

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-60353; File No. SR-CHX-2009-02)

July 21, 2009

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval of Proposed Rule Change Relating to the Rejection of Undisplayed Odd-lot Orders from the Exchange's Matching System

On June 2, 2009, the Chicago Stock Exchange, Inc. ("CHX" or the "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to: (1) allow Exchange customers to specify whether odd-lot orders and unexecuted odd-lot remainders, that are not able to be immediately displayed, should remain in, or be rejected from, the Exchange's Matching System, and (2) add a generic routing rule to clarify how any orders that are rejected from the Exchange's Matching System, and routed away according to Participant instructions, will be handled. The proposed rule change was published for comment in the Federal Register on June 17, 2009.³ The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

The Exchange proposes to amend CHX Article 20, Rule 8 to allow Exchange Participants to specify whether odd-lot orders and unexecuted odd-lot remainders, that are not able to be immediately displayed, should remain in, or be rejected from, the Exchange's Matching System. This preference could be set by the Participant on both a default and order by order basis. Orders remaining in the Matching System will continue to be ranked at the price and time at which they were originally received. Orders that are rejected from the Matching System shall either be sent

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 60083 (June 10, 2009), 74 FR 28739.

back to the order sender or be routed to another destination according to each Participant's instructions⁴ or, if designated "do not route," automatically cancelled. The Exchange also proposes that Participants that elect to have orders routed to another destination pursuant to this rule, or pursuant to Article 20, Rule 5 ("Prevention of Trade-throughs"), agree to be bound by such transactions.

In addition, the Exchange proposes to add a generic routing rule to clarify how any orders that are rejected from the Exchange's Matching System, and routed away according to Participant instructions, will be handled. The use of routing services is optional and is available only to exchange Participants. In such cases, the Participant will be responsible for ensuring that it has a relationship with its chosen destinations to permit the requested access. The Exchange shall not have responsibility for the handling of the order by the other destination, but will report any execution or cancellation of the order by the other destination to the Participant that submitted the order, will notify the other venue of any cancellations or changes to the order submitted by the order-sending Participant and, if requested by the Participant and its chosen destination, will flip any executions into the Participants account, as necessary, and report that second leg of the away-market transaction to clearing.⁵

⁴ The Exchange notes that orders rejected in accordance with this rule will be routed in the same manner as those rejected under the NMS trade-through validation rule (Exchange Article 20, Rule 5, Interpretations and Policies .03), which has already been approved by the Commission.

⁵ For example, if the Exchange routes a participant's buy order to the participant's chosen destination (Router ABC) and Router ABC gets an execution of that order in another market against market maker XYZ, the first leg of the transaction (ABC buying from XYZ) will be reported to clearing by the other market. The Router ABC would send an execution report back to the Exchange (for routing to the original order-sending participant). Under this proposal, if the participant and Router ABC had requested, the Exchange would take the execution report and create a clearing-only record, flipping the execution from Router ABC's account to the account of the order-sending participant

The Exchange will provide its Routing Services pursuant to the proposed rule and three separate agreements, to the extent that they are applicable to a specific routing decision and deemed necessary by the Exchange and/or a third-party broker-dealer providing connectivity to other markets. The Exchange will provide such Routing Services in compliance with its rules and with the provisions of the Act and the rules thereunder, including, but not limited to, the requirements of Sections 6(b)(4)⁶ and (5)⁷ of the Act that the rules of a national securities exchange provide for the equitable allocation of dues, fees and other charges among its members and issues and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers or dealers.

The Commission finds that 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.⁸ In particular, the Commission believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁹ in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and 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.

(ABC selling to the order-sending participant).

⁶ 15 U.S.C. 78f(b)(4)

⁷ 15 U.S.C. 78f(b)(5)

⁸ In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁹ 15 U.S.C. 78f(b)(5).

The Commission believes that the proposed rule change may increase the efficiency of Exchange Participants in seeking to execute their customers' orders that are ineligible for execution or display in the Exchange's Matching System. In particular, odd-lot orders that are not immediately displayed in the Matching System or orders that otherwise would be cancelled back to a participant may be sent directly to a destination chosen by the participant for handling. The Commission notes that the Exchange's proposed generic routing rule will operate in the same manner as its current routing rule for orders rejected by the Exchange's Matching System under its NMS trade-through validation rule,¹⁰ which was previously approved by the Commission.¹¹

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change (SR-CHX-2009-02) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹³

Florence E. Harmon
Deputy Secretary

¹⁰ See CHX Rules Article 20, Rule 5, Interpretations and Policies .03.

¹¹ See Securities Exchange Act Release No. 54963 (December 19, 2006), 71 FR 77834 (December 17, 2006) (SR-CHX-2006-30).

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).