

paragraph (f)(2) of Rule 19b-4<sup>11</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2010-177 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 Number SR-Phlx-2010-177. 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 change 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 Web site viewing and printing in the Commission's Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. 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 Number SR-Phlx-2010-177 and should be submitted on or before January 13, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-63564; File No. SR-CHX-2010-25]

### Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change To Eliminate the Validated Cross Trade Entry Functionality

December 16, 2010.

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the "Act")<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on December 10, 2010, the Chicago Stock Exchange, Inc. (the "Exchange" or "CHX") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and is approving the proposed rule change on an accelerated basis.

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

The CHX proposes to amend its rules to eliminate the Validated Cross Trade Entry Functionality for Exchange-registered Institutional Brokers. The text of this proposed rule change is available on the Exchange's Web site at (<http://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 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 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 Change

##### 1. Purpose

The Exchange proposes to amend its rules relating to the submission and execution of certain cross orders by CHX-registered Institutional Brokers ("Institutional Brokers") by eliminating the ability of an Institutional Broker to execute trades on the Exchange's trading facilities outside of the Exchange's Matching System.<sup>4</sup> Institutional Brokers represent a voluntary registration category of Exchange Participants and the provisions of Article 17 of the Exchange's Rules apply specifically to them. Institutional Brokers are deemed to be trading on the facilities of the Exchange.<sup>5</sup> Institutional Brokers are the successors to the previous Floor Broker category and they largely handle orders from their customers on a manual basis.<sup>6</sup>

With the adoption and implementation of Regulation NMS ("Reg NMS"), the Exchange transitioned from its traditional floor-based, auction trading archetype to its current electronic trading model.<sup>7</sup> In order to facilitate the handling and execution of orders by Institutional Brokers, Article 17 has provided a means by which Institutional Brokers could attempt to manually execute and report transactions outside the CHX Matching System while complying with the trade-through prohibitions of Reg NMS and the order priority rules of the

<sup>4</sup> See, Article 20 for rules relating to the operation of the CHX Matching System.

<sup>5</sup> See, Securities Exchange Act Rel. No. 54550 (Sept. 29, 2006), 71 FR 59563 (October 10, 2006) (SR-CHX-2006-05) at Section I.L.C. (Institutional Broker), note 65 and accompanying text.

<sup>6</sup> For example, an Institutional Broker Representative ("IBR") may receive an order instruction from a customer over the telephone or some electronic means of communication (e.g., e-mail or instant message). The IBR is then responsible for entering the terms of the order into an electronic database (for the purpose of facilitating automated surveillance of such activity. See, Article 11, Rule 3) and seeking execution thereof.

<sup>7</sup> See, Securities Exchange Act Rel. No. 54550 (Sept. 29, 2006), 71 FR 59563 (October 10, 2006) (SR-CHX-2006-05).

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

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

<sup>25</sup> U.S.C. 78a.

<sup>37</sup> 17 CFR 240.19b-4.

<sup>11</sup> 17 CFR 240.19b-4(f)(2).

Exchange.<sup>8</sup> The Exchange's Brokerplex order entry system, which is available for use by all Institutional Brokers, includes a functionality known as "Validated Cross." The Validated Cross functionality allows an Institutional Broker to electronically validate whether a proposed cross transaction would constitute an improper trade-through under Reg NMS and/or violate the Exchange's priority rules before the trade can be consummated and reported. The purpose of the Validated Cross functionality has been to permit an Institutional Broker to receive an execution instruction from a customer, to immediately validate it within Brokerplex for compliance with applicable regulations and complete the full transaction reporting within a timeframe which is consistent with industry standards. By using this functionality, the broker and its customers could avoid being disadvantaged simply because the IBR was not able to type the trade data into the system before the National Best Bid or Offer ("NBBO") and/or CHX order book changed.

Despite these apparent advantages, reliance on and usage of the Validated Cross functionality by Institutional Brokers has declined over time. Additionally, the Exchange has conducted an analysis of whether the Validated Cross allows Institutional Broker to submit trades which would be blocked if submitted as a regular cross order and has concluded that the Validated Cross is effective for that purpose only in a very small percentage of instances. Even though we are proposing to get rid of the Validated Cross functionality, Institutional Brokers will continue to have the ability to submit other cross orders to the CHX Matching System for execution. Given the additional systems and regulatory costs to maintaining the Validated Cross functionality, the Exchange is proposing to eliminate it within the Brokerplex trading application and delete the associated rule text. Since the Validated Cross was the only means by which an Institutional Broker could execute and report a trade on our facilities outside of the Matching System, the Exchange is also proposing to eliminate the clause in section (a) of Article 9, Rule 13 which referred to trades executed outside the Matching System by an Institutional Broker.

