Regulatory Notice 18-11

Unpriced Customer Orders

FINRA Cautions Members Regarding Recommending and Entering Unpriced Customer Orders at and Around the Opening on the First Day of Trading of a Direct Listing

Summary

FINRA advises firms to exercise caution in recommending and entering unpriced customer orders at and around the opening on the first day of trading of a direct listing of a security. FINRA is concerned that, without the use of a limit price, customers may receive executions at prices that are not in line with their expectations and ultimate investment decision. FINRA encourages firms to consider the appropriateness of using and recommending (and discussing with customers the benefits of using) priced, limit orders at and around the opening on the first day of trading of a direct listing.

Questions regarding this *Notice* should be directed to:

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Discussion

Exchange rules may permit the direct initial listing of shares by an issuer where such listing is not accompanied by a concurrent underwritten offering (sometimes called a "direct listing").[1] In such circumstances, a public market has not yet been established for the security and a prior public market price does not exist.

In the absence of an established trading history for a security, even where volatility is not anticipated or present, the potential exists for substantial variance in the opening price of a direct listing and in the subsequent prices at which trading on the secondary market occurs on the first day of trading. As a result, investors who place unpriced orders, such as market orders,[2] for a direct listing may find their orders filled at prices beyond their reasonable expectations.

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Notice Type
- Guidance

Suggested Routing
- Compliance
- Internal Audit
- Legal
- Operations
- Risk
- Senior Management
- Systems
- Trading
- Training

Key Topics
- Direct Listing
- Limit Orders
- Market Orders

Financial Industry Regulatory Authority

For these reasons, FINRA is advising firms to exercise caution when recommending or entering unpriced customer orders at and around the opening on the first day of trading of a direct listing of a security. FINRA encourages firms to consider the appropriateness of using and recommending priced, customer limit orders at and around the opening on the first day of trading of a direct listing.[3] Firms should consider the benefits of using limit orders, including that a limit price can be used as a tool for managing market risk and achieving a desired target price rather than obtaining an immediate execution irrespective of price. Similarly, firms should consider discussing the use of limit orders with customers that intend to enter orders at and around the opening on the first day of trading of a direct listing.[4]

Endnotes

1. *See e.g.*, Securities Exchange Act Release No. 80933 (June 15, 2017), 82 FR 28200 (June 20, 2017); Securities Exchange Act Release No. 82627 (February 2, 2018), 83 FR 5650 (February 8, 2018).
2. A "market order" generally is an order for immediate execution to buy or sell at the best price obtainable in the market during normal trading hours.
3. A "limit order" generally is an order to buy or sell a security at or better than a specified price (*i.e.*, "limit price").
4. *See* FINRA Investor Alert, Understanding Order Types Can Save Time and Money.