

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-53868; File No. SR-CHX-2006-13)

May 25, 2006

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change Relating to Participant Fees and Credits

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 24, 2006, 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 prepared by the 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 CHX proposes to amend its Participant Fee Schedule (“Fee Schedule”) to reduce, retroactively to March 1, 2006, the assignment fees charged to specialist firms seeking the right to trade securities to \$500 per assignment, when the securities are assigned in competition with other firms.<sup>3</sup> The text of this proposed rule change is available on the Exchange’s Web site at [http://www.chx.com/rules/proposed\\_rules.htm](http://www.chx.com/rules/proposed_rules.htm) and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The Exchange filed with the Commission a separate filing proposing an identical assignment fee reduction (SR-CHX-2006-12) on April 24, 2006, which was immediately effective as of that date under Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(2) thereunder. Because the Exchange seeks to apply the assignment fee reduction to its Fee Schedule on a retroactive basis as of March 1, 2006, the Exchange is submitting this proposal to the Commission under Section 19(b)(2) of the Act, to be published for notice and comment. The Commission notes that the discussion in the Purpose section below reflects the Fee Schedule as it existed prior to the immediately effective changes made pursuant to SR-CHX-2006-12.

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 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

Under the Exchange's rules, the Committee on Specialist Assignment and Evaluation is responsible for appointing participant firms to act as specialists on the Exchange.<sup>4</sup> When more than one firm competes for the right to be the specialist in a particular security, the Exchange charges assignment fees of \$1,000 or \$4,000 for the assignment, depending on the number of firms competing for that right.<sup>5</sup>

In a separate filing, the Exchange has submitted a proposal to implement a new trading model, which features an automated Matching System into which orders may be sent for

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<sup>4</sup> See CHX Article IV, Rule 6.

<sup>5</sup> For "dual trading system" securities, a group of securities which includes securities listed on the New York Stock Exchange or American Stock Exchange, the Exchange currently charges a \$1,000 assignment fee if the security (or a group of securities) was assigned in competition with at least one other participant and up to one-third of all participants that trade these issues. The fee for the assignment of this type of security is increased to \$4,000 if the security (or a group of securities) was assigned in competition with more than one-third of the participants that trade these issues. For Nasdaq/NM securities, the Exchange currently charges a \$1,000 assignment fee if the security was assigned in competition with one other participant firm; the fee is increased to \$4,000 if two or more firms compete for the assignment.

execution, but which does not involve the use of specialists to handle customer orders.<sup>6</sup> Instead, in this new model, off-Exchange market makers may choose to handle customer orders, sending those orders to the Exchange or to other venues for execution. Because the Exchange hopes to be able to implement its new model in the second quarter of 2006, the Exchange believes that the right to trade securities as an Exchange specialist has only a short-term benefit. For that reason, the Exchange has filed another proposal to reduce the assignment fees to \$500 per security, regardless of the number of participants competing for the assignments and regardless of the type of security that is being assigned.<sup>7</sup> Through this proposed rule change, the Exchange seeks to make the assignment fee reduction effective, on a retroactive basis, to March 1, 2006. The Exchange believes that this retroactive effectiveness will appropriately allow the Exchange to apply the fee reduction to assignments that have been made in recent weeks, when the Exchange's management began talking with specialist firms about the reasons for, and possibility of, this type of fee reduction.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)(4) of the Act<sup>8</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among its members and creates an appropriate (and limited) incentive for a firm to agree to act as specialist on a temporary basis.

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<sup>6</sup> See SR-CHX-2006-05.

<sup>7</sup> See supra note 3. The Exchange believes that it is appropriate to maintain at least a \$500 assignment fee to help defray the costs of the assignment process. The Exchange will continue to charge no fee when securities are assigned without competition.

<sup>8</sup> 15 U.S.C. 78(f)(b)(4).

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

The Exchange does not believe that the proposed rule changes 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 Exchange 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.

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](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2006-13 on the subject line.

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 Number SR-CHX-2006-13. 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 the 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-2006-13 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.<sup>9</sup>

Nancy M. Morris  
Secretary

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<sup>9</sup> 17 CFR 200.30-3(a)(12).