

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-77785; File No. SR-CHX-2016-06)

May 9, 2016

Self Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend its Schedule of Fees and Assessments to Modify and Clarify Certain Fees Applicable to CHX Institutional Brokers

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on May 3, 2016, 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, II and III 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 amend its Schedule of Fees and Assessments (the “Fee Schedule”) to modify and clarify certain fees applicable to CHX Institutional Brokers. 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 proposed rule change. The text of these statements may be examined at the places specified in

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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 Changes

1. Purpose

The Exchange proposes to amend the Fee Schedule to modify and clarify certain fees applicable to CHX Institutional Brokers (“Institutional Brokers”).<sup>3</sup> Specifically, the Exchange proposes to amend Sections E.3(a) and E.7 of the Fee Schedule to modify and clarify the application of the respective fee caps.<sup>4</sup> The Exchange also proposes to amend Section E.4 of the Fee Schedule to correct a misstatement regarding its applicability.

Section E.3(a)

Currently, pursuant to Section E.3(a), the Exchange assesses a fee of \$0.0030/share capped at \$100 per side<sup>5</sup> for executions within the Matching System resulting from single-sided<sup>6</sup> or cross orders<sup>7</sup> for at least a Round Lot<sup>8</sup> submitted by Institutional Brokers as agent only

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<sup>3</sup> See CHX Article 1, Rule 1(n) defining “Institutional Broker”; see also generally CHX Article 17.

<sup>4</sup> Section E.3(a) and E.7 fees are virtually identical as both apply to executions effected through Institutional Brokers that are cleared through the Exchange’s clearing systems, except that Section E.3(a) applies to executions within the Matching System, whereas Section E.7 applies to qualified away executions pursuant to CHX Article 21, Rule 6(a).

<sup>5</sup> While the Fee Schedule does not provide an explicit definition for “side,” the Exchange currently defines “side” as each Trading Account that is allocated a position per buy side and/or sell side of a Section E.3(a) execution. See CHX Article 1, Rule 1(II) defining “Trading Account.” A Participant may hold only one Trading Permit, but may create more than one Trading Account under a Trading Permit. See CHX Article 1, Rule 1(aa) defining “Trading Permit;” see also CHX Article 3, Rule 2(e).

<sup>6</sup> Single-sided orders include limit and market orders. See CHX Article 1, Rule 2(a)(1) defining “limit order”; see also CHX Article 1, Rule 2(a)(3) defining “market order.”

<sup>7</sup> See CHX Article 1, Rule 2(a)(2) defining “cross order.”

<sup>8</sup> See CHX Article 1, Rule 2(f)(3) defining “Round Lot.”

(“Section E.3(a) executions”); except that a side that is represented by two or more Institutional Broker Representatives<sup>9</sup> (“IBR”) is subject to separate fee caps per IBR.<sup>10</sup> Section E.3(a) fees are assessed to the Participant in whose name the execution is submitted for clearance and settlement. Section E.3(a) fees do not apply to executions resulting from orders submitted as Odd Lots, which are assessed fees pursuant to Section E.4.<sup>11</sup>

Identifying the side to a Section E.3(a) execution resulting from a single-sided order is simple because there will always be only one Trading Account associated with the single-sided order.<sup>12</sup> However, identifying the sides to a Section E.3(a) execution resulting from a cross order is usually more complex because such an execution is frequently allocated to three or more Trading Accounts, which may result in two or more clearing submissions. The following Example 1 illustrates how sides are currently allocated:

Example 1. Assume that a Section E.3(a) execution results from a cross order for 100,000 shares of XYZ priced at \$10.00/share. Assume that the following Participants have been allocated the following positions:

- Trading Account A is allocated 40,000 shares on the buy side and 20,000 shares on the sell side.<sup>13</sup>

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<sup>9</sup> See CHX Article 1, Rule 1(gg) defining “Institutional Broker Representative.”

<sup>10</sup> For example, a side may be represented by two or more Institutional Broker Representatives where a Clearing Participant represents two or more correspondent firms that are allocated positions to a single Section E.3(a) execution resulting from a cross order. In such case, two or more Institutional Broker Representatives will never represent a single correspondent firm.

<sup>11</sup> See infra note 16.

<sup>12</sup> All single-sided orders submitted to the Matching System originate from a single Trading Account and, upon execution, are locked-in and immediately reported to the relevant securities information processor and Qualified Clearing Agency. See CHX Article 1, Rule 1(ff) defining “Qualified Clearing Agency;” see also supra note 5.

