

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76087; File No. SR-CHX-2015-03)

October 6, 2015

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Adopt and Implement CHX SNAP<sup>SM</sup>, an Intra-day and On-Demand Auction Service

I. Introduction

On June 23, 2015, the Chicago Stock Exchange, Inc. (“CHX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to implement CHX SNAP<sup>SM</sup>, an intra-day and on-demand auction service initiated at the request of market participants seeking to trade securities in bulk. The proposed rule change was published for comment in the Federal Register on July 8, 2015.<sup>3</sup> On August 6, 2015, pursuant to Section 19(b)(2) of the Act,<sup>4</sup> the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.<sup>5</sup> On August 24, 2015, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>6</sup> Amendment No. 1 was published for comment

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 75346 (July 1, 2015), 80 FR 39172.

<sup>4</sup> 15 U.S.C. 78s(b)(2).

<sup>5</sup> See Securities Exchange Act Release No. 75630, 80 FR 48375 (August 12, 2015). The Commission designated October 6, 2015, as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

<sup>6</sup> Amendment No. 1 is publicly available on the Commission’s website at: <https://www.sec.gov/comments/sr-chx-2015-03/chx201503-1.pdf>.

in the Federal Register on September 9, 2015.<sup>7</sup> The Commission did not receive any comment letters regarding the proposed rule change.

This order approves the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

## II. Summary of the Proposal, as Modified by Amendment No. 1

The Exchange proposes to adopt and implement a new auction, titled the Sub-second Non-displayed Auction Process (“SNAP”), that is designed to facilitate the bulk trading<sup>8</sup> of a security within the Exchange’s matching system (the “Matching System”). As proposed, SNAP is a fully-hidden, on-demand auction for a security<sup>9</sup> that may be initiated only by the Exchange’s Participants and may occur only during the Exchange’s regular trading session.<sup>10</sup> Members may initiate multiple SNAPS for a security throughout the course of the regular trading session.

During the stages of a SNAP (the “SNAP Cycle”), the Exchange temporarily suspends automated trading on the Exchange for the security subject to the SNAP. At the conclusion of the SNAP Cycle, the Exchange transitions back to automated trading on the Exchange for the

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<sup>7</sup> See Securities Exchange Act Release No. 75816 (September 2, 2015), 80 FR 54331 (“Notice”).

<sup>8</sup> As explained further below, under the proposal, an order must meet a minimum size requirement to be eligible to initiate a SNAP. See *infra*, note 39 and accompanying text.

<sup>9</sup> Under the proposal, the SNAP functionality will be available for all securities traded within the Matching System. The Exchange represents that it will announce any future changes to the securities eligible for the SNAP functionality via an Information Memorandum and that any such change would be effective no sooner than the trading day after it issues the Information Memorandum. See Notice, *supra* note 7, 80 FR at 54332, n.15.

<sup>10</sup> The Exchange’s regular trading session begins at 8:30 am Central Standard Time and concludes at 3:00 pm Central Standard Time on the days that the Exchange is open for the transaction of business. See CHX Article 20, Rules 1(b) and (c).

subject security.<sup>11</sup> The SNAP Cycle has the following five stages, which are set forth in proposed CHX Article 18, Rule 1:<sup>12</sup> (1) Initiating the SNAP; (2) SNAP Order Acceptance Period; (3) Pricing and Satisfaction Period; (4) Order Matching Period; and (5) Transition to Open Trading State.<sup>13</sup> Under the proposal, if a halt or pause is in effect for a subject security that requires the Exchange to suspend trading in that security (“material halt or pause”) at the time a SNAP Cycle would otherwise be initiated, the SNAP Cycle would not be initiated; the proposed rule text also sets forth required actions should a material halt or pause be declared for the subject security during a SNAP Cycle.<sup>14</sup>

The Exchange also proposes amendments to the following CHX Rules in order to facilitate the SNAP Cycle:

- (1) Article 1, Rule 1 (Definitions);<sup>15</sup>
- (2) Article 2, Rule 2 (Order Types, Modifiers, and Related Terms);<sup>16</sup>

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<sup>11</sup> The Exchange represents that the SNAP Cycle on CHX is designed to occur simultaneously with automated trading in the subject security elsewhere in the national market system. See Notice, supra note 7, 80 FR at 54332.

<sup>12</sup> In the filing, the Exchange provides examples demonstrating the procedures and functionalities of each stage of the SNAP Cycle. See Notice, supra note 7, 80 FR at 54342-46.

<sup>13</sup> The Exchange proposes to define “Open Trading State” under proposed CHX Article 1, Rule 1(qq) as the period of time during the regular trading session when orders are eligible for automatic execution. See Notice, supra note 7, 80 FR at 54332.

<sup>14</sup> See Notice, supra note 7, 80 FR at 54341-42.

<sup>15</sup> The Exchange proposes to: (1) amend the definition of “Routable Order” under current paragraph (oo), see infra, note 66; and (2) add new definitions for “Open Trading State,” see supra note 13, “SNAP Price,” see infra, note 61 and accompanying text, and “SNAP Eligible Order,” see infra, note 46.

