

this requirement is designed to provide the CSAE with accurate and complete information at the time it makes specialist assignment decisions and to protect the integrity of the specialist assignment process.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the proposed rule change (SR-CHX-2006-04), as amended, is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>15</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

[FR Doc. E6-12151 Filed 7-28-06; 8:45 am]

BILLING CODE 8010-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54198; File No. SR-CHX-2005-01]

### Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 3 Relating to the Exchange's Order Priority Rule and the Mandatory Use of Order Match Functionalities

July 24, 2006.

#### I. Introduction

On February 3, 2005, the Chicago Stock Exchange, Inc. ("CHX" or "Exchange"), filed with the Securities and Exchange Commission ("Commission") a proposed rule change 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> to amend Exchange Article XXX, Rule 2 to clarify the requirements of the Exchange's priority rule and to require specialists to make use of Exchange-provided order match functionalities except in limited circumstances. On September 16, 2005 and October 6, 2005, the Exchange filed Amendment Nos. 1 and 2, respectively, to the proposed rule change. The proposed rule change, as amended, was published for comment in the **Federal Register** on October 28, 2005.<sup>3</sup> The Commission received no comments on the proposal. On July 13, 2006, the Exchange filed

Amendment No. 3.<sup>4</sup> This order approves the proposed rule change, as amended by Amendment Nos. 1, 2, and 3, grants accelerated approval to Amendment No. 3, and solicits comments on Amendment No. 3.

#### II. Description

The Exchange proposes to amend Exchange Article XXX, Rule 2, to clarify the requirements of the Exchange's priority rule and to require specialists to make use of Exchange-provided order match functionalities except in limited circumstances. The Exchange's priority rule generally requires Exchange specialists to give precedence to orders in their books for the purchase or sale of securities over their own dealer (proprietary) orders.<sup>5</sup>

The Exchange's systems incorporate order match functionalities that are designed to replace proposed specialist proprietary orders with eligible customer orders in the specialist's book. These order match functionalities, among other things, prevent a specialist from manually executing a proprietary order when there is a customer order on the same side on the book that is eligible for execution. The proposed rule change would require specialists to use the order match functionalities except when there are system problems with the order match functionalities,<sup>6</sup> and in certain circumstances related to the execution of preopening orders pursuant to the Exchange's rules,<sup>7</sup> or related to satisfaction through ITS of a trade through of a customer order.<sup>8</sup>

<sup>4</sup> See Partial Amendment dated July 13, 2006 ("Amendment No. 3"). The text of Amendment No. 3 is available on the Exchange's Web site ([http://www.chx.com/rules/proposed\\_rules.htm](http://www.chx.com/rules/proposed_rules.htm)), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

<sup>5</sup> See Exchange Article XXX, Rule 2, Precedence to Orders in Book. Specialists, however, are not required to give precedence to certain professional orders.

<sup>6</sup> The Exchange stated that it does not anticipate that systems problems will occur frequently, but has included this exception to the rule to address those relatively rare circumstances when the order match functionality is not operating properly due to unexpected consequences of unrelated systems changes or a software failure. The Exchange stated that it did not intend the exception to allow participants to avoid the use of order match functionalities, but to recognize that there could be limited circumstances when the order match functionalities are malfunctioning.

<sup>7</sup> See Exchange Article XXX, Rule 37(a)(4). In Amendment No. 3, the Exchange clarified that this proposed exception only applies to listed securities.

<sup>8</sup> In addition, in Amendment No. 3, the Exchange eliminated the proposed exception that when a specialist received an inbound ITS execution in satisfaction of a complaint lodged by an Exchange specialist against another market center, the specialist would not be required fill any other customer order(s) in his or its book as a result of having received the "satisfying" ITS execution. In Amendment No. 3, the Exchange revised the rule

#### III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 3, including whether Amendment No. 3 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-2005-01 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-2005-01. 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. Copies of such 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 Amendment No. 3 of File Number SR-CHX-2005-01 and should be submitted on or before August 21, 2006.

text to clarify that when a specialist receives an inbound ITS execution in satisfaction of another market center's trade-through of a customer order that the specialist has already filled, the specialist, under current Exchange rules, is required to give the customer order that was traded through by the other ITS market center any better price that the specialists receives in satisfaction of the trade-through.

<sup>14</sup> 15 U.S.C. 78s(b)(2).

<sup>15</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> See Securities Exchange Act Release No. 52647 (October 21, 2005), 70 FR 62152 ("Notice").

