

Required fields are shown with yellow backgrounds and asterisks.

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4File No.* SR - 2011 - * 17
Amendment No. (req. for Amendments *) 1Proposed Rule Change by Chicago Stock Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934Initial * Amendment * Withdrawal Section 19(b)(2) * Section 19(b)(3)(A) * Section 19(b)(3)(B) *

Rule

Pilot Extension of Time Period
for Commission Action * Date Expires * 19b-4(f)(1) 19b-4(f)(4)
 19b-4(f)(2) 19b-4(f)(5)
 19b-4(f)(3) 19b-4(f)(6)Exhibit 2 Sent As Paper Document
Exhibit 3 Sent As Paper Document
Description

Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *).

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 * David Last Name * Whitcomb
Title * General Counsel
E-mail * dwhitcomb@chx.com
Telephone * (312) 663-2628 Fax (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 officer.

Date 10/24/2011

By James Ongena
(Name *)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.

INVALID

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required)

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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 (required)

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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 (“CHX” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² proposes to amend its rules regarding the submission by the CHX of clearing-related information for trades executed otherwise than on the Exchange.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set out below: New text is underlined and deletions are [bracketed].

RULES OF CHICAGO STOCK EXCHANGE, INC.

* * *

**ARTICLE 1.
Definitions and General Information**

Rule 1. Definitions

Whenever and wherever used in these Rules, unless the context requires otherwise, the following terms shall have the respective meanings ascribed to them below:

(a) – (dd) Unchanged

(ee) "Clearing Participant" means a Participant which has been admitted to membership in a Qualified Clearing Agency pursuant to the provisions of the Rules of the Qualified Clearing Agency.

(ff) "Qualified Clearing Agency" means a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the Commission pursuant to the provisions of Section 17A(b)(2) of the Exchange Act or has obtained from the Commission an

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services.

* * *

ARTICLE 21. Clearance and Settlement

Rule 1. Trade Recording with a Qualified Clearing Agency

(a) – (d) Unchanged

[• • • *Interpretations and Policies:*

.01 Definition of Registered Clearing Agency

The term "Registered Clearing Agency" shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the Commission pursuant to the provisions of the Section 17A(b)(2) of the Exchange Act or has obtained from the Commission an exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services..

.02 Definition of Fully-Interfaced Clearing Agency

The term "Fully-Interfaced Clearing Agency" shall mean a Registered Clearing Agency which, in conjunction with the Registered Clearing Agency selected by the contra-party to the contract, has established systems for the clearance and settlement of securities contracts in a manner which does not require each party to a contract to be a participant in the same Registered Clearing Agency.

.03 Definition of a Qualified Clearing Agency

For purposes of this Rule, the term "Qualified Clearing Agency" shall mean a Fully Interfaced Clearing Agency which has entered into an agreement with the Exchange pursuant to which it will (i) provide such services to the Exchange and its Participants as the Exchange, and such Qualified Clearing Agency shall from time to time agree, (ii) maintain facilities through which Exchange Contracts may be recorded, cleared and settled, and (iii) supply the Exchange with data reasonably necessary and requested in order to permit the Exchange to enforce compliance by its Participants with the provisions of the Exchange Act, the rules and regulations thereunder and the Rules of the Exchange.]

* * *

Rule 6. Submission of Clearing Information for Transactions Executed Off-Exchange

The Exchange shall make clearing submissions for non-Exchange trades only in the following manner:

(a) Substitution of Participants in Off-Exchange Transactions.

(1) An Institutional Broker registered with the Exchange and acting as an authorized agent of a Clearing Participant may enter a non-tape, clearing-only submission into the Exchange's systems for trades executed otherwise than on the Exchange for the purpose of transferring securities from one Clearing Participant to another, provided that the transfer does not constitute a transaction in securities that is otherwise subject to trade reporting that has not, in fact, been previously and separately reported as a transaction. The Exchange shall make such submissions to a Qualified Clearing Agency. Each such Institutional Broker must be party to an agreement with the Clearing Participant in which name the submissions are made under which the Institutional Broker has received authorization from the Clearing Participant to act on its behalf. Copies of these agreements shall be filed by the Institutional Broker with the Exchange.

(2) A Participant can only use a non-tape, clearing-only submission for a trade that has been reported in the market in which it was effected.

(3) An Institutional Broker must enter all non-tape, clearing-only submissions into the Exchange's systems pursuant to this subparagraph (a) for a given non-Exchange transaction within three (3) hours of the execution of such transaction.

(b) Non-Tape, Clearing-Only Riskless Principal Submissions

(1) An Institutional Broker registered with the Exchange may make non-tape, clearing-only submissions into the Exchange's systems for submission to clearing to facilitate riskless principal transactions as defined in Article 9, Rule 14 ("riskless principal transactions") taking place on another national securities exchange, or over-the-counter, only as follows. For riskless principal transactions in which an Institutional Broker, after having received an order to buy a security, purchases the security at the same price to satisfy the order to buy or, after having received an order to sell, sells the security at the same price to satisfy the order to sell, the Institutional Broker shall make, for the offsetting "riskless principal" portion of the transaction, a clearing-only submission. If the order is executed in multiple transactions, the Institutional Broker may enter a non-tape, clearing-only submission at the volume-weighted average price ("average price") of those

transactions. The Institutional Broker shall provide to the Exchange records sufficient to identify such transactions as “riskless principal.”

(2) A Participant can only use a non-tape, clearing-only submission for a trade that has been reported in the market in which it was effected.

(3) An Institutional Broker must enter all non-tape, clearing-only submissions into the Exchange’s systems pursuant to this subparagraph (b) for a given non-Exchange transaction within twenty (20) minutes of the execution of such transaction. For clearing submissions reported at the average price of multiple trade executions, the Institutional Broker shall enter the non-tape, clearing-only submission into the Exchange’s systems within twenty (20) minutes of the last component trade execution.

(c) Each Clearing Participant which is a party to a non-tape, clearing-only submission under this rule will pay a Trade Processing Fee in the amount specified in the Exchange’s Fee Schedule.

• • • Interpretation and Policies:

.01 An Institutional Broker making a submission pursuant to this rule must obtain documentary evidence of a non-Exchange trade execution no later than the close of business on the day of the trade and submit such evidence to the Exchange in a format acceptable to it and within such timeframe that the Exchange shall designate, but in no event later than T+1.

.02 An Institutional Broker entering a non-tape, clearing-only submission shall be responsible for ensuring that all clearing information is accurate and complete prior to its submission.

.03 Post-trade cancellations and corrections: price, volume and security changes. No later than T+1, Exchange operations personnel may cancel a clearing submission and enter a new corrective submission if the Institutional Broker which entered the original submission provides documentary evidence that the original trade execution was cancelled and re-entered at the same price, quantity and/or security of the corrective clearing submission. Exchange operations personnel may also correct a clearing submission if it was erroneously entered on terms which differed from the reported trade execution, if provided with documentary evidence of the original trade execution. Exchange operations personnel may also enter a clearing submission which the Institutional Broker failed to enter or which was not processed due to systems error, if provided with documentary evidence of the original trade execution. In all cases, the documentary evidence must be provided to the Exchange Operations personnel prior to entry of the corrective submission. In extraordinary circumstances, corrective submissions can be made after T+1 subject to the approval of an officer of the Exchange.

.04 Post-trade cancellations and corrections: Clearing Participant changes. Either Exchange Operations personnel or Institutional Brokers may cancel a clearing submission and enter a new corrective submission to correct a misidentification of the Clearing Participant, by no later than T+1. Before the corrective submission is made, the Institutional Broker must obtain documentary evidence of the misidentification of the Clearing Participant, and provide it to the Exchange Operations personnel if the latter are making the corrective submission. In extraordinary circumstances, corrective submissions can be made after T+1 subject to the approval of an officer of the Exchange.

* * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of Self-Regulatory Organization

This proposal was approved by the Exchange's Board of Directors on February 24, 2011.

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

(a) Purpose

The Exchange is proposing to add new Rule 6 to Article 21 (Clearance and Settlement) to set forth the terms upon which the Exchange shall submit information for non-Exchange trades for clearance and settlement, and to amend Article 1, Rule 1 (Definitions), and Article 21, Rule 1 (Trade Recording with a Qualified Clearing Agency) to define certain relevant terms. New Article 21, Rule 6 provides for the submission of clearing related information to a Qualified Clearing Agency (currently, the National Securities Clearing Corp. or NSCC).³ The CHX submits clearing information to NSCC through the Regional Interface Operation ("RIO") system.

³ In proposed Article 1, Rule 1(ff), a Qualified Clearing Agency is defined a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the

Proposed new Rule 6(a) addresses clearing submissions made via CHX systems for transactions executed on another trading center or in the over-the-counter marketplace and is based upon Nasdaq Rule 7038 (Step-Outs and Sales Fee Transfers). Such submissions may be made by the Exchange only on behalf of a CHX-registered Institutional Broker (“Institutional Broker”) acting as an authorized agent of a Clearing Participant.⁴ Pursuant to proposed Rule 6(a), an Institutional Broker may enter clearing entries into the Exchange’s systems for non-CHX trade executions which will then be submitted to a qualified clearing agency (NSCC) via the Exchange’s systems for clearance and settlement. Proposed Rule 6(a) does not address the requirements by which such trades are to be executed. Those requirements would be specified by the

Commission pursuant to the provisions of the Section 17A(b)(2) of the Exchange Act or has obtained from the Commission an exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services. CHX is proposing to delete the existing, but somewhat outdated, definitions of the terms Qualified Clearing Agency, Registered Clearing Agency and Fully Interfaced Clearing Agency from the Interpretations and Polices section of Article 21, Rule 1 and replace them with the definition of Qualified Clearing Agency in Article 1, Rule 1 in order to update its rules and ensure that the definition applies concurrently to proposed new Rule 6.

⁴ CHX-registered Institutional Brokers are an elective sub-category of Exchange Participants requiring registration with the Exchange and are subject to the obligations of Article 17 of the CHX rules, in addition to the other provisions of Exchange rules. As to the clearing entries which are the subject of this rule proposal, Institutional Brokers would enter the relevant information (*e.g.*, security, price, volume, Clearing Participants) into the Brokerplex trading application. The Brokerplex[®] system is an order entry, management and recordation system provided by the Exchange for use by Institutional Brokers. Once the clearing information has been entered into Brokerplex and adequately confirmed, the Institutional Broker would authorize the submission of the clearing information. Assuming that the necessary clearing agreements are in place and recorded in the Exchange’s systems (*infra*), the CHX would submit the clearing records to NSCC via the RIO system.

trading center in which the trades were executed and reported.⁵ The Institutional Broker may submit a clearing-only entry into the Exchange's systems for the purpose of transferring securities from one Clearing Participant to another provided that the trade has been properly reported for transaction reporting purposes.⁶ Once all of the final clearing allocations have been entered into the Exchange systems for submission to NSCC, the submissions are deemed to be "locked in" for purposes of comparison and settlement.⁷

These submissions of non-Exchange executions may occur in several circumstances. First, an Institutional Broker may buy or sell securities on another trading center as a correspondent of a clearing member of that trading center. Any resulting execution report would be "flipped" from the executing clearing member via entries in the Exchange's systems to the trading account of the Institutional Broker or the CHX Clearing Participant on whose behalf it is acting. Second, an Institutional Broker may execute, or instruct a third party broker-dealer (which may or may not be an Institutional Broker) to execute, a cross transaction in the over-the-counter market and report the transaction to a Trade Reporting Facility ("TRF") using the Institutional Broker's trading symbol or the symbol of the Institutional Broker's clearing firm for purposes of reporting

⁵ The Exchange believes that the executing marketplace should define the requirements for its members as to recordation and maintenance of execution-related information. As discussed in note 13, *infra*, the Exchange will share information concerning the clearing submissions of non-CHX trades pursuant to Rule 6(a) with FINRA so that there is a complete audit trail of the transactions.

⁶ We propose to define the term Clearing Participant in Article 1, Rule 1(ee) as a Participant which has been admitted to membership in a Qualified Clearing Agency pursuant to the provisions of the Rules of the Qualified Clearing Agency.

⁷ The Exchange will identify non-CHX trades as distinct from transactions executed in the Exchange's Matching System in its submission of clearing information to NSCC.

the trade to the Consolidated Tape.⁸ The Institutional Broker may then enter the transaction information into the Exchange's systems, and transfer the positions from its own trading account (or the account of its clearing firm) to the accounts of ultimate beneficiaries of the trade. Once all components of the transaction are properly allocated, the information will be forwarded to NSCC via the Exchange's systems for clearance and settlement. Third, transactions may be executed on another trading center by a third party broker-dealer, which then utilizes an Institutional Broker as its agent for handling the allocation of the clearing information. These third party transactions may include both cross transactions executed in the over-counter-market and reported to a TRF by the third party broker-dealer, as well as purchases or sales of securities by the third party broker-dealer on another exchange or other trading center.⁹ The third party broker-dealer instructs an Institutional Broker to handle any substitution of Clearing Participants and allocation of the trade. In either the second or third scenario, the trade may have been executed with broker-dealer A as the selling firm and broker-dealer B as the buyer. After the trade has been executed, it may be that broker-dealer B steps out of the transaction in favor of broker-dealer C.¹⁰ The Institutional Broker making the clearing submission

⁸ The ability of an Institutional Broker to directly execute a transaction in the over-the-counter market is predicated on the Commission's approval of a separate proposal which would establish that Institutional Brokers are not operating directly on the Exchange. (SR-CHX-2011-29).

⁹ The Institutional Broker may be instructed to allocate the trades at an average price of the transactions executed by the third party broker-dealer.

¹⁰ There may even be multiple broker-dealers (*e.g.*, broker-dealers D, E and F) who "step in" to one or both sides of the transaction. This result stems from the fact that many of the transactions handled by Institutional Brokers arise out of multi-party transactions on a derivatives exchange, either as a hedge or part of a combination stock-options order (such as a buy-write trade).

would be responsible for substituting the various parties based upon instructions by those parties or their agents. Clearing information for third party cross trades and single-sided purchases or sales is then processed within the Brokerplex system and submitted to NSCC in the same manner as if the trades had been executed by an Institutional Broker as described above.

In order to ensure that the actions of the Institutional Broker are fully authorized by the Clearing Participant, proposed Rule 6(a) requires that Institutional Brokers making such submissions must be a party to an agreement with the Clearing Participant in which name the entries are submitted under which the Institutional Broker has received authorization from the Clearing Participant to act on its behalf.¹¹ Copies of these agreements shall be filed by the Institutional Broker with the Exchange. The Exchange represents that it will monitor clearing submissions made pursuant to Rule 6(a) to ensure that the Institutional Brokers involved in those transactions have the appropriate agreements in place, and will take disciplinary action to enforce this requirement in appropriate circumstances. The Exchange has developed functionality within the Brokerplex application to validate that such agreements are in place prior to the submission of a transaction pursuant to proposed Rule 6.