<sup>16</sup> The Exchange proposes to: (1) amend the current definition of “cross order” under current paragraph (a)(2), see Notice, supra note 7, 80 FR at 54337; and (2) add new limit order modifiers related SNAP, see infra notes 24-26 and accompanying text.

- (3) Article 4, Rule 1 (CHX Book Feed);<sup>17</sup>
- (4) Article 16, Rule 8 (CHX Market Maker Responsibilities);<sup>18</sup>
- (5) Article 19, Rule 3 (Order Routing Events);<sup>19</sup>
- (6) Article 20, Rules 1 (Trading Sessions) and 2A (Limit Up-Limit Down (“LULD”) Plan and Trading Pauses in Individual Securities Due to Extraordinary Market Volatility);<sup>20</sup>
- (7) Article 20, Rule 8(b) (Ranking and Display of Orders);<sup>21</sup>
- (8) Article 20, Rule 8(d)(4) (Rule 201 of Regulation SHO);<sup>22</sup> and

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<sup>17</sup> The Exchange proposes to amend current paragraph (a) to add a cross reference to new Article 18, Rule 1(b) to clarify that the operation of the CHX Book Feed is subject to the rules governing the SNAP Cycle. See Notice, supra note 7, 80 FR at 54336.

<sup>18</sup> The Exchange proposes to amend paragraph (a) to (1) replace the term “member” with the term “Participant” and (2) state that the quoting obligations of CHX Market Makers do not apply for a security while that security is subject to a SNAP Cycle. See Notice, supra note 7, 80 FR at 54346.

<sup>19</sup> The Exchange proposes to add text to current paragraph (a) setting forth two new routing events for orders participating in a SNAP Cycle. See infra, note 66.

<sup>20</sup> The Exchange proposes to amend paragraph .02 of Article 20, Rule 1 and Article 20, Rule 2A(c)(3) to add cross references to proposed Article 18 so that those rules would provide that the actions described thereunder with respect to trading a halts are subject to the provisions of proposed Article 18, Rule 1(c), which addresses trading halts or pauses during a SNAP Cycle. See Notice, supra note 7, 80 FR at 54342. The Exchange also proposes to specify that the provisions of paragraph .02 of Article 20, Rule 1 apply only to a trading halt or pause that “requires the Exchange to suspend trading in the issue, other than a LULD Trading Pause.” See id.

<sup>21</sup> The Exchange proposes to amend paragraph (b) to set forth how orders are queued and ranked for execution during Open Trading State and during a SNAP Cycle. See infra notes 50, 52, and 69.

<sup>22</sup> The Exchange proposes to amend paragraph (d)(4) to address how the Exchange handles orders marked Sell Short in a covered security subject to the short sale price test restriction during both Open Trading State and during a SNAP Cycle for that security. Specifically, the Exchange proposes to (1) create new subparagraph (A) to govern trading in Open Trading State, which would contain the rule text under current paragraph (d)(4) and (2) create new subgraph (B) to govern trading during a SNAP Cycle, which would state, among other things, that SNAP Eligible Orders marked Sell Short shall not be

(9) Article 20 Rule 8(e) (Execution of Certain Orders and Order Types).<sup>23</sup>

In particular, the Exchange proposes to add the following new limit order modifiers related to SNAP:

- (1) Start SNAP;<sup>24</sup>
- (2) Cancel on SNAP;<sup>25</sup> and
- (3) SNAP Auction Only (SNAP AOO), which is subcategorized as SNAP AOO - Day, SNAP AOO - One and Done, or SNAP AOO - Pegged.<sup>26</sup>

A limit order marked Start SNAP will either: (1) initiate a SNAP Cycle in a specified security if it meets certain requirements;<sup>27</sup> or (2) if it is received by the Matching System during the stage two Order Acceptance Period and it meets the requirements for a SNAP AOO - One and Done Order, be treated as a SNAP AOO - One and Done Order.<sup>28</sup> A limit order marked Start SNAP that does not meet either of those sets of requirements will be cancelled.<sup>29</sup> A limit order marked Cancel on SNAP will be cancelled upon initiation of a SNAP Cycle or cancelled

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permitted to execute at prices at or below the National Best Bid ascertained from the market snapshot taken pursuant during the SNAP Cycle to determine the SNAP Price pursuant to proposed Article 18, Rule 1(b)(2)(E). See Notice, supra note 7, 80 FR at 54338-39.

<sup>23</sup> The Exchange proposes to: (1) specify that, during a SNAP Cycle, participating SNAP Eligible Orders shall be executed within the Matching System at the SNAP Price, pursuant to proposed Article 18, Rule 1(b)(4)(A), see infra, notes 71 and 72 and accompanying text; and (2) re-title the rule's header, see Notice, supra note 7, 80 FR at 54340.

<sup>24</sup> See Notice, supra note 7, 80 FR at 54333-34.

<sup>25</sup> See Notice, supra note 7, 80 FR at 54334.

<sup>26</sup> See Notice, supra note 7, 80 FR at 54334-35.

<sup>27</sup> See infra, notes 38-42 and accompanying text.

<sup>28</sup> See Notice, supra note 7, 80 FR at 54334.

