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NYSE Limits Use of Reverse Stock Splits to Regain Price Criteria Compliance

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Rule change is intended to restrict the use of repeated reverse stock splits to avoid delisting, which NYSE believes is indicative of deep financial or operational distress

On January 15, 2025, the SEC approved a proposed New York Stock Exchange (NYSE) rule change aimed at limiting the use of reverse stock splits to regain compliance with its price criteria continued listing standard and remain qualified for listing. Under NYSE rules, this listing standard requires that the average closing price of a company's security over any consecutive 30 trading-day period be at least $1 per share (Price Criteria). Companies can be given up to six months to regain compliance, assuming their shares close above an average of $1 for 30 straight trading days.

Under the amendments to Section 802.01C of the NYSE Listed Company Manual:

- If a listed company's security fails to meet the Price Criteria and the company (i) has conducted a reverse stock split over the prior one-year period or (ii) has conducted one or more reverse stock splits over the prior two-year period with a cumulative ratio of 200 shares or more to one, then the company **will not be eligible for the six-month compliance period specified in Section 802.01C of the Manual and will face immediate suspension and delisting procedures**.
- A listed company may not conduct a reverse stock split for purposes of regaining compliance with the Price Criteria (or otherwise) if it would result in noncompliance with NYSE's continued listing criteria with respect to minimum number of total

stockholders and minimum number of publicly held shares, with companies violating this prohibition **being ineligible to submit a plan to regain compliance within 18 months (as noncompliant companies would normally be eligible to do) and facing immediate suspension and delisting procedures**.

A listed company whose securities are subject to immediate suspension and delisting under the rule change would still be able to seek review of a delisting determination from the Committee for Review of the Board of Directors of the Exchange as set forth in Section 804.00 of the Manual.

The revised rule text is available here.

Rationale

In explaining the rationale for the rule change, NYSE notes that it has observed that some companies—typically those in financial distress or experiencing a prolonged operational downturn—engage in a pattern of repeated reverse stock splits, which behavior is often indicative of deep financial or operational distress within such companies, rendering them inappropriate for trading on NYSE for investor-protection reasons. NYSE has observed that the challenges facing such companies generally are not temporary and may be so severe that the company is not likely to regain or maintain compliance with the Price Criteria on a sustained basis. NYSE states that the rule change will result in the delisting of companies whose history of recurring inability to maintain price compliance is indicative of their financial instability and unsuitability for continued listing.

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