

OMB APPROVAL

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Page 1 of 22

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No. SR - 2009 - 084

Amendment No.

Proposed Rule Change by Financial Industry Regulatory Authority

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial ☒ Amendment ☐ Withdrawal ☐

Section 19(b)(2)

☒

Section 19(b)(3)(A)

☐

Section 19(b)(3)(B)

☐

Rule

☐ 19b-4(f)(1)☐ 19b-4(f)(4)☐ 19b-4(f)(2)☐ 19b-4(f)(5)☐ 19b-4(f)(3)☐ 19b-4(f)(6)Pilot
☐Extension of Time Period
for Commission Action
☐

Date Expires

Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document

**Description**

Provide a brief description of the proposed rule change (limit 250 characters).

Proposed rule change to adopt NASD Rule 3220 (Adjustment of Open Orders) as FINRA Rule 5330 in the consolidated FINRA rulebook with several changes.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Brant

Last Name Brown

Title Associate General Counsel

E-mail brant.brown@finra.org

Telephone (202) 728-6927

Fax (202) 728-8264

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.

Date 11/24/2009

By Patrice Gliniecki

(Name)

Senior Vice President and Deputy General Counsel

(Title)

NOTE: Clicking the button at right will digitally sign and lock
this form. A digital signature is as legally binding as a physical
signature, and once signed, this form cannot be changed.

Patrice Gliniecki,

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EDFS website.

Form 19b-4 Information

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change

Add

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

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Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

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Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

Add

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of Proposed Rule Change

(a) Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposed rule change to adopt NASD Rule 3220 (Adjustment of Open Orders) as a FINRA rule in the consolidated FINRA rulebook with several changes. The proposed rule change would renumber NASD Rule 3220 as FINRA Rule 5330 in the consolidated FINRA rulebook.

The text of the proposed rule change is attached as Exhibit 5 to this rule filing.

(b) Upon Commission approval and implementation by FINRA of the proposed rule change, the corresponding NASD rule will be eliminated from the current FINRA rulebook.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

At its meeting on July 16, 2009, the FINRA Board of Governors authorized the filing of the proposed rule change with the SEC. No other action by FINRA is necessary for the filing of the proposed rule change.

FINRA will announce the implementation date of the proposed rule change in a Regulatory Notice to be published no later than 90 days following Commission approval.

¹ 15 U.S.C. 78s(b)(1).

3. **Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Purpose

As part of the process of developing a new consolidated rulebook (“Consolidated FINRA Rulebook”),² FINRA is proposing to adopt NASD Rule 3220 (Adjustment of Open Orders) into the Consolidated FINRA Rulebook with several changes, which are described below.

NASD Rule 3220 sets forth the requirements a member has regarding an open order held by the member when the order involves a security that is subject to a dividend, payment, or distribution.³ Paragraph (a) of the rule sets forth how members are to adjust the terms of open orders, depending upon whether the dividend, payment, or distribution is in cash, stock, combined cash and stock, or determined by the stockholder. Under the rule, members are required to adjust open orders as follows:

- In the case of a cash dividend or distribution, the price of the open order is reduced by the dollar amount of the dividend or distribution and rounded down to the next lowest minimum quotation variation.

² The current FINRA rulebook consists of (1) FINRA Rules; (2) NASD Rules; and (3) rules incorporated from NYSE (“Incorporated NYSE Rules”) (together, the NASD Rules and Incorporated NYSE Rules are referred to as the “Transitional Rulebook”). While the NASD Rules generally apply to all FINRA members, the Incorporated NYSE Rules apply only to those members of FINRA that are also members of the NYSE (“Dual Members”). The FINRA Rules apply to all FINRA members, unless such rules have a more limited application by their terms. For more information about the rulebook consolidation process, see Information Notice, March 12, 2008 (Rulebook Consolidation Process).

