

Display Facility for Quotations in OTC Equity Securities

FINRA Requests Comment on a Proposal Relating to Its Inter-Dealer Quotation System for OTC Equity Securities

Comment Period Expires: November 29, 2016

Summary

FINRA is soliciting comment on a proposal to provide for a FINRA-sponsored inter-dealer quotation facility for all OTC equity securities. The proposed rule text is attached as Attachment A.

Questions regarding this *Notice* should be directed to:

- ▶ Ola Persson, Vice President, Transparency Services, at (212) 858-4796 or by email at ola.persson@finra.org; or
- ▶ Racquel Russell, Associate General Counsel, Office of General Counsel, at (202) 728-8363 or by email at racquel.russell@finra.org.

Action Requested

FINRA encourages all interested parties to comment on the proposal. Comments must be received by November 29, 2016.

- ▶ Member firms and other interested parties can submit their comments using the following methods:
- ▶ Emailing comments to pubcom@finra.org; or Mailing comments in hard copy to:
Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

August 2016

Notice Type

- ▶ Request for Comment

Suggested Routing

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

Key Topics

- ▶ Inter-dealer Quotation System
- ▶ OTC Equity Security
- ▶ Quotations
- ▶ SEA Rule 15c2-11

Referenced Rules

- ▶ FINRA Rule 6420
- ▶ FINRA Rule 6432
- ▶ FINRA Rule 6500 Series
- ▶ FINRA Rule 6510
- ▶ FINRA Rule 6520
- ▶ FINRA Rule 6530
- ▶ FINRA Rule 6540
- ▶ FINRA Rule 6550
- ▶ FINRA Rule 7720
- ▶ SEA Rule 15c2-11

To help FINRA process and review comments more efficiently, persons should use only one method to comment on the proposal.

Important Notes: The only comments that FINRA will consider are those submitted pursuant to the methods described above. All comments received in response to this *Notice* will be made available to the public on the FINRA website. In general, FINRA will post comments as they are received.¹

Before becoming effective, the proposed rule change must be filed with the Securities and Exchange Commission (SEC) pursuant to Section 19(b) of the Securities Exchange Act of 1934 (SEA).²

Background and Discussion

Over the past several years, there have been instances in which market-wide trading halts for all OTC equity securities have been put into effect by FINRA out of concern regarding a substantial lack of transparency due to limited quotation information for these securities. These trading halts followed system failures on an inter-dealer quotation system. While FINRA declared market-wide trading halts in these previous instances of systems failures, FINRA believes that market-wide trading halts should be avoided, and is proposing to operate a facility capable of serving as an alternative interdealer quotation system for OTC equity securities in the event of failure of another inter-dealer quotation system. FINRA believes that operation of an inter-dealer quotation system capable of serving as an alternative display facility should obviate the need for market-wide trading halts in all but extraordinary circumstances.

In response to these prior occurrences of system failures, staff of the SEC has expressed concern that inter-dealer quotation system failures can leave few ready avenues for pre-trade price transparency in OTC equity securities, and has urged FINRA, as the self-regulatory organization (SRO) with responsibility for the over-the-counter market, to operate a quotation facility that is capable of serving as an alternative in the event of system disturbances or technological failure on another inter-dealer quotation system.

Thus, FINRA is proposing to enhance its current quoting facility so that it may better serve as an alternative means of quotation transparency in the over-the-counter marketplace in the event of technological disruptions or failures on other inter-dealer quotation systems as well as continuously operating as an inter-dealer quotation system for OTC equity securities. Specifically, FINRA proposes that the FINRA-operated inter-dealer quotation system, the OTC Bulletin Board Service (OTCBB), be expanded to include a broader universe of securities eligible for quotation so that the OTCBB can operate as an alternative inter-dealer quotation system for any OTC equity security quoted on any other member inter-dealer quotation system.

