

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="26"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2018"/> - * <input type="text" value="54"/> Amendment No. (req. for Amendments *) <input type="text"/>
---	--	--

Filing by   
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
---	---

**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Proposal to amend the Listed Company Manual to amend the price requirements companies must meet in order to avail themselves of certain exception from the shareholder approval requirements set forth in Section 312.03

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \*  Last Name \*

Title \*

E-mail \*

Telephone \*  Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date  By

(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information \***

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

- (a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> New York Stock Exchange LLC (“NYSE” or the “Exchange”) proposes to amend Sections 312.03 and 312.04 the Listed Company Manual (the “Manual”) to amend the price requirements companies must meet in order to avail themselves of certain exceptions from the shareholder approval requirements set forth in Section 312.03.

The text of the proposed rule change is set forth in Exhibit 5 attached hereto. A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit

- (b) The Exchange does not believe that the proposed rule change would have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.
- (c) Not applicable.

2. Procedures of the Self-Regulatory Organization

Senior management has approved the proposed rule change pursuant to authority delegated to it by the Board of the Exchange. No further action is required under the Exchange's governing documents. Therefore, the Exchange's internal procedures with respect to the proposed rule change are complete.

The person on the Exchange staff prepared to respond to questions and comments on the proposed rule change is:

John Carey  
Senior Director  
NYSE Group, Inc.  
(212) 656-5640

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

- (a) Purpose

The Exchange proposes to amend Sections 312.03 and 312.04 of the Manual to

---

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

modify the circumstances in which listed companies are exempt from obtaining shareholder approval for share issuances subject to those rules.

Subject to certain exceptions, Section 312.03(b) of the Manual provides that shareholder approval is required prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions, to:

- (1) a director, officer or substantial security holder of the company (each a "Related Party");
- (2) a subsidiary, affiliate or other closely-related person of a Related Party;  
or
- (3) any company or entity in which a Related Party has a substantial direct or indirect interest;

if the number of shares of common stock to be issued, or if the number of shares of common stock into which the securities may be convertible or exercisable, exceeds either one percent of the number of shares of common stock or one percent of the voting power outstanding before the issuance. However, if the Related Party involved in the transaction is classified as such solely because such person is a substantial security holder, and if the issuance relates to a sale of stock for cash at a price at least as great as each of the book and market value of the issuer's common stock, then shareholder approval will not be required unless the number of shares of common stock to be issued, or unless the number of shares of common stock into which the securities may be convertible or exercisable, exceeds either five percent of the number of shares of common stock or five percent of the voting power outstanding before the issuance.

Section 312.03(c) generally requires shareholder approval prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions if:

- (1) the common stock has, or will have upon issuance, voting power equal to or in excess of 20 percent of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock; or
- (2) the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20 percent of the number of shares of common stock outstanding before the issuance of the common stock or of securities convertible into or exercisable for common stock.

Among the exceptions to the shareholder approval requirements of Section 312.03(c) is one applicable to "bona fide private financings," as such term is

defined in Section 312.04(g).<sup>3</sup> Section 312.04(g) defines a bona fide private financing as a financing in which either:

- a registered broker-dealer purchases the securities from the issuer with a view to the private sale of such securities to one or more purchasers; or
- the issuer sells the securities to multiple purchasers, and no one such purchaser, or group of related purchasers, acquires, or has the right to acquire upon exercise or conversion of the securities, more than five percent of the shares of the issuer's common stock or more than five percent of the issuer's voting power before the sale.

