SECURITIES AND EXCHANGE
COMMISSION

[Release No. 34–91089; File No. SR–
NASDAQ–2021–007]

Self-Regulatory Organizations; The
Nasdaq Stock Market LLC; Notice of
Filing of Proposed Rule Change To
Adopt Additional Initial Listing Criteria
for Companies Primarily Operating in
Jurisdictions That Do Not Provide the
PCAOB With the Ability To Inspect
Public Accounting Firms

February 9, 2021.

Pursuant to Section 19(b)(1) of the
Securities Exchange Act of 1934
(“Act”),1 and Rule 19b–4 thereunder,2
notice is hereby given that on February
1, 2021, The Nasdaq Stock Market LLC
(“Nasdaq” or “Exchange”) filed with the
Securities and Exchange Commission
(“SEC” or “Commission”) the proposed
rule change as described in Items I and
II below, which Items have been
prepared by the Exchange. The
Commission is publishing this notice to
solicit comments on the proposed rule
change from interested persons.

I. Self-Regulatory Organization’s
Statement of the Terms of Substance of
the Proposed Rule Change

The Exchange proposes to adopt
additional initial listing criteria for
companies primarily operating in
jurisdictions that do not currently
provide the PCAOB with the ability to
inspect public accounting firms.

The text of the proposed rule change
is available on the Exchange’s website at
https://listingcenter.nasdaq.com/
rulebook/nasdaq/rules, at the principal
office of the Exchange, and at the
Commission’s Public Reference Room.

II. Self-Regulatory Organization’s
Statement of the Purpose of, and
Statutory Basis for, the Proposed Rule
Change

In its filing with the Commission, the
Exchange included statements
concerning the purpose of and basis for
the proposed rule change and discussed
any comments it received on the
proposed rule change. The text of these
statements may be examined at the
places specified in Item IV below. The
Exchange has prepared summaries,
set forth in sections A, B, and C below,
of the most significant aspects of such
statements.

1. Purpose

As described below, Nasdaq proposes
to adopt additional initial listing criteria
for companies primarily operating in
jurisdictions that do not currently
provide the Public Company
Accounting Oversight Board (“PCAOB”)
with the ability to inspect public
accounting firms.3

Nasdaq rules 4 and federal securities
laws 5 require a company’s financial
statements included in its initial
registration statement or annual report
to be audited by an independent public
accountant that is registered with the
PCAOB. Company management is
responsible for preparing the company’s
financial statements and for establishing
and maintaining disclosure controls and
procedures and internal control over
financial reporting. The independent
auditor, based on its independent audit
of the evidence supporting the amounts
and disclosures in the financial
statements, expresses an opinion on
whether the financial statements present
fairly, in all material respects, the
company’s financial position, results of
operations and cash flows. “To form an
appropriate basis for expressing an
opinion on the financial statements, the
auditor must plan and perform the audit
to obtain reasonable assurance about
whether the financial statements are free
of material misstatement due to error or
fraud.”6

The auditor, in turn, is normally
subject to inspection by the PCAOB.

For the Commission, by the Division of
Trading and Markets, pursuant to delegated
authority.22

J. Matthew DeLesDernier,
Assistant Secretary.

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3 Nasdaq proposed a similar rule change in May
2020, which was withdrawn by Nasdaq on
No. 89027 (June 8, 2020), 85 FR 35956 (June 12,
issued an Order Instituting Proceedings to
Determine Whether to Approve or Disapprove this
89799 (September 9, 2020), 85 FR 57282 (September
15, 2020). This revised proposal addresses the
concerns raised by the Commission in its Order.

4 See Rule 5210(b) (“Each Company applying for
initial listing must be audited by an independent
public accountant that is registered as a public
accounting firm with the Public Company
Accounting Oversight Board, as provided for in
Section 102 of the Sarbanes-Oxley Act of 2002 [15
U.S.C. 7212].”) and Rule 5250(c)(3) (“Each listed
Company shall be audited by an independent
public accountant that is registered as a public
accounting firm with the Public Company
Accounting Oversight Board, as provided for in
Section 102 of the Sarbanes-Oxley Act of 2002 [15
U.S.C. 7212].”).

