

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54963; File No. SR-CHX-2006-30)

December 19, 2006

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving Proposed Rule Change to Permit Routing from the Matching System to a Destination Selected by a Participant

I. Introduction

On October 19, 2006, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to permit CHX participants to identify a destination to which an order should be routed when its execution would improperly trade through other markets or its display would improperly lock or cross other markets. The proposed rule change was published for comment in the Federal Register on October 30, 2006.³ The Commission received no comments regarding the proposal.

II. Description of the Proposal

The proposal would allow the Exchange to follow a participant’s instructions to route an order to a destination of the participant’s choice instead of cancelling the order back to the participant when an execution could not take place in the Matching System because the execution would improperly trade through another market⁴ or the display of an order would

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 54642 (October 23, 2006), 71 FR 63372.

⁴ The Exchange’s rules currently provide that the Exchange’s Matching System will not execute an order if its execution would cause an improper trade-through of another ITS market or, when Regulation NMS is implemented, if its execution would be improper

improperly lock or cross another market.⁵ The Exchange proposes to provide these routing services pursuant to a separate agreement between the Exchange and each participant on whose behalf orders would be routed. The participant would be responsible for ensuring that it has a relationship with its chosen destination to permit the requested access. The Exchange would not be involved in the execution of the order nor would the Exchange take responsibility for handling of the order by the destination selected by the participant.⁶ The Exchange, however, would report any execution or cancellation of the order by the destination to the participant that submitted the order and would notify the destination of any cancellations or changes to the order submitted by the order-sending participant. The Exchange's routing service would be a facility of the Exchange subject to the Exchange's rules and fees. The destinations chosen by each participant would not constitute Exchange facilities.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and in particular, with Section 6(b)(5) of the Act,⁷ which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of

under Rule 611 of Regulation NMS (together, an "improper trade-through"). See CHX Article 20, Rule 5; see also 17 CFR 242.611.

⁵ The Exchange's rules currently provide that the Matching System will not display an order if its display would improperly lock or cross other markets. See CHX Article 20, Rule 6.

⁶ See CHX Article 20, Rule 5, proposed Interpretation and Policy .03(b)..

⁷ 15 U.S.C. 78f(b)(5).

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.⁸

The Commission believes that the proposed rule change may increase the efficiency of CHX participants in seeking to execute their customers' orders that are ineligible for execution or display in the CHX Matching System. In particular, orders that otherwise would be cancelled back to a participant may be sent directly to a destination chosen by the participant for handling. The Commission notes that fees and charges for the Exchange's routing service must be consistent with the Act,⁹ and the Exchange must provide its routing service in compliance with, among other things, the provisions of the Act requiring the rules of a national securities exchange not to permit unfair discrimination between customers, issuers, brokers, or dealers.¹⁰

⁸ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition and capital formation. See 15 U.S.C. 78c(f).

⁹ See 15 U.S.C. 78f(b)(4).

¹⁰ See 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (SR-CHX-2006-30) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Florence E. Harmon
Deputy Secretary

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200.30-3(a)(12).