



Impact of the Penny Stock Reform Act of 1990 on the Initial Public Offering Market*

Randolph Beatty and Padma Kadiyala

University of Southern California/Fairleigh Dickinson University



Abstract



Full Text

≡ More

Abstract

The Penny Stock Reform Act of 1990 (PSRA) was an attempt to curb fraudulent security issues by placing severe restrictions on initial public offerings that were priced below \$5. The regulation had the cosmetic effect of reducing the number of initial public offerings priced below \$5 but had no substantive impact on issuer quality. Delisting risk, which is a measure of issuer quality, did not decline significantly in the post-PSRA period. Instead, abnormal returns earned by a portfolio of nonpenny stocks declined significantly in the post-PSRA period. We present evidence that attributes the decline in abnormal returns to the migration of speculative issuers into the nonpenny range.

Permissions

Statement of Publication Ethics

Diversity and Inclusion at the University of Chicago

Contact us

Terms and Conditions

Privacy Notice

Media and advertising requests



© 2025 The University of Chicago and other publishing partners. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.