For purposes of the exceptions from the shareholder approval requirements of Sections 312.03(b) and (c) set forth above, the Exchange utilizes for the pricing test the definition of “market value” set forth in Section 312.04(i). Section 312.04(i) defines the “market value” of an issuer’s common stock as the official closing price on the Exchange as reported to the Consolidated Tape immediately preceding the entering into of a binding agreement to issue the securities.<sup>4</sup>

The Exchange proposes to replace the definition of market value in Section 312.04(i) with a new definition to be known as the “Minimum Price,” which will be used as the pricing test for the exceptions in Sections 312.03(b) and (c) for which the market value definition in Section 312.04(i) is currently used. Minimum Price will be defined as a price that is the lower of: (i) the Official Closing Price immediately preceding the signing of the binding agreement; or (ii) the average Official Closing Price for the five trading days immediately preceding the signing of the binding agreement. “Official Closing Price” of an issuer's common stock will be defined in Section 312.04 as meaning the official closing

---

<sup>3</sup> A bona fide private financing is exempt from the shareholder approval requirements of Section 312.03(c), if such financing involves a sale of:

- common stock, for cash, at a price at least as great as each of the book and market value of the issuer's common stock; or
- securities convertible into or exercisable for common stock, for cash, if the conversion or exercise price is at least as great as each of the book and market value of the issuer's common stock.

<sup>4</sup> Section 312.04(i) goes on to say that “[f]or example, if the transaction is entered into after the close of the regular session at 4:00 pm Eastern Standard Time on a Tuesday, then Tuesday's official closing price is used. If the transaction is entered into at any time between the close of the regular session on Monday and the close of the regular session on Tuesday, then Monday's official closing price is used.”

price on the Exchange as reported to the Consolidated Tape immediately preceding the entering into of a binding agreement to issue the securities.

It is a widespread practice in commercial transactions involving the issuance of securities to use a five day average in determining the market price for purposes of calculating pricing provisions of agreements, as the use of a single day's closing price can result in unanticipated and inequitable results due to unexpected price volatility. There are also potential negative consequences to using a five-day average as the sole measure of whether shareholder approval is required. For example, in a declining market, the five day average price will always be above the current market price, thus making it difficult for companies to close transactions because investors could buy shares in the market at a price below the five-day average price rather than by buying shares from the company at the agreed-upon price. Conversely, in a rising market, the five day average price will be lower than the closing price. In addition, if material news is announced during the five-day period, the average could be significantly different from the market value of the securities as reflected by the closing price after the news is disclosed. Nonetheless, the Exchange believes that these risks are already accepted in the market, as evidenced by the use of an average price in transactions that do not require shareholder approval under the Exchange's rules, such as where less than 20% of the outstanding shares are issuable in the transaction, notwithstanding the risk of possible unfavorable price movements borne by both the issuer and the purchaser of the securities during the time between when the agreement is executed and the closing of the transaction. The Exchange believes these concerns about the appropriateness of using a five-day average in all circumstances are justified and as such, the Exchange's proposed Minimum Price definition utilizes the lower of the most recent closing price or the average of closing prices on the five most recent trading days.

The Exchange also proposes to eliminate from the definition of Minimum Price the requirement included in the market value definition in the current version of Section 312.04(i) that the market price must not be less than book value. Book value is an accounting measure and its calculation is based on the historic cost of assets, not their current value. As such, listed companies have argued to the Exchange on many occasions, and the Exchange agrees, that book value is not a meaningful measure to be used in determining whether a transaction is dilutive or should otherwise require shareholder approval. The Exchange has also observed that when the market price is below the book value, issuers are often extremely surprised when confronted with the effect it has on their proposed transactions. In that regard, the existing book value test can have anomalous effects in transactions that appear to be clearly commercially reasonable for the issuer and have a disproportionate impact on companies in certain industries and at certain times. For example, during the financial crisis in 2008 and 2009, many banks and finance-related companies temporarily traded below book value. Similarly, companies that make large investments in infrastructure may have a market capitalization that is significantly less than the accounting carrying value of those

assets. In these situations, companies are precluded for purely technical accounting reasons from quickly raising capital on terms that are clearly at or above the market price. Furthermore, the Exchange is not aware of any evidence that shareholders consider book value to be a material factor when they are asked to vote to approve a proposed transaction.

