

INFORMATIONAL

## Limit Order Protection

### SEC Approves Extension Of Limit Order Protection Principles To Certain OTCBB Securities On A Pilot Basis

SUGGESTED ROUTING

*The Suggested Routing function is meant to aid the reader of this document. Each NASD member firm should consider the appropriate distribution in the context of its own organizational structure.*

- Executive Representatives
- Registered Representatives
- Trading & Market Making

KEY TOPICS

- Limit Order Protection
- OTCBB

#### Executive Summary

On February 8, 2001, the Securities and Exchange Commission (SEC) approved new National Association of Securities Dealers, Inc. (NASD®) Rule 6541 (Rule), which, on a pilot basis, applies the basic customer limit order protection principles that presently apply to Nasdaq® securities to certain designated securities that are quoted on the OTC Bulletin Board (OTCBB). The Rule, in general, will prohibit member firms that accept customer limit orders in these securities from trading "ahead" of their customers for their own account at prices equal or superior to the limit orders, without executing them at the limit price. The text of the Rule is contained in Attachment A.

The Rule extends the principles that are incorporated in IM-2110-2 (Manning Interpretation) for the first time to some OTCBB stocks, although the Rule differs in application from the Manning Interpretation in certain specific respects. Specifically, Rule 6541: (i) contains a lower size threshold for the order size at which firms may negotiate terms and conditions regarding the acceptance of limit orders; (ii) prescribes a longer maximum time limit (5 minutes) within which execution of a customer order will be deemed to be "contemporaneous" with an execution for the firm's account; (iii) will apply from 9:30 a.m. to 4:00 p.m. with no option for applicability between 4:00 p.m. and 6:30 p.m.; (iv) extends protection to limit orders that are marketable at the time of receipt; and (v) prescribes a different minimum level of price improvement that a firm must provide in order to trade ahead of a customer limit order. This *Notice*

contains a series of questions and answers that are designed to clarify the application of the Rule to various circumstances.

The Rule will become effective on August 1, 2001, for a pilot period until February 8, 2002, although the minimum price improvement standard set forth in subsection (b) will be effective on a pilot basis from August 1, 2001 until November 1, 2001. The Rule will initially apply to 300 securities, and will be phased in over a period of two weeks, as described in Attachment B to this *Notice*. During the pilot period, an additional 25 securities may be selected for inclusion in the pilot program, which will be identified in advance in later communications.

#### Questions/Further Information

Questions concerning this *Notice* may be directed to Jeffrey Davis, Nasdaq Office of General Counsel, at (202) 728-8461; the NASD Regulation Market Regulation Department; or visit [www.otcbb.com](http://www.otcbb.com).

#### Background And Information

The SEC has approved a Nasdaq rule change that will, on a pilot basis, apply limit order protection to a select subset of securities traded on the OTCBB.<sup>1</sup> The text of this Rule is contained in Attachment A.

NASD-IM-2110-2, the Manning Interpretation, currently prohibits NASD member firms from trading ahead of customer limit orders in Nasdaq securities. A member firm, upon acceptance of a customer's limit order, undertakes a fiduciary duty to its customer and cannot then trade for its own account at prices more favorable than the

customer's order. In general, under the Manning Interpretation, unless a specific exception applies, a member firm holding a customer limit order may not trade for its own account at a price equal or superior to the limit price, unless it contemporaneously executes the customer order at the limit price.

Nasdaq believes that it is now appropriate to extend the principles of the Manning Interpretation to the OTCBB. NASD Rule 6541, which will apply limit order protection to a select subset of OTCBB securities, will be instituted as a pilot program. While NASD members will be under no obligation to accept limit orders, those willing to do so will be prohibited from trading ahead for their own accounts in the securities covered by the pilot program at prices equal or superior to any customer limit orders held by the firm, regardless of whether those orders are from their own customers or from customers of firms who have routed those orders to the member for execution.<sup>2</sup>

The pilot program will apply to 325 OTCBB securities.<sup>3</sup> Nasdaq has selected or will select securities for the pilot that it believes will afford it the best opportunity to test the effects of the Rule on a wide range of OTCBB securities. The securities fall into the following categories:

- the 200 most actively traded OTCBB securities.
- 100 securities have been selected as a representative cross-section of the remaining OTCBB securities.
- up to 25 securities will be selected at a later date on a case-by-case basis based on a determination that these securities are highly liquid and

widely held, or where they have recently been delisted from Nasdaq or an exchange.

The Rule will be implemented in a series of phases, beginning with the 200 actively traded securities, and proceeding to the 100 representative securities. The final 25 securities will be named in subsequent communications. The list of securities, ticker-symbols, and their respective phase-in dates are contained in Attachment B.

Nasdaq will monitor the operation of the Rule and its effect on the OTCBB market throughout the pilot period. Prior to the end of the pilot, Nasdaq will evaluate the impact of the Rule, report its findings to the SEC and, thereafter, determine the appropriate course of action.

Unless otherwise indicated, the Rule applies the Manning Interpretation to the OTCBB, as well as relevant guidance contained in *NASD Notices to Members*<sup>4</sup> or SEC releases.<sup>5</sup> The questions and answers that follow describe how these principles will apply to securities that are subject to the pilot program. In addition, members should be cognizant of their best execution responsibilities when receiving customer orders for any OTCBB or other security.

Nasdaq recognizes that there are certain operational and other characteristic differences between the OTCBB and the Nasdaq National Market and SmallCap Market. Accordingly, the Rule contains provisions that differ from the application of the Manning Interpretation in four significant respects.

First, under paragraph (b), members are not obligated to execute a customer limit order if

they provide the required price improvement over the limit price. For customer limit orders priced at or inside the current inside spread, the minimum price improvement required is, at least, the lesser of (i) one cent or (ii) one-half of the current inside spread.<sup>6</sup> For customer limit orders priced outside the current spread by \$.01 or less, the incoming order must be executed at or better than the inside bid (for held buy orders) or offer (for held sell orders). Unlike the Manning Interpretation, under the Rule, customer limit orders priced more than \$.01 away from the inside receive no Manning protection and, therefore, no price improvement is required with respect to those orders.

