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> FINRA RULES > 5000. SECURITIES OFFERING AND TRADING STANDARDS AND PRACTICES
> 5200. QUOTATION AND TRADING OBLIGATIONS AND PRACTICES

5240. Anti-Intimidation/Coordination

The Rule

Notices

(a) No member or person associated with a member shall:

(1) coordinate the prices (including quotations), trades or trade reports of such member with any other member or person associated with a member, or any other person;

(2) direct or request another member to alter a price (including a quotation); or

(3) engage, directly or indirectly, in any conduct that threatens, harasses, coerces, intimidates or otherwise attempts improperly to influence another member, a person associated with a member, or any other person.

This includes, but is not limited to, any attempt to influence another member or person associated with a member to adjust or maintain a price or quotation, whether displayed on any facility operated by FINRA or otherwise, or refusals to trade or other conduct that retaliates against or discourages the competitive activities of another market maker or market participant.

(b) Provided that the conduct in subparagraphs (1) through (7) below is otherwise in compliance with all applicable law, nothing in this Rule respecting coordination of quotes, trades or trade reports shall be deemed to limit, constrain or otherwise inhibit the freedom of a member or person associated with a member to:

(1) set unilaterally its own bid or ask in any security, the prices at which it is willing to buy or sell any security, and the quantity of shares of any security that it is willing to buy or sell;

(2) set unilaterally its own dealer spread, quote increment or quantity of shares for its quotations (or set any relationship between or among its dealer spread, inside spread, or the size of any quote increment) in any security;

(3) communicate its own bid or ask, or the prices at or the quantity of shares in which it is willing to buy or sell any security to any person, for the purpose of exploring the possibility of a purchase or sale of that security, and to negotiate for or agree to such purchase or sale;

(4) communicate its own bid or ask, or the price at or the quantity of shares in which it is willing to buy or sell any security, to any person for the purpose of retaining such person as an agent or subagent for the member or for a customer of the member (or for the purpose of seeking to be retained as an agent or subagent), and to negotiate for or agree to such purchase or sale;

(5) engage in any underwriting (or any syndicate for the underwriting) of securities to the extent permitted by the federal securities laws;

(6) take any unilateral action or make any unilateral decision regarding the market makers with which it will trade and the terms on which it will trade unless such action is prohibited by paragraph (a) of this Rule; and

(7) deliver an order to another member for handling.

Amended by SR-FINRA-2008-061 eff. June 15, 2009.

Amended by SR-NASD-2002-97 eff. July 29, 2002.

Adopted by SR-NASD-97-37 eff. July 17, 1997.

Selected Notice: 09-20.

< 5230. PAYMENTS INVOLVING PUBLICATIONS THAT INFLUENCE THE MARKET PRICE

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5250. PAYMENTS FOR MARKET MAKING >

OF A SECURITY

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5250. Payments for Market Making

The Rule

Notices

(a) No member or person associated with a member shall accept any payment or other consideration, directly or indirectly, from an issuer of a security, or any affiliate or promoter thereof, for publishing a quotation, acting as market maker in a security, or submitting an application in connection therewith.

(b) The provisions of paragraph (a) shall not preclude a member from accepting:

(1) payment for bona fide services, including, but not limited to, investment banking services (including underwriting compensation and fees);

(2) reimbursement of any payment for registration imposed by the SEC or state regulatory authorities and for listing of an issue of securities imposed by a self-regulatory organization; and

(3) any payment expressly provided for under the rules of a national securities exchange that are effective after being filed with, or filed with and approved by, the SEC pursuant to the requirements of the Exchange Act.

(c) For purposes of this Rule, the following terms shall have the stated meanings:

(1) "affiliate" shall have the same definition as used in Rule 5121;

(2) "promoter" means any person who founded or organized the business or enterprise of an issuer, is a director or employee of an issuer, acts or has acted as a consultant, advisor, accountant or attorney to an issuer, is the beneficial owner of any of an issuer's securities that are considered "restricted securities" under Securities Act Rule 144, or is the beneficial owner of five percent (5%) or more of the public float of any class of an issuer's securities, and any other person with a similar interest in promoting the entry of quotations or market making in an issuer's securities; and

(3) "quotation" shall mean any bid or offer at a specified price with respect to a security, or any indication of interest by a member in receiving bids or offers from others for a security, or an indication by a member that it wishes to advertise its general interest in buying or selling a particular security.

Amended by SR-FINRA-2013-020 eff. May 15, 2013.

Amended by SR-FINRA-2010-060 eff. Dec. 15, 2010.

Amended by SR-FINRA-2009-036 eff. Dec. 14, 2009.

Amended by SR-NASD-97-85 eff. Dec. 1, 1997.

Adopted by SR-NASD-97-29, eff. July 3, 1997.

