

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="21"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2011"/> - * <input type="text" value="20"/> Amendment No. (req. for Amendments *) <input type="text"/>
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Proposed Rule Change by
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>			Rule		
			<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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Description
Provide a brief description of the proposed rule change (limit 250 characters, 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 * <input type="text" value="David"/>	Last Name * <input type="text" value="Whitcomb"/>
Title * <input type="text" value="General Counsel and CRO"/>	
E-mail * <input type="text" value="dwhitcomb@chx.com"/>	
Telephone * <input type="text" value="(312) 663-2628"/>	Fax <input type="text" value="(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

By Associate General Counsel
(Name *)

(Title *)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

Form 19b-4 Information (required)

Add Remove View

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)

Add Remove View

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

Add Remove View

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

Add Remove View

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

Add Remove View

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 add a rule to impose certain requirements on Exchange-registered Institutional Broker firms to allow them to operate a separate, non-Institutional Broker unit within the firm.

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 17.
Institutional Brokers**

* * *

Rule 5. Non-Institutional Broker Unit; Information Barriers

(a) *Basic Requirement.* An Institutional Broker firm registered pursuant to this Article is permitted to maintain another unit of the firm (the “non-Institutional Broker unit”) that conducts business otherwise than as an Institutional Broker, including the handling and execution of orders on the CHX, in other trading centers or in the over-the-counter marketplace. The non-Institutional Broker unit shall not be considered as part of the facilities of the Exchange. For purposes of applying the Exchange’s Schedule of Fees and Assessments, the activity of a non-Institutional Broker unit shall not be considered as Institutional Broker activity. A multi-unit Institutional Broker firm shall establish and maintain information barriers between the Institutional Broker unit and non-Institutional

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Broker unit. Such information barriers shall be reasonably designed to prevent the Institutional Broker unit from having knowledge of unexecuted customer orders in possession of the non-Institutional Broker unit and likewise prevent the non-Institutional Broker unit from having knowledge of unexecuted customer orders in the possession of the Institutional Broker unit. The Institutional Broker unit may, however, transmit an order to the non-Institutional Broker unit of the firm for purposes of handling and executing the order, and the non-Institutional Broker unit may likewise transmit an order to the Institutional Broker unit.

(b) Documenting and reporting of information barrier procedures. At the time an Institutional Broker firm wishes to set up non-Institutional Broker unit within the firm, it shall submit Written Supervisory Procedures ("WSPs") to the Exchange that describe in substantial detail the following information:

(1) the manner in which the firm will satisfy the requirements of this rule (including the compliance and audit procedures it proposes to implement to ensure that the information barrier is maintained);

(2) the names and titles of the person or persons responsible for maintenance, supervision and surveillance of the procedures;

(3) a commitment to provide the Exchange with such information and reports relating to its transactions as the Exchange may request; and

(4) a commitment to take appropriate remedial action against any person violating this rule or the Institutional Broker firm's internal compliance and audit procedures adopted pursuant to subparagraph (b)(1) above, and confirmation that it recognizes that the Exchange may take appropriate remedial action for any such violation.

(c) Approval of information barrier procedures. The WSPs required by paragraph (b) of this rule must detail the internal controls that the Institutional Broker firm will implement to satisfy each of the conditions stated in the rule, and the compliance and audit procedures proposed to implement and ensure that the controls are maintained. If the Exchange determines that the organizational structure and the compliance and audit procedures proposed by the Institutional Broker firm are acceptable under this rule, the Exchange shall so inform the Institutional Broker firm, in writing. Unless the Exchange finds that an Institutional Broker firm's information barrier procedures are acceptable, an Institutional Broker firm may not conduct business other than on the Exchange.