The "current inside spread" for these purposes is considered to be the difference between the best reasonably available bid and offer. Accordingly, members must use the same diligence in finding the best prices when trading OTCBB securities as they do when trading Nasdaq National Market and SmallCap securities, and they may not rely exclusively on OTCBB quotes in determining the inside spread when there are other quotations available in another system of general circulation that regularly disseminates quotations of identified broker/dealers. What is "reasonably available" is a fact and circumstances analysis, and is separate from the analysis, required by the three-quote rule.

The second difference between the Rule and the Manning Interpretation is that, under paragraph (c), a member may negotiate special terms for acceptance of limit orders, including an agreement that the firm may trade ahead, with respect to orders that are for an "institutional account" as defined in Rule

3110(c)(4), or that are for at least 10,000 shares and greater than \$20,000 in value. Under the Manning Interpretation, the comparable dollar value that qualifies for this exception is \$100,000. This difference reflects the lower average dollar amount for OTCBB trades.

Third, under paragraph (d) of the Rule, in order for a transaction with a customer to be considered "contemporaneous" with a trade for the member's own account, it must be executed as quickly as possible, but in no case later than five minutes after the proprietary transaction. Under the Manning Interpretation, "contemporaneous" has been interpreted to require an execution as quickly as possible, but, absent reasonable and documented justification, within one minute.<sup>7</sup> Nasdaq believes the longer time period is justified because there presently is no automated order delivery and execution system for OTCBB securities, and executions generally take longer than is the case for Nasdaq securities. Consistent with the approach under the Manning Interpretation, however, the five-minute standard is intended to be an outside limit, absent extraordinary circumstances, and not a normal practice.

Further, the program will apply only from 9:30 a.m. to 4:00 p.m., in contrast to the option available to customers for the application of the Manning Interpretation to Nasdaq securities until 6:30 p.m. This difference reflects the fact that quotes by market makers on the OTCBB are required to be firm only until 4:00 p.m.

Members should also note that the Rule requires that protection be provided to limit orders that are marketable at the time of receipt,

unlike the Manning Interpretation, which specifically excludes such orders from its requirement.

Nasdaq will consider the appropriateness of all of these provisions, and whether they should be modified, as it evaluates the Rule's operation prior to the end of the pilot period.

The following questions and answers help to illustrate the scope of the pilot program and the application of the Rule.

## I. Scope Of The Pilot Program

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### **Question 1: When is NASD Rule 6541 effective?**

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**Answer 1:** NASD Rule 6541 will operate on a pilot basis from August 1, 2001 to February 8, 2002. The price improvement requirements set forth in paragraph (b) will operate on a pilot basis from August 1, 2001 until November 1, 2001.

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### **Question 2: What OTCBB securities are covered by the Rule?**

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**Answer 2:** Nasdaq intends to apply the pilot program to 325 OTCBB securities. A security subject to the Rule will have the identifier "##" following its name as it appears on the Nasdaq Workstation II. Of the 325 OTCBB securities, 200 are the most actively traded OTCBB securities based on their respective average daily trading volume over the period from January and February of 2001. An additional 100 securities were selected as a representative cross-section of all remaining OTCBB securities.

Attachment B to this *Notice* lists the 300 securities, their ticker-symbols, and respective phase-in dates. The remaining 25 securities will be selected on a case-by-case basis after the initial phase-in period has been completed. Nasdaq will provide members appropriate notice before incorporating any of the remaining 25 securities into the pilot program.

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### **Question 3: What time during the trading day will members be subject to Rule 6541?**

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**Answer 3:** The requirements of the Rule will only apply from 9:30 a.m. until 4:00 p.m. If the OTCBB's market hours are shortened due to holidays or other events, the hours of the Rule's application would be adjusted accordingly.

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### **Question 4: Does Rule 6451 apply to NASD members that no longer submit bid and offer quotations to the OTCBB for a security covered by the pilot program?**

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**Answer 4:** Provided at least one market maker is submitting quotations to the OTCBB for a security covered by the pilot program, the Rule applies to all NASD members effecting transactions in that security with customers, regardless of the place of execution. For example, if Market Maker A (MMA) and Market Maker B (MMB) both submit quotations for ABCD security on the OTCBB, and MMA later ceases to submit quotations for ABCD on the OTCBB and trades ABCD through Pink Sheets Electronic Quotation Service (or any other quotation medium), MMA must still protect limit orders it accepts in accordance with the requirements of the Rule.<sup>8</sup>

**Question 5: Must an NASD member accept a customer's limit order?**

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**Answer 5:** No. Rule 6541 specifically provides that the NASD does not impose any obligation upon members to accept and handle limit orders from any customer.

**Question 6: If a non-market maker holds a customer's limit order, can it trade ahead of that limit order?**

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**Answer 6:** No. Rule 6541 specifically states that "members" are prohibited from trading ahead of customer limit orders that a member accepts in securities quoted on the OTCBB.

## II. Treatment Of Orders

**Question 7: Basic Obligation**

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- Inside Market for OTCBB Security—ABCD
- 5 bid—5.50 ask
- Market Maker A (MMA) holds an undisclosed customer limit order (from its own firm or a customer limit order from another broker/dealer) to buy 1,500 shares at 5.25.
- MMA receives a market order to sell 1,000 shares from another customer.
- What must MMA do?

If MMA executes the market order to sell at a price equal to or less than 5.25, Rule 6541 requires that MMA protect the limit order at its price. Therefore, the limit order would have to be executed at its price. The remaining 500 shares

of the limit order would continue to reside undisplayed on MMA's book, and MMA could not trade ahead of that order without executing it at the limit order price.