5 See Section 4100—Qualifications of
(June 30, 2009), available at https://www.sec.gov/
corpfin/cf-manual/topic/4/.

6 See PCAOB Auditing Standard 1101.01—Audit
Risk, available at https://pcaobus.org/Standards/
Auditing/Pages/AS1101.aspx.
which assesses compliance with PCAOB and SEC rules and professional standards in connection with the auditor’s performance of audits. According to the PCAOB, PCAOB inspections may result in the identification of deficiencies in one or more of an audit firm’s audits of issuers and/or in its quality control procedures which, in turn, can result in an audit firm carrying out additional procedures that should have been performed already at the time of the audit. Those inspections sometimes led to the audited public company having to revise and refile its financial statements or its assessment of the effectiveness of its internal control over financial reporting. In addition, through the quality control remediation portion of the inspection process, inspected firms identify and implement practices and procedures to improve future audit quality.7

Nasdaq and investors rely on the work of auditors to provide reasonable assurances that the financial statements provided by a company are free of material misstatements. Nasdaq and investors further rely on the PCAOB’s critical role in overseeing the quality of the auditor’s work. The Chairman and the Chief Accountant of the Commission, along with the Chairman of the PCAOB, have raised concerns that national barriers on access to information can impede effective regulatory oversight of U.S.-listed companies with operations in certain countries, including the PCAOB’s inability to inspect the audit work and practices of auditors in those countries.8

Similar concerns have been expressed by Members of Congress,9 the State Department10 and the President’s Working Group on Financial Markets.11 In particular, the PCAOB is currently prevented from inspecting the audit work and practices of PCAOB-registered auditors in Belgium, France, China and Hong Kong (to the extent their audit clients have operations in mainland China).12 Nasdaq shares these concerns and believes that accurate financial statement disclosure is critical for investors to make informed investment decisions. Nasdaq believes the lack of transparency from certain markets raises concerns about the accuracy of disclosures, accountability, and access to information, particularly when a company is based in a jurisdiction that does not provide the PCAOB with access to conduct inspections of public accounting firms that audit Nasdaq-listed companies (a “Restrictive Market”).

Nasdaq’s listing requirements include a number of criteria which, in the aggregate, are designed to ensure that a security listed on Nasdaq has sufficient liquidity and public interest to support a listing on a U.S. national securities exchange. These requirements are intended to ensure that there are sufficient shares available for trading to facilitate proper price discovery in the secondary market. Nasdaq believes that concerns about the accuracy of disclosures, accountability, and access to information can be compounded when a company from a Restrictive Market lists on Nasdaq through an initial public offering (“IPO”) or business combination with a small offering size or a low public float percentage because such companies may not attract market attention and develop sufficient public float, investor base, and trading interest to provide the depth and liquidity necessary to promote fair and orderly trading. As a result, the securities may trade infrequently, in a more volatile manner and with a wider bid-ask spread, all of which may result in trading at a price that may not reflect their true market value. In addition, foreign issuers are more likely to issue a portion of an offering to investors in their home country, which raises concerns that such investors will not contribute to the liquidity of the security in the U.S. secondary market. Less liquid securities may be more susceptible to price manipulation, as a relatively small amount of trading activity can have an inordinate effect on market prices. The risk of price manipulation due to insider trading is more acute when a company principally administers its business in a Restrictive Market (a “Restrictive Market Company”), particularly if a company’s financial statements contain undetected material misstatements due to error or fraud and the PCAOB is unable to inspect the company’s auditor to determine if it complied with PCAOB and SEC rules and professional standards in connection with its performance of audits. The risk to investors in such cases may be compounded because regulatory investigations into price manipulation, insider trading and compliance concerns may be impeded and investor protections and remedies may be limited in such cases due to obstacles encountered by U.S. authorities in bringing or enforcing actions against the companies and insiders.13

7 See Public Company Accounting Oversight Board, Public Companies that are Audit Clients of PCAOB-Registered Firms from Non-U.S. Jurisdictions where the PCAOB is Denied Access to Conduct Inspections (October 1, 2020), available at https://pcaobus.org/oversight/international/denied-access-to-inspections.


