

OTC Equity Quotation Size

SEC Approves Amended Minimum Quotation Sizes for OTC Equity Securities on a Pilot Basis

Effective Date: November 5, 2012

Executive Summary

The SEC approved amendments to FINRA Rule 6433 (Minimum Quotation Size Requirements for OTC Equity Securities) to simplify the existing tier structure, facilitate the display of customer limit orders pursuant to FINRA Rule 6460 (Display of Customer Limit Orders), and expand the scope of the rule to encompass quotations displayed by non-market makers. FINRA will implement the new quotation sizes as a one-year pilot beginning on November 5, 2012, and ending on October 31, 2013, unless extended or made permanent.¹

Questions regarding this *Notice* should be directed to Racquel Russell, Assistant General Counsel, Office of General Counsel, at (202) 728-8363.

Background and Discussion

FINRA Rule 6433 provides that member firms that enter quotations in OTC equity securities into any inter-dealer quotation system that permits quotation updates on a real-time basis must enter and honor those quotations at prescribed minimum sizes. However, under the rule, the applicable minimum size depends upon the price of the bid or offer and, therefore, a different minimum quotation size can apply to each side of the market being quoted by the firm in a given security.² The amended rule also expands the scope of the minimum quotation sizes to apply to all quotations or orders displayed in an inter-dealer quotation system, including quotations displayed by alternative trading systems and those representing customer trading interest.

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Notice Type

- ▶ Rule Amendment

Suggested Routing

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

Key Topics

- ▶ Limit Order Display
- ▶ Minimum Quotation Size
- ▶ OTC Equity Securities
- ▶ Quotations

Referenced Rules

- ▶ FINRA Rule 6433
- ▶ FINRA Rule 6460

During the one-year pilot period, the minimum quotation sizes are as follows:

Price (Bid or Offer)	Minimum Quote Size (# of shares)
\$0.0001 to \$0.0999	10,000
\$0.10 to \$0.1999	5,000
\$0.20 to \$0.5099	2,500
\$0.51 to \$0.9999	1,000
\$1.00 to \$174.99	100
\$175.00+	1

FINRA will monitor the operation of the pilot and, if FINRA concludes that there is a significant negative impact on the over-the-counter market, FINRA will consider whether it is appropriate to rescind the pilot prior to October 31, 2013. To permit FINRA and the Securities and Exchange Commission to assess the impact of the pilot, FINRA will collect data during the pilot³ and assess, among other things, concerns raised by commenters during the rule filing process, and whether the pilot has achieved its goals.

If the pilot is not extended or approved as permanent by October 31, 2013, the version of this rule prior to SR-FINRA-2011-058 will be in effect.

Endnotes

1. See Securities Exchange Act Release No. 67208 (June 15, 2012), 77 FR 37458 (June 21, 2012) (Order Approving Amendments to Minimum Quotation Size Requirements for OTC Equity Securities).
2. FINRA's inter-dealer quotation system incorporates a default feature to ensure display of at least the correct minimum size applicable to quotations entered by member firms. It is the firm's responsibility to determine the minimum size requirement applicable to its quotation.
3. FINRA will collect data for use in assessing the impact of the pilot, including data regarding limit orders and liquidity.