• • • Interpretations and Policies:

.01 For purposes of this rule, an "information barrier" is an organizational structure in which the Institutional Broker functions are conducted in a physical location separate from the locations in which the non-Institutional Broker activities are conducted. Additionally, the Institutional Broker and non-Institutional Broker units should not use

trading or order management systems which permit them to share information about orders or transactions being handled by each respective unit. However, upon request and not on his or her own initiative, an Institutional Broker Representative may furnish to persons at the same firm or an affiliated firm ("affiliated persons"), the same sort of market information that the Institutional Broker would make available in the normal course of its Institutional Broker activity to any other person. The Institutional Broker Representative must provide such information to affiliated persons in the same manner that he or she would make such information available to a non-affiliated person. An individual person may not simultaneously act as an Institutional Broker Representative and as a representative of the non-Institutional Broker unit.

* * *

(b) Not applicable.

(c) Not applicable.

2. Procedures of Self-Regulatory Organization

This proposal was approved by the Exchange's Board of Directors on July 1, 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 Rule 5 to Article 17 to permit Exchange-registered Institutional Broker ("Institutional Broker") firms to establish and operate a separate, non-Institutional Broker unit within the firm. The Exchange proposes to add information barrier requirements for Institutional Brokers that wish to operate a separate unit within the larger firm to conduct business otherwise than as an Institutional Broker. By this proposal, the Exchange believes that it will enable existing and new Institutional Broker firms to engage in trading activities through the non-Institutional Broker unit in a manner which better delineates the activity occurring on and off the Exchange.

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. Institutional Broker firms typically provide order handling and execution services for other broker-dealers or institutional clients, and are the successors to the floor brokers under the Exchange's previous floor-based, auction trading model.³ The Commission's order approving the Exchange's New Trading Model noted, "Institutional brokers would be deemed to be participants operating on the Exchange, although they would not effect transactions from a physical trading floor (since the Exchange will no longer have a physical trading floor) and could trade from any location. A customer order would be deemed to be on the Exchange when received by an institutional broker, but would not have priority in the Matching System until it is entered into the system."⁴ Although an Institutional Broker is deemed to be operating on the Exchange, the CHX is proposing to allow it to be part of a larger firm that executes orders otherwise than on the Exchange.

New Rule 5 proposes to establish new conditions for an Institutional Broker firm that wishes to include another unit of the firm (the "non-Institutional Broker unit") to conduct business otherwise than as an Institutional Broker, including the handling and execution of orders on the CHX, in other trading centers or in the over-the-counter ("OTC") marketplace. The non-Institutional Broker unit would not be considered as part of the facilities of the Exchange and its trading activity would be treated the same as any other order sending Participant which is not registered as an Institutional Broker. Since

³ The Exchange replaced its traditional auction marketplace with its New Trading Model beginning in 2006. *See*, Securities Exchange Act Rel. No. 34-54550 (Sept. 29, 2006), 71 FR 59563 (Oct. 10, 2006) (SR-CHX-2006-05).

⁴ *Id.*, Section II.C. *Institutional Brokers*.

the non-Institutional Broker unit will be acting as an order entry unit of the firm, it will be generally subject to the strictures of the Exchange's rules, except as to Articles 16 and 17 which pertain to Market Makers and Institutional Brokers, respectively, on an exclusive basis. For purposes of applying the Exchange's Schedule of Fees and Assessments, the activity of a non-Institutional Broker unit would not be considered as Institutional Broker activity. A multi-unit Institutional Broker firm would be required to establish and maintain information barriers between the Institutional Broker unit and non-Institutional Broker unit. Such information barriers will be required to be reasonably designed to prevent the Institutional Broker unit from having knowledge of unexecuted customer orders in possession of the non-Institutional Broker unit and likewise prevent the non-Institutional Broker unit from having knowledge of unexecuted customer orders in the possession of the Institutional Broker unit. The Institutional Broker unit may, however, transmit an order to the non-Institutional Broker unit of the firm for purposes of handling and executing the order, and the non-Institutional Broker unit may likewise transmit an order to the Institutional Broker unit.

