

# Regulatory Notice

12-50

## Stop and Stop Limit Orders

### SEC Approves Amendments Relating to Stop Orders

Effective Date: January 21, 2013

#### Executive Summary

The SEC approved new FINRA Rule 5350 (Stop Orders), which replaces the stop order provisions of FINRA Rule 6140(h).<sup>1</sup> The rule provides that any order labeled as a “stop order” or a “stop limit order” must be triggered based upon a transaction at the stop price, but permits firms to offer alternative order types with different triggers (e.g., a stop order triggered by a quotation at the stop price) so long as the order type is not labeled as a stop order and is clearly distinguishable from a stop order.

The text of the rule can be found in the [online FINRA Manual](#).

Questions regarding this *Notice* should be directed to:

- ▶ Racquel L. Russell, Assistant General Counsel, Office of General Counsel, at (202) 728-8363; or
- ▶ Scott B. Trilling, Director, Market Regulation, at (240) 386-5113.

#### Background and Discussion

New FINRA Rule 5350, which applies to orders in NMS stocks<sup>2</sup> and OTC Equity Securities,<sup>3</sup> provides that a firm may, but is not obligated to, accept a stop order or stop limit order. Similar to former Rule 6140(h), which is replaced by Rule 5350, Rule 5350(a) states that a “stop order” is an order to buy (or sell) that becomes a market order to buy (or sell) when a transaction occurs at or above (below) the stop price, and a “stop limit order” is an order to buy (or sell) that becomes a limit order to buy (or sell) at the limit price when a transaction occurs at or above (below) the stop price.<sup>4</sup>

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#### Notice Type

- ▶ Rule Amendment

#### Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Systems
- ▶ Trading and Market Making
- ▶ Training

#### Key Topics

- ▶ Handling of Customer Orders
- ▶ Stop Orders
- ▶ Stop Limit Orders

#### Referenced Rules

- ▶ FINRA Rule 5350
- ▶ FINRA Rule 6140
- ▶ FINRA Rule 6420
- ▶ SEC Regulation NMS

Rule 5350.01 further provides that firms may accept order types that activate as a market or limit order using an event other than a transaction at the stop price as the trigger (e.g., using a quotation at the stop price). However, in such cases, the order cannot be labeled a “stop order” or a “stop limit order” and must be clearly distinguishable from a “stop order” or a “stop limit order” (e.g., an alternative order type that triggers using a quotation at the stop price may be labeled a “stop quotation order” or “stop quote order”). If a firm chooses to offer such an alternative order type, it must disclose to the customer, in paper or electronic form, prior to the time the customer places the order (e.g., at account opening), a description of that order type including the triggering event.<sup>5</sup>

A firm that routes to another broker-dealer or exchange other order types using an alternative trigger in accordance with Rule 5350.01 must take reasonable steps to ensure that the order is handled or executed by the other broker-dealer or exchange in accordance with the terms of the order as communicated to the customer placing the order.

New Rule 5350 becomes effective on January 21, 2013.

## Endnotes

1. See Securities Exchange Act Release No. 67778 (September 4, 2012), 77 FR 55517 (September 10, 2012) (Order Approving SR-FINRA-2012-026).
2. “NMS stock” means any “NMS security” other than an option. “NMS security” means any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan or an effective national market system plan for reporting transactions in listed options. See Rule 600(b)(46) and (47) of SEC Regulation NMS.
3. “OTC Equity Security” means any equity security that is not an “NMS stock” as that term is defined in Rule 600(b)(47) of SEC Regulation NMS; provided, however, that the term “OTC Equity Security” shall not include any Restricted Equity Security. See FINRA Rule 6420 (Definitions). “OTC Equity Security” does not include options.
4. Rule 5350 does not apply to “not held” stop or stop limit orders.
5. Where a firm permits customers to engage in securities transactions online, the firm also must post the required disclosures on the its website in a clear and conspicuous manner.