³ For purposes of the rule, an “open order” is an order to buy or an open stop order to sell. These include, for example, “good ‘til cancelled,” “limit,” and “stop limit” orders that remain in effect for a definite or indefinite period of time until executed, cancelled, or expired. See NASD Rule 3220(d).

- In the case of a stock dividend or split, the price of the open order is reduced by rounding the dollar value of the dividend distribution or split to the next higher minimum quotation variation and subtracting that amount from the price of the order. The size of the order is increased by multiplying the size of the original order by the numerator of the ratio of the dividend or split, dividing the result by the denominator of the ratio of the dividend or split and then rounding the result to the next lower round lot.
- In the case of a dividend payable in either cash or securities at the option of the stockholder, the price of the open order is reduced by the dollar value of the cash or securities, whichever is greater, as determined by the formulas described above.

If the value of a distribution cannot be determined, paragraph (b) of the rule prohibits members from executing or permitting the execution of open orders without first reconfirming the order with the customer. Paragraph (c) requires members to cancel all open orders if a security is the subject of a reverse split. The rule also includes a list of order types to which it does not apply and a provision addressing the conversion of securities from fractional pricing to decimal pricing.

The proposed rule change includes substantive changes, as well as multiple wording and organizational changes, that conform much of the FINRA rule to the analogous Nasdaq and NYSE-Arca rules.⁴ The proposed rule change also updates certain provisions of the rule that refer to trading in fractional amounts (as opposed to decimals).

⁴ See Nasdaq Rule 4761; NYSE-Arca Rule 7.39. Although the NYSE has a rule regarding the adjustment of orders (NYSE Rule 118), the Transitional Rulebook

First, the proposed rule change provides that, after adjusting an open order in the case of a stock dividend or split, the order should be rounded down to the next lowest share, rather than the next lowest round lot. Although NYSE Rule 118 requires rounding down to the next lowest round lot, both Nasdaq Rule 4761 and NYSE-Arca Rule 7.39 require that, after being adjusted, orders be rounded down to the next lowest share. FINRA believes that rounding to the next lowest share, rather than the next lowest round lot, will result in an adjustment that more accurately reflects the customer's initial intent when placing the order.⁵

Second, the proposed rule change clarifies the treatment of open orders involving securities that are subject to a combined cash and stock dividend/split. Unlike Nasdaq Rule 4761 and NYSE-Arca Rule 7.39, NASD Rule 3220 does not directly address the adjustment requirements if a security is subject to a combined cash and stock dividend/split. The proposed rule change makes the provision consistent with the analogous Nasdaq and NYSE-Arca rules by specifying that, in these circumstances, members should calculate the cash portion of the adjustment using the existing formula in

does not include the provision. Consequently, NASD Rule 3220 is the only FINRA rule addressing the adjustment of orders.

⁵ FINRA notes that, when Nasdaq amended its open order adjustment rule in 2002, Nasdaq stated that it believed that rounding adjusted orders to the next lowest share "will result in more accurate representation of buying and selling interest." See Securities Exchange Act Release No. 45968 (May 20, 2002), 67 FR 36946 (May 28, 2002). Like NASD Rule 3220, NYSE Rule 118 requires that, after adjustment, orders be rounded down to the next lowest round lot. The proposed rule will continue to exclude any order "governed by the rules of a national securities exchange." Consequently, an order subject to the rules of the NYSE will continue to be rounded as required under NYSE rules. Moreover, if a customer wants to avoid the potential of having an order rounded down in a manner that results in an odd lot, the customer could include any such instructions at the time it gives the member the order.

subparagraph (1) of the rule and should calculate the stock portion of the adjustment using the existing formula in subparagraph (2) of the rule.

Third, the proposed rule change applies the provision regarding reverse splits to all orders (both buy and sell) rather than just “open orders,” as that term is defined in the rule.⁶ Thus, the proposed rule broadens the obligation of members to cancel orders involving securities subject to a reverse split and requires that all such orders be cancelled.

