

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72387; File No. SR-CHX-2014-09)

June 13, 2014

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Remove Obsolete Rule Language and to Permit the Exchange to Enable or Disable Trade Adjustment Functionalities Pursuant to Notice

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on June 10, 2014, 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, II and III below, which Items have been prepared by the Exchange. 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 Article 1, Rule 1 (Definitions); Article 20, Rule 4 (Eligible Orders); Article 20, Rule 9 (Cancellation or Adjustment of Bona Fide Error Trades); Article 20, Rule 9A (Error Correction Transactions); and Article 20, Rule 11 (Cancellation or Adjustment of Stock Leg Trades) to remove obsolete rule language and to permit the Exchange to enable or disable trade adjustment functionalities pursuant to notice. The Exchange has designated this proposal as non-controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.³

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6)(iii).

The text of this proposed rule change is available on the Exchange's Web site 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 Article 1, Rule 1 (Definitions); Article 20, Rule 4 (Eligible Orders); Article 20, Rule 9 (Cancellation or Adjustment of Bona Fide Error Trades); Article 20, Rule 9A (Error Correction Transactions); and Article 20, Rule 11 (Cancellation or Adjustment of Stock Leg Trades) to remove obsolete rule language and to permit the Exchange to enable or disable trade adjustment functionalities pursuant to notice. Aside from these amendments, the Exchange does not propose to modify the operation of any of the foregoing rules.

Background

On October 31, 2013, the Securities and Exchange Commission ("Commission") approved a proposed rule change to amend Article 20, Rule 9 to adopt new and modified rules for the cancellation and adjustment of trades based on Bona Fide Error; to adopt Article 20, Rule 9A to detail the Exchange's then-current requirements for Error Correction Transactions; and to

adopt Article 20, Rule 11 to adopt new and modified rules for the cancellation or adjustment of the stock leg trade of Stock-Option or Stock-Future orders.⁴

Subsequently, on November 12, 2013, the Exchange filed a proposed rule change to, inter alia, adopt an operative date of December 2, 2013 for all changes approved under 34-70791 and to readopt the previous version of Article 20, Rule 9 (Cancellation of Transactions), so that it would remain operative through December 1, 2013.⁵

Proposed Deletion of Obsolete Rule Language

Given that the rule amendments approved under 34-70791 are all currently operative, the Exchange proposes to delete the previous version of Article 20, Rule 9, as it ceased to be operative as of December 2, 2013. The Exchange also proposes to delete language under current Article 1, Rule 1 and Article 20, Rules 9, 9A and 11 that provide that these rules “shall be operative as of December 2, 2013,” as all of these rules are currently operative.

Proposed Amendments to Article 20, Rules 9(b) and 11(c)(3)

Current Article 20, Rule 9(b) permits a Participant to request an adjustment of trades made in Bona Fide Error to the extent necessary to correct Bona Fide Errors.⁶ Moreover, current

⁴ See Securities Exchange Act Release No. 70791 (October 31, 2013), 78 FR 66791 (November 6, 2013) (Order Approving a Proposed Rule Change to Adopt Standards for the Cancellation or Adjustment of Bona Fide Error Trades, the Submission of Error Correction Transactions, and the Cancellation or Adjustment of Stock Leg Trades of Stock-Option or Stock-Future Orders).

⁵ See Securities Exchange Act Release No. 70894 (November 18, 2013), 78 FR 70085 (November 22, 2013) (SR-CHX-2013-19).

⁶ CHX Article 1, Rule 1(ii) defines “Bona Fide Error” as follows:

“Bona Fide Error” means:

- (1) the inaccurate conveyance or execution of any term of an order, including, but not limited to, price, number of shares or other unit of trading; identification of the security; identification of the account for which securities are purchased or sold; lost or otherwise misplaced order tickets; or the execution of an order on the wrong side of a market;

Article 20, Rule 11(c)(3) permits the Participant that submitted the stock leg trade to request an adjustment of the stock leg trade, pursuant to one of the options enumerated under subparagraphs (A) – (C), per Stock-Option or Stock-Future order.⁷

While current Article 20, Rules 9 and 11 provide that Exchange operations personnel shall decide whether or not the requirements for trade cancellations or adjustments have been met, the rules do not, however, explicitly provide that the adjustment functionalities described therein shall be made available to Participants at the discretion of the Exchange. The Exchange submits that this discretion is necessary to provide the Exchange with rule-based authority to disable certain adjustment functionalities for all Participants when, for example, the Exchange decides to upgrade tools used to receive and verify a specific adjustment option, so as to better ensure compliance with CHX rules and securities laws. If the Exchange deactivates certain adjustment functionalities pursuant to the proposed rule, the Participant seeking a trade adjustment would still be permitted to cancel Bona Fide Error trades pursuant to Article 20, Rule 9(b) and stock leg trades pursuant to Article 20, Rule 11(b).

