

Proposed Rule Change by Chicago Stock Exchange  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input type="checkbox"/>	Amendment <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>		Date Expires <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
--	--

**Description**  
Provide a brief description of the proposed rule change (limit 250 characters).

**Contact Information**  
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Ellen"/>	Last Name	<input type="text" value="Neely"/>
Title	<input type="text" value="President &amp; General Counsel"/>		
E-mail	<input type="text" value="eneely@chx.com"/>		
Telephone	<input type="text" value="(312) 663-2496"/>	Fax	<input type="text" value="(312) 663-2231"/>

**Signature**  
Pursuant to the requirements of the Securities Exchange Act of 1934,  
  
has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date

By

(Name) (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

**Form 19b-4 Information**

Add Remove View

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change**

Add Remove View

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

Add Remove View

Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

Add Remove View

Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

Add Remove View

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

Add Remove View

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

Add Remove View

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

**Partial Amendment to SR-CHX-2006-04**

The Chicago Stock Exchange (the “CHX” or the “Exchange”) seeks to amend this filing as follows.

1. First, the Exchange amends the proposed rule language to make several non-substantive changes to the citation form used within the filing. Specifically, the Exchange replaces references to “Section I(2) of Interpretation and Policy .01” with “Section I.2 of Interpretation and Policy .01 of this Rule.”

Additionally, the Exchange amends the proposed rule text to clarify the impact of an intrafirm transfer on the registration of an individual co-specialist. Specifically, the Exchange confirms that each such transfer by the specialist unit effectively deregisters a co-specialist in the securities that the co-specialist no longer trades and registers another co-specialist in any newly-assigned securities.

The proposed rule text set out in Amendment No. 1 to this filing should be replaced in its entirety with the following text, which reflects the changes described above:

Additions are underlined; deletions are [bracketed]

***ARTICLE XXX***

***Specialists***

***Registration and Appointment***

RULE 1. No Participant shall act as a specialist or co-specialist on the Exchange in any security unless registered as such in the particular security. Except for the intrafirm transfers of registration permitted by Section I.2 of Interpretation and Policy .01 of this Rule, [R]registration as either a specialist or co-specialist shall be subject to the approval of the Exchange.

\* \* \*

An applicant for initial registration as a co-specialist shall, or as otherwise may be determined by the Committee on Specialist Assignment and Evaluation be required to serve for a period of six months in the capacity of relief specialist under continuous supervision of a registered co-specialist. No application for co-specialist in a particular issue will be considered by the Committee on Specialist Assignment and Evaluation

(and no intrafirm transfer permitted by Section I.2 of Interpretation and Policy .01 of this Rule may be made) prior to the time that the individual has satisfied these training requirements.

\* \* \*

Unless required by [Subject to ]the provisions of Article XXX, Rule 8 or when permitted by Section I.2 of Interpretation and Policy .01 of this Rule, a specialist, co-specialist or relief specialist shall not relinquish their positions until permission to do so is received from the Committee on Specialist Assignment and Evaluation.

• • • *Interpretations and Policies:*

**.01 COMMITTEE ON SPECIALIST ASSIGNMENT AND EVALUATION**

ASSIGNMENT FUNCTION

I. EVENTS LEADING TO ASSIGNMENT PROCEEDINGS

\* \* \*

1. No change to text.

2. Specialist Request. Any specialist unit and co-specialist may ask to be deregistered in one or more of its assigned securities, and the Committee on Specialist Assignment and Evaluation (the Committee) will hear all such requests. The Committee will initiate a reassignment proceeding if it believes that such action is called for. The Committee may initiate a reassignment proceeding on the basis that if the merits of the request are not established the security must be retained by the registered specialist if no other unit appears to be able to make a better market or if no other unit applies.

\* \* \*

**Exception.** Intrafirm transfers that meet the criteria below do not require the submission of an application or the approval of the Committee and will not result in a proceeding by the Committee to reassign the security to another co-specialist or specialist firm.

Because a specialist unit is responsible both financially and as a regulatory matter for the activities of its co-specialists, a specialist unit might, from

time to time, determine that the responsibility for trading one or more securities should be transferred from one co-specialist to another within the same specialist unit. Without seeking prior Committee approval, a specialist unit may transfer the responsibility for trading securities among the co-specialists associated with its firm, so long as (1) the specialist unit immediately notifies the Exchange, in the manner required by the Exchange, of each such transfer; and (2) when such a transfer is made within six months of an initial assignment of the security to the specialist unit, the specialist unit must inform the Exchange, in writing, of its reasons for making the change. Each such transfer by the specialist unit effectively deregisters a co-specialist in the securities that the co-specialist no longer trades and registers another co-specialist in any newly-assigned securities.

[Without limiting the foregoing, the Committee will generally approve a co-specialist's request for deregistration in any security for the purpose of having the security assigned to another co-specialist in the same specialist unit only under the following conditions:]

(a) For any security awarded to such co-specialist in competition, a period of at least two years must have elapsed from the date of the original assignment. Alternatively, if the specialist unit agrees to have the security posted, a period of at least one year (but less than two years) must have elapsed from the date of the original assignment.]

(b) For any security awarded to such co-specialist without competition, no minimum time period is required.]

3. No change to text.

4. Split-Up and/or Merger of Specialist Units.

(a) No change to text.