Selected Notices: 75-16, 92-50, 96-83, 97-46, 09-60.

[5240. ANTI-INTIMIDATION/COORDINATION](#)

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[5260. PROHIBITION ON TRANSACTIONS, PUBLICATION OF QUOTATIONS, OR PUBLICATION OF INDICATIONS OF INTEREST DURING TRADING HALTS](#)

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5260. Prohibition on Transactions, Publication of Quotations, or Publication of Indications of Interest During Trading Halts

The Rule

Notices

(a) No member or person associated with a member shall, directly or indirectly, effect any transaction or publish a quotation, a priced bid and/or offer, an unpriced indication of interest (including "bid wanted" and "offer wanted" and name only indications), or a bid or offer accompanied by a modifier to reflect unsolicited customer interest, in any security as to which a trading halt is currently in effect, except as permitted under the Regulation NMS Plan to Address Extraordinary Market Volatility. If FINRA closes trading in a security pursuant to its authority under Rule 6120(a)(3), members would not be prohibited from trading through other markets for which trading is not halted.

(b) No member or person associated with a member shall, directly or indirectly, effect any transaction or publish a quotation, a priced bid and/or offer, an unpriced indication of interest (including "bid wanted" and "offer wanted" and name only indications), or a bid or offer, accompanied by a modifier to reflect unsolicited customer interest, in:

- (1) a future for a single security when the underlying security has a regulatory trading halt that is currently in effect; and
- (2) a future on a narrow-based securities index when one or more underlying securities that constitute 50% or more of the market capitalization of the index has a regulatory trading halt that is currently in effect.

Cross Reference-

Rule 6120, Trading Halts

Amended by SR-FINRA-2013-016 eff. April 8, 2013.
 Amended by SR-FINRA-2009-044 eff. Dec. 14, 2009.
 Amended by SR-NASD-2005-087 eff. Aug. 1, 2006.
 Amended by SR-NASD-2001-47 eff. March 31, 2003.
 Amended by SR-NASD-2002-97 eff. July 29, 2002.
 Amended by SR-NASD-2000-33 eff. August 13, 2001.
 Adopted by SR-NASD-87-13 eff. May 5, 1988.

Selected Notices: 86-13, 88-46, 89-2, 98-26, 01-47, 02-82, 09-60, 13-12.

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> 5200. QUOTATION AND TRADING OBLIGATIONS AND PRACTICES

5270. Front Running of Block Transactions

The Rule

Notices

(a) No member or person associated with a member shall cause to be executed an order to buy or sell a security or a related financial instrument when such member or person associated with a member causing such order to be executed has material, non-public market information concerning an imminent block transaction in that security, a related financial instrument or a security underlying the related financial instrument prior to the time information concerning the block transaction has been made publicly available or has otherwise become stale or obsolete.

(b) This Rule applies to orders caused to be executed for any account in which such member or person associated with the member has an interest, any account with respect to which such member or person associated with a member exercises investment discretion, or for accounts of customers or affiliates of the member when the customer or affiliate has been provided such material, non-public market information by the member or any person associated with the member.

(c) For purposes of this Rule, the term "related financial instrument" shall mean any option, derivative, security-based swap, or other financial instrument overlying a security, the value of which is materially related to, or otherwise acts as a substitute for, such security, as well as any contract that is the functional economic equivalent of a position in such security.

••• Supplementary Material: -----

.01 Knowledge of Block Transactions. The violative practices in Rule 5270 may include transactions that are executed based upon knowledge of less than all of the terms of the block transaction, so long as there is knowledge that all of the material terms of the transaction have been or will be agreed upon imminently.

.02 Publicly Available Information. Information as to a block transaction shall be considered to be publicly available when it has been disseminated via a last sale reporting system or high speed communications line of one of those systems, a similar system of a national securities exchange under Section 6 of the Exchange Act, an alternative trading system under SEC Regulation ATS, or by a third-party news wire service. The requirement that information concerning the block transaction be made publicly available will not be satisfied until the entire block transaction has been completed and publicly reported.

.03 Examples of Block Transactions. In the context of equity securities, a transaction involving 10,000 shares or more of a security, an underlying security, or a related financial instrument overlying such number of shares, is generally deemed to be a block transaction, although a transaction of fewer than 10,000 shares could be considered a block transaction. A block transaction that has been agreed upon does not lose its identity as such by arranging for partial executions of the full transaction in portions which themselves are not of block size if the execution of the full transaction may have a material impact on the market.

.04 Permitted Transactions.

(a) Rule 5270 does not preclude transactions that the member can demonstrate are unrelated to the material, non-public market information received in connection with the customer order. These types of transactions may include:

- (1) transactions where the member has information barriers established to prevent internal disclosure of such information;
- (2) transactions in the same security related to a prior customer order in that security;
- (3) transactions to correct bona fide errors; or
- (4) transactions to offset odd-lot orders.

