

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69538; File No. SR-CHX-2013-10)

May 8, 2013

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Consolidate All CHX Order Types, Modifiers, and Related Terms Under One Rule and to Clarify the Basic Requirements of All Orders Sent to the Matching System

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 6, 2013, the Chicago Stock Exchange, Inc. (“CHX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The CHX has filed this proposal pursuant to Rule 19b-4(f)(6) under the Act,³ 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 Substance of the Proposed Rule Change

CHX proposes to amend CHX rules, namely Article 1, Rule 2; Article 17, Rule 1; Article 20, Rule 1; Article 20, Rule 2A; Article 20, Rule 4; Article 20, Rule 5; Article 20, Rule 6; and Article 20, Rule 8 to consolidate all CHX order types, modifiers, and related terms (collectively referred to as “defined order terms”) under one rule and to clarify the basic requirements of all orders sent to the CHX Matching System (the “Matching System”). The text of this proposed

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

rule change is available on the Exchange's website at (www.chx.com) and in the Commission's Public Reference Room.

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 on the proposed rule change. 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

The Exchange proposes to amend certain CHX rules to consolidate all defined order terms under one rule and to clarify the basic requirements of all orders sent to the Matching System.

Proposed Consolidation of Defined Order Terms
Amended Article 1, Rule 2 and Article 20, Rule 4(b)

The Exchange proposes to consolidate the defined order terms found under current Article 1, Rule 2 and Article 20, Rule 4(b) under proposed Article 1, Rule 2, entitled "Order Types, Modifiers, and Related Terms" (the "consolidated list"). In doing so, the Exchange proposes to eliminate subparagraphs (1)-(25) under current Article 20, Rule 4(b), as they will either be incorporated into the consolidated list or deleted, as discussed in detail below.

Moreover, the Exchange proposes to delete the following defined order terms from the CHX rules, as they are either redundant of other defined order terms or have never been

implemented: “IOC Market”;⁴ “ISO Cross”;⁵ “Non-Regular Way Cross”;⁶ “Outbound ISO”;⁷ and “Post Only ISO.”⁸ A discussion of each deletion is detailed below.

⁴ Current Article 1, Rule 2(n) and Article 20, Rule 4(b)(13) states as follows:

“IOC market”: a market order that is to be executed only during the Regular Trading Session, either in whole or in part, at or better than the Exchange’s BBO (including any reserve size or other undisplayed orders at or better than that price), with any unexecuted balance of the order to be immediately cancelled. IOC market orders shall not be accepted until (i) the primary market in a security has opened trading in that security or (ii) two senior officers of the Exchange have determined that it is appropriate for the Exchange to accept IOC market orders. For purposes of this rule, another exchange will be considered to have opened for trading in a security when the first trade in that security occurs in that market on or after 8:30 a.m.

⁵ Current Article 1, Rule 2(o) and Article 20, Rule 4(b)(14) states as follows:

“ISO cross”: any type of cross order marked as required by SEC Rule 600(b)(30) that is to be executed without taking any of the actions described in Rule 5 to prevent an improper trade-through. These orders shall be executed because the Participant routing the order to the Matching System has already satisfied the quotations of other markets as required by Rule 600(b)(30). (This provision shall become effective on the Trading Phase Date of Rule 611 of Reg NMS.)

⁶ Current Article 1, Rule 2(u) and Article 20, Rule 4(b)(17) states as follows:

“Non-regular way cross”: an order to buy and sell the same security that is not for regular way settlement. A non-regular way cross order may execute at any price, without regard to the NBBO or any other orders in the Matching System, and may represent interest of one or more Participants of the Exchange. Any non-regular way cross that is for cash settlement must be received by the Matching System by 2:00 p.m. or such other time that may be established by the Exchange and communicated to Participants from time to time. A non-regular way cross order may only be executed in an increment permitted by Article 20, Rule 4(a)(7)(b).

⁷ Current Article 1, Rule 2(z) and Article 20, Rule 4(b)(19)) states as follows:

“Outbound ISO”: an order marked as required by SEC Rule 600(b)(30)(i) that is to be executed at or better than its limit price as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled, coupled with one or more ISO orders designed to execute against any protected bids or offers at other market centers as required by Rule 600(b)(30)(ii). Orders marked outbound ISO shall be executed against any eligible orders in the Matching System (including any reserve size or other undisplayed orders). Other than the routing of ISOs to other market centers, no action shall be taken to prevent an improper trade-through.