<sup>29</sup> See Notice, supra note 7, 80 FR at 54333.

upon receipt if received during a SNAP Cycle.<sup>30</sup>

SNAP AOOs will be accepted only from the beginning of the CHX early session<sup>31</sup> to five minutes prior the end of the regular trading session and only be executable during a SNAP Cycle (i.e., SNAP AOOs orders would not be active during Open Trading State).<sup>32</sup> Upon receipt by the Exchange, all valid SNAP AOOs will either be queued in the SNAP AOO Queue<sup>33</sup> or immediately ranked on the SNAP CHX book.<sup>34</sup> Furthermore, all SNAP AOOs must meet the following minimum size requirement: (1) at least 250 shares and have a minimum aggregate notional value of \$25,000 based on its corresponding SNAP AOO Reference Price<sup>35</sup> or (b) at least 2,000 shares with no minimum aggregate notional value requirement; provided, however, that a certain issue is subject to a special minimum size requirement.<sup>36</sup>

#### Stage 1: Initiating the SNAP

The first stage of a SNAP Cycle is titled Initiating the SNAP.<sup>37</sup> To initiate a SNAP Cycle, a Participant must submit to the Matching System a limit order marked Start SNAP.

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<sup>30</sup> See Notice, supra note 7, 80 FR at 54334.

<sup>31</sup> The Exchange's early trading session begins at 6:00 am Central Standard Time and concludes at 8:30 am Central Standard Time on the days that the Exchange is open for the transaction of business. See CHX Article 20, Rules 1(b) and (c).

<sup>32</sup> See Notice, supra note 7, 80 FR at 54334.

<sup>33</sup> See infra, note 48 and accompanying text.

<sup>34</sup> See infra, note 52 and 53 and accompanying text.

<sup>35</sup> The SNAP AOO Reference Price for the security would be the last sale in the subject security that was not permitted to trade-through the National Best Bid and Offer ("NBBO") at the time the last sale was executed. If a SNAP AOO Reference Price cannot be determined, the SNAP AOO shall be cancelled. See Notice, supra note 7, 80 FR at 54334.

<sup>36</sup> A SNAP AOO for Berkshire Hathaway, Inc. must be for at least 10 shares.

<sup>37</sup> See Notice, supra note 7, 80 FR at 54336.

Pursuant to proposed CHX Article 1, Rule 2(h)(1), a limit order marked Start SNAP must meet the following requirements to initiate a SNAP Cycle:<sup>38</sup>

- (1) Size: The Start SNAP order must be (a) at least 2,500 shares and have a minimum aggregate notional value of \$250,000 or (b) at least 20,000 shares with no minimum aggregate notional value requirement.<sup>39</sup>
- (2) Price: The limit price of the Start SNAP order must be priced at or through the National Best Offer (“NBO”) for buy orders or National Best Bid (“NBB”) for sell orders at the time the order was received by the Matching System.<sup>40</sup>
- (3) Timing: The Start SNAP order must have been received during the regular trading session.<sup>41</sup>

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<sup>38</sup> See Notice, supra note 7, 80 FR at 54333.

<sup>39</sup> A limit order for Berkshire Hathaway, Inc. marked Start SNAP must be for at least 100 shares.

<sup>40</sup> If the NBBO is crossed or a two-sided NBBO does not exist at the time the limit order marked Start SNAP is received by the Matching System, the limit order marked Start SNAP would not initiate a SNAP Cycle. See id. Furthermore, a limit order marked Start SNAP and Sell Short, as defined under CHX Article 1, Rule 2(b)(3)(E), for a covered security subject to short sale price test restriction, shall not initiate a SNAP Cycle and shall be cancelled. See Notice, supra note 7, 80 FR at 54339.

<sup>41</sup> Furthermore, a limit order marked Start SNAP would not initiate a SNAP cycle if it is received: (1) within five minutes of the first two-sided quote in the subject security having been received by the Exchange from the primary market disseminated after either the beginning of the regular trading session or a trading halt or pause that required the Exchange to suspend trading in the subject security; (2) within five minutes of the end of the regular trading session; (3) during a SNAP Cycle or (4) within one minute after the completion of the previous SNAP Cycle. See Notice, supra note 7, 80 FR at 54333.

- (4) Routing Availability: A limit order marked Start SNAP will not initiate a SNAP Cycle if the CHX Routing Services<sup>42</sup> are not available at the time the order is received by the Matching System.

Upon acceptance of a valid limit order market Start SNAP, the Matching System would begin the SNAP Cycle in the subject security by taking the following actions: (1) immediately suspending automatic execution of orders in the subject security; (2) removing the Exchange's Protected Quotation(s) in the subject security, if any; (3) notifying the market that a SNAP Cycle in the subject security has begun; (4) disseminating messages through the CHX Book Feed indicating that precedent orders on the CHX book in the subject security are no longer automatically executable; and (5) suspending dissemination of any other order information concerning the subject security through the CHX Book Feed.

Stage 2: the SNAP Order Acceptance Period

Upon initiation of the SNAP Cycle, the SNAP Order Acceptance Period begins.<sup>43</sup> The SNAP Order Acceptance Period will last between 475 to 525 milliseconds, with the CHX Matching System randomizing the actual length. The Exchange states that randomizing the exact length of the SNAP Order Acceptance Period is designed to minimize speed advantages by precluding market participants from pinpointing exactly when the SNAP Order Acceptance Period ends.<sup>44</sup>

During the SNAP Order Acceptance Period, the CHX Matching System will establish the

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<sup>42</sup> See generally CHX Article 19.