The Current OTCBB

The OTCBB is an electronic quotation medium for OTC equity securities that meet OTCBB eligibility requirements. The current OTCBB rules generally limit eligibility to the securities of issuers that file current, publicly available financial reports with the SEC or other regulatory authorities that have proper jurisdiction (*e.g.*, Federal banking agency or state bank supervisor). This “reporting company” limitation was approved by the SEC in 1999.³ The OTCBB has been in operation since 1990⁴ and operates today in much the same form as originally adopted.⁵

Over the years, as other quotation venues for OTC equity securities have emerged, usage of the OTCBB has significantly declined. Due to this decline, in 2014, FINRA filed with the SEC a proposed rule change to, among other things, cease operation of the OTCBB and delete the Rule 6500 Series.⁶ In the 2014 proposal, FINRA noted that, in light of the scant usage of the system, FINRA did not believe its discontinuance would have an appreciable impact on issuers, investors or member firms. FINRA also expressed concern that the remaining information being disseminated to investors through the OTCBB was incomplete and, therefore, had the potential to be misleading with respect to current pricing in OTC equity securities.⁷

However, FINRA ultimately withdrew its proposal to cease operation of the OTCBB in light of SEC staff concerns that an SRO-sponsored quotation facility should continue to be available to serve as an alternative should existing venues cease to operate either for technological or commercial reasons.⁸ As a result, FINRA is proposing changes to the current OTCBB rules that would expand the types of securities eligible to be quoted on the system by removing the “reporting company” limitation and other related changes that would support the usefulness of the FINRA quotation system as an alternative inter-dealer quotation system⁹ and as a source of quotation information on OTC equities.¹⁰

Proposed Revisions to Rules Governing FINRA’s Inter-dealer Quotation System

FINRA is proposing to amend Rule 6530 (OTCBB-Eligible Securities) to expand the universe of securities that are eligible to be quoted to include any OTC equity security—irrespective of whether the issuer is a reporting company.¹¹ FINRA believes that this approach is appropriate—particularly to optimize the potential usefulness of the FINRA facility as an intra-day alternative inter-dealer quotation system for any OTC equity security quoted on another inter-dealer quotation system. In concert with this change, FINRA proposes to indicate whether an issuer is a timely reporting company, a delinquent reporting company or a non-reporting company, using publicly available information.¹²

FINRA also is proposing to rename OTCBB as “Over-the-counter Display Facility” or “ODF.” While the types of eligible securities will be expanded, FINRA envisions that the general functionality of the ODF system will be similar to the features currently offered by OTCBB. Member firms may use the system to enter, update and display quotations in individual securities on a real-time basis. Such quotation entries may consist of a priced bid and offer; an unpriced indication of interest (including “bid wanted” or “offer wanted” indications); or a bid/offer accompanied by a modifier to reflect unsolicited customer interest. The system would continue to be a display-only system, and would not provide for communication linkages or execution functionality between members. FINRA also is proposing that the current position fee applicable to quoting on the OTCBB be eliminated for the ODF.¹³

To facilitate the availability of more pricing information through Level 1, FINRA also is proposing to amend Rule 6520 (Operation of the Service), which, among other things, prescribes the bid-ask calculation methodology for OTCBB best bid and offer quotations, which are disseminated via the Level 1 data feed.¹⁴ The current rule provides that a bid-ask calculation is accessible through OTCBB and Level 1 only where the security has at least two market makers displaying two-sided priced quotes.¹⁵ Amended Rule 6520 would permit FINRA to disseminate inside bid-ask quotations where there is a single one-sided priced quote or where there is only one market maker displaying a two-sided priced quote.

Testing Requirements

FINRA also is proposing to amend the Rule 6500 Series to require member firms that are deemed “active market participants” to test with the FINRA quotation facility. FINRA believes that, in the event of a system disturbance on another inter-dealer quotation system, firms—particularly active market participants—should be in a position to continue displaying their interest in OTC equity securities notwithstanding such disturbance. FINRA believes that periodic testing to the FINRA facility would further this objective and facilitate stability in the OTC marketplace. Thus, FINRA is proposing to require that, to facilitate the ability to seamlessly transition quotes to the FINRA facility, members meeting specified quotation activity thresholds in OTC equity securities over the prior six months establish connection to the FINRA facility and test that connectivity and limited functionality on at least a semiannual basis. FINRA believes that mandatory testing supports the viability of the system as an alternative venue for the display of quotations in OTC equity securities should another inter-dealer quotation system experience system disturbances.