12 See supra note 7. The PCAOB notes that “[t]he position taken by authorities in mainland China may in fact make it impossible for PCAOB inspectors to inspect non-U.S. audit firms in certain countries, even though these firms are registered with the PCAOB.”. On April 21, 2020, these concerns were reiterated by the Chairman and the Chief Accountant of the Commission, along with the Chairman of the PCAOB and the Directors of the SEC Divisions of Corporation Finance and Investment Management. See SEC Chairman Jay Clayton, PCAOB Chairman William D. Duhnke III, SEC Chief Accountant Sagar Teotia, SEC Division of Corporation Finance Director William Hinman, SEC Division of Investment Management Director Dalia Blass, Emerging Market Investments Entail Significant Disclosure, Financial Reporting and Other Risks; Remedies are Limited (April 21, 2020), available at https://www.sec.gov/news/public-statement/emerging-market-investments-disclosure-reporting.
Currently, Nasdaq may rely upon its discretionary authority provided under Rule 5101 14 to deny initial listing or to apply additional and more stringent criteria when Nasdaq is concerned that a small offering size for an IPO may not reflect the company’s initial valuation or ensure sufficient liquidity to support trading in the secondary market. Nasdaq is proposing to adopt new Rules 5210(k)(i) and (ii) that would require a minimum offering size or public float for Restrictive Market Companies listing on Nasdaq in connection with an IPO or a business combination (as described in Rule 5110(a) or IM–5101–2). Nasdaq is also proposing to adopt a new Rule 5210(k)(iii) to provide that Restrictive Market Companies would be permitted to list on the Nasdaq Global Select or Nasdaq Global Markets if they are listing in connection with a Direct Listing (as defined in IM–5315–1), but would not be permitted to list on the Nasdaq Capital Market, which has lower requirements for Unrestricted Publicly Held Shares, in connection with a Direct Listing.

I. Definition of Restrictive Market

Nasdaq proposes to adopt a new definition of Restrictive Market in Rule 5005(a)(37) to define a Restrictive Market as a jurisdiction that does not provide the PCAOB with access to conduct inspections of public accounting firms that audit Nasdaq-listed companies. This is similar to the President’s Working Group on Financial Markets definition of “Non-Cooperating Jurisdictions,” which observed that:

Certain jurisdictions, however, do not currently provide the PCAOB with the ability to inspect public accounting firms, including sufficient access to conduct inspections and investigations of audits of public companies, or otherwise do not cooperate with U.S. regulators (“Non-Cooperating Jurisdictions,” or “NCJs”). The PCAOB has been unable to fulfill its statutory mandate under Sarbanes-Oxley to inspect audit firms in NCJs, including those in China, potentially exposing investors in U.S. capital markets to significant risks. The PCAOB has been unable to fulfill this mandate meaningfully with respect to audit firms based in China for more than a decade. 15

The PCAOB maintains a map of where it can and cannot conduct oversight activities on its website. 16 In addition, the PCAOB publishes a list identifying the public companies for which a PCAOB-registered public accounting firm signed and issued an audit report and is located in a jurisdiction where obstacles to PCAOB inspections exist. 17

Nasdaq will consider a company’s business to be principally administered in a Restrictive Market if: (i) The company’s books and records are located in that jurisdiction; (ii) at least 50% of the company’s assets are located in such jurisdiction; or (iii) at least 50% of the company’s revenues are derived from such jurisdiction. Nasdaq also proposes to renumber the remainder of Rule 5005(a) to ensure consistency in its rulebook.