(b) Rule 5270 does not preclude transactions undertaken for the purpose of fulfilling, or facilitating the execution of, the customer block order. However, when engaging in trading activity that could affect the market for the security that is the subject of the customer block order, the member must minimize any potential disadvantage or harm in the execution of the customer's order, must not place the member's financial interests ahead of those of its customer, and must obtain the customer's consent to such trading activity. A member may obtain its customers' consent through affirmative written consent or through the use of a negative consent letter. The negative consent letter must clearly disclose to the customer the terms and conditions for handling the customer's orders; if the customer does not object, then the member may reasonably conclude that the customer has consented and the member may rely on such letter for all or a portion of the customer's orders. In addition, a

member may provide clear and comprehensive oral disclosure to and obtain consent from the customer on an order-by-order basis, provided that the member documents who provided such consent and such consent evidences the customer's understanding of the terms and conditions for handling the customer's order.

(c) The prohibitions in Rule 5270 shall not apply if the member's trading activity is undertaken in compliance with the marketplace rules of a national securities exchange and at least one leg of the trading activity is executed on that exchange.

.05 Front Running of Non-Block Transactions. Although the prohibitions in Rule 5270 are limited to imminent block transactions, the front running of other types of orders that place the financial interests of the member or persons associated with a member ahead of those of its customer or the misuse of knowledge of an imminent customer order may violate other FINRA rules, including Rule 2010 and Rule 5320, or provisions of the federal securities laws.

Amended by SR-FINRA-2012-025 and SR-FINRA-2013-021 eff. Sept. 3, 2013.

Amended by SR-NASD-2002-40 eff. Oct. 15, 2002.

Adopted by SR-NASD-87-45 eff. Dec. 30, 1987.

Selected Notices: 96-66, 12-52.

[◀ 5260. PROHIBITION ON TRANSACTIONS, PUBLICATION OF QUOTATIONS, OR PUBLICATION OF INDICATIONS OF INTEREST DURING TRADING HALTS](#)

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[5280. TRADING AHEAD OF RESEARCH REPORTS ▶](#)

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5280. Trading Ahead of Research Reports

[The Rule](#)[Notices](#)

(a) No member shall establish, increase, decrease or liquidate an inventory position in a security or a derivative of such security based on non-public advance knowledge of the content or timing of a research report in that security.

(b) A member must establish, maintain and enforce policies and procedures reasonably designed to restrict or limit the information flow between research department personnel, or other persons with knowledge of the content or timing of a research report, and trading department personnel, so as to prevent trading department personnel from utilizing non-public advance knowledge of the issuance or content of a research report for the benefit of the member or any other person.

Amended by SR-FINRA-2008-054 eff. Apr. 20, 2009.

Amended by SR-NASD-2005-087 eff. Aug. 1, 2006

Amended by SR-NASD-98-86 eff. Nov. 19, 1998.

Adopted by SR-NASD-95-28 eff. Aug. 15, 1995.

Selected Notices: 95-75, 09-11.

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[5290. ORDER ENTRY AND EXECUTION PRACTICES →](#)

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5290. Order Entry and Execution Practices

[The Rule](#)[Notices](#)

No member or associated person shall engage in conduct that has the intent or effect of splitting any order into multiple smaller orders for execution or any execution into multiple smaller executions for transaction reporting for the primary purpose of maximizing a monetary or in-kind amount to be received by the member or associated person as a result of the execution of such orders or the transaction reporting of such executions. For purposes of this Rule, "monetary or in-kind amount" shall be defined to include, but not be limited to, any credits, commissions, gratuities, payments for or rebates of fees, or any other payments of value to the member or associated person.

Amended by SR-FINRA-2009-067 eff. Feb. 15, 2010.
Adopted by SR-NASD-2005-144 eff. May 25, 2006.

Selected Notices: 06-19, 09-72.

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[5300. HANDLING OF CUSTOMER ORDERS →](#)

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5310. Best Execution and Interpositioning

The Rule

Notices

(a)(1) In any transaction for or with a customer or a customer of another broker-dealer, a member and persons associated with a member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Among the factors that will be considered in determining whether a member has used "reasonable diligence" are:

(A) the character of the market for the security (e.g., price, volatility, relative liquidity, and pressure on available communications);

(B) the size and type of transaction;

(C) the number of markets checked;

(D) accessibility of the quotation; and

(E) the terms and conditions of the order which result in the transaction, as communicated to the member and persons associated with the member.

(2) In any transaction for or with a customer or a customer of another broker-dealer, no member or person associated with a member shall interject a third party between the member and the best market for the subject security in a manner inconsistent with paragraph (a)(1) of this Rule.