⁸ Current Article 20, Rule 4(b)(23) states as follows:

“Post Only ISO”: a type of ISO order that will be immediately cancelled without execution if it is marketable against a contra-side order in the Matching System when

In addition, the Exchange proposes to adopt new definitions for “Always Quote” and “Short Exempt,” which are not currently defined in the CHX rules, but are currently available in the Matching System. A discussion of Always Quote and Short Exempt are detailed below.

With respect to the current defined order terms that are being incorporated into the consolidated list, the Exchange proposes to amend each defined term to the extent necessary to clarify how the defined order terms interact with each other within the context of the Matching System. In doing so, the Exchange also proposes to make corresponding grammatical amendments and technical amendments to improve logical flow. It is important to note that the Exchange does not propose to substantively modify the operation of any of the current defined order terms or the operation of the Matching System.

Thus, the Exchange proposes to classify each of the amended and proposed defined order terms into seven distinct categories, as proposed paragraphs (a) – (g):

- (a) General Order Types;
- (b) Order Execution Modifiers;
- (c) Order Display Modifiers;
- (d) Order Duration Modifiers;
- (e) Order Settlement Terms;
- (f) Order Size Attributes; and
- (g) Special Order Handling.

entered. If a Post Only ISO is not immediately cancelled as described in the previous sentence, it will be posted on the Exchange at the entered limit price. By entering a Post Only ISO, a Participant represents that such Participant has simultaneously routed one or more additional limit orders marked “ISO,” as necessary, to away markets to execute against the full displayed size of any protected quotation for the security with a price that is superior or equal to the limit price of the Post Only ISO entered in the Matching System. Consequently, a Post Only ISO order will be displayed by the Exchange regardless of whether it will lock or cross another market center’s quote.

General Order Types

Proposed Article 1, Rule 2(a) provides that limit, cross, and market orders are called “General Order Types” and that each shall be accepted by the Matching System, subject to the requirements of proposed Article 20, Rule 4.⁹ This is consistent with proposed Article 20, Rule 4(a)(1), which provides that any order entered into the Matching System must be a limit, cross, or market order.¹⁰

Proposed paragraph (a)(1) is substantively identical to current Article 1, Rule 2(p), which defines a “limit” order. In addition, the Exchange proposes to adopt additional language that states that all limit orders, except for limit orders marked “Price-Penetrating ISO,”¹¹ shall be deemed to have been received “Day,”¹² if an order duration modifier is not specified. That is, if an order sender does not attribute an order duration modifier to a limit order, the Matching System will treat the limit order as Day, by default.

Proposed paragraph (a)(2) is substantively identical to current Article 1, Rule 2(e), which defines a “cross” order. In addition, the Exchange proposes to adopt additional language that states that all cross orders shall be deemed to have been received Immediate Or Cancel

⁹ The Exchange proposes to amend Article 20, Rule 4 to clarify the basic requirements of all orders sent to the Matching System. A detailed discussion of these amendments may be found below.

¹⁰ Id.

¹¹ As discussed below, proposed Article 1, Rule 2(b)(1)(E) provides, *inter alia*, that a limit order marked “Price-Penetrating ISO” is deemed to have been received IOC.

¹² Proposed Article 1, Rule 2(d)(1) defines “Day” as “an order that is in effect only for the day on which it is submitted to the Exchange,” which is substantively identical to current Article 20, Rule 2(i).

("IOC"),¹³ which cannot be overridden by an order sender. This is because cross orders do not rest on the CHX book since the contra-parties to the transaction are identified.

Proposed paragraph (a)(3) is substantively identical to both current Article 1, Rule 2(n), which defines "IOC market"¹⁴ and current Article 1, Rule 2(q), which defines "market"¹⁵ orders. That is, the proposed definition consolidates these definitions and adopts additional language that states that all market orders not marked IOC will be rejected. This is because all CHX market orders must be IOC and may not rest on the CHX book. In light of the proposed definition of "market" orders, the Exchange submits that maintaining a separate definition for "IOC market" is redundant and unnecessary and proposes to delete it from the CHX rules.

Since every order received by the Matching System is a limit, cross, or market order, the Exchange submits that limit, cross, and market orders are the only general order types offered by the Exchange. This is because limit, cross, and market orders are the only defined order terms that primarily relate to the price of the order. As discussed in detail below, virtually all of the other defined order terms listed under proposed Article 1, Rule 2 modify how an order is to be treated prior to order execution being completed (e.g. order execution, duration, and display modifiers) or set the terms of how an executed order is to be settled (e.g. order settlement terms).

Order Execution Modifiers

¹³ Proposed Article 1, Rule 2(d)(4) defines "IOC" as, inter alia, an order modifier that requires an order to be executed, either in whole or in part and for limit orders, at or better than its limit price, as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled. Orders marked IOC shall be executed against any orders in the Matching System at or better than the Exchange's BBO (including any Reserve Size or undisplayed orders at or better than that price). This definition is substantively identical to current Article 1, Rule 2(m).

