

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66118; File No. SR-CHX-2011-33)

January 9, 2012

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add a Rule Regarding the Brokerplex Order Entry, Recordation, and Management System

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 December 28, 2011, 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 and II below, which Items have been prepared by the Exchange. CHX has filed the proposal pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. 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 add Article 17, Rule 5 (Brokerplex) to include an explicit description of the Exchange’s Brokerplex order entry, recordation, and management system. The text of this proposed rule change is available on the Exchange’s website at ([www.chx.com](http://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

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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> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

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.

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

1. Purpose

The Exchange is proposing to add new Rule 5 to Article 17 (Institutional Brokers) to set forth the terms governing the operation of the Brokerplex<sup>®</sup> system. Brokerplex is an Exchange-owned order and trade entry, recordation and management system developed and operated by the CHX for use by Participant Firms registered with the Exchange as Institutional Brokers under Article 17 (“Institutional Brokers”). The Exchange provides the Brokerplex trading system for use by Institutional Broker Representatives (“IBRs”), as defined in Rule 1 of this Article and the Interpretations and Policies thereto, who are affiliated with Institutional Brokers. Brokerplex can be used by IBRs to receive, transmit and hold orders from their clients while seeking execution within the CHX Matching System or elsewhere in the National Market System.<sup>5</sup> Brokerplex can be used to record trade executions and send transaction reports to a Trade Reporting Facility (“TRF”), as defined in FINRA Rules 6300 et seq., as amended from time-to-time. Brokerplex can also be used by IBRs to initiate clearing submissions to a Qualified Clearing Agency via the Exchange’s reporting systems. Reports of orders, executions and clearing submissions received, handled or submitted via Brokerplex are kept by the system. The Brokerplex system has been generally described in rule filings made by the CHX with the Commission, but the Exchange’s

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<sup>5</sup> The Exchange is amending Article 17, Rule 3(b) to make explicit that use of Brokerplex satisfies the requirement that each Institutional Broker handle orders within an integrated system acceptable to the Exchange.

rules do not contain a comprehensive description of the system.<sup>6</sup> In order to remove any potential ambiguity about the nature of the Exchange's technology offerings, we are now proposing to add language to our rules which fully describes the basic functionality of the Brokerplex system.

Proposed new Rule 5 provides that IBR users of the Brokerplex system are responsible for entering all transactional, order and other information into the system as required by CHX rules and in an accurate, timely and complete manner. As the operator of the Brokerplex system, the CHX retains such information on behalf of the Institutional Broker users in conformity with applicable rules and regulations. The Exchange provides such information to Institutional Brokers in a format designated by the Exchange to assist Institutional Brokers in processing orders and transactions, responding to requests for information from customers and regulatory bodies and for other legitimate business purposes. The Exchange charges the Institutional Brokers the fees specified in its published Schedule of Fees and Assessments for the retrieval of information.<sup>7</sup>

Brokerplex accepts and handles all of the order types, conditions and instructions accepted by the Matching System as specified in Article 20, Rule 4.<sup>8</sup> Orders may be entered into Brokerplex manually by an IBR or submitted by an Exchange-approved electronic connection. In addition to the order types accepted by the Matching System, Brokerplex permits the entry

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<sup>6</sup> See infra note 12.

<sup>7</sup> Pursuant to Section L.2. of the Exchange's Schedule of Fees and Assessments, trade and order data is rebilled to the Participant at cost.

<sup>8</sup> Additionally, Institutional Brokers may use the services of a layoff vendor, i.e., a broker-dealer or routing services provider to transmit orders to other trading centers. Those layoff vendors may offer additional orders types beyond those in Brokerplex and which are not part of this rule filing. Brokerplex can be used by the Institutional Broker to record the terms of those orders and any resulting executions.

and processing of certain additional order types, conditions and instructions accepted by other market centers. Finally, Brokerplex accepts and processes certain specified orders types, conditions and instructions, specifically Quote@CHX and Reprice@CHX.<sup>9</sup>

Quote@CHX. The Quote@CHX order type allows the Institutional Broker to submit an order to be priced within Brokerplex at a defined limit price which is one minimum price increment (normally 1 cent for most securities) from the relevant side of the NBBO. For buy orders, the relevant side of the NBBO is the offer; for sell orders it is the bid. An IBR handling a customer limit order must enter the limit price into Brokerplex as part of submitting a Quote@CHX order. In pricing the Quote@CHX, Brokerplex will reject any entries if the systematically-generated price would be outside the customer's specified limit price. The Quote@CHX order may not be transmitted to destinations other than the CHX Matching System. The Matching System itself will not be eligible to receive this order type; rather, it will receive a standard limit order at a price generated by Brokerplex.

