

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information

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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

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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

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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

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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

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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

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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

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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.

Form 19b-4 Information

1. Text of Proposed Rule Change

- (a) The Chicago Stock Exchange, Incorporated (the “CHX” or the “Exchange”), pursuant to Rule 19b-4 of the Securities Exchange Act of 1934 (the “Act” or the “Exchange Act”), proposes to amend its rules to permit both on-floor and off-floor firms to act as market makers in the Exchange’s electronic book. The text of the proposed rule change is set out below:

ARTICLE XXA

Operation of the Electronic Book

* * *

Registration of Market Makers

RULE 6. Upon application and approval by the Exchange, any Exchange [floor] Participant may register as a market maker in one or more of the securities traded in the electronic book.

* * *

- (b) Not applicable.
- (c) Not applicable.

2. Procedures of Self-Regulatory Organization

The Exchange’s Board of Directors unanimously approved these proposed rule changes on October 18, 2005.

3. Self-Regulatory Organization’s Statement on the Purpose of, and Statutory Basis for, the Proposed Rule Change

- (a) On July 21, 2005, the Securities and Exchange Commission approved the Exchange’s rules associated with the operation of a fully-automated electronic book for the display and execution of orders in securities that are not assigned to a specialist.¹ The electronic book displays and matches eligible limit orders in

¹ See Release No. 34-52094 (July 21, 2005), 70 FR 43913 (July 29, 2005).

eligible securities and allows the Exchange's participants, whether or not they are on the Exchange's floor, to enter orders into a fully-automated matching system operated by the Exchange for possible execution.

Under the current electronic book rules, on-floor Exchange participants can seek registration as market makers in one or more of the securities traded in the electronic book. A market maker is required to maintain a continuous two-sided market in each security in which he or she is registered and to engage, to a reasonable degree under existing circumstances, in a course of dealing in the securities in which he or she is registered that is reasonably calculated to contribute to the maintenance of a fair and orderly market.² In exchange, these market makers are entitled to utilize exempt credit for financing their market maker transactions. The rules set out a process for market makers to apply for this registration and for the suspension or termination of their registrations, where appropriate.³

Through this filing, the Exchange proposes to extend the ability to act as market maker to both on-floor and off-floor participants. The Exchange believes that this proposal appropriately allows more than just a subset of its participants to perform an important role in the electronic book. As noted above, the electronic book is a fully-automated matching system into which both on-floor and off-floor participants already can send orders for execution – the open access and potential competition provided by this model can only be enhanced by confirming that off-floor participants can serve as market makers in the system.⁴ Importantly, the Exchange's regulatory staff are developing procedures for reviewing and acting upon applications of persons who might seek to be off-floor market makers and for surveilling a market maker's quoting and trading activity. The Exchange believes that these procedures are being appropriately designed to allow the Exchange to determine whether a market maker is adhering to its obligations.⁵

(b) Approval of the rule changes proposed in this submission 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). In particular, the proposed changes are consistent with Section 6(b)(5) of the Act, because they would 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 by providing an opportunity for more of the Exchange's

² See Article XXA, Rule 6(b).

³ See Article XXA, Rule 6(a) and (d).

⁴ Even without this change to the electronic book rules, an off-floor participant could submit proprietary orders to the book without registering in any particular capacity with the Exchange.

⁵ At this point, these procedures assume that market makers in the electronic book would engage only in proprietary trading – that they would not be handling agency orders and routing them to the Exchange.

participants to act as market makers in a fully-automated trading system, in a manner similar to those permitted in other markets.

4. Self-Regulatory Organization's Statement of Burden on Competition

The Exchange believes that no burden will be placed on competition as a result of the proposed rule changes.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

No written comments were solicited or received.

6. Extension of the Time Period for Commission Action

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Act.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Exhibits

Exhibit 1: The Completed Notice of the Proposed Rule Change for publication in the Federal Register.

