

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55625; File No. SR-CHX-2007-08)

April 12, 2007

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change to Expand its Price Manipulation Rule to Address Additional Instances of Improper Behavior

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 March 21, 2007, 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 substantially 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 Exchange proposes to amend its rule relating to price manipulation to address two separate instances of improper activity: (1) manipulative conduct consisting of a single event (in addition to a series of events, as the current rule contemplates) and (2) manipulation based upon the entry of orders as opposed to that based solely upon the entry of trades. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and http://www.chx.com/rules/proposed_rules.htm.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

Through this proposal, the Exchange seeks to amend its rule relating to price manipulation to address two separate instances of improper activity: (1) manipulative conduct consisting of a single event (in addition to a series of events, as the current rule contemplates) and (2) manipulation based upon the entry of orders as opposed to that based solely upon the entry of trades.³

As an initial matter, the Exchange believes that these changes to the rule would appropriately establish that improper price manipulation could occur, in certain circumstances, when orders are entered at successively higher or lower prices, not just upon the execution of a series of trades at successively higher or lower prices. Order-based manipulation, sometimes called spoofing, may be intended to take advantage of algorithms or electronic traders who focus on changes to the bid or offer in trading. In such situations, the bad actor may enter higher, non-marketable bids (offers) in one market center in order to induce market participants to lift an offer (hit a bid) which he has posted in the same or different market center.⁴

³ The proposal would also expand the rule to address conduct by persons associated with a participant firm, in addition to the firm's partners, directors, officers and registered employees.

⁴ Other order-based manipulative activity might occur with the upcoming implementation of the new market data revenue allocation formula under Regulation NMS -- which, in general, requires that market data revenue be allocated based upon both quoting and trading activity in each market. The entry of orders (which are designed not be executed)

Additionally, the Exchange believes that the proposed changes to the rule would appropriately establish that improper price manipulation could occur, in certain circumstances, when a single execution occurs (or a single order is entered) at a price higher than (or lower than) the current market. A single trade that is executed at a significantly higher or lower price at the end of the trading day, for example, could be used to establish a price which does not reflect the true state of the market in that security, to the benefit of a participant firm.

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act,⁵ in general, and Section 6(b)(5) of the Act,⁶ 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 by expanding the price manipulation rule to address additional instances of improper behavior.

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.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange did not solicit or receive any written comments with respect to the proposed rule change.

could be used to create a false, misleading, or artificial appearance of quoting activity in a particular security within a particular market.

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

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 self-regulatory organization consents, the Commission will:

- A. by order approve the 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. Please include File Number SR-CHX-2007-08 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CHX-2007-08. 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 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-2007-08 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.⁷

Florence E. Harmon
Deputy Secretary

⁷ 17 CFR 200.30-3(a)(12).