For example, Company X’s books and records could be located in Country Y, which is not a Restrictive Market, while 90% of its revenues are derived from operations in Country Z, which is a Restrictive Market. If Company X applies to list its Primary Equity Security on Nasdaq in connection with an IPO, Nasdaq would consider Company X’s business to be principally administered in Country Z, and Company X would therefore be subject to the proposed additional requirements applicable to a Restrictive Market Company. Conversely, Company A’s books and records could be located in Country B, which is a Restrictive Market, but 90% of its revenues are derived from Country C, which is not a Restrictive Market. Nasdaq would consider Company A’s business to be principally administered in Country B, and Company A would therefore be subject to the proposed additional requirements applicable to a Restrictive Market Company.

II. Minimum Offering Size or Public Float Percentage for an IPO

As proposed, Rule 5210(k)(i) would require a company that is listing its Primary Equity Security 18 on Nasdaq in connection with its IPO, and that principally administers its business in a Restrictive Market, to offer a minimum amount of securities in a Firm Commitment Offering 19 in the U.S. to Public Holders 20 that: (a) Will result in gross proceeds to the company of at least $25 million; or (b) will represent at least 25% of the company’s post-offering Market Value 21 of Listed Securities, 22 whichever is lower. For example, Company X is applying to list on Nasdaq Global Market. Company X principally administers its business in a Restrictive Market and its post-offering Market Value of Listed Securities is expected to be $75,000,000. Since 25% of $75,000,000 is $18,750,000, which is lower than $25,000,000, it would be eligible to list under the proposed rule based on a Firm Commitment Offering in the U.S. to Public Holders of at least $18,750,000. However, Company X would also need to comply with the other applicable listing requirements of the Nasdaq Global Market, including a Market Value of Unrestricted Publicly Held Shares 23 of at least $8 million. 24

In contrast, Company Y, which also principally administers its business in a Restrictive Market, is applying to list on the Nasdaq Global Select Market and its post-offering Market Value of Listed Securities is expected to be $200,000,000. Since 25% of

Note: The Federal Register provides this information for informational purposes only and does not have the authority to amend or change Federal Register listings. For official purposes, please refer to the Federal Register listings.
$200,000,000 is $50,000,000, which is higher than $25,000,000, it would be eligible to list under the proposed rule based on a Firm Commitment Offering in the U.S. to Public Holders that will result in gross proceeds of at least $25,000,000. However, Company Y would also need to comply with the other applicable listing requirements of the Nasdaq Global Select Market, including a Market Value of Unrestricted Publicly Held Shares of at least $45 million.²⁵

The Exchange believes that the proposal to require a Restrictive Market Company conducting an IPO to offer a minimum amount of securities in the U.S. to Public Holders in a Firm Commitment Offering will provide greater support for the company’s price, as determined through the offering, and will help assure that there will be sufficient liquidity, U.S. investor interest and distribution to support price discovery once a security is listed. Nasdaq believes there is a risk that substantial participation by foreign investors in an offering, combined with insiders retaining significant ownership, does not promote sufficient investor base and trading interest to support trading in the secondary market. The risk to U.S. investors is compounded when a company is located in a Restrictive Market due to restrictions on the PCAOB’s ability to inspect the audit work and practices of auditors in those countries, which may be accompanied by limitations on the ability of U.S. regulators to conduct investigations or bring or enforce actions against the company and non-U.S. persons. As a result, there are increased concerns about the accuracy of disclosures, accountability and access to information.

Further, the Exchange has observed that Restrictive Market Companies listing on Nasdaq in connection with an IPO with an offering size below $25 million or public float ratio below 25% have a high rate of compliance concerns. Nasdaq believes that these concerns may be mitigated by the company conducting a Firm Commitment Offering of at least $25 million or 25% of the company’s post-offering Market Value of Listed Securities, whichever is lower. Firm Commitment Offerings typically involve a book building process that helps to generate an investor base and trading interest that promotes sufficient depth and liquidity to help support fair and orderly trading on the Exchange. Such offerings also typically involve more due diligence by the broker-dealer than would be done in connection with a best-efforts offering, which helps to ensure that third parties subject to U.S. regulatory oversight are conducting significant due diligence on the company, its registration statement and its financial statements. The Exchange believes that the proposal will help ensure that Restrictive Market Companies seeking to list on the Exchange have sufficient investor base and public float to support fair and orderly trading on the Exchange.