Based upon a review of current member quotation activity, FINRA believes that it is appropriate to require testing by any member firm that, on average, displays quotations in at least 500 symbols per day in aggregate across member inter-dealer quotation systems over the applicable six-month period. Using a sample of quotation data covering the six-month period from July 1, 2015, through December 31, 2015, this 500-symbol threshold would require semiannual testing by 23 member firms that, in the aggregate, accounted for 99 percent of all quotes (including unsolicited quotations) on a member inter-dealer quotation system. FINRA intends to publish a list of firms that will be required to participate in testing at least 90 calendar days prior to the scheduled testing date.

Economic Impact Analysis

Need for the Rule

Establishing an expanded display facility for quotations of OTC equity securities is intended to provide increased transparency to the public, including in instances of short or longer-term unavailability of commercial alternatives. The expanded facility is intended to provide an alternative venue for the display of quotations in OTC equity securities. Maintaining continuous trading, where possible, limits disruptions and costs to those interested in buying and selling OTC equity securities. Further, permitting dissemination of inside bid-ask quotations in instances where there is a one-sided market or only one market maker displaying two-sided quotes will provide greater transparency for more OTC equity securities through ODF.

Economic Baseline

In March 2016, there were an average of 2,000 trades per day in OTCBB-eligible securities, which represents less than 2 percent of the 103,000 average trades per day in all OTC equity securities. In March 2016, there were quotations in 345 OTCBB-eligible securities; however, this number may fluctuate daily.¹⁶ During the month, there was an average of six quote updates per day and transactions reported to the FINRA OTC Reporting Facility in 249 OTCBB-eligible securities. In March 2016, there also were 26 firms that maintained at least one quotation in at least one OTCBB-eligible security on OTCBB. Of these 26 firms, 20 displayed quotations in five or fewer symbols. In contrast, there are approximately 9,800 OTC equity securities that are quoted as of March 2016 on another inter-dealer quotation system (and approximately another 8,000 OTC equities that are not currently quoted anywhere). FINRA understands that approximately 80 firms displayed quotations as of March 2016 in OTC equity securities on another inter-dealer quotation system.

FINRA's experience with OTC equity securities quoted on the OTCBB suggests that many securities do not have sufficient quotations to permit the calculation of an inside bid-ask under the current rules. For instance, for the week of March 28, 2016, only 57 out of 345 OTCBB-eligible securities had two-sided priced quotes. Of these 57 securities, only two had at least two firms displaying two-sided priced quotes as required today to calculate and disseminate a best bid and offer (BBO). Hence, 288, or approximately 83 percent, of OTC equity securities on OTCBB had either a one-sided priced quote or unpriced quotes.

FINRA has imposed two market-wide quotation and trading halts in OTC equity securities caused by a lack of pre-trade transparency due to systems issues at another inter-dealer quotation system. The first was on November 7, 2013, and lasted from approximately 11:25 am until 3:00 pm. The second was on October 17, 2014, and lasted from approximately 11:05 am until 1:00 pm.

Economic Impacts

The proposed rule would benefit investors who have interest in OTC equity securities as it would provide a vehicle to facilitate the availability of quotation information even in the presence of a system failure on another inter-dealer quotation system. Further, easing the restrictions on the methodology for calculating inside bid-ask quotes for these securities would provide transparency for more securities on the ODF than would be available today in the instance where the Level 1 feed was the primary source of quotation information. Based on the information available to FINRA, as many as an additional 56 firms could rely on the ODF to quote in approximately 9,455 additional OTC equity securities than are currently quoted on the OTCBB.¹⁷ FINRA notes, however, that since usage of the ODF system would be voluntary, the actual number of firms quoting on ODF may be significantly lower.