(b) When a member cannot execute directly with a market but must employ a broker's broker or some other means in order to ensure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the member.

(c) Failure to maintain or adequately staff an over-the-counter order room or other department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a member of its obligations under this Rule.

(d) A member through which an order is channeled and that knowingly is a party to an arrangement whereby the initiating member has not fulfilled its obligations under this Rule, will also be deemed to have violated this Rule.

(e) The obligations described in paragraphs (a) through (d) above exist not only where the member acts as agent for the account of its customer but also where transactions are executed as principal. Such obligations are distinct from the reasonableness of commission rates, markups or markdowns, which are governed by Rule 2121 and its Supplementary Material.

••• Supplementary Material: -----

.01 Execution of Marketable Customer Orders. A member must make every effort to execute a marketable customer order that it receives fully and promptly.

.02 Definition of "Market." For the purposes of Rule 5310 and the accompanying Supplementary Material, the term "market" or "markets" is to be construed broadly, and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. This expansive interpretation is meant to both inform broker-dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker-dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

.03 Best Execution and Debt Securities. Rule 5310(a)(1)(D) provides that one of the factors used to determine if a member has used reasonable diligence in exercising best execution is the "accessibility of the quotation." In the context of the debt market, this means that, when quotations are available, FINRA will consider the accessibility of such quotations when examining whether a member has used reasonable diligence. For purposes of debt securities, the term "quotation" refers to either dollar (or other currency) pricing or yield pricing. Accessibility is only one of the non-exhaustive reasonable diligence factors set out in Rule 5310(a)(1). In the absence of accessibility, members are not relieved from taking reasonable steps and employing their market expertise in achieving the best execution of customer orders.

.04 Best Execution and Executing Brokers. A member's duty to provide best execution in any transaction "for or with a customer of another broker-dealer" does not apply in instances when another broker-dealer is simply executing a customer order against the member's quote. The duty to provide best execution to customer orders received from other broker-dealers arises only when an order is routed from the broker-dealer to the member for the purpose of order handling and execution. This clarification is intended to draw a distinction between those situations in which the member is acting solely as the buyer or seller in connection with orders presented by a broker-dealer against the member's quote, as opposed to those circumstances in which the member is accepting order flow from another broker-dealer for the purpose of facilitating the handling and execution of such orders.

.05 Use of a Broker's Broker. Paragraph (b) of the Rule provides that when a member cannot execute directly with a market but must employ a broker's broker or some other means in order to ensure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the member. Examples of acceptable circumstances are where a customer's order is "crossed" with another firm that has a corresponding order on the other side, or where the identity of the firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.

.06 Orders Involving Securities with Limited Quotations or Pricing Information. Although the best execution requirements in Rule 5310 apply to orders in all securities, markets for securities differ dramatically. One of the areas in which a member must be especially diligent in ensuring that it has met its best execution obligations is with respect to customer orders involving securities for which there is limited pricing information or quotations available. Each member must have written policies and procedures in place that address how the member will determine the best inter-dealer market for such a security in the absence of pricing information or multiple quotations and must document its compliance with those policies and procedures. For example, a member should analyze pricing information based on other data, such as previous trades in the security, to determine whether the resultant price to the customer is as favorable as possible under prevailing market conditions. In these instances, a member should generally seek out other sources of pricing information or potential liquidity, which may include obtaining quotations from other sources (e.g., other firms that the member previously has traded with in the security).

.07. Orders Involving Foreign Securities. The obligation in Rule 5310(a) that a member use "reasonable diligence" in exercising best execution applies to customer orders in both domestic and foreign securities. However, Rule 5310(a) also recognizes that the markets for different securities can vary dramatically, and the standard of "reasonable diligence" must be assessed by examining specific factors, including "the character of the market for the security" and the "accessibility of the quotation." Accordingly, the determination as to whether a member has satisfied its best execution obligations necessarily involves a "facts and circumstances" analysis.

The handling of customer orders in foreign securities that do not trade in the U.S. can differ substantially from the handling of orders in U.S.-traded securities. In particular, the character of the particular foreign market and the accessibility of quotations in certain foreign markets may vary significantly. Some foreign jurisdictions, for example, may not have similar best execution requirements as those imposed by Rule 5310, or may not have comparable access and pre-trade or post-trade transparency standards.

Even though a security does not trade in the U.S., members still have an obligation to seek best execution for customer orders involving any foreign security. Consequently, a member that handles customer orders involving foreign securities that do not trade in the U.S. must have specific written policies and procedures in place regarding its handling of customer orders for these securities that are reasonably designed to obtain the most favorable terms available for the customer, taking into account differences that may exist between U.S. markets and foreign markets. While best execution obligations take into account differing market structures, best execution obligations also must evolve as changes occur in the market that may give rise to improved executions, including opportunities to trade at more advantageous prices. As such, members also must regularly review these policies and procedures to assess the quality of executions received and update or revise the policies and procedures as necessary.

