

Client Alert

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CURRENT ISSUES RELEVANT TO OUR CLIENTS

MARCH 8, 2012

New FINRA Best Execution Rule Effective May 31, 2012

The Financial Industry Regulatory Authority, Inc. (“FINRA”) recently announced that the previously approved rule change relating to the “best execution” obligation of broker-dealers will become effective on May 31, 2012. The Securities and Exchange Commission approved the rule change earlier this year, but FINRA did not announce an effective date at that time. New FINRA Rule 5310 and related Supplementary Material replace current NASD Rule 2320. FINRA Rule 5310 leaves in place the general requirements of NASD Rule 2320, requiring member firms to use “reasonable diligence” in any transaction for or with a customer (or a customer of another broker-dealer) to ascertain the best market for a security to be bought or sold at the price most favorable to that customer under prevailing market conditions. The new rule also includes provisions related to interpositioning (i.e., interjecting a third party between the member and the best available market), the use of a broker’s broker, the staffing of order rooms, and the application of the best execution requirements to other parties. Changes in the new rule include:

- Replacing the “Three Quote Rule” with Supplementary Material describing best execution obligations;
- Codifying existing guidance on regular and rigorous review of execution quality likely to be obtained from different market centers;
- Adding new Supplementary Material concerning orders for foreign securities with no US market; and
- Adding new Supplementary Material concerning customer instructions regarding order routing.

For more information on the new rule, please see our January 11, 2012, Client Alert available at <http://www.chapman.com/media/news/media.1134.pdf>.

If you would like to discuss any of the issues discussed in this Client Alert, please contact any attorney in our Investment Management Group or visit us online at chapman.com.

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