

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56771; File No. SR-CHX-2005-34)

November 8, 2007

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving Proposed Rule Change and Amendment No. 1 Thereto Regarding Cancellation of the Stock Leg of a Stock-Option Order and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 3 Thereto

I. Introduction

On November 14, 2005, 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 permit the cancellation of the stock leg of a stock-option order³ if market conditions in a non-Exchange market prevent the options leg of the order from being executed at the agreed upon price. On July 11, 2006, the Exchange submitted Amendment No. 1 to the proposed rule change. The proposed rule change, as amended, was published for comment in the Federal Register on July 27, 2006.⁴ The Commission received no comments regarding the proposal. The Exchange

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ A “stock-option order” would be defined as an order to buy or sell a stated number of units of an underlying or a related security coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying or related security or the number of units of the underlying security necessary to create a delta-neutral or delta-hedged position or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of units of stock as, and on the opposite side of the market from, the underlying or related security portion of the order. See CHX’s proposed Interpretation and Policy .01(b) to Rule 9 under Article 20.

⁴ See Securities Exchange Act Release No. 54185 (July 20, 2006), 71 FR 42693 (“Notice”).

filed Amendment No. 2 to the proposed rule change on October 22, 2007, and withdrew Amendment No. 2 on November 5, 2007. On November 5, 2007, CHX filed Amendment No. 3 to the proposal.⁵ This order approves the proposed rule change, as amended. In addition, the Commission is publishing notice to solicit comment on, and is simultaneously approving on an accelerated basis, Amendment No. 3 to the proposed rule change.

II. Description of Proposal

The Exchange proposes to amend Exchange Rule 9 under Article 20 to add new Interpretation and Policy .01, to permit the cancellation of the stock leg of a stock-option order if market conditions in a non-Exchange market prevent the options leg of the order from being executed at the agreed-upon price.⁶ The market conditions that would be sufficient to justify cancellation of the stock leg of a stock-option order include a sudden change in the price of the options involved in the transaction prior to execution of the trade or a trading halt or systems failure that precludes immediate execution of the options leg at the agreed upon price. The Exchange's proposed rule also would require CHX floor participants that handle stock-option orders that are cancelled in accordance

⁵ In Amendment No. 3, CHX made revisions to the proposed rule text and purpose section of the proposal to conform the proposal with changes to the Exchange's trading model that were approved by the Commission after publication of the Notice. See Securities Exchange Act Release No. 54550 (September 29, 2006), 71 FR 59563 (October 10, 2006). In addition, in Amendment No. 3 CHX added a representation to the proposal that would require CHX to establish a special trade indicator for stock-option orders prior to the proposal becoming operative.

⁶ CHX represented that the stock leg of a stock-option order always would be presented to the CHX with an identified buyer and seller who have agreed to the terms of the trade, and that both the buyer and seller would be aware of the possibility that the stock leg of a stock-option order may be cancelled on the CHX if the corresponding options leg is not executed because of market conditions. See Notice, supra note 5.

with the proposed rule to maintain records “sufficient to establish that market conditions in a non-Exchange market prevented the execution of the option leg(s).”⁷

In Amendment No. 3 to the proposed rule change, the Exchange amended the proposed Interpretation and Policy .01 to state that it would not become operative until a special trade indicator to identify stock transactions that are part of stock-option orders is implemented. The purpose of this trade indicator would be to provide notice to market participants that these stock trades could be cancelled. This trade indicator must be used on such transactions reported through the Consolidated Tape Association Plan and the Nasdaq/UTP Plan.

III. Discussion and Commission Findings

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁸ In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,⁹ which requires, among other things, that the rules of a national securities exchange be designed 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. The Commission notes that the Exchange’s proposed Interpretation and Policy .01 to Exchange Rule 9 under Article 20 is substantially similar to current Rule 6.48(b) of the

⁷ See CHX’s proposed Interpretation and Policy .01(c) to Exchange Rule 9 under Article 20.

⁸ In approving this proposed rule change the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁹ 15 U.S.C. 78f(b)(5).

Chicago Board Options Exchange, Incorporated, which permits cancellation of the options leg of a stock-option order under the same circumstances described in the Exchange's proposed rule. Accordingly, the Commission finds that it is reasonable for the Exchange to provide CHX floor participants with the ability to cancel the stock leg of a stock-option order in certain limited circumstances when market conditions prevent the completion of the options leg of the order.

The Commission also finds good cause for approving Amendment No. 3 to the proposed rule change prior to 30 days after the date of publication of notice of filing thereof in the Federal Register. This amendment will ensure that, before the proposed rule change becomes operative, an indicator is developed that will make transparent the potential cancellation of stock-option orders. Accordingly, the Commission finds good cause for approving Amendment No. 3 to the proposed rule change on an accelerated basis.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 3 to the proposed rule change, including whether Amendment No. 3 to 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 No. SR-CHX-2005-34 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-CHX-2005-34. 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 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the NYSE. 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-2005-34 and should be submitted on or before [insert date 21 days from the date of publication in the Federal Register]

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-CHX-2005-34), as amended, is approved, and that Amendment No. 3 to the proposed rule change (SR-CHX-2005-34) is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Florence E. Harmon
Deputy Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).