In addition to the conforming changes described above, FINRA is proposing one additional substantive change to the rule. NASD Rule 3220 provides that some pending customer orders (e.g., open sell orders and open stop orders to buy) are not adjusted if there is a stock split in the security, notwithstanding that a stock split could have a significant impact on the price of the security. This could be detrimental to a customer with a pending order in the security, as the order may become inconsistent with the customer’s original intent and/or unexecutable. Therefore, the proposed rule change requires members to notify customers who have pending orders that are not otherwise required to be adjusted under the rule of any stock splits in the security.

Finally, the proposed rule change updates the language in the rule regarding trading in fractional amounts and deletes the portion of the rule addressing the conversion from fractional pricing to decimal pricing.

⁶ This proposed change will conform the FINRA rule to the analogous provisions in the NYSE, Nasdaq, and NYSE-Arca rules. See Nasdaq Rule 4761(c)(6); NYSE-Arca Rule 7.39(b)(5); NYSE Rule 118.21.

As noted above, FINRA will announce the implementation date of the proposed rule change in a Regulatory Notice to be published no later than 90 days following Commission approval.

(b) Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁷ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change will bring more uniformity to the treatment of open orders and will enhance customer protection with respect to pending orders involving securities that are the subject of a stock split or reverse split.

4. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

6. Extension of Time Period for Commission Action

FINRA does not consent at this time to an extension of the time period for Commission action specified in Section 19(b)(2) of the Act.⁸

⁷ 15 U.S.C. 78o-3(b)(6).

⁸ 15 U.S.C. 78s(b)(2).

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Not applicable.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

As discussed above, the proposed rule change is based in part on Nasdaq Rule 4761 and NYSE-Arca Rule 7.39.

9. **Exhibits**

Exhibit 1. Completed notice of proposed rule change for publication in the Federal Register.

Exhibit 5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-FINRA-2009-084)

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Notice of Filing of Proposed Rule Change to Adopt FINRA Rule 5330 (Adjustment of Orders) in the Consolidated FINRA Rulebook

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on , Financial Industry Regulatory Authority, Inc. (“FINRA”) (f/k/a National Association of Securities Dealers, Inc. (“NASD”)) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by FINRA. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

FINRA is proposing to adopt NASD Rule 3220 (Adjustment of Open Orders) as a FINRA rule in the consolidated FINRA rulebook with several changes and to renumber NASD Rule 3220 as FINRA Rule 5330 in the consolidated FINRA rulebook.

The text of the proposed rule change is available on FINRA’s Web site at <http://www.finra.org>, at the principal office of FINRA and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, FINRA included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. FINRA has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

As part of the process of developing a new consolidated rulebook ("Consolidated FINRA Rulebook"),³ FINRA is proposing to adopt NASD Rule 3220 (Adjustment of Open Orders) into the Consolidated FINRA Rulebook with several changes, which are described below.

NASD Rule 3220 sets forth the requirements a member has regarding an open order held by the member when the order involves a security that is subject to a dividend, payment, or distribution.⁴ Paragraph (a) of the rule sets forth how members are to adjust

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⁴ For purposes of the rule, an "open order" is an order to buy or an open stop order to sell. These include, for example, "good 'til cancelled," "limit," and "stop

the terms of open orders, depending upon whether the dividend, payment, or distribution is in cash, stock, combined cash and stock, or determined by the stockholder. Under the rule, members are required to adjust open orders as follows:

- In the case of a cash dividend or distribution, the price of the open order is reduced by the dollar amount of the dividend or distribution and rounded down to the next lowest minimum quotation variation.
- In the case of a stock dividend or split, the price of the open order is reduced by rounding the dollar value of the dividend distribution or split to the next higher minimum quotation variation and subtracting that amount from the price of the order. The size of the order is increased by multiplying the size of the original order by the numerator of the ratio of the dividend or split, dividing the result by the denominator of the ratio of the dividend or split and then rounding the result to the next lower round lot.
- In the case of a dividend payable in either cash or securities at the option of the stockholder, the price of the open order is reduced by the dollar value of the cash or securities, whichever is greater, as determined by the formulas described above.

