

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54833; File No. SR-CHX-2006-33)

November 29, 2006

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change Amending Rules to Require Listed Companies to Make Securities Eligible for the Direct Registration System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> notice is hereby given that on October 30, 2006, the Chicago Stock Exchange, Inc. (“CHX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II, and III below, which items have been prepared primarily by CHX. The Commission is publishing this notice to solicit comments on the proposed rule change from interested parties.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

CHX proposes to amend its listing standards to require certain issuers to make their securities eligible for a Direct Registration System (“DRS”) operated by a securities depository registered as a clearing agency under Section 17A of the Act.

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

In its filing with the Commission, CHX 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 these statements may be examined at the places specified in Item IV below. CHX has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of these statements.<sup>2</sup>

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

<sup>2</sup> The Commission has modified portions of the text of the summaries prepared by the CHX.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

(1) Purpose

The Direct Registration System (“DRS”) allows an investor to establish, either through an issuer’s transfer agent or through the investor’s broker-dealer, a book-entry position in a security and to electronically transfer that position between the transfer agent and the investor’s broker-dealer through a facility currently administered by The Depository Trust Company (“DTC”).<sup>3</sup> DRS, therefore, enables an investor to have securities registered in her name without having a securities certificate issued to her and to electronically transfer her securities to her broker-dealer in order to effect a securities transaction without the risk and delays associated with the use of securities certificates.

Investor holding securities in DRS retain the rights associated with securities certificates (such as voting) without the responsibility of holding and safeguarding those certificates. In addition, corporate actions (such as reverse stock splits and mergers) can be handled electronically with no securities certificates to be returned to or received from the transfer agent.

To reduce the number of transactions in securities for which settlement is effected by the physical delivery of securities certificates to and reduce the risks, costs, and delays associated with the physical processing of securities certificates, the CHX seeks to amend its listing

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<sup>3</sup> Currently, the only registered clearing agency operating a DRS is DTC. For a description of DRS and the DRS facilities administered by DTC, see Securities Exchange Act Release Nos. 37931 (November 7, 1996), 61 FR 58600 (November 15, 1996), [File No. SR-DTC-96-15] (order granting approval to establish DRS) and 41862 (September 10, 1999), 64 FR 51162 (September 21, 1999), [File No. SR-DTC-99-16] (order approving implementation of the Profile Modification System).

standards by adding paragraph (h) to Rule 1<sup>4</sup> that would require certain issuers to make their securities eligible for DRS.<sup>5</sup> As proposed, the new rule would require that any security initially listing on CHX on or after January 1, 2007, must be eligible for a DRS that is operated by a securities depository.<sup>6</sup> This requirement, however, would not extend to i) securities of companies which already have securities listed on CHX, ii) securities of companies which immediately prior to such listing had securities listed on another national securities exchange, iii) derivative products, or iv) securities (other than stocks) which are book-entry only. Under the proposed rule, on and after January 1, 2008, all securities listed on CHX must be eligible for a DRS that is operated by a securities depository.<sup>7</sup>

CHX understands that issuers and transfer agents may incur initial costs when making an issue DRS-eligible. As an initial matter, the issuer must have a transfer agent that is a DRS Limited Participant.<sup>8</sup> Transfer agents will need to meet certain DTC criteria, such as insurance

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<sup>4</sup> The exact text of the CHX proposed rule change is set forth in its filing, which can be found at [http://www.chx.com/rules/proposed\\_rules.htm](http://www.chx.com/rules/proposed_rules.htm).

<sup>5</sup> The Commission has approved rule changes filed by the New York Stock Exchange LLC, NASDAQ Stock Market LLC, the American Stock Exchange LLC, and the NYSE Arca, Inc. that would require certain listed companies securities become DRS eligible. Securities Exchange Act Release Nos. 54289 (August 8, 2006), 71 FR 47278 (August 16, 2006) [File No. SR-NYSE-2006-29]; 54288 (August 8, 2006), 71 FR 47276 (August 16, 2006) [File No. SR-NASDAQ-2006-008]; 54290 (August 8, 2006), 71 FR 47262 (August 16, 2006) [File No. SR-Amex-2006-40]; 54410 (September 7, 2006), 71 FR 54316 (September 14, 2006) [File No. SR-NYSE Arca-2006-31].

<sup>6</sup> Under the proposed rule, a “securities depository” would mean a securities depository registered as a clearing agency under Section 17A(b)(2) of the Act.

<sup>7</sup> Securities (other than stock) that are book-entry-only and derivative products would continue to be excluded from the DRS requirement.

<sup>8</sup> DTC’s rules require that a transfer agent (including an issuer acting as its own transfer agent) acting for a company issuing securities in DRS must be a DRS Limited Participant. Securities Exchange Act Release No. 37931 (November 7, 1996), 61 FR 58600 (November 15, 1996), [File No. SR-DTC-96-15].

and connectivity requirements in order to become DRS Limited Participants and an issuer's corporate documents, such as its bylaws or corporate charters, may need to be amended to permit the issuance of book-entry shares. CHX believes that the proposed deadlines as set forth above would allow issuers and transfer agents an appropriate amount of time to meet applicable requirements.

(2) Statutory Basis

CHX believes the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange. In particular, the proposed rule change is consistent with Section 6(b)(5) of the Act because it would promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, remove impediments to perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest by confirming that certain CHX's issuers would be required to make their securities eligible for a DRS operated by a securities depository.<sup>9</sup>

(B) Self-Regulatory Organization's Statement on Burden on Competition

CHX 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.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

CHX has neither solicited nor received written comments on the proposed rule change.

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

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<sup>9</sup> 15 U.S.C. 78f(b)(5).

Within thirty-five days of the date of publication of this notice in the Federal Register or within such longer period: (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve such proposed rule change or
- (B) institute proceedings to determine whether the proposed rule change should be 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-2006-33 in the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-CHX-2006-33. 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 Web site (<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 inspection and copying in the Commission's Public Reference Section, 100 F Street, NE, Washington, DC 20549. Copies of such filings also will be available for inspection and copying at the principal office of CHX and on CHX's Web site, [www.chx.com](http://www.chx.com). 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-2006-33 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>10</sup>

Nancy M. Morris  
Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).