Through this filing, the Exchange proposes that Institutional Broker firms which wish to operate a non-Institutional Broker unit would be required to create and maintain adequate information barrier procedures. At the time an Institutional Broker firm wished to set up a non-Institutional Broker unit within the firm, it would be required to submit to the Exchange its Written Supervisory Procedures ("WSPs") as they pertain to these information barrier procedures. At minimum, the WSPs will have to satisfactorily address (1) the manner in which the firm will satisfy the requirements of this rule (including the compliance and audit procedures it proposes to implement to ensure that

the information barrier is maintained); (2) identify the names and titles of the person or persons responsible for maintenance, supervision and surveillance of the procedures; (3) make a commitment to provide the Exchange with such information and reports relating to its transactions as the Exchange may request; and (4) make a commitment to take appropriate remedial action against any person violating this rule or the Institutional Broker firm's internal compliance and audit procedures, as well as confirming that the firm recognizes that the Exchange may take appropriate remedial action for any such violation.

In addition, the proposed rule provides that the firm's WSPs must describe the internal controls that the Institutional Broker firm will implement to satisfy each of the conditions stated in the rule, and the compliance and audit procedures proposed to implement and ensure that the controls are maintained. If the Exchange determined that the organizational structure and the compliance and audit procedures proposed by the Institutional Broker firm are acceptable, the Exchange would so inform the Institutional Broker firm, in writing. Unless the Exchange found that an Institutional Broker firm's information barrier procedures were acceptable, an Institutional Broker firm may not conduct business other than on the Exchange.

The Exchange believes that the provisions regarding the information barrier procedures of new Rule 5 are sufficient to address the issues presented by the operation of a non-Institutional Broker unit within a firm which is an Exchange-registered Institutional Broker. The CHX understands that the non-Institutional Broker unit of such firms will largely function in a similar manner to other order sending firms which are not registered with the Exchange as an Institutional Broker or Market Maker pursuant to our

rules. To the extent that the non-Institutional Broker wished to act as a Market Maker on the Exchange, it would have to comply with the more stringent information barrier procedures under Article 16, Rule 9 (Limitation on Dealings).⁵ The Exchange believes that the information barrier procedures of proposed Rule 5 are adequate to provide a meaningful separation of the Institutional Broker and non-Institutional Broker units in order to ensure that the latter can fairly be treated as not being part of the Exchange's trading facilities.⁶

Finally, the Exchange is proposing an Interpretation and Policy to define the elements of an adequate information barrier procedure for purposes of new Rule 5. Proposed Interpretation and Policy .01 defines an "information barrier" as an organizational structure in which the Institutional Broker functions are conducted in a physical location separate from the locations in which the non-Institutional Broker

⁵ Because market makers normally trade as principal, either against other customer orders of the firm or other, unaffiliated market participants, the heightened potential for conflicts of interest in their transactions requires a stricter separation between the market making and non-market making units of a single firm. For example, under Article 16, Rule 9, the information barrier procedures of market making unit must address the potential use or misuse of post-trade clearing information to compromise the information barrier. While Institutional Broker firms do trade from time-to-time as principal, they normally handle orders as agent for their customers. To the extent that a particular Institutional Broker firm conducts a significant amount of its business as principal, the Exchange will require that its information barrier procedures specifically address that activity in a manner which is reasonably designed to address any conflicts of interest. The Exchange currently conducts surveillance of the principal trading activity of Institutional Broker firms for compliance with our rules, such as the prohibition on trading ahead contained in Article 9, Rule 17. Since the principal purpose of creating a non-Institutional Broker unit is to have it considered to be not "on the Exchange," the Exchange believes that proposed standards for information barrier procedures as set forth in new Rule 5 are adequate to address those concerns.