**Question 8: Market Maker and Order Entry Firm**

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- Inside Market for OTCBB Security—ABCD
- 5 bid—5.50 ask
- Market Maker A (MMA) holds an undisclosed customer limit order (from its own customer or from another broker/dealer) to buy 1,500 shares at 5.25.
- MMA is quoting publicly 5 bid.
- Broker/dealer B (BD-B) telephones MMA to sell 1,000 shares at the market for BD-B's own account (i.e., non-customer limit order) where MMA has no agreement or understanding to treat BD-B's orders as customer orders or otherwise provide them with best execution.
- What must MMA do?

**Answer 8:** MMA may execute BD-B's market order to sell at MMA's published quote of 5. MMA does not owe a best execution obligation to a non-customer where no understanding or expectation of treatment as a customer has been reached by MMA and BD-B. Broker/dealers are not considered customers for the purposes of this obligation.

If MMA executes BD-B's order at 5, MMA, however, has traded through the customer limit order it holds. Under Rule 6541, therefore, MMA must execute 1,000 shares of the customer limit order at the limit price of 5.25.

**Question 9: Limit Order Protection on the Other Side of the Market**

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- Inside Market for OTCBB Security—ABCD
- 8 bid—8.20 ask
- Market Maker A (MMA) holds a customer limit order to buy priced at 8.10 and a limit order from another customer to sell priced at 8.10
- MMA buys ABCD at 8 and immediately executes as principal the limit order to buy.
- Would MMA then also have to execute the limit order to sell because it sold ABCD at a price equal to the price of the limit order to sell?

**Answer 9:** Once the firm has executed the limit order it has traded through, it has satisfied its obligation under Rule 6541. Where Rule 6541 obligates a member to execute a limit order on one side of the market, that Rule does not trigger an obligation to execute another limit order on the opposite side of the market.

**Question 10: Are member-to-member limit orders subject to Rule 6541?**

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**Answer 10:** Yes. Customer limit orders received by one member firm and then sent to another member firm, typically a market maker in the security, for handling and execution must be protected. For example, in Question 8, MMA must protect the customer limit order regardless of whether the order is from its own customer or the customer of another broker/dealer. In the same example, if MMA sends the customer limit order to another market maker, MMA would not be able to trade

through the customer limit order without violating the Rule. Members must monitor the status of the order and not trade ahead of it until the order has been executed.

Moreover, order-entry firms that forward customer orders to market makers for execution will continue to be subject to their duties of best execution and will owe a fiduciary duty to their customers with respect to those orders. Accordingly, member firms should routinely monitor the handling of their customer limit orders to ensure that the executing broker is complying with the Rule.<sup>9</sup>

### III. Minimum Price Improvement

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#### **Question 11: Minimum Price Improvement to Avoid Rule 6541 Violation**

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- Inside Market for OTCBB Security—ABCD
- 8 bid—8.50 ask
- Market Maker A (MMA) receives a customer limit order to buy at 8.25 for 2,000 shares.
- MMA receives a market order to sell 2,500 shares.
- May MMA offer the market order price improvement over the 8.25 limit order and execute the market order for its own account? If so, what is the minimum amount of price improvement allowable?

**Answer 11:** MMA is allowed to execute the market order at a price better than the limit order. Rule 6541 states that the minimum amount of price improvement that

would permit a market maker to avoid a violation of the Rule is the lesser of \$0.01 (1 cent) per share or one-half the current inside spread. Because one-half of the current inside spread for ABCD ( $0.50 \times .50 = 0.25$ ) is greater than \$0.01, MMA could trade ahead of the limit order at 8.26 without violating the Rule.

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#### **Question 12:**

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- Inside Market for OTCBB Security—ABCD
- 5 bid—5.01 ask
- Market Maker A (MMA) receives a customer limit order to buy at 5.004 for 2,000 shares.
- MMA receives a market order to sell 1,000 shares and immediately executes that order on a proprietary basis.
- May MMA offer the market order price improvement over the 5.004 limit order and execute the market order for its own account? If so, what is the minimum amount of price improvement allowable?

**Answer 12:** Since MMA has executed within \$0.01 off the customer limit order priced inside-the-spread, MMA would be obligated to protect that order and execute 1000 shares of the customer limit order at a price of 5.004. If MMA wished to avoid a Manning obligation with respect to that 5.004 buy limit order, MMA would have to execute its proprietary trade at a price at least \$0.005 better than that limit order and execute at 5.009, because \$0.005 represents one-half of the correct inside spread.

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#### **Question 13:**

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- Inside Market for OTCBB Security—ABCD
- 10 bid—10.01 ask
- Market Maker A (MMA) receives a customer limit order to buy at 9.993 for 2,000 shares.
- MMA receives a market order to sell 700 shares and immediately executes that order on a proprietary basis at 10.
- Is MMA obligated to execute the held limit order?

**Answer 13:** No. Since the market maker's 700 share proprietary order was executed at a price (10.00) that is at least equal to the inside bid, it would not be obligated to execute that limit order. Similarly, if the market remained at 10.00 to 10.01 and MMA held a customer limit order to sell priced at 10.016, MMA could trade proprietarily with an incoming buy order without triggering a Manning obligation with respect to the 10.016 outside-the-spread limit order if the market maker executes its proprietary trade at a price of at least 10.01.

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#### **Question 14:**

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- Inside Market for OTCBB Security—ABCD
- \$0.026 bid—\$0.032 ask
- Market Maker A (MMA) receives a customer limit order to buy at 0.03 for 500 shares.
- MMA receives a market order to sell 700 shares and immediately executes that order on a proprietary basis at \$.032.
- Is MMA obligated to execute the held limit order?

**Answer 14:** Yes. Since MMA has executed within \$0.01 of the inside-the-spread buy limit order of 0.03, MMA would be obligated to protect that order and execute it at a price of 0.03. If MMA wished to avoid a Manning obligation with respect to the held 0.03 buy limit order, MMA would have to execute its proprietary trade at a price at least \$0.003 better than that limit order and execute at 0.033.

