

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64370; File No. SR-CHX-2011-07)

April 29, 2011

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change to Amend Minor Rule Violation Plan

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 April 20, 2011, 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 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 rules that pertain to the Exchange’s minor rule violation plan. 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, and at www.sec.gov.

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 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange’s Minor Rule Violation Plan (“Plan”) provides an effective and efficient method for the Exchange to encourage its members to fully comply with applicable rules. Under the Plan, the Exchange may impose a monetary fine, instead of instituting a formal disciplinary proceeding, for a rule violation that the Exchange has found to be minor in nature, but which the Exchange believes should still be the subject of a meaningful sanction.³ Currently, fines imposed under the Plan can be up to \$2,500 per violation. Each individual violation is identified to the Minor Rule Violation Panel (“Panel”), which is composed of individuals associated with an Exchange Participant firm. The Panel decides whether to assess fines under the Plan and determines the amount of the fine.

Proposed New Rules for the Minor Rule Violation Plan

The Exchange is seeking to revise its list of rules eligible for disposition under the Plan as well as its Recommended Fine Schedule (“Fine Schedule”) to include a number of new rules that are currently not eligible for disposition under the Plan. As a general matter, the new rules fall into one of two categories: reporting and recordkeeping provisions or trading-related rules.

The new reporting and recordkeeping provisions include the following: failure to notify the Exchange of a request to withdraw capital contribution (Article 3, Rule 6(b)); failure to

³ Fines under the Minor Rule Violation Plan provide an appropriate sanction in many situations. For example, where member conduct is not intentional or of such magnitude that it can be considered reckless, a fine under the Minor Rule Violation Plan might be an appropriate response to a first, second or third violation by an Exchange member. The Exchange is mindful, however, that more egregious violations should not be handled through the summary proceedings authorized by the Minor Rule Violation Plan. The mere fact that the Exchange is authorized to impose a sanction pursuant to the Plan does not preclude it from instituting other disciplinary proceedings. Article 12, Rule 8(f).

request Exchange approval of the transfer of equity securities of a participant firm (Article 3, Rule 11), reporting of loans (Article 3, Rule 12), failure to provide the Exchange with information (Article 6, Rules 7); impede or delay an Exchange examination, inquiry or investigation (Article 6, Rule 9); designation of email addresses (Article 3, Rule 13); registration and approval of personnel (Article 6, Rule 2(a)); written supervisory procedures (Article 6, Rule 5(b)); failure to report short positions (Article 7, Rule 9); furnishing of records (Article 11, Rule 1), maintenance of books and records (Article 11, Rule 2) participant communications (Article 11, Rule 4); market maker registration and appointment (Article 16, Rule 1), market maker reporting of position information (Article 16, Rule 10) and institutional broker registration and appointment (Article 17, Rule 1).

The new trading violations which the Exchange proposes to add to the Plan include the reporting of transactions (Article 9, Rule 13); institutional broker obligations for entry of orders into an automated system (Article 17, Rule 3(a)); and institutional broker responsibilities for handling orders within an integrated system (Article 17, Rule 3(b)).

In general, the majority of these rules are similar in nature to the rules already eligible for disposition under the Plan inasmuch as they relate to recordkeeping or reporting obligations of participants to the Exchange or the manner in which trading activity occurs on the Exchange.⁴ A number of these additions also relate to registration, recordkeeping or trading responsibilities of Exchange-registered market makers or institutional brokers. Articles 16 and 17 of the Exchange's rules set forth a number of specific obligations as to these two categories of participants.

⁴ A number of these rules had been included in previous iterations of the Plan.

As it applies to market makers, this filing proposes to include market maker registration requirements under Article 16, Rule 1 and reporting of position information under Article 16, Rule 10 to the Plan.

As it applies to institutional brokers, this filing proposes to add to the Plan certain aspects of an institutional broker's obligation in the handling of orders in the Exchange's Brokerplex system. This includes Article 17, Rule 3(a) which requires an institutional broker to enter all orders it receives for execution on the Exchange into the Exchange's Brokerplex system and Article 17, Rule 3(b) which requires an institutional broker to use an electronic system, acceptable to the Exchange, for the handling of orders that integrates the institutional broker's on-Exchange trading activities with its trading activities in other market centers.