¹⁴ Supra note 4.

¹⁵ Current CHX Article 1, Rule 2(q) defines "market" as an order to buy or sell a specific amount of a security at the best price available once the order is presented in the market.

Proposed Article 1, Rule 2(b) provides that one or more order execution modifiers may be applied to a general order type, subject to the requirements of proposed Article 20, Rule 4, so long as the modifier is compatible with the general order type and other applicable order modifiers/terms. Thereunder, proposed paragraph (b)(1) lists order execution modifiers that may be attributed to limit orders only, proposed paragraph (b)(2) lists order execution modifiers that may be attributed to cross orders only, and proposed paragraph (b)(3) lists order execution modifiers that may be attributed to multiple general order types.

With respect to the definition of each defined order term listed under proposed Rule 2(b), the Exchange proposes a global amendment to the definition of each order execution modifier so that each defines itself as an “order modifier” and not merely as an “order,” as well as any corresponding grammatical amendments. The purpose of this amendment is to clarify that an order execution modifier is not a distinct general order type.

Proposed paragraph (b)(1) lists the order execution modifiers that may be attributed to limit orders only, as proposed subparagraphs (A) – (E):

- (A) BBO ISO;
- (B) Cancel On Halt;
- (C) CHX Only;
- (D) Post Only; and
- (E) Price-Penetrating ISO.

Proposed paragraph (b)(1)(A) is substantively identical to current Article 1, Rule 2(a), which defines “BBO ISO,” and adopts additional language that states that a limit order marked

BBO ISO shall be deemed to have been received “Do Not Route,”¹⁶ which cannot be overridden by the order sender. In addition, the Exchange proposes to omit the word “order” and replace it with the more accurate “limit order modifier.”

Proposed paragraph (b)(1)(B) is substantively identical to current Article 1, Rule 2(c), which defines “Cancel On Halt.” Aside from the amendment to the definition to refer to itself as a “limit order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (b)(1)(C) is substantively identical to current Article 1, Rule 2(y), which defines “CHX Only,” and adopts additional language that states that a limit order marked CHX Only shall be deemed to have been received Do Not Route, which cannot be overridden by the order sender. In addition, the Exchange proposes to omit the word “order” and replace it with the more accurate “limit order modifier.”

Proposed paragraph (b)(1)(D) is substantively identical to current Article 20, Rule 4(b)(18), which defines “Post Only,” and adopts additional language that states that a limit order marked Post Only shall be deemed to have been received Do Not Route, which cannot be overridden by the order sender. In addition, pursuant to the global amendment discussed above, the Exchange proposes to omit the word “order” and replace it with the more accurate “limit order modifier.”

In light of this amended definition of Post Only, the Exchange proposes to delete “Post Only ISO”¹⁷ from the CHX rules, because a Post Only ISO is simply a limit order marked Post Only and BBO ISO and not a distinct order modifier. As such, the Exchange submits that maintaining a separate defined order term for “Post Only ISO” is redundant and unnecessary.

¹⁶ Proposed Article 1, Rule 2(b)(3)(A) defines “Do Not Route” as a limit or market order modifier that requires an order to only be executed or displayed within the Exchange’s Matching System and not be routed to another market.

¹⁷ Supra note 8.

Proposed paragraph (b)(1)(E) is substantively identical to current Article 1, Rule 2(aa), which defines “Price-Penetrating ISO,” and adopts additional language that states that a limit order marked Price-Penetrating ISO shall be deemed to have been received IOC, which cannot be overridden by the order sender. In addition, the Exchange proposes to omit the word “order” and replace it with the more accurate “limit order modifier.”

Proposed paragraph (b)(2) lists the order execution modifiers that may be attributed to cross orders only, as proposed subparagraphs (A) – (E):

- (A) Benchmark;
- (B) Cross With Satisfy;
- (C) Cross With Yield;
- (D) Midpoint Cross;
- (E) Qualified Contingent Trade.

Proposed paragraph (b)(2)(A) is substantively identical to current Article 1, Rule 2(b), which defines “Benchmark.” Aside from the amendment to the definition to refer to itself as a “cross order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (b)(2)(B) is substantively identical to current Article 1, Rule 2(f), which defines “Cross With Satisfy.”¹⁸ Aside from the amendment to the definition to refer to itself as a “cross order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (b)(2)(C) is substantively identical to current Article 1, Rule 2(h), which defines “Cross With Yield.”¹⁹ Aside from the amendment to the definition to refer to

¹⁸ Cross With Satisfy and Cross With Yield are not currently enabled. The Exchange anticipates filing a proposed rule filing pursuant to Rule 19b-4 under the Act to modify Cross With Satisfy and Cross With Yield prior to enabling the modifiers.