⁶ The Exchange represents that it will implement as of the time this proposal is approved adequate oversight processes which are reasonably designed to ensure compliance by our Participants with the requirements of the provisions of this proposal.

activities are conducted. The Institutional Broker and non-Institutional Broker units should not use trading or order management systems which permit them to share information about orders or transactions being handled by each respective unit. However, upon request and not on his or her own initiative, an Institutional Broker Representative may furnish to persons at the same firm or an affiliated firm ("affiliated persons"), the same sort of market information that the Institutional Broker would make available in the normal course of its Institutional Broker activity to any other person. The Institutional Broker Representative must provide such information to affiliated persons in the same manner that he or she would make such information available to a non-affiliated person. An individual person may not simultaneously act as an Institutional Broker Representative and as a representative of the non-Institutional Broker unit. The Exchange believes that the information barrier requirements as set forth in the proposed Interpretation and Policy are reasonable and appropriate given the nature of the relationship between the Institutional Broker and non-Institutional Broker units. The CHX further believes that the articulation of these standards in the proposed Interpretation and Policy will provide clarity and direction to interested Institutional Brokers in creating their information barrier procedures.

(b) Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general,⁷ and furthers the objectives of Section 6(b)(5) in particular,⁸ in that it is designed to promote just and equitable principles of trade, to foster cooperation

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

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 trading activity of Institutional Brokers. By permitting an Institutional Broker firm to operate a separate non-Institutional Broker unit within the larger firm subject to the new information barrier requirements, the proposed new Rule 5 would provide protection to the customers of such firms. Rather than routing orders which were directed to the OTC marketplace to a third-party broker-dealer for execution, the proposed non-Institutional Broker unit of the firm could handle and execute such orders. The Exchange believes that this handling could reduce the possibility for errors in transmission from one firm to another, as well as eliminate potential costs imposed by the third-party broker-dealer which might have to be borne by the order sender or the Institutional Broker firm. The creation and maintenance of adequate information barrier procedures, which are subject to the review, approval and inspection of the Exchange, should help ensure that the Institutional Broker and non-Institutional Broker units are in fact being operated separately, and that treatment of the non-Institutional Broker unit as not being part of the facilities of the Exchange is appropriate.

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

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 1SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-_____; File No. SR-CHX-2011-20)

Self-Regulatory Organizations; Chicago Stock Exchange, Incorporated; Notice of Filing Proposed Rule to Impose Certain Requirements on Exchange-Registered Institutional Broker Firms Which Operate a Separate Non-Institutional Broker Unit Within the Firm.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 26, 2011, the Chicago Stock Exchange, Incorporated (“Exchange” or “CHX”) 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 Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to add a rule to impose certain requirements on Exchange-registered Institutional Broker firms which operate a separate, non-Institutional Broker unit within the firm. The text of this proposed rule change is available on the Exchange’s website at (www.chx.com), at the Exchange’s Office of the Secretary 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 change and discussed any comments it received regarding the proposal. The text of these statements may be examined at the places specified in Item IV

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Rule 5 to Article 17 to permit Exchange-registered Institutional Broker ("Institutional Broker") firms to establish and operate a separate, non-Institutional Broker unit within the firm. The Exchange proposes to add information barrier requirements for Institutional Brokers that wish to operate a separate unit within the larger firm to conduct business otherwise than as an Institutional Broker. By this proposal, the Exchange believes that it will enable existing and new Institutional Broker firms to engage in trading activities through the non-Institutional Broker unit in a manner which better delineates the activity occurring on and off the Exchange.

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. Institutional Broker firms typically provide order handling and execution services for other broker-dealers or institutional clients, and are the successors to the floor brokers under the Exchange's previous floor-based, auction trading model.³ The Commission's order approving the Exchange's New Trading Model noted, "Institutional brokers would be deemed to be participants operating on the Exchange, although they would not effect transactions from a physical trading floor (since the Exchange will no longer have a physical trading floor) and could trade from any location. A

³ The Exchange replaced its traditional auction marketplace with its New Trading Model beginning in 2006. *See*, Securities Exchange Act Rel. No. 34-54550 (Sept. 29, 2006), 71 FR 59563 (Oct. 10, 2006) (SR-CHX-2006-05).

customer order would be deemed to be on the Exchange when received by an institutional broker, but would not have priority in the Matching System until it is entered into the system.”⁴

Although an Institutional Broker is deemed to be operating on the Exchange, the CHX is proposing to allow it to be part of a larger firm that executes orders otherwise than on the Exchange.