Exhibits 2-5: Not applicable.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION

**(Release No. 34-____; File No. SR-CHX-2005-28)
SELF-REGULATORY ORGANIZATIONS**

Proposed Rule Change By The Chicago Stock Exchange, Inc. Regarding Allowing Off-Floor Participants to Act as Market Makers in the Electronic Book

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 15 U.S.C. 78s(b)(1), notice is hereby given that on November 14, 2005, the Chicago Stock Exchange, Inc. (the “CHX” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the CHX. 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

Through this filing, the Exchange proposes to amend its rules to permit both on-floor and off-floor firms to act as market makers in the Exchange’s electronic book. The text of this proposed rule change is available on the Exchange’s website at http://www.chx.com/rules/proposed_rules.htm and in the Commission’s Public Reference Room, 100 F Street, NE, Washington, DC 20549.

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 regarding the proposal. 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 Changes

1. Purpose

On July 21, 2005, the Securities and Exchange Commission approved the Exchange's rules associated with the operation of a fully-automated electronic book for the display and execution of orders in securities that are not assigned to a specialist.¹ The electronic book displays and matches eligible limit orders in eligible securities and allows the Exchange's participants, whether or not they are on the Exchange's floor, to enter orders into a fully-automated matching system operated by the Exchange for possible execution.

Under the current electronic book rules, on-floor Exchange participants can seek registration as market makers in one or more of the securities traded in the electronic book. A market maker is required to maintain a continuous two-sided market in each security in which he or she is registered and to engage, to a reasonable degree under existing circumstances, in a course of dealing in the securities in which he or she is registered that is reasonably calculated to contribute to the maintenance of a fair and

¹ See Release No. 34-52094 (July 21, 2005), 70 FR 43913 (July 29, 2005).

orderly market.² In exchange, these market makers are entitled to utilize exempt credit for financing their market maker transactions. The rules set out a process for market makers to apply for this registration and for the suspension or termination of their registrations, where appropriate.³

Through this filing, the Exchange proposes to extend the ability to act as market maker to both on-floor and off-floor participants. The Exchange believes that this proposal appropriately allows more than just a subset of its participants to perform an important role in the electronic book. As noted above, the electronic book is a fully-automated matching system into which both on-floor and off-floor participants already can send orders for execution – the open access and potential competition provided by this model can only be enhanced by confirming that off-floor participants can serve as market makers in the system.⁴ Importantly, the Exchange’s regulatory staff are developing procedures for reviewing and acting upon applications of persons who might seek to be off-floor market makers and for surveilling a market maker’s quoting and trading activity. The Exchange believes that these procedures are being appropriately designed to allow the Exchange to determine whether a market maker is adhering to its obligations.⁵

² See Article XXA, Rule 6(b).

³ See Article XXA, Rule 6(a) and (d).

⁴ Even without this change to the electronic book rules, an off-floor participant could submit proprietary orders to the book without registering in any particular capacity with the Exchange.

⁵ At this point, these procedures assume that market makers in the electronic book would engage only in proprietary trading – that they would not be handling agency orders and routing them to the Exchange.

2. Statutory Basis

The CHX believes the proposal 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).⁶ The Exchange believes that the proposed changes are consistent with Section 6(b)(5) of the Act, because they would 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 by providing an opportunity for more of the Exchange's participants to act as market makers in a fully-automated trading system, in a manner similar to those permitted in other markets.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments Regarding the Proposed Rule Changes Received from Members, Participants or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Changes and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such other period (i) as the Commission may designate up to 90 days of such date

⁶ 15 U.S.C. 78(f)(b).

if it finds such longer period to be appropriate and publishes its reasons for so finding or

(ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve the proposed rule changes, or

(B) institute proceedings to determine whether the proposed rule changes should be 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-2005-28 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File No. SR-CHX-2005-28. 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 Web site (<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 inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549. Copies of such filing will also 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-2005-28 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland
Deputy Secretary

⁷ 17 CFR 200.30-3(a)(12).