



SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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**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 to change the composition of the Regulatory Oversight Committee so that this group consists of at least five Public Directors and to allow the Exchange’s Board of Directors to appoint up to two Participant Directors to serve as non-voting advisors to the Committee. The text of the proposed change is set out below. New text is underlined; deleted text is shown in [brackets].

**RULES OF CHICAGO STOCK EXCHANGE, INC.**

\* \* \*

**ARTICLE 2**

**Committees**

**Regulatory Oversight Committee**

RULE 4. There shall be a Regulatory Oversight Committee which shall consist of [have seven members, including] at least five Public Directors.[,] Up to two [one] Participant Directors may be appointed to serve as non-voting advisors to the Committee. [who is a Participant primarily engaged in business on the Exchange's trading floor or a person associated with a Participant Firm that is primarily engaged in business on the Exchange's trading floor (an "On-Floor Participant Director") and one Participant Director who is associated with a Participant Firm that is not primarily engaged in business on the Exchange's trading floor (an "Off-Floor Participant Director").] The Chairman of the Board, if he is not also serving as the Chief Executive Officer, shall be one of the [five] Public Directors on the committee. The committee and any advisors shall be appointed by the Vice Chairman and approved by the Public Directors on the Exchange's Board of Directors. The committee shall select its chairman from among the Public Directors on the committee.

\* \* \*

- (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 October 19, 2006.

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

(a) Under its existing rules, the Exchange's Regulatory Oversight Committee ("ROC") consists of seven persons – five Public Directors and two Participant Directors.<sup>1</sup> One of the Participant Directors must be associated with a firm that is primarily engaged in business on the Exchange's trading floor.<sup>2</sup> The other participant director must be associated with a participant firm that is not primarily engaged in business on the Exchange's trading floor.<sup>3</sup>

Through this proposal, the Exchange would modify the composition of the Regulatory Oversight Committee so that the ROC would consist of at least five Public Directors. The Exchange would also amend its rules to allow the Exchange's Vice Chairman to appoint, and the Public Directors on the Exchange's Board of Directors to approve, up to two Participant Directors to serve as non-voting advisors to the Committee.

These proposed changes serve several purposes. First, the changes would eliminate references to the Exchange's trading floor when describing the Participant Directors who can serve on the ROC – in the Exchange's new trading model, the Exchange no longer operates a physical trading floor, so these distinctions are no longer particularly useful in distinguishing between Participant Directors.<sup>4</sup>

As an additional matter, the changes would modify the role that Participant Directors play on the ROC – instead of being voting members of the ROC, the Participant Directors would serve as non-voting advisors. This status allows the

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<sup>1</sup> Under the Exchange's bylaws, a public director is a director who (i) is not a participant, or an officer, managing member, partner or employee of a participant firm; (2) is not an employee of the CHX or any of its affiliates; (iii) is not a broker or dealer, or an officer or employee of a broker or dealer; and (iv) does not have any other material business relationship with (a) CHX, CHX Holdings or any of their affiliates or (b) any broker or dealer. A participant director is a participant or an officer, managing member or partner of a participant firm. *See* CHX Bylaws, Article II, Section 2(b).

<sup>2</sup> These directors are currently called "On-Floor Participant Directors" in the current rule.

<sup>3</sup> These directors are currently called "Off-Floor Participant Directors" in the current rule.

<sup>4</sup> The Exchange fully transitioned to its new trading model on January 26, 2007.

Participant Directors to share insights that might prove helpful to the ROC in its oversight of the Exchange's regulatory programs, but does not allow the Participant Directors to vote on issues that may arise.<sup>5</sup>

Finally, the changes would provide some flexibility in the number of persons who must serve on the ROC to better allow the Exchange to respond to changes over time. By allowing the ROC to be composed of "at least" five Public Directors, the Exchange's Vice Chairman will be able to appoint, and the Public Directors on the Exchange's Board will be able to approve, some or even all of its Public Directors to the ROC, as the Board believes is appropriate. Similarly, by allowing the Vice Chairman to appoint, and the Public Directors on the Exchange's Board to approve, "up to" two Participant Directors to serve as advisors to the ROC, the Exchange's Board will be able to determine how many non-voting advisors are appropriate at a particular time. This flexibility will also allow the Board to be sensitive, within reasonable bounds, to the availability of its Board members to serve on committees – the proposal would allow the Vice Chairman to appoint, and the Public Directors on the Exchange's Board to approve, five, six or seven Public Directors to the ROC, for example, depending upon each director's ability to dedicate time to the ROC's activities.