<sup>43</sup> See Notice, supra note 7, 80 FR at 54336-38.

<sup>44</sup> See Notice, supra note 7, 80 FR at 54336.

SNAP CHX book<sup>45</sup> by ranking SNAP Eligible Orders.<sup>46</sup> Prior to being ranked on the SNAP CHX book, the following order modifiers will be deactivated for the subject security only: (1) CHX Only; (2) Post Only; (3) Do Not Route; (4) Match Trade Prevention; (5) Always Quote; and (6) Reserve Size.<sup>47</sup>

First, pursuant to proposed CHX Article 18, Rule 1(b)(2)(A), the CHX Matching System will rank or cancel “precedent orders,” which are: (1) SNAP Eligible Orders in the subject security resting on the CHX Book and SNAP AOO Queue<sup>48</sup> prior to the initiation of the SNAP Cycle; (2) the limit order marked Start SNAP that initiated the SNAP Cycle; and (3) Non-SNAP Eligible Orders in the subject security resting on the CHX book prior to the initiation of the SNAP Cycle. Precedent SNAP Eligible Orders, precedent SNAP AOOs not marked SNAP

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<sup>45</sup> The Exchange represents that it operates only one book for each security and therefore, automated execution of orders in a subject security will never occur simultaneously with a SNAP Cycle in the same security. See Notice, supra note 7, 80 FR at 54332. Because of what the Exchange characterizes as the fundamental differences between automated execution of orders and auctions, the Exchange distinguishes between the CHX book during the Open Trading State and the CHX book during a SNAP Cycle (“SNAP CHX book”). See id.

<sup>46</sup> Under proposed CHX Article 1, Rule 1(ss), a “SNAP Eligible Order” is a limit order not marked by, or handled as, any one of the following modifiers: (1) Cancel On SNAP; (2) Fill Or Kill; (3) Immediate Or Cancel or (4) Start SNAP, except where the limit order marked Start SNAP is handled as SNAP AOO – One And Done, pursuant to proposed Article 1, Rule 2(h)(1)(C). See Notice, supra note 7, 80 FR at 54333.

<sup>47</sup> See Notice, supra note 7, 80 FR at 54337. The Exchange states that deactivating each of these modifiers is necessary so that SNAP Eligible Orders subject to a SNAP Cycle are handled in a manner that do not violate the terms of the specified order modifiers, as the SNAP Cycle requires all participating orders to be routable, undisplayed in whole and executable, without restriction. See id.

<sup>48</sup> Under proposed CHX Article 20, Rule 8(b)(2)(A), valid SNAP AOOs in the subject security that are received during the Open Trading State in the security will not be ranked on the CHX Book upon receipt; they will be queued in the SNAP AOO Queue in the order in which they were originally received. See Notice, supra note 7, 80 FR at 54335.

AOO - Pegged,<sup>49</sup> and the precedent limit order marked Start SNAP that initiated the SNAP Cycle would be ranked on the SNAP CHX book, pursuant to proposed CHX Article 20, Rule 8(b)(3).<sup>50</sup> Precedent SNAP AOO - Pegged orders would remain on the SNAP AOO Queue and be ranked on the SNAP CHX book during the Pricing and Satisfaction Period later in the SNAP Cycle,<sup>51</sup> and precedent Non-SNAP Eligible Orders would be cancelled.

Second, the CHX Matching System would rank incoming SNAP Eligible Orders received during the SNAP Order Acceptance Period on the CHX SNAP Book. Incoming SNAP Eligible Orders would be immediately ranked on the SNAP CHX book pursuant to proposed Article 20, Rule 8(b)(3)(E),<sup>52</sup> provided, however, that SNAP AOOs marked SNAP AOO - Pegged shall be

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<sup>49</sup> Under proposed CHX Article 1, Rule 2(h)(3)(C), a SNAP AOO - Pegged Order is a limit order modifier available only for orders marked SNAP AOO - Day or SNAP AOO - One And Done, which requires that the order be priced at the less aggressive of an optional limit price or mandatory offset price from the NBBO ascertained from the market snapshot taken pursuant at the conclusion of the Order Acceptance Period. An order sender that submits a limit order marked SNAP AOO - Pegged must specify one of the following pricing options: (1) Midpoint – priced at the midpoint of the NBBO or the locking price if the NBBO is locked; if the NBBO is crossed, this order will not participate in the instant SNAP Cycle, even if there is an optional limit price indicated; (2) Market – a buy (sell) order priced at the NBO (NBB), or at a specified offset below or above the NBO (NBB); or (3) Primary – a buy (sell) order priced at the NBB (NBO), or at a specified offset below or above the NBB (NBO). See Notice, supra note 7, 80 FR at 54335.