These rules under Article 17, Rule 3 which the Exchange proposes to add to the Plan involve an institutional broker's obligation in order handling only to the extent that it pertains to internal handling and entry of such orders. It is not uncommon for an institutional broker to manually handle a customer order (i.e., a phone order, instant message, etc.) on the Exchange. As such, the requirements of Article 17, Rule 3 ensure that both manual and electronic orders are being properly handled, entered and recorded in the Exchange's automated system, i.e., the Exchange's Brokerplex system. For example, under Article 17, Rule 3(a), an institutional broker must enter all orders it receives for execution on the Exchange into an automated system as required by the provisions of Article 11. Specifically, this requirement pertains to the institutional broker's responsibility to record such orders in the Exchange's Brokerplex system (or any other Exchange approved automated system), which is an electronic means for order maintenance and recordation.

The Exchange also proposes to add to the Plan its rules requiring Participants to provide information to the staff of the Exchange upon request.⁵ Additionally, the Exchange proposes to add its rule requiring Participants to not impede or delay an Exchange examination, inquiry or investigation by failing to provide information or cooperation.⁶ Finally, the Exchange proposes to add the failure of any Participant to establish, maintain and/or enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered and associated persons.⁷ The Exchange believes that these measures will enhance the ability of the staff to sanction Participants for violations of these trading rules, or for the failure to provide requested information or to adequately have supervisory procedures in place which are properly maintained and enforced.

⁵ CHX Article 6, Rule 7; Article 11, Rule 1. Other markets have included similar rules in their Minor Rule Plans, including NYSE Archipelago (“NYSE Arca”). See NYSE Arca Rule 10.12(h)(1) relating to a firm’s failure to submit trade data in a timely manner (NYSE Arca Rule 10.2(e)) and NYSE Arca Rule 10.12(h)(3) relating to a failure to furnish in a timely manner books, records or other requested information or testimony in connection with an examination of financial responsibility and/or operational conditions (NYSE Arca Rule 4.11(c)); Philadelphia Stock Exchange (“PHLX”) Rule 970 which includes any violations of a floor procedure advice including violations of Floor Procedure Advice F-8 which relates to a firm’s failure to comply with an Exchange inquiry; and National Stock Exchange (“NSX”) Rule 8.15 which includes violations of NSX Rules 4.1 and 4.2 relating to the submission of responses to Exchange requests for trading data, as well as financial or regulatory records and information.

⁶ CHX Article 6, Rule 9. NYSE Arca has a similar rule in their Minor Rule Plan. See NYSE Arca Rule 10.12(h)(6) relating to delaying, impeding or failing to cooperate in an investigation (NYSE Arca Rule 10.2(d)).

⁷ CHX Article 6, Rule 5(b). NYSE Arca has a similar rule in their Minor Rule Plan. See NYSE Arca Equity Rule 10.12(h)(8)(c) which relates to establishing, maintaining, and enforcing written procedures to supervise the business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable federal securities laws and regulations and with the NYSE Arca Equity Rules (NYSE Arca Rule 6.18(c)).

Elimination of Obsolete Rule References and Clarifying Changes to Others

The Exchange also seeks to revise its list of Rules eligible for MRVP disposition as well as its Recommended Fine Schedule (“Fine Schedule”) to eliminate a number of obsolete rule references and to make certain non-substantive, clarifying changes to other rule references.

The list of Rules eligible for MRVP disposition contained in Rule 8(h) of Article 12 and the Fine Schedule contain certain rules which are either no longer rules of the Exchange or appropriate for disposition under the Plan. For example, the violations cited in the current version of Rule 8(h)(ii)(1) and (2) relate to use of the Intermarket Trading System (“ITS”), which was retired in 2007.⁸ The other violation noted in the Plan and Fine Schedule which is no longer a rule of the Exchange relates to officers, directors and principal stockholders (Article 4, Rules 3 and 4). The Exchange believes that the rule addressing dealings in stocks on put, call, straddle or option (Article 9, Rule 22) should be deleted from the Plan and Fine Schedule, since no violations of that rule have been addressed via the Plan for many years.⁹ The Exchange also believes that the reference to improper use of the “SOLD” designator should be deleted from the Plan and Fine Schedule, as the Exchange’s systems no longer facilitate the use of that designator by Participants on our trading facilities.