Amending the methodology for calculating a BBO for OTCBB-eligible securities to permit inclusion of one-sided or two-sided quotes by a single dealer would have led to the dissemination of a BBO for an additional 65 OTC equity securities (as compared to the two under the current methodology).

Member firms that display quotations in, on average, 500 or more symbols per day would incur some costs. Firms that do not currently quote on the OTCBB would incur costs associated with establishing connections to ODF and regularly testing such connections. FINRA estimates that, based on the sample quotation data covering the six-month period from July 1, 2015, through December 31, 2015, 22 of the 23 active market participants that would be required to conduct the semiannual testing do not currently quote on OTCBB and would potentially incur higher costs relating to establishing and maintaining connectivity to the FINRA facility.

Since the proposed rule to establish and test connectivity to the FINRA facility is limited to firms that display quotations in an average of 500 symbols per day or more over the applicable six-month period, firms may potentially reduce the number of securities quoted where they have determined that the costs associated with displaying quotations in fewer symbols is less than the direct and indirect costs of establishing and maintaining connection to ODF.

FINRA has recognized in the past that, if OTCBB has limited firm participation, the disseminated quotations may not fully represent the most recent information about the value of a security. And as such, OTCBB may provide information that is incomplete, potentially misleading investors who rely on it exclusively. This proposal does not alleviate this concern, particularly if few additional firms choose to rely on the ODF as an alternate display facility.

A requirement that firms deemed active market participants establish and periodically test connectivity with the FINRA quotation facility potentially may impact competition among inter-dealer quotation systems. Specifically, it is possible that those market participants that have incurred the costs associated with mandatory testing with the FINRA facility

may choose to continue using the FINRA facility for some or all of their quoted securities, rather than solely limited to circumstances where a back-up is needed due to a system disturbance on a non-FINRA facility, and this determination also may alter these market participants' quoting activities on other inter-dealer quotation systems. Such impact on quoting activities may eventually fragment liquidity in a segment of the market where liquidity is naturally lower.

Request for Comment

FINRA requests comment on all aspects of the proposal. FINRA requests that commenters provide empirical data or other factual support for their comments wherever possible. FINRA specifically requests comment concerning the following issues.

- ▶ FINRA previously noted concerns regarding the dissemination of incomplete quotation information through the OTCBB. These concerns must be weighed along with other considerations, such as the potential benefits to transparency and OTC market stability of maintaining an SRO-sponsored system, including in the event of system disturbances or failure of any other inter-dealer quotation system. Are there alternative means of ensuring that there continues to be an inter-dealer quotation facility available for use by FINRA member firms to display their interest in OTC equity securities?
- ▶ The proposal would remove the reporting company limitation from current OTCBB-eligibility requirements, thus permitting non-reporting or delinquent filers to be quotable on the FINRA quotation facility. This limitation was adopted in the past due to concerns regarding the need for public information on the securities being quoted and non-reporting securities lacked such mandated public information. Is removal of the reporting company limitation appropriate to facilitate the availability of pricing information for OTC equity securities in light of the proposed changes for the FINRA system?
- ▶ For symbols quoted on the FINRA facility, FINRA proposes to indicate whether the issuer of each quoted OTC equity security is a timely reporting company, a delinquent reporting company or a non-reporting company. Would this information be useful to market participants?
- ▶ FINRA proposes that member firms that display quotations in an average of 500 or more symbols per day (including unsolicited quotes) across member inter-dealer quotation systems over a six-month period must participate in connectivity and limited functionality testing to help ensure that, if needed, such members can connect to, and display quotations with, FINRA. Is this threshold appropriate? Are there alternative thresholds that may better achieve the objectives of the proposal?

