

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76326; File No. SR-CHX-2015-08)

November 2, 2015

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Modify its Smart versus Direct Routing Protocol

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 October 26, 2015, 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. 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 modify its smart versus direct order routing protocol. CHX has designated this proposed rule change as non-controversial pursuant to Section 19(b)(3)(A)<sup>3</sup> of the Act and Rule 19b-4(f)(6)<sup>4</sup> thereunder and has provided the Commission with the notice required by Rule 19b-4(f)(6)(iii).<sup>5</sup> The text of this proposed rule change is available on the Exchange’s Web site 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 of and basis for the proposed rule changes and discussed any comments it received on 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> 15 U.S.C. 78s(b)(3)(A).

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

<sup>5</sup> 17 CFR 240.19b-4(f)(6)(iii).

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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to modify its smart versus direct order routing protocol, which was recently clarified and modified under SR-CHX-2015-02.<sup>6</sup> Specifically, the Exchange proposes to -1- eliminate the Exchange’s special routing handling for Protected Quotations<sup>7</sup> displayed on the Alternative Display Facility (“ADF”) operated by the Financial Industry Regulatory Authority (“FINRA”)<sup>8</sup> (“ADF special handling”)<sup>9</sup> and -2- to always direct a non-affiliate third-party routing broker (“third-party routing broker”) to route orders to specific routing destinations, when required by CHX Rules,<sup>10</sup> including situations where orders would be routed pursuant to a routing table maintained by the Exchange, as described in detail below. The Exchange does not propose to substantively modify the smart versus direct order routing protocol or the CHX Routing Services in any other way.

Currently, upon the triggering of a Routing Event,<sup>11</sup> the Exchange will route away Routable Orders,<sup>12</sup> or portions thereof, through CHXBD, LLC, which is an affiliated routing

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<sup>6</sup> See Exchange Act Release No. 74487 (March 12, 2015), 80 FR 14193 (March 18, 2015) (SR-CHX-2015-02).

<sup>7</sup> See 17 CFR 242.600(a)(58).

<sup>8</sup> See FINRA Rule 6210.

<sup>9</sup> See supra note 6.

<sup>10</sup> See CHX Article 19, Rule 3(a).

<sup>11</sup> Id.

<sup>12</sup> See CHX Article 1, Rule 1(oo).

broker that operates as a facility of the Exchange, which would then forward orders to a third-party routing broker for routing to the ultimate routing destination.<sup>13</sup> All orders routed to the third-party routing broker will include instructions for the third-party routing broker to either direct route the order to a specific destination or to smart route the order utilizing the third-party routing broker's routing technology, pursuant to a routing table provided and maintained by the Exchange. The decision to smart or direct route orders is made by the Exchange pursuant to the following smart versus direct order routing protocol:<sup>14</sup>

- Smart route. Subject to ADF special handling, if the portion of a Routable Order that is to be routed away at a certain price point is smaller than the aggregate size of two or more contra-side Protected Quotations that could be satisfied at that price point, the Exchange will rely on a third-party routing broker to utilize its smart routing technology to route away the corresponding orders pursuant to a routing table provided by the Exchange. When orders are smart routed, the relevant snapshot of Protected Quotations of external markets for Regulation NMS purposes will be taken by the third-party routing broker and the third-party routing broker would route orders marked Immediate Or Cancel<sup>15</sup> and Intermarket Sweep Order<sup>16</sup> (“IOC/ISO”).
- Direct route. Subject to ADF special handling, if the portion of a Routable Order that is to be routed away at a certain price point is smaller than the size of one contra-side Protected Quotation that could be satisfied or is the same size as the aggregate size of one or more contra-side Protected Quotations that could be satisfied at that price point, the Exchange will direct the third-party routing broker to route corresponding orders to specific routing destinations. Thus, the relevant snapshot of the Protected Quotations of external markets for Regulation NMS purposes will be taken by the Exchange and the Exchange would route IOC/ISOs to the third-party routing broker along with instructions to route the orders to a specific destination.
- ADF Special Handling. If one of the contra-side Protected Quotations described above is displayed on the ADF, the Exchange will route the entire remaining balance of the Routable Order to a third-party routing broker for smart routing.

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<sup>13</sup> See Exchange Act Release No. 73150 (September 19, 2014), 79 FR 57603 (September 25, 2014) (SR-CHX-2014-15).

<sup>14</sup> See *supra* notes 6 and 13.

<sup>15</sup> See CHX Article 1, Rule 2(d)(4).

<sup>16</sup> See CHX Article 1, Rule 2(b)(3)(B).