.08 Customer Instructions Regarding Order Handling. If a member receives an unsolicited instruction from a customer to route that customer's order to a particular market for execution, the member is not required to make a best execution determination beyond the customer's specific instruction. Members are, however, still required to process that customer's order promptly and in accordance with the terms of the order. Where a customer has directed that an order be routed to another specific broker-dealer that is also a FINRA member, the receiving broker-dealer to which the order was directed would be required to meet the requirements of Rule 5310 with respect to its handling of the order.

.09 Regular and Rigorous Review of Execution Quality.

(a) No member can transfer to another person its obligation to provide best execution to its customers' orders. A member that routes customer orders to other broker-dealers for execution on an automated, non-discretionary basis, as well as a member that internalizes customer order flow, must have procedures in place to ensure the member periodically conducts regular and rigorous reviews of the quality of the executions of its customers' orders if it does not conduct an order-by-order review. The review must be conducted on a security-by-security, type-of-order basis (e.g., limit order, market order, and market on open order). At a minimum, a member must conduct such reviews on a quarterly basis; however, members should consider, based on the firm's business, whether more frequent reviews are needed.

(b) In conducting its regular and rigorous review, a member must determine whether any material differences in execution quality exist among the markets trading the security and, if so, modify the member's routing arrangements or justify why it is not modifying its routing arrangements. To assure that order flow is directed to markets providing the most beneficial terms for their customers' orders, the member must compare, among other things, the quality of the executions the member is obtaining via current order routing and execution arrangements

(including the internalization of order flow) to the quality of the executions that the member could obtain from competing markets. In reviewing and comparing the execution quality of its current order routing and execution arrangements to the execution quality of other markets, a member should consider the following factors:

- (1) price improvement opportunities (i.e., the difference between the execution price and the best quotes prevailing at the time the order is received by the market);
- (2) differences in price disimprovement (i.e., situations in which a customer receives a worse price at execution than the best quotes prevailing at the time the order is received by the market);
- (3) the likelihood of execution of limit orders;
- (4) the speed of execution;
- (5) the size of execution;
- (6) transaction costs;
- (7) customer needs and expectations; and
- (8) the existence of internalization or payment for order flow arrangements.

(c) A member that routes its order flow to another member that has agreed to handle that order flow as agent for the customer (e.g., a clearing firm or other executing broker-dealer) can rely on that member's regular and rigorous review as long as the statistical results and rationale of the review are fully disclosed to the member and the member periodically reviews how the review is conducted, as well as the results of the review.

Amended by SR-FINRA-2014-023 eff. May 9, 2014.
 Amended by SR-FINRA-2011-052 eff. May 31, 2012.
 Amended by SR-FINRA-2009-054 eff. May 9, 2011.
 Amended by SR-FINRA-2010-003 eff. June 28, 2010.
 Amended by SR-FINRA-2009-078 eff. Dec. 14, 2009.
 Amended by SR-FINRA-2007-024 eff. Sep. 8, 2009.
 Amended by SR-NASD-2004-130 eff. Sep. 28, 2007.
 Amended by SR-NASD-2004-026 eff. Nov. 8, 2006.
 Amended by SR-NASD-2005-087 eff. Aug. 1, 2006.
 Amended by SR-NASD-2000-20 eff. Nov. 24, 2000.
 Amended by SR-NASD-98-57 eff. March 26, 1999.
 Amended by SR-NASD-97-42 eff. Oct. 22, 1997.
 Amended by SR-NASD-87-55 eff. May 2, 1988.
 Interpretation adopted eff. May 1, 1968.

Selected Notices: 97-88, 99-16, 00-78, 06-58, 07-40, 09-58, 10-26, 10-42, 12-13, 15-46, 18-29.

◀ 5300. HANDLING OF CUSTOMER ORDERS

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5320. PROHIBITION AGAINST TRADING AHEAD OF CUSTOMER ORDERS ▶

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5320. Prohibition Against Trading Ahead of Customer Orders

The Rule

Notices

(a) Except as provided herein, a member that accepts and holds an order in an equity security from its own customer or a customer of another broker-dealer without immediately executing the order is prohibited from trading that security on the same side of the market for its own account at a price that would satisfy the customer order, unless it immediately thereafter executes the customer order up to the size and at the same or better price at which it traded for its own account.

(b) A member must have a written methodology in place governing the execution and priority of all pending orders that is consistent with the requirements of this Rule and [Rule 5310](#). A member also must ensure that this methodology is consistently applied.