¹⁹ Id.

itself as a “cross order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (b)(2)(D) is substantively identical to current Article 1, Rule 2(r), which defines “Midpoint Cross.” Aside from the amendment to the definition to refer to itself as a “cross order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (b)(2)(E) is substantively identical to current Article 1, Rule 2(bb), which defines “Qualified Contingent Trade.” Aside from the amendment to the definition to refer to itself as a “cross order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (b)(3) lists the order execution modifiers that may be attributed to multiple general order types, as proposed subparagraphs (A) – (E):

- (A) Do Not Route;
- (B) ISO;
- (C) Not Held;
- (D) Sell Short; and
- (E) Short Exempt.

Proposed paragraph (b)(3)(A) is substantively identical to current Article 1, Rule 2(k), which defines “Do Not Route,” except that the proposed definition omits reference to IOC and Fill Or Kill (“FOK”) orders having to be marked Do Not Route. As discussed below, the Exchange proposes to include such language in the definition of IOC and FOK, individually. Aside from the amendment to the definition to refer to itself as a “limit or cross order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (b)(3)(B) is substantively identical to current Article 20, Rule 4(b)(15), which defines “Intermarket Sweep” or “ISO,” and adopts additional language that

states that orders marked ISO shall be executed because the Participant routing the order to the Matching System has already satisfied the quotations of other markets as required by Rule 600(b)(30) and that a limit order marked ISO that is not marked BBO ISO shall be deemed to have been received Price-Penetrating ISO, which cannot be overridden by the order sender. The main distinction between BBO ISO and Price-Penetrating ISO is that the unexecuted portion of a BBO ISO may post to the CHX book, so long as it is not marked IOC, whereas the unexecuted portion of a Price-Penetrating ISO will always be immediately cancelled. That is, this additional language clarifies that the Matching System treats all limit orders marked ISO as Price-Penetrating ISO, and by extension IOC, unless specifically marked otherwise. In addition, the Exchange proposes to omit the word “order” and replace it with the more accurate “limit or cross order modifier.”

In light of this amended definition of ISO, the Exchange proposes to delete ISO Cross²⁰ from the CHX rules, because an ISO Cross is simply a cross order marked ISO and not a distinct order modifier. As such, the Exchange submits that maintaining a separate defined order term for “ISO Cross” is redundant and unnecessary.

Moreover, the Exchange proposes to delete Outbound ISO²¹ from the CHX rules. The Exchange included Outbound ISO in its rules as part of its migration to a new trading model in 2006.²² However, the Exchange never adopted Outbound ISO, due to the fact that the Exchange never implemented its routing functionality.²³

²⁰ Supra note 5.

²¹ Supra note 7.

²² See Exchange Act Release No. 54550 (September 29, 2006), 71 FR 59563 (October 10, 2006) (SR-CHX-2006-05).

²³ The Exchange anticipates filing a proposed rule change pursuant to Rule 19b-4 under the Act in connection with its initiative to implement an order routing functionality. If the

Proposed paragraph (b)(3)(C) is substantively identical to current Article 1, Rule 2(w), which defines “Not Held,” and adopts additional language that clarifies that the Not Held instruction may only apply to orders sent by a customer to an Exchange Participant and that any order received by the Matching System marked Not Held shall be rejected. The Exchange notes that this clarification represents the current operation of the Not Held modifier.

Proposed paragraph (b)(3)(D) is substantively identical to current Article 1, Rule 2(ff), which defines “Sell Short.” Aside from the amendment to the definition to refer to itself as an “order modifier,” the Exchange does not propose to make other amendments.

Proposed paragraph (b)(3)(E) defines “Short Exempt” similarly to proposed paragraph (b)(3)(D) as an order modifier that marks any security “short exempt” under Rule 200(g) of Regulation SHO. Since the Exchange already requires order senders to mark sell orders to comport with Rule 200(g) of Regulation, the Exchange proposes to adopt “Short Exempt” as a defined order term.

Order Display Modifiers

Proposed Article 1, Rule 2(c) provides that one or more display modifiers may be applied to a limit order, subject to the requirements of Article 20, Rule 4, so long as the modifier is compatible with the general order type and other applicable order modifiers/terms. Since market and cross orders are never posted as they are always IOC, order display modifiers are not applicable to those general order types. If an order display modifier is not selected, the order is considered to be fully-displayable.

