

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56703; File No. SR-CHX-2007-22)

October 25, 2007

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change to Amend Rules Relating to the Execution of Odd Lot Market 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 October 2, 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. 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

The Exchange proposes to amend its rules to provide that market odd lot orders would be executed like round lot orders in the Exchange’s Matching System (i.e., executed as if they were subject to Regulation NMS Rule 611³). Below is the text of the proposed rule change. Proposed new language is underlined; proposed deletions are in [brackets].⁴

ARTICLE 20

OPERATION OF CHX MATCHING SYSTEM

* * * * *

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 242.611.

⁴ The Exchange has consented to the removal of an extra quotation mark from the current text of Article 20, Rule 5(a) of the CHX Rules. See E-mail from Ellen Neely, President and General Counsel, CHX to David Michehl, Special Counsel, Division of Market Regulation, Commission on October 23, 2007.

Prevention of Trade-throughs

Rule 5. a. An inbound order for at least a round lot is not eligible for execution on the Exchange if its execution would cause an improper trade-through of another ITS market or, when Reg NMS is implemented for a security, if its execution would be improper under Rule 611 (but not including the exception set out in Rule 611(b)(8)) (together an “improper trade-through”[’]). As described in Interpretation and Policy .03, if the execution of all or part of an inbound order for a least a round lot on the Exchange would cause an improper trade-through, that order (or the portion of that order that would cause a trade-through) shall be routed to another appropriate market or, if designated as "do not route," automatically cancelled; provided, however, that if an undisplayed order is resting in the Matching System and the execution of an inbound round lot order (that is not an IOC or FOK order) against the undisplayed resting order would cause an improper trade-through, the resting order shall be cancelled to the extent necessary to allow the inbound order to be executed or quoted.

b. Inbound odd lot limit orders and odd lot crosses shall be eligible for execution on the Exchange even if the execution would trade through another market's bid or offer. Inbound odd lot market orders shall be executed, for purposes of this Rule, as if they were round lot orders and subject to the requirements of paragraph (a) above.

* * * * *

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 Exchange 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 Exchange 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

Under the Exchange's existing rules, odd lot orders execute in the Matching System without regard to the protected quotations of other markets.⁵ The Exchange states that this is because such orders are not subject to the Regulation NMS Order Protection Rule and can trade through better prices in other markets.⁶ Through this filing, the Exchange proposes to amend its rules to provide that market odd lot orders would execute like round lot orders (i.e., they would execute as if they were subject to the Regulation NMS Order Protection Rule), while odd lot limit orders and odd lot crosses would continue to execute through better prices on other markets.⁷

The Exchange believes that this proposal will provide appropriate protections to odd lot market orders, while allowing participants to choose to have odd lot limit orders and odd lot crosses executed at other prices.⁸

⁵ See CHX Rules, Article 20, Rule 5(b).

⁶ The Exchange states that its handling of the execution of odd lot orders is consistent with the requirements of Regulation NMS. See Division of Market Regulation: Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS, FAQ 7.03 (confirming that Rule 611 does not apply to odd lot orders).

⁷ The Exchange believes that a participant that submits an odd lot cross seeks to have that order executed at a particular price, without regard to prices in other markets. Similarly, if a participant submits an odd lot limit order, that participant likely only seeks the protection of the order's limit price and does not anticipate that the order would be protected against better prices in other markets.

⁸ Odd lot market orders that would trade through the protected quotations of other markets would be rejected from the Exchange's Matching System and either routed to another

2. Statutory Basis

The Exchange believes that 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). The proposed rule change is consistent with Section 6(b)(5) of the Act⁹ because it would promote just and equitable principles of trade, remove impediments to, and protect the mechanism of, a free and open market and a national market system, and, in general, protect investors and the public interest by allowing market odd lot orders to be executed like round lot orders in the Exchange's Matching System.

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 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 self-regulatory organization 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.

appropriate market or, if designated as "do not route," automatically cancelled. See CHX Rules, Article 20, Rule 5(a).

⁹ 15 U.S.C. 78f(b)(5).

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-2007-22 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-2007-22. 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 a.m. and 3 p.m. 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 File Number SR-CHX-2007-22 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.¹⁰

Nancy M. Morris
Secretary

¹⁰ 17 CFR 200.30-3(a)(12).