The Exchange notes that the existence of an exception from the shareholder approval requirements of Section 312.03 does not relieve listed companies of their obligation to comply with any separate shareholder approval requirement under Section 303A.08. Section 303A.08 provides that any issuance of common stock to any employee, director or other service provider of a listed company as compensation for services is generally treated as equity compensation for purposes of that rule and must either be approved by the shareholders or be drawn from a shareholder-approved equity compensation plan. Section 303A.08 provides an exception from this requirement for plans that merely allow employees, directors or other service providers to elect to buy shares on the open market or from the listed company for their current fair market value. For purposes of that exception, the Exchange interprets fair market value as the closing price on the Exchange for the most recent trading day as reported to the Consolidated Tape. Notwithstanding the amendments proposed in this filing, the Exchange intends to continue to apply this policy with respect to the calculation of fair market value in determining whether an issuance requires shareholder approval for purposes of Section 303A.08 and intends to publish an FAQ on nyse.com to that effect upon approval of this proposal.

(b) Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Exchange Act,<sup>5</sup> in general, and furthers the objectives of Section 6(b)(5) of the Exchange Act,<sup>6</sup> in particular in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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 and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Definition of Market Value

The proposed rule change will modify the minimum price for the relevant

---

<sup>5</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

exceptions to the shareholder approval requirements of Sections 312.03(b) and (c) to the lower of: (i) the Official Closing Price immediately preceding the signing of the binding agreement; or (ii) the average Official Closing Price for the five trading days immediately preceding the signing of the binding agreement.

Allowing share issuances to be priced at the five-day average of the closing price will better align the Exchange's requirements with how many transactions that are not designed to comply with the applicable exceptions in Sections 312.03(b) and (c) are structured, such as transactions not subject to Sections 312.03(b) and (c) because the issuance is for less than 20% of the common stock and the parties rely on the five day average for pricing to smooth out unusual fluctuations in price. In so doing, the proposed rule change will perfect the mechanism of a free and open market. Further, allowing a five day average price continues to protect investors and the public interest because it will allow companies and investors to price transactions in a manner designed to eliminate aberrant pricing resulting from unusual transactions on the day of a transaction. Limiting the allowable average to a five-day period also protects investors by ensuring the period is not too long, thereby avoiding any distortion of the average price by the inclusion in the average historical pricing data that reflects market factors that are no longer relevant. In a market that rises each day of the period, the five-day average will be less than the price at the end of the period, but would still be higher than the price at the start of such period. This protects investors by ensuring that the average price will at least partially reflect the benefits of the more favorable recent market price. Further, aside from Exchange requirements, when selecting the appropriate price for a transaction company officers and directors have to consider their state law requirements, including fiduciary responsibilities intended to protect shareholder interests.

The Exchange believes that where two alternative measures of value exist that both reasonably approximate the value of listed securities, defining the Minimum Price as the lower of those values allows issuers the flexibility to use either measure because they can also sell securities at a price greater than the Minimum Price without needing shareholder approval. This flexibility, and the certainty that a transaction can be structured at either value in a manner that will not require shareholder approval, further perfects the mechanism of a free and open market without diminishing the existing investor protections of Sections 312.03(b) and (c).

### Book Value

The Exchange also believes that eliminating the requirement for shareholder approval of issuances at a price less than book value but greater than market value does not diminish the existing investor protections of Sections 312.03(b) and (c). Book value is primarily an accounting measure calculated based on historic cost and is generally perceived as not being a meaningful measure to use in analyzing the current value of a stock. The Exchange has also observed that the existing book value test can appear arbitrary and have a disproportionate impact on



companies in certain industries and at certain times. For example, during the financial crisis in 2008 and 2009, many banks and finance-related companies traded below book value. Similarly, companies that make large investments in infrastructure may have a market capitalization that is significantly less than the accounting carrying value of those assets. Because book value is not a meaningful measure of the current value of a stock, the elimination of the requirement for shareholder approval of issuances at a price less than book value but greater than market value will remove an impediment to, and perfect the mechanism of, a free and open market, which currently unfairly burdens companies in certain industries, without meaningfully diminishing investor protections of Sections 312.03(b) and (c).

