

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 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"/>			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
Date Expires <input type="text"/>			<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)	

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 proposed rule changes would (i) permit CHX participants submitting cross with yield orders to elect to yield to undisplayed interest and (ii) provide for a repricing mechanism in the case of midpoint cross orders with a midpoint price that would violate applicable short sale restrictions.

**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  Last Name   
 Title   
 E-mail   
 Telephone  Fax

**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  Vice President & Associate General Counsel  
 (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, Inc. (the “CHX” or the “Exchange”), pursuant to Rule 19b-4 of the Securities Exchange Act of 1934 (the “Act”) proposes to amend its rules (i) to permit participants submitting “cross with yield” orders to elect to yield to undisplayed interest and (ii) to provide for a repricing mechanism in the case of midpoint cross orders with a midpoint price that would violate applicable short sale restrictions. The text of the proposed changes is set out below. New text is underlined; deleted text is shown in [brackets].

**RULES OF CHICAGO STOCK EXCHANGE, INC.****ARTICLE 1****DEFINITIONS**

RULE 1. No change to text.

**Order Types and Conditions**

RULE 2.

Unless otherwise specifically defined elsewhere in the CHX Rules, the following terms shall have the respective meanings ascribed to them, for purposes of all CHX Rules. Additional information about order types and conditions can be found in Article 20.

- a-g. No change to text.
- h. "Cross with yield": an order that contains:
- (1) an instruction to execute a cross transaction at a specific price; and
  - (2) an instruction to yield interest on the buy, sell or either side of the order, as specified in the order, to any order already displayed in the Matching System at the same or better price (or, if requested by the Participant, any undisplayed portions of reserve size orders and any undisplayed orders), to the extent necessary to allow the cross transaction to occur.

A cross with yield may represent interest of one or more Participants of the Exchange.

This order type provides a Participant with an efficient mechanism to execute a cross transaction at a particular price, yielding interest in the order to orders displayed in the Matching System that would otherwise

have time or price priority, or, if requested by the Participant, also yielding undisplayed portions of reserve size orders and any undisplayed orders in the Matching System. The cross will be executed at a price that is better than the best bid or offer to be displayed in the Matching System and, for securities listed on the NYSE, Amex or any other exchange except Nasdaq (and for Nasdaq-listed securities, when Reg NMS is implemented in those issues), equal to or better than the NBBO. If requested by the Participant, the cross will be executed at a price that also takes into account any undisplayed portions of reserve size orders and any undisplayed orders). A cross with yield order may only be executed in an increment permitted by Article 20, Rule 4(a)(7)(b).

\* \* \* \* \*

## ARTICLE 20

### OPERATION OF THE CHX MATCHING SYSTEM

\* \* \* \* \*

#### **RULE 4. ELIGIBLE ORDERS**

- a. No change to text.
- b. *Order types and indications.* The Matching System shall only accept the following order types or orders with the following indications:
  - (1)-(6) No change to text.
  - (7) Cross with yield": an order that contains
    - (A) an instruction to execute a cross transaction at a specific price; and
    - (B) an instruction to yield interest on the buy, sell or either side of the order, as specified in the order, to any order already displayed in the Matching System at the same or better price (or, if requested by the Participant, any undisplayed portions of reserve size orders and any undisplayed orders), to the extent necessary to allow the cross transaction to occur.

A cross with yield may represent interest of one or more Participants of the Exchange.

This order type provides a Participant with an efficient mechanism to execute a cross transaction at a particular price, yielding interest in the order to orders displayed in the Matching System that would otherwise have time or price priority, or, if requested by the Participant, also yielding to undisplayed portions of reserve size

orders and any undisplayed orders in the Matching System. The cross will be executed at a price that is better than the best bid or offer to be displayed in the Matching System and, for securities listed on the NYSE, Amex or any other exchange except Nasdaq (and for Nasdaq-listed securities, when Reg NMS is implemented in those issues), equal to or better than the NBBO. If requested by the Participant, the cross will be executed at a price that also takes into account any undisplayed portions of reserve size orders and any undisplayed orders). A cross with yield order may only be executed in an increment permitted by Article 20, Rule 4(a)(7)(b).

\* \* \* \* \*

### **Operation of the Matching System**

RULE 8. The Exchange's Matching System shall operate in the following manner:

a-d. No change to text.

e. *Execution of certain orders and order types.* The following orders shall be executed within the Matching System as set out below:

1. *Cross and cross with size orders.* No change to text.

2. *Cross with yield orders.* When the customer order that is part of a cross with yield order is eligible for an immediate execution because it is at a price better than the currently displayed best bid or offer in the Matching System, the cross with yield order shall be automatically executed by matching the Participant as principal against the customer order; provided, however, that if there is any order already displayed in the Matching System at the same price as (or better than) the Participant's interest, that order or those orders shall be matched against the customer order in place of the Participant's interest as necessary to exhaust the customer order interest. If the customer order that is part of a cross with yield order is not eligible for an immediate execution because it is not better than the currently displayed bid or offer in the Matching System, the cross with yield order shall be immediately and automatically cancelled.

If requested by the Participant, the cross with yield order will yield to undisplayed interest in the Matching System as well as to displayed bids or offers, executing against orders based on the ranking described in Rule 8(b).