- ▶ The Intermarket Symbol Reservation Authority Plan (ISRA Plan) governs the selection and reservation of security symbols among SROs, including OTC equity securities. The symbol assigned to identify an OTC equity security sometimes changes. A change in symbol assignment may occur for a variety of reasons, such as a corporate action or the availability of a previously unavailable symbol. Section IV(d) of the ISRA Plan generally provides, among other things, that a symbol previously used to identify a security may not be reused to identify a new security within 90 calendar days.¹⁸ Is this 90-day period useful to minimize confusion with regard to the reuse of a symbol to identify an OTC equity security? Is 90-days sufficient time to minimize the potential for confusion? If not, what time frame would be appropriate and sufficient to minimize investor confusion?
- ▶ Is removal of the two, two-sided priced quote limitation appropriate to improve the widespread dissemination of pricing information available through the FINRA-sponsored inter-dealer quotation system?
- ▶ The proposal is intended to permit the ODF to serve as an alternative quotation display facility to already existing facilities. If adopted, how will the proposal impact the existing OTC equities display facilities? Will increased alternatives for this service benefit investors? If not, why not? Will any potential negative impacts be offset by the enhanced protections against the loss of transparency that occurs during disruptions to the existing display facilities? Why or why not?
- ▶ How many firms might choose to rely on the FINRA-sponsored inter-dealer quotation system as an alternate quotation display facility? Might the number of firms that choose to quote on the FINRA-sponsored inter-dealer quotation system be impacted by the elimination of the \$6/security/month position fee?
- ▶ What direct and indirect costs would firms incur if they must connect to the FINRA-sponsored inter-dealer quotation system for semiannual testing? Please provide any estimate of these costs you may have.

Endnotes

1. FINRA will not edit personal identifying information, such as names or email addresses, from submissions. Persons should submit only information that they wish to make publicly available. *See Notice to Members 03-73* (November 2003) (Online Availability of Comments) for more information.
2. *See* SEA Section 19 and rules thereunder. After a proposed rule change is filed with the SEC, the proposed rule change generally is published for public comment in the Federal Register. Certain limited types of proposed rule changes, however, take effect upon filing with the SEC. *See* SEA Section 19(b)(3) and SEA Rule 19b-4.
3. *See* Securities Exchange Act Release No. 40878 (January 4, 1999), 64 FR 1255 (January 8, 1999) (Order approving proposal to limit quotations on OTCBB to reporting companies). *See also* Securities Exchange Act Rel. No. 40606 (October 27, 1998), 63 FR 59610 (November 4, 1998) (Proposal to limit quotations on OTCBB to reporting companies).
4. *See* Securities Exchange Act Release No. 25949 (July 28, 1988), 53 FR 29096 (August 2, 1988) (Notice of Filing of File No. SR-NASD-88-19). *See also* Securities Exchange Act Release No. 27975A (May 30, 1990), 55 FR 23161 (June 6, 1990) (Corrected Order Approving File No. SR-NASD-88-19).
5. OTCBB provides display technology that permits members to show their quotations in OTC equity securities. The OTCBB system is a display-only system and does not allow trade executions or provide communications linkages.
6. *See* Securities Exchange Act Release No. 72575 (July 9, 2014), 79 FR 41339 (July 15, 2014) (“2014 Proposal”).
7. *See* 2014 Proposal at 41343.
8. *See* Securities Exchange Act Release No. 74486 (March 12, 2015), 80 FR 13922 (March 17, 2015) (Notice of Withdrawal of Proposed Rule Change Relating to Quotation Requirements for Unlisted Equity Securities and Deletion of the Rules Related to the OTC Bulletin Board Service). *See also* Securities Exchange Act Release No. 73313 (October 7, 2014), 79 FR 61677 (October 14, 2014) (Order Instituting Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change Relating to Quotation Requirements for Unlisted Equity Securities and Deletion of the Rules Related to the OTC Bulletin Board Service).
9. As proposed, FINRA’s inter-dealer quotation system would permit quotations in any OTC equity security by a member firm that has complied with Rule 6432 and SEA Rule 15c2-11 and, to the extent the security becomes “piggyback” eligible under SEA Rule 15c2-11(f)(3) on the FINRA facility, other member firms may display quotations in the security. In addition, because the FINRA facility must function as a back-up facility for OTC equity securities quoted on any inter-dealer quotation system, FINRA intends to request relief from SEA Rule 15c2-11 to permit members to display quotations on the FINRA facility in any security that is piggyback-eligible on any inter-dealer quotation system operated by a FINRA member. This relief would be required to permit members to initiate quotations intra-day on securities that are not otherwise piggyback eligible on the FINRA facility but are piggyback eligible on another member inter-dealer quotation system.
10. As part of these proposed changes, FINRA intends to replace the technology that constitutes the current OTCBB quotation facility with upgraded technology that provides substantially the same quotation functionality.