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change would revise requirements that burden issuers by unnecessarily limiting the circumstances where they can sell securities without shareholder approval. All listed companies would be affected in the same manner by these changes. As such, these changes are neither intended to, nor expected to, impose any burden on competition.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

6. Extension of Time Period for Commission Action

The Exchange does not consent at this time to an extension of any time period for Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposal is based on recent amendments made by NASDAQ to its comparable shareholder approval requirements.<sup>7</sup>

---

<sup>7</sup> See Exchange Act Release No. 34-84287 (September 26, 2018) (SR-NASDAQ-2018-008); 83 FR 49599 (October 2, 2018).

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1 – Form of Notice of Proposed Rule Change for Federal Register

Exhibit 5 – Proposed Rule Text

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-NYSE-2018-54)

[Date]

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change to Amend NYSE Listed Company Manual Sections 312.03 and 312.04

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on October 31, 2018, New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. 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 amend Sections 312.03 and 312.04 of the Listed Company Manual (the “Manual”) to amend the price requirements companies must meet in order to avail themselves of certain exception from the shareholder approval requirements set forth in Section 312.03. The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

---

<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

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 self-regulatory organization 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 those 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 parts of such statements.

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

1. Purpose

The Exchange proposes to amend Sections 312.03 and 312.04 of the Manual to modify the circumstances in which listed companies are exempt from obtaining shareholder approval for share issuances subject to those rules.

Subject to certain exceptions, Section 312.03(b) of the Manual provides that shareholder approval is required prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions, to:

- (1) a director, officer or substantial security holder of the company (each a "Related Party");
- (2) a subsidiary, affiliate or other closely-related person of a Related Party;
- or
- (3) any company or entity in which a Related Party has a substantial direct or indirect interest;

if the number of shares of common stock to be issued, or if the number of shares of common stock into which the securities may be convertible or exercisable, exceeds either one percent of the number of shares of common stock or one percent of the voting power outstanding before the issuance. However, if the Related Party involved in the transaction is classified as such solely because such person is a substantial security holder, and if the issuance relates to a sale of stock for cash at a price at least as great as each of the book and market value of the issuer's common stock, then shareholder approval will not be required unless the number of shares of common stock to be issued, or unless the number of shares of common stock into which the securities may be convertible or exercisable, exceeds either five percent of the number of shares of common stock or five percent of the voting power outstanding before the issuance.

Section 312.03(c) generally requires shareholder approval prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions if:

- (1) the common stock has, or will have upon issuance, voting power equal to or in excess of 20 percent of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock; or
- (2) the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20 percent of the number of shares of common stock outstanding before the issuance of the common stock or of securities convertible into or exercisable for common stock.

Among the exceptions to the shareholder approval requirements of Section

312.03(c) is one applicable to “bona fide private financings,” as such term is defined in Section 312.04(g).<sup>4</sup> Section 312.04(g) defines a bona fide private financing as a financing in which either:

- a registered broker-dealer purchases the securities from the issuer with a view to the private sale of such securities to one or more purchasers; or
- the issuer sells the securities to multiple purchasers, and no one such purchaser, or group of related purchasers, acquires, or has the right to acquire upon exercise or conversion of the securities, more than five percent of the shares of the issuer's common stock or more than five percent of the issuer's voting power before the sale.

For purposes of the exceptions from the shareholder approval requirements of Sections 312.03(b) and (c) set forth above, the Exchange utilizes for the pricing test the definition of “market value” set forth in Section 312.04(i). Section 312.04(i) defines the “market value” of an issuer’s common stock as the official closing price on the Exchange as reported to the Consolidated Tape immediately preceding the entering into of a binding agreement to issue the securities.<sup>5</sup>

---

<sup>4</sup> A bona fide private financing is exempt from the shareholder approval requirements of Section 312.03(c), if such financing involves a sale of:

- common stock, for cash, at a price at least as great as each of the book and market value of the issuer's common stock; or
- securities convertible into or exercisable for common stock, for cash, if the conversion or exercise price is at least as great as each of the book and market value of the issuer's common stock.