Similar to the amendments to the defined order terms under proposed paragraph (b), the Exchange proposes a global amendment to the definition of each order display modifier so that

Exchange elects to offer a routing order type, the Exchange will submit a related rule filing(s) pursuant to Rule 19b-4 under the Act.

each defines itself as an “order modifier” and not merely as an “order,” as well as any accompanying grammatical amendments.

Proposed paragraph (c)(1) defines “Always Quote” as a limit order modifier which will cause the CHX Matching System to cancel the unexecuted balance of an otherwise displayable order, where the unexecuted balance is an odd lot and priced at the CHX best bid or best offer (“CHX BBO”)²⁴ and the order cannot be displayed as part of an aggregated quote because there are no other orders on the CHX book with which such an order can be aggregated, pursuant to Article 20, Rule 8(d)(3).²⁵ That is, if an odd lot remainder of an order meets the above definition, but the order is not marked Always Quote, the order will remain on the CHX book, as a displayable order that is undisplayed. It is important to note that although the Exchange does not currently define “Always Quote,” the “Participant’s instruction” specifically referred to in Article 20, Rule 8(d)(3) implies the functionality of the Always Quote modifier under current CHX rules.

Proposed paragraph (c)(2) is substantively identical to current Article 1, Rule 2(j), which defines “Do Not Display.” Aside from the amendment to the definition to refer to itself as a “limit order modifier,” the Exchange does not propose to make any other amendments.

²⁴ The CHX BBO may be displayed or undisplayed. For example, a fully-displayable odd lot order that is not displayed may be at the CHX BBO.

²⁵ Current Article 20, Rule 8(d)(3) states as follows:
Odd-lot orders and unexecuted odd-lot remainders that are unable to be immediately displayed according to Rule 8(b)(6) above (because they are at a price that is better than the current CHX quote) shall either remain in, or be rejected from, the Exchange’s Matching System according to each Participant’s instructions. 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 be routed away according to Rule 8(h) below or, if designated “do not route,” automatically cancelled.

Proposed paragraph (c)(3) is substantively identical to current Article 1, Rule 2(dd), which defines “Reserve Size.” Aside from the amendment to the definition to refer to itself as a “limit order modifier,” the Exchange does not propose to make any other amendments.

Order Duration Modifier

Proposed Article 1, Rule 2(d) provides that an order duration modifier may be applied to a general order type, subject to the requirements of proposed Article 20, Rule 4, so long as the modifier is compatible with the general order type and other applicable order modifiers/terms. However, since market and cross orders are always IOC, such orders may not be attributed any other order duration modifier, whereas limit orders may be marked with any order duration modifier to the extent compatible.

Similar to the amendments to the defined order terms under proposed paragraph (b) and (c), the Exchange proposes a global amendment to the definition of each order duration modifier so that each defines itself as an “order modifier” and not merely as an “order,” as well as any accompanying grammatical amendments.

Proposed paragraph (d)(1) is substantively identical to current Article 1, Rule 2(i), which defines “Day.” Aside from the amendment to the definition to refer to itself as a “limit order modifier,” the Exchange does not propose to make any other amendments.

Proposed paragraph (d)(2) is substantively identical to current Article 1, Rule 2(l), which defines “Fill Or Kill” or “FOK,” and adopts additional language that states an order marked FOK shall be deemed to have been received Do Not Route, which cannot be overridden by an order sender. In addition, the Exchange proposes to omit the word “order” and replace it with the more accurate “limit order modifier.”

Proposed paragraph (d)(3) is substantively identical to current Article 1, Rule 2(ii), which defines “Time In Force.” Currently, the CHX rules use the term “Time In Force” to refer to order duration modifiers generally²⁶ and the specific modifier currently defined under current Article 1, Rule 2(ii) and Article 20, Rule 4(b)(24). Thus, for the sake of clarity, the Exchange proposes to rename the specific order modifier “Good ‘Til Date” or “GTD.” In addition to the name change, the Exchange proposes to omit the word “order” and replace it with the more accurate “limit order modifier.”

Proposed paragraph (d)(4) is substantively identical to current Article 1, Rule 2(m), which defines “Immediate Or Cancel” or “IOC,” and adopts additional language that states that an order marked IOC shall be deemed to have been received Do Not Route, which cannot be overridden by the order sender. In addition, the Exchange proposes to omit the word “order” and replace it with the more accurate “order modifier.”

Order Settlement Terms

Proposed paragraph (e) provides that one order settlement term shall be applied to a general order type, subject to the requirements of Article 20, Rule 4, so long as the term is compatible with the general order type and other applicable order modifiers.

