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INVESTMENT MANAGEMENT SERVICES

A Practical Guide for Understanding the OTC Markets

What are the OTC markets?

Not every company seeking public trading chooses to list its securities on a national securities exchange such as the New York Stock Exchange or Nasdaq. Many smaller reporting companies, emerging growth companies, foreign issuers, community banks, and closely held businesses instead trade in the over the counter ("OTC") market. Unlike exchange-listed securities, OTC securities trade through a decentralized quotation system in which registered broker-dealers publish quotations rather than through a centralized exchange. Although OTC securities are frequently associated with smaller or speculative companies, the marketplace also includes numerous established domestic and international issuers whose securities do not satisfy, or choose not to satisfy, the listing standards imposed by national securities exchanges.

The OTC markets provide issuers with access to liquidity, broaden the potential shareholder base, and often serve as an intermediate step before an eventual exchange listing. At the same time, participation in the OTC markets carries its own regulatory framework involving SEC reporting obligations, broker-dealer quotation requirements, FINRA procedures, and OTC Markets disclosure standards. Understanding these requirements is essential before seeking quotation.

What are the different OTC market tiers?

OTC Markets Group operates several quotation marketplaces intended to distinguish issuers based upon the quality of publicly available information and the issuer's compliance with applicable reporting standards. The highest marketplace, OTCQX, is reserved for established companies that satisfy financial standards, remain current in SEC reporting (or qualify as eligible foreign issuers), and comply with enhanced governance and disclosure requirements. OTCQB primarily serves developing and growth-stage companies that remain current in their reporting obligations and satisfy minimum operating standards.

The broadest marketplace is OTC Pink, historically referred to as the "Pink Sheets." Unlike OTCQX or OTCQB, OTC Pink generally does not require issuers to satisfy minimum financial standards or governance requirements. Instead, companies are categorized largely according to the quality and timeliness of publicly available information. Since issuers range from fully reporting companies to distressed businesses and shell companies, investors often associate OTC Pink securities with greater investment risk.

What is OTC pink?

OTC Pink is not a securities exchange, nor is it a separate regulatory regime. Rather, it is a quotation marketplace through which broker-dealers publish quotations for eligible securities. Companies quoted on OTC Pink may be SEC reporting companies, companies providing disclosure directly through OTC Markets, foreign issuers, or non-reporting issuers.

OTC Markets further categorizes Pink issuers based upon the availability of current public information. Companies providing timely financial statements and disclosure generally qualify as "Current Information," while issuers providing only partial disclosure may receive a "Limited Information" designation. Companies that fail to satisfy applicable public information requirements risk losing publicly accessible quotations and may ultimately trade only on the Expert Market.

How does an issuer become quoted on the OTC markets?

Many business owners mistakenly believe that a company simply "lists" on the OTC Markets. In reality, broker-dealers, not issuers, initiate quotations. Before publishing quotations, a broker-dealer generally must satisfy the requirements of Exchange Act Rule 15c2-11. Historically, this process involved the submission of FINRA Form 211, through which the broker-dealer demonstrated that it had reviewed the issuer's publicly available information and satisfied applicable regulatory requirements. Although the mechanics of the quotation process have evolved over time, the underlying principle remains unchanged: quotations generally cannot begin unless the broker-dealer has completed the required regulatory review or qualifies for an applicable exception.

What is SEC Rule 15c2-11?

Rule 15c2-11 represents one of the most significant regulatory requirements governing the OTC markets. Before a broker-dealer may initiate or resume quotations for most OTC equity securities, the rule generally requires the broker-dealer to review specified issuer information and determine that current public information is available. The SEC substantially modernized Rule 15c2-11 in 2020 to increase transparency, reduce market manipulation, and improve investor protection by limiting quotations for issuers that fail to maintain publicly available information. These amendments significantly altered the practical operation of the OTC markets by making ongoing disclosure a prerequisite for continued public quotations. More recently, in 2026, the SEC proposed amendments clarifying that Rule 15c2-11 applies only to equity securities, while preserving the rule's gatekeeper function for OTC equity markets.

What is FINRA form 211?

Form 211 has long served as the procedural mechanism through which broker-dealers demonstrate compliance with Rule 15c2-11 before initiating quotations for OTC securities. Although issuers do not file Form 211 themselves, they frequently work closely with sponsoring broker-dealers to assemble the financial statements, organizational documents, capitalization information, management disclosures, and other materials necessary to support the quotation application. Counsel often plays a significant role in coordinating this process and ensuring that issuer disclosures satisfy both SEC and FINRA expectations.

How does Rule 144 interact with OTC securities?

Many closely held companies eventually seek OTC quotations to create liquidity for founders, employees, and early investors. Rule 144 frequently becomes an important component of this process because it provides a safe harbor permitting the public resale of restricted and control securities if specified holding periods and other conditions are satisfied. While Rule 144 does not itself create a public market, it often provides the legal mechanism through which shareholders begin selling securities once quotations become available. Accordingly, issuers contemplating OTC quotation should carefully evaluate their capitalization, transfer restrictions, affiliate status, and Rule 144 eligibility before pursuing a public market.

Can a private company become publicly traded through the OTC markets?

Yes. Many private companies become publicly traded without immediately pursuing a national exchange listing. Some companies complete registered public offerings before obtaining OTC quotations, while others enter the public markets through reverse mergers, direct registrations, or other lawful transactions. Regardless of the method used, companies ultimately seeking OTC quotations must satisfy the applicable quotation requirements, maintain current public information, and comply with federal securities laws governing reporting, disclosure, and secondary market trading.

What is the expert market?

The Expert Market is a quotation venue designed primarily for sophisticated market participants when issuers fail to maintain current public information. Although securities generally remain outstanding and transactions may continue under limited circumstances, public quotations are largely unavailable to retail investors. As a practical matter, placement on the Expert Market frequently results in significantly reduced liquidity, diminished investor interest, and greater difficulty attracting future investment. Consequently, issuers generally seek to maintain current disclosure to preserve publicly accessible quotations

What practical considerations should issuers consider?

Companies contemplating quotation on the OTC markets should recognize that obtaining quotations represents only the beginning of the regulatory process. Ongoing compliance requires maintaining current public disclosure, coordinating with transfer agents and broker-dealers, monitoring Rule 15c2-11 compliance, satisfying applicable SEC reporting obligations, and carefully managing corporate governance practices. Companies should also ensure that private placement memoranda, shareholder communications, investor presentations, and other offering materials accurately describe the issuer's trading market and disclosure obligations.

For emerging companies, the OTC markets can provide an effective platform for capital formation and increased market visibility. Nevertheless, the regulatory framework governing OTC quotations has become substantially more rigorous in recent years, making careful legal planning and ongoing compliance more important than ever before.

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