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**Question 15: For purposes of the price improvement exception from Rule 6541, what does “inside spread” mean?**

**Answer 15:** Rule 6541(b) states that for the purposes of the Rule, the inside spread shall be defined as the difference between the best reasonably available bid and offer in the subject security. The determination of what is “reasonably available” is largely factual and best determined on a case-by-case basis; Nasdaq would expect, however, that members would monitor not only the OTCBB quotations distributed as part of the Nasdaq Level 1 service, but also quotations for those same securities in Pink Sheets Electronic Quotation Service (and any other system of general circulation to broker/dealers that disseminates real-time quotations of identified broker/dealers in securities quoted on the OTCBB).

For example, if the current inside spread quoted on the OTCBB is 8—8.20, and the current inside spread quoted on the Pink Sheets Electronic Quotation Service is 7.75—8.10, then the current “inside spread” for the purposes of the Rule is 8—8.10.

#### IV. Marketable Limit Orders

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**Question 16: Limit Orders that are Marketable at Time of Receipt**

- Inside Market for OTCBB Security—ABCD.
- 5 bid—5.20 ask.
- Market Maker A (MMA) has a market order to sell ABCD for 1,000 shares.
- MMA then receives a customer limit order to sell 1,000 shares at 5.
- MMA fills the market order to sell at 5 for 1,000 shares.
- The inside bid for ABCD moves to 5.05.
- MMA does not execute the customer limit order.
- Did MMA violate the Rule by not executing the customer limit order?

**Answer 16:** Yes. While IM-2110-2 specifically excludes from its coverage limit orders that are marketable at the time of receipt, Rule 6541 provides no similar exclusion. Accordingly, MMA is prohibited from trading ahead of the customer limit order, regardless of whether the limit order was marketable at the time of receipt. Nasdaq will monitor the treatment of marketable limit orders during the operation of the pilot program to determine whether marketable limit orders in OTCBB securities should be treated as market orders for purposes of determining execution priority and be excluded from the requirements of the Rule.

#### V. Contemporaneous Execution Of Limit Order

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**Question 17: Once a member is obligated to execute a limit order, how quickly must it execute the limit order?**

**Answer 17:** If a member trades through a limit order that it has accepted, a member must contemporaneously execute such limit order. To meet this obligation, a member must execute the limit order as quickly as possible. The limit order must at least be executed within five minutes after the member has traded at a price equal to or superior to that of the customer limit order. The Rule is not intended to allow members to wait for five minutes before executing the customer limit order. Under normal market conditions, a member should be able to execute the customer limit order well before the expiration of the five minute period. If extraordinary circumstances beyond the member’s control (e.g., OTCBB systems problems, telephone outages, volume-related queues) cause the member to exceed the five-minute time period, the member should continue to attempt to execute the order as quickly as possible while sufficiently documenting the particular conditions or circumstances causing the delay.

#### VI. Net Trades

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**Question 18: Member’s Obligation Regarding a Net-Price Limit Order**

- Inside Market for OTCBB Security—ABCD
- 5 bid—5.50 ask

- Market Maker A (MMA) accepts a 500 share order to buy from a customer, who states that he or she wants to trade with total transaction costs not to exceed 5.50.
- MMA charges a markup of 0.10.
- What must MMA do?

**Answer 18:** First, the member must inform the customer at the time of order entry that the limit order will be held and protected at 5.40 (5.50—0.10). Accordingly, the member must not buy for its own account at 5.40 or below, without filling the customer's order at the protected price, up to the number of shares that the member has traded.

For example, assume that while holding the 500-share limit order to buy at 5.40, MMA receives and executes a market order to sell 500 shares in that security that the member purchases at its bid of 5. Because MMA bought 500 shares at a price better than the 500-share customer limit order at 5.40, MMA must sell 500 shares to the customer placing the limit order at 5.40. MMA must report the trade through the Automated Confirmation Transaction (ACT) service at 5.40, with the price exclusive of any markup or other remuneration. On the confirmation sent to the customer, the member must disclose the reported trade price, 5.40, the price to the customer, 5.50, and the difference between them, 0.10, as the member's remuneration for the transaction.

Members are not permitted to report trade prices in such net transactions in a manner inconsistent with the stated

agreement between the customer and the member. Thus, in net transactions, after the customer and the member have agreed to the actual limit price at which a limit order is protected, it is not permissible for a member to report a trade with the customer at a price higher (lower) than the agreed-upon price in the context of a buy (sell) limit order and report a smaller markup (or markdown) on the confirmation.

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## VII. Negotiated Terms and Conditions Of Certain Limit Orders

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### ***Question 19: Does Rule 6541 apply to institutional accounts?***

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**Answer 19:** Rule 6541 does not apply if an institutional account meets the definition of "institutional account" in Rule 3110(c)(4) and the member firm handling the order has made the terms and conditions of how the member will handle the limit order clear to the institutional account customer. An "institutional account" is limited to a bank, savings and loan association, insurance company, or registered investment company, SEC or state registered investment adviser, or any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.

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### ***Question 20: Does Rule 6541 apply to large transactions?***

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**Answer 20:** Rule 6541 does not apply if the member firm has agreed to the terms and conditions as to how the member will handle the large limit order. A member may negotiate terms and conditions for the handling of a limit order for an OTCBB security of

at least 10,000 shares that has a value greater than \$20,000 or on orders for "institutional accounts." The member firm cannot impose terms and conditions on orders for accounts that do not meet the definition of "institutional account" or orders that are not appropriately sized. These exceptions to the Rule apply whether they are accounts of the member firm's own customers or are accounts of another member firm's customers.

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### ***Question 21: How should member firms disclose the terms and conditions to their respective customers?***

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**Answer 21:** As noted, the Rule allows member firms to accept limit orders subject to terms and conditions only with respect to institutional accounts or orders that are 10,000 shares or more, as long as the value of that order is \$20,000 or more. While the Rule does not dictate the means by which members must disclose the terms and conditions, such terms and conditions under which institutional accounts or appropriately sized customer limit orders are accepted must be made clear to customers at the time the order is accepted by the member firm, and the member must be prepared to demonstrate compliance with the condition.