New Rule 5 proposes to establish new conditions for an Institutional Broker firm that wishes to include another unit of the firm (the “non-Institutional Broker unit”) to conduct business otherwise than as an Institutional Broker, including the handling and execution of orders on the CHX, in other trading centers or in the over-the-counter (“OTC”) marketplace. The non-Institutional Broker unit would not be considered as part of the facilities of the Exchange and its trading activity would be treated the same as any other order sending Participant which is not registered as an Institutional Broker. Since the non-Institutional Broker unit will be acting as an order entry unit of the firm, it will be generally subject to the strictures of the Exchange’s rules, except as to Articles 16 and 17 which pertain to Market Makers and Institutional Brokers, respectively, on an exclusive basis. For purposes of applying the Exchange’s Schedule of Fees and Assessments, the activity of a non-Institutional Broker unit would not be considered as Institutional Broker activity. A multi-unit Institutional Broker firm would be required to establish and maintain information barriers between the Institutional Broker unit and non-Institutional Broker unit. Such information barriers will be required to be reasonably designed to prevent the Institutional Broker unit from having knowledge of unexecuted customer orders in possession of the non-Institutional Broker unit and likewise prevent the non-Institutional Broker unit from having knowledge of unexecuted customer orders

⁴ *Id.*, Section II.C. *Institutional Brokers*.

in the possession of the Institutional Broker unit. The Institutional Broker unit may, however, transmit an order to the non-Institutional Broker unit of the firm for purposes of handling and executing the order, and the non-Institutional Broker unit may likewise transmit an order to the Institutional Broker unit.

Through this filing, the Exchange proposes that Institutional Broker firms which wish to operate a non-Institutional Broker unit would be required to create and maintain adequate information barrier procedures. At the time an Institutional Broker firm wished to set up a non-Institutional Broker unit within the firm, it would be required to submit to the Exchange its Written Supervisory Procedures (“WSPs”) as they pertain to these information barrier procedures. At minimum, the WSPs will have to satisfactorily address (1) the manner in which the firm will satisfy the requirements of this rule (including the compliance and audit procedures it proposes to implement to ensure that the information barrier is maintained); (2) identify the names and titles of the person or persons responsible for maintenance, supervision and surveillance of the procedures; (3) make a commitment to provide the Exchange with such information and reports relating to its transactions as the Exchange may request; and (4) make a commitment to take appropriate remedial action against any person violating this rule or the Institutional Broker firm's internal compliance and audit procedures, as well as confirming that the firm recognizes that the Exchange may take appropriate remedial action for any such violation.

In addition, the proposed rule provides that the firm’s WSPs must describe the internal controls that the Institutional Broker firm will implement to satisfy each of the conditions stated in the rule, and the compliance and audit procedures proposed to implement and ensure that the controls are maintained. If the Exchange determined that the organizational structure and the

compliance and audit procedures proposed by the Institutional Broker firm are acceptable, the Exchange would so inform the Institutional Broker firm, in writing. Unless the Exchange found that an Institutional Broker firm's information barrier procedures were acceptable, an Institutional Broker firm may not conduct business other than on the Exchange.

