

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-77711; File No. SR-CHX-2016-01)

April 26, 2016

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving a Proposed Rule Change to Adopt and Amend Rules to Permit the Exchange to Initiate CHX SNAPSM Cycles

I. Introduction

On February 26, 2016, the Chicago Stock Exchange, Inc. (“CHX” or “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 amend the functionality of the Exchange’s Sub-second Non-displayed Auction Process (“SNAP”) to permit the Exchange to initiate the SNAP when certain criteria are met. The proposed rule change was published for comment in the Federal Register on March 15, 2016.³ The Commission did not receive any comment letters regarding the proposed rule change. This order approves the proposed rule change.

II. Overview of the Proposal

The SNAP is designed to facilitate the bulk trading of a security within the Exchange’s matching system (“Matching System”). The SNAP is a fully-hidden, on-demand auction for a security that, under the Exchange’s current rules, may be initiated only by the Exchange’s Participants⁴ and may occur only during the Exchange’s regular trading session. During the stages of a SNAP (“CHX SNAP Cycle”), the Exchange temporarily suspends automated trading on the Exchange for the security subject to the SNAP. At the conclusion of a CHX SNAP Cycle,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 77331 (March 9, 2016), 81 FR 13857 (“Notice”).

⁴ Article 1, Rule 1 of CHX’s Rules defines the term “Participant.”

the Exchange transitions back to automated trading for the subject security. The SNAP Cycle has the following five stages, which are set forth in CHX Article 18, Rule 1:⁵ (1) Initiating the SNAP; (2) SNAP Order Acceptance Period; (3) Pricing and Satisfaction Period; (4) Order Matching Period; and (5) Transition to Open Trading State.⁶

Under the Exchange's current rules, only a Participant may initiate the SNAP Cycle by submitting a valid limit order marked Start SNAP.⁷ To initiate a SNAP Cycle, a Start SNAP order must meet certain size,⁸ price,⁹ and timing requirements.¹⁰ Orders marked with a SNAP

⁵ See generally Securities Exchange Act Release No. 76087 (October 6, 2015), 80 FR 61540 (SR-CHX-2015-03) ("Approval Order") (order approving the adoption of the SNAP rules on the Exchange). The approved rule changes governing the SNAP are not yet operative and will become operative upon two weeks' notice by the Exchange to its Participants. See Notice, *supra* note 3, 81 FR at 13857, n.3.

⁶ Open Trading State means the period of time during the regular trading session when orders are eligible for automatic execution on the Exchange. See CHX Article 1, Rule 1(qq).

⁷ See CHX Article 1, Rule 2(h)(1) and CHX Article 18, Rule 1(b)(1).

⁸ To initiate a SNAP Cycle, a Start SNAP order must be for (a) at least 2,500 shares and have a minimum aggregate notional value of \$250,000 or (b) at least 20,000 shares with no minimum aggregate notional value requirement; provided, however, that certain issues specified in the rule may have special minimum size requirements. See CHX Article 1, Rule 2(h)(1)(A)(i).

⁹ To initiate a SNAP Cycle, the limit price of a buy (sell) Start SNAP Order must be priced at or through the National Best Offer (National Best Bid) at the time the order was received by the Matching System. If the National Best Bid and Offer ("NBBO") is crossed or a two-sided NBBO does not exist at the time the limit order marked Start SNAP is received by the Matching System, the limit order marked Start SNAP would not initiate a SNAP Cycle. A limit order marked Start SNAP and Sell Short, as defined under CHX Article 1, Rule 2(b)(3)(E), for a covered security subject to short sale price test restriction, may not initiate a SNAP Cycle and would be cancelled. See CHX Article 1, Rule 2(h)(1)(A)(ii).

¹⁰ A Start SNAP order will initiate a SNAP Cycle only if it is received during the Exchange's regular trading session; provided, however, that it will not initiate a SNAP Cycle if it is received (a) within five minutes of the first two-sided quote in the subject security having been received by the Exchange from the primary market disseminated after either the beginning of the Exchange's regular trading session or a trading halt or pause that required the Exchange to suspend trading in the subject security; (b) within

Auction Only modifier (SNAP AOO – Day, SNAP AOO – One and Done, SNAP AOO- Pegged) that are received during Open Trading State are queued in the SNAP Auction Only Order (“AOO”) Queue and are eligible for execution only during a SNAP Cycle.¹¹

