

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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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”), proposes to amend its rules to permit cancellation of the stock leg of a stock-option order if market conditions in a non-Exchange market prevent the options leg of the order from being executed at the agreed-upon price. The proposed rule is based on (and virtually identical to) CBOE Rule 6.48(b)(ii), which permits cancellation of the options leg of a stock-option order.

The text of the proposed rule change is set out below. Additions are underlined; deletions are [bracketed].

Chicago Stock Exchange Rules

* * *

ARTICLE XX

Regular Trading Sessions

* * *

Binding of Bid or Offer

RULE 12. All bids made and accepted, and all offers made and accepted, in accordance with the Rules contained in the Article shall be binding.

· · · Interpretations and Policies

.01 Cancellation of stock-option orders. (a). A trade representing the execution of the stock leg of a stock-option order may be cancelled at the request of any member that is a party to that trade only if market conditions in any of the non-Exchange market(s) prevent the execution of the option leg(s) at the price agreed upon.

(b) For purposes of this rule, a “stock-option order” is an order to buy or sell a stated number of units of an underlying or a related security coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying or related security or the number of units of the underlying security necessary to create a delta-neutral or delta-hedged position or (ii) the purchase or sale of an equal

number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of units of stock as, and on the opposite side of the market from, the underlying or related security portion of the order.

(c) The on-floor participant acting as broker on the trade must maintain records sufficient to establish that market conditions in a non-Exchange market prevented the execution of the option leg(s).

(b) Not applicable.

(c) Not applicable.

2. Procedures of Self-Regulatory Organization

The Exchange's Board of Directors unanimously approved these proposed rule changes at a meeting on July 28, 2005.

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

(a) Stock-option orders are relied on frequently by options market makers as part of their legitimate hedging strategies. The typical stock-option order involves an order to buy or sell a stated number of shares of an underlying security, coupled with the purchase or sale of option contracts, puts or calls on the opposite side of the market from the underlying security.

Certain CHX floor participants receive stock-option related order flow from off-floor participants who are options market makers on options exchanges such as the Chicago Board Options Exchange ("CBOE"). Specifically, the stock leg of a stock-option order is routed to the CHX for execution, while the options leg(s) is executed on an options exchange.

Because stock-option orders are complex transactions (often with multiple parties) and markets are fluid, many times the options leg of the transaction does not occur, in which case the off-floor participant requests that the CHX floor participant cancel the transaction's stock leg. The proposed rule change would permit cancellation of the stock leg of a stock-option order if market conditions in the non-Exchange market prevented the execution of the options leg of a transaction.¹ The proposed rule is based on (and virtually identical to) CBOE

¹ The types of market conditions that would be sufficient to justify cancellation of the Exchange leg of a multi-market order include, but are not limited to, a sudden change in the price of the options involved in the transaction prior to execution of the trade and a trading halt or systems failure that precludes immediate execution of the options leg at the agreed upon price.

Rule 6.48(b)(ii), which permits cancellation of the options leg of a stock-option order.

It is important to note that the proposed rule change would require that the CHX floor participant maintain records “sufficient to establish that market conditions in a non-Exchange market prevented the execution of the option leg(s) or that there was a bona fide error.” This requirement, which is based on a similar requirement in the CBOE analog, will give the CHX Department of Market Regulation the ability to oversee the cancellation of stock leg orders, to ensure against abusive trade reporting practices.

(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).² In particular, the proposed changes are consistent with Section 6(b)(5) of the Act,³ 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 promoting consistency between the Exchange and options markets relating to cancellation of the components of stock-option orders.

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.

² 15 U.S.C. 78s(b).

³ 15 U.S.C. 78s(b)(5).

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**

The proposed rule is based on CBOE Rule 6.48(b)(ii), which permits cancellation of the options leg of a stock-option order.

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-2005-34)
SELF-REGULATORY ORGANIZATIONS**

**Proposed Rule Change By The Chicago Stock Exchange, Inc. Regarding
Cancellation of the Stock Leg of a Stock-Option Order**

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 11, 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 cancellation of the stock leg of a stock-option order if market conditions in a non-Exchange market prevent the options leg of the order from being executed at the agreed-upon price. 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

Stock-option orders are relied on frequently by options market makers as part of their legitimate hedging strategies. The typical stock-option order involves an order to buy or sell a stated number of shares of an underlying security, coupled with the purchase or sale of option contracts, puts or calls on the opposite side of the market from the underlying security.

Certain CHX floor participants receive stock-option related order flow from off-floor participants who are options market makers on options exchanges such as the Chicago Board Options Exchange ("CBOE"). Specifically, the stock leg of a stock-option order is routed to the CHX for execution, while the options leg(s) is executed on an options exchange.

Because stock-option orders are complex transactions (often with multiple parties) and markets are fluid, many times the options leg of the transaction does not occur, in which case the off-floor participant requests that the CHX floor participant cancel the transaction's stock leg. The proposed rule change would permit cancellation

of the stock leg of a stock-option order if market conditions in the non-Exchange market prevented the execution of the options leg of a transaction.¹ The proposed rule is based on (and virtually identical to) CBOE Rule 6.48(b)(ii), which permits cancellation of the options leg of a stock-option order.

It is important to note that the proposed rule change would require that the CHX floor participant maintain records “sufficient to establish that market conditions in a non-Exchange market prevented the execution of the option leg(s) or that there was a bona fide error.” This requirement, which is based on a similar requirement in the CBOE analog, will give the CHX Department of Market Regulation the ability to oversee the cancellation of stock leg orders, to ensure against abusive trade reporting practices.

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).² 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 promoting consistency between the Exchange and options markets relating to cancellation of the components of stock-option orders.

¹ The types of market conditions that would be sufficient to justify cancellation of the Exchange leg of a multi-market order include, but are not limited to, a sudden change in the price of the options involved in the transaction prior to execution of the trade and a trading halt or systems failure that precludes immediate execution of the options leg at the agreed upon price.

² 15 U.S.C. 78(f)(b).

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 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-2005-34 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-2005-34. 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-2005-34 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.³

Margaret H. McFarland
Deputy Secretary

³ 17 CFR 200.30-3(a)(12).