The Exchange notes that while the systems used by the CHX in making such clearance submissions do not contain fully-automated comparison features, there are procedural safeguards which occur as part of these submissions to ensure that the manual comparison is valid. For example, many of these transactions represent the cash equities

¹¹ In addition, the Exchange requires Clearing Participants to sign a clearing agreement by which the latter accepts responsibility for non-Exchange transactions submitted to NSCC through the auspices of an authorized Institutional Broker.

component of combination stock-options orders or a hedge on a derivatives position. The Institutional Broker entering into Brokerplex the clearing information it receives from its customer is responsible for ensuring that all of the final allocations made via the step-out process are accurate and complete. Clearing information will not normally be forwarded to the Clearing Agency until all of the allocations are confirmed with the order sender. Institutional Brokers shall be required to maintain agreements with both Clearing Participants which authorize the Institutional Broker to make the clearing-only submissions and bind the Parties to the trade. Furthermore, the Institutional Broker normally communicates the allocation information to the Clearing Participant in which name the submissions are made to NSCC in order to prevent breaks or disputes regarding the allocations.¹²

A Participant can only make a non-tape, clearing-only submission for a trade that has been reported in the market in which it was effected.¹³ New Interpretation and Policy

¹² The Exchange represents that it will develop an automated trade comparison system to augment the purely agreement-based process described above. This comparison system will be made available to Institutional Brokers and Participants (and/or their customers, in the case of Clearing Participants) which are parties to the transactions pertaining to this filing. The Exchange currently estimates that it can develop such a system by the end of this year. As is the case with similar trade comparison functionality in the ACT reporting system operated by the Nasdaq Stock Exchange, parties may still rely upon agreements in submitting transactions on a locked-in basis. This functionality will be fully described in a rule filing with the Commission in the near future.

¹³ As detailed in a letter to Kathy England, Assistant Director, Division of Trading and Markets and Mark Donohue, Assistant Director of the Office of Compliance Inspections and Examinations, dated October 24, 2011, the Exchange will monitor the activity of Participants which make clearing-only submissions for compliance with applicable trade reporting rules. In addition, the Exchange has made arrangements to share data regarding its clearing submissions pursuant to Rule 6(a) for non-Exchange trades with FINRA in order to assist in its efforts to oversee trading activity in the over-the-counter marketplace.

.01 to Rule 6 will require that an Institutional Broker submitting an entry for a transaction executed otherwise than on the Exchange obtain documentary evidence of the non-Exchange trade execution no later than the close of trading and submit such evidence to the Exchange in a format acceptable to it and within such timeframe that the Exchange shall designate, but in no event later than T+1. This requirement will ensure that, irrespective of historical practices described above, the Institutional Broker will have received written evidence of the non-Exchange trade it submitted for clearing, thus strengthening the safeguards imbedded in the process of submitting such trades for comparison as well as providing the Exchange with the necessary data to perform surveillance of the transactions for compliance with these provisions.¹⁴ New Interpretation and Policy .02 reinforces the implied requirement that when an Institutional Broker enters a non-tape, clearing-only record, the Institutional Broker shall be responsible for ensuring that all clearing information is accurate and complete prior to its submission.

Proposed Section (a)(3) of Rule 6 would require that an Institutional Broker enter all non-tape, clearing-only entries into the Exchange's systems for a given non-Exchange transaction within three (3) hours of the execution of such transaction. The Exchange believes that this time frame appropriately recognizes the complex nature of these

¹⁴ For transactions which originated with the Institutional Broker and were handled in the Brokerplex system, the execution report provided either directly from the away trading center or a drop copy thereof (as detailed in note 18, *infra*) shall constitute the written evidence of the non-Exchange trade execution. If the trade was executed by a third-party broker-dealer, the Institutional Broker must provide a record which evidences the away market trade execution (such as a confirmation or other record from the executing trading center or executing vendor) to the Exchange in a specified format to be communicated by the Exchange.

transactions. Transactions reported pursuant to proposed Section (a)(3) of Rule 6 frequently involve multiple counterparties, which therefore requires confirmation of all of the components of the transaction with these counterparties. Moreover, these transactions are often of large size such that the Clearing Participant often wishes to separately confirm the terms of the transaction with the Institutional Broker from a creditworthiness perspective. Finally, the Exchange has reviewed past transactional data relating to the submission of clearing information and believes that a three hour standard is reasonable and appropriate.¹⁵

Section (b) of Proposed Rule 6 governs non-tape, clearing-only riskless principal submissions.¹⁶ These provisions would permit an Institutional Broker registered with the Exchange to make non-tape, clearing-only submissions into the Exchange's systems for submission to clearing to facilitate riskless principal transactions (as defined in Article 9, Rule 14) taking place on other national securities exchanges, or the over-the-counter market. For riskless principal transactions in which an Institutional Broker, after having received an order to buy a security, purchases the security at the same price to satisfy the order to buy or, after having received an order to sell, sells the security at the same price to satisfy the order to sell, the Institutional Broker shall submit, for the offsetting "riskless

¹⁵ A review of transactions from July 5 to July 8, 2011 found that the average time it took Institutional Brokers to finalize the clearing submission was 189 minutes after the initial trade report.

¹⁶ Article 9, Rule 14 (Reporting Riskless Principal Transactions) describes the manner in which Exchange Participants are required to report riskless principal transactions to the Exchange.

principal" portion of the transaction, a clearing-only report.¹⁷ If the order is executed in multiple transactions, the Institutional Broker may submit a non-tape, clearing-only report at the volume-weighted average price ("average price") of those transactions. The Institutional Broker shall provide to the Exchange records sufficient to identify such transactions as "riskless principal."¹⁸

The provisions of Section (b) of proposed Rule 6 would govern the activity of Institutional Brokers when they buy or sell securities on another national securities exchange, or in the over-the-counter marketplace, on behalf of another client and when the addition of new Clearing Participants via the step-in process as described above is not required. Nothing in the provisions of Section (b) of proposed Rule 6 relieves any Participant or other party from its obligation to fully and properly report transactions as required by the applicable rules of other self regulatory organizations. An Institutional Broker must enter all non-tape, clearing-only entries into the Exchange's systems pursuant to this subparagraph (b) of Proposed Rule 6 for a given non-Exchange transaction within twenty (20) minutes of the execution of such transaction. For clearing submissions reported at the average price of multiple trade executions, the Institutional

¹⁷ The report of the non-CHX transaction into Brokerplex is considered the Riskless Principal component of the transaction, which is separate and distinct from the subsequent clearing submission pursuant to Rule 6(b).

¹⁸ The information necessary to identify riskless principal transactions is normally provided to the Exchange either directly via the Brokerplex application in the form of the execution report from the other trading center or a "drop copy" of the execution report (and which can be systematically linked to the original order and the clearing submission), which must be provided by the Institutional Broker pursuant to Article 11, Rule 4. The Exchange plans to add a riskless principal identifier to these records for the sake of clarity.

Broker shall enter the non-tape, clearing-only entries into the Exchange's systems within twenty (20) minutes of the last component trade execution.