Additionally, a number of the rules referenced in the Fine Schedule relate to trading by Exchange specialists, which were eliminated when the Exchange adopted its New Trading

⁸ These rules include the failure to issue ITS pre-opening notification or properly issue a pre-opening response (former Article 19, Rule 1) and the failure to comply with trade-through, locked markets and block trade rules (former Article 19, Rule 2). The Exchange also proposes to delete an exclusionary reference to ITS commitments in the firm quote rule citation. Article 12, Rule 8(h)(ii)(11).

⁹ Any violations of this provision could be addressed through other disciplinary mechanisms, such as a formal disciplinary proceeding under Article 12, Rule 1 or the Summary Procedure under Article 12, Rule 2.

Model.¹⁰ These rules include the written reports of transactions (former Article XXX, Rule 5), record of orders (former Article XXX, Rule 11), submission of the Co-Specialists survey (former Article VIII, Rule 11), primary market protection (former Article XX, Rule 7, interpretation and policy .06), “stopped” orders (former Article XX, Rules 28 and 37(a)(6)), trading ahead (former Article XXX, Rule 2), competitive basis rule (former Article XXX, Rule 3), BEST rule (former Article XX, Rule 37(a)(2), (3)) and approval for manual execution mode (former Article XX, Rule 37, interpretations and policies .04). Other obsolete rule references in the Fine Schedule include the now-deleted Market Maker requirements of former Article XXXIV.¹¹ Additionally, several rules cited in the Fine Schedule pertain to the now-defunct ITS system.¹² Other rules have previously been deleted from the Plan due to changes in Exchange rules associated with the adoption of the New Trading Model, but remained as a legacy in the Fine Schedule.¹³ The citations for the remaining rules have changed since the Fine Schedule was last updated. The proposed rule amendment would conform the rules noted in the Fine Schedule to those rules which are part of the Plan as set forth in Article 12, Rule 8.

Finally, the Exchange proposes to make certain non-substantive, clarifying changes to some of the current rules referenced in the Plan. For example, the filing proposes to clarify that

¹⁰ See Securities Exchange Act Release No. 54550 (September 29, 2006), 71 FR 59563 (October 10, 2006) (approving CHX’s proposed new trading model).

¹¹ These rules include the failure to comply with the 50% requirement (former Article XXXIV, Rule 3), and failure to comply with the public outcry rule (former Article XXXIV, Rule 10).

¹² These rules include the failure to issue ITS pre-opening notification or properly issue a pre-opening response (former Article XX, Rule 39) and the failure to comply with trade-through, locked markets and block trade rules (former Article XX, Rule 40) as well as the above-noted reference to ITS commitments in connection with the firm quote rule.

¹³ See, e.g., Limit order display rule provisions (former Article XX, Rule 7, Interpretation and Policies .05).

the short sale rule (Article 9, Rule 23) applies to all sell orders and not just those of a proprietary nature.¹⁴ In addition, the filing proposes to make changes to address proper rule cites and/or description of rules. For example the filing proposes to clarify that an Institutional broker's best execution obligations under Article 17, Rule 3 specifically fall under paragraph (d) of such rule and is titled Obligations in Handling Orders (as opposed to failure to meet best execution obligations).

Increased Fines

The Exchange is also proposing to increase the maximum fine pursuant to the Plan from \$2,500 to \$5,000 and to increase the fines in the Fine Schedule in order to better deter violative activity and more closely adhere to the fine schedules of other self-regulatory organizations. For most reporting and recordkeeping rule violations and certain trading rule violations, the recommended fines were increased from \$100/\$500/\$1000 for 1st, 2nd and 3rd tier fines, respectively, to \$250/\$750/\$1500. The Exchange proposes recommended fines of \$500/\$1000/\$2500 for other, more serious trading rule violations (i.e., ones which involve the potential for customer harm), as well as violations of the obligation to establish, maintain and enforce written supervisory procedures, and to provide information to the Exchange in connection with regulatory inquiries or other matters. We seek recommended fines of \$1000/\$2500/\$5000 for the most serious violations contained within the Plan (Trading Ahead). Finally, we are expanding the rolling time period in which violations would result in escalation to the next highest tier from 12 to 24 months, which is consistent with the minor rule plans of other exchanges.

