

NYSE Proposes Rules to Expand Permitted Direct Listings

Insights

November 27, 2019

The New York Stock Exchange LLC (“NYSE”), on November 26, 2019, proposed a rule change which would permit a company to sell shares in connection with its direct listing as well as make the direct listing process easier for more companies.

The existing direct listing rules (a) do not allow companies to raise capital by selling shares in the direct listing since only existing stockholders are permitted to sell shares and (b) require a company conducting a direct listing to have 400 round-lot shareholders (holding at least 100 shares) before the listing, which limits the ability and desire of many companies from pursuing this type of approach to liquidity. In a traditional underwritten public offering, it is not difficult to comply with the 400 round lot holder requirement, as through the underwriting process, the underwriters can make sure to allocate shares to a sufficient number of holders to comply with this rule.

NYSE’s proposed rule change would (a) allow a company to raise capital in connection with its direct listing by selling newly issued shares into the market without an underwriter and (b) provide a grace period of up to 90 trading days after the initial listing date for the company to comply with the round-lot shareholder requirement, provided the company sells a certain amount of shares or the market value of a company’s shares exceed certain specified thresholds.

Summary of Proposed Rule Changes

Requirements for company to sell shares in a direct listing

As currently proposed, a company would meet the aggregate market value of shares requirement for a direct listing if it sold at least \$250 million in market value of shares in the NYSE's opening auction on the first day of trading or if the aggregate market value of shares to be sold by the company in the opening auction and the market value of publicly held shares exceeds \$350 million. The valuation of the shares would be determined through the use of an independent 3rd party valuation firm (as is the case under the current direct listing process). The requirement for direct listings without the company raising capital would remain the same—namely that the company must demonstrate a market value of at least \$100 million.

90-day grace period for having at least 400 round lot holders

As currently proposed, a company would obtain a 90-day grace period to demonstrate compliance with the requirement to have at least 400 round lot holders under the following circumstances:

- For primary direct floor listings, the company must either sell \$250 million worth of shares in the opening auction; or the combined value of shares being sold by the company in the initial auction plus the market value of publicly-held shares exceeds \$350 million
- For selling shareholder direct floor listings, the company must demonstrate at the time of listing \$350 million in aggregate market value of publicly-held shares.

If adopted, the proposed rules have the potential to significantly increase the number of IPOs that would occur via a direct listing. However, companies should consult with their legal and investment banking advisors to fully understand the benefits and risks associated with a direct listing IPO prior to pursuing this option.

If the Securities and Exchange Commission approves the proposed rule change, it is not expected to become effective until at least 45 days after its publication in the Federal Register.

The full text of the NYSE proposed rule can be found here:<https://www.nyse.com/publicdocs/nyse/markets/nyse/rule-filings/filings/2019/SR-NYSE-2019-67.pdf>

Jeffrey R. Vetter and Keith J. Scherer contributed to the preparation of this Client Alert.

Related People



Jeffrey R. Vetter

PARTNER

P +1 650 321 2400



Keith J. Scherer

PARTNER

P +1 617 648 9231

Related Services

Public Companies/Public Offerings

Featured Insights

CLIENT NEWS

Anduril Announces Acquisition of Klas to Advance Tactical Edge Computing and Communications

FIRM NEWS

Gunderson Dettmer Commemorates 2025 Asian American and Pacific Islander Heritage (AAPI) Month

CLIENT NEWS

Prosus Leads US\$7.25M Financing of Zapia

CLIENT NEWS

Brazilian Carbon Capture Company Mombak Announces \$30M Financing

CLIENT NEWS

Latin American Fintech Clara Announces \$80 Million Financing

CLIENT NEWS

Africa B2B OmniRetail Announces \$20M Financing

CLIENT NEWS

Glacier Announces Series A Financing to Expand Robot Recycling Fleet

CLIENT NEWS

Dataminr Announces \$100M Investment Led by Fortress Investment Group

CLIENT NEWS

Omnidian Announces \$87M Series C for Renewable Energy Performance

INSIGHTS

Splitting the Pie: How Savvy Founders Divide Ownership and Navigate Other Founder Equity Decisions

CLIENT NEWS

Chainguard Announces \$356 Million Series D Led by Kleiner Perkins and IVP

INSIGHTS

Client Insight: California AI Transparency Act