Proposed Interpretation and Policy .03 would govern the post-trade cancellations and corrections of clearing-related information as to price, volume and/or security for submissions made pursuant to proposed Rule 6. No later than T+1, Exchange operations personnel may cancel a clearing submission and enter a new corrective submission if the Institutional Broker which entered the original submission provides documentary evidence that the original trade execution was cancelled and re-entered at the same price, quantity and/or security of the corrective clearing submission. For example, if a trade was executed in the over-the-counter marketplace at a price of \$20.15 and that transaction is cancelled and reentered at \$20.16, the Exchange operations personnel would be authorized (if provided with adequate proof of the cancellation and reentered trade) to correct the price term of the corresponding clearing submission. Exchange operations personnel may also correct a clearing submission if it was erroneously entered on terms which differed from the reported trade execution, if provided with documentary evidence of the original trade execution. Exchange operations personnel may also enter a clearing submission which the Institutional Broker failed to enter or which was not processed due to systems error, if provided with documentary evidence of the original trade execution. Subsequent corrections of a timely submitted clearing record for these purposes will not constitute a violation of paragraph (a)(3) of this rule, even if the correction is made outside the time periods specified in those sections. In all cases, the documentary evidence must be provided to the Exchange Operations personnel prior to entry of the corrective submission. In extraordinary circumstances, corrective submissions can be

made after T+1 subject to the approval of an officer of the Exchange. The need for a correction is typically identified by a order sending firm or Institutional Broker where there is a clearing “break” and the parties are looking for a position which does not appear or have a position they were not expecting, and is typically identified on the trade date or next business day. The Exchange believes that there is a need to make such corrections in order to facilitate the orderly clearance and settlement of these transactions, and that limiting the entry of corrective clearing submissions to the circumstances identified in Interpretation and Policy .03 should help prevent any potential abuse by the parties.

Proposed Interpretation and Policy .04 would permit post-trade cancellations and corrections as to the identity of the Clearing Participant only to be made either by Exchange Operations personnel or the Institutional Broker which initially entered the information no later than T+1. Since Institutional Brokers are already permitted to change the Clearing Participants to the submission as a “step in” pursuant to Rule 6(a), the Exchange believes that Institutional Brokers should have the ability to correct a misidentification of the Clearing Participant in the submission. Exchange Operations personnel shall also have the authority to make such corrections at the request of the parties. Before the corrective submission is made, the Institutional Broker must obtain documentary evidence of the misidentification of the Clearing Participant, typically by means of a request or confirmation by the parties being substituted in the transaction, and provide it to the Exchange Operations personnel if the latter are making the corrective submission. In extraordinary circumstances, corrective submissions can be made after T+1 subject to the approval of an officer of the Exchange. Subsequent corrections of a

timely submitted clearing record for this purpose will not constitute a violation of paragraph (b)(3) of this rule, even if the correction is made outside the time periods specified in those sections.

As noted in section (c) of proposed Rule 6, each Clearing Participant which is a party to a non-tape, clearing-only submission under this rule will pay a Trade Processing Fee in the amount specified in the Exchange's Fee Schedule.¹⁹ As part of this filing, we propose to retain the Trade Processing Fee charged to Participants for the clearing submission service.

(b) Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general,²⁰ and furthers the objectives of Section 6(b)(5) in particular,²¹ in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transaction in securities, to remove impediments and perfect the mechanisms of a free and open market, and, in general, to protect investors and the public interest by setting forth the rules and principles governing the submission of clearing information to a Qualified Clearing Agency. By facilitating the submission for both CHX and non-CHX executed trades, the Exchange is providing a safe, reliable means of submitting such information to a Qualified Clearing Agency, responding to the preferences of certain Participants to have

¹⁹ Proposed Article 21, Rule 6(c). The Trade Processing Fees are specified in Section E.7. of the CHX Schedule of Fees and Assessments. These fees are assessed in non-Exchange cross transactions that originated with an Institutional Broker and which are reported to clearing by the Exchange's systems.

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(5).

CHX make such clearing-related submissions, and introducing competition with other exchanges, such as Nasdaq, which provide similar services.

4. Self-Regulatory Organization's Statement of Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

Not applicable.

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 functionalities underlying this proposed rule change have been considered previously by the Commission in connection with the rule changes of the Nasdaq Stock Market, Inc. regarding the submission of transactional information for clearance and settlement.²² Proposed Rule 6(a) and (b) govern the submission of clearing-only information for non-CHX transactions, *i.e.*, trades executed on the facilities of another exchange or in the over-the-counter marketplace. The text is derived from existing Nasdaq Rule 7038 and 7042 and the CHX proposal is almost identical to the Nasdaq

²² Nasdaq Rules 7038 and 7042.

provisions. Any modifications from the Nasdaq rule reflect minor operational and fee-related differences.

Nasdaq Rules 7038 and 7042 provide that the clearing-only submissions be reported through Nasdaq's Automated Confirmation Transaction ("ACT") system, while our proposed rule requires that such information be submitted through "the Exchange's systems." While the Exchange's systems for the submission of clearing information differ from those within ACT, we have implemented procedural safeguards and require authorizing agreements to address the relevant issues.

Nasdaq Rule 7042 provides that Nasdaq members will populate a capacity indicator with "riskless principal", "agency" or "intra-broker" in the ACT system, while our proposed rule indicates that the Exchange will also obtain and keep a record identifying transactions which are handled as "riskless principal." It is the Exchange's understanding that the population of the capacity indicator in ACT is for informational purposes and does not affect the record ultimately submitted by Nasdaq to clearing. Likewise, the record to be obtained and kept in the Exchange's systems which identifies transactions handled as "riskless principal" is also for informational purposes and will not affect the record ultimately submitted by the Exchange to clearing.

In addition, we have omitted language in Nasdaq Rule 7038 which permits the imposition of "Sales Fees" under the auspices of Nasdaq Rule 7002, since the Exchange is not proposing to permit the imposition of any similar fee in our submissions. The CHX does not believe that omission of the authority to impose Sales Fees constitute a material distinction between our proposed rule and Nasdaq Rule 7038.

The Exchange believes that the underlying conduct addressed by Nasdaq Rules 7038 and 7042 is substantially similar to the clearing-only submissions handled by the CHX pursuant to Article 21, Rule 6(a) and (b). Nasdaq Rule 7038 permits the submission of clearing information in non-Nasdaq transactions “for the purpose of transferring securities from one member to another....” Like our proposed Rule 6(a), Nasdaq Rule 7038 authorizes the submission of information to transactions executed on another exchange or in the over-the-counter market, *i.e.*, to facilitate step-ins, which are the substitution of one party to the trade for another. According to the 2007 adopting release for Rule 7038, “Nasdaq is proposing to allow step-out capability under its rules with respect to any trade to which a Nasdaq member is a party *regardless of the market on which the trade was executed.* [emphasis added]”²³ The adopting release further noted that “. . . Nasdaq members could use the Nasdaq exchange to effect step-outs from trades executed in any venue, including trades reported to a trade reporting facility.” Section (b) of proposed Rule 6 would permit the Exchange to make clearing-only submissions for riskless principal trades, such as in the scenario in which an Institutional Broker, acting either for itself or a customer, buys or sells securities on another national securities exchange or from an over-the-counter market maker, and enters a clearing “flip” transaction to move the position from the name of the broker-dealer in which name the stock was purchased or sold into the hands of the ultimate beneficial owner.

