



Reverse Stock Splits and Fractional Share Management: A Framework for Market Integrity

A White Paper by SIFMA

December 2025

Contents

Executive Summary	1
1. Market Context and Data Analysis	2
The Scale of the Challenge	2
Emerging Arbitrage Patterns	2
2. Operational and Regulatory Challenges	3
Registered and Beneficial Holders	3
Issuer Term Changes and Market Disruption	3
Fractional Share Treatment Disparities	3
Regulatory and Compliance Implications	3
3. Stakeholder Impact Analysis	4
Retail Investor Vulnerability	4
Institutional Participant Burden	4
Market Infrastructure Provider Challenges	4
4. Recommended Framework for Reform	5
Standardizing Fractional Share Treatment: Make Cash-in-Lieu the Default Treatment for Fractional Shares	5
Optimize Fractional Share Treatment (When Cash-in-Lieu is Not Used)	5
Enhanced Issuer Disclosure Requirements	6
Coordination Among Market Participants to Address Systemic Challenges	6
5. Implementation Roadmap and Industry Collaboration	7
Immediate Actions	7
Medium-Term Reforms	7
Long-Term Market Structure Improvements	7
Conclusion	8
Contributors	9
Technology, Operations, Business Continuity	9

About

SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

Disclaimers

This white paper, prepared by SIFMA reflects industry best practices developed through extensive consultation with exchanges, broker-dealers, transfer agents, and other market participants. The considerations presented are entirely voluntary and not intended as mandates or industry standards. Each firm must independently evaluate the relevance and applicability of this information in light of its own business model, regulatory obligations, competitive strategy, and risk tolerance.

This white paper was developed in accordance with SIFMA's antitrust compliance policy and is intended to promote a lawful and competitive marketplace. It does not encourage or facilitate the discussion or coordination of competitively sensitive information such as pricing, costs, strategic plans, or vendor selection. Nothing herein should be construed as a call for collective action, agreement, or standardization of market structure or practices. All contributors and readers are reminded that antitrust laws prohibit any agreements, explicit or implicit, that may restrain trade or reduce competition.

This report is subject to the Terms of Use applicable to SIFMA's website, available at <http://www.sifma.org/legal>.

Copyright © 2025

Executive Summary

The industry has experienced a 191% increase in reverse stock splits among exchange-listed issuers from 2023 to 2024, creating significant operational, financial, and regulatory challenges as sophisticated arbitrage strategies target fractional share "round-ups," creating artificial demand patterns that mislead market participants and extract value at issuers' expense, while mid-process term changes by issuers expose broker-dealers to unexpected risks and operational burdens that strain market infrastructure and undermine fair treatment between registered and beneficial shareholders. Although key operational stakeholders such as transfer agents and the Depository Trust and Clearing Corporation (DTCC) play important roles, ultimate accountability lies with issuers to ensure clear communication and execution.

This framework recommends four primary best practices to address these challenges: standardizing fractional share treatment by requiring cash-in-lieu treatment for all fractional shares to eliminate arbitrage opportunities; enhancing issuer disclosure requirements with plain English explanations of fractional share treatment, timing, and shareholder impacts; eliminating disparities in treatment between registered and beneficial holders to uphold shareholder fairness and reduce reconciliation complexities, while clarifying that consistent outcomes should be achieved through standardized issuer terms and broker-dealer processing, not by requiring duplicative beneficial owner level instruction processing at DTC; and establishing coordination among market participants through regular industry working groups and standardized communication protocols led and coordinated by SIFMA to ensure consistent information flow and responses across exchanges, issuers, transfer agents, clearing firms, and broker-dealers, providing a

path forward to strengthen market infrastructure and ensure fair and transparent treatment of all shareholders. To support implementation, SIFMA will convene market participants through regular working groups and standardized communication protocols to provide additional guidance concerning these recommendations. While this white paper originated from concerns related to reverse stock splits, the operational risks and arbitrage incentives described apply to a wide range of corporate actions that result in fractional share entitlements, including stock dividends, mergers, and spin-offs. Issuers should consider applying these best practices consistently across all such events.

1. Market Context and Data Analysis

The Scale of the Challenge

The sharp increase in reverse splits reflects challenging market conditions and unintended regulatory consequences. The actual numbers across all exchanges are significantly higher, compounding infrastructure strain throughout the market ecosystem. Market surveillance has identified sophisticated arbitrage strategies specifically targeting fractional share round-up provisions, creating distortions that extend beyond individual transactions. These include social media-promoted tactics and deliberate account fragmentation to exploit round-up eligibility.