<sup>50</sup> Proposed CHX Article 20, Rule 8(b)(3) ranks precedent orders with the same prices in the following priority: (1) precedent fully-displayable orders and displayed portions of Reserve Size SNAP Eligible Orders; (2) precedent undisplayed portion of Reserve Size SNAP Eligible orders; (3) precedent SNAP Eligible orders marked Do Not Display; (4) limit order marked Start SNAP that started the SNAP Cycle; and (5) precedent SNAP AOOs. See Notice, supra note 7, 80 FR at 54335.

<sup>51</sup> See infra, note 59.

<sup>52</sup> Proposed CHX Article 20, Rule 8(b)(3)(E) states that SNAP Eligible Orders received during the SNAP Order Acceptance Period and SNAP AOOs would be ranked based on their sequence numbers and after precedent fully-displayable orders and displayed portions of Reserve Size SNAP Eligible Orders, precedent undisplayed portion of Reserve Size SNAP Eligible orders, precedent SNAP Eligible orders marked Do Not Display, and limit order marked Start SNAP that initiated the SNAP Cycle, respectively.

placed in the SNAP AOO Queue upon receipt and would only be ranked on the SNAP CHX book during the Pricing and Satisfaction Period later in the SNAP Cycle.<sup>53</sup> Incoming non-SNAP Eligible Orders received during the SNAP Cycle, would be cancelled upon receipt, except that cross orders shall be queued.<sup>54</sup>

During the SNAP Cycle, the following incoming messages would be queued in the proposed First In/First Out (“FIFO”) Queue for later processing: (1) cancel and cancel/replace messages for resting or queued orders; (2) cancel messages from away markets for routed orders received after the SNAP Order Acceptance Period; (3) SNAP Eligible Orders received after the SNAP Order Acceptance Period; and (4) cross orders. The Exchange asserts that the FIFO Queue is necessary because the immediate processing of most messages would be suspended during the SNAP Cycle.<sup>55</sup> The Exchange further argues that the momentary delay of processing of the messages in the FIFO Queue is reasonable because the delay would be no longer than the approximate one second that it would take for the SNAP Cycle to be completed and market

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See Notice, supra note 7, 80 FR at 54335.

<sup>53</sup> See proposed CHX Article 18, Rule 1(b)(3)(A).

<sup>54</sup> Under the Exchange’s current rules, cross orders are always handled Immediate Or Cancel, pursuant. See CHX Article 1, Rule 2(a)(2). To facilitate SNAP, the Exchange proposes to amend the definition of cross orders to provide that cross orders received during a SNAP Cycle shall be queued for later processing and not immediately cancelled. The Exchange represents that this special handling of cross orders is necessary because, for example, the Exchange receives a significant number of cross orders marked Qualified Contingent Trade (“QCT”), the execution of which is required, among other things, to be contingent upon the execution of all other components at or near the same time. See Notice, supra note 7, 80 FR at 54337. Thus, the Exchange states that it is preferable to momentarily delay processing of QCTs to give such orders the opportunity to clear the CHX book, whereas the Exchange believes that an immediate cancellation could result in the QCT being out-of-hedge with the other component trades. See id. The Exchange also argues that, in light of the manual nature of QCT order packaging process, the approximate one second delay in processing a QCT on the FIFO Queue is immaterial with respect to the execution “at or near the same time” requirement for QCTs. See id.

<sup>55</sup> See Notice, supra note 7, 80 FR at 54337.

liquidity in the subject security would be enhanced by preserving such orders and reducing unnecessary order cancellations.<sup>56</sup>

Upon the conclusion of the Order Acceptance Period, the Matching System will take a snapshot of the Protected Quotation(s) of external market(s) in the subject security and determine whether or not the CHX Routing Services are available. If the snapshot of the Protected Quotation(s) of external market(s) in the subject security shows that a two-sided NBBO exists and the CHX Routing Services are available, the SNAP Cycle will continue to stage three, the Pricing and Satisfaction Period; if the market snapshot shows that a two-sided NBBO does not exist or the CHX Routing Services are unavailable, the SNAP Cycle will abort without any executions, and the Matching System will take another snapshot of the Protected Quotation(s) of external market(s) in the subject security and immediately transition to stage five, Transition to the Open Trading State.

#### Stage 3: the Pricing and Satisfaction Period

Using the market snapshot taken at the conclusion of the Order Acceptance Period, the Matching System will initiate the Pricing and Satisfaction Period.<sup>57</sup> First, the Matching System will price all SNAP AOOs marked SNAPP AOO - Pegged<sup>58</sup> that remain on the SNAP AOO Queue, and then rank those orders on the SNAP CHX book pursuant to proposed CHX Article 20, Rule 8(b)(3)(E).<sup>59</sup> The SNAP CHX book is complete once these remaining orders from the SNAP AOO Queue are processed.<sup>60</sup>

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<sup>56</sup> See id.

<sup>57</sup> See Notice, supra note 7, 80 FR at 54338-40.

<sup>58</sup> See supra note 49.

<sup>59</sup> See supra note 52.

<sup>60</sup> See Notice, supra note 7, 80 FR at 54338.

