

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54326; File No. SR-CHX-2006-24)

August 16, 2006

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change, and Amendment Nos. 1 and 2 Thereto, Regarding Two-Sided Quote Providers

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 June 27, 2006, the Chicago Stock Exchange, Inc. (“CHX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. On July 21, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.³ On August 10, 2006, the Exchange filed Amendment No. 2 to the proposed rule change.⁴ The CHX filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act⁵ and Rule 19b-4(f)(6) thereunder,⁶ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1 the CHX removed language from its Fee Schedule to reflect that the proposal was effective upon filing, not an earlier date.

⁴ In Amendment No. 2 the CHX made two non-substantive corrections to the numbering used in the proposed rule text.

⁵ 15 U.S.C. 78s(b)(3)(A).

⁶ 17 CFR 240.19b-4(f)(6).

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its rules and Schedule of Participant Fees and Credits (“Fee Schedule”) to establish a new role and a new fee credit for participants on the Exchange that qualify as “Two-Sided Quote Providers.” The text of the proposed rule change is set forth below. Proposed new language is underlined.

ARTICLE IX

Trading Rules

* * *

Two-Sided Quote Providers

RULE 19. a. A Participant may seek to register with the Exchange as a Two-Sided Quote Provider. A “Two-Sided Quote Provider” is required to use its own automated systems to maintain, throughout the Exchange’s primary and post-primary trading sessions, a continuous two-sided quote (i.e., a bid and an offer) in all securities that are not traded by an Exchange specialist, but are traded in an automated Exchange system.

b. The Exchange will provide a credit, as described in the Fee Schedule, to the first three Participants that demonstrate their ability and willingness to serve in this role.

c. If a Two-Sided Quote Provider does not provide a continuous two-sided quote as required above, the Exchange shall not pay the Two-Sided Quote Provider for the day in which the quotes were not maintained and shall end the Participant’s role as a Two-Sided Quote Provider as of the end of the month in which the failure to provide continuous two-sided quotes occurred.

* * *

PARTICIPANT FEES AND CREDITS

* * *

M. Credits

1. – 3. No change to text

4. Through October 31, 2006, total monthly fees owed by a Two-Sided Quote Provider will be reduced (and these participants will be paid each month for any unused credits) by a credit of \$3,000 per month.

* * *

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 CHX included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received regarding the proposal. The text of these statements may be examined at the places specified in Item IV below. The CHX 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 Changes

1. Purpose

The purpose of the proposed rule change is to allow participant firms to register as “Two-Sided Quote Providers” and to provide a credit of \$3,000 per month for firms that fulfill that role.⁷ The credit would be available through October 31, 2006.

⁷ The Exchange originally filed this proposal simply as an addition to its Fee Schedule. See SR-CHX-2006-15. The Exchange withdrew that filing concurrently with the submission of the original version of this proposal, which would establish a new rule and a change to the Exchange’s Fee Schedule.

Under the proposed rule, a Two-Sided Quote Provider would be an Exchange participant that uses its own automated systems to maintain, throughout the Exchange's primary and post-primary trading sessions, a continuous two-sided quote (i.e., a bid and an offer) in all securities that are not traded by an Exchange specialist, but are traded in an automated Exchange system.⁸ If the Two-Sided Quote Provider does not provide a continuous two-sided quote as required above, the Exchange would not pay the Two-Sided Quote Provider for the day in which the quotes were not maintained and would end the participant's role as a Two-Sided Quote Provider as of the end of the month in which the failure occurred.⁹ A Two-Sided Quote Provider would continue to be subject to all the CHX rules that apply to its trading on the Exchange, including, but not limited to the firm quote rule, the electronic book's clearly erroneous rule, the rules prohibiting trading ahead of customer orders and the Intermarket Trading System ("ITS") rules.¹⁰

According to the Exchange, its proposal is designed to provide an appropriate incentive to up to three participant firms to ensure that a two-sided quote is continuously displayed on the Exchange in securities that are traded on the Exchange.¹¹

⁸ The Exchange plans to provide the \$3,000 credit, on a first-come, first-served basis, to the first three participants that demonstrate their ability and willingness to serve in this role. The Exchange does not believe that these firms would need to register as market makers in the Exchange's electronic book (where many securities that are not traded by a specialist are traded) or on the Exchange (where some listed securities have not yet been transitioned to trading in the electronic book), because the Exchange does not seek to impose any requirement that these firms maintain fair and orderly markets.

⁹ The Exchange also would consider a failure to provide these quotes as a violation of the Exchange's rules. The Exchange could exercise its discretion in determining whether or not to pursue a further fine or penalty from a participant for a violation of this rule based on applicable facts and circumstances.

¹⁰ Registration as a Two-Sided Quote Provider does not allow a participant to avoid the application of any CHX trading rule that would otherwise apply to its activities as a CHX floor broker, market maker, specialist or order-sending firm.

¹¹ Under the current Intermarket Trading System Plan ("ITS Plan"), a member in any market that is an ITS Plan participant may use the ITS System to trade a particular

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) of the Act.¹² In particular, the Exchange believes that the proposal is consistent with Section 6(b)(5) of the Act,¹³ because it would promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest by permitting the Exchange to allow its participants to register as Two-Sided Quote Providers to help ensure, among other things, that a continuous two-sided quote is displayed on the Exchange in all securities that qualify for trading under the ITS Plan.

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

The Exchange does not believe that the proposed rule change will impose 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 Regarding the Proposed Rule Changes Received from Members, Participants or Others

The CHX has neither solicited nor received written comments on the proposed rule change.

security only if the market maintains continuous two-sided quotations in that security. See ITS Plan, Section 6(a)(i). This proposed credit would help ensure, among other things, that a continuous two-sided quote is displayed on the Exchange in all securities that qualify for trading under the ITS Plan.

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

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

Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) by its terms does not become operative for 30-days after the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁴ and Rule 19b-4(f)(6) thereunder.¹⁵

As required under Rule 19b-4(f)(6)(iii), the CHX provided the Commission with written notice of its intention to file the proposed rule change at least 5 business days prior to filing the proposal with the Commission. A proposed rule change filed under Rule 19b-4(f)(6)¹⁶ normally does not become operative prior to 30-days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The CHX has asked the Commission to 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 it may ensure that a continuous two-sided quote is displayed on the Exchange in securities that are traded on the Exchange.¹⁷ Furthermore, the Commission notes that the proposed rule change, as amended, is similar to Pacific Exchange

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6).

¹⁶ Id.

¹⁷ For the purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

Rule 7.58, Compliance with Two-Sided Quote Requirement in ITS Plan, which provides that the Archipelago Securities, LLC is responsible for entering two-sided orders in all stocks eligible for trading on the NYSE Arca Marketplace for purposes of fulfilling the two-sided quote requirement found in Section 6(a)(i)(B) of the ITS Plan. Accordingly, the Commission designates the proposed rule change, as amended, as effective and operative immediately upon filing with the Commission.

At any time within 60-days of the filing of the 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.¹⁸

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal, as amended, 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-2006-24 on the subject line.

¹⁸ For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change, as amended, under Section 19(b)(3)(C) of the Act, the Commission considers the period to commence on August 10, 2006, the date on which the CHX submitted Amendment No. 2. See 15 U.S.C. 78s(b)(3)(C).

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 No. SR-CHX-2006-24. 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 will also 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 No. SR-CHX-2006-24 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.¹⁹

Nancy M. Morris
Secretary

¹⁹ 17 CFR 200.30-3(a)(12).