

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57454; File No. SR-CHX-2007-18)

March 7, 2008

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Make Administrative Changes to its Routing Rules

I. Introduction

On July 6, 2007, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to make administrative changes to its routing rules. On January 22, 2008, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on February 1, 2008.³ The Commission received no comments on the proposal. This order approves the proposed rule change, as amended.

II. Description of the Proposal

The Exchange’s rules provide that the Exchange’s Matching System will not execute an order if its execution would be improper under Rule 611 of Regulation NMS under the Act (“improper trade-through”).⁴ In the case of an execution that would cause an improper trade-through, the Exchange’s rules provide that, if a participant submitted a cross with satisfy or an outbound ISO, the Matching System will execute the order and simultaneously route orders

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 57203 (January 25, 2008), 73 FR 6232.

⁴ See CHX Article 20, Rule 5; and Rule 611 of Regulation NMS, 17 CFR 242.611.

necessary to satisfy the bids or offers of other markets.⁵ For all other orders, the Exchange will either cancel the order back to the participant that submitted it or will route the order to the destination of the participant's choice, all at the direction of the participant.⁶

The Exchange's current routing rules also provide that the Exchange will provide routing services pursuant to the terms of three separate agreements, to the extent that they are applicable to a specific routing decision: (1) an agreement between the Exchange and each participant on whose behalf orders will be routed; (2) an agreement between each participant and a specified third-party broker-dealer that will use its routing connectivity to other markets and serve as a "give-up" in those markets; and (3) an agreement between the Exchange and the specified third-party broker-dealer pursuant to which the third-party broker-dealer agrees to provide routing connectivity to other markets and serve as a "give-up" for the Exchange's participants in other markets.⁷

The Exchange proposes to make three changes to its routing rules. First, the Exchange proposes to provide that, if requested by a participant and its routing destination, the Exchange will flip any executions into the participant's account and report that second leg of the away-

⁵ The Exchange's systems determine when, how, and where these orders should be routed. See CHX Article 20, Rule 5, Interpretation and Policy .03(a).

⁶ The participant is responsible for ensuring that it has a relationship with its chosen destination to permit the requested access. The Exchange is not involved in the execution of the order and states that any execution of the order is the responsibility of the destination to which the order was sent. The Exchange, however, reports any execution or cancellation of the order by the other destination to the participant that submitted the order and notifies the other venue of any cancellations or changes to the order submitted by the order-sending participant. See Article 20, Rule 5, Interpretation and Policy .03(b).

⁷ See Article 20, Rule 5, Proposed Interpretation and Policy .03(c)(1).

market transaction to clearing. The Exchange states that this service would provide the order-sending participant the option of consolidating its clearing reports in specific locations.

Second, the Exchange proposes to amend the requirement relating to the agreements that are necessary for the Exchange to provide routing services. For cross with satisfy and outbound ISOs, the Exchange will continue to provide routing services pursuant to the terms of three separate agreements to the extent that they are applicable to a specific routing decision.⁸ For other orders, the Exchange proposes to allow the CHX and/or a third-party broker-dealer providing connectivity to other markets to determine which agreements are needed to implement the routing functionality. The Exchange states that it believes that most routing destinations will require that order-senders sign additional agreements for any services that the destinations might provide, but the Exchange would like to provide flexibility for destinations to make choices appropriate to their business models.

Third, the Exchange proposes to provide that, with respect to a cross with satisfy or an outbound ISO, the agreement between a participant and the third-party broker-dealer routing its order by access agreement with the Exchange need not provide that the third-party broker-dealer will serve as a give-up if this is not necessary – i.e., where the participant has a good give-up in the market to which the order is routed and prefers that its own give-up be used.⁹

III. Discussion

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to

⁸ See Article 20, Rule 5, Proposed Interpretation and Policy .03(c).

⁹ See Article 20, Rule 5, Proposed Interpretation and Policy .03(c).

a national securities exchange and, in particular, with Section 6(b)(5) of the Act,¹⁰ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of, a free and open market and a national market system and, in general, to protect investors and the public interest.¹¹

The Commission believes that the proposed changes to the Exchange's routing rules should provide the Exchange, its participants, and third-party routers with more flexibility in establishing routing arrangements. Accordingly, the Commission finds that the proposed rule change, as amended, is consistent with the Act.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-CHX-2007-18), as modified by Amendment No. 1, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Florence E. Harmon
Deputy Secretary

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).