Emerging Arbitrage Patterns

Market participants have developed strategies where investors purchase small share quantities before reverse splits specifically to benefit from fractional share rounding. These practices create artificial demand patterns that mislead other market participants about genuine investor interest, while extracting economic value at the issuer's expense. The strategies are actively promoted through social media and online trading communities, creating distortive trading volumes that undermine the integrity of pre-split price discovery. Additionally, market participants should be aware of account fragmentation strategies that exploit thresholds. In cases where issuers or agents guarantee a minimum post-split shareholding, some beneficial holders may intentionally spread positions across multiple accounts at the same firm to qualify for multiple round-ups. Such behaviors artificially inflate holdings and undermine issuer intentions. This practice artificially inflates post-split holdings and undermines issuer intent. Systems

and oversight processes should be evaluated to identify and prevent this kind of gaming behavior. Although identified in reverse splits, these patterns are relevant for all corporate actions resulting in fractional shares.

2. Operational and Regulatory Challenges

Registered and Beneficial Holders

Removing disparities in treatment between registered and beneficial holders can uphold shareholder fairness and reduce reconciliation complexities. This does not imply that DTCC should process instructions at the beneficial-owner level for every event; rather, issuers and intermediaries should consider applying consistent terms so that beneficial holders ultimately receive outcomes equivalent to those of registered holders. These inconsistencies often result in timing differences for fractional share processing and cash payments, leading to confusion and perceived inequities among investors. Aligning treatment across all shareholder categories not only enhances transparency but also minimizes operational errors and settlement delays.

Issuer Term Changes and Market Disruption

When issuers alter previously announced fractional share treatment after public announcement but before or during split execution, they create immediate reconciliation problems for broker-dealers who may have already processed customer positions under the original terms. This results in buy-in obligations, short positions, and potential customer complaints that expose broker-dealers to unexpected financial and reputational risks. Current exchange rules require advance notice for initial announcements but provide limited regulatory guidance on mid-process changes. However, issuers face the practical challenge of not knowing exactly how many shares will be requested for round-up until after announcement, when holder counts may increase

significantly due to investors acquiring minimal positions. Despite this challenge, issuers should consider obtaining necessary shareholder approvals or adjust terms prior to public announcement rather than making mid-process changes, using available data such as proxy information to make reasonable estimates and building appropriate buffers into their authorization requests.

Fractional Share Treatment Disparities

Significant inconsistencies exist in how different shareholders are handled, with registered holders often receiving different treatment than beneficial holders who own shares through intermediaries. These disparities manifest in differences in timing for fractional share rounding or cash payments, variations in how fractional share values are calculated, and inconsistencies in shareholder communications. Different market participants may apply different rounding conventions or cash-in-lieu calculations, leading to outcomes that appear arbitrary from the shareholder's perspective.

Regulatory and Compliance Implications

The current regulatory framework was developed when reverse splits were relatively infrequent and typically involved straightforward cash-in-lieu treatment for fractional shares. Broker-dealers face compliance challenges when issuers fail to adhere to announced terms or when fractional share treatment creates unexpected customer account impacts. Meanwhile, issuers face increasing regulatory scrutiny when reverse splits result in significant shareholder dilution or perceived unfairness, with potential regulatory action and litigation risks beginning to outweigh the intended transaction benefits.

3. Stakeholder Impact Analysis

Retail Investor Vulnerability

Retail investors bear disproportionate risks from the current fragmented execution approaches due to limited understanding of technical mechanics and inadequate plain English disclosure implementation. The proliferation of arbitrage strategies targeting fractional share round-ups has created an environment where sophisticated actors can systematically extract value from transactions designed to benefit existing shareholders. This dynamic undermines the fundamental principle that corporate actions should treat all shareholders fairly and proportionately, while communication challenges leave individual shareholders vulnerable to unexpected outcomes that may not align with their investment expectations. Insufficient plain language disclosures exacerbate retail investor confusion and vulnerability to arbitrage schemes.