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### ***Question 22: How should member firms disclose the terms and conditions to customers of another member firm?***

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**Answer 22:** The member firm imposing the terms and conditions of the limit order must ensure that those terms and conditions are clearly communicated to the customer.

The means for disclosure and communication may be arranged between the market maker holding the limit order and the member firm initially accepting the limit order from the customer. If the firm holding the order chooses to rely on the order-entry firm for disclosing and explaining the terms and conditions and securing the customer's acceptance, the market maker must reasonably determine that an order-entry firm's disclosure and acceptance procedures are effective and being followed.

### Endnotes

- 1 Exchange Act Release No. 34-43944 (February 8, 2001).
- 2 Order entry firms that forward customer orders to dealers for execution will continue to be subject to their duties of best execution and will owe a fiduciary duty to their customers with respect to those orders. Accordingly, firms should routinely monitor the handling of their customer limit orders to ensure that the executing broker is complying with the provisions of the Rule.
- 3 A security subject to NASD Rule 6541 will have the identifier "##" following its name as it appears on the Nasdaq Workstation II.
- 4 See, e.g., Selected NASD Notices to Members: 95-43, 95-67, 96-10.
- 5 See Securities Exchange Act Release Nos. 34297 (June 29, 1994) (SR-NASD-93-58); 35751 (May 22, 1995) (SR-NASD-94-62); 41990 (October 7, 1999) (SR-NASD-99-44).
- 6 The SEC approved Nasdaq's proposal to, among other things, amend the Manning Interpretation in connection with the transition to decimal trading for Nasdaq NM and SmallCap stocks. Pursuant to that pilot program, which extends until March 2, 2002, the minimum price improvement with respect to securities traded under the Decimals Implementation Plan for the Equities and Options Markets would be one cent. See Securities Exchange Act Release No. 44030 (March 2, 2001) (SR-NASD-01-09).
- 7 NASD Notice to Members 95-67 (Question and Answer No. 5); NASD Notice to Members 98-78.

- 8 Subsection (e)(2) of Rule 6541 states that the Rule applies regardless of whether the subject security is additionally quoted in a separate quotation medium. This provision is intended to clarify that market makers will not be permitted to avoid their obligations under the Rule by trading via another quotation medium.
- 9 See NASD Notice to Members 01-22.

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## ATTACHMENT A

### 6541. Limit Order Protection

- (a) Members shall be prohibited from "trading ahead" of customer limit orders that a member accepts in securities quoted on the OTCBB. Members handling customer limit orders, whether received from their own customers or from another member, are prohibited from trading at prices equal or superior to that of the customer limit order without executing the limit order. Members are under no obligation to accept limit orders from any customer.
- (b) Members may not avoid such obligation specified in paragraph (a) through the provision of price improvement, unless:
  - (1) for customer limit orders priced at or inside the current inside spread, the price improvement is for a minimum of the lesser of \$.01 or one-half (1/2) of the current inside spread; or
  - (2) for customer limit orders priced outside the current inside spread by \$.01 or less, the market maker executes the incoming order at or better than the inside bid (for held buy orders) or offer (for held sell orders).
  - (3) for customer limit orders priced more than \$.01 outside the inside spread, no obligation is imposed under subsection (a) above.

For purposes of this rule, the inside spread shall be defined as the difference between the best reasonably available bid and offer in the subject security.

- (c) Notwithstanding subparagraph (a) of this rule, a member may negotiate specific terms and conditions applicable to the acceptance of limit orders only with respect to such orders that are:
  - (1) for customer accounts that meet the definition of an "institutional account" as that term is defined in Rule 3110(c)(4); or
  - (2) for 10,000 shares or more, and greater than \$20,000 in value.
- (d) Contemporaneous trades

A member that trades through a held limit order must execute such limit order contemporaneously, or as soon as practicable, but in no case later than five minutes after the member has traded at a price more favorable than the customer's price.
- (e) Application
  - (1) This rule shall apply only to OTCBB securities specifically identified as such through the Nasdaq Workstation service.
  - (2) This rule shall apply, regardless of whether the subject security is additionally quoted in a separate quotation medium.
  - (3) This rule shall apply from 9:30 a.m. to 4:00 p.m. Eastern Time.
  - (4) This rule shall be in effect until February 8, 2002.