3-4. No change to text.

5. *Sell short orders.* Sell short orders (including odd lot orders and midpoint cross orders marked short) shall be displayed and executed only when permissible under the provisions of Rule 10a-1 and Regulation SHO. When a sell

short order cannot be executed or displayed at its limit price (or midpoint cross price) under the provisions of the Short Sale Rule and Regulation SHO, the order shall be automatically repriced (without violating its limit price in the case of a limit order) to the next available price at which it can be executed or displayed, to the extent that the Matching System has sufficient data to determine an appropriate price. If the Matching System cannot determine an appropriate price at which to display or execute the order, the order shall be automatically cancelled.

\* \* \* \* \*

(b) Not applicable.

(c) Not applicable.

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

The CHX Board of Directors approved the proposed rule change at a meeting on December 12, 2006.

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

(a) As part of the Exchange's new trading model, the CHX offers its participants a wide variety of order types that may be submitted to the CHX and its central matching engine. *See, e.g.*, CHX Article 1, Rule 2; CHX Article 20, Rule 4, which outline the range of available order types.

As the CHX continues implementation of its new trading model, further dialogue with participant firms, as well as industry developments, will likely necessitate further refinement of the CHX new trading model rules, including the sort of order type enhancements proposed in this submission.

The first proposed rule change would amend the definition of a "cross with yield" order to permit a CHX participant to elect to yield to undisplayed market interest in addition to bids and offers that are displayed in the Matching System. This change is consistent with the purpose of a cross with yield order – a participant selects this type of order because it wants its customer order to interact with available market interest. This proposal is reflected in changes to Article 1, Rule 2(h) and Article 20, Rules 4(b)(7) and 8(e).

The second proposed rule change would expressly extend the treatment of sell short orders to midpoint cross orders that are marked short. In such a case, the

Matching System would determine the permissible execution price that is closest to the proposed midpoint cross price, and would execute the midpoint cross order at that next best price, instead of rejecting the order because the midpoint cross execution price would violate applicable short sale prohibitions. This proposal is reflected in changes to Article 20, Rule 8(e)(5).

The Exchange believes that the order type modifications outlined above are well warranted and the Exchange has already begun the technology development necessary to implement these changes. The Exchange seeks to implement these changes by the Trading Phase Date of Regulation NMS, which currently is scheduled for February 5, 2006.

(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 permitting the Exchange to further refine its product offerings.

**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-2006-42)  
SELF-REGULATORY ORGANIZATIONS**

**Proposed Change By the Chicago Stock Exchange, Inc. to Amend the CHX Rules  
To Modify Provisions Relating to Cross with Yield and Midpoint Cross Orders**

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 22, 2006, 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**

The CHX, pursuant to Rule 19b-4 of the Act, proposes to amend its rules to amend its rules (i) to permit participants submitting “cross with yield” orders to elect to yield to undisplayed interest and (ii) to provide for a repricing mechanism in the case of midpoint cross orders with a midpoint price that would violate applicable short sale restrictions. 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 offers its participants a wide variety of order types that may be submitted to the CHX and its central matching engine. *See, e.g.*, CHX Article 1, Rule 2; CHX Article 20, Rule 4, which outline the range of available order types.

As the CHX continues implementation of its new trading model, further dialogue with participant firms, as well as industry developments, will likely necessitate further refinement of the CHX new trading model rules, including the sort of order type enhancements proposed in this submission.

The first proposed rule change would amend the definition of a "cross with yield" order to permit a CHX participant to elect to yield to undisplayed market interest in addition to bids and offers that are displayed in the Matching System. This change is consistent with the purpose of a cross with yield order – a participant selects this type of order because it wants its customer order to interact with available market interest. This

proposal is reflected in changes to Article 1, Rule 2(h) and Article 20, Rules 4(b)(7) and 8(e).

The second proposed rule change would expressly extend the treatment of sell short orders to midpoint cross orders that are marked short. In such a case, the Matching System would determine the permissible execution price that is closest to the proposed midpoint cross price, and would execute the midpoint cross order at that next best price, instead of rejecting the order because the midpoint cross execution price would violate applicable short sale prohibitions. This proposal is reflected in changes to Article 20, Rule 8(e)(5).

The Exchange believes that the order type modifications outlined above are well warranted and the Exchange has already begun the technology development necessary to implement these changes. The Exchange seeks to implement these changes by the Trading Phase Date of Regulation NMS, which currently is scheduled for February 5, 2006.

## 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).<sup>1</sup> The CHX believes the proposal is consistent with Section 6(b)(5) of the Act<sup>2</sup> in that it is designed to promote just and equitable principles of trade, to remove impediments, and to perfect the mechanism of, a free and open market and a national market system, and, in general, to protect investors

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<sup>1</sup> 15 U.S.C. 78(f)(b).

and the public interest by permitting the Exchange to operate a late trading session during which only cross orders are eligible for execution.

*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:

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<sup>2</sup> 15 U.S.C. 78f(b)(5).

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-2006-42 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-2006-42. 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-2006-42 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>3</sup>

Nancy M. Morris  
Secretary

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