Proposed paragraph (e)(1) is substantively identical to current Article 1, Rule 2(cc), which defines “Regular Way Settlement,” and adopts additional language that states that, by default, all contracts are subject to Regular Way Settlement. This is consistent with current Article 20, Rule 4(a)(3) that requires all orders to be for Regular Way Settlement and Article 20, Rule 4(a)(7)(a), which permits only non-regular way cross orders to be marked for non-regular way settlement.

²⁶ See Article 11, Rule 3(b)(14); see also paragraph .01(13) of the Interpretations and Policies of Article 11, Rule 4.

Proposed paragraph (e)(2), which defines “Non-Regular Way Settlement” is a consolidation of few current defined order terms each of which are a subtype of Non-Regular Way Settlement. The proposed paragraph is substantively identical to current Article 1, Rule 2(v), which defines “Non-Regular Way Settlement.” Moreover, the proposed paragraph clarifies that only cross orders are eligible for Non-Regular Way Settlement, which is consistent with current Article 20, Rule 4(a)(7)(a), and that cross orders marked for Non-Regular Way Settlement may execute at any price, without regard to the NBBO or any other orders in the Matching System, which is substantively identical to similar language in current Article 1, Rule 2(u), which defines “non-regular way cross.”

Thereunder, proposed paragraph (e)(2)(A) is substantively identical to current Article 1, Rule 2(d), which defines “Cash Settlement,” with additional language that incorporates current Article 1, Rule 2(u), which defines “Non-Regular Way Cross.” Specifically, the additional language provides that any cross order that is for Cash Settlement must be received by the Matching System by 2:00 p.m.²⁷ or such other time that may be established by the Exchange and communicated to Participants from time to time. Given the fact that the proposed definitions of “cross,” “Non-Regular Way Settlement,” and “Cash Settlement” fully incorporate the current definition of “non-regular way cross,”²⁸ the Exchange proposes to omit “non-regular way cross” from the CHX rules. Similar to IOC market, Post Only ISO, and ISO Cross, a “non-regular way cross” is not a distinct order type, as it is simply a cross order marked for Non-Regular Way Settlement. As such, the Exchange submits that maintaining a separate defined order term for “non-regular way cross” is redundant and unnecessary.

²⁷ All times referred to in the CHX rules are in Central Standard Time, unless explicitly stated otherwise.

²⁸ Supra note 6.

Proposed paragraph (e)(2)(B) is substantively identical to current Article 1, Rule 2(t), which defines “Next Day,” whereas proposed paragraph (e)(2)(C) is substantively identical to current Article 1, Rule 2(gg), which defines “Seller’s Option.”

Order Size Attributes

Proposed paragraph (f) lists defined order terms related to order size. Specifically, proposed paragraph (f)(1) is substantively identical to current Article 1, Rule 2(j), which defines “Mixed Lot;” proposed paragraph (f)(2) is substantively identical to current Article 1, Rule 2(x), which defines “Odd Lot;” and proposed paragraph (f)(3) is substantively identical to current Article 1, Rule 2(ee), which defines “Round Lot.”

It is important to note that these order size attributes are not modifiers or terms in the same sense as the defined order terms listed under proposed paragraphs (a) – (e). Rather, they are defined order terms that describe the size of an order received by the Matching System, which are most notably useful in the context of order aggregation for order display purposes, pursuant to current Article 20, Rule 8.

Special Order Handling

Proposed paragraph (g) provides that an order may be subject to special handling under certain circumstances. Thereunder, proposed paragraph (g)(1) is substantively identical to current Article 1, Rule 2(g), which defines “Cross With Size,” with organizational amendments to improve logical flow and deletions to update the language to comport with the current operation of the Matching System.

Specifically, the proposed paragraph (g)(1) provides that a cross order (except a Cross With Yield, any cross order subject to Non-Regular Way Settlement or a cross order marked ISO) to buy and sell at least 5,000 shares of the same security with a total value of at least

\$100,000 will execute, notwithstanding resting orders in the CHX book at the same price, where (A) the order is at a price equal to or better than the best bid or offer displayed in the Matching System and would not constitute a trade-through under Regulation NMS (including all applicable exceptions and exemptions); and (B) the size of the order must be larger than the largest order displayed in the Matching System at that price. Moreover, the Matching System will execute any cross order or modified cross order (except a Cross With Yield, any cross order subject to Non-Regular Way Settlement or a cross order marked ISO) as a Cross With Size if the order meets the requirements for a Cross With Size. A Cross With Size may represent interest of one or more Participants of the Exchange. A Cross With Size order may only be executed in an increment permitted by Article 20, Rule 4(a)(7)(b).