After SNAP AOOs marked SNAP AOO - Pegged are priced, the Matching System will determine the SNAP Price. Under proposed Article 1, Rule 1(rr), the SNAP Price is the single price at which the greatest number of shares may be executed during a SNAP Cycle without trading-through any more aggressively priced orders on either side of the market, in compliance with all CHX Rules and relevant securities laws and regulations, including Regulation NMS and Rule 201 of Regulation SHO, and any applicable exemptive relief therefrom.<sup>61</sup> Where two or more price points are identified when the Matching System is determining the SNAP Price, the SNAP Price will be the price closest to the last reported sale in the security from the same trading day that was not permitted to trade-through the NBBO at the time the last sale was executed (“eligible same day last sale”); where two or more price points are equally close to the eligible same day last sale price, the SNAP Price will be the eligible same day last sale price.<sup>62</sup> If an eligible same day last sale cannot be ascertained, the SNAP Price will be the price closest to the NBBO midpoint.<sup>63</sup> Where two or more price points are equally close to the NBBO midpoint, the SNAP Price will be the NBBO midpoint.<sup>64</sup>

If the SNAP Price cannot be determined, the Matching System will take a snapshot of the Protected Quotation(s) of external market(s) in the subject security and the SNAP Cycle will transition to stage five, Transition to the Open Trading State.<sup>65</sup> If the SNAP Price can be determined and one or more orders must be routed away, pursuant to proposed CHX Article 19,

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<sup>61</sup> See Notice, supra note 7, 80 FR at 54332-33.

<sup>62</sup> See Notice, supra note 7, 80 FR at 54333.

<sup>63</sup> See id.

<sup>64</sup> See id.

<sup>65</sup> In the filing, the Exchange provides examples of when the Matching System would be unable to determine a SNAP Price. See Notice, supra note 7, 80 FR at 54338.

Rule 3(a)(4) and/or (5),<sup>66</sup> the Satisfaction Period of stage three will begin. If no order routing is necessary, the SNAP Cycle will continue to stage four, the Order Matching Period.

During the Satisfaction Period, the Exchange's routing systems will route away the necessary SNAP Eligible Orders, or portions thereof, based on the execution priority rules set forth in proposed CHX Article 18, Rule 1(b)(4)(A).<sup>67</sup> The Matching System will then delay proceeding to stage four, the Order Matching Period, for 200 milliseconds or until all confirmations for routed orders have been received from away market(s), whichever occurs first. According to the Exchange, the purpose of this delay is to give away markets sufficient time to respond to the SNAP routed orders so that any unexecuted SNAP routed orders would be included in the SNAP execution in the Matching System in that SNAP Cycle.<sup>68</sup> The unexecuted

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<sup>66</sup> Proposed CHX Article 19, Rule 3(a)(4) provides that a Routable Order, as defined under CHX Article 1, Rule 1(oo), or a portion thereof, shall be routed pursuant to the CHX Routing Services in compliance with CHX rules and all federal securities laws, rules and regulations, including Regulation NMS and Regulation SHO, to the extent necessary to permit orders to be executed within the Matching System at the SNAP Price in compliance with Regulation NMS. See Notice, supra note 7, 80 FR at 54340. Orders routed away pursuant to paragraph (a)(4) shall be priced (1) at the SNAP Price or, (2) if the SNAP Price is priced at an increment smaller than the relevant minimum price increment, at the minimum price increment less aggressive than the SNAP Price. See id. Proposed CHX Article 19, Rule 3(a)(5) provides that a Routable Order, as defined under CHX Article 1, Rule 1(oo), or a portion thereof, shall be routed pursuant to the CHX Routing Services in compliance with CHX rules and all federal securities laws, rules and regulations to the extent necessary to execute SNAP Eligible Orders at the SNAP Price against Protected Quotations of external markets priced at the SNAP Price that could not be matched within the Matching System, during a SNAP Cycle. See id. The Exchange also proposes to amend the definition of Routable Order under CHX Article 1, Rule 1(oo) to specify that during a SNAP Cycle, participating SNAP Eligible Orders are always Routable Orders. See Notice, supra note 7, 80 FR at 54340 n.73.

<sup>67</sup> See infra, notes 70-72 and accompanying text for an explanation of the execution priority rules set forth in proposed CHX Article 18, Rule 1(b)(4)(A).

<sup>68</sup> See Notice, supra note 7, 80 FR at 54339. In connection with this up-to-200 millisecond delay, the Exchange also requested exemptive relief from the "current" national best bid requirement explicitly required by Rule 201 of Regulation SHO, see 17 CFR 242.201, to determine whether a short sale order in a covered security under Regulation SHO (i.e.,

remainders of orders routed away and returned to the Matching System prior to the expiration of the Satisfaction Period during which the orders were routed away will maintain their respective original execution priority within the SNAP CHX book. Any unexecuted remainders returned to the Matching System after the expiration of the Satisfaction Period during which the orders were routed away will be handled pursuant to CHX Article 20, Rule 8(b)(7).<sup>69</sup>

