



## Bank Trust Roundtable RECAP: Risk Surrounds Low-Priced Stock Trading

Last week, CAPIS held a virtual panel event “Bank Trust: Trading in Low-Priced Stocks,” featuring [Steve McCabe](#), [Bill Stone](#), and CAPIS’ own [Jason Christian](#) and [Michael Aguilera](#). The roundtable, moderated by [Jon Lantz](#), examined the confluence of events that have led to an increase in low-priced stock trading and the consequent challenges faced by broker-dealers, custodians, and compliance departments.

[Click here for the full virtual panel video](#)

The lively discussion began with CAPIS CCO and General Counsel Jason Christian, who built upon the traditional definition of low-priced stocks — those that trade under \$5/share. Christian explained his view that this definition leaves much to be desired, as recent lower-priced stock trading trends and subsequent regulatory scrutiny has centered on securities priced at \$1 dollar or less, micro-cap stocks, and Pink Sheet/OTC securities. From a broker-dealer perspective and from the regulatory point of view, these stocks warrant a closer review due to surrounding fraud and anti-money laundering concerns.

From a custodial vantage point, Steve McCabe, Vice President and Senior Product Manager at Fifth Third Bank, said he receives myriad inquiries from clients, regulators, depository institutions, and broker-dealers on these types of securities. They have programs in place to monitor the risk inherent in these stocks, and his firm also has an in-house financial crimes unit to assist in detecting potential crimes or violations related to their trading.

Glenview Trust Chief Investment Officer Bill Stone said his firm tends to shun trading low-priced securities but has in the past accommodated them on an ad-hoc basis. Unfortunately, this recently created an issue for the trust when a client wanted to trade low-priced stocks.

“We had a long-time account who realized he had gotten stock for previously doing consulting work,” Stone began. “Although he thought it had no worth, all of a sudden it was trading, and at less than a penny.” The ensuing trade, despite its inherent liquidity risks, was eventually executed. But, as Glenview’s first exposure to this growing trend, the firm subsequently knew it needed to implement new protocols and processes to deal with the trading of low-priced stocks and remain compliant. It served as a wake-up call to Glenview Trust and should to other firms as well.

As this is an issue that comes with a history of substantial regulatory actions, CAPIS First Vice President and Equity Trader Michael Aguilera gave a rundown on how we determine which low-priced stocks we can trade on behalf of our clients. Utilizing the [OTC Markets website](#), look for these Red Flags:



Stop Sign: Indicates companies that may not be able or willing to provide current disclosure to the public markets



Yield Sign: Designed for companies with financial reporting problems, economic distress, or in bankruptcy, that make the limited information they have publicly available

For questions or to learn more about CAPIS, please reach out to [webinquiry@capis.com](mailto:webinquiry@capis.com) and follow us on Twitter ([@capisinc](https://twitter.com/capisinc)) and [LinkedIn](#) for more updates and insight from our team.