<sup>5</sup> Section 312.04(i) goes on to say that “[f]or example, if the transaction is entered into after the close of the regular session at 4:00 pm Eastern Standard Time on a Tuesday, then Tuesday's official closing price is used. If the transaction is entered into at any time

The Exchange proposes to replace the definition of market value in Section 312.04(i) with a new definition to be known as the “Minimum Price,” which will be used as the pricing test for the exceptions in Sections 312.03(b) and (c) for which the market value definition in Section 312.04(i) is currently used. Minimum Price will be defined as a price that is the lower of: (i) the Official Closing Price immediately preceding the signing of the binding agreement; or (ii) the average Official Closing Price for the five trading days immediately preceding the signing of the binding agreement. “Official Closing Price” of an issuer's common stock will be defined in Section 312.04 as meaning the official closing price on the Exchange as reported to the Consolidated Tape immediately preceding the entering into of a binding agreement to issue the securities.

It is a widespread practice in commercial transactions involving the issuance of securities to use a five day average in determining the market price for purposes of calculating pricing provisions of agreements, as the use of a single day’s closing price can result in unanticipated and inequitable results due to unexpected price volatility. There are also potential negative consequences to using a five-day average as the sole measure of whether shareholder approval is required. For example, in a declining market, the five day average price will always be above the current market price, thus making it difficult for companies to close transactions because investors could buy shares in the market at a price below the five-day average price rather than by buying shares from the company at the agreed-upon price. Conversely, in a rising market, the five day average price will be lower than the closing price. In addition, if material news is announced during the five-day period, the average could be significantly different from

---

between the close of the regular session on Monday and the close if the regular session on Tuesday, then Monday's official closing price is used.”

the market value of the securities as reflected by the closing price after the news is disclosed. Nonetheless, the Exchange believes that these risks are already accepted in the market, as evidenced by the use of an average price in transactions that do not require shareholder approval under the Exchange's rules, such as where less than 20% of the outstanding shares are issuable in the transaction, notwithstanding the risk of possible unfavorable price movements borne by both the issuer and the purchaser of the securities during the time between when the agreement is executed and the closing of the transaction. The Exchange believes these concerns about the appropriateness of using a five-day average in all circumstances are justified and as such, the Exchange's proposed Minimum Price definition utilizes the lower of the most recent closing price or the average of closing prices on the five most recent trading days.

The Exchange also proposes to eliminate from the definition of Minimum Price the requirement included in the market value definition in the current version of Section 312.04(i) that the market price must not be less than book value. Book value is an accounting measure and its calculation is based on the historic cost of assets, not their current value. As such, listed companies have argued to the Exchange on many occasions, and the Exchange agrees, that book value is not a meaningful measure to be used in determining whether a transaction is dilutive or should otherwise require shareholder approval. The Exchange has also observed that when the market price is below the book value, issuers are often extremely surprised when confronted with the effect it has on their proposed transactions. In that regard, the existing book value test can have anomalous effects in transactions that appear to be clearly commercially reasonable for the issuer and have a disproportionate impact on companies in certain industries and



at certain times. For example, during the financial crisis in 2008 and 2009, many banks and finance-related companies temporarily traded below book value. Similarly, companies that make large investments in infrastructure may have a market capitalization that is significantly less than the accounting carrying value of those assets. In these situations, companies are precluded for purely technical accounting reasons from quickly raising capital on terms that are clearly at or above the market price. Furthermore, the Exchange is not aware of any evidence that shareholders consider book value to be a material factor when they are asked to vote to approve a proposed transaction.