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any NMS Stock as defined in 17 CFR 242.600(b)(47)) can be executed in a SNAP Cycle. See Letter from Albert J. Kim, VP and Associate General Counsel, CHX, to Josephine J. Tao, Assistant Director, Division of Trading and Markets, Commission, dated October 6, 2015. The Exchange explained that the 200 millisecond delay may result in SNAP Eligible Orders executing at or below the current national best bid while Rule 201 is in effect, see id., which would violate Rule 201(b), see 17 CFR 201(b) (requiring, among other things, that a trading center establish, maintain, and enforce written policies and procedures reasonably designed to prevent the execution or display of a short sale order of a covered security at a price that is less than or equal to the current national best bid if the price of that covered security decreases by 10% or more from the covered security's closing price as determined by the listing market for the covered security as of the end of regular trading hours on the prior day). The Commission granted the Exchange an exemption from Rule 201 to permit the Exchange to use a reference price other than the current national best bid under Rule 201 in determining permissible execution prices in SNAP Cycles where there is a SNAP execution delay between the stage 2 market snapshot and SNAP executions, subject to certain conditions. See Letter from Josephine J. Tao, Assistant Director, Division of Trading and Markets, Commission, to Albert J. Kim, VP and Associate General Counsel, CHX, dated October 6, 2015.

<sup>69</sup> Pursuant to proposed CHX Article 20, Rule 8(b)(7), an unexecuted remainder of a routed order returned to the Matching System in one or more parts will be added to the existing balance of the related Routable Order already posted to the CHX book, the SNAP CHX book, or the SNAP AOO Queue, as applicable. See Notice, supra note 7, 80 FR at 54339-40. If no balance exists at the time a part of an unexecuted remainder of a routed order is returned to the Matching System, the order will be treated as a new incoming order, subject to Satisfaction Period provisions set forth in proposed CHX Article 18, Rule 1(b)(3)(C). See id. As noted above, the unexecuted remainders of orders routed away and then returned to the Matching System prior to the expiration of the Satisfaction Period during which the orders were routed away will maintain their respective original execution priority within the SNAP CHX book and will not be treated as new incoming orders. See Notice, supra note 7, 80 FR at 54340.

#### Stage 4: the Order Matching Period

Upon conclusion of the stage three Pricing and Satisfaction Period, orders remaining on the SNAP CHX book if any, will be matched at the SNAP Price in accordance with the execution priority provisions set forth in proposed CHX Article 18, Rule 1(b)(4), and after those orders are matched, the Matching System will take another snapshot of the Protected Quotation(s) of external market(s) in the subject security.<sup>70</sup> Under proposed paragraph (b)(4), SNAP Eligible Orders with a Working Price<sup>71</sup> at or more aggressive than the SNAP Price will be executed in Working Price priority and if more than one such order shares the same Working Price, then as described under Article 20, Rule 8(b)(3), for that price point.<sup>72</sup> Accordingly, orders will be executed according to their rank at the SNAP Price, except that orders with a more aggressive Working Price will be executed first.<sup>73</sup> The Exchange will utilize the market snapshot taken during the Order Matching Period for regulatory compliance purposes in transitioning the Open Trading State during stage five.<sup>74</sup>

#### Stage 5: the Transition to Open Trading State

During stage five, the Transition to Open Trading State, the Matching System will use the relevant market snapshot to transition trading in the subject security to the Open Trading State.<sup>75</sup>

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<sup>70</sup> See Notice, supra note 7, 80 FR at 54340-41.

<sup>71</sup> Under CHX Article 1, Rule 1(pp), Working Price is defined as the most aggressive price at which a resting limit order, as defined under CHX Article 1, Rule 2(a)(1), can execute within the Matching System, in compliance with CHX Rules and relevant securities laws and regulations, including Rule 611 of Regulation NMS and Rule 201 of Regulation SHO.

<sup>72</sup> See supra notes 50 and 52.

<sup>73</sup> See Notice, supra note 7, 80 FR at 54340.

<sup>74</sup> See Notice, supra note 7, 80 FR at 54341-42.

<sup>75</sup> See id.

Specifically, orders resting on the SNAP CHX book will be either: (1) transitioned onto the CHX book and ranked pursuant to the Exchange's ranking rules for orders during the Open Trading State;<sup>76</sup> (2) routed away; (3) placed in the SNAP AOO Queue, if the order is a SNAP AOO that may participate in a subsequent SNAP Cycle; or (4) otherwise cancelled.

Additionally, order modifiers attached to the SNAP Eligible Orders being transitioned to the CHX book that were deactivated during the SNAP Cycle will be reactivated prior to transition to the CHX book.

Once these processes have finished, all messages queued on the FIFO Queue during the SNAP Cycle will be processed as incoming messages in the order in which they were received. As the final step of the SNAP Cycle, the Exchange will: (1) notify the market that the SNAP Cycle has concluded; (2) publish Protected Quotation(s) in the subject security, if any; and (3) begin the dissemination of relevant order information concerning orders resting on the CHX book.

### III. Discussion and Commission Findings

After careful review and consideration, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange.<sup>77</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>78</sup> which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade; to remove impediments to and

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<sup>76</sup> See proposed CHX Article 20, Rule 8(b)(1).

<sup>77</sup> In approving this proposed rule change, as amended, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>78</sup> 15 U.S.C. 78f(b)(5).

perfect the mechanism of a free and open market and a national market system; and, in general, to protect investors and the public interest, and that the rules of a national securities exchange not be designed to permit unfair discrimination between customers, issuers, brokers or dealers.