Notice to Members 01-46 Attachment B

Issue Symbol	Issue Name	Phase-In Date
TWIC	2-Infinity, Inc.	August 1, 2001
ABRX	Able Laboratories, Inc.	August 1, 2001
ACCR	Access Power, Inc.	August 1, 2001
AQCI	Acquatic Cellulose International Corp	August 1, 2001
ACTFF	ActFit.com Inc	August 1, 2001
AIGI	Adair International Oil & Gas, Inc.	August 1, 2001
ADVC	Advanced Communications Technologies, Inc.	August 1, 2001
ADOT	Advanced Optics Electronics, Inc.	August 1, 2001
APPI	Advanced Plant Pharmaceuticals	August 1, 2001
ADVR	Advanced Viral Research Corp.	August 1, 2001
DINE	Advantica Restaurant Group, Inc.	August 1, 2001
ATTP	Affordable Telecommunications Technology Corp.	August 1, 2001
AIRG	Airtech International Group, Inc.	August 1, 2001
EBNK	Alpha Trade.com	August 1, 2001
ABRG	Ambra Resources Group, Inc.	August 1, 2001
ACEN	American Communications Enterprises	August 1, 2001
ADGI	American Diversified Group, Inc.	August 1, 2001
BKMD	American Federal Savings Bank Rockville Md	August 15, 2001
AMHI	American Healthchoice Inc	August 15, 2001
AIPN	American International Petroleum Corporation	August 1, 2001
AMJC	American Jewelry Corp	August 1, 2001
ATEG	American Technologies Group, Inc.	August 1, 2001
ARET	AmeriResource Technologies, Inc.	August 1, 2001
AMEU	Ameurotech Corporation	August 1, 2001
ANCO	ANACOMP, Inc.	August 1, 2001
AMDI	Applied Medical Devices Inc	August 1, 2001
AQCB	Aqua Clara Bottling and Distribution, Inc.	August 1, 2001
AVBC	Aqua Vie Beverage Corporation	August 1, 2001
AQSE	Aquasearch, Inc.	August 1, 2001
ARCS	Arc Wireless Solutions, Inc.	August 1, 2001
AREE	Arete Industries Inc	August 1, 2001
ARYN	Arxher Sys Inc	August 1, 2001
ASDG	ASD Group, Inc.	August 15, 2001
ASIQ	ASI Entertainment Inc.	August 15, 2001
ASPG	Aspen Group Resources Corporation	August 1, 2001
AUTO	Autoinfo Inc	August 15, 2001
AXGI	Auxer Group, Inc. (The)	August 1, 2001
AVATW	Avatex Corporation WT 3/7/05	August 15, 2001
AVSG	Avid Sportswear & Golf Corp.	August 1, 2001
BHUS	Bach-Hauser, Inc.	August 1, 2001
BNNY	Barneys New York, Inc.	August 15, 2001
BASEA	Base Ten Systems, Inc. CL A	August 15, 2001
BASEB	Base Ten Systems, Inc. Conv CL-B	August 15, 2001
BRCO	Beard Company (The)	August 15, 2001
BMRB	Benchmark Bankshares, Inc.	August 15, 2001
BIKO	BICO Inc.	August 1, 2001
BIFPF	BioForest Pacific Inc	August 15, 2001
BIOQ	BIOQUAL, Inc.	August 15, 2001
BSII	Bio-Solutions International Inc	August 15, 2001
BMII	Blagman Media International, Inc.	August 1, 2001
BNTI	Braintech, Inc.	August 1, 2001
BBAN	BroadBand Wireless International Corporation	August 1, 2001
CLFC	California Center Bank (Los Angeles)	August 15, 2001
CNOW	Call Now Inc	August 15, 2001
COWP	Canal Capital Corp	August 15, 2001
CGYC	Carnegie International Corporation	August 1, 2001
CAYO	CathayOnline Inc.	August 1, 2001
CLRT	Celerity Systems, Inc.	August 1, 2001
CESR	Central Sierra Bank Sn Andr	August 15, 2001
CLSI	Clancy Systems International Inc	August 1, 2001
CMDI	Comprehensive Medical Diagnostics Group Inc	August 1, 2001
CNLPM	Connecticut Light & Power \$2.06 PFD E	August 15, 2001
CNLTP	Connecticut Light & Power \$2.20 PFD	August 15, 2001
CSGI	ConSyGen, Inc.	August 1, 2001

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CRHEQ	Coram Healthcare Corporation	August 1, 2001
CMOZ	Cosmoz.com, Inc.	August 1, 2001
COTF	Cottage Investments Inc.	August 1, 2001
CPCF	CPC Of America Inc	August 15, 2001
CYII	Cycomm International, Inc.	August 1, 2001
DNTK	Dauphin Technology Inc	August 1, 2001
DAVL	Davel Communications, Inc.	August 15, 2001
DLNK	DecisionLink Inc.	August 1, 2001
DHTT	Diamonds Hitts Production Inc	August 1, 2001
DVDT	Digital Video Display Technology Corp.	August 1, 2001
DRCT	Direct III Marketing, Inc.	August 15, 2001
DNAP	Dnaprint Genomics Inc	August 1, 2001
DOTX	Dotronix, Inc.	August 15, 2001
DPCI	DP Charters, Inc.	August 1, 2001
DRPDF	Dura Products International, Inc.	August 1, 2001
EDIS	Earth Search Sciences Inc	August 1, 2001
EFTI	EarthFirst Technologies, Inc.	August 1, 2001
EFTI	EarthFirst Technologies, Inc.	August 15, 2001
AHRX	EarthFirst Technologies, Inc.	August 15, 2001
EAUC	E-Auction Global Trading Inc.	August 15, 2001
ECEC	ECOM ECOM.COM INC	August 1, 2001
ECNC	eConnect	August 1, 2001
EDIG	E-Digital Corporation	August 1, 2001
MYIQ	EduLink, Inc.	August 1, 2001
ELIN	eLinear Inc	August 15, 2001
EMCD	Emission Control Devices Inc	August 15, 2001
ENNT	E-Net Financial.com Corporation	August 15, 2001
ENVA	Enova Systems Inc.	August 1, 2001
ETPB	Enterprise Bank (Allison Park, PA) CL A	August 15, 2001
EPEA	E'Prime Aerospace Corporation	August 1, 2001
EUGS	Eurogas Inc	August 1, 2001
EVTV	e-Video TV, Inc.	August 15, 2001
EONE	Evolve One Inc.	August 1, 2001
FTWB	F2 Broadcast Network Inc.	August 1, 2001
FASC	First American Scientific Corp	August 1, 2001
FNCB	First National Community Bancorp, Inc. Dunmr	August 15, 2001
FONX	Fonix Corporation	August 1, 2001
FVEN	Forever Enterprises Inc.	August 15, 2001
FRLK	Forlink Software Corp., Inc.	August 15, 2001
FRMO	FRMO Corporation	August 15, 2001
FTLAQ	Fruit of the Loom, Inc.	August 1, 2001
GOII	G/O International, Inc.	August 15, 2001
GASE	Gasco Energy Inc	August 15, 2001
GWAY	Gateway Industries, Inc.	August 15, 2001
GACI	Global Acquisition, Inc.	August 15, 2001
GONT	Go Online Networks Corporation	August 1, 2001
MYNG	Golden Eagle International, Inc.	August 1, 2001
GLCP	Greenland Corporation	August 1, 2001
HRZIQ	Harnischfeger Industries, Inc.	August 1, 2001
HLTLA	Harrell Hospitality Group, Inc. CL A	August 15, 2001
HRCT	Harcourt Companies, Inc. (The)	August 1, 2001
HVAR	Havana Republic, Inc. (The)	August 1, 2001
HIVC	Hiv-Vac Inc	August 1, 2001
BYIT	Household Direct.com, Inc.	August 1, 2001
IDNW	iDial Networks Inc.	August 1, 2001
NTSE	llink Telecom, Inc.	August 1, 2001
ISCO	Illinois Superconductor Corporation	August 1, 2001
IMDS	Imaging Diagnostic Systems, Inc	August 1, 2001
ITEC	Imaging Technologies Corporation	August 1, 2001
ICHC	InChorus.com	August 1, 2001
IECS	Industrial Ecosystems Inc	August 1, 2001
INFG	Infinite Graphics Incorporated	August 15, 2001
IFTA	Infotopia, Inc.	August 1, 2001
IACG	Interactive Group, Inc.	August 15, 2001
OBJX	Interactive Objects Inc	August 15, 2001