Aside from various amendments to replace the term “Non-Regular Way Cross,” with the more accurate “cross order subject to Non-Regular Way Settlement,” the Exchange proposes to delete from the proposed paragraph (g)(1)(B) language that requires the cross order to be of a size that is one round lot larger than the aggregate size of all interest displayed at that price. Since the Exchange now provides a constant book feed, the distinction between order size prior to and after dissemination of a feed of all displayable orders is moot. Thus, the Exchange submits that the remaining language requiring, inter alia, the size of the Cross With Size order to be larger than the largest order displayed in the Matching System at that price, is sufficient to ensure orders handled as Cross With Size meet the requisite size requirement.

Proposed Basic Requirements of Orders Sent to the Matching System
Amended Article 20, Rule 4(a)

The Exchange proposes to amend Article 20, Rule 4(a) to clearly enunciate the basic requirements of orders sent to the Matching System. The following amendments clarify what is

already required or implied by current CHX rules and does not substantively modify the operation of the Matching System.

The Exchange proposes to amend Article 20, Rule 4(a)(1) to provide that an order sent to the Matching System must be a limit, cross, or market order and that these eligible general order types are listed and defined under proposed Article 1, Rule 2(a). This requirement may be currently found via three separate provisions read together. Specifically, current Article 20, Rule 4(a)(1) provides that all orders must be limit orders; current Article 20, Rule 4(a)(7)(b) provides that cross orders may be submitted; and current Article 20, Rule 4(a)(7)(c) provides that IOC market orders may be submitted. Given this lack of clarity in the current rules, the Exchange submits that the amendment to Rule 4(a)(1) is appropriate.

The Exchange also proposes to amend Article 20, Rule 4(a)(2) to provide that all orders must be attributed an order duration modifier and that these order duration modifiers are listed under proposed Article 1, Rule 2(d). This amendment is necessary because current Rule 4(a)(2) states that all order must be Day orders, which is partially accurate and incomplete. That is, the current language is accurate to the extent that orders resting on the CHX book will not be carried over to the following trading day and that all limit orders are defaulted to Day, pursuant to proposed Article 1, Rule 2(a)(1). However, the current rule does not make clear that an order may be attributed a more a restrictive order duration modifier, such as IOC or FOK. Given this lack of clarity in the current rules, the Exchange submits that the amendment to Rule 4(a)(2) is also appropriate.

The Exchange proposes to make various amendments throughout the rest of Article 20, Rule 4 to update citations and references to certain amended/omitted defined order terms. Notably, the Exchange proposes to amend Article 20, Rule 4(a)(3) to insert a citation to proposed

Article 1, Rule 2(e)(1), discussed in detail below, which defines “Regular Way Settlement.” The Exchange also proposes to amend Article 20, Rule 4(a)(7)(a) to replace the term “non-regular way cross” with “cross.” As discussed in detail above, the term “non-regular way cross” is redundant and, as such, the Exchange proposes to omit that term from the consolidated list. Similarly, the Exchange proposes to amend Rule 4(a)(7)(b) to remove the term “non-regular way cross” and replace it with the more accurate phrase, “cross order designated for Non-Regular Way Settlement.” Moreover, the Exchange propose to amend Rule 4(a)(7)(c) to remove the term “IOC market” and to clarify that market orders must be marked IOC. As discussed above, the term “IOC market” is redundant and, as such, the Exchange proposes to omit that term from the consolidated list.

Given the consolidated list, the Exchange proposes to delete all of the defined order terms listed under current Article 1, Rule 4(b) as current subparagraphs (1) – (25). In addition, the Exchange proposes to amend current Rule 4(b) to provide that as designated by the Exchange, the general order types, modifiers, and related terms listed under proposed Article 1, Rule 2 may be eligible for entry to and acceptance by the Matching System, at the discretion of the Exchange. Proposed Rule 4(b) further provides that announcements regarding order eligibility under this paragraph shall be made by the Exchange via Regulatory Circular and will be provided in a manner to give reasonable advance notice to its market participants.

Various Other Updates

Given the numerous changes to citations and deletions and/or consolidation of some current defined order terms, the Exchange proposes the following amendments throughout the CHX rules.

The Exchange proposes to amend paragraph .02 of the Interpretations and Policies of Article 17, Rule 1 to update the citation for “Benchmark” orders to proposed Article 1, Rule 2(b)(2)(A).

The Exchange proposes to amend paragraph .03 of the Interpretations and Policies of Article 20, Rule 1 to replace “non-regular way cross” with “cross orders marked for Non-Regular Way Settlement,” given the proposed deletion of “non-regular way cross” from the CHX rules, discussed in detail above.

