

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57734; File No. SR-CHX-2008-05)

April 29, 2008

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Change the Composition of its Regulatory Oversight Committee

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 21, 2008, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by the Exchange. The Exchange has designated this proposal as non-controversial under Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its rules to change the composition of the Regulatory Oversight Committee (“ROC” or “Committee”) so that this group consists of at least five Public Directors and to allow the Exchange’s Vice Chairman to appoint, and the Public Directors on the Exchange’s Board of Directors to approve, up to two Participant Directors to serve as non-voting advisors to the Committee. The text of this proposed rule change is available at the CHX, on the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

Exchange's Web site at http://www.chx.com/rules/proposed_rules.html, and in the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the CHX included statements concerning the purpose of, and basis for, the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Under its existing rules, the Exchange's ROC consists of seven persons – five Public Directors and two Participant Directors.⁵ One of the Participant Directors must be associated with a firm that is primarily engaged in business on the Exchange's trading floor.⁶ The other

⁵ See CHX Rules, Article 2, Rule 4. Under the Exchange's bylaws, a Public Director is a director who (i) is not a participant, or an officer, managing member, partner or employee of a participant firm; (ii) is not an employee of the CHX or any of its affiliates; (iii) is not a broker or dealer that is registered under the Act, or an officer or employee of a broker or dealer that is registered under the Act; or (iv) does not have any other material business relationship with (a) CHX, CHX Holdings or any of their affiliates or (b) any broker or dealer that is registered under the Act. A Participant Director is a participant or an officer, managing member or partner of a participant firm. See CHX Bylaws, Article II, Section 2(b). The Commission recently approved a proposed rule change by CHX to amend the definition of Public Director in its bylaws to refer to brokers or dealers registered under the Act. See Securities Exchange Act Release No. 57699 (April 23, 2008), 73 FR 23287 (April 29, 2008) (SR-2008-CHX-02).

⁶ This director is called an "On-Floor Participant Director" in the current rule. See CHX Rules, Article 2, Rule 4.

Participant Director must be associated with a participant firm that is not primarily engaged in business on the Exchange's trading floor.⁷

Through this proposal, the Exchange would modify the composition of the ROC so that it would consist of at least five Public Directors. The Exchange would also amend its rules to allow the Exchange's Vice Chairman to appoint, and the Public Directors on the Exchange's Board of Directors to approve, up to two Participant Directors to serve as non-voting advisors to the Committee.

These proposed changes serve several purposes. First, the changes would eliminate references to the Exchange's trading floor when describing the Participant Directors who can serve on the ROC. In the Exchange's new trading model, the Exchange no longer operates a physical trading floor, so these distinctions are no longer particularly useful in distinguishing between Participant Directors.⁸

As an additional matter, the changes would modify the role that Participant Directors play on the ROC – instead of being voting members of the ROC, the Participant Directors would serve as non-voting advisors. This status would allow the Participant Directors to share insights that might prove helpful to the ROC in its oversight of the Exchange's regulatory programs, but would not allow the Participant Directors to vote on issues that may arise.⁹

⁷ This director is called "Off-Floor Participant Director" in the current rule. See CHX Rules, Article 2, Rule 4.

⁸ The Exchange fully transitioned to its new trading model on January 26, 2007.

⁹ The Exchange believes that a non-voting, advisory role for Participant Directors is more consistent with the Commission's proposed self-regulatory organization ("SRO") governance rules, which, if approved, would require that each SRO's ROC be composed entirely of independent (or public) directors, but that would not, at least on its face, prohibit an SRO from appointing an advisory group of members to work with the ROC. See Securities Exchange Act Release No. 50699 (November 18, 2004), 69 FR 71126 (December 8, 2004) (S7-39-04). Although these proposals have not been approved as

Finally, the changes would provide some flexibility in the number of persons who must serve on the ROC to better allow the Exchange to respond to changes over time. By allowing the ROC to be composed of “at least” five Public Directors, the Exchange’s Vice Chairman would be able to appoint, and the Public Directors on the Exchange’s Board would be able to approve, some or even all of its Public Directors to the ROC, as the Board believes is appropriate. Similarly, by allowing the Exchange’s Vice Chairman to appoint, and the Public Directors on the Exchange’s Board to approve, “up to” two Participant Directors to serve as advisors to the ROC, the Exchange’s Board would be able to determine how many non-voting advisors are appropriate at a particular time. This flexibility would also allow the Board to be sensitive, within reasonable bounds, to the availability of its Board members to serve on committees – the proposal would allow the Exchange’s Vice Chairman to appoint, and the Public Directors on the Exchange’s Board to approve, five, six or seven Public Directors to the ROC, for example, depending upon each director’s ability to dedicate time to the ROC’s activities.

The ROC’s composition is not described solely in the Exchange’s rules; it is also set out in the 2003 settlement agreement that the Exchange entered into with the Commission.¹⁰ The Exchange asked the Commission to amend the Order to incorporate this new composition for the ROC; this rule filing is designed to effectuate the changes to the Order approved by the Commission.¹¹

final rules, the Exchange believes that they provide strong guidelines for SROs to consider as they review their internal governance structures.

¹⁰ See Securities Exchange Act Release No. 48566 (September 30, 2003) (Administrative Proceeding File No. 3-11282) (“Order”).

¹¹ See Securities Exchange Act Release No. 57605 (April 2, 2008) (Administrative Proceeding File No. 3-11282).

2. Statutory Basis

The CHX believes that the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b).¹² The proposed rule change is consistent with Section 6(b)(5) of the Act¹³ because it would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system, and, in general, protect investors and the public interest by permitting the Exchange to make reasonable modifications to the required composition of its ROC.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule changes will impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest,

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁴ and Rule 19b-4(f)(6) thereunder.¹⁵

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act¹⁶ normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)¹⁷ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The CHX has requested that the Commission waive the 30-day operative delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to implement the changes to the ROC without delay.¹⁸

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate the proposed rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6). Pursuant to Rule 19b-4(f)(6)(iii) under the Act, the Exchange is required to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied the five-day pre-filing requirement.

¹⁶ 17 CFR 240.19b-4(f)(6).

¹⁷ 17 CFR 240.19b-4(f)(6)(iii).

¹⁸ For purposes only of waiving the 30-day operative delay, the Commission has considered the impact of the proposed rule on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CHX-2008-05 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CHX-2008-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, on official business days between the hours of 10:00 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of the CHX. All comments received will be posted without change; the Commission does not edit personal identifying information

from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CHX-2008-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

Florence E. Harmon
Deputy Secretary

¹⁹ 17 CFR 200.30-3(a)(12).