••• Supplementary Material: -----

.01 Large Orders and Institutional Account Exceptions. With respect to orders for customer accounts that meet the definition of an "institutional account" as defined in [Rule 4512\(c\)](#), or for orders of 10,000 shares or more (unless such orders are less than \$100,000 in value), a member is permitted to trade a security on the same side of the market for its own account at a price that would satisfy such customer order, provided that the member has provided clear and comprehensive written disclosure to such customer at account opening and annually thereafter that:

- (a) discloses that the member may trade *proprietarily* at prices that would satisfy the customer order, and
- (b) provides the customer with a meaningful opportunity to opt in to the [Rule 5320](#) protections with respect to all or any portion of its order.

If the customer does not opt in to the [Rule 5320](#) protections with respect to all or any portion of its order, the member may reasonably conclude that such customer has consented to the member trading a security on the same side of the market for its own account at a price that would satisfy the customer's order.

In lieu of providing written disclosure to customers at account opening and annually thereafter, a member may provide clear and comprehensive oral disclosure to and obtain consent from the customer on an order-by-order basis, provided that the member documents who provided such consent and such consent evidences the customer's understanding of the terms and conditions of the order.

.02 No-Knowledge Exception

(a) With respect to NMS stocks, as defined in Rule 600 of SEC Regulation NMS, if a member implements and utilizes an effective system of internal controls, such as appropriate information barriers, that operate to prevent one trading unit from obtaining knowledge of customer orders held by a separate trading unit, those other trading units trading in a proprietary capacity may continue to trade at prices that would satisfy the customer orders held by the separate trading unit. A member that structures its order handling practices in NMS stocks to permit its market-making desk to trade at prices that would satisfy customer orders held by a separate trading unit must disclose in writing to its customers, at account opening and annually thereafter, a description of the manner in which customer orders are handled by the member and the circumstances under which the member may trade *proprietarily* at its market-making desk at prices that would satisfy the customer order.

(b) With respect to OTC equity securities, as defined in [Rule 6420](#), if a member implements and utilizes an effective system of internal controls, such as appropriate information barriers, that operate to prevent a non-market-making trading unit from obtaining knowledge of customer orders held by a separate trading unit, the non-market-making trading unit trading in a proprietary capacity may continue to trade at prices that would satisfy the customer orders held by the separate trading unit.

(c) If a member implements and utilizes appropriate information barriers in reliance on this exception, the member must uniquely identify such information barriers as prescribed in [Rule 6830\(a\)\(1\)](#).

.03 Riskless Principal Exception. The obligations under this Rule shall not apply to a member's proprietary trade if such proprietary trade is for the purposes of facilitating the execution, on a riskless principal basis, of an order from a customer (whether its own customer or the customer of another broker-dealer) (the "facilitated order"), provided that the member:

- (a) submits a report, contemporaneously with the execution of the facilitated order, identifying the trade as riskless principal to FINRA (or another self-regulatory organization if not required under FINRA rules); and

(b) has written policies and procedures to ensure that riskless principal transactions for which the member is relying upon this exception comply with applicable FINRA rules. At a minimum these policies and procedures must require that the customer order was received prior to the offsetting principal transaction, and that the offsetting principal transaction is at the same price as the customer order exclusive of any markup or markdown, commission equivalent or other fee and is allocated to a riskless principal or customer account in a consistent manner and within 60 seconds of execution.

Members must have supervisory systems in place that produce records that enable the member and FINRA to reconstruct accurately, readily, and in a time-sequenced manner all facilitated orders for which the member relies on this exception.

.04 ISO Exception. A member shall be exempt from the obligation to execute a customer order in a manner consistent with this Rule with regard to trading for its own account that is the result of an intermarket sweep order routed in compliance with Rule 600(b)(30)(ii) of SEC Regulation NMS ("ISO") where the customer order is received after the member routed the ISO. Where a member routes an ISO to facilitate a customer order and that customer has consented to not receiving the better prices obtained by the ISO, the member also shall be exempt with respect to any trading for its own account that is the result of the ISO with respect to the consenting customer's order.

.05 Odd Lot and Bona Fide Error Transaction Exceptions. The obligations under this Rule shall not apply to a member's proprietary trade that is (1) to offset a customer order that is in an amount less than a normal unit of trading; or (2) to correct a bona fide error. Members are required to demonstrate and document the basis upon which a transaction meets the bona fide error exception.