The Commission believes that the proposal is reasonably designed to facilitate the auction trading of securities on CHX in a fair and orderly manner, and could improve market quality for market participants seeking to execute bulk trading interests and for other market participants submitting orders in response to that interest. The Commission believes that the SNAP may promote liquidity while minimizing potential information leakage that could disadvantage market participants whose orders are participating in the SNAP Cycle. At the initiation of the SNAP Cycle, the Exchange will broadcast to the market that an aggressively priced trading interest<sup>79</sup> in a particular security of a substantial size<sup>80</sup> is guaranteed to exist at CHX without disclosing details of the order. That signal will allow market participants to respond to what must be a large Start SNAP order priced at or better than the NBBO at the time the Start SNAP order was received by the Matching System.<sup>81</sup> The SNAP CHX book will be fully hidden, and market data dissemination would be suspended during a SNAP Cycle (except for the SNAP execution reports to the relevant SIP and order senders). The Commission notes that the Exchange has represented that orders will be executed in the SNAP at the SNAP Price in a manner consistent with all CHX Rules and relevant securities laws and regulations, including

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<sup>79</sup> The limit price of the Start SNAP order must be priced at or through the NBO for buy orders or NBB for sell orders at the time the order was received by the Matching System. See supra note 40 and accompanying text.

<sup>80</sup> Generally, a Start SNAP order must be (a) at least 2,500 shares and have a minimum aggregate notional value of \$250,000 or (b) at least 20,000 shares with no minimum aggregate notional value requirement. See supra note 39 and accompanying text.

<sup>81</sup> See supra notes 79 and 80 and accompanying text.

Regulation NMS and Rule 201 of Regulation SHO, and any applicable exemptive relief therefrom.<sup>82</sup>

The Exchange has included functionalities in SNAP that the Exchange states are designed to deemphasize speed as a key for trading success. A SNAP Cycle will never be scheduled ahead of time, and the length of the SNAP Order Acceptance Period would be randomized.<sup>83</sup> The SNAP also deemphasizes speed advantages because Participants may submit SNAP AOOs to rest on the SNAP AOO Queue prior to a SNAP Cycle, and those AOOs would maintain priority over SNAP Eligible Orders submitted during the SNAP Cycle.<sup>84</sup> The Commission believes that the proposal, which is intended to deemphasize speed advantages during the SNAP Cycle, is reasonably designed to help promote just and equitable principles of trade and remove impediments and perfect the mechanisms of a free and open market. The Commission believes that the SNAP may encourage competition among trading venues, which may inure to the benefit of investors.

For the above reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with the requirements of the Act.

#### IV. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 1, prior to the 30th day after the date of publication of notice of Amendment

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<sup>82</sup> See supra note 61- 66 and accompanying text. The Commission notes that the Exchange has obtained exemptive relief from certain requirements of the short sale price test restriction of Rule 201 of Regulation SHO in connection with certain SNAP processes. See supra note 68.

<sup>83</sup> See Notice, supra note 7, 80 FR at 54347.

<sup>84</sup> See id.

No. 1 in the Federal Register.<sup>85</sup> In Amendment No. 1, the Exchange proposes to amend the minimum size requirements for the following: (1) limit orders marked Start SNAP for securities that do not have a special minimum size requirement; and (2) SNAP AOOs for securities that do not have a special minimum size requirement. With respect to Start SNAP orders, the Exchange proposes to replace the previously proposed tier-based minimum size requirements with a requirement that a Start SNAP order be for at least: (1) 2,500 shares and have a minimum aggregate notional value of \$250,000; or (2) 20,000 shares with no minimum aggregate notional value requirement. With respect to SNAP AOOs, the Exchange also proposes to replace the previously proposed tier-based minimum size requirements with a requirement that a SNAP AOO be for at least: (1) 250 shares and have a minimum aggregate notional value of \$25,000 based on its corresponding SNAP AOO Reference Price; or (2) at least 2,000 shares with no minimum aggregate notional value requirement.

The Exchange states that it received feedback from certain Participants indicating that the original tier-based minimum size requirements were counter-intuitive and would unnecessarily complicate the programming of those Participants' respective systems to automatically initiate and participate in SNAP Cycles, and that the proposed simplification of the minimum size requirements is designed to address those concerns.<sup>86</sup> The Commission finds that Amendment No. 1 is consistent with the protection of investors and the public interest, and notes that the

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<sup>85</sup> As mentioned above, Amendment No. 1 was published for comment in the Federal Register on September 9, 2015. Accordingly, the 30<sup>th</sup> day after publication of the Notice is October 9, 2015.

<sup>86</sup> See Amendment No. 1 at pgs. 3-4.

Commission solicited comments regarding Amendment No. 1 and no comments have been received.<sup>87</sup>

Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>88</sup> to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

VI. Conclusion

IT IS THEREFORE ORDERED that, pursuant to Section 19(b)(2) of the Act,<sup>89</sup> the proposed rule change, as modified by Amendment No. 1, (SR-CHX-2015-03) be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>90</sup>

Robert W. Errett  
Deputy Secretary

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<sup>87</sup> See Notice, supra note 7.

<sup>88</sup> 15 U.S.C. 78s(b)(2).

<sup>89</sup> 15 U.S.C. 78s(b)(2).

<sup>90</sup> 17 CFR 200.30-3(a)(12).