The CHX proposes to make clearing-only submissions for its Participants for the same purpose and with the same limitations set forth in Nasdaq Rules 7038 and 7042,

²³ See, Securities Exchange Act Release No. 56345 (August 31, 2007), 72 FR 51880 (Sept. 11, 2007).

with the additional restriction that such submissions be made only by CHX-registered Institutional Brokers. The CHX proposes to make clearing-only submissions in several scenarios: (1) when an Institutional Broker has routed an order to another trading center in search of liquidity at that venue, and a trade has resulted; (2) in an over-the-counter trade execution originally handled by an Institutional Broker; and (3) in situations where a third party broker-dealer executed orders in another marketplace in the same manner as in (1) or (2) and employs the Institutional Broker as its agent in allocating the trade and making the clearing submission. In the first situation, the Institutional Broker transmits an order to another trading center, normally through one of its established order routing connections (a/k/a layoff vendors) to buy or sell stock on behalf of its customer. Since the order is executed in the away trading center in the name of the routing member, any resulting trade execution is “flipped” via offsetting transactions from the layoff vendor firm into the name of the CHX participant, which is typically the clearing firm for the Institutional Broker’s customer.²⁴ In the second scenario, an Institutional Broker handling the execution of a cross order may be blocked from executing it in our Matching System by resting orders in the CHX book with a higher price/time priority. The Institutional Broker may cause that cross order to be executed in the over-the-counter marketplace and reported to a TRF. In the third scenario, a third-party broker-dealer executes a transaction in another market center and employs an Institutional Broker to act as its agent in allocating the ultimate Clearing Participants and submitting the trade to clearing using the Exchange’s systems. Under this rule proposal, an Institutional Broker

²⁴ As discussed previously, where the order was executed in multiple trade executions the Institutional Broker may make a clearing submission at the average price of those transactions.

can enter a transactional record in the Brokerplex system to facilitate submission to NSCC. In most cases, the Institutional Brokers will add the names of the ultimate Clearing Participant post-trade. Once all relevant clearing information is obtained and recorded, the transactional information will then be sent to clearing via the Exchange's RIO submission to NSCC.

In each of these scenarios, the Institutional Broker is required to substitute the name of the original executing party in favor of the ultimate Clearing Participant. While this action occurs in two different forms (a clearing "flip" transaction in the first instance, and a name substitution within Brokerplex in the second), the substance of the activities is identical. The activities in the clearing "flip" scenario are governed by Section (b) of proposed Rule 6. The name substitution process, in which the activities submitted to NSCC by the Exchange were solely "for the purpose of transferring securities from one Clearing Participant to another," shall be governed by proposed Rule 6(a). As Nasdaq does charge its members a fee for clearing-only submissions, we propose to retain the Trading Processing Fee specified in our Fee Schedule and which is charged to Participants for our clearing-only submission services. As such, we believe that our proposed Rule 6(a) and (b) is not materially different than the provisions of existing Nasdaq Rules 7038 and 7042.

9. Exhibits

Exhibit 1: The Completed Notice of the Proposed Rule Change for publication in the Federal Register.

Exhibits 2-3: Not applicable.

Exhibit 4: Marked Copy.

Exhibit 5: Not applicable.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-____; File No. SR-CHX-2011-17)
SELF-REGULATORY ORGANIZATIONS

Notice of Filing of Proposed Change to the Rules of the Chicago Stock Exchange, Inc. Regarding the Submission by the CHX of Clearing-Related Information for Trades Executed Otherwise than on the Exchange

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² thereunder, notice is hereby given that on October 24, 2011, the Chicago Stock Exchange, Inc. (“CHX” or the “Exchange”) filed with the Securities and Exchange Commission (“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

CHX proposes to amend its rules regarding Exchange-registered Institutional Broker firms to clarify their status. The text of this proposed rule change is available on the Exchange’s Web site at www.chx.com and in the Commission’s Public Reference Room.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

The Exchange is proposing to add new Rule 6 to Article 21 (Clearance and Settlement) to set forth the terms upon which the Exchange shall submit information for non-Exchange trades for clearance and settlement, and to amend Article 1, Rule 1 (Definitions), and Article 21, Rule 1 (Trade Recording with a Qualified Clearing Agency) to define certain relevant terms. New Article 21, Rule 6 provides for the submission of clearing related information to a Qualified Clearing Agency (currently, the National Securities Clearing Corp. or NSCC).³ The CHX submits clearing information to NSCC through the Regional Interface Operation ("RIO") system.

Proposed new Rule 6(a) addresses clearing submissions made via CHX systems for transactions executed on another trading center or in the over-the-counter marketplace and is based upon Nasdaq Rule 7038 (Step-Outs and Sales Fee Transfers). Such

³ In proposed Article 1, Rule 1(ff), a Qualified Clearing Agency is defined a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the Commission pursuant to the provisions of the Section 17A(b)(2) of the Exchange Act or has obtained from the Commission an exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services. CHX is proposing to delete the existing, but somewhat outdated, definitions of the terms Qualified Clearing Agency, Registered Clearing Agency and Fully Interfaced Clearing Agency from the Interpretations and Polices section of Article 21, Rule 1 and replace them with the definition of Qualified Clearing Agency in Article 1, Rule 1 in order to update its rules and ensure that the definition applies concurrently to proposed new Rule 6.

submissions may be made by the Exchange only on behalf of a CHX-registered Institutional Broker (“Institutional Broker”) acting as an authorized agent of a Clearing Participant.⁴ Pursuant to proposed Rule 6(a), an Institutional Broker may enter clearing entries into the Exchange’s systems for non-CHX trade executions which will then be submitted to a qualified clearing agency (NSCC) via the Exchange’s systems for clearance and settlement. Proposed Rule 6(a) does not address the requirements by which such trades are to be executed. Those requirements would be specified by the trading center in which the trades were executed and reported.⁵ The Institutional Broker may submit a clearing-only entry into the Exchange’s systems for the purpose of transferring securities from one Clearing Participant to another provided that the trade has been properly reported for transaction reporting purposes.⁶ Once all of the final clearing

⁴ CHX-registered Institutional Brokers are an elective sub-category of Exchange Participants requiring registration with the Exchange and are subject to the obligations of Article 17 of the CHX rules, in addition to the other provisions of Exchange rules. As to the clearing entries which are the subject of this rule proposal, Institutional Brokers would enter the relevant information (*e.g.*, security, price, volume, Clearing Participants) into the Brokerplex trading application. The Brokerplex[®] system is an order entry, management and recordation system provided by the Exchange for use by Institutional Brokers. Once the clearing information has been entered into Brokerplex and adequately confirmed, the Institutional Broker would authorize the submission of the clearing information. Assuming that the necessary clearing agreements are in place and recorded in the Exchange’s systems (*infra*), the CHX would submit the clearing records to NSCC via the RIO system.

⁵ The Exchange believes that the executing marketplace should define the requirements for its members as to recordation and maintenance of execution-related information. As discussed in note 13, *infra*, the Exchange will share information concerning the clearing submissions of non-CHX trades pursuant to Rule 6(a) with FINRA so that there is a complete audit trail of the transactions.

⁶ We propose to define the term Clearing Participant in Article 1, Rule 1(ee) as a Participant which has been admitted to membership in a Qualified Clearing Agency pursuant to the provisions of the Rules of the Qualified Clearing Agency.

allocations have been entered into the Exchange systems for submission to NSCC, the submissions are deemed to be “locked in” for purposes of comparison and settlement.⁷

These submissions of non-Exchange executions may occur in several circumstances. First, an Institutional Broker may buy or sell securities on another trading center as a correspondent of a clearing member of that trading center. Any resulting execution report would be “flipped” from the executing clearing member via entries in the Exchange’s systems to the trading account of the Institutional Broker or the CHX Clearing Participant on whose behalf it is acting. Second, an Institutional Broker may execute, or instruct a third party broker-dealer (which may or may not be an Institutional Broker) to execute, a cross transaction in the over-the-counter market and report the transaction to a Trade Reporting Facility (“TRF”) using the Institutional Broker’s trading symbol or the symbol of the Institutional Broker’s clearing firm for purposes of reporting the trade to the Consolidated Tape.⁸ The Institutional Broker may then enter the transaction information into the Exchange’s systems, and transfer the positions from its own trading account (or the account of its clearing firm) to the accounts of ultimate beneficiaries of the trade. Once all components of the transaction are properly allocated, the information will be forwarded to NSCC via the Exchange’s systems for clearance and settlement. Third, transactions may be executed on another trading center by a third party broker-dealer, which then utilizes an Institutional Broker as its agent for handling the

⁷ The Exchange will identify non-CHX trades as distinct from transactions executed in the Exchange’s Matching System in its submission of clearing information to NSCC.

