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From Pink Slips to Pink Sheets: Market Quality Around Delisting from NASDAQ

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Abstract

Stocks may be delisted from Nasdaq for violating one of the market's maintained listing requirements. These include non-core requirements such as a minimum bid price; core requirements such as a minimum market capitalization; and governance requirements such as SEC disclosure. In addition, firms are delisted when they file for bankruptcy. We examine 1,098 firms that were delisted from the Nasdaq NNM and Small Cap markets in 1999-2002, and were subsequently traded in the OTC Bulletin Board and/or the Pink Sheets. For our sample firms, share volume declines by two-thirds, quoted spreads more than double from 12.1 to 33.9 percent, and effective spreads triple from 3.3 to 9.9 percent when they are delisted from Nasdaq. Almost fifty percent of Nasdaq regulatory delistings during this period are violations of non-core requirements. The decline in market quality is significant even for firms that violate non-core criteria such as the minimum bid price. In light of our results, we argue that Nasdaq should consider revising some of its listing criteria. This would lower trading costs for thousands of investors in need of liquidity without compromising the market's integrity.

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