In the instant proposed rule change, the Exchange proposes to permit the Exchange to initiate a SNAP Cycle, under certain circumstances, in the absence of a Start SNAP order. The Exchange would conduct pro forma SNAP reviews of the contents of the CHX book, SNAP AOO Queue, and Protected Quotations of external markets for each SNAP-eligible security, consecutively and continuously in a preset order,¹² and would initiate a SNAP Cycle for a security if a review projects that the aggregate number of executions would satisfy certain minimum size and notional value requirements, as applicable. In conducting the pro forma SNAP review, the Exchange would take a market snapshot of the Protected Quotations of external markets in the subject security and calculate a pro forma SNAP Price to determine: (1) whether the projected execution size (“PES”) at the pro forma SNAP Price is equal to or greater than the corresponding minimum PES; and (2) whether the PES within the Matching System at the pro forma SNAP Price would be equal to or greater than 80% of the corresponding minimum PES. The minimum PES for an Exchange-initiated SNAP is either: (1) 2,500 shares with a minimum aggregate notional value of \$250,000 based on the midpoint of the NBBO ascertained from the market snapshot; or (2) 20,000 shares with no minimum aggregate notional value

five minutes of the end of the regular trading session; (c) during a SNAP Cycle or (d) within one minute after the completion of the previous SNAP Cycle. See CHX Article 1, Rule 2(h)(1)(A)(iii).

¹¹ See CHX Article 20, Rule 8(b)(2)(A) and CHX Article 18, Rule 1(b)(2)(A)(i).

¹² The Exchange represents that it will not modify this procedure absent an approved filing pursuant to Rule 19b-4 under the Act. See Notice, supra note 3, 81 FR at 13858, n.21.

requirement; provided, however, that the PES for Berkshire Hathaway, Inc. (BRK-A) would be a flat 100 shares.

There would be restrictions on when the Exchange may initiate a SNAP Cycle. Proposed Rule 1A(c) prohibits the Exchange from initiating a SNAP Cycle:

- (1) within five minutes of the first two-sided quote in the subject security having been received by the Exchange from the primary market disseminated after either the beginning of the regular trading session or a trading halt, pause or suspension that required the Exchange to suspend trading in the subject security;
- (2) within five minutes of the end of the regular trading session;
- (3) during a SNAP Cycle;
- (4) within one minute after the completion of the previous SNAP Cycle;
- (5) if the CHX Routing Services are not available at the time of the market snapshot taken pursuant to be proposed Rule 1A(b);
- (6) if the NBBO ascertained from the market snapshot taken pursuant to proposed Rule 1A(b) is crossed or a two-sided NBBO does not exist.

III. Discussion and Commission Findings

After careful review and consideration, 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.¹³ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁴ which requires, among

¹³ In approving this proposed rule change, as amended, 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).

¹⁴ 15 U.S.C. 78f(b)(5).

other things, that the rules of a national securities 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 a national market system; and, in general, to protect investors and the public interest, and that the rules of a national securities exchange not be designed to permit unfair discrimination between customers, issuers, brokers or dealers.

When it approved the SNAP, the Commission stated that it believed that the SNAP: (1) was reasonably designed to facilitate the auction trading of securities on CHX in a fair and orderly manner, and could improve market quality for market participants seeking to execute bulk trading interests and for other market participants submitting orders in response to that interest;¹⁵ and (2) may promote liquidity while minimizing potential information leakage that could disadvantage market participants whose orders are participating in the SNAP Cycle.¹⁶ The Commission believes that the Exchange-initiated SNAP functionality may result in more bulk executions in SNAP-eligible securities by allowing – under certain circumstances – SNAP AOOs queued in the Matching System to match in the absence of a valid Start SNAP order. Additionally, the Commission believes that the proposed restrictions on when the Exchange may initiate a SNAP Cycle are reasonably designed to provide for a fair and orderly market.

Further, the Commission believes that the proposed rule change would further minimize information leakage from SNAP Cycles in that market participants would not know which initiating mechanism triggered a particular SNAP Cycle.

For the above reasons, the Commission finds that the proposed rule change is consistent with the requirements of the Act.

¹⁵ See Approval Order, *supra* note 5, 80 FR at 61544.

¹⁶ See *id.*

IV. Conclusion

IT IS THEREFORE ORDERED that, pursuant to Section 19(b)(2) of the Act,¹⁷ the proposed rule change (SR-CHX-2016-01) be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁸

Robert W. Errett
Deputy Secretary

¹⁷ 15 U.S.C. 78s(b)(2).

¹⁸ 17 CFR 200.30-3(a)(12).