The Exchange believes that the provisions regarding the information barrier procedures of new Rule 5 are sufficient to address the issues presented by the operation of a non-Institutional Broker unit within a firm which is an Exchange-registered Institutional Broker. The CHX understands that the non-Institutional Broker unit of such firms will largely function in a similar manner to other order sending firms which are not registered with the Exchange as an Institutional Broker or Market Maker pursuant to our rules. To the extent that the non-Institutional Broker wished to act as a Market Maker on the Exchange, it would have to comply with the more stringent information barrier procedures under Article 16, Rule 9 (Limitation on Dealings).⁵ The Exchange believes that the information barrier procedures of proposed Rule 5 are adequate to provide a meaningful separation of the Institutional Broker and non-Institutional

⁵ Because market makers normally trade as principal, either against other customer orders of the firm or other, unaffiliated market participants, the heightened potential for conflicts of interest in their transactions requires a stricter separation between the market making and non-market making units of a single firm. For example, under Article 16, Rule 9, the information barrier procedures of market making unit must address the potential use or misuse of post-trade clearing information to compromise the information barrier. While Institutional Broker firms do trade from time-to-time as principal, they normally handle orders as agent for their customers. To the extent that a particular Institutional Broker firm conducts a significant amount of its business as principal, the Exchange will require that its information barrier procedures specifically address that activity in a manner which is reasonably designed to address any conflicts of interest. The Exchange currently conducts surveillance of the principal trading activity of Institutional Broker firms for compliance with our rules, such as the prohibition on trading ahead contained in Article 9, Rule 17. Since the principal purpose of creating a non-Institutional Broker unit is to have it considered to be not "on the Exchange," the Exchange believes that proposed standards for information barrier procedures as set forth in new Rule 5 are adequate to address those concerns.

Broker units in order to ensure that the latter can fairly be treated as not being part of the Exchange's trading facilities.⁶

Finally, the Exchange is proposing an Interpretation and Policy to define the elements of an adequate information barrier procedure for purposes of new Rule 5. Proposed Interpretation and Policy .01 defines an "information barrier" as an organizational structure in which the Institutional Broker functions are conducted in a physical location separate from the locations in which the non-Institutional Broker activities are conducted. The Institutional Broker and non-Institutional Broker units should not use trading or order management systems which permit them to share information about orders or transactions being handled by each respective unit. However, upon request and not on his or her own initiative, an Institutional Broker Representative may furnish to persons at the same firm or an affiliated firm ("affiliated persons"), the same sort of market information that the Institutional Broker would make available in the normal course of its Institutional Broker activity to any other person. The Institutional Broker Representative must provide such information to affiliated persons in the same manner that he or she would make such information available to a non-affiliated person. An individual person may not simultaneously act as an Institutional Broker Representative and as a representative of the non-Institutional Broker unit. The Exchange believes that the information barrier requirements as set forth in the proposed Interpretation and Policy are reasonable and appropriate given the nature of the relationship between the Institutional Broker and non-Institutional Broker units. The CHX further believes that the articulation of these

⁶ The Exchange represents that it will implement as of the time this proposal is approved adequate oversight processes which are reasonably designed to ensure compliance by our Participants with the requirements of the provisions of this proposal.

standards in the proposed Interpretation and Policy will provide clarity and direction to interested Institutional Brokers in creating their information barrier procedures.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general,⁷ and furthers the objectives of Section 6(b)(5) in particular,⁸ 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 trading activity of Institutional Brokers. By permitting an Institutional Broker firm to operate a separate non-Institutional Broker unit within the larger firm subject to the new information barrier requirements, the proposed new Rule 5 would provide protection to the customers of such firms. Rather than routing orders which were directed to the OTC marketplace to a third-party broker-dealer for execution, the proposed non-Institutional Broker unit of the firm could handle and execute such orders. The Exchange believes that this handling could reduce the possibility for errors in transmission from one firm to another, as well as eliminate potential costs imposed by the third-party broker-dealer which might have to be borne by the order sender or the Institutional Broker firm. The creation and maintenance of adequate information barrier procedures, which are subject to the review, approval and inspection of the Exchange, should help ensure that the Institutional Broker and non-Institutional Broker units are in fact being operated separately, and

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

that treatment of the non-Institutional Broker unit as not being part of the facilities of the Exchange is appropriate.

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-

2011-20 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-2011-20. 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-2011-20 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.⁹

Elizabeth M. Murphy
Secretary

⁹ 17 CFR 200.30-3(a)(12).