

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-84866; File No. SR-CHX-2018-08)

December 19, 2018

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Article 14 of the Rules of the Exchange Related to Arbitration Proceedings

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on December 7, 2018, 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, 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

The Exchange proposes to amend Article 14 of the rules of the Exchange (“Rules”) to adopt arbitration provisions that are substantively similar to Rule 12 of the rules of NYSE National, Inc. (“NYSE National”), a national securities exchange and affiliate of CHX, and Rule 12.110 of the rules of the Investors Exchange LLC (“IEX”). The proposed rule change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

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 self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

1. Purpose

(1) Background

The Exchange and its direct parent, CHX Holdings, Inc., were recently acquired by NYSE Group, Inc.<sup>4</sup> As a result of its acquisition, the Exchange became part of a corporate family including five separate registered national securities exchanges.<sup>5</sup> Following the acquisition, the Exchange has continued to operate as a separate self-regulatory organization and continues to have rules, membership rosters and listings distinct from the rules, membership rosters and listings of the other NYSE Group Exchanges.

As part of its ongoing post-acquisition transition, the Exchange anticipates shortly entering into a Regulatory Services Agreement (“RSA”) with the Financial Industry Regulatory

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<sup>4</sup> See Exchange Act Release No. 83635 (July 13, 2018), 83 FR 34182 (July 19, 2018) (SR-CHX-2018-004); see also Exchange Act Release No. 83303 (May 22, 2018), 83 FR 24517 (May 29, 2018) (SR-CHX-2018-004).

<sup>5</sup> The Exchange has four registered national securities exchange affiliates: New York Stock Exchange LLC (“NYSE”), NYSE Arca, Inc. (“NYSE Arca”), NYSE National and NYSE America LLC (“NYSE American” and together with the Exchange, NYSE, NYSE Arca, and NYSE National, the “NYSE Group Exchanges”).

Authority (“FINRA”) pursuant to which FINRA will perform certain regulatory functions of the Exchange on behalf of the Exchange, such as conducting arbitration proceedings.

To facilitate implementation of the RSA between the Exchange and FINRA, the Exchange proposes to amend its current rules related to arbitration proceedings under Article 14 to incorporate FINRA arbitration rules by reference.<sup>6</sup> Accordingly, the Exchange proposes to amend current Article 14 to be substantively similar to NYSE National Rule 12, as described below.

(2) Proposed Rule Change

Current Article 14 (Arbitration) provides rules related to the Exchange’s arbitration program.<sup>7</sup> Specifically, current Article 14, Rule 1 (Arbitration of Participant Controversies) includes general provisions on the arbitration program, including the jurisdiction, how the arbitration panel is to be selected and the effect of any decision of the arbitration panel. Current Article 14, Rule 2 (Arbitration Rules) includes arbitration procedure requirements and the schedule of arbitration related fees.

Proposed Article 14, Rule 1(a) would be renamed “Arbitration” and incorporate by reference the Rule 12000 Series and the Rule 13000 Series of the FINRA Manual (Code of Arbitration Procedure for Customer Disputes and Code of Arbitration Procedure for Industry

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<sup>6</sup> The Exchange proposes to file a request that the Commission exercise its authority under Section 36 of the Act and Rule 0-12 thereunder and grant the Exchange an exemption from the rule filing requirements of Section 19(b) of the Act for changes to Exchange rules that will be effected solely by virtue of changes to FINRA rules - including FINRA rules designated as NASD rules - that are cross-referenced in those Exchange rules. This application would address all FINRA rules that the Exchange proposes to cross reference.

<sup>7</sup> As of the time of this filing, there are no ongoing arbitration proceedings pursuant to current Article 14 nor has the Exchange been notified by any person of an intent to begin arbitration proceedings pursuant to current Article 14.

Disputes) (the “FINRA Codes of Arbitration”). As proposed, definitions in the FINRA Codes of Arbitration would have the same meaning as that prescribed therein, and procedures contained in the FINRA Codes of Arbitration would have the same application as towards Exchange arbitrations.

