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# Rules on penny stocks

**Introduction to Penny Stock:** The common understanding about penny stock in financial market of US is a kind of stock trading outside major stock exchanges. The major stock exchanges in US are NYSE and NASDAQ where the major stock trading takes place. For a beginner, the investment in penny stock may be a good option but at the same time he or she should understand all the related terms and the rules associated with penny stocks.

**SEC Definition on Penny Stocks:** Although the definition provided by the Securities and Exchange Commission is open with respect to the trading of penny stocks, these are generally not traded in NYSE or NASDAQ. There is a rare chance that these will be traded at any foreign exchange, however the Securities and Exchange Commission has put the higher ceiling of \$5.0 for these speculative stocks.

**US Securities and Exchange Commission:** The mission and aim of the US Securities and Exchange Commission is to protect the investors from fraud, scam or other type of misappropriation. The commission is also ensure that the markets are efficient and fair. The commission also facilitates capital formation. The commission encourages more and more investors to get benefit from the share markets. It is one of the pillars for improving the economy of United States that will result more healthy opportunities for employment and better health and living standards for common people of United States.

The role of the commission is not limited to ensure proper protection of investors but it is also responsible for framing various rules and guidelines for smooth functioning of stock exchanges. It also lay guidelines for companies desirous to collect money from the market and strictly monitor the financial and other activities of such companies. It also ensures that the companies are taking care of their investors according to the rules and guidelines.

**SEC Rules on Penny Stocks:** As per the rules laid down by SEC, a broker or dealer is required to approve the customer desirous to sell the penny stock before the transaction. The broker should also get a written request from such customer.

SEC rules that a customer desirous to purchase a penny stock should be provided a document mentioning the risk involved in the penny stock. The broker or dealer should also inform the customer the current market rate of the penny stock and the commission that will be charged by the broker.

SEC further rules that a monthly statement of the account showing the current market rates of each penny stock held by the customer in his or her account should be send to the customer.

**Summary:** Penny stocks are governed by certain rules and regulation as lay down by SEC (Securities and Exchange Commission of US). The brokers and dealers should mandatory follow the instructions otherwise they are liable for punishment. The SEC rules provide protection of investors from fraud or misappropriation and dealers should also inform the investor about the current market rate and dealers commission before selling the stock.

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