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11. FINRA will continue to permit quotations in listed companies where the security is undergoing delisting from a national securities exchange for non-compliance with maintenance-of-listing standards and is subject to a trading halt on such exchange preceding the actual delisting.
12. If a party believes that the reporting company status provided by FINRA reflects an error, such party may contact FINRA. However, FINRA reserves the right to make the final determination as to the status of the issuer based on the sole reasonable discretion of the staff. In addition, consistent with current OTCBB procedures, because FINRA relies solely on publicly available data to track issuer reporting status (*i.e.*, FINRA would not perform independent verification of issuer filing status), issuer status changes would only be made in extraordinary cases and, generally, only if written notice of status change is received by FINRA directly from the SEC or other regulator, as applicable.
13. Currently, a position charge of \$6/security/month applies to a broker-dealer that displays quotations or trading interest in the OTCBB. See FINRA Rule 7720 (OTC Bulletin Board Service).
14. The Level 1 feed is a consolidated best bid and offer data feed for Nasdaq-listed securities and OTCBB-eligible securities. The Level 1 feed is carried by virtually all trading firms and market data distributors.
15. Currently, FINRA Rule 6520 provides, among other things, that “[a] subscribing market maker can also access the proprietary quotations that other firms have entered into the Service along with highest bid and lowest offer (*i.e.*, an inside bid-ask calculation) in any OTCBB-eligible security with at least two market makers displaying two-sided markets.”
16. The number of securities that are OTCBB-eligible fluctuates as issuers fall within or outside of the eligibility requirements set forth in FINRA Rule 6530, such as the requirement that OTCBB issuers be timely reporting companies. Where an issuer no longer is a reporting company or has exceeded the grace period set forth in the rule for filing its reports, the company’s stock no longer is OTCBB-eligible. The number of securities quoted on OTCBB also may fluctuate due to the requirements of SEA Rule 15c2-11 and FINRA Rule 6432.
17. As of May 2016, there were approximately an additional 8,000 symbols that trade in the gray market and are not quoted on any inter-dealer quotation system. These symbols are not currently OTCBB-eligible, but could quote on ODF if they were to begin quoting over the counter by complying with Rule 6432 and SEA Rule 15c2-11.
18. The ISRA Plan also generally provides that a symbol may be reused within 90 days where the SRO that previously used the symbol consents and where the SRO seeking to reuse the symbol reasonably determines that such reuse would not cause investor confusion.

Attachment A

Below shows the text of the rules applicable to FINRA's over-the-counter display facility as proposed to be amended. The below text does not show proposed additions and deletions to the current FINRA rules.

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6500. OTC DISPLAY FACILITY

6510. General

The OTC Display Facility is a facility operated by FINRA available for use by FINRA members to display quotations in OTC Equity Securities. These Rules shall be known as the "ODF Rules" and govern the operation and use of the OTC Display Facility service (ODF or "Service") by broker-dealers admitted to membership in FINRA and their associated persons. Those FINRA members that use the ODF must comply with the Rule 6500 Series, as well as all other applicable FINRA rules and the federal securities laws. Members that effect transactions in ODF-eligible securities shall report them pursuant to the requirements of the Rule 6620 Series.

6520. Operation of the Service

The ODF provides an electronic quotation medium for subscribing members to reflect interest in ODF-eligible securities. Subscribing members can utilize the Service to enter, update, and display their proprietary quotations in individual securities on a real-time basis. Such quotation entries may consist of a priced bid and/or offer; an unpriced indication of interest (including "bid wanted" or "offer wanted" indications); or a bid/offer accompanied by a modifier to reflect unsolicited customer interest. A subscribing member also may view the proprietary quotations that other firms have entered into the Service along with the highest bid and lowest offer in any ODF-eligible security.