⁸ The ability of an Institutional Broker to directly execute a transaction in the over-the-counter market is predicated on the Commission’s approval of a separate proposal which would establish that Institutional Brokers are not operating directly on the Exchange. (SR-CHX-2011-29).

allocation of the clearing information. These third party transactions may include both cross transactions executed in the over-counter-market and reported to a TRF by the third party broker-dealer, as well as purchases or sales of securities by the third party broker-dealer on another exchange or other trading center.⁹ The third party broker-dealer instructs an Institutional Broker to handle any substitution of Clearing Participants and allocation of the trade. In either the second or third scenario, the trade may have been executed with broker-dealer A as the selling firm and broker-dealer B as the buyer. After the trade has been executed, it may be that broker-dealer B steps out of the transaction in favor of broker-dealer C.¹⁰ The Institutional Broker making the clearing submission would be responsible for substituting the various parties based upon instructions by those parties or their agents. Clearing information for third party cross trades and single-sided purchases or sales is then processed within the Brokerplex system and submitted to NSCC in the same manner as if the trades had been executed by an Institutional Broker as described above.

In order to ensure that the actions of the Institutional Broker are fully authorized by the Clearing Participant, proposed Rule 6(a) requires that Institutional Brokers making such submissions must be a party to an agreement with the Clearing Participant in which name the entries are submitted under which the Institutional Broker has received

⁹ The Institutional Broker may be instructed to allocate the trades at an average price of the transactions executed by the third party broker-dealer.

¹⁰ There may even be multiple broker-dealers (*e.g.*, broker-dealers D, E and F) who “step in” to one or both sides of the transaction. This result stems from the fact that many of the transactions handled by Institutional Brokers arise out of multi-party transactions on a derivatives exchange, either as a hedge or part of a combination stock-options order (such as a buy-write trade).

authorization from the Clearing Participant to act on its behalf.¹¹ Copies of these agreements shall be filed by the Institutional Broker with the Exchange. The Exchange represents that it will monitor clearing submissions made pursuant to Rule 6(a) to ensure that the Institutional Brokers involved in those transactions have the appropriate agreements in place, and will take disciplinary action to enforce this requirement in appropriate circumstances. The Exchange has developed functionality within the Brokerplex application to validate that such agreements are in place prior to the submission of a transaction pursuant to proposed Rule 6.

The Exchange notes that while the systems used by the CHX in making such clearance submissions do not contain fully-automated comparison features, there are procedural safeguards which occur as part of these submissions to ensure that the manual comparison is valid. For example, many of these transactions represent the cash equities component of combination stock-options orders or a hedge on a derivatives position. The Institutional Broker entering into Brokerplex the clearing information it receives from its customer is responsible for ensuring that all of the final allocations made via the step-out process are accurate and complete. Clearing information will not normally be forwarded to the Clearing Agency until all of the allocations are confirmed with the order sender. Institutional Brokers shall be required to maintain agreements with both Clearing Participants which authorize the Institutional Broker to make the clearing-only submissions and bind the Parties to the trade. Furthermore, the Institutional Broker normally communicates the allocation information to the Clearing Participant in which

¹¹ In addition, the Exchange requires Clearing Participants to sign a clearing agreement by which the latter accepts responsibility for non-Exchange transactions submitted to NSCC through the auspices of an authorized Institutional Broker.

name the submissions are made to NSCC in order to prevent breaks or disputes regarding the allocations.¹²

A Participant can only make a non-tape, clearing-only submission for a trade that has been reported in the market in which it was effected.¹³ New Interpretation and Policy .01 to Rule 6 will require that an Institutional Broker submitting an entry for a transaction executed otherwise than on the Exchange obtain documentary evidence of the non-Exchange trade execution no later than the close of trading and submit such evidence to the Exchange in a format acceptable to it and within such timeframe that the Exchange shall designate, but in no event later than T+1. This requirement will ensure that, irrespective of historical practices described above, the Institutional Broker will have received written evidence of the non-Exchange trade it submitted for clearing, thus strengthening the safeguards imbedded in the process of submitting such trades for comparison as well as providing the Exchange with the necessary data to perform

¹² The Exchange represents that it will develop an automated trade comparison system to augment the purely agreement-based process described above. This comparison system will be made available to Institutional Brokers and Participants (and/or their customers, in the case of Clearing Participants) which are parties to the transactions pertaining to this filing. The Exchange currently estimates that it can develop such a system by the end of this year. As is the case with similar trade comparison functionality in the ACT reporting system operated by the Nasdaq Stock Exchange, parties may still rely upon agreements in submitting transactions on a locked-in basis. This functionality will be fully described in a rule filing with the Commission in the near future.

¹³ As detailed in a letter to Kathy England, Assistant Director, Division of Trading and Markets and Mark Donohue, Assistant Director of the Office of Compliance Inspections and Examinations, dated October 24, 2011, the Exchange will monitor the activity of Participants which make clearing-only submissions for compliance with applicable trade reporting rules. In addition, the Exchange has made arrangements to share data regarding its clearing submissions pursuant to Rule 6(a) for non-Exchange trades with FINRA in order to assist in its efforts to oversee trading activity in the over-the-counter marketplace.

surveillance of the transactions for compliance with these provisions.¹⁴ New Interpretation and Policy .02 reinforces the implied requirement that when an Institutional Broker enters a non-tape, clearing-only record, the Institutional Broker shall be responsible for ensuring that all clearing information is accurate and complete prior to its submission.

Proposed Section (a)(3) of Rule 6 would require that an Institutional Broker enter all non-tape, clearing-only entries into the Exchange's systems for a given non-Exchange transaction within three (3) hours of the execution of such transaction. The Exchange believes that this time frame appropriately recognizes the complex nature of these transactions. Transactions reported pursuant to proposed Section (a)(3) of Rule 6 frequently involve multiple counterparties, which therefore requires confirmation of all of the components of the transaction with these counterparties. Moreover, these transactions are often of large size such that the Clearing Participant often wishes to separately confirm the terms of the transaction with the Institutional Broker from a creditworthiness perspective. Finally, the Exchange has reviewed past transactional data relating to the

¹⁴ For transactions which originated with the Institutional Broker and were handled in the Brokerplex system, the execution report provided either directly from the away trading center or a drop copy thereof (as detailed in note 18, *infra*) shall constitute the written evidence of the non-Exchange trade execution. If the trade was executed by a third-party broker-dealer, the Institutional Broker must provide a record which evidences the away market trade execution (such as a confirmation or other record from the executing trading center or executing vendor) to the Exchange in a specified format to be communicated by the Exchange.

submission of clearing information and believes that a three hour standard is reasonable and appropriate.¹⁵

Section (b) of Proposed Rule 6 governs non-tape, clearing-only riskless principal submissions.¹⁶ These provisions would permit an Institutional Broker registered with the Exchange to make non-tape, clearing-only submissions into the Exchange's systems for submission to clearing to facilitate riskless principal transactions (as defined in Article 9, Rule 14) taking place on other national securities exchanges, or the over-the-counter market. For riskless principal transactions in which an Institutional Broker, after having received an order to buy a security, purchases the security at the same price to satisfy the order to buy or, after having received an order to sell, sells the security at the same price to satisfy the order to sell, the Institutional Broker shall submit, for the offsetting "riskless principal" portion of the transaction, a clearing-only report.¹⁷ If the order is executed in multiple transactions, the Institutional Broker may submit a non-tape, clearing-only report at the volume-weighted average price ("average price") of those transactions. The Institutional Broker shall provide to the Exchange records sufficient to identify such transactions as "riskless principal."¹⁸

¹⁵ A review of transactions from July 5 to July 8, 2011 found that the average time it took Institutional Brokers to finalize the clearing submission was 189 minutes after the initial trade report.

