

## New Issue Allocations and Distributions

### FINRA Reminds Firms of Rule 5131(d)(4)'s Prohibition on Accepting Market Orders for the Purchase of New Issues Prior to the Commencement of Trading on the Secondary Market

#### Executive Summary

This *Notice* reminds firms that FINRA Rule 5131(d)(4) prohibits firms from accepting a market order for the purchase of shares in a new issue in the secondary market prior to the commencement of trading of such shares in the secondary market.

The text of the rule can be found in the online [FINRA Manual](#).

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

#### Background and Discussion

New issues are inherently more volatile than securities with an established public trading history. Given the absence of an established trading market, the potential exists for a wide variance between the public offering price of a new issue and the price at which trading on the secondary market commences. As a result, investors who place market orders for an IPO may find their orders filled at prices beyond their reasonable expectations, and such transactions may further contribute to the unconstrained increase in the price of a new issue in the secondary market.

#### May 2012

##### Notice Type

- ▶ Guidance

##### Suggested Routing

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

##### Key Topics

- ▶ Allocations
- ▶ Initial Public Offerings
- ▶ Investment Banking
- ▶ Market Orders
- ▶ New Issues
- ▶ NMS Stocks
- ▶ OTC Equity Securities
- ▶ Spinning

##### Referenced Rules & Notices

- ▶ FINRA Rule 5130
- ▶ FINRA Rule 5131
- ▶ Regulatory Notice 10-60
- ▶ Regulatory Notice 11-29

To protect against this occurrence, paragraph (d)(4) of Rule 5131 prohibits members from accepting a market order for the purchase of shares of a new issue in the secondary market prior to the commencement of trading of such shares in the secondary market. FINRA believes that requiring investors to place limit orders prior to the commencement of trading serves the dual purposes of protecting investors and facilitating price discovery. This rule, which was announced in FINRA *Regulatory Notices* [10-60](#) and [11-29](#), became effective on September 26, 2011.

For more information on Rule 5131, see rule filing [SR-NASD-2003-140](#).