The ROC's composition is not described solely in the Exchange's rules; it is also set out in the 2003 settlement agreement that the Exchange entered into with the Commission.<sup>6</sup> The Exchange has asked the Commission to amend the Order to incorporate this new composition for the ROC; this rule filing is designed to effectuate the changes to the Order approved by the Commission.

(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

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<sup>5</sup> The Exchange believes that a non-voting, advisory role for Participant Directors is more consistent with the Commission's proposed self-regulatory organization ("SRO") governance rules, which would require that each SRO's ROC be composed entirely of independent (or public) directors, but that does not, at least on its face, prohibit an SRO from appointing an advisory group of members to work with the ROC. *See* Release No. 34-50699, File No. S7-39-04, Proposed Rule 6a-5(j)(1). Although these proposals have not been approved as final rules, the Exchange believes that they provide strong guidelines for SROs to consider as they review their internal governance structures.

<sup>6</sup> *See* Order Instituting Public Administrative Proceedings Pursuant to Sections 19(h) and 21C of the Securities Exchange Act of 1934, Making Findings and Imposing a Censure, a Cease-and-Desist Order and Other Relief, File No. 3-11282, Release No. 34-48566 (September 30, 2003) (the "Order").

and the public interest by permitting the Exchange to make reasonable modifications to the required composition of its Regulatory Oversight Committee.

**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 Exchange has designated the proposed rule change as effective upon filing pursuant to Section 19(b)(3) of the Act and paragraph (f)(6) of Rule 19b-4 thereunder, because the proposed rule change (A) does not significantly affect the protection of investors or the public interest; and (B) does not impose any significant burden on competition. The Exchange believes that the filing is appropriately designated for immediate effectiveness as a “non-controversial” proposal because it allows the Exchange to make reasonable modifications to the required composition of its Regulatory Oversight Committee and is consistent with changes to the Order that have been approved by the Commission. In accordance with Rule 19b-4(f)(6), the Exchange submitted written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing. The Exchange has asked the Commission to waive the 30-day operative period requirement, to permit this rule to be operative immediately so that the Exchange’s rules can immediately conform to the Order approved by the Commission.

**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-2008-05)  
SELF-REGULATORY ORGANIZATIONS**

**Proposed Rule Change By The Chicago Stock Exchange, Inc. Regarding A Change  
To The Composition of Its Regulatory Oversight Committee**

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 3, 2008, 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**

Through this filing, the Exchange proposes to amend its rules to change the composition of the Regulatory Oversight Committee so that this group consists of at least five public directors and to allow the Exchange’s Vice Chairman to appoint, and the Public Directors on the Exchange’s Board of Directors to approve, up to two Participant Directors to serve as non-voting advisors to the Committee. 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

Under its existing rules, the Exchange’s Regulatory Oversight Committee (“ROC”) consists of seven persons – five Public Directors and two Participant Directors.<sup>1</sup> One of the Participant Directors must be associated with a firm that is primarily engaged in business on the Exchange’s trading floor.<sup>2</sup> The other participant director must be associated with a participant firm that is not primarily engaged in business on the Exchange’s trading floor.<sup>3</sup>

Through this proposal, the Exchange would modify the composition of the Regulatory Oversight Committee so that the ROC would consist of at least five Public

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<sup>1</sup> Under the Exchange’s bylaws, a public director is a director who (i) is not a participant, or an officer, managing member, partner or employee of a participant firm; (2) is not an employee of the CHX or any of its affiliates; (iii) is not a broker or dealer, or an officer or employee of a broker or dealer; and (iv) does not have any other material business relationship with (a) CHX, CHX Holdings or any of their affiliates or (b) any broker or dealer. A participant director is a participant or an officer, managing member or partner of a participant firm. *See* CHX Bylaws, Article II, Section 2(b).

