

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56064; File No. SR-CHX-2006-42)

July 13, 2007

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, To Modify Provisions Relating to Cross with Yield Orders

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 December 22, 2006, 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 the CHX. On July 6, 2007, the Exchange filed Amendment No. 1 to the proposed rule change.³ 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 Substance of the Proposed Rule Change

The CHX proposes to amend its rules to permit participants submitting “cross with yield” orders to elect to yield to undisplayed interest. The text of this proposed rule change is available

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1, which replaced the original filing in its entirety, removed a proposal that would have allowed the Exchange’s Matching System to re-price sell short mid-point cross orders. The Exchange believes that such repricing is no longer necessary due to the Commission’s recent decision to eliminate Rule 10a-1 and all similar pricing tests that might be applied to sell short orders. See Securities Exchange Act Release No. 55970 (June 28, 2007), 72 FR 36348 (July 3, 2007). Amendment No. 1 also removed a proposed effective date for the new order type and made other small wording changes to the narrative description.

at the Exchange, on the Exchange's website at http://www.chx.com/rules/proposed_rules.htm, 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 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. The 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

As part of the Exchange's new trading model, the CHX offers its participants a wide variety of order types that may be submitted to the CHX and its central matching engine ("Matching System").⁴ As the CHX and its participants gain familiarity with this new trading model, further dialogue with participant firms, as well as industry developments, will likely necessitate further refinement of the CHX new trading model rules, including the sort of order type enhancement proposed in this submission.

This proposed rule change would amend the definition of a "cross with yield" order to permit a CHX participant to elect to yield to undisplayed market interest in addition to bids and offers that are displayed in the Matching System. This change is consistent with the purpose of a

⁴ See, e.g., CHX Article 1, Rule 2 and CHX Article 20, Rule 4 (outlining the range of available order types).

cross with yield order – a participant selects this type of order because it wants its customer order to interact with available market interest. This proposal, which simply expands the types of orders to which a participant’s interest would yield, is reflected in changes to Article 1, Rule 2(h) and Article 20, Rules 4(b)(7) and 8(e) of the Exchange’s rules.

2. Statutory Basis

The 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).⁵ The CHX believes the proposal is consistent with Section 6(b)(5) of the Act⁶ in that it is designed to promote just and equitable principles of trade, to remove impediments to, and to perfect the mechanism of, a free and open market and a national market system, and, in general, to protect investors and the public interest by permitting the Exchange to further refine its product offerings.

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.

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

No written comments were either 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

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

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. Please include File Number SR-CHX-2006-42 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-2006-42. 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 100 F Street, NE, Washington, DC 20549, 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 Exchange. 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-2006-42 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Florence E. Harmon
Deputy Secretary

⁷ 17 CFR 200.30-3(a)(12).