Reprice@CHX. The Reprice@CHX order type allows a Brokerplex user to cancel an existing limit order residing in the Matching System and replace it with an order generated in the same manner as a Quote@CHX order type. An IBR handling a customer limit order must enter the limit price into Brokerplex as part of submitting a Reprice@CHX order. In pricing the Reprice@CHX orders, Brokerplex will reject any

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<sup>9</sup> The existing provisions in our rules regarding the Quote@CHX and Reprice@CHX order types are being moved from Interpretation and Policy .03 of Rule 3 of Article 17 to new Rule 5. Current Interpretation and Policy .04 is being renumbered as Interpretation and Policy .03, and certain minor clarifying changes within are being proposed as well.

entries if the systematically-generated price would be outside the customer's specified limit price. The Reprice@CHX order type may not be transmitted to destinations other than the CHX Matching System. The Matching System itself will not be eligible to receive this order type; rather, it will receive a standard limit order at a price generated by Brokerplex.

As permitted by CHX rules, an IBR may make post-trade entries in Brokerplex to transfer positions from one Clearing Participant to one or more other Clearing Participants or from its own account to the account of a Clearing Participant.<sup>10</sup>

Brokerplex also provides for the transmission of orders to the Exchange's Matching System, another trading center which is connected to Brokerplex, or a systems provider which can perform routing services. As directed by the user, Brokerplex will either send orders that are eligible for submission to the Matching System under Article 20, Rule 4 first to the Matching System to execute or display and then, if they cannot be executed or displayed in the Matching System, to another destination according to the Institutional Broker's instructions, or to another trading center designated by the user. Orders which are not eligible for submission to the Matching System will be directly sent to another destination in accordance with the IBR's instructions.

Any order entered into Brokerplex and sent through Brokerplex to another exchange or trading center via the provisions of this rule and which results in an execution shall be binding on the Participant on whose behalf such order was entered, including any access, transaction or other fee imposed by that trading center. The Institutional Broker will be responsible for

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<sup>10</sup> See Article 21, Rule 6 (Submission of Clearing Information for Transactions Executed Off-Exchange).

ensuring that it has a relationship with its chosen destinations to permit the requested access. The Exchange shall not have responsibility for the handling of the order by the other destination, but will report any execution or cancellation of the order reported by the other destination to Brokerplex, and will notify the other venue of any cancellations or changes to the order submitted by the IBR into Brokerplex.

An IBR may use Brokerplex to record the execution of a trade in the Over-the-Counter (“OTC”) marketplace using Brokerplex.<sup>11</sup> As directed by the IBR, Brokerplex will transmit an execution report to a Trade Reporting Facility designated by the Institutional Broker, either directly or through a service provider designated by the Institutional Broker.

The Exchange makes clearing submissions for trades entered and/or recorded in Brokerplex as directed by an IBR to a Qualified Clearing Agency pursuant to the provisions of Article 21, Rules 1 (Trade Recording with a Qualified Clearing Agency) and 6 (Submission of Clearing Information for Transactions Executed Off-Exchange), for CHX and non-CHX trade executions, respectively. These submissions can be made for trades executed by either an Institutional Broker or a third-party broker dealer which in turn instructs an Institutional Broker to make the submission to clearing, including any substitution of Clearing Participants and allocation of the trade.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(1) of the Act in particular, in that it allows the Exchange to be organized and have the capacity to be able to carry out the purposes

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<sup>11</sup> The Institutional Broker would retain the responsibility for compliance with all applicable rules of FINRA or other self-regulatory organization with jurisdiction over that activity.

of the Act and to comply, and (subject to any rule or order of the Commission pursuant to section 17(d) or 19(g)(2) of the Act) to enforce compliance by its members and persons associated with such members, with the provisions of the Act, the rules and regulations thereunder, and the rules of the exchange. The Brokerplex system has been generally described in rule filings made by the CHX with the Commission, but the Exchange's rules do not contain a comprehensive description of the system.<sup>12</sup> In order to remove any potential ambiguity about the nature of the Exchange's technology offerings, we are now proposing to add language to our rules which fully describes the basic functionality of the Brokerplex system.