¹⁶ Article 9, Rule 14 (Reporting Riskless Principal Transactions) describes the manner in which Exchange Participants are required to report riskless principal transactions to the Exchange.

¹⁷ The report of the non-CHX transaction into Brokerplex is considered the Riskless Principal component of the transaction, which is separate and distinct from the subsequent clearing submission pursuant to Rule 6(b).

¹⁸ The information necessary to identify riskless principal transactions is normally provided to the Exchange either directly via the Brokerplex application in the form of the

The provisions of Section (b) of proposed Rule 6 would govern the activity of Institutional Brokers when they buy or sell securities on another national securities exchange, or in the over-the-counter marketplace, on behalf of another client and when the addition of new Clearing Participants via the step-in process as described above is not required. Nothing in the provisions of Section (b) of proposed Rule 6 relieves any Participant or other party from its obligation to fully and properly report transactions as required by the applicable rules of other self regulatory organizations. An Institutional Broker must enter all non-tape, clearing-only entries into the Exchange's systems pursuant to this subparagraph (b) of Proposed Rule 6 for a given non-Exchange transaction within twenty (20) minutes of the execution of such transaction. For clearing submissions reported at the average price of multiple trade executions, the Institutional Broker shall enter the non-tape, clearing-only entries into the Exchange's systems within twenty (20) minutes of the last component trade execution.

Proposed Interpretation and Policy .03 would govern the post-trade cancellations and corrections of clearing-related information as to price, volume and/or security for submissions made pursuant to proposed Rule 6. No later than T+1, Exchange operations personnel may cancel a clearing submission and enter a new corrective submission if the Institutional Broker which entered the original submission provides documentary evidence that the original trade execution was cancelled and re-entered at the same price, quantity and/or security of the corrective clearing submission. For example, if a trade

execution report from the other trading center or a "drop copy" of the execution report (and which can be systematically linked to the original order and the clearing submission), which must be provided by the Institutional Broker pursuant to Article 11, Rule 4. The Exchange plans to add a riskless principal identifier to these records for the sake of clarity.

was executed in the over-the-counter marketplace at a price of \$20.15 and that transaction is cancelled and reentered at \$20.16, the Exchange operations personnel would be authorized (if provided with adequate proof of the cancellation and reentered trade) to correct the price term of the corresponding clearing submission. Exchange operations personnel may also correct a clearing submission if it was erroneously entered on terms which differed from the reported trade execution, if provided with documentary evidence of the original trade execution. Exchange operations personnel may also enter a clearing submission which the Institutional Broker failed to enter or which was not processed due to systems error, if provided with documentary evidence of the original trade execution. Subsequent corrections of a timely submitted clearing record for these purposes will not constitute a violation of paragraph (a)(3) of this rule, even if the correction is made outside the time periods specified in those sections. In all cases, the documentary evidence must be provided to the Exchange Operations personnel prior to entry of the corrective submission. In extraordinary circumstances, corrective submissions can be made after T+1 subject to the approval of an officer of the Exchange. The need for a correction is typically identified by a order sending firm or Institutional Broker where there is a clearing “break” and the parties are looking for a position which does not appear or have a position they were not expecting, and is typically identified on the trade date or next business day. The Exchange believes that there is a need to make such corrections in order to facilitate the orderly clearance and settlement of these transactions, and that limiting the entry of corrective clearing submissions to the circumstances identified in Interpretation and Policy .03 should help prevent any potential abuse by the parties.

Proposed Interpretation and Policy .04 would permit post-trade cancellations and corrections as to the identity of the Clearing Participant only to be made either by Exchange Operations personnel or the Institutional Broker which initially entered the information no later than T+1. Since Institutional Brokers are already permitted to change the Clearing Participants to the submission as a “step in” pursuant to Rule 6(a), the Exchange believes that Institutional Brokers should have the ability to correct a misidentification of the Clearing Participant in the submission. Exchange Operations personnel shall also have the authority to make such corrections at the request of the parties. Before the corrective submission is made, the Institutional Broker must obtain documentary evidence of the misidentification of the Clearing Participant, typically by means of a request or confirmation by the parties being substituted in the transaction, and provide it to the Exchange Operations personnel if the latter are making the corrective submission. In extraordinary circumstances, corrective submissions can be made after T+1 subject to the approval of an officer of the Exchange. Subsequent corrections of a timely submitted clearing record for this purpose will not constitute a violation of paragraph (b)(3) of this rule, even if the correction is made outside the time periods specified in those sections.

As noted in section (c) of proposed Rule 6, each Clearing Participant which is a party to a non-tape, clearing-only submission under this rule will pay a Trade Processing Fee in the amount specified in the Exchange’s Fee Schedule.¹⁹ As part of this filing, we

¹⁹ Proposed Article 21, Rule 6(c). The Trade Processing Fees are specified in Section E.7. of the CHX Schedule of Fees and Assessments. These fees are assessed in non-Exchange cross transactions that originated with an Institutional Broker and which are reported to clearing by the Exchange's systems.

propose to retain the Trade Processing Fee charged to Participants for the clearing submission service.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) in particular, in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transaction in securities, to remove impediments and perfect the mechanisms of a free and open market, and, in general, to protect investors and the public interest by setting forth the rules and principles governing the submission of clearing information to a Qualified Clearing Agency. By facilitating the submission for both CHX and non-CHX executed trades, the Exchange is providing a safe, reliable means of submitting such information to a Qualified Clearing Agency, responding to the preferences of certain Participants to have CHX make such clearing-related submissions, and introducing competition with other exchanges, such as Nasdaq, which provide similar services.

B. Self-Regulatory Organization's Statement of Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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 45 days of the date of publication of this notice in the Federal Register or within such longer 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 such proposed rule change, or
- B. Institute proceedings to determine whether the proposed rule change 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-2011-17 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-CHX-2011-17. 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 on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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-2011-17 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁰

Elizabeth M. Murphy
Secretary

²⁰ 17 CFR 200.30-3(a)(12).

Exhibit 4 to SR-CHX-2011-17 A-1

Text that has been added to the original filing is double underlined; text that has been deleted has been identified with ~~strike-through formatting~~.

RULES OF CHICAGO STOCK EXCHANGE, INC.

* * *

**ARTICLE 1.
Definitions and General Information**

Rule 1. Definitions

Whenever and wherever used in these Rules, unless the context requires otherwise, the following terms shall have the respective meanings ascribed to them below:

(a) – (dd) Unchanged

(ee) "Clearing Participant" means a Participant which has been admitted to membership in a Qualified Clearing Agency pursuant to the provisions of the Rules of the Qualified Clearing Agency.

(ff) "Qualified Clearing Agency" means a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the Commission pursuant to the provisions of ~~the~~ Section 17A(b)(2) of the Exchange Act or has obtained from the Commission an exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services.

