

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

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input type="checkbox"/>	Section 19(b)(3)(A) <input checked="" type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
			Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input checked="" 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"/>
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**Description**  
Provide a brief description of the proposed rule change (limit 250 characters).

The CHX proposes to amend its Fee Schedule to reduce specialist fixed fees that are applicable during the period when the CHX transitions to its new trading model.

**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="Kathleen"/>	Last Name	<input type="text" value="Boege"/>
Title	<input type="text" value="Vice President &amp; Associate General Counsel"/>		
E-mail	<input type="text" value="kboege@chx.com"/>		
Telephone	<input type="text" value="(312) 663-2601"/>	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	<input type="text" value="11/21/2006"/>
By	<input type="text" value="Kathleen M. Boege"/>
	(Name)
	<input type="text" value="Vice President &amp; Associate General Counsel"/>
	(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 Fee Schedule to reduce specialist fixed fees that are applicable during the period when the CHX transitions to its new trading model.

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

**PARTICIPANT DUES AND FEES**

\* \* \*

**K. Specialist Fixed Fees**

These fees will continue to be charged on securities traded by specialists as the Exchange transitions to its new trading model. To determine the amount of the fixed fee during each month of this transition period, the Exchange (1) will determine the “transitional fixed fee” and (2) will provide each specialist firm with a \$25,000 credit against that fee. To determine the transitional fixed fee, the Exchange will calculate the aggregate fixed fees for the month based on the total number of issues traded by specialists as of the day before the Exchange begins to trade the first specialist-traded security in the new model. The Exchange then will only charge a specialist firm the fixed fees associated with the securities that it traded as specialist during each month, prorating the fee based on the date that an issue makes its transition to the Matching System for trading, as applicable.

\* \* \*

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

**2. Procedures of Self-Regulatory Organization**

This change to the Fee Schedule was approved by the CHX’s Board of Directors at a meeting on November 16, 2006.

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

As part of the Exchange's new trading model, the CHX is transitioning from a floor-based exchange, with a single specialist firm assigned to trade designated issues, to a fully-automated electronic facility, with issues eligible for trading by multiple market makers and other eligible CHX participants. This transition commenced during the week of October 23, 2006, and is expected to be completed by late December. As with most other exchanges that are making transitions to new trading platforms, the CHX transition is structured on an issue-by-issue basis. Once an issue is "converted," it is then eligible for trading in the CHX electronic matching engine, and is no longer traded by a CHX specialist.

In connection with this transition, the CHX previously submitted a series of comprehensive revisions to its Fee Schedule, to contemplate various aspects of the new trading model, including the transition away from a specialist system.<sup>1</sup> The initial revision to the Fee Schedule provided that with respect to the specialist fixed fee<sup>2</sup> during the transition period, such transitional fixed fees will continue to be charged on securities traded by specialists as the Exchange transitions to its new trading model, on a pro rated basis.<sup>3</sup> The proration provision was intended to eliminate the fixed fee as soon as an issue makes the transition to the new trading model and is no longer traded by the CHX specialist.

After further consideration and additional dialogue with CHX participants, the Exchange believes that further refinement of this provision is appropriate. Specifically, the Exchange proposed to modify Section K. of the Fee Schedule to provide for a monthly credit of \$25,000 per specialist firm, to be applied against each firm's monthly transitional fixed fee.

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<sup>1</sup> See SEC Release No. 34-54550, File No. SR-CHX-2006-05 (September 29, 2006), 71 FR 59563 (October 10, 2006).

<sup>2</sup> The specialist fixed fee is a long-standing fee that is allocated on a monthly basis among CHX specialist firms. It provides the CHX with a means of allocating certain expenses, relating to systems and infrastructure, that support the CHX specialist system.

<sup>3</sup> To determine the amount of the fixed fee during each month of this transition period, the Exchange will calculate the aggregate fixed fees for the month based on the total number of issues traded by specialists as of the day before the Exchange begins to trade the first specialist-traded security in the new model. The Exchange then will only charge a specialist firm the fixed fees associated with the securities that it traded as specialist during each month, prorating the fee based on the date that an issue makes its transition to the Matching System for trading, as applicable.

The CHX believes that this credit is warranted under the circumstances. It permits the Exchange to roll out its new trading model on terms that the Exchange believes to be most prudent from a technology perspective, while reducing the costs that must continue to be borne by specialist firms as a result of the rollout schedule.<sup>4</sup> Moreover, the proposed credit would provide specialist firms with a specified reduction in their fixed fees during the transition period, permitting them to budget accordingly.

