

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80673; File No. SR-CHX-2017-09)

May 15, 2017

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Anonymous Trade Reporting and Clearing

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on May 11, 2017, 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 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 the Substance of the Proposed Rule Change

CHX proposes to amend Article 21, Rule 5 of the Rules of the Exchange (“CHX Rules”) regarding anonymous trade reporting and clearing. The text of this proposed rule change is available on the Exchange’s Web site at [www.chx.com](http://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 [sic] 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.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

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

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 21, Rule 5 to mandate anonymity for all transaction and clearing reports resulting from all executions on the Exchange, which would include executions resulting from both single-sided and cross orders,<sup>3</sup> subject to certain current exceptions. To this end, the Exchange proposes to eliminate (1) the requirement that a Participant<sup>4</sup> affirmatively request that its identity remain anonymous on transaction and clearing reports and (2) the exclusion of cross orders from the scope of Article 21, Rule 5.

The Exchange is proposing the amendments to update its outdated trade and clearing anonymity rule and to harmonize the rule with similar rules and practices of other exchanges, such as Bats BYX Exchange and the Investors Exchange ("IEX").<sup>5</sup> Aside from these changes, the Exchange does not propose any other amendments to the CHX Rules.

(1) Background

In October 2007, the Exchange adopted current Article 21, Rule 5 (Anonymous Trade Reporting and Clearing).<sup>6</sup> Thereunder, current Rule 5(a) provides that, except as provided under current Rule 5(e), transaction reports for all trades executed on the Exchange will indicate the details of the transaction, but will not reveal a Participant's identity as a contra party if that Participant has requested that its identity remain anonymous. Also, current Rule 5(e) provides that the provisions of Rule 5 shall not apply to any type of cross trade executed on the Exchange,

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<sup>3</sup> See CHX Article 1, Rule 2(a)(2) defining "cross order."

<sup>4</sup> A Participant is a "member" of the Exchange for purposes of the Act. See CHX Article 1, Rule 1(s).

<sup>5</sup> See Bats BYX Rule 11.15(d); see also IEX Rule 11.250(c).

<sup>6</sup> See Exchange Act Release No. 56704 (October 25, 2007), 72 FR 61921 (November 1, 2007) (SR-CHX-2007-20).

the result of which is that transaction reports for cross executions will always reveal the identity of the parties.

However, in recent years, trading activity on the Exchange has evolved such that trade and clearing anonymity have become routinely necessary for Participants for all types of executions on the Exchange. In particular, trade and clearing anonymity have become ubiquitous market wide and many Participants are members of other national securities exchanges that mandate trade and clearing anonymity, subject to certain exceptions.<sup>7</sup> At CHX, all of the most active Participants have requested trade anonymity and the Exchange is not aware of any Participant that requires its identity be disclosed on transaction and clearing reports. Consequently, the Exchange believes that the current requirement that a Participant elect anonymity for single-sided executions imposes an unnecessary compliance burden on Participants, especially on those Participants that are members of other national securities exchanges with mandatory trade and clearing anonymity, which would be eliminated by harmonizing Article 21, Rule 5 with the rules of other national securities exchanges, such [sic] Bats BYX.

With respect to cross executions, the Exchange believes that the original purpose for excluding cross executions from the scope of Article 21, Rule 5, which was to provide Participants [sic] “with a sufficiently detailed trade or clearing report to permit it to effectively service its customers’ needs,”<sup>8</sup> has been obviated by enhancements to back office operations realized by Participants that submit cross orders. As such, the disclosure of the identity of parties to the trade on a cross transaction report is no longer necessary. In fact, the Participants that submit cross orders have recently expressed a strong preference for anonymous transaction

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<sup>7</sup> See supra note 5.

<sup>8</sup> See SR-CHX-2007-20, id. at 61921.

reports. Accordingly, the Exchange believes it necessary and appropriate to apply mandatory trade and clearing anonymity to cross executions.

(2) Amended Article 21, Rule 5

In light of the above, the Exchange proposes to amend current Rule 5(a) to mandate trade and clearing anonymity for all executions on the Exchange. Specifically, amended Rule 5(a) would provide that transaction reports produced by the Exchange will indicate the details of transactions executed on the Exchange, but shall not reveal contra party identities. Amended Rule 5(a) would further provide that except as set forth in paragraph (b) below,<sup>9</sup> transactions executed on the Exchange will also be cleared and settled anonymously. In addition, in order to mandate trade and clearing anonymity for cross executions, the Exchange proposes to delete current Rule 5(e) in its entirety and, since two or more Participants may be parties to a particular cross execution,<sup>10</sup> the Exchange proposes to amend current Rule 5(b)(3)<sup>11</sup> to provide that the Exchange will reveal the identity of a Participant or a Participant's clearing firm if all parties to the trade consent.

2. Statutory Basis

The Exchange believes that proposed rule change is consistent with Section 6(b) of the Act<sup>12</sup> in general and Section 6(b)(5) of the Act<sup>13</sup> in particular, which requires, among other

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<sup>9</sup> Current CHX Article 21, Rule 5(b) provides that the Exchange will reveal the identity of a Participant or a Participant's clearing firm in the following circumstances: (1) for regulatory purposes or to comply with an order of a court or arbitrator; (2) when the National Securities Clearing Corporation ("NSCC") ceases to act for a Participant or a Participant's clearing firm and NSCC determines not to guarantee the settlement of a Participant's trades; or (3) if both parties to the trade consent.

<sup>10</sup> See Exchange Act Release No. 77785 (May 9, 2016), 81 FR 29936 (May 13, 2016) (SR-CHX-2016-06).

<sup>11</sup> See supra note 9.

<sup>12</sup> 15 U.S.C. 78f(b).

things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to 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.

In particular, the Exchange believes that the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and a national market system by promoting consistency and uniformity among different markets<sup>14</sup> regarding trade and clearing anonymity. For Participants that are members of other exchanges, the proposed rule change will result in efficiencies with respect to such Participants' rule compliance efforts.

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 Exchange believes that the proposed rule change will reduce the regulatory burden placed on market participants that are members of various markets, as well as reduce administrative burden on the Exchange. The Exchange believes that the harmonization of the anonymous trade reporting and clearing provisions across the various markets<sup>15</sup> will reduce burdens on competition by removing impediments to participation in the national market system.

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<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> See supra note 5.

<sup>15</sup> See id.

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 foregoing 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 for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>16</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>17</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>18</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay so that the proposed rule change will become operative on May 15, 2017. The Exchange stated that the proposed rule change is consistent with the protection of investors and the public interest by immediately eliminating the administrative burden of enforcing an outdated rule and by facilitating compliance with CHX Rules by current and new Participants that are already accustomed to the mandatory trade and clearing anonymity rules and practices of other exchanges. Waiver of the operative delay would allow the Exchange, without delay, to make its trade and clearing anonymity rules consistent with the rules and practices of other exchanges. The Commission believes that waiver of the 30-day operative delay is consistent with the

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<sup>16</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>17</sup> 17 CFR 240.19b-4(f)(6).

<sup>18</sup> 17 CFR 240.19b-4(f)(6)(iii).

protection of investors and the public interest as it will permit CHX to harmonize its trade and clearing rules with those of the other exchanges without delay. Therefore, the Commission designates the proposed rule change to be operative on May 15, 2017.<sup>19</sup>

At any time within 60 days of the filing of such 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 change 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 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-2017-09 on the subject line.

##### Paper comments:

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

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<sup>19</sup> For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

All submissions should refer to File Number SR-CHX-2017-09. 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 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-2017-09, 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.<sup>20</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).