¹⁴ Currently, the Plan only addresses a Participant's duty to comply with the short sale rule when selling short for their own account (e.g., proprietary). See Article 12, Rule 8(h)(ii)(5).

Elimination of Minor Rule Violation Panel

The Exchange proposes to eliminate the role of the Panel in issuing sanctions pursuant to the Plan and authorize certain members of the Exchange's Market Regulation staff to issue MRVP sanctions. Specifically, MRVP sanctions would be imposed either by the Exchange's Chief Enforcement Counsel or Chief Regulatory Officer. The Exchange notes that allowing members of its staff to issue MRVP fines is consistent with the practice at other exchanges regarding MRV plans and is also similar to the method by which formal disciplinary actions are instituted by the CHX under Article 12, Rule 1.¹⁵ The Exchange believes that the proposed change will help to expedite the process of issuing MRVP sanctions and will eliminate an inherent source of potential conflicts (or appearance thereof) whenever Participants determine disciplinary sanctions.

Censure

The Exchange proposes to add a censure authority to the Plan to provide additional flexibility in imposing sanctions in particular cases. Censures could be used in initial findings of a violation where the Exchange wants to put the Respondent on notice that certain conduct violates CHX rules or in other circumstances in which a monetary fine is not appropriate or necessary.

¹⁵ See, e.g., Chicago Board Options Exchange ("CBOE") Rule 17.50(a), Imposition of Fines for Minor Rule Violations (provides for fines to be issued by "the Exchange."); BATS Exchange ("BATS") Rule 8.15(a), Imposition of Fines for Minor Violation(s) of Rules, (provides for fines to be issued by "the Exchange"); International Stock Exchange ("ISE") Rule 1614(a), Imposition of Fines for Minor Rule Violations (provides for fines to be issued by "the Exchange"). Formal disciplinary actions under Article 12, Rule 1 are authorized by the Exchange's Chief Regulatory Officer.

Pleadings

The Exchange seeks to clarify the pleading requirements of a Respondent who seeks to challenge a sanction by instituting a formal disciplinary proceeding. The proposed changes require a Respondent which is challenging a MRVP sanction to file an answer which meets the standards for an answer under Article 12, Rule 5(b). The proposal would authorize the Secretary of the Exchange (the person to whom such responses are directed) to deny the answer for a failure to meet these standards. The denial of the answer by the Secretary without leave to amend and refile shall be considered the final action of the Exchange, and the MRVP fine shall become due and payable and/or a censure will be imposed. The Exchange has also added language incorporating the requirement of Exchange Act Rule 19d-1 relating to the reporting of Exchange disciplinary actions to the Commission.¹⁶

2. Statutory Basis

Approval of the rule changes proposed in this submission 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). The proposed rule change is consistent with Section 6(b)(5) of the Act 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. The proposed rule change is also consistent with Sections 6(b)(6) and 6(b)(7) of the Act because it would promote the Exchange's ability to appropriately discipline its Participants and provide procedures of fair practice when addressing violations of Exchange rules that are deemed by the

¹⁶ Our proposed language is based upon language in the Minor Rule Violation plan for the CBOE. (CBOE Rule 17.50(a)).

Exchange to be minor in nature. Generally, the Exchange believes that the proposed rule change will strengthen its ability to carry out its oversight responsibilities as a self-regulatory organization and reinforce its surveillance and enforcement functions. In addition, the proposed rule change will promote consistency in minor rule violations and respective SRO reporting obligations as set forth pursuant to Regulation 240.19d-1(c)(2) of the Act.

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.

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

No written comments were solicited or received.

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

Within 45 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 or disapprove 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 Exchange 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-2011-07 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CHX-2011-07. 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 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 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 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-2011-07 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.¹⁷

Cathy H. Ahn
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).