

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 Article 9, Rule 17 of its rules to identify the situations in which a participant may trade on a proprietary basis while also representing a customer order. The text of the proposed rule change is set out below:

ARTICLE 9**General Trading Rules**

* * *

Personal Selling and Purchasing Prohibited

RULE 17. Except as provided in this Rule or any Interpretation to this Rule, n[N]o Participant or partner, officer, [or] director, employee or agent of or in a Participant Firm shall (1) personally buy or initiate the purchase of any security for his own account or for any account in which the Participant Firm or any partner, officer, [or] director, employee or agent thereof, is directly or indirectly interested, while he personally holds or has knowledge that the Participant Firm or any partner, officer, [or] director, employee or agent thereof holds an unexecuted market order to buy such security in the unit of trading for a customer; or (2) personally sell or initiate the sale of any security for any such account, while he personally holds or has knowledge that the Participant Firm or any partner, officer, [or] director, employee or agent thereof holds an unexecuted market order to sell such security in the unit of trading for a customer.

Except as provided in this Rule or any Interpretation to this Rule, n[N]o Participant or partner, officer, [or] director, employee or agent of or in a Participant Firm [thereof] shall (1) personally buy or initiate the purchase of any security for any such account at or below the price at which he personally holds or has knowledge that his Participant Firm or any partner, officer, [or] director, employee or agent thereof holds an unexecuted limited price order to buy such security in the unit of trading for a customer or (2) personally sell or initiate the sale of any security for any such account at or above the price at which he personally holds or has knowledge that his Participant Firm or any partner, officer, [or] director,

employee or agent thereof holds an unexecuted limited price order to sell such security in the unit of trading for a customer.

* * *

••• *Interpretations and Policies:*

.01-.06 No change to text.

.07 Orders accepted and handled by a Participant on a “not held” basis are not subject to the restrictions of this Rule. This exception, however, does not change a Participant’s best execution obligations with respect to these orders. A “not held” order is one in which there is an explicit understanding between the person submitting the order and the Participant which accepts it that the recipient has time and price discretion in executing the order.

* * *

Best Execution

RULE 26. In any transaction for or with a customer or a customer of another broker-dealer, a Participant Firm and persons associated with a Participant Firm shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Among the factors that will be considered in determining whether a Participant Firm and its associated persons have used "reasonable diligence" are:

(1) the character of the market for the security, including, but not limited to factors such as price, volatility, relative liquidity, and pressure on available communications;

(2) the size and type of transaction;

(3) the number of markets checked;

(4) accessibility of the quotation; and

(5) the terms and conditions of the order which result in the transaction, as communicated to the Participant Firm and persons associated with the Participant Firm.

* * *

(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 meetings on February 16, 2006 and March 15, 2007.

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

(a) Under the Exchange's rules, a participant (or a partner, officer or director of a participant firm) generally is not permitted to buy or sell any security for the participant's (or participant firm's) own account while holding, or having knowledge of, an unexecuted customer market order or an unexecuted customer limit order that could be executed at the price of the proprietary trade.¹ These rules are designed to prevent a participant or participant firm from trading ahead of a customer order.

Through this filing, the Exchange seeks to implement an exception to this general rule to recognize that there are circumstances in which a participant or participant firm might appropriately be permitted to trade on a proprietary basis even while holding unexecuted customer market or limit orders.² This exception would confirm that orders accepted and handled by a participant or participant firm on a "not held" basis are not subject to the restrictions of Article 9, Rule 17. A "not held" order is one in which there is an explicit understanding between the person submitting the order and the participant or participant firm which accepts it that the recipient has time and price discretion in executing the order.

This exception, however, would not change a participant's best execution obligations with respect to these orders.³ Under the Exchange's existing rules, institutional brokers have specific responsibilities in their handling of customer orders.⁴ Through this filing, the Exchange would also add a new general "best

¹ See Article 9, Rule 17. As part of this filing, the Exchange seeks to extend this prohibition to employees and agents of participant firms.

² The Exchange previously filed this proposal as SR-CHX-2006-09, but has withdrawn that filing and resubmitted it as a new proposal due to the substantial changes that have been made to the originally-proposed rule text.

³ See Article 9, Rule 17, Proposed Interpretation and Policy .07.

