

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55584; File No. SR-CHX-2006-38)

April 5, 2007

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval to Proposed Rule Change to Extend the Late Trading Session and to Permit Only the Execution of Cross Orders During that Session

I. Introduction

On December 22, 2006, the Chicago Stock Exchange, Inc. (the “CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act (“Act”), and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to (i) to extend its late trading session until 4:00 p.m. (Central Time) and (ii) to provide that only cross orders may be executed during that session. The proposed rule change was published for comment in the Federal Register on February 23, 2007.<sup>3</sup> The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange conducts two trading sessions in its new trading model. The first session – called the regular trading session – is held from 8:30 a.m. (Central Time) to 3 p.m. (Central Time).<sup>4</sup> The second trading session – called the late trading session – is held from the end of the regular session until 3:30 p.m. (Central Time). The Exchange’s Matching System begins

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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> See Securities Exchange Act Release No. 55308 (Feb. 15, 2007), 71 FR 8215.

<sup>4</sup> The regular trading session for certain ETFs extends to 3:15 p.m. (Central Time).

accepting orders for the late trading session immediately after the closing of the regular trading session in a security.<sup>5</sup>

The proposed rule change would extend the Exchange's late trading session by one-half hour, to 4:00 p.m. (Central Time), and confirm that only cross orders may be executed during the late trading session. The Exchange states that the longer trading session is designed to allow CHX participants to trade for a full hour after the normal close of the regular trading session. The Exchange further states that the cross-orders-only rule simply confirms that CHX participants may only submit cross orders for execution during the late trading session. The Exchange believes that it is appropriate to limit the late trading session to cross orders for a variety of reasons – including the fact that doing so is consistent with the types of orders currently submitted by CHX participants during its current after-hours trading session. The Exchange also believes that this proposal is consistent with late trading sessions operated by other markets.<sup>6</sup>

As part of the proposed rule change, the Exchange is also proposing a change in its definition of “NBBO” to confirm that it applies only to protected quotes disseminated during regular trading hours. Without this change, the Exchange explained that a cross order in the late trading session technically would be required to be submitted at a price that is at or better than the NBBO during the late trading session (if markets are disseminating protected quotes), even

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<sup>5</sup> See CHX Rules, Article 20, Rule 8(c)(3). All orders remaining in the Matching System at the end of the regular trading session are cancelled back to the firms that submitted them; firms must submit new orders if they seek to trade in the late trading session.

<sup>6</sup> Other markets have instituted trading sessions that occur after the end of regular trading and that involve the execution of cross transactions. See, e.g., Boston Stock Exchange Rules, Ch. IIC (Extended Hours Crossing Session), Section 4 (noting that “only matched orders are eligible for execution during the ETS”); New York Stock Exchange 900 Series Rules (“Off-Hours Trading Facility Rules”) including Rules 902 and 907 (describing

though the trade-through provisions of Rule 611 of Regulation NMS do not apply during that session.<sup>7</sup>

### III. Discussion

After careful review of the proposal, 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>8</sup> In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>9</sup> which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and the national market system, and, in general, to protect investors and the public interest. In making this finding, the Commission notes that other markets operate late trading sessions involving the execution of cross transactions.<sup>10</sup>

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different types of coupled orders that can be executed during the NYSE off-hours sessions)).

<sup>7</sup> See Article 20, Rule 4(b)(4)(defining a cross order as one that is equal to or better than the NBBO).

<sup>8</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>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> See, e.g., Boston Stock Exchange Rules, Ch. IIC (Extended Hours Crossing Session), Section 4; New York Stock Exchange 900 Series Rules (“Off-Hours Trading Facility Rules”) including Rules 902 and 907 (describing different types of coupled orders that can be executed during the NYSE off-hours sessions)).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>11</sup> that the proposed rule change (SR-CHX-2006-38) be, and hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>12</sup>

Florence E. Harmon  
Deputy Secretary

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

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