

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

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|--|---------------------------------------|--|---|---|---|
| Initial <input checked="" type="checkbox"/> | Amendment <input 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) | |

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

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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 establish NASD’s bid test (as set out in NASD Rule 3350) as the short sale rule for the trading of Nasdaq/NM securities on the Exchange and to make a related change to its electronic book rules. The text of the proposed rule change is set out below:

ARTICLE IX

* * *

Short Sales

RULE 17. (a) No Participant shall effect a sell order or sale of any security unless such sell order is effected, for Nasdaq/NM securities, in compliance with the bid test set out in NASD Conduct Rule 3350 and, for all other securities, in compliance with SEC Rule 10a-1 and Regulation SHO promulgated under the Exchange Act.

* * *

Article XXA

Electronic Book

* * *

Eligible Orders

RULE 2.

(a)-(g) No change to text.

(h) An order is not eligible for execution in the electronic book if its execution would cause an improper short sale. If the execution of an order in the electronic book would cause an improper short sale, that order will be automatically cancelled.

* * *

(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 February 16, 2006.

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

(a) The CHX currently has no specific provisions in its rules regarding the execution of short sales in Nasdaq/NM securities on the Exchange. The Commission's recent approval of the registration of the Nasdaq Stock Market LLC ("Nasdaq") as a national securities exchange, however, would change that situation by requiring that the Exchange impose the "tick test" restrictions of Rule 10a-1 on the trading of Nasdaq/NM securities.¹

As part of Nasdaq's application to become an exchange, Nasdaq requested, and the Commission provided, exemptive relief from the tick test provisions of Rule 10a-1 so that Nasdaq (and its members) could continue the use of the bid test set out in NASD Conduct Rule 3350.² Through this submission, and a soon-to-be-submitted request for exemptive relief, the Exchange is seeking the ability to apply this same bid test to its participants' trading of Nasdaq/NM securities.

NASD Rule 3350 precludes an NASD member from effecting a short sale in a Nasdaq National Market security "at or below the current best (inside) bid displayed in the Nasdaq Market Center when the current best (inside) bid is below the preceding best (inside) bid in the security." The restrictions do not apply to Nasdaq Capital Market (formerly known as Nasdaq SmallCap) securities. There is an exemption for qualified market makers engaging in a *bona fide* market making activity.

¹ Paragraph (a) of Rule 10a-1 governs short sales of any exchange-listed security if such transactions are made pursuant to an effective transaction reporting plan. Unless a specific exemption applies, short sales are prohibited at a price that is either (1) below the last reported price of a transaction reported in the consolidated transaction reporting plan (a "minus tick"); or (2) at the last reported price if that price is lower than the last reported different price (a "zero-minus tick").

² See In the Matter of the Application of the Nasdaq Stock Market LLC for Registration as a National Securities Exchange; Findings, Opinion and Order of the Commission ("Nasdaq Exchange Approval Order") Release No. 34-53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) at 3561.

The Exchange believes that it is appropriate to apply this bid test to the trading of Nasdaq/NM securities on the Exchange so that short sales in these securities are treated consistently among markets.³ In granting Nasdaq's request for exemptive relief, the Commission noted that it was prepared to consider such a request from other markets.⁴ This proposed rule filing would codify, in the Exchange's rules, the exemptive relief that the Exchange is seeking to apply the NASD bid text. It also would confirm the operation of an existing functionality of the Exchange's electronic book, which does not permit an execution to occur within the electronic book if that execution would violate the applicable short sale rule.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 ensuring that Nasdaq/NM securities traded on the Exchange would be subject to the same short sale rule that is applied to the trading of these securities 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.

³ As set out more fully in its request for exemptive relief, the Exchange also believes that the market maker exemption contained in NASD Rule 3350 should be available to CHX market makers.

⁴ See Nasdaq Exchange Approval Order, 71 FR at 3562.

⁵ See Article XXA, Proposed Rule 3(h). This functionality is designed to apply the appropriate bid or tick test to sell orders that are marked "short" and to automatically cancel an order if its execution would violate that test.