<sup>13</sup> A Trading Account may be allocated positions on both sides of a Section E.3(a) execution where, for example, the Participant associated with the Trading Account is a Clearing Participant that represents two or more correspondent firms on both sides of the execution. See CHX Article 1, Rule 1(ee) defining “Clearing Participant.”

- Trading Account B is allocated 40,000 shares on the buy side.
- Trading Account C is allocated 20,000 shares on the buy side.
- Trading Accounts D and E are each allocated 20,000 shares on the sell side.
- Trading Account F is allocated 40,000 shares on the sell side.

Assume also that the execution results in the following five clearing submissions:

Clearing Sub- mission	Buyers		Quantity	Sellers	
	Trading Account	Subaccount <sup>14</sup>		Trading Account	Subaccount
1	A	a	20,000	A	c
2	A	b	20,000	D	f
3	B	d	20,000	E	g
4	B	d	20,000	F	none
5	C	e	20,000	F	none

Pursuant to current Section E.3(a), Participants would be allocated fees as follows:

- Trading Account A would be attributed two sides, one on each side of the execution. Thus, the Participant associated with Trading Account A would be assessed a \$100 fee on the buy side (i.e., 40,000 shares x \$0.0030/share = \$120, capped at the \$100 maximum fee) and a \$60 fee on the sell side (i.e., 20,000 shares x \$0.0030/share = \$60) for a total of \$160.
- Trading Account B would be attributed one side. Thus, the Participant associated with Trading Account B would be assessed a \$100 fee (i.e., 40,000 shares x \$0.0030/share = \$120, capped at the \$100 maximum fee).

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<sup>14</sup> Clearing Participants usually identify its correspondent firms via subaccounts, but do not always do so. As discussed below, the Exchange proposes to modify the Section E.3(a) fee allocation to consider subaccounts, so as to encourage the use of subaccount designations by Participants. Participants may create subaccounts under a Trading Account for no additional fee.

- Trading Accounts C, D and E would be attributed one side each. Thus, each Participant associated with each Trading Account would be assessed a \$60 fee (i.e., 20,000 shares x \$0.0030/share = \$60).
- Trading Account F would be attributed one side. Thus, the Participant associated with Trading Account F would be assessed a \$100 fee (i.e., 40,000 shares x \$0.0030/share = \$120, capped at the \$100 maximum fee).

As shown under Example 1, a single Trading Account would be assessed a single capped fee for each side of the Section E.3(a) execution, regardless of the number of subaccounts under the Trading Account allocated positions to the Section E.3(a) execution. The Exchange believes that the Section E.3(a) fee can be more equitably applied by applying the fee cap per subaccount, which would better ensure that, for example, Participants representing different correspondent firms<sup>15</sup> on the same side of a single Section E.3(a) execution would be assessed separate capped fees per correspondent firm, whereas Participants that do not represent different correspondent firms on the same side of a Section E.3(a) execution would continue to be assessed a single capped fee. Thus, the Exchange proposes to amend Section E.3 to effect this change.

Initially, the Exchange proposes to capitalize the term “executions” in the title of current Section E.3(a) to be consistent with the capitalized “Executions” in the title of current Section E.3(b).

Also, the Exchange proposes to replace the first full paragraph of current Section E.3 with proposed paragraphs (a)(1) and (a)(2), which largely restate and clarify the current provisions, while omitting certain outdated or inaccurate language, as described below. Specifically, proposed paragraph (a)(1) provides that amended Section E.3(a) shall apply to all executions within the Matching System resulting from single-sided or cross orders submitted as

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<sup>15</sup> The term “correspondent firm” refers to the customer of a Clearing Participant utilizing the clearing services of the Clearing Participant.

at least a Round Lot<sup>16</sup> by Institutional Brokers as agent only. Proposed paragraph (a)(2) provides that Section E.3(a) fees shall be charged to each Clearing Participant allocated position(s) to a Section E.3(a) execution; provided if a Section E.3(a) execution results from a single-sided order, the Institutional Broker will be charged the Section E.3(a) fee and attributed credits pursuant to Section E.1(b) and (c).<sup>17</sup>

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<sup>16</sup> The first full paragraph under current Section E.3 provides, in pertinent part, that single-sided and cross orders submitted as Odd Lots that otherwise would be assessed fees pursuant to current Section E.3(a) are assessed fees pursuant to current Section E.4 (“Odd Lot fee”). However, current Section E.4 provides that the Odd Lot fee applies to single-sided orders only. Thus, the Exchange proposes to amend current Section E.4 to eliminate the word “single-sided” from the title and amend the first sentence of Section E.4 to provide that subject to Section E.9, these fees are charged to the Participant that submits an Odd Lot order to the Matching System, whether electronically by the Participant or through an Institutional Broker; provided that these fees shall not apply to executions resulting from cross orders subject to fees set forth under Sections E.2 (cross orders submitted by non-Institutional Brokers) and E.3(b) (cross orders submitted by Institutional Brokers where the Institutional Broker is acting as principal on one side and agent on the other). Section E.3(b) executions are not subject to the Odd Lot fee because Section E.3(b) explicitly provides that the Section E.3(b) fee applies to executions resulting from Odd Lots as well.