⁴ See Article 17, Rule 3(d)(3)(confirming that an institutional broker who has been given a not held order must use brokerage judgment in the execution of the order, and if he exercises such judgment, is relieved of

execution” rule that would apply to all participants in their handling of customer orders.⁵ This general “best execution” provision is consistent with the rules of other markets.⁶

The proposed exception to Article 9, Rule 17 is substantially similar to an exception recognized by the National Association of Securities Dealers (“NASD”) in guidance issued in connection with its new rule (NASD Rule 2111) prohibiting NASD members from trading ahead of customer market orders.⁷

(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 allowing Exchange participants, in appropriate circumstances, to trade for their proprietary accounts while holding customer orders.

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

all responsibility with respect to the time of the order’s execution and the execution price or prices given to the order).

⁵ See Proposed Text of New Article 9, Rule 26.

⁶ See NASD Rule 2320(a).

⁷ See NASD Notice to Members 06-03, Q3 (January 9, 2006). This notice was submitted to the Commission by the NASD as an stated policy, practice or interpretation with respect to the meaning, administration or enforcement of an existing NASD rule. See Release No. 34-53149 (January 19, 2006), 71 FR 5097 (January 31, 2006).

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-2007-15)
SELF-REGULATORY ORGANIZATIONS**

Proposed Change By the Chicago Stock Exchange, Inc. to Identify Situations Where a Participant May Trade on a Proprietary Basis While Holding a Customer Order

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 April 4, 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 Article 9, Rule 17 of its rules to identify the situations in which a participant may trade on a proprietary basis while also representing a customer order. 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 rules, a participant (or a partner, officer or director of a participant firm) generally is not permitted to buy or sell any security for the participant's (or participant firm's) own account while holding, or having knowledge of, an unexecuted customer market order or an unexecuted customer limit order that could be executed at the price of the proprietary trade.¹ These rules are designed to prevent a participant or participant firm from trading ahead of a customer order.

Through this filing, the Exchange seeks to implement an exception to this general rule to recognize that there are circumstances in which a participant or participant firm might appropriately be permitted to trade on a proprietary basis even while holding unexecuted customer market or limit orders.² This exception would confirm that orders accepted and handled by a participant or participant firm on a "not held" basis are not

¹ See Article 9, Rule 17. As part of this filing, the Exchange seeks to extend this prohibition to employees and agents of participant firms.

subject to the restrictions of Article 9, Rule 17. A “not held” order is one in which there is an explicit understanding between the person submitting the order and the participant or participant firm which accepts it that the recipient has time and price discretion in executing the order.

This exception, however, would not change a participant’s best execution obligations with respect to these orders.³ Under the Exchange’s existing rules, institutional brokers have specific responsibilities in their handling of customer orders.⁴ Through this filing, the Exchange would also add a new general “best execution” rule that would apply to all participants in their handling of customer orders.⁵ This general “best execution” provision is consistent with the rules of other markets.⁶

The proposed exception to Article 9, Rule 17 is substantially similar to an exception recognized by the National Association of Securities Dealers (“NASD”) in guidance issued in connection with its new rule (NASD Rule 2111) prohibiting NASD members from trading ahead of customer market orders.⁷

² The Exchange previously filed this proposal as SR-CHX-2006-09, but has withdrawn that filing and resubmitted it as a new proposal due to the substantial changes that have been made to the originally-proposed rule text.

³ See Article 9, Rule 17, Proposed Interpretation and Policy .07.

⁴ See Article 17, Rule 3(d)(3)(confirming that an institutional broker who has been given a not held order must use brokerage judgment in the execution of the order, and if he exercises such judgment, is relieved of all responsibility with respect to the time of the order's execution and the execution price or prices given to the order).

⁵ See Proposed Text of New Article 9, Rule 26.

⁶ See NASD Rule 2320(a).

⁷ See NASD Notice to Members 06-03, Q3 (January 9, 2006). This notice was submitted to the Commission by the NASD as an stated policy, practice or interpretation

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).⁸ 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 allowing Exchange participants, in appropriate circumstances, to trade for their proprietary accounts while holding customer orders.

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:

with respect to the meaning, administration or enforcement of an existing NASD rule. See Release No. 34-53149 (January 19, 2006), 71 FR 5097 (January 31, 2006).

- (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-2007-15 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-2007-15. 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

⁸ 15 U.S.C. 78(f)(b).

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-2007-15 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.⁹

Nancy M. Morris
Secretary

⁹ 17 CFR 200.30-3(a)(12).