

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 eliminate the requirement that its institutional brokers clear the Matching System before sending certain orders to other markets. The text of the proposed rule change is set out below. Additions are underlined; deletions are [bracketed].

ARTICLE 20**Matching System**

* * *

[Clearing the Matching System]

RULE 7. Reserved. [a. General rule. Unless a customer specifically requests otherwise or as provided in paragraph (d) below, each institutional broker must clear the displayed and undisplayed orders in the Exchange's Matching System before sending a customer order to another market. When an institutional broker is sending an order to clear the Exchange's Matching System, that order must be marked in the manner designated by the Exchange.]

[b. Documentation of customer request. Any customer directives for special handling of orders must be documented, at the time the direction is given, and reported to the Exchange.]

[c. ITS commitments. Any outbound ITS commitments that are seeking liquidity in another market - whether they represent agency or proprietary interest - must first clear the displayed and undisplayed orders in the Exchange's Matching System before being sent through the ITS System. Outbound ITS commitments (or ISOs) that are being sent to another market to satisfy its displayed bid or offer, however, are not required to clear the Exchange's Matching System before being sent to the other market.]

[d. Order types that cannot be executed in the Matching System. An institutional broker is not required to clear the Matching System as required by paragraph (a) above if the customer order that is being sent to another market could not be executed in the Matching System (e.g., a stop or stop limit order which has not yet been elected).]

* * *

(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 March 15, 2007.

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

(a) Through this proposal, the Exchange seeks to amend its rules to eliminate the current requirement that an institutional broker clear displayed and undisplayed orders in the Matching System before sending customer orders to another market.¹ This provision was designed, at least in part, to ensure that customer orders of institutional brokers have an opportunity to interact with orders in the Matching System, and perhaps receive a better execution price, before the institutional broker sends the order to another market.² Certain exceptions apply – for example, intermarket sweep orders that are being sent to another market to satisfy that market's displayed bid or offer are not required to clear the Exchange's Matching System before being sent to the other market.³

When the Exchange introduced its new trading model in late 2006, this requirement – which had existed for many years before that time – became part of the new model rules. At this point, however, the Exchange believes that it would be appropriate to eliminate this requirement from its rulebook. As an initial matter, with the implementation of the Regulation NMS's Order Protection Rule, it is no longer necessary for the CHX to have a specific rule that requires an institutional broker to check the Matching System for a better-priced bid or offer before sending an order to another venue – if the CHX's protected bid or offer is the best in the market, other markets (including any market to which a broker

¹ The Exchange also seeks to eliminate each of the other “clearing the Matching System” rules, including the rule that requires that outbound ITS commitments that are seeking liquidity in another market - whether they represent agency or proprietary interest - must first clear the displayed and undisplayed orders in the Exchange's Matching System. This provision was included in the Exchange's rules because it was required under the Intermarket Trading System Plan (the “ITS Plan”); however, it is no longer relevant because the ITS Plan was eliminated as of March 5, 2007. See Release No. 34-55397, File No. 4-208 (March 5, 2007).

² As described in Note 1, above, the provision was also required by the terms of the ITS Plan.

³ See Article 20, Rule 7(c). Similarly, an institutional broker is not required to clear the Matching System if the customer specifically requires otherwise or if the customer order that is being sent to another market could not be executed in the Matching System (e.g., the order is a stop or stop limit order which has not yet been elected). See Article 20, Rules 7(a) and (d).

sends an order) will be required to send an order to satisfy the CHX's automated quote. Moreover, the systems work necessary to automate compliance with the rule likely would be difficult for any outside firm that would like to provide systems for use by institutional brokers. For all of these reasons, the Exchange believes that it would be appropriate to eliminate its current requirement that orders "clear" the Matching System before being sent to other markets for execution.

(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). The proposed rule change is consistent with Section 6(b)(5) of the Act because it 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 eliminate an existing rule that is no longer necessary for the operation of the Exchange.

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

The proposed rule change is not based on the rules of another self-regulatory organization.

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-2007-07)
SELF-REGULATORY ORGANIZATIONS**

**Proposed Change By the Chicago Stock Exchange, Inc. to Eliminate Rules
Requiring the Clearing of the Matching System**

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 22, 2007, 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 eliminate the requirement that its institutional brokers clear the Matching System before sending certain orders to other markets. 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

Through this proposal, the Exchange seeks to amend its rules to eliminate the current requirement that an institutional broker clear displayed and undisplayed orders in the Matching System before sending customer orders to another market.¹ This provision was designed, at least in part, to ensure that customer orders of institutional brokers have an opportunity to interact with orders in the Matching System, and perhaps receive a better execution price, before the institutional broker sends the order to another market.² Certain exceptions apply – for example, intermarket sweep orders that are being sent to

¹ The Exchange also seeks to eliminate each of the other “clearing the Matching System” rules, including the rule that requires that outbound ITS commitments that are seeking liquidity in another market - whether they represent agency or proprietary interest - must first clear the displayed and undisplayed orders in the Exchange's Matching System. This provision was included in the Exchange's rules because it was required under the Intermarket Trading System Plan (the “ITS Plan”); however, it is no longer relevant because the ITS Plan was eliminated as of March 5, 2007. *See* Release No. 34-55397, File No. 4-208 (March 5, 2007).

² As described in Note 1, above, the provision was also required by the terms of the ITS Plan.

another market to satisfy that market's displayed bid or offer are not required to clear the Exchange's Matching System before being sent to the other market.³

When the Exchange introduced its new trading model in late 2006, this requirement – which had existed for many years before that time – became part of the new model rules. At this point, however, the Exchange believes that it would be appropriate to eliminate this requirement from its rulebook. As an initial matter, with the implementation of the Regulation NMS's Order Protection Rule, it is no longer necessary for the CHX to have a specific rule that requires an institutional broker to check the Matching System for a better-priced bid or offer before sending an order to another venue – if the CHX's protected bid or offer is the best in the market, other markets (including any market to which a broker sends an order) will be required to send an order to satisfy the CHX's automated quote. Moreover, the systems work necessary to automate compliance with the rule likely would be difficult for any outside firm that would like to provide systems for use by institutional brokers. For all of these reasons, the Exchange believes that it would be appropriate to eliminate its current requirement that orders “clear” the Matching System before being sent to other markets for execution.

³ See Article 20, Rule 7(c). Similarly, an institutional broker is not required to clear the Matching System if the customer specifically requires otherwise or if the customer order that is being sent to another market could not be executed in the Matching System (e.g., the order is a stop or stop limit order which has not yet been elected). See Article 20, Rules 7(a) and (d).

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 proposed rule change is consistent with Section 6(b)(5) of the Act because it 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 eliminate an existing rule that is no longer necessary for the operation of the Exchange

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:

⁴ 15 U.S.C. 78(f)(b).

- (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-2007-07 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-2007-07. 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-2007-07 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

Nancy M. Morris
Secretary

⁵ 17 CFR 200.30-3(a)(12).