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

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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.