#### IV. Discussion

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of Section 6 of the Act<sup>9</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>10</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>11</sup> which requires, among other things, that the rules of an 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 believes that the proposed change to clarify the requirements of the Exchange's priority rule is designed to provide both investors and specialists with a better understanding of a specialist's obligations. The Commission further believes that the proposed change to require specialists to make use of order match functionalities, except under limited circumstances, could prevent potential trading ahead violations from occurring by ensuring that eligible orders on the book are executed in place of the specialist's proprietary interest.

The Commission finds good cause for approving Amendment No. 3 to the proposed rule change prior to the thirtieth day after publishing notice of Amendment No. 3 in the **Federal Register** pursuant to Section 19(b)(2) of the Act.<sup>12</sup> The Commission believes that the changes proposed in Amendment No. 3 clarify the application of the Exchange's priority rule and proposed exception to the requirement to use order match functionalities. Further, the Commission believes the proposal in Amendment No. 3 to eliminate one of the exceptions proposed in the Notice reflects the specialist's obligations under the Exchange's rules.

#### V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>13</sup> that the proposed rule change (SR-CHX-2005-01), as amended by Amendment Nos. 1,

2, and 3, is hereby approved, and that Amendment No. 3 is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>14</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

[FR Doc. E6-12184 Filed 7-28-06; 8:45 am]

**BILLING CODE 8010-01-P**

### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54203; File No. SR-NASD-2006-089]

#### Self-Regulatory Organizations: National Association of Securities Dealers, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to NASD Rule 5100 (Short Sale Rule)

July 25, 2006.

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 July 21, 2006, the National Association of Securities Dealers, Inc. ("NASD") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by NASD. NASD has designated the proposed rule change as constituting a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4 under the Act,<sup>3</sup> which renders the proposal effective upon receipt of this filing by the Commission. NASD proposes to implement the proposed rule change on the date on which The Nasdaq Stock Market LLC (the "Nasdaq Exchange") commences operation as a national securities exchange for Nasdaq-listed securities. 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

NASD is proposing to amend NASD Rule 5100 to allow members to use, for a transitional period only, the Nasdaq Exchange best (inside) bid rather than the national best (inside) bid for purposes of application of the rule. Pursuant to SR-NASD-2005-087, Rule

5100 will become effective on the date upon which the Nasdaq Exchange operates as a national securities exchange for Nasdaq-listed securities.<sup>4</sup> Currently, that date is projected to be August 1, 2006.

Below is the text of the proposed rule change. Proposed new language is *italicized*.

\* \* \* \* \*

#### 5000. Trading Other Than on an Exchange

\* \* \* \* \*

#### 5100. Short Sale Rule

(a) With respect to trades reported to the ADF or the Trade Reporting Facility, no member shall effect a short sale in a Nasdaq Global Market Security (as that term is defined in Rule 4200) otherwise than on an exchange for the account of a customer or for its own account at or below the current national best (inside) bid when the current national best (inside) bid is below the preceding national best (inside) bid in the security. *In addition, for a transitional period ending on November 3, 2006, members may use the Nasdaq Exchange best (inside) bid rather than the national best (inside) bid for purposes of the application of this rule, provided that the member has submitted prior written notification to NASD of this selection. Members are required to use the same bid tick test on a firm-wide basis. A member using the Nasdaq Exchange best (inside) bid may not use the national best (inside) bid prior to the end of the transitional period unless the member submits prior written notification to NASD of this change.* For the purposes of this rule, the term "customer" includes a non-member broker-dealer.

(b) through (l) No Change.

\* \* \* \* \*

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

In its filing with the Commission, NASD 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. NASD has prepared summaries, set forth in sections A, B,

<sup>4</sup> NASD filed SR-NASD-2005-987 on July 11, 2005 and Amendment No. 1 on June 15, 2006. The Commission approved SR-NASD-2005-087, as amended, on June 30, 2006. See Exchange Act Release No. 54084 (June 30, 2006), 71 FR 38935 (July 10, 2006).

<sup>9</sup> 15 U.S.C. 78f.

<sup>10</sup> In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> 15 U.S.C. 78s(b)(2). Pursuant to Section 19(b)(2) of the Act, the Commission may not approve any proposed rule change, or amendment thereto, prior to the thirtieth day after the date of publication of the notice thereof, unless the Commission finds good cause for so doing.

<sup>13</sup> 15 U.S.C. 78s(b)(2).

<sup>14</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> 17 CFR 240.19b-4(f)(6).