(b) The Exchange believes that the rule changes proposed in this submission are 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). The proposed rule change is consistent with Section 6(b)(4) of the Act in that it provides for the equitable allocation of reasonable dues, fees and other charges among its members.

**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)**

The proposed rule change is to take effect pursuant to Section 19(b)(3)(A)(ii) in that it establishes or changes a due, fee or other charge imposed by the Exchange upon its participants.

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<sup>4</sup> Certain issues have higher fixed fees relative to other issues; accordingly, the new trading model rollout schedule has economic consequences for CHX specialist firms.

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-2006-37)  
**SELF-REGULATORY ORGANIZATIONS**

**Notice of Filing and Immediate Effectiveness of Proposed Rule Change by The Chicago Stock Exchange, Inc. Relating to Participant Fees and Credits.**

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 21, 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 amend its Schedule of Participant Fees and Credits (the “Fee Schedule”) to reduce specialist fixed fees that are applicable during the period when the CHX transitions to its new trading model. The text of this proposed rule change is available on the Exchange’s website at [http://www.chx.com/rules/proposed\\_rules.htm](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

As part of the Exchange's new trading model, the CHX is transitioning from a floor-based exchange, with a single specialist firm assigned to trade designated issues, to a fully-automated electronic facility, with issues eligible for trading by multiple market makers and other eligible CHX participants. This transition commenced during the week of October 23, 2006, and is expected to be completed by late December. As with most other exchanges that are making transitions to new trading platforms, the CHX transition is structured on an issue-by-issue basis. Once an issue is "converted," it is then eligible for trading in the CHX electronic matching engine, and is no longer traded by a CHX specialist.

In connection with this transition, the CHX previously submitted a series of comprehensive revisions to its Fee Schedule, to contemplate various aspects of the new trading model, including the transition away from a specialist system.<sup>1</sup> The initial revision to the Fee Schedule provided that with respect to the specialist fixed fee<sup>2</sup> during

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<sup>2</sup> The specialist fixed fee is a long-standing fee that is allocated on a monthly basis among CHX specialist firms. It provides the CHX with a means of allocating certain expenses, relating to systems and infrastructure, that support the CHX specialist system.

the transition period, such transitional fixed fees will continue to be charged on securities traded by specialists as the Exchange transitions to its new trading model, on a pro rated basis.<sup>3</sup> The proration provision was intended to eliminate the fixed fee as soon as an issue makes the transition to the new trading model and is no longer traded by the CHX specialist.

After further consideration and additional dialogue with CHX participants, the Exchange believes that further refinement of this provision is appropriate. Specifically, the Exchange proposed to modify Section K. of the Fee Schedule to provide for a monthly credit of \$25,000 per specialist firm, to be applied against each firm's monthly transitional fixed fee.

The CHX believes that this credit is warranted under the circumstances. It permits the Exchange to roll out its new trading model on terms that the Exchange believes to be most prudent from a technology perspective, while reducing the costs that must continue to be borne by specialist firms as a result of the rollout schedule.<sup>4</sup> Moreover, the proposed credit would provide specialist firms with a specified reduction in their fixed fees during the transition period, permitting them to budget accordingly.

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<sup>3</sup> To determine the amount of the fixed fee during each month of this transition period, the Exchange will calculate the aggregate fixed fees for the month based on the total number of issues traded by specialists as of the day before the Exchange begins to trade the first specialist-traded security in the new model. The Exchange then will only charge a specialist firm the fixed fees associated with the securities that it traded as specialist during each month, prorating the fee based on the date that an issue makes its transition to the Matching System for trading, as applicable.

<sup>4</sup> Certain issues have higher fixed fees relative to other issues; accordingly, the new trading model rollout schedule has economic consequences for CHX specialist firms.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b)(4) of the Act<sup>5</sup> in that it provides for the equitable allocation of reasonable dues, fees and other charges among its members.

### *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**

The foregoing rule change establishes or changes a due, fee or other charge imposed by the Exchange and therefore has become effective pursuant to Section 19(B)(3)(A) of the Act<sup>6</sup> and subparagraph (f)(2) of Rule 19b-4 thereunder.<sup>7</sup> At any time within 60 days of the filing of such rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purpose of the Act.

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<sup>5</sup> 15 U.S.C. 78(f)(b)(4).

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>7</sup> 17 CFR 240.19b-4(f)(2).

#### **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](mailto:rule-comments@sec.gov). Please include File No. SR-CHX-2006-37 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-2006-37. 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-2006-37 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.<sup>8</sup>

Nancy M. Morris  
Secretary

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<sup>8</sup> 17 CFR 200.30-3(a)(12).