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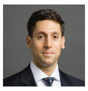
Nasdaq Proposes Increased Standards for Initial and Continued Listing



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The Nasdaq Stock Market LLC (Nasdaq) recently filed new rule proposals (SR-NASDAQ-2025-068 and SR-NASDAQ-2025-069) with the Securities and Exchange Commission (SEC) which, per Nasdaq, provide "enhancements to its initial and continued listing standards" and reinforce "its long-standing commitment to capital formation while ensuring investor protection and upholding market integrity."

The proposals (1) add to initial listing requirements by increasing the minimum required public float in certain instances, (2) provide for an accelerated process for suspending and delisting companies if minimum market values are not maintained and (3) impose a minimum proceeds requirement for new listings of Chinese companies.

Initial Listing Requirements: Under the new proposed rules, companies that seek to be listed under the net income standard on the Nasdaq Capital Market or Nasdaq Global Market (the lower two of the three Nasdaq tiers) now must have a Market Value of Unrestricted Publicly Held Shares (MVUPHS) of at least $15 million. Previously, companies pursuing initial listing under the net income standard needed only $5 million of MVUPHS for the Nasdaq Capital Market or $8 million for the Nasdaq Global Market.

To be listed, companies must meet the required criteria under one of three standards for Nasdaq Capital Markets: income (based on the company's net income from continuing operations); market value (based on the market value of its listed securities); or equity (based on stockholders equity and operating history). Nasdaq Global Market also includes a fourth option, a total assets/total revenue standard. The proposed rules would more closely align the income standard with the minimum public float requirements for applicants seeking to list under the equity standard, the market value standard or the total assets/total revenue standard (each of which also imposes a minimum MVUPHS of $15 million for Nasdaq Capital Market and for Nasdaq Global Market requires $18 million for the equity standard and $20 million for the market value or total assets / total revenue standards).

Per Nasdaq, the MVUPHS is a core liquidity requirement, meant to "ensure that there is sufficient liquidity to provide price discovery and support an efficient and orderly market for the company's securities." Nasdaq has proposed increasing the minimum MVUPHS under the income standard to help address concerns it has observed with the trading of smaller companies and because "Nasdaq believes that the MVUPHS is an indicator of liquidity and does not believe it is appropriate to require such a significantly lower liquidity threshold for companies simply because they have a minimum level of net income, as opposed to equity or market value."

Continued Listing Requirements: The proposed rules also provide for suspension from trading and immediate delisting for any company that is noncompliant with any of the continued listing requirements in Rule 5450 or Rule 5550 (*e.g.*, minimum bid price, total holders, total shares, number of market makers and other requirements) and whose listed securities fall below $5 million in market value for 10 consecutive business days.

Nasdaq rules have minimum requirements for companies to remain listed and generally offer grace periods to companies that fail to maintain compliance with those rules. The proposed rules would remove the compliance period available to Nasdaq-listed companies to the extent that, at the time of such noncompliance, the market value of such company is also depressed below $5 million.

Per Nasdaq, “the compliance periods are designed to allow time for companies to take action to come back into compliance” to address “temporary” business issues or market conditions. Currently, companies that fall out of compliance with continued listing requirements can submit a plan of compliance for staff review. However, in its proposed rule, Nasdaq expressed a belief that “once the market identifies significant problems in a company otherwise deficient in the listing standards by assigning a very low market value, that company is no longer appropriate for continued trading” and the challenges facing such companies are not temporary.

China-Specific Requirements: Nasdaq also proposed a new rule aimed at companies headquartered or incorporated in, or whose business is principally administered in, China. The proposal would require that to be listed on Nasdaq, Chinese companies must offer securities in a firm commitment initial offering that will result in gross proceeds of at least $25 million.

In its proposed rule, Nasdaq noted that it has identified concerns with the trading of Chinese companies, identifying that “70% of the matters that Nasdaq has referred to the SEC or FINRA since August 2022 have been related to trading in Chinese companies. . .Nasdaq believes that these concerns are due, in part, to low liquidity in these companies’ securities.” The new listing requirements for Chinese companies “are intended to increase investor protections and ensure sufficient liquidity exists for meaningful price discovery” to further support investor confidence.

If the proposed rule is approved by the SEC, Nasdaq is proposing to implement the changes to the initial listing requirements promptly, but will give companies that have already taken steps to commence an initial listing 30 days to complete the process under the prior standards, and thereafter all new listings will have to meet the new requirements. Nasdaq intends to implement the new accelerated process for suspending and delisting companies 60 days after SEC approval.