(b) When a security is to be assigned or reassigned, specialists, not co-specialists, apply for registration. Article XXX, Rule 1.01.II. In applying for registration in a particular stock, however, a specialist must indicate the individual co-specialist who will trade the stock. Article XXX, Rule 1.01.III. Therefore, although the Committee assigns a stock to a specialist unit, not to the co-specialist, and the specialist is responsible both financially and as a regulatory matter for the activities of its co-specialists, it is the trading activities of the co-specialist that are the basis for the Committee's evaluations. Thus, a specialist and co-specialist are jointly responsible for each assignment and, with the exception of an intrafirm

transfer permitted by Section I.2 of Interpretation and Policy .01 of this Rule, a withdrawal of either party may require a new posting if circumstances warrant.

(c) Because the specialist is financially responsible for the activities of its co-specialists, a co-specialist may act as such only with the concurrence of the specialist. If, at any time, a specialist no longer wants a co-specialist to trade for it, the specialist – subject to the Committee's approval – may terminate the relationship. Similarly, a co-specialist – again subject to the Committee's approval – may terminate his relationship with a specialist. With the exception of an intrafirm transfer permitted by Section I.2 of Interpretation and Policy .01 of this Rule, either of the decisions described above are subject to the Committee's approval.

When the Committee assesses a situation involving the split-up or merger of specialist units, [Among the factors ]the Committee may consider a number of factors, including[are]:

1. co-specialist performance.
2. specialist capital generally.
3. specialist capital made available to the particular co-specialist.
4. length of association between specialist and co-specialist.
5. length of time that the co-specialist has traded the security.
- 6[5]. whether the co-specialist has a proprietary interest in the trading profits or losses derived from the stock.
- 7[6]. whether the specialist or co-specialist wishes to continue trading the security.
- 8[7]. performance of the proposed new co-specialist.
- 9[8]. financial capacity of the co-specialist's new specialist unit.

Based on its consideration of these and any other relevant factors, the Committee will decide whether to (i) leave a security with the specialist, (ii) permit the co-specialist to take the security with him, or (iii) require a new posting. In the event of a posting, the existing specialist or co-specialist will be permitted to reapply for the stock. A decision to permit the specialist or co-specialist to retain the security may be made conditionally based on the performance of the new co-specialist or specialist.

As noted above, intrafirm transfers that meet the criteria set out in Section I.2 of Interpretation and Policy .01 of this Rule do not require the approval of the Committee and will not result in a proceeding by the Committee to reassign the security to another co-specialist or specialist firm.

5.-8. No change to text.

## II. ASSIGNMENT PROCEDURES

\* \* \*

The assignment procedures set out in this Section II do not apply to the intrafirm transfers permitted by Section I.2 of Interpretation and Policy .01 of this Rule. Intrafirm transfers that meet the criteria set out in Section I.2 of Interpretation and Policy .01 of this Rule do not require the submission of an application or the approval of the Committee.

In assigning specialists, co-specialists, relief specialists and odd-lot dealers, the Committee may act through a Subcommittee of not less than three of its members, at least one of whom shall not be affiliated with a broker/dealer. Where emergency circumstances require the expedited assignments of one or more specialists, co-specialists, relief specialists or odd-lot dealers, and a Subcommittee is unable to be convened, the chairman, or a member of the Committee designated by the chairman, may make such temporary assignment as he deems necessary, pending a final determination by a Subcommittee or the full Committee. Any proposal or agreement between or among specialists, co-specialists, relief specialists or odd-lot dealers, to exchange existing assignments, shall be submitted in writing to the Subcommittee for its consideration and, if not disapproved by the Subcommittee within 30 days of the date of submission, shall become effective as written.

1. Applications. In applying, a specialist unit should state the reasons why it believes the stock should be assigned to it. A standard application form is available from the Exchange and should be used for this purpose. Except as otherwise provided in paragraph 6, below, the application must, at a minimum, include the name and background of the co-specialist who will normally be trading the security and his ability and experience relative to the issue being applied for. It is important that the application accurately represent the specialist unit's plans as to the co-specialist who will trade the security. Also, if any special or unique characteristics of the security have been identified by the Committee, such as unusually high capital requirements or institutional participation making trading difficult, the applicant should specifically note and comment on its ability to deal with the special characteristics.

\* \* \*

### III. GUIDELINES FOR ASSIGNMENT OF ISSUES TO CO-SPECIALISTS

The guidelines set out in this Section III apply to the assignment of securities by the Committee. These guidelines do not apply to the intrafirm transfers permitted by Section I.2 of Interpretation and Policy .01 of this Rule. Intrafirm transfers that meet the criteria set out in Section I.2 of Interpretation and Policy .01 of this Rule do not require the submission of an application or the approval of the Committee.

\* \* \*

3. Because the Committee considers the demonstrated ability and experience of the co-specialist designated by the specialist unit when applying for the assignment of a security, it is important that the specialist unit accurately represent its plans for having that particular co-specialist trade the security. A specialist unit must not designate a co-specialist with relatively strong demonstrated ability and experience when applying for a security and then immediately transfer the security to a co-specialist with less demonstrated ability and experience without good cause for making the change.

\* \* \*

2. The Exchange also amends the Form 19b-4 (and related provisions of Exhibit 1):
  - a. To reflect the changes to the text set out above;
  - b. To correct all citations by using the style set out in the amended text above; and
  - c. To revise the first sentence of the third paragraph of Section 3(a) of the Form 19b-4 (and the first sentence of the third paragraph of Section II(A) of Exhibit 1) to read as follows:

Through this submission, the Exchange seeks to amend its rules and permit the transfer of securities among co-specialists within a firm, without seeking prior Committee approval, so long as (1) the specialist unit immediately notifies the Exchange of each transfer; and (2) when such a transfer is made within six months of an initial assignment of the security to the specialist unit, the specialist unit provides written notification to the Exchange of the transfer decision and of its reasons for making the change.