* * *

**ARTICLE 21.
Clearance and Settlement**

Rule 1. Trade Recording with a Qualified Clearing Agency

(a) – (d) Unchanged

[• • • *Interpretations and Policies:*

.01 *Definition of Registered Clearing Agency*

The term "Registered Clearing Agency" shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the Commission pursuant to the provisions of Section 17A(b)(2) of the Exchange Act or has obtained from the Commission an exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services..

.02 *Definition of Fully-Interfaced Clearing Agency*

The term "Fully-Interfaced Clearing Agency" shall mean a Registered Clearing Agency which, in conjunction with the Registered Clearing Agency selected by the contra-party to the contract, has established systems for the clearance and settlement of securities contracts in a manner which does not require each party to a contract to be a participant in the same Registered Clearing Agency.

.03 *Definition of a Qualified Clearing Agency*

For purposes of this Rule, the term "Qualified Clearing Agency" shall mean a Fully Interfaced Clearing Agency which has entered into an agreement with the Exchange pursuant to which it will (i) provide such services to the Exchange and its Participants as the Exchange, and such Qualified Clearing Agency shall from time to time agree, (ii) maintain facilities through which Exchange Contracts may be recorded, cleared and settled, and (iii) supply the Exchange with data reasonably necessary and requested in order to permit the Exchange to enforce compliance by its Participants with the provisions of the Exchange Act, the rules and regulations thereunder and the Rules of the Exchange.]

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Rule 6. Submission of Clearing Information for Transactions Executed Off-Exchange

The Exchange shall make clearing submissions for non-Exchange trades only in the following manner:

(a) ~~*Transactions Executed on the Exchange.*~~ All transactions executed on the Exchange shall be submitted for clearance to a Qualified Clearing Agency, and all such transactions shall be subject to the rules of the Qualified Clearing Agency. Every Clearing Participant shall be responsible for the clearance of the Exchange transactions of such Clearing Participant and of each Participant who gives up such Clearing Participant's name pursuant to either a Letter of Guarantee filed under Article 7, Rule 10 with the Exchange or other authorization given by such Clearing Participant to such Participant. *Substitution of Participants in Off-Exchange Transactions.*

(b) ~~*Transactions Executed Otherwise than on the Exchange.*~~

(1) An Institutional Broker registered with the Exchange and acting as an authorized agent of a Clearing Participant may enter a non-tape, clearing-only ~~submission entry~~ into the Exchange's systems for trades executed otherwise than on the Exchange for the purpose of transferring securities from one Clearing Participant to another, provided that the transfer does not constitute a transaction in securities that is otherwise subject to trade reporting that has not, in fact, been previously and separately reported as a transaction. The Exchange shall ~~make submit~~ such ~~submissions entries~~ to a Qualified Clearing Agency. Each such Institutional Broker must be party to an agreement with the Clearing Participant in which name the ~~submissions entries~~ are ~~made submitted~~ under which the Institutional Broker has received authorization from the Clearing Participant to act on its behalf. Copies of these agreements shall be filed by the Institutional Broker with the Exchange.

(2) A Participant is ~~prohibited from using~~ can only use a non-tape, clearing-only submission for ~~the purpose of effecting a transaction required to be a trade that has been reported in the market in which it was effected. or reporting a trade for regulatory purposes. Submission of records to the Exchange by a Participant does not satisfy any obligation such members may have to report transactions as required by the applicable rules of other self-regulatory organizations.~~

(3) An Institutional Broker must enter all non-tape, clearing-only submissions into the Exchange's systems pursuant to this subparagraph (a) for a given non-Exchange transaction within three (3) hours of the execution of such transaction.

(eb) Non-Tape, Clearing-Only Riskless Principal Submissions

(1) An Institutional Broker registered with the Exchange may make non-tape, clearing-only submissions into the Exchange's systems for submission to clearing to facilitate riskless principal transactions as defined in Article 9, Rule 14 ("riskless principal transactions") taking place on another national securities exchanges exchange, or over-the-counter, only as follows. For riskless principal transactions in which an Institutional Broker, after having received an order to buy a security, purchases the security at the same price to satisfy the order to buy or, after having received an order to sell, sells the security at the same price to satisfy the order to sell, the Institutional Broker ~~may~~ shall make submit, for the offsetting "riskless principal" portion of the transaction, a clearing-only submission report. ~~The Exchange will also obtain and keep a record identifying transactions which are handled~~ If the order is executed in multiple transactions, the Institutional Broker may enter a non-tape, clearing-only submission at the volume-weighted average price ("average price") of those transactions. The Institutional Broker shall provide to the Exchange records sufficient to identify such transactions as "riskless principal."

(2) ~~Nothing in this Rule shall relieve any Participant or other party from its obligation to fully and properly report transactions as required by the applicable~~

rules of other self regulatory organizations. A Participant can only use a non-tape, clearing-only submission for a trade that has been reported in the market in which it was effected.

~~(d) The Exchange shall not be responsible or liable in any way whatsoever to any member, member organization, clearing member organization, Qualified Clearing Agency or securities depository for compared trades, the failure to compare trades or for any delays, errors or omissions in the comparison process or for the production and delivery of or for the failure to produce and deliver lists and reports.~~
3) An Institutional Broker must enter all non-tape, clearing-only submissions into the Exchange's systems pursuant to this subparagraph (b) for a given non-Exchange transaction within twenty (20) minutes of the execution of such transaction. For clearing submissions reported at the average price of multiple trade executions, the Institutional Broker shall enter the non-tape, clearing-only submissions into the Exchange's systems within twenty (20) minutes of the last component trade execution.

(ec) Each Clearing Participant which is a party to a non-tape, clearing-only submission under this rule will pay a Trade Processing Fee in the amount specified in the Exchange's Fee Schedule.

• • • *Interpretation and Policies*:

.01 An Institutional Broker ~~making~~ submitting an submission entry pursuant to ~~paragraph (b) of this rule~~ must obtain documentary evidence of a non-Exchange trade execution no later than the close of ~~trading business on the day of the trade~~ and submit such evidence to the Exchange in a format acceptable to it and within such timeframe that the Exchange shall designate, but in no event later than T+1.

.02 An Institutional Broker entering a non-tape, clearing-only submission record shall be responsible for ensuring that all clearing information is accurate and complete prior to its submission.

.03 Post-trade cancellations and corrections: price, volume and security changes. No later than T+1, Exchange operations personnel may cancel a clearing submission and enter a new corrective submission if the Institutional Broker which entered the original submission provides documentary evidence that the original trade execution was cancelled and re-entered at the same price, quantity and/or security of the corrective clearing submission. Exchange operations personnel may also correct a clearing submission if it was erroneously entered on terms which differed from the reported trade execution, if provided with documentary evidence of the original trade execution. Exchange operations personnel may also enter a clearing submission which the Institutional Broker failed to enter or which was not processed due to systems error, if provided with documentary evidence of the original trade execution. In all cases, the documentary evidence must be provided to the Exchange Operations personnel prior to

entry of the corrective submission. In extraordinary circumstances, corrective submissions can be made after T+1 subject to the approval of an officer of the Exchange.

.04 *Post-trade cancellations and corrections: Clearing Participant changes.* Either Exchange Operations personnel or Institutional Brokers may cancel a clearing submission and enter a new corrective submission to correct a misidentification of the Clearing Participant, by no later than T+1. Before the corrective submission is made, the Institutional Broker must obtain documentary evidence of the misidentification of the Clearing Participant, and provide it to the Exchange Operations personnel if the latter are making the corrective submission. In extraordinary circumstances, corrective submissions can be made after T+1 subject to the approval of an officer of the Exchange.