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IICP	InterCell International Corp	August 1, 2001
INTXA	Interiors, Inc.	August 1, 2001
IMOT	Intermost Corporation	August 15, 2001
IBUI	Internet Business's International, Inc.	August 1, 2001
ELAW	Internet Law Library Inc	August 1, 2001
INVT	Investamerica Inc	August 1, 2001
ITMUF	itemus inc.	August 1, 2001
ITEQ	ITEQ, Inc.	August 1, 2001
ITNI	I-Transaction.net Inc	August 1, 2001
IVOC	Ivoice.com Inc.	August 1, 2001
TALL	IVP Technology Corporation	August 1, 2001
JNOT	Jagnotes.Com Inc	August 1, 2001
KAHI	Kaire Holdings Incorporated	August 1, 2001
KKRS	Kanakaris Wireless	August 1, 2001
KLYS	Kelly's Coffee Group, Inc.	August 1, 2001
KSWW	KSW INC	August 15, 2001
LTVCQ	L T V Cp	August 1, 2001
LGOV	Largo Vista Group, Ltd.	August 1, 2001
LMTI	Laser Master International Inc	August 15, 2001
LRCM	LearnCom Inc.	August 1, 2001
LCST	LecStar Corporation	August 1, 2001
LEVC	Levcor International, Inc.	August 15, 2001
LXXN	Lexon, Inc.	August 15, 2001
LBMT	Liberty Mint Ltd.	August 1, 2001
LSATA	Liberty Satellite & Technology Inc.	August 1, 2001
LNWTF	LinuxWizardry Systems Inc.	August 1, 2001
LITH	Lithium Technology Corp	August 1, 2001
LOWGQ	Loewen Group Inc. (The)	August 1, 2001
LMRI	Logistics Management Res	August 1, 2001
MFLM	Magellan Filmed Entertainment Inc.	August 1, 2001
MAGC	Magicinc.com	August 1, 2001
MJXC	Majestic Companies Ltd (The)	August 1, 2001
MNGX	MangoSoft, Inc.	August 1, 2001
MHTX	Manhattan Scientifics, Inc.	August 1, 2001
MARB	Marathon Bancorp	August 15, 2001
MPANQ	Mariner Post-Acute Network, Inc.	August 1, 2001
MKLD	Markland Technologies, Inc.	August 1, 2001
SCEP	Medisys Technologies Inc	August 1, 2001
MDCH	Meditech Pharmaceuticals, Inc.	August 1, 2001
MPSC	Mid-Power Service Corporation	August 15, 2001
MIGR	MigraTEC, Inc.	August 1, 2001
MNMN	Monument Resources, Inc. (Colo)	August 15, 2001
XDSL	mPhase Technologies, Inc.	August 1, 2001
MPTV	MPTV, Inc.	August 1, 2001
MMCI	Multimedia Concepts International, Inc.	August 15, 2001
NAHC	NAHC Inc.	August 1, 2001
NRES	National Residential Properties Inc.	August 1, 2001
NSCT	National Scientific Corp	August 1, 2001
NHTC	Natural Health Trends Corp.	August 1, 2001
NAWL	Naturewell Inc.	August 1, 2001
NCTI	NCT Group, Inc.	August 1, 2001
NDHI	ND Holdings, Inc.	August 15, 2001
NTMS	Net Master Consultants, Inc.	August 15, 2001
NEET	NetCommerce Inc	August 1, 2001
NTXY	Nettaxi Inc	August 1, 2001
NTVT	NetVoice Technologies Corporation	August 15, 2001
NURO	Neurotech Development Corp	August 1, 2001
NSKY	New Sky Communications, Incorporated	August 1, 2001
NULM	New Ulm Telecom, Inc.	August 15, 2001
NNUP	Nocopi Technologies, Inc.	August 15, 2001
ORGT	OrganiTECH USA Inc	August 15, 2001
MTMRZ	Orion Acquisition Corp. II CL B WTS	August 15, 2001
PDCI	P D C Innovative Industries Inc	August 1, 2001
PCES	Pace Health Management Systems Inc	August 15, 2001
PLRP	Pacel Corp	August 1, 2001

