

Trading and Quotation Halts in OTC Equity Securities

SEC Approves Amendments to Rule 6440 Relating to Trading and Quotation Halts in OTC Equity Securities

Effective Date: May 9, 2013

Executive Summary

The SEC approved amendments to FINRA Rule 6440 (Trading and Quotation Halt in OTC Equity Securities) to clarify that FINRA may (1) initiate a trading and quotation halt in an OTC equity security upon notice of a foreign regulatory halt for news pending, including notice from a reliable third-party source; (2) continue to halt trading and quoting in such OTC equity security until notice from the appropriate foreign regulatory authority is received that it has or intends to resume trading in the security, even if the halt is longer than 10 business days; and (3) extend a halt initiated for an extraordinary event beyond 10 business days if it determines that the basis for the halt still exists.¹ The effective date is May 9, 2013.

The text of the amended rule is available in the [online FINRA Manual](#).

Questions concerning this *Notice* should be directed to:

- ▶ Kosha K. Dalal, Associate Vice President and Associate General Counsel, Office of General Counsel at (202) 728-6903; or
- ▶ FINRA Operations at (866) 776-0800.

Background & Discussion

The SEC approved amendments to FINRA Rule 6440, which provides authority for FINRA to initiate trading and quotation halts in OTC equity securities in circumstances where it is necessary to protect investors and the public.² The rule provides authority to impose foreign regulatory halts, derivative halts and extraordinary event halts.

April 2013

Notice Type

- ▶ Rule Amendment

Suggested Routing

- ▶ Compliance
- ▶ Legal
- ▶ Operations
- ▶ Senior Management
- ▶ Systems
- ▶ Trading

Key Topics

- ▶ OTC Equity Securities
- ▶ Trading Halts

Referenced Rules & Notices

- ▶ FINRA Rule 5260
- ▶ FINRA Rule 6440
- ▶ SEA Rule 15c2-11.4

Foreign Regulatory Halt

Rule 6440, as amended, provides that FINRA may direct firms to halt trading and quotation in OTC equity securities if the OTC equity security or the OTC American Depositary Receipt (ADR) is listed on or registered with a foreign securities exchange or market, and the foreign securities exchange, market, or regulatory authority overseeing the issuer, exchange or market, halts trading in the security for regulatory reasons because of public interest concerns or for news pending. However, FINRA will not impose a trading and quotation halt if the foreign regulatory halt was imposed solely for a regulatory filing deficiency or operational reasons.

Derivative Halt

FINRA may direct firms to halt trading and quotation in OTC equity securities if the OTC equity security or the 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 imposes a trading halt in the listed security.

Extraordinary Event Halt

FINRA may halt trading and quotation if FINRA determines that an extraordinary event has occurred or is ongoing that has had a material effect on the market for the OTC equity security or the OTC ADR or has caused or has the potential to cause major disruption to the marketplace or significant uncertainty in the settlement and clearance process.

Procedures for Initiating Trading and Quotation Halts

FINRA will initiate a trading and quotation halt in the OTC market for an OTC equity security upon notice of a foreign regulatory halt or derivative halt from:

1. the national and foreign securities exchange or market on which the OTC equity security or the security underlying the OTC equity security is listed or registered;
2. a regulatory authority overseeing the issuer, exchange or market; or
3. another reliable third-party source where FINRA can validate the information provided.

FINRA will verify third-party information relating to a trading and quotation halt in a foreign market before initiating a halt in the OTC equity security. In such cases, while FINRA will act promptly to coordinate the timing of the trading and quotation halt with other securities exchanges or regulators, the need for FINRA to receive notice and verify the accuracy of the information could result in a delay in both the initiation and expiration of a trading and quotation halt in the OTC equity security.

FINRA Rule 6440(b) as amended, clarifies that FINRA may continue the halt in trading and quoting in the OTC market for the OTC equity security as a result of a foreign regulatory halt or derivative halt until FINRA receives notice that trading has resumed in the security on the national or foreign securities exchange on which it is listed or registered, even if the halt is longer than 10 business days.

Supplementary Material .01 to Rule 6440, as amended, clarifies that FINRA may determine to extend an extraordinary event halt that has been initiated pursuant to the rule to continue in effect for subsequent periods of up to 10 business days each, if at the time of any such extension, FINRA finds that the basis for the halt still exists and determines that the continuation of the halt beyond the prior 10 business day period is necessary in the public interest and for the protection of investors.

Notification of Trading and Quotation Halts

FINRA will disseminate appropriate public notices regarding initiation and expiration of trading and quotation halts under Rule 6440. Notification of all trade and quote halts and resumptions will be posted to the Trade Halt section of FINRA's website.

Current FINRA halt reason codes (U1, U2 and U3) will continue to apply.

FINRA reminds firms that upon issuance of a notice, quotations in any quotation medium and trading by any firm is prohibited as set forth in FINRA Rule 5260 (Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts).³ In general, the trading halt notice (noting the beginning and end dates) will remain on FINRA's website for a period of time to inform the public and the trading community of the halt, and to allow ongoing compliance with SEA Rule 15c2-11.4.

Endnotes

1. See Securities Exchange Act Release No. 68874; File No. SR-FINRA-2012-010 (Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving a Proposed Rule Change To Amend FINRA Rule 6440 (Trading and Quotation Halt in OTC Equity Securities) February 8, 2013; 78 FR 10655 (February 14, 2013).
2. "OTC equity security" is defined in FINRA Rule 6420 as "any equity security that is not an 'NMS stock' as that term is defined in Rule 600(b)(47) of the SEC Regulation NMS; provided, however, that the term 'OTC Equity Security' shall not include any Restricted Equity Security." See FINRA Rule 6420(f).
3. If an OTC equity security is halted for an extended period of time, FINRA may deem the security inactive and delete its trading symbol. Firms are reminded that they may have on-going obligations under FINRA Rule 5260.

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