In developing the Proposal, Nasdaq analyzed the data behind its observations. An analysis of initial public offerings from January 1, 2015 to September 30, 2020, found that 113 Restrictive Market Companies listed on Nasdaq through an IPO and 39 of such companies would not have qualified under proposed Rule 5210(k)(i) because they had offering amounts of $25 million or less.²⁶ Of those, 20, or 51%, were cited for a compliance issue, a significantly higher rate than other Restrictive Market Companies (16%). During the period from January 1, 2015 to September 30, 2020, 84 Restrictive Market Companies had a ratio of offering size to Market Value of Listed Securities of 25% or less. Of these, 25, or 30%, failed to comply with one or more listing standards after listing, which is a significantly higher non-compliance rate than other foreign companies (11%) and other Restrictive Market Companies (21%) that had such listings. In some cases, when the ratio of offering size to Market Value of Listed Securities is low there may be concerns about whether there are sufficient freely tradable shares to meet investor demand.

Lastly, the period from January 1, 2015 to September 30, 2020, 35 Restrictive Market Companies would not have qualified under either proposed Rule 5210(k)(ii)(a) or (b). Of these companies, 18 were cited for a compliance concern.

III. Minimum Market Value of Publicly Held Shares for a Business Combination

Nasdaq believes that a business combination, as described in Rule 5110(a) or IM–5101–2, involving a Restrictive Market Company presents similar risks to U.S. investors as IPOs of Restrictive Market Companies. However, such a business combination would typically not involve an offering. Therefore, Nasdaq proposes to adopt a new Rule 5210(k)(ii) that would impose a similar new requirement as applicable to IPOs, but would reflect that the listing would not typically be accompanied by an offering.

Specifically, proposed Rule 5210(k)(ii) would require the listed company to have a minimum Market Value of Unrestricted Publicly Held Shares following the business combination equal to the lesser of: (a) $25 million; or (b) 25% of the post-business combination entity’s Market Value of Listed Securities.

For example, Company A is currently listed on the Nasdaq Capital Market and plans to acquire a company that principally administers its business in a Restrictive Market, in accordance with IM–5101–2. Following the business combination, Company A intends to transfer to the Nasdaq Global Select Market. Company A expects the post-business combination entity to have a Market Value of Listed Securities of $250,000,000. Since 25% of $250,000,000 is $62,500,000, which is higher than $25,000,000, to qualify for listing on the Nasdaq Global Select Market the post-business combination entity must have a minimum Market Value of Unrestricted Publicly Held Shares of at least $25,000,000. However, Company A would also need to comply with the other applicable listing requirements of the Nasdaq Global Select Market, including a Market Value of Unrestricted Publicly Held Shares of at least $45,000,000.²⁷

In contrast, Company B is currently listed on Nasdaq Capital Market and plans to combine with a non-Nasdaq entity that principally administers its business in a Restrictive Market, resulting in a change of control as defined in Rule 5110(a), whereby the non-Nasdaq entity will become the Nasdaq-listed company. Following the change of control, Company B expects the listed company to have a Market Value of Listed Securities of $50,000,000. Since 25% of $50,000,000 is $12,500,000, which is lower than $25,000,000, the listed company must have a minimum Market Value of Unrestricted Publicly Held Shares following the change of control of at least $12,500,000. However, the company would also need to comply with the other applicable listing requirements of the Nasdaq Capital Market, including a Market Value of Unrestricted Publicly Held Shares of at least $5 million.²⁸

²⁶ See Rule 5315(f)(2)(C).

²⁷ See Rule 5315(f)(2)(C).