6530. ODF-Eligible Securities

A member shall be permitted to quote the following categories of securities in the Service:

- (a) any OTC Equity Security, as defined in Rule 6420; or
- (b) any equity security undergoing delisting from a national securities exchange for non-compliance with maintenance-of-listing standards and is subject to a trading suspension imposed by such national securities exchange preceding the actual delisting.

6540. Requirements Applicable to ODF Subscribers

(a) FINRA member participation in the ODF is voluntary and open to any FINRA member firm that satisfies the financial/operational requirements applicable to member firms engaged in over-the-counter market making and demonstrates compliance with (or qualifies for an exception to, exemption from, or no-action relief regarding) SEA Rule 15c2-11 at the time of initiating (or resuming) the quotation of any ODF-eligible security in the Service. Rule 6432 sets forth the procedure for demonstrating compliance with SEA Rule 15c2-11.

(b) ODF-eligible securities that meet the frequency-of-quotation requirement for the so called “piggyback” exception in SEA Rule 15c2-11(f)(3)(i) (or that otherwise qualify for treatment as piggyback eligible pursuant to an exception to, exemption from, or no-action relief regarding SEA Rule 15c2-11) are identified in the Service as “active” securities. In all other instances, a member must follow the procedure contained in this Rule to be permitted to commence quoting a particular ODF-eligible security.

(1) Permissible Quotation Entries

(A) A member firm permitted to commence quotations in a particular ODF-eligible security may enter into the Service a priced bid and/or offer, an unpriced indication of interest (including “bid wanted” and “offer wanted” indications) or a bid or offer accompanied by a modifier to reflect unsolicited customer interest.

(B) A priced bid and/or offer entered into the Service for a domestic equity security must be firm up to the minimum quotation size specified in Rule 6433. This firmness requirement applies only during normal business hours, i.e., 9:30 a.m. to 4:00 p.m. Eastern Time.

(C) A priced bid and/or offer entered into the Service for a Direct Participation Program security shall be non-firm. The non-firm or indicative nature of a priced entry is specifically identified on the montage of quotations for this subset of ODF-eligible securities. Moreover, a member is only permitted to update quotation entries in such securities twice daily, i.e., once between 8:30 a.m. and 9:30 a.m. Eastern Time, and once between noon and 12:30 p.m. Eastern Time. An “update” would include a new, non-firm priced quotation, substituting an unpriced indication for a non-firm priced entry, or an initial registration without a price.

(2) Voluntary Termination of Registration

A FINRA member may voluntarily terminate its registration in an ODF-eligible security by withdrawing its quotations in that security from the Service. The firm may re-register to quote the security by satisfying the requirements specified above.

(3) Clearance and Settlement

(A) A FINRA member shall clear and settle transactions in ODF-quoted securities through the facilities of a registered clearing agency that uses a continuous net settlement system. This requirement applies only to transactions in ODF securities that are clearing eligible.

(B) The foregoing requirement may be satisfied by direct participation, use of direct clearing services, or by entry into a correspondent clearing arrangement with another member that clears trades through such an agency.

(C) Notwithstanding subparagraph (A) hereof, transactions in ODF-quoted securities may be settled “ex-clearing” provided that both parties to the transactions agree.

(c) Compliance with ODF Requirements

Failure of a member or a person associated with a member to comply with this Rule may be considered conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of Rule 2010.

(d) ODF Testing

A member is required to participate in semiannual ODF testing where, over the six-month measurement period determined by FINRA, such member displayed solicited or unsolicited quotations in an average of 500 or more OTC Equity Security symbols per day on any member inter-dealer quotation system. FINRA will publish a list of members that will be required to participate in testing pursuant to this rule at least 90 calendar days prior to the scheduled testing date.

6550. Transaction Reporting

Member firms that effect transactions in ODF-eligible securities shall report them pursuant to the requirements of the Rule 6620 Series.

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