In addition, the Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general,<sup>13</sup> and furthers the objectives of Section 6(b)(5) in particular,<sup>14</sup> in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transaction in securities, to remove impediments and perfect the mechanisms of a free and open market, and, in general, to protect investors and the public interest by setting forth the rules and principles governing the use of Brokerplex by Institutional Brokers. Brokerplex is the principal system used by the Exchange's Institutional Brokers to handle orders placed by their customers. Brokerplex has been designed

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<sup>12</sup> See Exchange Act Release No. 53772 (May 8, 2006), 71 FR 27758 (May 12, 2006) (SR-CHX-2004-38). This proposal amended the Exchange's rules regarding the required reporting of orders and executions by CHX Participants. Footnote 6 contains a basic description of the Brokerplex systems used at that time by CHX floor brokers to "manage their orders, route orders to the Exchange's co-specialists for execution and report executed trades."; Exchange Act Release No. 60620 (Sept. 3, 2009), 74 FR 46814 (Sept. 11, 2009) (SR-CHX-2009-10). This proposal added the "Quote@CHX" and "Reprice@CHX" order types as orders which could be entered into the Brokerplex system by Institutional Brokers in handling and seeking execution of their customer's orders.

<sup>13</sup> 15 U.S.C. 78f(b).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

specifically for use by IBRs and it represents a customized solution for those firms. The adoption of rules governing the use of Brokerplex will help facilitate the ability of Institutional Brokers and their IBRs to meet their customers' needs. The proposed changes to Article 17, Rule 3 conform those rules to the proposed new Rule 5 of Article 17 by transferring certain order types currently described in Rule 3 and consolidating them with others more fully set out in new Rule 5. The additional language in Rule 3(b) clarifies that use of the Brokerplex system satisfies the requirement that Institutional Brokers utilize an acceptable, integrated order management system. Proposed Rule 5(a) provides a basic description of the Brokerplex system and the uses of that system. Proposed Rule 5(b) specifies the record retention requirements regarding the use of Brokerplex, which provides certainty to Participants on that issue. Proposed Rule 5(c) sets forth the order types accepted and processed by Brokerplex, including those order types accepted by the Exchange's Matching System pursuant to Article 20, Rule 4, as well as additional order types which can be sent to other trading centers for execution. The specification of these order types helps Institutional Brokers and Participants who may wish to have their orders handled by Institutional Brokers understand the conditions and obligations associated with each particular order type which can be employed by Institutional Brokers and IBRs using Brokerplex. Proposed Rule 5(d) describes the trade allocation process within Brokerplex which allows IBRs to make post-trade substitution of Clearing Participants pursuant to the provisions of CHX rules. The facilitation of trade allocation should assist Institutional Brokers in the handling of customer orders, in particular the execution and post-trade processing of the equities component of complex derivatives transactions. Proposed Rule 5(e) permits Institutional Brokers to send orders to other trading centers and destinations. By facilitating the transmission of such orders when they cannot be executed or displayed on the Exchange, the proposed rule assists customers



seeking execution of their orders in a prompt and fair manner. Proposed Rule 5(f) permits Institutional Brokers to use Brokerplex to execute trades in the OTC marketplace, provided that all FINRA requirements are satisfied. Allowing Institutional Brokers to use Brokerplex to execute trades in the OTC marketplace should give them additional flexibility and options in handling their customer's orders. Brokerplex can also be used to submit trade reports for OTC transactions. Finally, the proposal provides that transactions reflected in Brokerplex be submitted to a Qualified Clearing Agency pursuant to Exchange rules, which should help ensure the reliable and prompt clearance and settlement of such transactions.

B. Self-Regulatory Organization's Statement of 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. The Exchange believes that its provision of an order management system for certain of its Participants acts as a competitive force, since there are a number of other private systems providers for order routing and execution systems. Additionally, use of an Exchange-provided system is a benefit for smaller firms, since they may lack the resources to develop or lease a system specifically tailored for their needs as CHX-registered Institutional Brokers.

C. Self-Regulatory Organization's Statement on Comments Regarding 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

Pursuant to Section 19(b)(3)(A) of the Act<sup>15</sup> and Rule 19b-4(f)(6) thereunder,<sup>16</sup> CHX has designated this proposal as one that effects a change that (A) does not significantly affect the

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<sup>15</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

protection of investors or the public interest; (B) does not impose any significant burden on competition; and (C) will not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. CHX has provided the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the Exchange Act.

#### 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-2011-33 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-2011-33. 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-2011-33 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.<sup>17</sup>

Kevin M. O'Neill  
Deputy Secretary

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