

OTCBB: RULES and ORDER EXECUTION

OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in unlisted (non-NASDAQ) over-the-counter (OTC) stocks.

What you need to know about the OTCBB market:

- Is **NOT** an issuer listing service, and should not be confused with the NASDAQ Stock Market
- Has **NO** minimum quantitative standard which must be met by an issuer. The new Eligibility Rule does limit quotations on the OTCBB to securities that are current in their reports filed with the SEC or other regulatory authority
- Does **NOT** impose any filing or reporting requirements with the NASD
- Has **NO** business relationship with the NASDAQ
- **SEC Order-Handling Rules, which apply to NASDAQ-listed securities, do NOT apply to OTCBB securities**

OTCBB stocks are not traded on an exchange, usually due to an inability to meet listing requirements. For such securities, broker/dealers negotiate directly with one another over computer networks and by phone. Their activities are monitored by the NASD.

OTCBB stocks are usually very risky. They also tend to trade infrequently, making the bid-ask spread larger. Research about these stocks is more difficult to obtain. OTC markets and stocks are less closely regulated than exchange markets.

OTCBB stocks are non-marginable:

- They can **NOT** be bought on margin account
- They do **NOT** generate margin
- They can **NOT** be used for short selling

OTCBB order execution:

The OTCBB market is much less liquid than NASDAQ. OTCBB is a supported market (i.e. market makers will support liquidity by always showing a bid-ask). In exchange, market makers benefit from certain advantages during order execution.

1. Investors cannot trade inside the MM bid-ask spread

One can not trade using other price than the MM best bid or ask. For example, a stock quotes \$10 to \$11. You place a sell order at \$10.5. Even though your price is better than the best ask (a person buying with a buy at \$11), your order remains unexecuted, and the next deal will take place at \$10.

2. MMs have the right to match quantities

"First come, first served" does not apply to the OTCBB market. MMs are allowed to match order quantities. Example, an existing order, sell 5 000 shares at \$10. Three orders arrive: one buy 4 000, another one buy 3 000 and the last one buy 2 000 in this sequence and all at \$10. The MM has the right to match by quantity 5,000 with the last two orders (3 000 + 2 000). The 4 000 order will not get executed although it was first in the market.

3. MMs can change their bid & ask price and quantity

Suppose a MM receives an order buy 5 000 shares at \$10. He may, for example, execute 3 000 at \$10 and move the ask to \$10.20, leaving you to decide whether you want to pay \$0.20 more per share.