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.

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-____; File No. SR-CHX-2006-10)

SELF-REGULATORY ORGANIZATIONS

Notice of Filing of Proposed Rule Change by The Chicago Stock Exchange, Inc. Relating to a Short Sale Rule for Nasdaq/NM Securities.

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 March 8, 2006, the Chicago Stock Exchange, Inc. (“CHX” or “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

The CHX proposes to establish NASD’s bid test (as set out in NASD Rule 3350) as the short sale rule for the trading of Nasdaq/NM securities on the Exchange and to make a related change to its electronic book rules. 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

The CHX currently has no specific provisions in its rules regarding the execution of short sales in Nasdaq/NM securities on the Exchange. The Commission's recent approval of the registration of the Nasdaq Stock Market LLC ("Nasdaq") as a national securities exchange, however, would change that situation by requiring that the Exchange impose the "tick test" restrictions of Rule 10a-1 on the trading of Nasdaq/NM securities.¹

As part of Nasdaq's application to become an exchange, Nasdaq requested, and the Commission provided, exemptive relief from the tick test provisions of Rule 10a-1 so that Nasdaq (and its members) could continue the use of the bid test set out in NASD Conduct Rule 3350.² Through this submission, and a soon-to-be-submitted request for exemptive relief, the Exchange is seeking the ability to apply this same bid test to its participants' trading of Nasdaq/NM securities.

¹ Paragraph (a) of Rule 10a-1 governs short sales of any exchange-listed security if such transactions are made pursuant to an effective transaction reporting plan. Unless a specific exemption applies, short sales are prohibited at a price that is either (1) below the last reported price of a transaction reported in the consolidated transaction reporting plan (a "minus tick"); or (2) at the last reported price if that price is lower than the last reported different price (a "zero-minus tick").

² See In the Matter of the Application of the Nasdaq Stock Market LLC for Registration as a National Securities Exchange; Findings, Opinion and Order of the Commission ("Nasdaq Exchange Approval Order") Release No. 34-53128 (January 13, 2006), 71 FR 3550 (January 23, 2006) at 3561.

NASD Rule 3350 precludes an NASD member from effecting a short sale in a Nasdaq National Market security “at or below the current best (inside) bid displayed in the Nasdaq Market Center when the current best (inside) bid is below the preceding best (inside) bid in the security.” The restrictions do not apply to Nasdaq Capital Market (formerly known as Nasdaq SmallCap) securities. There is an exemption for qualified market makers engaging in a *bona fide* market making activity.

The Exchange believes that it is appropriate to apply this bid test to the trading of Nasdaq/NM securities on the Exchange so that short sales in these securities are treated consistently among markets.³ In granting Nasdaq’s request for exemptive relief, the Commission noted that it was prepared to consider such a request from other markets.⁴ This proposed rule filing would codify, in the Exchange’s rules, the exemptive relief that the Exchange is seeking to apply the NASD bid text. It also would confirm the operation of an existing functionality of the Exchange’s electronic book, which does not permit an execution to occur within the electronic book if that execution would violate the applicable short sale rule.⁵

2. Statutory Basis

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 As set out more fully in its request for exemptive relief, the Exchange also believes that the market maker exemption contained in NASD Rule 3350 should be available to CHX market makers.

⁴ See Nasdaq Exchange Approval Order, 71 FR at 3562.

⁵ See Article XXA, Proposed Rule 3(h). This functionality is designed to apply the appropriate bid or tick test to sell orders that are marked “short” and to automatically cancel an order if its execution would violate that test.

mechanism of, a free and open market and a national market system, and, in general, protect investors and the public interest by ensuring that Nasdaq/NM securities traded on the Exchange would be subject to the same short sale rule that is applied to the trading of these securities 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 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-2006-10 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-CHX-2006-10. 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-2006-10 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.⁶

Nancy M. Morris
Secretary

⁶ 17 CFR 200.30-3(a)(12).