Institutional Participant Burden

Institutional investors and their service providers face significant operational burdens from the increased volume and complexity of reverse splits. Fund administrators, custodians, and investment managers must allocate substantial resources to monitoring upcoming corporate actions, analyzing their potential impact, and ensuring accurate processing across multiple portfolio holdings. Mid-process term changes create particular challenges for institutional participants, who may need to revise position calculations, update client communications, and adjust operational procedures on short notice. These disruptions can flow through complex institutional structures, affecting multiple funds, client accounts, and reporting systems.

Market Infrastructure Provider Challenges

Transfer agents, clearing firms, and market infrastructure providers face mounting pressure to process increasing volumes while maintaining accuracy and consistency across diverse participant requirements. The lack of standardization in fractional share treatment means infrastructure providers must accommodate multiple different processing approaches for similar transactions, increasing error potential and creating inefficiencies that ultimately affect all market participants. If equal treatment were interpreted as requiring beneficial owner level cash-in-lieu processing, infrastructures such as DTCC would need to establish instruction windows for every reverse split, significantly increasing operational work and potentially undermining straight-through processing, without clear evidence that participants want or would actively use this option. This fragmentation also makes it difficult to implement systematic improvements or controls that could enhance overall market integrity.

4. Recommended Framework for Reform

Standardizing Fractional Share Treatment: Make Cash-in-Lieu the Default Treatment for Fractional Shares

The establishment of uniform standards for fractional share treatment in reverse splits is essential. Market participants should consider making cash-in-lieu the default treatment for fractional shares by adopting it as the standard method for settling fractional shares. This removes “round-up” abuse opportunities, prevents unexpected increases in outstanding shares, and ensures all shareholders receive fair value without issuing additional shares that could dilute perception. This default treatment should be clearly communicated in all announcements.

Optimize Fractional Share Treatment (When Cash-in-Lieu is Not Used)

When cash-in-lieu is not used, issuers should optimize fractional share treatment by considering cash-in-lieu payments instead of rounding up. All “round-up” approaches at the beneficial-owner level can create arbitrage opportunities, for example when sophisticated investors intentionally fragment accounts or purchase small quantities to receive extra shares. Issuers should set clear limits on the economic impact of any rounding method, such as capping the total additional shares distributed or the maximum dollar value of fractional share benefits per shareholder. When setting these limits, issuers should consider that if clear limits exist on the number of shares they can issue and round-up instructions exceed that limit, they should obtain

necessary shareholder approvals or adjust terms prior to the public announcement rather than making mid-process changes. However, issuers may need to estimate the number of shares required based on proxy information and account for potential increases in holders following announcement, particularly from investors acquiring minimal positions. If authorization limits are exceeded despite good-faith estimates, issuers should communicate clearly with shareholders about the resolution process. The chosen method of fractional share treatment should be communicated clearly in plain English, and complex rounding methods that create arbitrage opportunities should be avoided. Clear communication allows shareholders and intermediaries to understand the mechanics, reduces the risk of arbitrage, and ensures that no individual investor can disproportionately benefit from rounding conventions. This approach would eliminate arbitrage opportunities that distort pre-split trading and dilute existing shareholders, reduce operational complexity for all market participants, and create more predictable and transparent outcomes. These recommendations should be applied consistently to any corporate action that creates fractional shares, not just reverse splits. The cash-in-lieu approach is already well established in market practice and would not require significant changes to existing settlement infrastructure.

Where round-up provisions are retained, they should be applied consistently across all shareholder categories and subject to clear limits on economic impact to the issuer. The current practice of different treatment for registered versus beneficial holders should be eliminated to ensure equal treatment and reduce operational complexity throughout the settlement process. Issuers

should consider applying this default treatment across all corporate actions that may result in fractional shares. The industry should consider developing standard practices for handling fractional shares prior to corporate actions to ensure consistency across market participants. In most cases, fractions held by investors are part of fractional programs offered by broker-dealers, and issuer documentation may not account for these fractional holders, which can lead to questions about why investors who could hold fractions before the event cannot hold fractions after the event.

Enhanced Issuer Disclosure Requirements

Issuers should be required to provide clear, comprehensive disclosure about reverse split terms using plain English that retail investors can easily understand. This disclosure must explicitly address fractional share treatment, split timing and associated payment information, and potential impacts on different shareholder categories. The disclosure should include specific information about how the issuer will handle any changes to announced terms, including minimum notice periods and change communication processes. Including straightforward examples illustrating share impacts and cash payment mechanics help shareholders make informed decisions.

