed on an exchange. Securities and Exchange Commission ("SEC") rules require broker-dealers to provide [specific risk disclosures](#) to customers who invest in so-called "penny stocks" that trade over-the-counter ("OTC") and are not listed on an exchange. These risk disclosures are not required for low-priced securities that are exchange-listed, even though the same risks-such as high volatility, low liquidity, information gaps, overvaluation, dilutive financings, insolvency (or limited assets/lack of capital), and potential fraud concerns-may apply to such stocks. In addition, customers should be aware that a company's stock may continue to trade on an exchange long after the company fails to meet the exchange's minimum listing standards.¹

Specifically, customers should be aware that depending on the exchange and its rules, the delisting process can take many months-and possibly longer- to complete, during which the company remains listed on the exchange even though it has fallen below the exchange's minimum listing standards.

Moreover, some exchange-listed companies faced with delisting may use corporate actions to avoid or delay potential delisting by temporarily regaining compliance with the exchange's listing standards. For example, some exchanges require companies to maintain a minimum bid or share price of \$1.00 as part of the exchange's continued listing standards. A company that approaches a \$1.00 bid or share price (or lower) may engage in a reverse stock split (or multiple reverse stock splits if the company's share price repeatedly drops below \$1.00) raising its stock price above \$1.00 and reducing the number of overall outstanding shares. These actions could allow a company to remain listed on the exchange even though its underlying financials have not improved.

¹ Exchange listing standards generally consist of (1) minimum financial standards (e.g., earnings, market capitalization, revenue, and stockholders' equity), and (2) minimum liquidity standards (e.g., minimum bid or share price, total number of shareholders, market value of unrestricted public held shares, and stockholders' equity). There are separate minimum standards for a company to initially become listed on an exchange ("initial listing standards") and for a company to remain listed on the exchange following the IPO ("continued listing standards"). Typically, continued listing standards are slightly more lenient than initial listing standards.

Notably, FINRA has repeatedly cautioned investors about the potential risks associated with [low-priced securities](#)² and [reverse stock splits](#), observing that if "a reverse split is announced and actually occurs, proceed with caution. Reverse splits tend to go hand in hand with low-priced, high-risk stocks. This is especially true with reverse splits that result in a post-split share price that is many times the price of the stock's current price."

² FINRA noted: "Some exchange-listed small-cap securities might have fallen below the exchange's minimum share price or other standards but remain listed if, for example, the issuer engages in a corporate action such as a reverse stock split that increases the per-share price of the security. They might also remain listed simply due to the time involved in the delisting process. Even if it's listed on an exchange, a security with a very low share price can still carry additional risks and should be treated accordingly. Low-priced securities can be legitimate investments, but they can also be targets of market manipulation schemes."