The Exchange now proposes to always direct a third-party routing broker to route orders to specific routing destinations, regardless of whether an order would be smart or direct routed. Specifically, if the Exchange's routing systems determine that a Routable Order should be smart routed, the Exchange's routing systems will create the necessary corresponding orders (as opposed to handing such responsibilities to the third-party routing broker), pursuant to a routing table maintained by the Exchange, and direct the third-party routing broker to route the corresponding orders to specific routing destinations. Thus, the result is that the Exchange will always direct a third-party routing broker to route IOC/ISOs to specific destinations. Also, the Exchange proposes to eliminate ADF special handling and treat Protected Quotations displayed on the ADF like any other Protected Quotations displayed in the national market system. Thus, the smart versus direct order routing protocol would be simplified as follows:

- Smart route. If the portion of a Routable Order that is to be routed away at a certain price point is smaller than the aggregate size of two or more contra-side Protected Quotations that could be satisfied at that price point, the Exchange will utilize its smart routing technology and direct the third-party routing broker to route IOC/ISO(s) to specific routing destinations.
- Direct route. If the portion of a Routable Order that is to be routed away is smaller than the size of one contra-side Protected Quotation that could be satisfied or is the same size as the aggregate size of one or more contra-side Protected Quotations that could be satisfied at that price point, the Exchange will direct the third-party routing broker to route IOC/ISO(s) to specific routing destinations.
- In either scenario, the relevant snapshot of Protected Quotations of external markets will be taken by the Exchange.

#### Operative Date

The Exchange proposes to make the proposed rule change operative as follows:

- The proposal for the Exchange to always direct a third-party routing broker to route orders to specific destinations shall be operative October 29, 2015, prior to the Exchange's Regulation SCI compliance date of November 3, 2015.<sup>17</sup>

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<sup>17</sup> See Exchange Act Release No. 73639 (December 5, 2014), 79 FR 72251 (December 5, 2014).

- The proposed elimination of ADF special handling shall be operative pursuant to two weeks' notice by the Exchange to its Participants via Information Memorandum on a date to coincide with the operative date of CHX Sub-second Non-displayed Auction Process ("SNAP"),<sup>18</sup> which will not occur during the thirty (30) day pre-operative waiting period contained in Exchange Act Rule 19b-4(f)(6)(iii).<sup>19</sup>

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act in general<sup>20</sup> and furthers the objectives of Section 6(b)(5) in particular,<sup>21</sup> in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions 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 Exchange believes that the proposal removes impediments and perfects the mechanisms of a free and open market by streamlining the CHX Routing Services through simplifying the smart versus direct routing protocol, which also protects investors and the public interest.

### B. Self-Regulatory Organization's Statement of Burden on Competition

The Exchange does not believe that the proposal will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that the proposal will enhance competition by streamlining the CHX Routing

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<sup>18</sup> The proposed rule change to adopt SNAP was recently approved, but is not yet operative. See Securities Exchange Act Release No. 76087 (October 6, 2015), 80 FR 61540 (October 13, 2015).

<sup>19</sup> Id.

<sup>20</sup> 15 U.S.C. 78f(b).

<sup>21</sup> 15 U.S.C. 78f(b)(5).

Services. Thus, the proposal is a competitive proposal that is intended to draw additional order flow to the Exchange, which will, in turn, benefit the Exchange and all Participants.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>22</sup> and Rule 19b-4(f)(6) thereunder.<sup>23</sup>

The Exchange has requested that the Commission waive the requirement that the rule change not become operative for 30 days after the date of the filing as set forth in Rule 19b-4(f)(6)(iii),<sup>24</sup> so that the proposal may become immediately operative upon filing. The Exchange has stated that it desires to operate under the proposal to begin always directing a third-party routing broker to route orders to specific destinations on October 29, 2015, allowing the proposal to be fully implemented prior to the Exchange's Regulation SCI compliance date of November 3, 2015.<sup>25</sup> Waiver of the operative waiting period and implementation prior to the SCI compliance date would permit the Exchange to exclude the third-party routing broker from its Regulation

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), CHX provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>24</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>25</sup> See supra note 17.

SCI compliance responsibilities. In addition, the Exchange believes that an operative date ahead of the Exchange's actual Regulation SCI compliance date is necessary to better ensure that the proposed modification is operating properly before the Exchange's Regulation SCI compliance date. For those reasons, the Commission finds that waiver of the 30-day pre-operative waiting period is consistent with the protection of investors and the public. The Commission hereby waives the 30-day operative delay and designates the proposal effective upon filing.<sup>26</sup>

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 purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2015-08 on the subject line.

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<sup>26</sup> For purposes of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-CHX-2015-08. 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 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 20549-1090. Copies of the filing will also be available for inspection and copying at the Exchange's principal office. 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-2015-08 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>27</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>27</sup> 17 CFR 200.30-3(a)(12).