Thus, the Odd Lot fee only applies to executions resulting from -1- Odd Lot single-sided orders submitted by any Participant and -2- Odd Lot agency cross orders submitted by Institutional Brokers.

<sup>17</sup> The first full paragraph under current Section E.3 provides, in pertinent part, that if the Institutional Broker executes the Section E.3(a) order in the Matching System, the Institutional Broker (not its customer) will be assessed applicable Matching System fees pursuant to Sections E.1 and E.2. While the current language is generally correct, the second clause of proposed paragraph (a)(2) updates and clarifies its meaning. Specifically, the current language contemplates an outdated distinction between orders “executed within the Matching System” and orders executed by Institutional Brokers. Since all orders executed on the Exchange are always executed within the Matching System, the Exchange proposes to eliminate that distinction. See CHX Article 9, Rule 13(a). Also, while Section E.1(a) provides that Section E.3(a) orders are not subject to the Section E.1 liquidity removing fee, the Exchange believes that it is clearer to state that Section E.3(a) orders are subject to the Section E.3(a) fee and attributed credits pursuant to Section E.1(b) and (c), as opposed to stating that Section E.3(a) orders are subject to Section E.1 fees. Moreover, since Section E.2 fees only apply to cross orders submitted by non-Institutional Broker Participants, the Exchange proposes to eliminate the reference to Section E.2.

Moreover, so as to implement a more intuitive and equitable application of the Section E.3(a) fee cap, the Exchange propose to adopt proposed paragraph (a)(3), which adopts the term “Clearing Side,” which means the buy or sell side of an individual clearing submission that is related to a Section E.3(a) or Section E.7 execution;<sup>18</sup> provided all Clearing Sides of a given execution attributed to a single subaccount shall be aggregated per buy and sell sides separately and each aggregation subject to separate capped fee.<sup>19</sup>

Currently, a Trading Account may be represented on two or more clearing submissions on the same side of the Section E.3(a) execution if the portion of the execution allocated to that Trading Account is larger than allocations to two or more contra-side Trading Accounts.<sup>20</sup> Utilizing the concept of the Clearing Side, current Section E.3(a) would require that all Clearing Sides attributed to a single Trading Account be aggregated per buy and sell sides separately, with each aggregation subject to a single capped fee, unless two or more IBRs are associated with the Trading Account, in which case the Section E.3(a) fee cap would be applied per IBR. However, amended Section E.3(a) would require that all Clearing Sides attributed to a single subaccount under a Trading Account be aggregated per buy and sell sides separately, with each aggregation subject to a single capped fee. Since a subaccount attributed to a single correspondent firm could never be represented by two or more IBRs on the same Section E.3(a) or Section E.7 execution, the Exchange proposes to eliminate the current IBR consideration described under the last

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<sup>18</sup> See supra note 4; see also infra description of proposed amendments to Section E.7.

<sup>19</sup> Correspondingly, the Exchange proposes to replace references to “side” under the first sentence of the second columns of Sections E.3(a) and E.7 with “Clearing Side.”

In light of the proposed definition of “Clearing Side,” the Exchange also proposes to delete the last paragraph of current Section E.3 as obviated and redundant of amended Section E.3(a).

<sup>20</sup> See Trading Account A under Example 1.

paragraph of current Section E.3, as the proposed subaccount aggregation provides sufficient granularity to obviate the IBR consideration.<sup>21</sup>

The following Example 2 illustrates the application of amended Section E.3(a):

Example 2. Assume the same as Example 1, except that fees are allocated pursuant to amended Section E.3(a). Pursuant to amended Section E.3(a), Participants would be allocated fees as follows:

- Trading Account A would be attributed three Clearing Sides, two on the buy side representing subaccounts a and b, respectively, and one on the sell side. Thus, the Participant associated with Trading Account A would be assessed a \$120 fee on the buy side (i.e., 20,000 shares x \$0.0030/share = \$60 for each subaccount) and a \$60 fee on the sell side (i.e., 20,000 shares x \$0.0030/share = \$60) for a total of \$180.
- Trading Account B would be attributed two Clearing Sides. However, pursuant to proposed Section E.3(a)(3), all Clearing Sides attributed to a single subaccount would be aggregated for fee cap purposes. Thus, the Participant associated with Trading Account B would be assessed a \$100 fee (i.e., 40,000 shares x \$0.0030/share = \$120, capped at \$100).
- Trading Accounts C, D and E would each continue to be attributed one Clearing Side. Thus, each Participant associated with each Trading Account would be assessed a \$60 fee (i.e., 20,000 shares x \$0.0030/share = \$60).
- Trading Account F would be attributed two Clearing Sides. However, because the Participant associated with Trading Account F did not designate any subaccounts, the Participant would be assessed \$120 fee (i.e., 20,000 x \$0.0030 = \$60 for each Clearing Side for a total of \$120).<sup>22</sup>

### Section E.7

Current Section E.7 provides a fee that is virtually identical to Section E.3(a), except that it applies to non-CHX executed trades for which clearing information is entered by an Institutional Broker into the Exchange's systems and submitted to a Qualified Clearing Agency pursuant to Article 21, Rule 6(a) ("Section E.7 execution"). Given that the application of the

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<sup>21</sup> See supra note 19.

<sup>22</sup> If the Trading Account F Clearing Sides shared the same subaccount, the Participant would have been assessed a single capped fee of \$100. See supra note 14.



Section E.7 fee is virtually identical to the application of the Section E.3(a) fee, the Exchange proposes to adopt amendments under Section E.7 that are similar to the proposed amendments to Section E.3(a).

Specifically, the Exchange proposes to designate the first sentence of the last paragraph under current Section E.7 as proposed paragraph (a) and add language referring to the execution subject to the Section E.7 fee as “Section E.7 execution.” The Exchange further proposes to delete the second sentence of the last paragraph under current Section E.7, which the Exchange believes is redundant of the Section E.7 fee cap, which is already stated previously under Section E.7 and obviated by the definition of Clearing Side, under proposed Section E.3(a)(3).

The Exchange also proposes to adopt proposed paragraph (b), which provides that Section E.7 fees shall be charged to each Clearing Participant allocated position(s) to a Section E.7 execution. Proposed paragraph (b) is virtually identical to proposed Section E.3(a)(2), except that proposed paragraph (b) omits reference to the billing of executions resulting from single-sided orders, as Section E.7 does not apply to single-sided orders submitted to the Matching System.

#### Operative Date

The proposed rule change is effective upon filing, but will be operative on June 1, 2016.

#### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>23</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>24</sup> in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and other persons using its facilities. Specifically, Sections E.3(a) and E.7 fees will

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<sup>23</sup> 15 U.S.C. 78f.

<sup>24</sup> 15 U.S.C. 78f(b)(4).

continue to be equitably allocated among all Clearing Participants and Institutional Brokers. Moreover, the Exchange believes that the modified fee cap allocation method is reasonable as it attempts to apply the fee cap at a more granular level per beneficial party to the Section E.3(a) and Section E.7 transactions, which will more equitably allocate fees among Participants based on their activity on the Exchange.

Moreover, the Exchange believes that the proposed rule change is consistent with Section 6(b)(1) of the Act<sup>25</sup> in particular in that the proposed rule change clarifies the applicability of Section E.3(a) and E.4 fees, which would further enable the Exchange to be so organized as to have the capacity to be able to carry out the purposes of the Act and to comply, and to enforce compliance by its Participants and persons associated with its Participants, with the provisions of the Act, the rules and regulations thereunder, and the rules of the Exchange.

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 operates in a highly competitive market in which market participants can readily direct order flow to competing venues if they deem fee levels set by the Exchange to be excessive. The Exchange believes that the proposed rule change modifies the application of the fee cap to be more equitable and intuitive. Thus, the Exchange believes that the proposed rule change will further encourage market participants to submit orders to the Exchange through Institutional Brokers, which will enhance competition in the national market system.

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

No written comments were either solicited or received.

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<sup>25</sup> 15 U.S.C. 78f(b)(1).

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

The foregoing rule change is effective upon filing pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>26</sup> and subparagraph(f)(2) of Rule 19b-4 thereunder<sup>27</sup> because it establishes or changes a due, fee or other charge imposed by the Exchange.

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-2016-06 on the subject line.

#### Paper Comments:

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

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<sup>26</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>27</sup> 17 CFR 240.19b-4(f)(2).

All submissions should refer to File Number SR-CHX-2016-06. 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 such filing will also 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-2016-06 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>28</sup>

Robert W. Errett  
Deputy Secretary

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<sup>28</sup> 17 CFR 200.30-3(a)(12).