The Exchange notes that the existence of an exception from the shareholder approval requirements of Section 312.03 does not relieve listed companies of their obligation to comply with any separate shareholder approval requirement under Section 303A.08. Section 303A.08 provides that any issuance of common stock to any employee, director or other service provider of a listed company as compensation for services is generally treated as equity compensation for purposes of that rule and must either be approved by the shareholders or be drawn from a shareholder-approved equity compensation plan. Section 303A.08 provides an exception from this requirement for plans that merely allow employees, directors or other service providers to elect to buy shares on the open market or from the listed company for their current fair market value. For purposes of that exception, the Exchange interprets fair market value as the closing price on the Exchange for the most recent trading day as reported to the Consolidated Tape. Notwithstanding the amendments proposed in this filing, the Exchange intends to continue to apply this policy with respect to the calculation of fair market value in determining whether an issuance requires shareholder approval for purposes of Section

303A.08 and intends to publish an FAQ on nyse.com to that effect upon approval of this proposal.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Exchange Act,<sup>6</sup> in general, and furthers the objectives of Section 6(b)(5) of the Exchange Act,<sup>7</sup> in particular in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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 and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

Definition of Market Value

The proposed rule change will modify the minimum price for the relevant exceptions to the shareholder approval requirements of Sections 312.03(b) and (c) to the lower of: (i) the Official Closing Price immediately preceding the signing of the binding agreement; or (ii) the average Official Closing Price for the five trading days immediately preceding the signing of the binding agreement. Allowing share issuances to be priced at the five-day average of the closing price will better align the Exchange's requirements with how many transactions that are not designed to comply with the applicable exceptions in Sections 312.03(b) and (c) are structured, such as transactions not subject to

---

<sup>6</sup> 15 U.S.C. 78f(b).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

Sections 312.03(b) and (c) because the issuance is for less than 20% of the common stock and the parties rely on the five day average for pricing to smooth out unusual fluctuations in price. In so doing, the proposed rule change will perfect the mechanism of a free and open market. Further, allowing a five day average price continues to protect investors and the public interest because it will allow companies and investors to price transactions in a manner designed to eliminate aberrant pricing resulting from unusual transactions on the day of a transaction. Limiting the allowable average to a five-day period also protects investors by ensuring the period is not too long, thereby avoiding any distortion of the average price by the inclusion in the average historical pricing data that reflects market factors that are no longer relevant. In a market that rises each day of the period, the five-day average will be less than the price at the end of the period, but would still be higher than the price at the start of such period. This protects investors by ensuring that the average price will at least partially reflect the benefits of the more favorable recent market price. Further, aside from Exchange requirements, when selecting the appropriate price for a transaction company officers and directors have to consider their state law requirements, including fiduciary responsibilities intended to protect shareholder interests.

The Exchange believes that where two alternative measures of value exist that both reasonably approximate the value of listed securities, defining the Minimum Price as the lower of those values allows issuers the flexibility to use either measure because they can also sell securities at a price greater than the Minimum Price without needing shareholder approval. This flexibility, and the certainty that a transaction can be structured at either value in a manner that will not require shareholder approval, further

perfects the mechanism of a free and open market without diminishing the existing investor protections of Sections 312.03(b) and (c).

#### Book Value

The Exchange also believes that eliminating the requirement for shareholder approval of issuances at a price less than book value but greater than market value does not diminish the existing investor protections of Sections 312.03(b) and (c). Book value is primarily an accounting measure calculated based on historic cost and is generally perceived as not being a meaningful measure to use in analyzing the current value of a stock. The Exchange has also observed that the existing book value test can appear arbitrary and have a disproportionate impact on companies in certain industries and at certain times. For example, during the financial crisis in 2008 and 2009, many banks and finance-related companies traded below book value. Similarly, companies that make large investments in infrastructure may have a market capitalization that is significantly less than the accounting carrying value of those assets. Because book value is not a meaningful measure of the current value of a stock, the elimination of the requirement for shareholder approval of issuances at a price less than book value but greater than market value will remove an impediment to, and perfect the mechanism of, a free and open market, which currently unfairly burdens companies in certain industries, without meaningfully diminishing investor protections of Sections 312.03(b) and (c).

