

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74487; File No. SR-CHX-2015-02)

March 12, 2015

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Concerning the CHX Routing Services

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on March 4, 2015, the Chicago Stock Exchange, Inc. (“CHX” or the “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 Exchange. 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

CHX proposes to clarify for Participants and non-Participants the Exchange’s smart versus direct routing protocol.³ On September 8, 2014, the Exchange filed a proposed rule change adopting, among other things, the CHX Routing Services, which is a Regulation NMS compliant outbound order routing service that is not yet operational (“the initial rule filing”), with the Securities and Exchange Commission (the “Commission”).⁴ The Exchange now submits

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ CHX Article 1, Rule 1(s) defines “Participant,” in pertinent part, as “any Participant Firm that holds a valid Trading Permit and any person associated with a Participant Firm who is registered with the Exchange under Articles 16 and 17 as a Market Maker Trader or Institutional Broker Representative, respectively. A Participant shall be considered a ‘member’ of the Exchange for purposes of the Exchange Act.”

⁴ See Exchange Act Release No. 73150 (September 19, 2014), 79 FR 57603 (September 25, 2014) (SR-CHX-2014-15).

this supplemental filing. The Exchange has designated this proposed rule change as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.⁵

The text of this proposed rule change is available on the Exchange's web site at (www.chx.com) and in the Commission's Public Reference Room.

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 changes 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 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 Change

1. Purpose

The Exchange proposes to clarify for Participants and non-Participants the Exchange's smart versus direct routing protocol related to the CHX Routing Services. As described in the initial rule filing, upon the triggering of a Routing Event,⁶ the Exchange will route away Routable Orders,⁷ or portions thereof, through CHXBD, LLC, which is an affiliated routing broker that will operate as a facility of the Exchange, which would then forward orders to a third-

⁵ 17 CFR 240.19b-4(f)(6)(iii).

⁶ CHX Article 19, Rule 3(a), which is not yet operative, details Routing Events.

⁷ CHX Article 1, Rule 1(oo), which is not yet operative, defines "Routable Order" as "any incoming limit order, as defined under Article 1, Rule 2(a)(1), of any size, not marked by any order modifiers or related terms listed under Article 1, Rule 2 that prohibit the routing of the order to another Trading Center."

party routing broker for routing to the ultimate routing destination. All orders routed to the third-party routing broker will include instructions for the third-party routing broker to either direct route the order to a specific destination or to smart route the order, utilizing the third-party routing broker's routing technology, pursuant to a routing table provided and maintained by the Exchange.

The Exchange would like to clarify the smart versus direct routing protocol and to propose special handling of Routable Orders in relation to Protected Quotations⁸ displayed on the Alternative Display Facility ("ADF") operated by the Financial Industry Regulatory Authority ("FINRA").⁹ The Exchange does not propose to amend any CHX Rules nor substantively modify the CHX Routing Services in any other way.

Under footnote 50 of the initial rule filing,¹⁰ the Exchange utilized the term "routed order" to describe smart versus direct routing. For clarity, "routed order" describes the portion of a Routable Order that is to be routed to satisfy Protected Quotations of external markets at a

⁸ See 17 CFR 242.600(b)(58).

⁹ See FINRA Rule 6210.

¹⁰ Footnote 50 of the initial rule filing provides:

Where the routed order is smaller than the aggregate size of two or more contra-side Protected Quotations that could be satisfied, the Exchange will rely on the third-party routing broker to utilize its smart-routing technology to route the order pursuant to a routing table provided by the Exchange. Thus, the relevant snapshot of the NBBO for Regulation NMS purposes will be taken by the third-party routing broker and the third-party routing broker would route orders IOC and ISO. However, where the routed order is smaller than the size of one Protected Quotation that could be satisfied or is the same size as the aggregate size of one or more contra-side Protected Quotations that could be satisfied, the Exchange will direct the third-party routing broker to route orders to specific routing destinations. Thus, the relevant snapshot of the NBBO will be taken by the Exchange and the Exchange would mark the directed orders IOC and ISO. See supra note 4.

single price point. Thus, by replacing the term “routed order” with the more descriptive phrase “the portion of a Routable Order that is to be routed” and adding references to “a single price point,” the meaning of footnote 50 becomes clearer. The revised footnote 50 would read as follows:

Where the portion of a Routable Order that is to be routed at a certain price point is smaller than the aggregate size of two or more contra-side Protected Quotations that could be satisfied at a single price point, the Exchange will rely on the third-party routing broker to utilize its smart-routing technology to route the order pursuant to a routing table provided by the Exchange. Thus, the relevant snapshot of the NBBO for Regulation NMS purposes will be taken by the third-party routing broker and the third-party routing broker would route orders IOC and ISO. However, where the portion of a Routable Order that is to be routed is smaller than the size of one Protected Quotation that could be satisfied or is the same size as the aggregate size of one or more contra-side Protected Quotations that could be satisfied at a single price point, the Exchange will direct the third-party routing broker to route orders to specific routing destinations. Thus, the relevant snapshot of the NBBO will be taken by the Exchange and the Exchange would mark the directed orders IOC and ISO.

The Exchange also proposes to adopt special routing handling for Protected Quotations displayed on the ADF, as an exception to the aforementioned price point by price point determination to either smart or direct route an order. Specifically, upon the triggering of any Routing Event based on a Protected Quotation displayed on the ADF, the Exchange will route away the entire remaining balance of the Routable Order for smart routing by a third-party routing broker. The Exchange submits that this special handling is the most efficient way for the Exchange to meet its Regulation NMS obligations regarding Protected Quotation(s) displayed on the ADF and is consistent with the routing-related rules adopted pursuant to the initial rule filing.¹¹ Unexecuted remainders of smart routed orders returned to the Matching System from the

¹¹ In the event the Exchange decides to modify its smart versus direct routing protocol, the Exchange will submit a proposed rule filing to that effect, pursuant to Rule 19b-4 under the Act.

third-party routing broker will be handled pursuant to Article 20, Rule 8(b)(7), as described under the initial rule filing.¹²

2. Statutory Basis

The Exchange believes that the proposed clarification of the smart versus direct routing protocol described in the initial rule filing and special handling of the Protected Quotations displayed on the ADF is consistent with Section 6(b) of the Act in general¹³ and furthers the objectives of Sections 6(b)(1)¹⁴ and 6(b)(5) in particular.¹⁵ Specifically, the Exchange believes that the proposed filing would further enable the Exchange to be so organized as to have the capacity to be able to carry out the purposes of the Act and to comply, and to enforce compliance by its Participants and persons associated with its Participants, with the provisions of the Act, the rules and regulations thereunder, and the rules of the Exchange, by clarifying the smart versus direct routing protocol for the benefit of Participants and non-Participants, in furtherance of the objectives of Section 6(b)(1). For similar reasons, the Exchange believes that the proposal is also designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transaction in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and, in general, by protecting investors and the public interest, in furtherance of the objectives of Section 6(b)(5).

¹² See CHX Article 20, Rule 8(b)(7), which is not yet operative.

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(1).

¹⁵ 15 U.S.C. 78f(b)(5).

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 that is not necessary or appropriate in furtherance of the purposes of the Act. Given that the proposed changes promote clarity as to existing rules and does not amend any rules, the Exchange believes that any burden on competition is necessary and appropriate as clarity of the Exchange's rules further the purposes of the Act.

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

The foregoing rule change has been filed by the Exchange as a "non-controversial" rule change pursuant to Section 19(b)(3)(A)(i) of the Act¹⁶ and Rule 19b-4(f)(6).¹⁷ Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁸ and Rule 19b-4(f)(6).¹⁹

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii), the

¹⁶ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁷ 17 CFR 240.19b-4(f)(6).

¹⁸ 15 U.S.C. 78s(b)(3)(a)(ii).

¹⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file 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. The Exchange has satisfied this requirement.

Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange asserts that waiver of this requirement would allow the Exchange to clarify its initial rule filing prior to the CHX Routing Services becoming operational, and notes that the Exchange provides these services in a highly competitive market in which market participants may avail themselves of a wide variety of options offered by self-regulatory organizations, alternative trading systems and other broker-dealers. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because it will allow the Exchange to clarify its rules in a timely manner and thereby avoid potential confusion. Therefore, the Commission hereby waives the 30-day operative delay and designates the proposed rule change to be operative upon filing with the Commission.²⁰

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal 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-2015-02 on the subject line.

Paper Comments:

²⁰ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File No. SR-CHX-2015-02. 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 website (<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 changes 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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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 No. SR-CHX-2015-02 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²¹

Brent J. Fields
Secretary

²¹ 17 CFR 200.30-3(a)(12).