



Highlights of [GAO-04-75](#), a report to congressional requesters

Why GAO Did This Study

The equity listing standards of the three largest U.S. securities markets—the American Stock Exchange (Amex), the Nasdaq Stock Market, Inc. (NASDAQ), and the New York Stock Exchange (NYSE)—have received heightened attention as part of efforts to restore investor confidence following the 2001 terrorist attacks and the unexpected corporate failures beginning that year. GAO was asked to discuss (1) the status of the Securities and Exchange Commission's (SEC) recommendations to the three largest markets for improving their equity listing programs, (2) SEC's moratorium on the enforcement of certain of its listing standards and the status of affected listed companies (issuers), and (3) actions the three largest markets have taken to strengthen corporate governance.

What GAO Recommends

This report includes 12 recommendations to SEC designed to enhance investor confidence in the markets, further strengthen the listing standards of the self-regulatory organizations (SRO) that oversee the markets, and improve SEC and SRO oversight of the markets' listing programs. SEC generally agreed with the recommendations; the SROs expressed concerns about those related to notifying the public of noncompliance with listing standards and enhancing board independence.

www.gao.gov/cgi-bin/getrpt?GAO-04-75.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Rick Hillman at (202) 512-8678 or hillmanr@gao.gov.

SECURITIES MARKETS

Opportunities Exist to Enhance Investor Confidence and Improve Listing Program Oversight

What GAO Found

The only significant open recommendation from SEC's inspections of the three largest U.S. markets' equity listing programs was a recommendation that these markets append a modifier to the stock symbol of issuers that do not meet their continued listing standards to provide the public early and ongoing notification of issuers' noncompliance with these standards. NYSE has taken steps to implement this recommendation for its quantitative standards by transmitting an indicator of an issuer's noncompliance with stock data to information vendors, but concerns remain about the further distribution of this information from the vendors to investors. NASDAQ has provided some ongoing notification of noncompliance with certain listing standards since before 1980. More recently, NASDAQ and Amex have proposed using indicators to address SEC's recommendation, but the indicators generally would not be transmitted early in the deficiency process. In the absence of voluntary action by the markets, further SEC action is warranted to ensure that the public receives early and ongoing notification of issuers' noncompliance with listing standards.

Following the market instability after September 11, 2001, SEC allowed a NASDAQ rule to remain in effect that imposed a 3-month moratorium on enforcing NASDAQ's bid-price related listing standards. While its full effect could not be determined, the moratorium met its objective of allowing noncompliant issuers more time to trade without facing the threat of delisting. According to NASDAQ, the moratorium provided relief to at least 509 issuers—about 11 percent of all its issuers. SEC subsequently approved another NASDAQ rule that allows some issuers to trade up to 2 years while noncompliant with the bid-price standard—a long time absent a means of providing the public with both early and ongoing notification of an issuer's listing status.

In response to a 2002 SEC request and rules implementing the Sarbanes-Oxley Act of 2002, the three largest U.S. markets have adopted changes to their corporate governance listing standards that when implemented should promote stronger board oversight and greater accountability. Increasing the role and authority of independent directors is central to these governance reforms. Consistent with the position of some market participants, GAO encourages SEC, in conjunction with the markets, to seriously consider using listing standards to further strengthen board independence by requiring a supermajority of independent directors and separating the positions of chief executive officer and board chairman. Also, to better ensure that they hold themselves accountable to standards consistent with those imposed on issuers, SEC asked the three largest markets to evaluate their own governance. SEC's timely review of both the markets' oversight of issuers' compliance with the new corporate governance standards and the markets' changes to their governance will be important to ensuring the effectiveness of issuers and markets' actions.