The Exchange proposes to amend Article 20, Rule 2A(a)(4)(A) to update the citations for “limit,” “market,” and “cross” orders to Article 1 Rule 2(a)(1), Rule 2(a)(3), and Rule 2(a)(2), respectively. The Exchange proposes to amend paragraph (b)(1) to update citations to “Reserve Size” and “Do Not Display” to Article 1, Rule 2(c)(3) and Article 1, Rule 2(c)(2), respectively. The Exchange proposes to amend paragraph (b)(2) to update the citation for “CHX Only” to Article 1, Rule 2(b)(1)(C).

The Exchange proposes to delete the substance of paragraph .01(e) of the Interpretations and Policies of Article 20, Rule 5 and replace it with a “Reserved” marker. As discussed above, the Exchange proposes to delete the order execution modifier “Outbound ISO” from the CHX rules because the modifier has never been adopted since it was included in the CHX rules in 2006. For the same reason, the Exchange proposes to amend paragraph .03(a) of the Interpretations and Policies of Article 20, Rule 5 to omit reference to “Outbound ISO.”²⁹

²⁹ The Exchange anticipates filing a proposed rule change pursuant to Rule 19b-4 under the Act in connection with its initiative to implement an order routing functionality. In submitting such a filing, the Exchange will propose a new order modifier(s) to replace “Outbound ISO” and will propose a new corresponding paragraph .01(e) and .03(a).

The Exchange proposes to amend paragraph .01(h) of the Interpretations and Policies of Article 20, Rule 5 to update the citation for the definition of “Qualified Contingent Trades” to proposed Article 1, Rule 2(b)(2)(E).

The Exchange proposes to amend Article 20, Rule 6(d) to update the citation for “CHX Only” to Article 1, Rule 2(b)(1)(C).

The Exchange proposes to amend Article 20, Rule 8(e)(1) to update the citations for “cross” and “Cross With Satisfy” to Article 1, Rule 2(a)(2) and Rule 2(g)(1), respectively. The Exchange also proposes to amend Rule 8(e)(3) to update the citation for “Non-Regular Way Settlement” to Article 1, Rule 2(e)(2).

The Exchange proposes to amend paragraph .02 of Article 20, Rule 8 to update the citation for “Cross With Satisfy” to Article 1, Rule 2(b)(2)(B).

2. Statutory Basis

The Exchange believes that its proposal to consolidate all defined order terms and to clarify the basic requirements of all orders sent to the Matching System is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.³⁰ In particular, the proposal is consistent with Section 6(b)(5) of the Act,³¹ because it would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system. The Exchange believes that the consolidated list of defined order terms and the clarification of the basic requirement of order sent to the Matching System promote just and equitable principles of trade by enhancing transparency concerning the structure of order types utilized by the Exchange. For the same reasons, the

³⁰ 15 U.S.C. 78f(b).

³¹ 15 U.S.C. 78f(b)(5).

Exchange believes that the proposed amendments will contribute to the protection of investors and the public interest by making the CHX rules easier to understand.

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. The proposed changes to consolidate all defined order terms under one rule and to clarify the basic requirements of all orders sent to the Matching System contribute to the protection of investors and the public interest by making the CHX rules easier to understand. Since the Exchange does not propose to substantively modify the operation of the Matching System, the proposed changes will not impose any burden on competition.

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

No written comments were either solicited or received.

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

Because the proposed rule change does not: (i) 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 Act³² and Rule 19b-4(f)(6) thereunder.³³

³² 15 U.S.C. 78s(b)(3)(A).

³³ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

A proposed rule change filed under Rule 19b-4(f)(6)³⁴ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),³⁵ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay and allow the proposed rule change to be immediately operative, noting that doing so would allow the Exchange to immediately offer Participants a more organized CHX rulebook and clarity with respect to the basic requirements of orders sent to the Matching System. The Exchange further notes that the proposed clarification to the basic requirements of an order sent to the Matching System and the consolidation of all general order types, modifiers, and related terms offered by the Exchange under one list will make the operation of the Matching System more transparent to Participants and will, in turn, encourage market participants to utilize the Exchange's services over its competitors. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest³⁶ because it will allow the Exchange to immediately provide increased transparency regarding the operation of the Matching System. The Commission believes that this increased transparency will benefit CHX market participants and therefore waives the 30-day operative delay and designates the proposal operative 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

³⁴ 17 CFR 240.19b-4(f)(6).

³⁵ 17 CFR 240.19b-4(f)(6)(iii).

³⁶ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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. Please include File Number SR-CHX-2013-10 on the subject line.

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-2013-10. 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, 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 also will be available for inspection and copying at the principal office of the Exchange. 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-2013-10 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.³⁷

Kevin M. O'Neill
Deputy Secretary

³⁷ 17 CFR 200.30-3(a)(12).