

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51776; File No. SR-CHX-2005-11)

June 2, 2005

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Rule Change Relating to Transactions in Certain Odd-Lot 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 May 6, 2005, 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 and II below, which Items have been prepared by the CHX. The Exchange has filed the proposal pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposal effective upon filing with the Commission. 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 clarify that odd lot orders executed by CHX specialists shall be executed in accordance with CHX Article XX, Rule 37(a)(2), which governs execution of round lot orders by CHX specialists. The CHX has designated this proposal as non-controversial and has requested that the Commission waive the 30-day pre-

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

operative waiting period contained in Rule 19b-4(f)(6)(iii) under the Act.⁵ The text of the proposed rule change is below. Proposed new language is italicized.

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ARTICLE XXXI

Odd Lots and Odd-Lot Dealers, Dual System

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RULE 9.

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Interpretations and Policies:

.01 No change to text.

.02 Notwithstanding paragraph (b) of this Rule, if a CHX specialist is the registered odd-lot dealer for an issue, orders in such issue shall be executed in accordance with Article XX, Rule 37(a)(2).

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

In its filing with the Commission, 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 Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

⁵ 17 CFR 240.19b-4(f)(6)(iii).

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

1. Purpose

Odd-lot orders (i.e., orders of less than 100 shares) are traded on the CHX by registered odd-lot dealers, and are governed by Article XXXI of the CHX Rules.

According to the CHX, in many cases, the registered odd-lot dealer for an issue is the specialist who has been assigned the issue by the CHX Committee on Specialist Assignment and Evaluation. In other cases, the registered odd-lot dealer is a member firm that operates as an odd-lot execution service.

CHX Article XXXI, Rule 9 governs the execution prices that are due odd-lot orders. The CHX states that this rule obligates an odd-lot dealer to execute an odd-lot order at the “adjusted BBO,” which is predicated on the national best bid or offer but excludes certain quotations, including 100-share quotations of other market centers. According to the CHX, in cases where a CHX specialist is the registered odd-lot dealer, however, the Exchange’s systems execute odd-lot orders at the national best bid or offer (which most often is superior to the adjusted BBO), so that the execution price of the odd-lot orders will be consistent with the execution price of round-lot orders. The Exchange believes that this consistency is appropriate and benefits investors.

To codify the Exchange’s interpretation, and to preclude any inconsistency between a specialist’s pricing of odd-lot orders and round lot orders, the proposed rule change would add an Interpretation and Policy providing that, for issues where a CHX specialist is the registered odd-lot dealer, the provisions of CHX Article XX, Rule 37(a)(2), i.e., the Exchange’s “Best Rule,” would govern the execution price due an odd-

lot order. The Exchange believes that this interpretation would help avoid customer confusion.

The proposed rule change would also permit CHX specialists to elect to act as agent for odd-lot orders, in accordance with CHX Article XX, Rule 37(a)(2), to obtain the best available price in the national marketplace.⁶ According to the Exchange, many CHX specialists utilize remote pricing facilities, which take into account current market information, to help them price such orders.

2. Statutory Basis

The CHX believes that the proposed rule change is consistent with the provisions of Section 6(b) of the Act,⁷ in general, and with Section 6(b)(5) of the Act,⁸ in particular, in that it is 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.

B. Self-Regulatory Organization's Statement on Burden on Competition

The CHX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed

⁶ The Exchange states that CHX systems do not currently permit CHX specialists to act as agent for odd-lot orders – the systems simply execute such orders automatically against the CHX specialist as principal, priced at the NBBO. The CHX believes that modification of its systems to permit agency execution of odd-lot orders is amply warranted because it is consistent with the execution rules applicable to round-lot orders.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

Rule Change Received from Members, Participants or Others

Written comments were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing proposed rule change is subject to Section 19(b)(3)(A)(iii) of the Act⁹ and Rule 19b-4(f)(6) thereunder¹⁰ because the proposal: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) does not become operative prior to 30 days after the date of filing or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest; provided that the CHX has given the Commission notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

CHX satisfied the five-day pre-filing requirement. In addition, CHX has requested that the Commission waive the 30-day operative delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver will ensure consistency in specialist pricing of odd-lot orders and round lot orders. For these reasons, the Commission designates the proposal to be effective and operative upon filing with the Commission.¹¹

⁹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ For purposes only of accelerating the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors or otherwise in furtherance of the purposes of the Act.¹²

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-2005-11 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-0609.

All submissions should refer to File Number SR-CHX-2005-11. This file number should be included on the subject line if e-mail is used. To help the Commission process and

¹² See Section 19(b)(3)(C) of the Act, 15 U.S.C. 78s(b)(3)(C).

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 the filing also will be available for inspection and copying at the principal office of the CHX. 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-2005-11 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.¹³

Margaret H. McFarland
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).