(2) the unauthorized or unintended purchase, sale, or allocation of securities, or the failure to follow specific client instructions;

(3) the incorrect entry of data into relevant systems, including reliance on incorrect cash positions, withdrawals, or securities positions reflected in an account; or

(4) a delay, outage, or failure of a communication system used to transmit market data prices or to facilitate the delivery or execution of an order.

⁷ Under CHX Article 20, Rule 11(c)(3), assuming that the other requirements of Article 20, Rule 11 are met, a Participant may request to adjust (A) the price of a stock leg trade to maintain the originally-agreed aggregate cash flow of all components of the related Stock-Option or Stock-Future order; (B) the quantity of a stock leg trade to maintain the originally-agreed hedge ratio between all components of the related Stock-Option or Stock-Future order; or (C) the quantity of a stock leg trade to maintain the originally-agreed delta-based hedge ratio of all components of the related Stock-Option order.

As such, the Exchange now proposes adopt the following language within current Article 20, Rule 9(b):

Bona Fide Error trade adjustments shall be available to Participants at the discretion of the Exchange. Announcements regarding the availability of Bona Fide Error trade adjustments shall be made by the Exchange via Information Memorandum and will be provided in a manner to give reasonable advance notice to its Participants.

In addition, the Exchange proposes to adopt the similar language within current Article 20, Rule 11(c)(3):

The following adjustment options under subparagraphs (A) – (C) shall be available to Participants at the discretion of the Exchange. Announcements regarding the availability of the adjustment options shall be made by the Exchange via Information Memorandum and will be provided in a manner to give reasonable advance notice to its Participants.

Both proposed paragraphs are similar to current Article 20, Rule 4(b), which permits the Exchange to designate which general order types, modifiers, and related terms listed under Article 1, Rule 2 may be eligible for entry to and acceptance by the Matching System, with notice via Regulatory Circular to its market participants.

Incidentally, the Exchange proposes to amend Article 20, Rule 4(b) to replace the term “Regulatory Circular” with the more accurate “Information Memorandum” and replace the term “market participants,” with the more accurate “Participants,” which is a defined term under Article 1, Rule 1(s).

2. Statutory Basis

The Exchange believes 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, and, in particular, with the requirements of Section 6(b) of the Act.⁸ Specifically, the

⁸ 15 U.S.C. 78f(b).

proposal is also consistent with Section 6(b)(1) of the Act,⁹ which requires that an exchange be so organized and have the capacity to be able to carry out the purposes of 15 U.S.C. 78a et seq. and to comply, and to enforce compliance by its members and persons associated with its members, with the provisions of 15 U.S.C. 78a et seq., the rules and regulations thereunder, and the rules of the exchange. The proposal is also consistent with Section 6(b)(5) of the Act,¹⁰ which requires exchange rules to 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, and, in general, protect investors and the public interest.

The Exchange believes that the proposed deletion of obsolete rule language is consistent with Sections 6(b)(1) and 6(b)(5) of the Act because it promotes clarity of CHX rules by removing unnecessary and/or redundant language. This will, in turn, provide clear CHX rules for Participants to follow and the Exchange to enforce.

The Exchange also believes the proposed amendment to provide the Exchange with the discretion to enable or disable certain trade adjustment functionalities will prevent Participants from utilizing adjustment functionalities that are in the process of being optimized by Exchange operations personnel (e.g., systems upgrade for verifying adjustment parameters).¹¹ Moreover, the notice requirements will provide Participants with reasonable notice as to the availability of such adjustment options. As such, the proposed rule change is also consistent with the requirements of Sections 6(b)(1) and 6(b)(5) of the Act.

⁹ 15 U.S.C. 78f(b)(1)

¹⁰ 15 U.S.C. 78f(b)(5)

¹¹ Any substantive changes to adjustment options will only be effected through a Rule 19b-4 filing.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act¹² in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change either deletes obsolete non-substantive language or provides the Exchange with operational flexibility concerning the availability of certain trade adjustment functionalities that are already codified under CHX rules.

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

Pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f) thereunder,¹⁴ CHX has designated this proposal as one that effects a change that (A) does not significantly affect the protection of investors or the public interest; (B) does not impose any significant burden on competition; and (C) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The Exchange has also provided 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.¹⁵ The Exchange notes that this proposal does not propose any new policies or provisions that are unique or unproven, as all changes proposed herein correct non-substantive taxonomy issues and set an operative date for

¹² 15 U.S.C. 78(f)(b)(8) [sic].

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6).

¹⁵ 17 CFR 240.19b-4(f)(6)(iii).

functionality that has already been approved by the Commission. Given these factors, this rule filing qualifies for immediate effectiveness as a “non-controversial” rule change under paragraph (f)(6) of Rule 19b-4.¹⁶

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal 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 No. SR-CHX-2014-09 on the subject line.

Paper Comments:

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

¹⁶ Id.

All submissions should refer to File No. SR-CHX-2014-09. 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 changes 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 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 No. SR-CHX-2014-09 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.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).