Educational components should be incorporated into issuer disclosures to help shareholders understand the mechanics and implications of reverse splits. This might include simple examples showing how different shareholding amounts would be affected and clear explanations of any cash payments or share adjustments that will occur, ensuring all shareholders can make informed decisions about their holdings. While

originally focused on reverse splits, disclosure guidance should also be extended to all corporate actions that may result in fractional shares.

Coordination Among Market Participants to Address Systemic Challenges

Enhanced coordination among exchanges, issuers, transfer agents, clearing firms, and broker-dealers is essential for addressing the systemic challenges created by the current fragmented approach. Regular industry working groups should be established to identify emerging issues and develop coordinated proposals, while standardized communication protocols should be developed to ensure consistent and timely information flow about upcoming corporate actions and any changes to announced terms. Pre-announcement collaboration with listing exchanges and regular industry working groups are critical to avoid inconsistent messaging and operational misalignment.

Additionally, eliminating disparities in treatment between registered and beneficial holders requires coordinated efforts across all market participants. Consistency can be achieved by ensuring that issuer-defined terms apply equally to both categories and that intermediaries process them in a way that produces the same economic outcome, rather than by imposing new beneficial owner level instruction requirements at DTC.

Cross-market coordination is particularly important for issuers with securities listed on multiple exchanges, where inconsistent treatment or timing can create arbitrage opportunities and operational complications for market participants who must process the same corporate action across different market centers.

5. Implementation Roadmap and Industry Collaboration

Immediate Actions

Enhanced monitoring of pre-split trading activity should be implemented to identify potential arbitrage patterns and assess their impact on market integrity. Industry education initiatives should be launched immediately to help issuers understand the operational and legal risks associated with current practices. As part of the roadmap, SIFMA will lead the industry collaboration, ensuring that timelines, protocols, and responsibilities are clearly defined and consistently applied across all market participants.

Medium-Term Reforms

Development of standardized operational procedures for processing reverse splits should be undertaken in collaboration with DTCC, transfer agents, and broker-dealers to reduce fragmentation and improve consistency across market participants. Enhanced retail investor education programs should be developed to help individual shareholders better understand reverse splits and their implications, reducing the information asymmetry that makes retail investors vulnerable to adverse outcomes.

Long-Term Market Structure Improvements

Consideration should be given to more fundamental changes in how reverse splits are structured and executed, potentially including limits on the frequency with which individual issuers can conduct such transactions or requirements for shareholder approval in certain circumstances. Integration of reverse split processing with broader initiatives to modernize and standardize corporate action processing could provide opportunities for systematic improvements in efficiency, accuracy, and transparency across all types of corporate actions. Regular assessment of market developments and regulatory effectiveness should be institutionalized to ensure that implemented reforms remain appropriate as market conditions and participant behavior continue to evolve.

Conclusion

The reverse split and fractional share challenges represent a critical test of industry adaptability while maintaining fairness, transparency, and operational integrity. The dramatic increase has revealed systemic vulnerabilities requiring coordinated action by exchanges, regulators, issuers, and infrastructure providers. Although the initial focus is on reverse splits, the recommendations and best practices in this framework are applicable to a broader set of corporate actions that may generate fractional share entitlements, including stock dividends, mergers, and spin-offs. Issuers should consider adopting these practices consistently across all such events to strengthen market infrastructure and enhance shareholder fairness. These recommendations provide a path forward through enhanced standardization, improved disclosure, and better coordination among market participants.

Implementation requires stakeholder commitment and careful attention to operational and legal complexities. While reverse splits serve legitimate corporate purposes, execution must serve all market participants and maintain capital market system integrity. The reforms outlined in this framework can strengthen market infrastructure and enhance protection for all participants when implemented with appropriate industry collaboration and regulatory support.

Contributors

Technology, Operations, Business Continuity

Steve Byron

Managing Director, Technology, Operations, Business Continuity

sbyron@sifma.org

Anthony Macchiarulo

Vice President, Financial Services Operations & Assistant General Counsel

amacchiarulo@sifma.org

Jenessy Dominguez

Assistant Vice President, Financial Services Operations

jdominguez@sifma.org

In addition to the SIFMA staff noted above, this work benefited from the active participation, insights, and feedback of numerous SIFMA member industry professionals and subject matter experts from a variety of organizations. Their time, expertise, and collaboration were instrumental in shaping the discussions and recommendations reflected in this document.