.06 Minimum Price Improvement Standards. The minimum amount of price improvement necessary for a member to execute an order on a proprietary basis when holding an unexecuted limit order in that same security, and not be required to execute the held limit order is as follows:

(a) For customer limit orders priced greater than or equal to \$1.00, the minimum amount of price improvement required is \$0.01 for NMS stocks and the lesser of \$0.01 or one-half (1/2) of the current inside spread for OTC equity securities;

(b) For customer limit orders priced greater than or equal to \$0.01 and less than \$1.00, the minimum amount of price improvement required is the lesser of \$0.01 or one-half (1/2) of the current inside spread;

(c) For customer limit orders priced less than \$0.01 but greater than or equal to \$0.001, the minimum amount of price improvement required is the lesser of \$0.001 or one-half (1/2) of the current inside spread;

(d) For customer limit orders priced less than \$0.001 but greater than or equal to \$0.0001, the minimum amount of price improvement required is the lesser of \$0.0001 or one-half (1/2) of the current inside spread;

(e) For customer limit orders priced less than \$0.0001 but greater than or equal to \$0.00001, the minimum amount of price improvement required is the lesser of \$0.00001 or one-half (1/2) of the current inside spread;

(f) For customer limit orders priced less than \$0.00001, the minimum amount of price improvement required is the lesser of \$0.000001 or one-half (1/2) of the current inside spread; and

(g) For customer limit orders priced outside the best inside market, the minimum amount of price improvement required must either meet the requirements set forth above or the member must trade at a price at or inside the best inside market for the security.

For purposes of determining the minimum price improvement standards for customer limit orders in OTC equity securities priced below \$1.00 where there is no published current inside spread, members may calculate a current inside spread by contacting and obtaining priced quotations from at least two unaffiliated dealers and using the highest bid and lowest offer obtained in calculating the current inside spread. Where there is only a one-sided quote in an OTC equity security priced below \$1.00, members may calculate the current inside spread by contacting and obtaining priced quotations from at least two unaffiliated dealers and using the best price obtained on the other side of the quote. Members must document the name of each dealer contacted and the quotations received for purposes of determining the current inside spread.

In addition, if the minimum price improvement standards above would trigger the protection of a pending customer limit order, any better-priced customer limit order(s) must also be protected under this Rule, even if those better-priced limit orders would not be directly triggered under the minimum price improvement standards above.

.07 Order Handling Procedures. A member must make every effort to execute a marketable customer order that it receives fully and promptly. A member that is holding a customer order that is marketable and has not been immediately executed must make every effort to cross such order with any other order received by the member on the other side of the market up to the size of such order at a price that is no less than the best bid and no greater than the best offer at the time that the subsequent order is received by the member and that is consistent with the terms of the orders. In the event that a member is holding multiple orders on both sides of the market that have not been executed, the member must make every effort to cross or otherwise execute such orders in a manner that is reasonable and consistent with the objectives of this Rule and with the terms of the orders. A member can satisfy the crossing requirement by contemporaneously buying from the seller and selling to the buyer at the same price.

.08 Trading Outside Normal Market Hours. Members generally may limit the life of a customer order to the period of normal market hours of 9:30 a.m. to 4:00 p.m. Eastern Time. However, if the customer and member agree to the processing of the customer's order outside normal market hours, the protections of this Rule shall apply to that customer's order(s) at all times the customer order is executable by the member.

Amended by SR-FINRA-2021-017 eff. Sept. 1, 2021.
 Amended by SR-FINRA-2012-027 eff. July 9, 2012.
 Amended by SR-FINRA-2011-063 eff. Apr. 16, 2012.
 Amended by SR-FINRA-2011-065 eff. Dec. 5, 2011.
 Amended by SR-FINRA-2009-090 eff. Sept. 12, 2011.
 Amended by SR-FINRA-2009-037 eff. June 29, 2009.
 Amended by SR-FINRA-2008-064 eff. Feb. 11, 2009.
 Amended by SR-FINRA-2007-023 eff. Nov. 16, 2007; amended by SR-FINRA-2007-038 eff. Dec. 21, 2007; amended by SR-NASD-2007-041 Nov. 11, 2008.
 Amended by SR-FINRA-2007-039 eff. May 6, 2008.
 Amended by SR-NASD-2007-039 eff. July 26, 2007.
 Amended by SR-NASD-2005-146 eff. July 26, 2007.
 Amended by SR-NASD-2006-134 eff. Dec. 8, 2006.
 Amended by SR-NASD-2005-087 eff. Aug. 1, 2006.
 Amended by SR-NASD-2006-069 eff. July 1, 2006.
 Amended by SR-NASD-2006-035 eff. April 14, 2006.
 Amended by SR-NASD-2005-139 eff. Jan. 9, 2006.
 Amended by SR-NASD-2004-045 eff. Jan. 9, 2006.
 Amended by SR-NASD-2004-089 eff. Jan. 2, 2006.
 Amended by SR-NASD-2005-085 eff. July 1, 2005.
 Amended by SR-NASD-2003-14 eff. January 31, 2003.
 Amended by SR-NASD-2002-66 eff. Dec. 13, 2002.
 Amended by SR-NASD-2001-27 eff. April 6, 2001.
 Amended by SR-NASD-2001-09 eff. March 2, 2001.
 Amended by SR-NASD-99-57 eff. Oct. 25, 1999.
 Amended by SR-NASD-99-44 eff. Sept. 10, 1999.
 Amended by SR-NASD-94-62 eff. June 21, 1995.
 Adopted by SR-NASD-93-58 eff. July 7, 1994.

