

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-57363; File No. SR-CHX-2007-21)

February 20, 2008

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1, to Amend Rules Relating to Registration Requirements

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 9, 2007, 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, II, and III below, which Items have been substantially prepared by CHX. On February 14, 2008, CHX filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

CHX proposes to amend its registration requirements to require CHX participants to use the Financial Industry Regulatory Authority, Inc.’s (“FINRA”) Web Central Registration Depository (“Web CRD”) to register associated persons who are required to register with the Exchange under CHX rules. The Exchange would also amend its Fees Schedule (the “Fee Schedule”) to include fees that would be charged in connection with the use of Web CRD. The text of this proposed rule change is available at CHX, on the Exchange’s Web site at [www.chx.com](http://www.chx.com), and in the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Amendment No. 1 replaced and superseded the original filing in its entirety.

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

In its filing with the Commission, CHX included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. CHX 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

FINRA's Web CRD system is a centralized, web-based system used by securities exchanges and broker-dealers across the country to track registration and qualification information about firms and the individuals who work for those firms. The Exchange has entered into an agreement with FINRA to allow the Exchange's participants to use Web CRD to register certain of their associated persons. Through this proposal, the Exchange seeks to amend its registration rules and Fee Schedule: (a) to require Exchange participants to use Web CRD to register associated persons who are required to register with the Exchange under CHX rules; (b) to allow CHX to determine whether participants should submit fingerprints to CHX or to FINRA for processing during the registration process; and (c) to adopt new fees to cover charges assessed by FINRA for its work in processing fingerprints or the materials submitted through the Web CRD system. CHX would also delete a provision that requires firms to notify CHX

of the termination of any non-registered, associated person's employment.<sup>4</sup>

The first part of this proposal would require CHX participants to use the Web CRD system to register certain of their associated persons.<sup>5</sup> Today, CHX participants that are not members of FINRA do not have access to the Web CRD system for registering their associated persons. Instead of using this on-line tool, those participants must handle their registration and continuing education processes manually, by filing paperwork with CHX. CHX staff must process and store this paperwork in hard copy form. To alleviate the need for manual processing and to ensure that other regulatory benefits are achieved, the Exchange believes that it is appropriate to require CHX participants to use Web CRD to register associated persons who are required to register with the Exchange under CHX rules.<sup>6</sup> Among other things, use of the Web CRD system would allow all information relating to the registration of associated persons to be compiled in one central repository for access by regulators and broker-dealers and would permit the automated tracking of a registered person's continuing education requirements, if any.

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<sup>4</sup> See Article 6, Rule 2, Interpretations and Policies .03. CHX believes that this requirement has become somewhat obsolete with CHX's move to its new trading model (and the elimination of its physical trading floor), because the requirement had, in effect, been largely focused on the employment status of clerks working on the Exchange's trading floor. Because the Exchange no longer has a physical trading floor, it is no longer as important to learn of the termination of a clerk's employment with a participant firm. Moreover, CHX regularly receives an updated list of a firm's associated persons when it conducts its annual examinations.

<sup>5</sup> See Proposed Article 6, Rule 2, Interpretations and Policies .01.

<sup>6</sup> Under CHX rules, a variety of persons, including, but not limited to, officers, partners, principal stockholders, and directors of a participant firm, must register with the Exchange, as well as any person acting as an institutional broker representative or as a market maker trader or any person listed on Schedules A, B or C of a participant firm's Form BD. See Article 6, Rule 2(b). These registration rules only apply to participant firms for which the Exchange is the designated examining authority and to registered persons of other participant firms where the registered persons act as institutional broker representatives or market maker traders on the Exchange. See Article 6, Rule 2, Interpretations and Policies .04.

In addition, under this proposal, CHX participants would be required to submit any required fingerprints to either the Exchange or to FINRA for processing.<sup>7</sup> Under the Exchange's current rules, CHX participants submit fingerprints to the Exchange for processing.<sup>8</sup> Under the proposal, the Exchange would have the discretion to continue this process or to require its participants to submit fingerprint cards to FINRA for processing. The Exchange seeks this flexibility so that it can determine, from time to time, which fingerprint processing method is most efficient for the Exchange and for its participants.

Finally, because FINRA would assess charges to CHX participants for using the Web CRD system and for processing any fingerprints that are submitted, the Exchange also seeks to amend its Fee Schedule to include applicable registration, processing and termination fees, as well as various fingerprint charges.<sup>9</sup>

The Exchange anticipates that its participants would be able to begin using Web CRD for registering associated persons in mid-March 2008 and plans to allow its participants to transition to the use of the Web CRD system over the course of a six to nine-month period.<sup>10</sup> At the end of

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<sup>7</sup> See Proposed Article 6, Rule 10, Interpretations and Policies .01.

<sup>8</sup> When the Exchange receives fingerprints, the Exchange processes them through the Federal Bureau of Investigation ("FBI"). The FBI retrieves criminal history information associated with those fingerprints and returns reports to the Exchange for review.

<sup>9</sup> These charges include an \$85 registration fee; a \$95 disclosure processing fee; a \$30 annual processing fee; and termination fees of \$40 and \$80. Fingerprint processing fees would be \$30.25 per card for an initial submission; \$13 per card for a second submission; and \$30.25 per card for a third submission. These fees reflect the charges assessed by FINRA for these services; CHX is not charging any additional fees of its own.

<sup>10</sup> The Exchange believes that this transition period is appropriate because each CHX participant firm that is not already a FINRA member will be required to enter a new Form U-4 into the Web CRD for each person associated with the firm that is required, by CHX rules, to register with the Exchange. The entry of this information could be time-consuming for some firms, and the Exchange believes it is appropriate to give firms an adequate period of time to complete this task before mandating the use of the Web CRD system.

this period, CHX participants would be required to use Web CRD for submitting any registration materials required by CHX rules.

## 2. Statutory Basis

CHX believes 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) of the Act.<sup>11</sup> The proposed rule change is consistent with Section 6(b)(5) of the Act<sup>12</sup> 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 require CHX participant firms to register certain associated persons using FINRA's Web CRD system, a centralized database used by the securities exchanges and broker-dealers across the country to track registration and qualification information about firms and individuals who work for those firms. By requiring use of the Web CRD system, the Exchange's regulatory group, as well as the firms themselves, would be better able to determine whether a registrant has met applicable continuing education requirements. The Exchange also notes that it would be ensuring that other regulators can readily find information about disciplinary actions taken against CHX-only participants.

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

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

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<sup>11</sup> 15 U.S.C. 78(f)(b).

<sup>12</sup> 15 U.S.C. 78(f)(b)(5).

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the Exchange consents, the Commission will:

- (A) by order approve such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

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](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2007-21 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-2007-21. 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 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of 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-2007-21 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.<sup>13</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).