<sup>2</sup> These directors are currently called “On-Floor Participant Directors” in the current rule.

Directors. The Exchange would also amend its rules to allow the Exchange's Vice Chairman to appoint, and the Public Directors on the Exchange's Board of Directors to approve, up to two Participant Directors to serve as non-voting advisors to the Committee.

These proposed changes serve several purposes. First, the changes would eliminate references to the Exchange's trading floor when describing the Participant Directors who can serve on the ROC – in the Exchange's new trading model, the Exchange no longer operates a physical trading floor, so these distinctions are no longer particularly useful in distinguishing between Participant Directors.<sup>4</sup>

As an additional matter, the changes would modify the role that Participant Directors play on the ROC – instead of being voting members of the ROC, the Participant Directors would serve as non-voting advisors. This status allows the Participant Directors to share insights that might prove helpful to the ROC in its oversight of the Exchange's regulatory programs, but does not allow the Participant Directors to vote on issues that may arise.<sup>5</sup>

Finally, the changes would provide some flexibility in the number of persons who must serve on the ROC to better allow the Exchange to respond to changes over time. By

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<sup>3</sup> These directors are currently called "Off-Floor Participant Directors" in the current rule.

<sup>4</sup> The Exchange fully transitioned to its new trading model on January 26, 2007.

<sup>5</sup> The Exchange believes that a non-voting, advisory role for Participant Directors is more consistent with the Commission's proposed self-regulatory organization ("SRO") governance rules, which would require that each SRO's ROC be composed entirely of independent (or public) directors, but that does not, at least on its face, prohibit an SRO from appointing an advisory group of members to work with the ROC. *See* Release No. 34-50699, File No. S7-39-04, Proposed Rule 6a-5(j)(1). Although these proposals have

allowing the ROC to be composed of “at least” five Public Directors, the Exchange’s Vice Chairman will be able to appoint, and the Public Directors on the Exchange’s Board can approve, some or even all of its Public Directors to the ROC, as the Board believes is appropriate. Similarly, by allowing the Exchange’s Vice Chairman to appoint, and the Public Directors on the Exchange’s Board to approve, “up to” two Participant Directors to serve as advisors to the ROC, the Exchange’s Board will be able to determine how many non-voting advisors are appropriate at a particular time. This flexibility will also allow the Board to be sensitive, within reasonable bounds, to the availability of its Board members to serve on committees – the proposal would allow the Exchange’s Vice Chairman to appoint, and the Public Directors on the Exchange’s Board to approve, five, six or seven Public Directors to the ROC, for example, depending upon each director’s ability to dedicate time to the ROC’s activities.

The ROC’s composition is not described solely in the Exchange’s rules; it is also set out in the 2003 settlement agreement that the Exchange entered into with the Commission.<sup>6</sup> The Exchange has asked the Commission to amend the Order to incorporate this new composition for the ROC; this rule filing is designed to effectuate the changes to the Order approved by the Commission.

## 2. Statutory Basis

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not been approved as final rules, the Exchange believes that they provide strong guidelines for SROs to consider as they review their internal governance structures.

<sup>6</sup> See Order Instituting Public Administrative Proceedings Pursuant to Sections 19(h) and 21C of the Securities Exchange Act of 1934, Making Findings and Imposing a Censure, a Cease-and-Desist Order and Other Relief, File No. 3-11282, Release No. 34-48566 (September 30, 2003) (the “Order”).

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>7</sup> 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 make reasonable modifications to the required composition of its Regulatory Oversight Committee.

*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**

Because the foregoing proposed rule change does not:

- (i) significantly affect the protection of investors or the public interest;
- (ii) impose any significant burden on competition; and
- (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate,

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<sup>7</sup> 15 U.S.C. 78(f)(b).

it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>8</sup> and Rule 19b-4(f)(6) thereunder.<sup>9</sup> At any time within 60 days of the filing of the proposed 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 purposes of the Act.

#### **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-2008-05 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 20549-9303.

All submissions should refer to File No. SR-CHX-2008-05. 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

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<sup>8</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

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-2008-05 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>10</sup>

Nancy M. Morris  
Secretary

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<sup>10</sup> 17 CFR 200.30-3(a)(12).