

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-66366; File No. SR-CHX-2011-34)

February 9, 2012

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving a Proposed Rule Change Regarding Suspension of a Participant's Trading Privileges on the Exchange

I. Introduction

On December 16, 2011, the Chicago Stock Exchange, Inc. ("CHX" or the "Exchange") filed with the Securities and Exchange Commission ("Commission"), 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> a proposed rule change to permit any officer of the Exchange designated by the Chief Regulatory Officer ("CRO") to suspend the trading privileges of a Participant on the Exchange's facilities in certain circumstances. The proposed rule change was published for comment in the Federal Register on January 4, 2012.<sup>3</sup> The Commission received no comment letters on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange proposes to add Interpretation and Policy .01 to Article 13, Rule 2 (Emergency Suspension) to modify the Exchange's ability to suspend a Participant's trading privileges on the Exchange. Currently, Rule 2 authorizes the Exchange's CRO to suspend a Participant's membership with the Exchange or place other limitations on its activities if various circumstances occur, such as insolvency, failure to perform its contracts or obligations, expulsion or suspension by another self-regulatory organization, or where it reasonably appears that the Participant is violating and will continue to violate any provision of the Exchange's rules or the

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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> Securities Exchange Act Release No. 66061 (December 28, 2011), 77 FR 312 ("Notice").

federal securities laws. The Exchange proposes to permit any officer of the Exchange designated by the CRO to suspend the trading privileges of a Participant on the Exchange's facilities pursuant to the provisions of Rule 2 if a Qualified Clearing Agency refuses to act to clear and settle the trades of that Participant. The CRO must approve any such suspensions within two (2) days of the action. If the CRO does not approve the action taken, the suspension shall be immediately lifted as of the time of his or her decision or after the expiration of two days, whichever is earlier. Suspensions pursuant to these provisions, including the appeal thereof, otherwise would be governed by the provisions of Rule 2.

The Exchange also proposes to correct an oversight by eliminating a reference to the Chief Executive Officer in Section (c) of Rule 2 and replacing it with a reference to the CRO regarding appeals of suspensions under Rule 2.<sup>4</sup>

### 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.<sup>5</sup> Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>6</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. Specifically, the Commission believes that new Interpretation

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<sup>4</sup> The Exchange stated that it believes that the continued reference to the Chief Executive Officer in Rule 2(c) represents an oversight in a 2006 amendment to the rule. See Securities Exchange Act Release No. 54437 (September 13, 2006), 71 FR 55037 (September 20, 2006) (SR-CHX-2005-06).

<sup>5</sup> 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).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

and Policy .01 to Rule 2 will help perfect the mechanisms of a free and open market by providing the Exchange with more flexibility regarding who can suspend the trading privileges of a Participant when a Qualified Clearing Agency refuses to clear and settle the trades of that Participant. Such flexibility should enable the Exchange to take timely action to prevent the execution of trades on the Exchange's facilities by a Participant when a Qualified Clearing Agency refuses to clear and settle the trades of that Participant.

Additionally, the Commission believes that Article 13, Rule 2(c) and Interpretation and Policy .01 to Article 13, Rule 2 provide fair suspension appeal procedures, and therefore is consistent with Section 6(b)(7) of the Act,<sup>7</sup> which requires that the rules of a national securities exchange provide a fair procedure for the disciplining of members and persons associated with members. The Commission notes that, where an officer of the Exchange suspends a Participant's trading privileges under the narrow circumstances described in Interpretation and Policy .01, the suspension will be lifted automatically within two days of the action unless the CRO approves it, and the CRO may decide to lift the suspension earlier.

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<sup>7</sup> 15 U.S.C. 78f(b)(7).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>8</sup> that the proposed rule change (SR-CHX-2011-34) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

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Deputy Secretary

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<sup>8</sup> 15 U.S.C. 78s(b)(2).

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