



Pink OTC Markets Webinar

December 10, 2008

2:00pm Eastern Time

# Pink OTC Markets in 2008

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- Name change to Pink OTC Markets Inc. to reflect information technology company that operates **otcQX** and OTC Pink Sheets markets as well as provides trading infrastructure of all interdealer OTC Bulletin Board trading
- Pink OTC Dollar Volume is \$109 Billion Through First Three Quarters
- Beginning in March, **otcQX** reaches over \$1 Billion traded each month
- By September, **otcQX** surpasses OTC Bulletin Board by dollar volume traded
- E-trade consolidates quotation and trading platforms as it quotes OTC Bulletin Board securities exclusively on Pink Quote platform
- November, NYSE ArcaEdge ECN joins Pink OTC platform



# 2008 OTC Market Developments

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- SEC Rule 12g3-2(b) exemption for Foreign Private Issuers is amended – provides automatic exemption and paves way for creation of hundreds of new OTC traded ADRs
- Real-time trade reports are disseminated for all OTC securities to include all ADRs and foreign ordinaries
- FINRA rules it will halt trading in OTC securities if a halt is declared in NMS securities, bringing the OTC markets closer in line with national securities exchanges
- Emergency short sale rules are made permanent
- Limit Order Protection is extended to all OTC securities, creating a specialist type obligation on all OTC brokers

# How Limit Order Protection Works

Limit Order Protection requires brokers to execute a customer limit order at the same price (or better) as the broker's own proprietary account trading.

## Example 1: Market Maker Reflects Limit Order in Quote

The inside market for ABCD stock is 10.00 bid – 10.10 ask.

Market Maker A receives a limit order from Customer B to buy 5,000 shares of ABCD at 10.05 (a better price than the inside bid).

Market Maker A updates its published bid quote to 10.05 to reflect customer order.

Inside market is now 10.05 bid – 10.10 ask.

Any shares Market Maker A buys at 10.05 will go to Customer B at 10.05

# How Limit Order Protection Works

Example 2: Market Maker Hides Limit Order but Protects (Dark Pool Model)

The inside market for ABCD stock is 10.00 – 10.10.

Market Maker A receives a limit order from Customer B to buy 5,000 shares of ABCD at 10.05.

Market Maker A then buys 1,000 shares of ABCD stock for its own account at 10.05.

To comply with the Limit Order Protection Rule, since Market Maker A makes a trade for its own proprietary account for 1,000 shares at 10.05, it must fill Customer B's order for at least 1,000 of the 5,000 shares at 10.05.

# How Limit Order Protection Works

## Example 3: Market Maker Price Improves Hidden Limit Order

The inside market for ABCD stock is 10.00 – 10.10.

Market Maker A receives a limit order from Customer B to buy 5,000 shares of ABCD at 10.05.

Market Maker A then buys 1,000 shares of ABCD stock for its own account at 10.00.

To comply with the Limit Order Protection Rule, since Market Maker A makes a trade for its own proprietary account for 1,000 shares at 10.00, it must fill Customer B's order for at least 1,000 of the 5,000 shares at 10.00.

# How Limit Order Protection Benefits Your Investors

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- In most cases, customer limit orders will be automatically displayed by market makers in the quote montage so investors can see their orders displayed and verify the quality of their executions (for those with Real-Time quotes)
- Prior to limit order protection, a market maker could trade in its own account at a price better than a limit order, which caused investor confusion when trade reports showed executed prices better than investors' limit orders
- Issuers should communicate with investors to encourage limit orders and should offer real-time quotes to their investors on [pinksheets.com](https://pinksheets.com) so investors can monitor the trading market in their stock and receive better executions

# Launched in 2007, OTC Market Tiers Have Become Widespread Tool to Give Investors a Choice



- All securities traded OTC are identified with an OTC Market Tier label based on the amount and timeliness of the disclosure they provide to the marketplace.
- Drives transparency and disclosure.
- Informs investors
- Simply categorizes companies providing the highest level and quality of disclosure through the lowest.
- Tier designations are displayed on [www.pinksheets.com](http://www.pinksheets.com) and are on all Pink OTC Markets data feeds.

# Services for OTC Issuers and Investors

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- **otcQX Listing**– the highest OTC Market Tier for companies that want to provide their investors with the maximum market visibility and information availability through a trusted listing process.
- **OTC Disclosure and News Service** –allows issuers to upload financial reports and news releases, view real-time quotes, access blue sky information and real-time quotes.
- **Real-Time Level 2 Quote Display** – Company sponsors real-time level 2 quotes on pinksheets.com or on corporate website.
- **Market Report** –Weekly report of trading activity delivered via email
- **Blue Sky Guidance** – Blue Sky Data Corporation provides analysis, review and guidance to companies about compliance with each U.S. state's "Blue Sky Laws" so brokers can discuss, advise and recommend OTC securities to investors.

# Contact Us

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