If the value of a distribution cannot be determined, paragraph (b) of the rule prohibits members from executing or permitting the execution of open orders without first reconfirming the order with the customer. Paragraph (c) requires members to cancel all open orders if a security is the subject of a reverse split. The rule also includes a list

limit” orders that remain in effect for a definite or indefinite period of time until executed, cancelled, or expired. See NASD Rule 3220(d).

of order types to which it does not apply and a provision addressing the conversion of securities from fractional pricing to decimal pricing.

The proposed rule change includes substantive changes, as well as multiple wording and organizational changes, that conform much of the FINRA rule to the analogous Nasdaq and NYSE-Arca rules.⁵ The proposed rule change also updates certain provisions of the rule that refer to trading in fractional amounts (as opposed to decimals).

First, the proposed rule change provides that, after adjusting an open order in the case of a stock dividend or split, the order should be rounded down to the next lowest share, rather than the next lowest round lot. Although NYSE Rule 118 requires rounding down to the next lowest round lot, both Nasdaq Rule 4761 and NYSE-Arca Rule 7.39 require that, after being adjusted, orders be rounded down to the next lowest share. FINRA believes that rounding to the next lowest share, rather than the next lowest round lot, will result in an adjustment that more accurately reflects the customer's initial intent when placing the order.⁶

⁵ See Nasdaq Rule 4761; NYSE-Arca Rule 7.39. Although the NYSE has a rule regarding the adjustment of orders (NYSE Rule 118), the Transitional Rulebook does not include the provision. Consequently, NASD Rule 3220 is the only FINRA rule addressing the adjustment of orders.

⁶ FINRA notes that, when Nasdaq amended its open order adjustment rule in 2002, Nasdaq stated that it believed that rounding adjusted orders to the next lowest share "will result in more accurate representation of buying and selling interest." See Securities Exchange Act Release No. 45968 (May 20, 2002), 67 FR 36946 (May 28, 2002). Like NASD Rule 3220, NYSE Rule 118 requires that, after adjustment, orders be rounded down to the next lowest round lot. The proposed rule will continue to exclude any order "governed by the rules of a national securities exchange." Consequently, an order subject to the rules of the NYSE will continue to be rounded as required under NYSE rules. Moreover, if a customer wants to avoid the potential of having an order rounded down in a manner that results in an odd lot, the customer could include any such instructions at the time it gives the member the order.

Second, the proposed rule change clarifies the treatment of open orders involving securities that are subject to a combined cash and stock dividend/split. Unlike Nasdaq Rule 4761 and NYSE-Arca Rule 7.39, NASD Rule 3220 does not directly address the adjustment requirements if a security is subject to a combined cash and stock dividend/split. The proposed rule change makes the provision consistent with the analogous Nasdaq and NYSE-Arca rules by specifying that, in these circumstances, members should calculate the cash portion of the adjustment using the existing formula in subparagraph (1) of the rule and should calculate the stock portion of the adjustment using the existing formula in subparagraph (2) of the rule.

Third, the proposed rule change applies the provision regarding reverse splits to all orders (both buy and sell) rather than just “open orders,” as that term is defined in the rule.⁷ Thus, the proposed rule broadens the obligation of members to cancel orders involving securities subject to a reverse split and requires that all such orders be cancelled.