#### B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change would revise requirements that burden issuers by

unnecessarily limiting the circumstances where they can sell securities without shareholder approval. All listed companies would be affected in the same manner by these changes. As such, these changes are neither intended to, nor expected to, impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE-2018-54 on the subject line.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSE-2018-54. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSE-2018-54 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>8</sup>

Robert W. Errett  
Deputy Secretary

---

<sup>8</sup> 17 CFR 200.30-3(a)(12).

Added text underlined;  
Deleted text in [brackets].

NYSE Listed Company Manual

\* \* \* \* \*

### 312.03 Shareholder Approval

Shareholder approval is a prerequisite to issuing securities in the following situations:

\* \* \* \* \*

**(b)** Shareholder approval is required prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions, to:

**(1)** a director, officer or substantial security holder of the company (each a "Related Party");

**(2)** a subsidiary, affiliate or other closely-related person of a Related Party; or

**(3)** any company or entity in which a Related Party has a substantial direct or indirect interest;

if the number of shares of common stock to be issued, or if the number of shares of common stock into which the securities may be convertible or exercisable, exceeds either one percent of the number of shares of common stock or one percent of the voting power outstanding before the issuance.

However, if the Related Party involved in the transaction is classified as such solely because such person is a substantial security holder, and if the issuance relates to a sale of stock for cash at a price at least as great as [each of the book and market value of the issuer's common stock] the Minimum Price, then shareholder approval will not be required unless the number of shares of common stock to be issued, or unless the number of shares of common stock into which the securities may be convertible or exercisable, exceeds either five percent of the number of shares of common stock or five percent of the voting power outstanding before the issuance.

\* \* \* \* \*



(c) Shareholder approval is required prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions if:

(1) the common stock has, or will have upon issuance, voting power equal to or in excess of 20 percent of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock; or

(2) the number of shares of common stock to be issued is, or will be upon issuance, equal to or in excess of 20 percent of the number of shares of common stock outstanding before the issuance of the common stock or of securities convertible into or exercisable for common stock.

However, shareholder approval will not be required for any such issuance involving:

- any public offering for cash;
- any bona fide private financing, if such financing involves a sale of:
  - common stock, for cash, at a price at least as great as [each of the book and market value of the issuer's common stock] the Minimum Price; or
  - securities convertible into or exercisable for common stock, for cash, if the conversion or exercise price is at least as great as [each of the book and market value of the issuer's common stock] the Minimum Price.

\* \* \* \* \*

### 312.04 For the Purpose of Section 312.03

For the purpose of Section 312.03:

\* \* \* \* \*

(i) "Minimum Price" means a price that is the lower of: (i) the Official Closing Price immediately preceding the signing of the binding agreement; or (ii) the average Official Closing Price for the five trading days immediately preceding the signing of the binding agreement.

(j) ["Market value" ] "Official Closing Price" of the issuer's common stock means the official closing price on the Exchange as reported to the Consolidated Tape immediately preceding the entering into of a binding agreement to issue the securities. For example, if the transaction is entered into after the close of the regular session at 4:00 pm Eastern Standard Time on a Tuesday, then Tuesday's official closing price is used. If the transaction is entered into at any time between the close of the regular session on Monday and the close of the regular session on Tuesday, then Monday's official closing price is

used. [Please note that an average price over a period of time is not acceptable as "market value" for purposes of Section 312.03.]

**[(j)](k)** The issuance of shares from treasury is considered an issuance of shares for purposes of Section 312.03. (See Section 703.01, Part 1, of the Listed Company Manual regarding required notice to the Exchange of issuance of shares from treasury.)

**[(k)](l)** "Early Stage Company" means a company that has not reported revenues greater than \$20 million in any two consecutive fiscal years since its incorporation and any Early Stage Company will lose that designation at any time after listing on the Exchange that it files an annual report with the SEC in which it reports two consecutive fiscal years in which it has revenues greater than \$20 million in each year.

\* \* \* \* \*