

Notice to Members

MAY 2007

SUGGESTED ROUTING

Legal and Compliance
Operations
Registered Representatives
Senior Management
Trading

KEY TOPICS

IM-6660-1
NASD Rule 6660
OTC Equity Securities
Quotations
Trading Halts

GUIDANCE

OTC Equity Trade and Quote Halt Codes

NASD Establishes New OTC Equity Trade and Quote Halt Codes; **Effective Date: May 7, 2007**

Executive Summary

On December 18, 2006, the Securities and Exchange Commission (SEC) approved amendments to NASD Rule 6660 to expand the scope of NASD's authority to initiate trade and quote halts in OTC Equity Securities and new IM-6660-1 to identify certain factors that NASD may consider in determining, in its discretion, whether imposing a trading and quoting halt in an OTC Equity Security is appropriate.¹ The amendments became effective on March 16, 2007.

The purpose of this *Notice* is to provide firms with information on the halt codes NASD will use with respect to its new authority. The new halt codes become effective May 7, 2007.

Questions/Further Information

Questions or comments regarding this *Notice* may be directed to Chris Stone, Associate Chief Counsel, Transparency Services, at (202) 728-8457; or Kosha K. Dalal, Associate General Counsel, Office of General Counsel (OGC), at (202) 728-6903.

Background and Discussion

In February 2007, NASD published *Notice to Members 07-09* announcing SEC approval of NASD Rule 6660 (Trading and Quotation Halts in OTC Equities Securities) and IM-6660-1. Rule 6660 expanded NASD's existing trading halt authority to provide more general trading and quoting halt authority beyond halts related to non-compliance with SEC Rule 10b-17, while limiting such authority to only those extraordinary events that have a material effect on the market for the OTC Equity Security, and have the potential to cause major disruption to the marketplace and/or significant uncertainty in the settlement and clearance process.

Specifically, under Rule 6660(a)(3), NASD has the authority to impose a trading and quoting halt for material events, where NASD determines, in its discretion, based on the facts and circumstances of the particular event, that halting trading and quoting in the security is the appropriate mechanism to protect investors and ensure a fair and orderly marketplace. In addition, Rule 6660 increased the maximum number of business days that NASD can impose a trading and quoting halt from up to five business days to ten business days. NASD also adopted IM-6660-1 to identify certain factors that NASD may consider in determining, in its discretion, whether halting trading and quoting in an OTC Equity Security under proposed Rule 6660(a)(3) is appropriate.

NASD has developed new halt codes and expanded market originator IDs to correspond to Rule 6660 and to designate whether the specific halt in question is with respect to an issue that is eligible for quotation on the Over-the-Counter Bulletin Board (OTCBB), or is otherwise a non-OTCBB OTC Equity Security—*i.e.*, an American Depositary Receipt (ADR) that trades in the OTC market, securities quoted in quotation mediums other than the OTCBB (e.g., the Pink Sheets) and OTC Equity Securities not otherwise quoted publicly. Announcements regarding trading and quoting halts will continue to be disseminated/published through the BBDS (Bulletin Board Dissemination Service), including through NASDAQ MarketWatch and *OTCBB.com*.

The Market Center ID Originator code of lowercase “u” will be used to denote that the security for which the trading action message is being generated trades over-the-counter and is not quoted on the OTCBB service. The Market Center ID code of uppercase “U” will continue to denote that the security for which the trading action message is being generated is quoted on the OTCBB service.

Market Center Originator ID

Character	Description
U	OTCBB Quoted Issue
u	Over-the-Counter Equity Security (Non-OTCBB Issue)

The new halt codes and the Market Center Originator IDs for both OTCBB and non-OTCBB issues are as follows:

Halt Reason Codes

Code	Reason Description
U1	Halt – Foreign Market/Regulatory Trading is halted because the OTC Equity Security or the security underlying an ADR that is an OTC Equity Security (OTC ADR) is listed on or registered with a foreign securities exchange or market, and the foreign securities exchange, market or regulatory authority overseeing such issuer, exchange or market has halted trading in such security for regulatory reasons because of public interest concerns.
U2	Halt – Component/Derivative of Exchange-Listed Security Trading is halted because the OTC Equity Security or the security underlying an OTC ADR is a derivative or component of a security listed on or registered with a national securities exchange or foreign securities exchange or market (listed security), and the national securities exchange, or foreign securities exchange or market has imposed a trading halt in the listed security.
U3	Halt – Extraordinary Events Trading is halted because NASD has determined that an extraordinary event has occurred or is ongoing that has had a material effect on the market for the OTC Equity Security or has caused or has the potential to cause major disruption to the marketplace and/or significant uncertainty in the settlement and clearance process.

In addition to the changes to BBDS, NASD will update the “Trade Halts” section of *OTCBB.com* to include the new halt reason codes as well as halt announcements.

NASD will support the new halt reason codes and the Market Center Originator ID within the Trading Action messages on BBDS on May 7, 2007.

NASD Contacts

Questions concerning trading and quotation halts in OTC Equity Securities should be directed to NASD Operations at (866) 776-0800.

Endnote

- 1 See Exchange Act Release No. 54952 (December 18, 2006), 71 FR 78242 (December 28, 2006) (File No.2006-039).

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