

October 1, 2017

By Email

Mr. Brent Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Chicago Stock Exchange Transaction

Dear Mr. Fields:

Thank you for the opportunity to address the concerns that have been expressed in the September 26, 2017 letter (“Letter”) from certain members of Congress in connection with the proposed transaction (“Proposed Transaction”) involving CHX Holdings, Inc. the parent company of the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) and North America Casin Holdings, Inc. (“NACH”). CHX recognizes that there are different views regarding the Proposed Transaction and that a very small but vocal minority have expressed concerns regarding Chinese investors participating in the investor group. CHX encourages this dialogue and has made every effort to address concerns that have been expressed throughout this process. CHX also believes strongly that any constructive dialogue must be based upon facts that have been accurately presented in an unbiased manner. To that end, CHX would like to address some of the inaccurate statements in the Letter. Such inaccuracies are likely due to the fact that none of the signatories to the Letter have ever contacted CHX to request information or apparently even performed a cursory review of the public filings associated with the Proposed Transaction.

The Letter begins by thanking the Commission for delaying *“the purchase of the Chicago Stock Exchange by a Chinese entity, Chongqing Casin Group.”* This statement is inaccurate and does not reflect the publicly disclosed structure of the Proposed Transaction. Upon closing, CHX Holdings, and its subsidiary Chicago Stock Exchange, will be wholly owned by NACH, a Delaware company, which is majority owned by U.S. citizens.

The Letter next states that *“it will be impossible for the SEC to fully monitor Chinese government involvement or manipulation over the Chicago Exchange.”* This statement is particularly disturbing as it seems to imply that Chinese foreign investment should never be allowed in the U.S. because it is inherently risky and impossible to fully monitor. CHX disagrees with this premise.

It is important to reiterate that none of the proposed Chinese investors are owned or controlled by the Chinese government. This fact has been vetted by the Exchange, outside counsel and the Committee on Foreign Investment in the United States (“CFIUS”). CFIUS conducts a full and detailed assessment of the foreign investing entities, including all of their individual senior executives and major shareholders, and investigates the extent of any foreign government control over the investor. U.S. national intelligence agencies also examine the foreign investor, and their conclusions are captured in a classified report that the Director of National

Intelligence prepares for CFIUS. CFIUS conducted a thorough, deep, and wide-ranging investigation of the Proposed Transaction and the NACH shareholders and, on December 12, 2016, concluded that there were no unresolved national security concerns.

The Letter next states the signatories “*see no mitigation steps that can fully insulate the Exchange’s activities and ensure that our nation’s interests are protected.*” Again, CHX must respectfully disagree.

In addition to being majority owned by U.S. citizens, there are a number of structural and governance requirements that ensure that no shareholder, whether foreign or domestic, will exercise undue influence over the Exchange. This includes ownership and voting limitations such that no person, along with related parties, may beneficially own more than 40% or vote more than 20% of the outstanding voting shares of NACH. To guarantee compliance with this requirement, the company will hold call options on the investor’s shares so that any party violating the ownership and voting restrictions could have their shares taken back by the company at par value, thereby losing their investment.

Additionally, the board of directors of CHX must also meet certain independence requirements, including that at least half of the board be comprised of Non-industry Directors that do not own or trade on the Exchange. Any material changes to the Exchange must be approved by the CHX board. In the event a material change is approved by the CHX board, CHX staff is also required to seek SEC approval for the change through its rule filing process. Therefore, both the majority independent CHX board and the SEC must approve any material change before it is implemented.

Also, pursuant to the Exchange Act, CHX is subject to direct and rigorous oversight by the SEC, which entails, among other things, frequent examinations of various aspects of CHX operations by SEC staff, including security and trading protocols, as well as SEC approval of certain regulatory, operational and strategic initiatives prior to implementation by CHX. Through this oversight, the SEC is able to verify compliance by the NACH shareholders with the relevant CHX Rules at its discretion. In the event that the SEC were to discover that CHX or the NACH shareholders have failed to meet the requirements of the Exchange Act, the SEC has broad authority to compel compliance or mitigate non-compliance, including suspending, censuring or deregistering the Exchange pursuant to Section 19(h)(1) of the Exchange Act.

Accordingly, CHX submits that the CHX Rules, as proposed, provide the SEC with robust oversight and enforcement mechanisms to compel, ensure and enforce compliance by the NACH shareholders with CHX Rules and federal securities laws. Furthermore, non-compliance by any of the NACH shareholders could result in forced compliance through the use of the call option on NACH shares, U.S. civil or criminal liability or, ultimately, the suspension, censure or deregistration of the Exchange under the Exchange Act.

The Letter continues with the dire prediction that Chinese “*ownership of a U.S. exchange could provide enormous new opportunities for Chinese firms to list on U.S. markets and expose U.S. investors to new and unknown risks.*” CHX agrees that the Proposed Transaction will provide enormous new opportunities for Chinese firms to list on U.S. markets. This is why our Chinese investors are strategically important to the Proposed Transaction. Many firms in China desire a listing on a foreign exchange and the U.S. is currently still seen as the gold standard. CHX strongly believes that listing quality Chinese companies in the U.S., according to our listing rules, using our accounting standards, and under the regulatory supervision of the SEC is by far the

safest way for U.S. investors to get exposure to the growing Chinese market.

Finally, the Letter states that the signatories are *“aware that the Chinese entities involved in this particular transaction have not yielded themselves to full U.S. jurisdiction or agreed to make their records available to the Exchange to assure compliance with ownership and voting limitations.”* This statement is completely false. The Chinese investors have agreed to permanently and irrevocably submit to the jurisdiction of the SEC and the U.S. courts and have appointed registered agents here in the U.S. for the service of process. The investors have also agreed to open books and records as well as keeping such records here in the U.S. These facts have all been disclosed in CHX’s public filings for months.

* * *

CHX and its proposed investors have been subject to constant regulatory scrutiny from the SEC and CFIUS for well over one year. They have produced thousands of pages of documents, agreed to every request made of them, and have addressed every legitimate national security and investor protection concern through structural and governance requirements and continued monitoring by both the SEC and CFIUS. CHX has responded to concerns from legitimate commenters as well as “fake news” comment letters containing blatantly false and misleading information, which are still posted on the SEC’s website. CHX believes this public dialogue is important and remains committed to sharing information and addressing legitimate concerns. However, CHX also feels very strongly that a constructive dialogue must be based upon accurate facts presented in an unbiased manner. This principal is especially important in the case of public commentary by members of Congress and other elected officials.

Sincerely,



James G. Ongena
Executive Vice President
and General Counsel, CHX

cc:

The Honorable Walter J. Clayton
Chairman
Securities and Exchange Commission
Washington, D.C.

The Honorable Michael S. Piowar
Commissioner
Securities and Exchange Commission
Washington, D.C.

The Honorable Kara M. Stein
Commissioner
Securities and Exchange Commission
Washington, D.C.

Ms. Heather Seidel
Acting Director, Division of Trading and
Markets
Securities and Exchange Commission
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