

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-49496; File No. SR-CHX-2003-25)

March 29, 2004

Self-Regulatory Organizations; Chicago Stock Exchange, Incorporated; Order Granting Approval to Proposed Rule Change and Amendments No. 1 and No. 2 Thereto Relating to Stop Order Handling Rules

On August 11, 2003, the Chicago Stock Exchange, Incorporated (“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 CHX Article XXX, Rule 22, which governs the handling of stop orders. On January 29, 2004, the Exchange filed Amendment No. 1 to the proposed rule change,³ and on February 17, 2004, the Exchange filed Amendment No. 2 to the proposed rule change.⁴

The proposed rule change, as amended, was published for comment in the Federal Register on February 26, 2004.⁵ The Commission received no comments on the proposal. This order approves the proposed rule change, as amended.

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Kathleen M. Boege, Associate General Counsel, CHX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation (“Division”), Commission, dated January 28, 2004 (“Amendment No. 1”). Amendment No. 1 replaced the originally filed proposal in its entirety.

⁴ See letter from Kathleen M. Boege, Associate General Counsel, CHX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation (“Division”), Commission, dated February 13, 2004 (“Amendment No. 2”). Amendment No. 2 replaced the originally filed proposal, as superseded by Amendment No. 1, in its entirety.

⁵ See Securities Exchange Act Release No. 49283 (February 19, 2004), 69 FR 8998.

securities exchange⁶ and, in particular, the requirements of Section 6 of the Act⁷ and the rules and regulations thereunder. Specifically, the Commission finds that the proposed rule change, as amended, is consistent with Section 6(b)(5) of the Act⁸ which requires 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 regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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. The Commission believes that the CHX's proposal to explicitly codify its policy for handling stop orders should help to provide guidance for its members regarding the handling and execution of such orders. The Commission also believes that defining and confirming that a stop order, once elected by a price penetration on a national securities exchange or association, will be treated as a market order for purposes of determining the execution price due the order, should conform the CHX's stop order handling rules to those of other markets, including the New York Stock Exchange, Inc. ("NYSE"), the American Stock Exchange LLC ("Amex"), and the Pacific Exchange, Inc.⁹

⁶ 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. 15 U.S.C. 78c(f).

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(5).

⁹ See NYSE Rule 13; Amex Rule 131; and Archipelago Exchange Facility Rule 7.31.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act¹⁰, that the proposed rule change (File No. SR-CHX-2003-25), as amended, be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland
Deputy Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).