Selected Notices: [89-39](#), [90-37](#), [95-43](#), [95-67](#), [05-64](#), [05-69](#), [07-19](#), [08-31](#), [08-49](#), [09-14](#), [11-24](#), [21-21](#).

◀ 5310. BEST EXECUTION AND INTERPOSITIONING

UP

5330. ADJUSTMENT OF ORDERS ▶

VERSIONS

Sep 01, 2021 onwards

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5330. Adjustment of Orders

[The Rule](#)[Notices](#)

(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: Unless marked "Do Not Reduce," open order prices shall be first reduced by the dollar amount of the dividend, and the resulting price will then be rounded down to the next lower minimum quotation variation.

(2) Stock Dividends and Stock Splits: Open order prices shall be determined by first rounding up the dollar value of the stock dividend or split to the next higher minimum quotation variation. The resulting amount shall then be subtracted from the price of the order. 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 (C) rounding the result to the next lowest share.

(3) Dividends Payable in Either Cash or Securities at the Option of the Stockholder: Open order prices 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. If the stockholder opts 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.

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

(b) When a pending order involves a security that is the subject of a reverse split, the order (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) open stop orders to buy;

(3) open sell orders; or

(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 Rule 10b-17.

Amended by SR-FINRA-2009-084 eff. April 19, 2010.
Amended by SR-NASD-01-10 eff. March 12, 2001.
Amended by SR-NASD-00-46 eff. Aug. 28, 2000.
Amended by SR-NASD-97-48 eff. July 30, 1997.
Amended by SR-NASD-95-27 eff. Aug. 22, 1995.
Amended by SR-NASD-94-71 eff. Feb. 7, 1995.
Amended by SR-NASD-94-46 eff. Sept. 15, 1994.
Adopted by SR-NASD-93-52 eff. May 16, 1994; eff. date amended to Sept. 15, 1994 by SR-NASD-94-22.

Selected Notices: 93-61, 94-9, 94-28, 94-63, 10-10.

[◀ 5320. PROHIBITION AGAINST TRADING AHEAD OF CUSTOMER ORDERS](#)

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[5340. PRE-TIME STAMPING ▶](#)

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[FINRA RULES](#) > [5000. SECURITIES OFFERING AND TRADING STANDARDS AND PRACTICES](#) > [5300. HANDLING OF CUSTOMER ORDERS](#)

5340. Pre-Time Stamping

The Rule

Notices

Pre-time stamping of order tickets in connection with block positioning is contrary to Rule 4511.

Adopted by SR-FINRA-2010-052 eff. Dec. 5, 2011.

Selected Notice: 11-19.

[5330. ADJUSTMENT OF ORDERS](#)

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[5350. STOP ORDERS](#)

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5350. Stop Orders

[The Rule](#)
[Notices](#)

(a) A member may, but is not obligated to, accept a stop order or stop limit order in a security. A "stop order" is an order to buy (or sell) that becomes a market order to buy (or sell) when a transaction occurs at or above (below) the stop price. A "stop limit order" is an order to buy (or sell) that becomes a limit order to buy (or sell) at the limit price when a transaction occurs at or above (below) the stop price.

(b) This Rule shall not apply to a "not held" stop or stop limit order.

••• Supplementary Material: -----

.01 A member may, but is not obligated to, accept an order type that activates as a market or limit order using an event other than a transaction at the stop price as the trigger (e.g., using a quotation at the stop price). In such cases, the order cannot be labeled a "stop order" or a "stop limit order" and must be clearly distinguishable from a "stop order" or a "stop limit order." In addition, the member must disclose to the customer, in paper or electronic form, prior to the time the customer places the order, a description of the order type including the triggering event. A member that permits customers to engage in securities transactions online also must post the required disclosures on the member's website in a clear and conspicuous manner.

.02 To the extent a member routes a customer stop or stop limit order to another broker-dealer or exchange for handling or execution, the member must take reasonable steps to ensure that the order is handled or executed by the other broker-dealer or exchange in accordance with Rule 5350(a). Similarly, a member that routes to another broker-dealer or exchange other order types using an alternative trigger in accordance with Supplementary Material .01 above must take reasonable steps to ensure that the order is handled or executed by the other broker-dealer or exchange in accordance with the terms of the order as communicated to the customer placing the order.

Adopted by SR-FINRA-2012-026 and amended by SR-FINRA-2013-004 eff. March 4, 2013.

Selected Notice: 12-50.