In addition to the conforming changes described above, FINRA is proposing one additional substantive change to the rule. NASD Rule 3220 provides that some pending customer orders (e.g., open sell orders and open stop orders to buy) are not adjusted if there is a stock split in the security, notwithstanding that a stock split could have a significant impact on the price of the security. This could be detrimental to a customer with a pending order in the security, as the order may become inconsistent with the customer’s original intent and/or unexecutable. Therefore, the proposed rule change

⁷ This proposed change will conform the FINRA rule to the analogous provisions in the NYSE, Nasdaq, and NYSE-Arca rules. See Nasdaq Rule 4761(c)(6); NYSE-Arca Rule 7.39(b)(5); NYSE Rule 118.21.

requires members to notify customers who have pending orders that are not otherwise required to be adjusted under the rule of any stock splits in the security.

Finally, the proposed rule change updates the language in the rule regarding trading in fractional amounts and deletes the portion of the rule addressing the conversion from fractional pricing to decimal pricing.

FINRA will announce the implementation date of the proposed rule change in a Regulatory Notice to be published no later than 90 days following Commission approval.

2. Statutory Basis

FINRA believes that the proposed rule change is consistent with the provisions of Section 15A(b)(6) of the Act,⁸ which requires, among other things, that FINRA rules must be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, and, in general, to protect investors and the public interest. FINRA believes that the proposed rule change will bring more uniformity to the treatment of open orders and will enhance customer protection with respect to pending orders involving securities that are the subject of a stock split or reverse split.

B. Self-Regulatory Organization's Statement on Burden on Competition

FINRA does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments were neither solicited nor received.

⁸ 15 U.S.C. 78o-3(b)(6).

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FINRA-2009-084 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Florence E. Harmon, Deputy Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-FINRA-2009-084. This file number should be included on the subject line if e-mail is used. To help the Commission process

and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of FINRA. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FINRA-2009-084 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁹

Florence E. Harmon
Deputy Secretary

⁹ 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Exhibit 5 shows the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in brackets.

* * * * *

**Text of Proposed New FINRA Rule
(Marked to Show Changes from NASD Rule 3220; NASD Rule 3220 to be Deleted in
its Entirety from the Transitional Rulebook)**

* * * * *

**5000. SECURITIES OFFERING AND TRADING STANDARDS AND
PRACTICES**

* * * * *

5300. HANDLING OF CUSTOMER ORDERS

* * * * *

[3220]5330. Adjustment of [Open] Orders

(a) A member holding an open order from a customer or another broker-[/]dealer shall, prior to executing or permitting the order to be executed, reduce, increase, or adjust the price and/or number of shares of such order by an amount equal to the dividend, payment, or distribution[,] on the day that the security is quoted ex-dividend, ex-rights, ex-distribution, or ex-interest, except where a cash dividend or distribution is less than one cent (\$0.01), as follows:

(1) Cash Dividends: [In the case of a cash dividend or distribution, the price of the] Unless marked “Do Not Reduce,” open order prices shall be first reduced by [subtracting] the dollar amount of the dividend, [or distribution from the price of the order] and [rounding] the resulting price will then be rounded down to the next lower minimum quotation variation. [used in the primary

market, provided that that if there is more than one minimum quotation variation in the primary market, then the greater of the variations shall be used (e.g., if a market has minimum quotation variations of 1/16 or 1/32 of a dollar for securities trading in fractions, depending on the price of the security, or \$.01 for securities trading in decimals, then the adjustment to open orders shall be in increments of 1/16 of a dollar for issues trading in fractions, and \$.01 for issues trading in decimals);]

(2) Stock Dividends and Stock Splits: [In the case of a stock dividend or split, the] Open order prices [of the order] shall be determined [reduced] by first rounding up the dollar value of the stock dividend or split to the next higher minimum quotation variation, [used in the primary market as specified in paragraph (a)(1) and subtracting that] The resulting amount shall then be subtracted from the price of the order.]; provided further, that] Unless marked “Do Not Increase,” the size of the order shall be increased by first (A) multiplying the size of the original order by the numerator of the ratio of the dividend or split, then (B) dividing the result by the denominator of the ratio of the dividend or split, then [and] (C) rounding the result to the next lowest share. [lower round lot; and]

(3) [In the case of a d]Dividends [p]Payable in [e]Either [c]Cash or [s]Securities at the [o]Option of the [s]Stockholder.], the] Open order prices [of the order] shall be reduced by the dollar value of the cash or securities, whichever is greater. The dollar value of the cash shall be determined using the formula in subparagraph (1) above, while the dollar value of the securities shall be

determined using the formula in subparagraph (2) above. [, according to the formulas in subparagraph (1) or (2), above; provided, that i]If the stockholder opts [for] to receive securities, the size of the order shall be increased pursuant to the formula in subparagraph (2)[,] above.