²⁸ See Rule 5505(b)(1)(C).
Market Value of Unrestricted Publicly Held Shares excludes securities subject to resale restrictions from the calculation of Publicly Held Shares because securities subject to resale restrictions are not freely transferrable or available for outside investors to purchase and therefore do not truly contribute to a security’s liquidity upon listing. Nasdaq believes that requiring the post-business combination entity to have a minimum Market Value of Unrestricted Publicly Held Shares of at least $25 million or 25% of its Market Value of Listed Securities, whichever is lower, would help to provide an additional assurance that there are sufficient freely tradable shares and investor interest to support fair and orderly trading on the Exchange when the target company principally administers its business in a Restrictive Market. Nasdaq believes that this will help mitigate the unique risks that Restrictive Market Companies present to U.S. investors due to restrictions on the PCAOB’s ability to inspect the audit work and practices of auditors in those countries, which create concerns about the accuracy of disclosures, accountability and access to information.

Nasdaq found that out of seven business combinations involving Restrictive Market Companies from 2015 through September 30, 2020, five would not have qualified under proposed Rule 5210(k)(ii). All five of these companies have been cited for a deficiency after the completion of their business combination. Of the two business combinations involving Restrictive Market Companies that would have qualified under proposed Rule 5210(k)(ii), one was cited for a compliance concern. As such, Nasdaq believes that a business combination, as described in Nasdaq Rule 5110(a) or IM–5101–2, involving a Restrictive Market Company presents similar risks to U.S. investors as an IPO of a Restrictive Market Company and, therefore, believes it is appropriate to apply similar thresholds to post-business combination entities to ensure that a company listing through a business combination would have satisfied equivalent standards that apply to an IPO.

IV. Direct Listings of Restrictive Market Companies

Nasdaq proposes to adopt Rule 5210(k)(iii) to provide that a Restrictive Market Company would be permitted to list on the Nasdaq Global Select Market or Nasdaq Global Market in connection with a Direct Listing (as defined in IM–5315–1), provided that the company meets all applicable listing requirements for the Nasdaq Global Select Market and the additional requirements of IM–5315–1, or the applicable listing requirements for the Nasdaq Global Market and the additional requirements of IM–5405–1. However, such companies would be not be permitted to list on the Nasdaq Capital Market in connection with a Direct Listing notwithstanding the fact that such companies may meet the applicable initial listing requirements for the Nasdaq Capital Market and the additional requirements of IM–5505–1. Direct Listings are currently required to comply with enhanced listing standards pursuant to IM–5315–1 (Nasdaq Global Select Market) and IM–5405–1 (Nasdaq Global Market). If a company’s security has had sustained recent trading in a Private Placement Market, Nasdaq may attribute a Market Value of Unrestricted Publicly Held Shares equal to the lesser of (i) the value calculable based on a Valuation and (ii) the value calculable based on the most recent trading in the Private Placement Market. Nasdaq believes that the price from such sustained trading in the Private Placement Market for the company’s securities is predictive of the price in the market for the common stock that will develop upon listing of the securities on Nasdaq and that qualifying a company based on the lower of such trading price or the Valuation helps assure that the company satisfies Nasdaq’s requirements.

If Nasdaq may require a company listing on the Nasdaq Global Select Market that has not had sustained recent trading in a Private Placement Market to satisfy the applicable Market Value of Unrestricted Publicly Held Shares requirement and provide a Valuation evidencing a Market Value of Publicly Held Shares of at least $250,000,000. For a company that has not had sustained recent trading in a Private Placement Market and that is applying to list on the Nasdaq Global Market, Nasdaq will generally require the company to provide a Valuation that demonstrates a Market Value of Listed Securities and Market Value of Unrestricted Publicly Held Shares that exceeds 200% of the otherwise applicable requirement. Nasdaq believes that in the absence of recent sustained trading in the Private Placement Market, the requirement to demonstrate a Market Value of Publicly Held Shares of at least $250 million for a company seeking to list on Nasdaq Global Select Market, or that the company exceeds 200% of the otherwise applicable price-based requirement for a company seeking to list on Nasdaq Global Market, helps assure that the company satisfies Nasdaq’s requirement by imposing a standard that is more than double the otherwise applicable standard.