<sup>8</sup> See, Reg NMS Rule 611 (Order Protection Rule); Article 20, Rule 8 (Operation of the Matching System).

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general,<sup>9</sup> and furthers the objectives of Section 6(b)(5) in particular,<sup>10</sup> 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. The elimination of the Validated Cross functionality available to Institutional Brokers will simplify the order entry process, eliminate certain regulatory concerns presented by the Validated Cross and reduce the burden on the Exchange to maintain overlapping order entry functionality.

### 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 Received From Members, Participants, or Others

No written comments were solicited or received.

## III. Date of Effectiveness of the Proposed Rule Change 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 or disapprove the 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 proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

## Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2010-25 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 Number SR-CHX-2010-25. 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 change 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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will 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 publicly available. All submissions should refer to File Number SR-CHX-2010-25 and should be submitted on or before January 13, 2011.

## V. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>11</sup> In

<sup>11</sup> In approving the proposed rule change, the Commission notes that it has considered the

particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act,<sup>12</sup> which requires, among other things, that the Exchange's rules be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest. The Commission agrees with the Exchange that the elimination of the Validated Cross functionality will simplify CHX's order entry process, eliminate certain regulatory concerns presented by the Validated Cross functionality, and reduce the burden on the Exchange to maintain overlapping order entry functionality.<sup>13</sup>

The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> for approving the proposed rule change prior to the 30th day after publication of notice in the **Federal Register**. The Exchange represents that accelerated approval will allow the Exchange to implement these changes prior to the application of its customary end-of-the-year software change freeze, and thereby minimize the systems and operational risks it says are inherent to coding changes made late in the year. Further, accelerated approval of the proposed rule change will allow the Exchange to more quickly address certain regulatory concerns associated with the Validated Cross functionality.

## VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,<sup>15</sup> that the proposed rule change (SR-CHX-2010-25) be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

<sup>13</sup> See *supra* Section II.A.2.

<sup>14</sup> 15 U.S.C. 78s(b)(2).

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

<sup>16</sup> 17 CFR 200.30-3(a)(12).

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-63566; File No. SR-CBOE-2010-115]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Modify How Odd-Lots Are Handled on CBSX

December 16, 2010.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 14, 2010, the Chicago Board Options Exchange, Incorporated ("Exchange" or "CBOE") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II 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 modify how odd-lot orders are handled on the CBOE Stock Exchange ("CBSX"). The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.org/Legal>), at the Exchange's principal office, and on the Commission's Web site at <http://www.sec.gov/rules/sro.shtml>.

#### 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 self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

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

###### 1. Purpose

Currently, CBSX handles and executes round lot orders differently

from the manner in which it handles and executes odd lot and mixed lot orders.<sup>3</sup> If CBSX is not displaying the NBBO and step-up is not achieved pursuant to the CBSX flash process in Rule 52.6, the round lot order is then routed to the exchange displaying the NBBO for execution. Odd lot orders, however, currently are not routed to the exchange displaying the NBBO for execution. The proposed change will ensure that odd and mixed lot orders will be handled and executed in a more consistent manner with round lot orders.

Under the proposed rule change, Odd-Lot orders will be matched by the CBSX System against interest at the best price in the CBSX Book. Odd-Lot orders (or the odd-lot portion of a mixed lot order) that are not marketable will be maintained in the System so that they may trade against later submitted orders (they will be traded using CBSX's matching rules). Marketable Odd-lot orders will be handled similar to round lot orders. If fulfilling an Odd-Lot order would result in an impermissible trade-through of another exchange, the order will be routed to other exchanges to be filled at prices better than the CBSX disseminated price. If an execution is not attained at the away exchange(s), the returned order is eligible for execution on CBSX. We note that the flash process utilized by CBSX prior to routing away orders will not be employed for Odd-lot orders.

If an incoming Odd-lot order trades against a quote in the CBSX Book, the new quantity remaining in the quote will be rounded down to the nearest lower round-lot amount (zero or multiple of 100) for display purposes, with the remaining Odd-Lot amount being cancelled. If an incoming order trades against a limit order resting on the CBSX Book and an Odd-Lot amount remains from the limit order resting on the CBSX Book, that Odd-Lot amount will remain in the system eligible for execution but will not be displayed.

###### 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the "Act")<sup>4</sup> and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.<sup>5</sup> Specifically, the Exchange believes the

<sup>3</sup> A "round lot" order is an order for a quantity that is a multiple of 100 (100, 200, 300, etc.). An "odd lot" order is an order for a quantity that is less than 100. A "mixed lot" order is an order for a quantity that is greater than 100 but not a multiple of 100 (135, 372, 1126, etc.).

<sup>4</sup> 15 U.S.C. 78s(b)(1).

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

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

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