(4) Combined Cash and Stock Dividends/Split: In the case of a combined cash dividend and stock split/dividend, the cash dividend portion shall be calculated first as per subparagraph (1) above, and the stock portion thereafter pursuant to subparagraph (2) above.

([b]5) Indeterminate Value: If the value of the distribution cannot be determined, the member shall not adjust, execute, or permit [such] an open order to be executed without reconfirming the order with the customer.

([c]b) When a pending order involves [If] a security that is the subject of a reverse split, [all open] the order[s] (buy or sell) shall be cancelled.

(c) When a pending order involves a security that is the subject of a stock split but is not otherwise required to be adjusted under this Rule, a member shall promptly notify the customer of the stock split.

(d) The term “open order” means an order to buy or an open stop order to sell, including but not limited to “good ‘til cancelled,” “limit” or “stop limit” orders which remain in effect for a definite or indefinite period until executed, cancelled or expired.

(e) The provisions of paragraph (a) of this Rule shall not apply to:

(1) orders governed by the rules of a registered national securities exchange;

[(2) orders marked “do not reduce” where the dividend is payable in cash;]

[(3) orders marked “do not increase” where the dividend is payable in stock, provided that the price of such orders shall be adjusted as required by this Rule;]

[(4)2) open stop orders to buy;

[(5)3) open sell orders; or

[(6)4) orders for the purchase or sale of securities where the issuer of the securities has not reported a dividend, payment, or distribution pursuant to SEA[C] Rule 10b-17.

[(f) Mandatory Open Order Conversion for Securities Commencing Decimal Pricing]

[All open orders in Nasdaq securities priced in fractions remaining in a firm’s internal system on the evening prior to, or received thereafter and prior to, the security’s commencing decimal pricing pursuant to the Decimals Implementation Plan for the Equities and Options Markets shall be converted, no later than midnight on that evening prior to their first day of decimal pricing, as follows:]

[(1) Prior to the conversion, member firms should notify their customers and inform them of the change to their open fractional order(s) as a result of the conversion to decimal pricing. Customers should be afforded the opportunity to take action if they do not wish to participate in the conversion. Customers not wishing to participate in the mandatory conversion should be allowed the opportunity to cancel their open order(s) prior to the evening of the conversion.]

[(2) No later than midnight on the evening prior to a security's first day of decimal pricing, all open orders priced in fractions that have not been canceled, including those with price qualifiers such as DNR and DNI, shall be converted as follows:

- The fractional price of all open Buy Orders (GTC, GTX, Buy Stop and Buy Stop Limits) will be converted to their decimal equivalent and then "rounded down" to the nearest \$0.01.
- The fractional price of all open Sell Orders (GTC, GTX, Sell Stop and Sell Stop Limits) will be converted to their decimal equivalent and then "rounded up" to the nearest \$0.01.]

[Example: Buy 1000 MSFT 88 1/16 would convert to B 1000 MSFT 88.06 (1/16=0.0625)]

[Sell 1000 MSFT 88 1/16 would convert to S 1000 MSFT 88.07]

[This rule is to be in effect only in preparation for the first day of decimal trading of the newly-converted security. After conversion, firms may accept orders of any number of spaces beyond the decimal point in the newly-converted security and submit them, after appropriate rounding (See NASD Rule 4613(a)(1)(D)), to Nasdaq for display.]

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