Thus, companies listing in connection with a Direct Listing on the Nasdaq Global or Global Select Market tiers are already subject to enhanced listing requirements and Nasdaq believes it is appropriate to permit Restrictive Market Companies to list through a Direct Listing on the Nasdaq Global Select Market or Nasdaq Global Market. On the other hand, while companies listing in connection with a Direct Listing on the Capital Market are also subject to enhanced listing requirements, Nasdaq does not believe that these enhanced requirements are sufficient to overcome concerns regarding sufficient liquidity and investor interest to support fair and orderly trading on the Exchange with respect to Restrictive Market Companies. Nasdaq believes that Restrictive Market Companies present unique risks to U.S. investors due to restrictions on the PCAOB’s ability to inspect the audit work and practices of auditors in those countries, which create concerns about the accuracy of disclosures, accountability and access to information. Therefore, Nasdaq believes that precluding a Restrictive Market Company from listing through a Direct Listing on the Capital Market will help to ensure that the company has sufficient public float, investor base, and trading interest likely to generate depth and liquidity necessary to promote fair and orderly trading on the secondary market.

V. Conclusion

Nasdaq believes that the U.S. capital markets can provide Restrictive Market Companies with access to additional capital to fund ground-breaking research and technological advancements. Further, such companies provide U.S. investors with opportunities to diversify their portfolio by providing exposure to

34 For example, the Nasdaq Global Select Market and Nasdaq Global Market require a company to have at least 1,250,000 and 1.1 million Unrestricted Publicly Held Shares, respectively, and a Market Value of Unrestricted Publicly Held Shares of at least $45 million and $8 million, respectively. In contrast, the Nasdaq Capital Market requires a company to have at least 1 million Unrestricted Publicly Held Shares and a Market Value of Unrestricted Publicly Held Shares of at least $5 million.
Restrictive Markets. However, as discussed above, Nasdaq believes that Restrictive Market Companies present unique potential risks to U.S. investors due to restrictions on the PCAOB’s ability to inspect the audit work and practices of auditors in those countries, which create concerns about the accuracy of disclosures, accountability and access to information. Nasdaq believes that the proposed rule changes will help to ensure that Restrictive Market Companies have sufficient investor base and public float to support fair and orderly trading on the Exchange.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act, in general, and furthers the objectives of Section 6(b)(5) of the Act, in particular, that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest. Further, the Exchange believes that this proposal is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Commission has previously opined on the importance of meaningful listing standards for the protection of investors and the public interest. In particular, the Commission stated:

Among other things, listing standards provide the means for an exchange to screen issuers that seek to become listed, and to provide listing only to those that are bona fide companies with sufficient public float, investor base, and trading interest likely to generate depth and liquidity sufficient to promote fair and orderly markets. Meaningful listing standards also are important given investor expectations regarding the nature of securities that have achieved an exchange listing, and the role of an exchange in overseeing its market and assuring compliance with its listing standards.

Nasdaq believes that requiring a minimum offering size or public float percentage for Restrictive Market Companies seeking to list on Nasdaq through an IPO or business combination will ensure that a security to be listed on Nasdaq has adequate liquidity, distribution and U.S. investor interest to support fair and orderly trading in the secondary market, which will reduce trading volatility and price manipulation, thereby protecting investors and the public interest.

Similarly, Nasdaq believes that permitting Restrictive Market Companies to list on Nasdaq Global Select Market or Nasdaq Global Market, rather than the Nasdaq Capital Market, in connection with a Direct Listing will ensure that such companies satisfy more rigorous listing requirements, including the minimum amount of Publicly Held Shares and Market Value of Publicly Held Shares, which will help to ensure that the security has sufficient public float, investor base, and trading interest likely to generate depth and liquidity sufficient to promote fair and orderly trading, thereby protecting investors and the public interest.

