

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-68180; File No. SR-CHX-2012-18)

November 8, 2012

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Alter its Fee Schedule to Amend its Institutional Broker Credits

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 31, 2012, 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. CHX has filed the proposal pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(2) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. 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 the Substance of the Proposed Rule Change

The CHX proposes to amend its Schedule of Participant Fees and Assessments (the “Fee Schedule”), effective November 1, 2012, to alter its schedule of fees for Participants relating to credits to Institutional Brokers. The text of this proposed rule change is available on the Exchange’s website at [http://www.chx.com/rules/proposed\\_rules.htm](http://www.chx.com/rules/proposed_rules.htm) and in the Commission’s Public Reference Room, 100 F Street, N.E., Washington, DC 20549.

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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> 15 U.S.C. 78s(b)(3)(A).

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

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 regarding the proposal. The text of these statements may be examined at the places specified in 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 Change

1. Purpose

Through this filing, the Exchange proposes to amend its Schedule of Participant Fees and Assessments (the "Fee Schedule"), effective November 1, 2012, to amend its existing credits related to Institutional Brokers. Currently, Institutional Brokers are charged monthly fees for their transactions.<sup>5</sup> To reduce the burden of such fees on certain Institutional Brokers, the Exchange historically developed a credit system whereby certain Institutional Brokers receive credits on a percentage basis of their transaction and clearing submission fees. This credit system applies to only certain Institutional Brokers as, for example, the Exchange distributes a credit to an Institutional Broker's Clearing Broker to defray the Institutional Broker's transaction fee costs. Also, related to clearing submissions, only FINRA-registered Institutional Brokers may take advantage of the fee credit. This fee change is being proposed to remove credits for transactions types that are rarely used, to reduce current Institutional Broker Credits, to remove inapplicable definitions, and to make the fee credits for transaction fees and clearing submission fees consistent.

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<sup>5</sup> Fee Schedule Section A.

The Exchange proposes to amend its current credits to Institutional Brokers related to transaction fees. Currently, the Exchange credits Institutional Brokers at a rate of 12% of their transaction fees per month. Such fees relate to agency trades executed by the Institutional Broker. The credit is paid to the Clearing Broker for its handling of the transactions. To increase revenue to the Exchange as well as to defray the technical and regulatory costs associated with supporting the Institutional Broker program, the Exchange proposes to reduce its credit for transaction fees to Institutional Brokers to a rate of 10% per month. Because the volume of transaction fees is significant, the Exchange will gain notable revenue by lowering its transaction fee credits. The Exchange is proposing to reduce these credits specifically from its Institutional Brokers because of the increased regulatory costs related to Institutional Brokers. The Exchange also proposes to remove references related to the rarely used transaction fees by removing the 4% credit for payment to Originating Brokers. The Exchange has found that this type of transaction is rarely utilized and, therefore, such credits are not necessary. Therefore, the Exchange proposes to use one 10% credit in relation to transaction fees. The Exchange further proposes to remove the definition of “Originating Broker” from the rule. The Exchange believes the removal of the term is warranted in that the term Originating Broker is used only once in the rule and, through this proposed rule change, the Exchange is deleting that one use. Therefore, to avoid retaining inapplicable definitions in its rules, the Exchange proposes to delete the definition of Originating Broker.

The Exchange also proposes to amend its current credits related to clearing submissions. Currently, Institutional Brokers receive a credit on fees for their clearing submissions. That credit is at a rate of 8% per side and is paid to the Clearing Broker handling the transactions. Further, this credit is only available to those Institutional Brokers who are members of the

Financial Industry Regulatory Authority (“FINRA”). The Exchange proposes to raise the credit related to clearing submissions to a rate of 10%. The Exchange believes that this amendment will bring result in an equitable allocation of reasonable fees to its Institutional Brokers in that both the Transaction Fee Credit and the Clearing Submission Fee Credit will be at a 10% rate. Notably, due to the volume of transactions on the Exchange, the Transaction Fee Credits have a higher impact on the Exchange’s revenue while its Clearing Submission Fees do not. The Exchange, therefore, proposes to lower the percentage credits related to Transaction Fees to increase its revenue. Correspondingly, the Exchange proposes to raise credits related to clearing submissions as it experiences less volume related to clearing submissions. Such change will equitably allocate fee credits at a 10% rate while fairly allowing Institutional Brokers who send clearing submissions through the Exchange a moderate increase in credits.

## 2. Statutory Basis

The Exchange believes that the proposed rule changes are consistent with Section 6(b) of the Act<sup>6</sup> in general, and further the objectives of Section 6(b)(4) of the Act<sup>7</sup> in particular. The Exchange believes that the proposed amendments to the fee structure are necessary responses to the increasing regulatory costs. Section 6(b)(4) states that exchange rules must “provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities.” To increase revenue to the Exchange and thereby defray technical and regulatory costs associated with supporting its Institutional Broker program, the Exchange proposes to amend its fee schedule to allocate additional costs specifically to the Institutional Brokers as an equitable solution. The Exchange believes that such change will allow for fees and credits that are not designed to permit unfair discrimination between

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<sup>6</sup> 15 U.S.C. 78f.

<sup>7</sup> 15 U.S.C. 78f(b)(4).

customers, issuers, brokers or dealers since the rules will apply only to certain groups of Institutional Brokers that incur additional costs to the Exchange. In reducing the credits related to transaction fees, the Exchange will gain revenue due to the significant amount of transactions that are charged fees on the Exchange. The Exchange is raising credits related to clearing submissions because it does not experience as many clearing submissions as it does transactions. To fairly compensate its Institutional Brokers for the reduction in transaction fee credits, it has proposed to minimally raise its clearing submission fee credits. The revenue the Exchange will gain from lowering its transaction fee credits will far outweigh the funds it will expend in raising the clearing submission fee credits. The Exchange believes that by lowering the transaction fee credits and raising the clearing submission fee credits is a reasonable solution to gain more revenue while still allocating enough credits to its Institutional Brokers. Finally, the Exchange believes that eliminating Section F(2) subsection (a), outlining credits for rarely used transactions, will benefit the Exchange to better reflect the business of its Institutional Brokers while bringing clarity to its rules. Because its Institutional Brokers only rarely utilize this type of transaction, the Exchange believes that it is not necessary to provide related credits.

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 Act.

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.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>8</sup> and subparagraph (f)(2) of Rule 19b-4 thereunder<sup>9</sup> because it establishes or changes a due, fee or other charge applicable to the Exchange's members and non-members, which renders the proposed rule change effective upon filing.

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.

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-2012-18 on the subject line.

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>9</sup> 17 CFR 240.19b-4(f)(2).

Paper comments:

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

All submissions should refer to File Number SR-CHX-2012-18. 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 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of CHX. 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-2012-18, 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>10</sup>

Kevin M. O'Neill  
Deputy Secretary

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