Proposed Rule 1(b) would set forth jurisdiction and would provide that any dispute, claim, or controversy arising out of or in connection with the business of any Participant, or arising out of the employment or termination of employment of associated person(s) with any Participant may be arbitrated under this proposed Rule except that: (1) a dispute, claim, or controversy alleging employment discrimination (including a sexual harassment claim) in violation of a statute may only be arbitrated if the parties have agreed to arbitrate it after the dispute arose; and (2) any type of dispute, claim, or controversy that is not permitted to be arbitrated under the FINRA Codes of Arbitration (such as class action claims) shall not be eligible for arbitration under this proposed Rule.

Proposed Rule 1(c) would provide that the requirements of FINRA Rule 2268, which would be incorporated by reference, would apply to predispute arbitration agreements between Participants and their customers.

Proposed Rule 1(d) would provide that if any matter comes to the attention of an arbitrator during and in connection with the arbitrator’s participation in a proceeding, either from the record of the proceeding or from material or communications related to the proceeding, that the arbitrator has reason to believe may constitute a violation of the Exchange’s Rules or the federal securities laws, the arbitrator may initiate a referral of the matter to the Exchange for disciplinary investigation; provided, however, that any such referral should only be initiated by an arbitrator after the matter before him has been settled or otherwise disposed of, or after an

award finally disposing of the matter has been rendered pursuant to Rule 12904 or 13904 (as applicable) of the FINRA Codes of Arbitration.

Proposed Rule 1(e) would provide that any Participant, or person associated with a Participant, who fails to honor an award of arbitrators appointed in accordance with this proposed Rule shall be subject to disciplinary proceedings in accordance with Article 12 (Disciplinary Matters and Trial Proceedings).

Finally, proposed Rule 1(f) would provide that the submission of any matter to arbitration under this proposed Rule shall in no way limit or preclude any right, action or determination by the Exchange which it would otherwise be authorized to adopt, administer or enforce.

Proposed Article 14, Rules 1(a) – (c), (e) and (f) are based on NYSE National Rules 12(a) – (c), (e) and (f), and proposed Article 14, Rules 1(a) – (f) are based on IEX Rules 12.110(a) – (f), with non-substantive differences to use Exchange terminology.

Because proposed Article 14, Rule 1 would set forth the Exchange's rules relating to arbitration, the Exchange proposes to delete the current rules under Article 14 in their entirety.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Exchange Act,<sup>8</sup> in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

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<sup>8</sup> 15 U.S.C. 78f(b)(5).

Specifically, the Exchange believes that proposed Article 14, Rule 1 relating to arbitration would remove impediments to and perfect the mechanisms of a free and open market and a national market system because it would update the Exchange's rules governing arbitration to reflect that any such arbitrations would be processed by FINRA pursuant to the FINRA Codes of Arbitration. The proposed rule is not novel as it is based on NYSE National Rule 12 and IEX Rule 12.110. The Exchange believes the proposed rule change fosters uniformity and consistency in arbitration proceedings and, as a result, would enhance the administration and operation of the arbitration process, thereby protecting investors and the public interest. The proposed rule change would therefore promote consistency among the Exchange and other SROs, such as NYSE National and IEX, and make its rules easier to navigate for the public, the Commission, and members.

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 Exchange Act. The proposed rule change is not intended to address competitive issues but rather is concerned solely with the Exchange's arbitration program.

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 with respect to the proposed rule change.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>9</sup> and Rule 19b-4(f)(6) thereunder.<sup>10</sup> Because the proposed rule change does not: (i)

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<sup>9</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6)(iii) thereunder.

At any time within 60 days of the filing of such 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 under Section 19(b)(2)(B)<sup>11</sup> of the Act to determine whether the proposed rule change 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2018-08 on the subject line.

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<sup>10</sup> 17 CFR 240.19b-4(f)(6).

<sup>11</sup> 15 U.S.C. 78s(b)(2)(B).

Paper Comments:

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

All submissions should refer to File Number SR-CHX-2018-08. This file number should be included in the subject line if email 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 will also be available for inspection and copying at the Exchange's principal office and on its internet website at [www.nyse.com](http://www.nyse.com). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-CHX-2018-08 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>12</sup>

Brent J. Fields  
Secretary

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