While the proposal applies only to Restrictive Market Companies, the Exchange believes that the proposal is not designed to permit unfair discrimination among companies because Nasdaq believes that Restrictive Market Companies present unique potential risks to U.S. investors due to restrictions on the PCAOB’s ability to inspect the audit work and practices of auditors in those countries, which create concerns about the accuracy of disclosures, accountability and access to information. Nasdaq and investors rely on the work of auditors to provide reasonable assurances that the financial statements provided by a company are free of material misstatements. The PCAOB states that “[r]easonable assurance is obtained by reducing audit risk to an appropriately low level through applying due professional care, including obtaining sufficient appropriate audit evidence.” Nasdaq believes that the PCAOB’s inability to inspect the audit work and practices of auditors in certain countries weakens the assurance that the auditor obtained sufficient appropriate audit evidence to express its opinion on a company’s financial statements, and decreases confidence that the auditor complied with PCAOB and SEC rules and professional standards in connection with the auditor’s performance of audits. Nasdaq believes that without reasonable assurances from an auditor that a company’s financial statements and related disclosures are free from material misstatements, there is a risk that a company that would otherwise not have qualifies to list on Nasdaq may satisfy Nasdaq’s listing standards by presenting financial statements that contain undetected material misstatements. In In the Matter of the Tassaway, Inc., the Commission observed that

Though exclusion from the system may hurt existing investors, primary emphasis must be placed on the interests of prospective future investors. The latter group is entitled to assume that the securities in the system meet the system’s standards. Hence the presence on NASDAQ of non-complying securities could have a serious deceptive effect.

The proposed rule change would provide greater assurances to investors that a company truly meets Nasdaq’s financial listing requirements by imposing heightened listing criteria on a company that principally administers its business in a Restrictive Market, thereby preventing fraudulent and manipulative acts, protecting investors and promoting the public interest.

In addition, securities of Restrictive Market Companies may not develop sufficient public float, investor base, and trading interest to provide the depth and liquidity necessary to promote fair and orderly trading, resulting in a security that is illiquid. Nasdaq is concerned because illiquid securities may trade infrequently, in a more volatile manner and with a wider bid-ask spread, all of which may result in trading at a price that may not reflect their true market value.

Less liquid securities also may be more susceptible to price manipulation, as a relatively small amount of trading activity can have an inordinate effect on market prices. Price manipulation is a particular concern when insiders retain a significant ownership portion of the company. The risk of price manipulation due to insider trading is more acute when a company principally administers business in a Restrictive Market and management lacks familiarity or experience with U.S. securities laws. Therefore, Nasdaq believes that it is not unfairly discriminatory to treat Restrictive Market Companies differently under this proposal because it will help ensure that securities of a Restrictive Market Company listed on Nasdaq have sufficient public float, investor base, and trading interest to provide the depth and liquidity necessary to promote fair and orderly markets, thereby promoting investor protection and the public interest.
SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; ICE Clear Europe Limited; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Amendments to the ICE Clear Europe Delivery Procedures.

February 9, 2021.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),1 and Rule 19b–4 thereunder,2 notice is hereby given that on February 2, 2021, ICE Clear Europe Limited (“ICE Clear Europe” or the “Clearing House”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule changes described in Items I, II and III below, which Items have been prepared by ICE Clear Europe. ICE Clear Europe filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act3 and Rule 19b–4(f)(4)(ii) thereunder, such that the proposed rule was immediately effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The principal purpose of the proposed amendments is for ICE Clear Europe to amend its Delivery Procedures (the “Delivery Procedures”) to add a new Section 11 and a new Part GG to address delivery relating to the ICE Futures Abu Dhabi Murban Crude Oil Futures Contracts (the “ICE Murban Crude Oil Futures Contracts” or the “Contracts”).

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, ICE Clear Europe included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. ICE Clear Europe has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

(a) Purpose

ICE Clear Europe is proposing to amend its Delivery Procedures to add a new Section 11 and a new Part GG to address delivery relating to the ICE Murban Crude Oil Futures Contracts. The Contracts will be traded on ICE Futures Abu Dhabi and cleared by ICE Clear Europe.

New Part GG would set out the delivery specifications and procedures for deliveries of Murban crude oil under the ICE Murban Crude Oil Futures

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5 Capitalized terms used but not defined herein have the meanings specified in the ICE Clear Europe Clearing Rules (the “Rules”).