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PAPO	Pangea Petroleum Corporation	August 1, 2001
PMII	Para Mas Internet, Inc.	August 15, 2001
PRAV	Paradigm Advanced Technologies Inc	August 1, 2001
PTSC	Patriot Scientific Corp	August 1, 2001
PMGH	PayForView Media Group Holdings Corporation	August 1, 2001
PCPH	PC-EPhone, Inc.	August 15, 2001
PDSGW	PDS Gaming Corporation WTS 5/4/03	August 15, 2001
PFCK	Peacock Financial Corporation	August 1, 2001
PEAMF	Peaksoft Multinet Corp.	August 15, 2001
PENC	Pen Interconnect, Inc.	August 1, 2001
PTLD	Petrol Industries Inc	August 15, 2001
PKLB	Pharmakinetics Labs Inc	August 15, 2001
PPRT	PharmaPrint Inc.	August 15, 2001
PHXU	Phoenix International Industries, Inc./FL/	August 1, 2001
PHYC	PhyCor, Inc.	August 1, 2001
PUPS	Pick-Ups Plus, Inc.	August 1, 2001
PLCO	Play Co Toys & Entertainmnt Corp	August 1, 2001
PWIN	Playandwin, Inc.	August 1, 2001
PDIM	Prandium Inc	August 1, 2001
PNLK	Pro Net Link Corp	August 1, 2001
PEQM	Process Equipment Inc	August 15, 2001
QPRC	Quest Products Corp	August 1, 2001
ROIE	Return On Investment Corporation	August 15, 2001
RICX	Ricex Co (Del)	August 15, 2001
RFSV	Ridgestone Financial Services Inc	August 15, 2001
RNET	RnetHealth Inc.	August 1, 2001
RTEK	Rubber Technology International, Inc.	August 1, 2001
SFAD	Safe Technolgs International Inc	August 1, 2001
SAFH	Saf-T-Hammer Corporation	August 1, 2001
STGA	Saratoga International Holdings Corporation	August 1, 2001
SATX	SATX, Inc.	August 1, 2001
SQNB	Sequoia National Bank San Fran Ca	August 15, 2001
SERC	Service Bancorp Inc	August 15, 2001
SVCDQ	Service Merchandise Company, Inc.	August 1, 2001
SHPH	Shaman Pharmaceuticals, Inc.	August 1, 2001
SHOY	Shoney's, Inc.	August 1, 2001
SHOP	Shopsmith Inc	August 15, 2001
SIDT	Si Diamond Technology Inc	August 1, 2001
SDWS	Sideware Systems Inc.	August 1, 2001
SIEN	Siena Holdings, Inc.	August 15, 2001
SRAM	Simtek Corp	August 1, 2001
SYTE	Sitestar Corporation	August 1, 2001
SAGE	Solomon Alliance Group Inc	August 1, 2001
SPST	Spencer's Restaurants, Inc.	August 1, 2001
SPND	Spindletop Oil & Gas Co	August 15, 2001
STPWQ	Stampede Worldwide, Inc.	August 1, 2001
SNHS	Stein's Holdings, Inc.	August 15, 2001
SSCP	stereoscape.com, inc.	August 1, 2001
SVEIB	Stevens International, Inc. CL B	August 15, 2001
STRU	Struthers Inc.	August 1, 2001
SYBD	Synthetic Blood International, Inc.	August 1, 2001
TVCP	Talk Visual Corporation	August 1, 2001
TBMH	TBM Holdings, Inc.	August 15, 2001
TCPI	TCPI Inc.	August 1, 2001
TLXX	Telynx Inc.	August 1, 2001
TSSA	Tessa Complete Health Care, Inc.	August 1, 2001
TXMC	The Tirez Corporation	August 1, 2001
TRKR	The Tracker Corporation of America	August 1, 2001
TDHC	Thermadyne Holdings Corporation	August 15, 2001
TTRIF	Thermo Tech Technologies, Inc.	August 1, 2001
TTLN	Total Entertainment, Inc.	August 1, 2001
TPWR	TrackPower Inc.	August 1, 2001
TSRG	Trans Energy, Inc.	August 1, 2001
TRPL	Transportation Logistics International Inc.	August 15, 2001
TRVL	Travlang Inc	August 15, 2001

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TRUY	Treasury International, Inc.	August 1, 2001
TRDT	Trident Media Group, Inc.	August 15, 2001
TDNT	Trident Systems International Inc	August 15, 2001
TRLT	TriLucent Technologies Corporation	August 1, 2001
TNAV	Tri-National Development Corp	August 1, 2001
TRDY	Trudy Corporation	August 1, 2001
USVO	U S A Video Interactive Corp.	August 1, 2001
OFIS	U.S. Office Products Company	August 1, 2001
UFSI	Ultimate Franchise Systems Inc.	August 1, 2001
UCPC	Unicapital Corp.	August 1, 2001
USTI	United Systems Technology, Inc. 3021 Gateway Drive	August 1, 2001
UTTC	United Textiles & Toys Corporation	August 15, 2001
USXP	Universal Express, Inc.	August 1, 2001
UPGD	Upgrade International Corporation	August 15, 2001
UREC	Urecoats Industries, Inc.	August 1, 2001
USOO	US 1 Industries, Inc.	August 15, 2001
UDIG	USA Digital, Inc.	August 15, 2001
VCMJ	ValCom Inc	August 1, 2001
VALH	Value Holdings, Inc.	August 1, 2001
VNTN	Venture Net Inc.	August 1, 2001
VRDE	Veridien Corporation	August 1, 2001
VERC	Versacom international, Inc.	August 15, 2001
VCSY	Vertical Computer Systems, Inc.	August 1, 2001
VABK	Virginia National Bank	August 15, 2001
VDOT	VirtualSellers.com Inc.	August 1, 2001
WSPH	Wasatch Pharmaceutical Inc	August 1, 2001
WTER	Water Chef Inc	August 1, 2001
WTHL	Whitehall Enterprises, Inc.	August 1, 2001
WILK	Wilshire Technologies, Inc.	August 15, 2001
WGMGY	World Gaming PLC ADR	August 1, 2001
WHME	World Homes Inc	August 1, 2001
WLGS	World Wide Wireless Communications, Inc.	August 1, 2001
WWWA	Worldwideweb Institute.Com Inc	August 15, 2001
WOWI	Wow Entertainment Inc.	August 15, 2001
WTCO	WTC Industries, Inc.	August 15, 2001
ZKEM	Xechem International, Inc.	August 1, 2001
YCCI	Yes Clothing Company Inc.	August 15, 2001
ZPCM	Zap.com Corporation	August 15, 2001
AXIS	Z-AXIS CORP	August 15, 2001
ZENA	Zenascent Cl A	August 15, 2001
ZNIC	Zonic Corp	August 15, 2001