

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 Exchange participants, in Nasdaq/NM issues and, where permitted by the Board in any issues exempted by the Commission from the provisions of Rule 612, to bid or offer on the Exchange in subpenny increments. The text of the proposed rule change is set out below:

ARTICLE XX

Regular Trading Sessions

* * *

Minimum Variations

RULE 22. (a) Unless otherwise permitted pursuant to exemptive relief granted by the Commission and by a resolution of the Board, b[B]ids and offers [specific securities or classes of securities traded on the Exchange] at a per share price of \$1.00 or greater shall not be made in variations less than the minimum variation of \$.01, or such other minimum variation as may be established [for a security or class of security] by the Board of Directors [Governors] from time to time. Bids and offers at a per share price of less than \$1.00 shall not be made in variations less than the minimum variation of \$.0001 (for Nasdaq/NM securities) or \$.01 (for listed securities), unless other minimum variations are established by the Board of Directors from time to time. These rule changes take effect with the implementation of Rule 612.

* * *

(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 September 15, 2005.

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

(a) Under the Exchange's existing trading rules, the Exchange's participants generally may not bid or offer in increments below \$.01.¹ Through this filing, the Exchange seeks to confirm that, beginning with the implementation of Rule 612, Exchange participants (a) may bid or offer in subpenny increments in the trading of Nasdaq/NM securities where those bids or offers are less than \$1.00; and (b) may bid or offer in subpenny increments in the trading of other securities where an exemption from the provisions of Rule 612 is granted by the Commission and where the Exchange's Board of Directors agrees to allow that subpenny quoting.²

As noted above, the proposed rule change first would confirm that an Exchange participant may submit bids or offers, for Nasdaq/NM securities, in subpenny increments where the bids or offers are less than \$1.00. Subpenny quoting at prices less than \$1.00 is permitted, but not required, by the provisions of Rule 612 and the Exchange believes that it would be appropriate to allow its participants to engage in this practice in the trading of Nasdaq/NM securities.³

Additionally, the proposed rule change would permit an Exchange participant to bid or offer in subpenny increments in the trading of any securities where an exemption from the provisions of Rule 612 is granted by the Commission and where the Exchange's Board of Directors agrees to allow that subpenny quoting. The Exchange, however, currently does not intend to more generally permit its participants to bid or offer in subpenny increments in the trading of listed securities. Indeed, this proposed rule change would apply only in the Exchange's current trading model. The Exchange will re-address issues associated with subpenny trading as part of the soon-to-be-filed package associated with its new trading model.

(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

¹ The Exchange does not currently have a rule that sets a minimum increment at which trades can occur. Its rule relating to minimum variations specifically refers to variations at which bids or offers may be made on the Exchange. *See* Article XX, Rule 22.

² The Exchange has filed a separate proposal to permit its participants to execute trades in subpenny increments. *See* SR-CHX-2005-36.

³ The Exchange currently permits its participants to send subpenny-priced orders, in Nasdaq/NM securities, to the Exchange. These orders are rounded to a penny increment for quoting purposes pursuant to exemptive relief from the Commission that will expire on the compliance date of Rule 612. *See* Release No. 34-52326 (August 23, 2005), 70 FR 51394 (August 30, 2005).

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 permitting Exchange participants to bid and offer in subpenny increments in the trading of specific groups of securities.

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-2005-37)
SELF-REGULATORY ORGANIZATIONS**

Proposed Rule Change By The Chicago Stock Exchange, Inc. Regarding Bidding and Offering in Subpenny Increments

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 December 6, 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 specifically permit Exchange participants, in Nasdaq/NM issues and, where permitted by the Board in any issues exempted by the Commission from the provisions of Rule 612, to bid or offer on the Exchange in subpenny increments. 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

Under the Exchange's existing trading rules, the Exchange's participants generally may not bid or offer in increments below \$.01.¹ Through this filing, the Exchange seeks to confirm that, beginning with the implementation of Rule 612, Exchange participants (a) may bid or offer in subpenny increments in the trading of Nasdaq/NM securities where those bids or offers are less than \$1.00; and (b) may bid or offer in subpenny increments in the trading of other securities where an exemption from the provisions of Rule 612 is granted by the Commission and where the Exchange's Board of Directors agrees to allow that subpenny quoting.²

As noted above, the proposed rule change first would confirm that an Exchange participant may submit bids or offers, for Nasdaq/NM securities, in subpenny increments

¹ The Exchange does not currently have a rule that sets a minimum increment at which trades can occur. Its rule relating to minimum variations specifically refers to variations at which bids or offers may be made on the Exchange. *See* Article XX, Rule 22.

² The Exchange has filed a separate proposal to permit its participants to execute trades in subpenny increments. *See* SR-CHX-2005-36.

where the bids or offers are less than \$1.00. Subpenny quoting at prices less than \$1.00 is permitted, but not required, by the provisions of Rule 612 and the Exchange believes that it would be appropriate to allow its participants to engage in this practice in the trading of Nasdaq/NM securities.³

Additionally, the proposed rule change would permit an Exchange participant to bid or offer in subpenny increments in the trading of any securities where an exemption from the provisions of Rule 612 is granted by the Commission and where the Exchange's Board of Directors agrees to allow that subpenny quoting. The Exchange, however, currently does not intend to more generally permit its participants to bid or offer in subpenny increments in the trading of listed securities. Indeed, this proposed rule change would apply only in the Exchange's current trading model. The Exchange will re-address issues associated with subpenny trading as part of the soon-to-be-filed package associated with its new trading model.

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).⁴ 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

³ The Exchange currently permits its participants to send subpenny-priced orders, in Nasdaq/NM securities, to the Exchange. These orders are rounded to a penny increment for quoting purposes pursuant to exemptive relief from the Commission that will expire on the compliance date of Rule 612. *See* Release No. 34-52326 (August 23, 2005), 70 FR 51394 (August 30, 2005).

⁴ 15 U.S.C. 78(f)(b).

mechanism of, a free and open market and a national market system, and, in general, protect investors and the public interest by permitting Exchange participants to bid and offer in subpenny increments in the trading of specific groups of securities.

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-2005-37 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-2005-37. 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-2005-37 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.⁵

Margaret H. McFarland
Deputy Secretary

⁵ 17 CFR 200.30-3(a)(12).