

*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-NYSE-2011-53. This file number should be included on the subject line if email 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 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 NYSE. 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-NYSE-2011-53, and should be submitted on or before November 22, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>11</sup>

**Kevin M. O'Neill,**  
*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65633; File No. SR-CHX-2011-29]

### Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving a Proposed Rule Change To Change the Status of Exchange-Registered Institutional Broker Firms

October 26, 2011.

#### I. Introduction

On September 14, 2011, the Chicago Stock Exchange, Inc. ("CHX" or the "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 change the status of Exchange-registered Institutional Broker firms ("Institutional Brokers"). The proposed rule change was published for comment in the **Federal Register** on September 26, 2011.<sup>3</sup> The Commission received no comment letters on the proposal. This order approves the proposed rule change.

#### II. Description of the Proposal

Institutional Brokers are an elective sub-category of Exchange Participants who are subject to the obligations of Article 17 of the CHX rules. Typically, Institutional Brokers provide manual order handling and execution services for other broker-dealers or institutional clients. Institutional Brokers are the successors to the floor brokers that operated within the Exchange's previous floor-based, auction trading model. That model was eliminated as part of the Exchange's transition to its New Trading Model, which features an electronic limit order matching system as its core trading facility.<sup>4</sup> In approving the Exchange's New Trading Model, the Commission stated:

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.<sup>5</sup>

Due to certain changes in the function of Institutional Brokers,<sup>6</sup> CHX proposes to treat Institutional Brokers as no longer always operating on the Exchange. Pursuant to CHX's proposal, an order that is sent to an Institutional Broker shall not be deemed to be "on the Exchange" unless and until the Institutional Broker enters it into the Exchange's Matching System.<sup>7</sup> Correspondingly, the Exchange proposes to delete certain references to Institutional Brokers and/or their activity as being "on the Exchange" in Article 11, Rule 3(e) and in Article 17, Rule 3(a) and in Interpretation and Policy .01 thereto.

The Exchange also proposes to delete Article 20, Rule 7 (Clearing the Matching System), which requires Institutional Brokers to attempt to execute trades on the Exchange before routing the order to another destination, except if the Institutional Broker is trading for its own account or its customer specifically requests otherwise. Currently, Institutional Brokers are not permitted to execute transactions directly in the over-the-counter ("OTC") marketplace because, as discussed above, orders directed to them are deemed on the Exchange.<sup>8</sup> In light of the proposed elimination of the on-Exchange designation of all Institutional Broker orders, CHX also proposes to modify Article 17, Rule 1 to permit Institutional Brokers to effect transactions both on the Exchange and

<sup>5</sup> *Id.* 71 FR at 59567.

<sup>6</sup> Until fairly recently, CHX permitted Institutional Brokers to execute trades outside the Exchange's core trading facility, the Matching System, and those trades were still considered to be on the Exchange. Utilizing a functionality known as the Validated Cross, Institutional Brokers executed cross transactions based upon the state of the national market and orders residing in the Matching System at the time the parties agreed to the execution, rather than as of the entry of all essential terms into the electronic systems used by Institutional Brokers to handle and execute such transactions. *See, e.g.*, CHX Market Regulation Department Information Memorandum MR-07-9 (December 6, 2007). In December 2010, the Exchange eliminated the Validated Cross functionality and ability of Institutional Brokers to execute transactions on the CHX otherwise than through the Matching System. *See* Securities Exchange Act Release No. 63564 (December 16, 2010), 75 FR 80870 (December 23, 2010) (SR-CHX-2010-25). Given this change, the Exchange states there is no longer any meaningful reason to treat Institutional Brokers as operating on the Exchange and the proposed Interpretation and Policy .04 reflects that determination. *See* Notice, 76 FR at 59477.

<sup>7</sup> *See* New Interpretation and Policy .04 to Rule 3 of Article 17.

<sup>8</sup> *See* CHX Market Regulation Department Information Memorandum MR-11-09 (July 14, 2011), available on the Exchange's public Web site, <http://www.chx.com>.

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

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

<sup>3</sup> Securities Exchange Act Release No. 65354 (September 19, 2011), 76 FR 59476 ("Notice").

<sup>4</sup> The Exchange replaced its traditional auction marketplace with its New Trading Model beginning in 2006. *See* Securities Exchange Act Release No. 54550 (September 29, 2006), 71 FR 59563 (October 10, 2006) (SR-CHX-2006-05).

<sup>11</sup> 17 CFR 200.30-3(a)(12).

in other market centers, which would include the OTC marketplace, subject to the rules of the appropriate self-regulatory organization (“SRO”).<sup>9</sup>

### III. Discussion

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>10</sup> Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>11</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 Commission notes that, due to the elimination of the Validated Cross functionality, an Institutional Broker can only execute an order on the Exchange by submitting an order into the Matching System, which is the means all other Exchange participants execute orders on the Exchange.<sup>12</sup> The Commission believes that it is appropriate and consistent with the Act for Institutional Brokers to no longer be deemed to be a participant operating on the Exchange, and that a customer order received by an Institutional Broker should not be deemed to be on the Exchange unless and until such order is entered into the Matching System. Allowing an Institutional Broker to execute transactions other than on the Exchange and eliminating the requirement to clear the Matching System before sending customer orders to other trading centers, should permit an Institutional Broker to more effectively compete with other broker-dealers and serve the interests of their customers and investors.<sup>13</sup>

### IV. Conclusion

*It Is Therefore Ordered*, pursuant to Section 19(b)(2) of the Act,<sup>14</sup> that the

<sup>9</sup> Currently, the SRO for the OTC marketplace is FINRA.

<sup>10</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

<sup>12</sup> See *supra* note 6.

<sup>13</sup> The Commission notes that it approved separately changes to CHX's rules governing the clearing of Institutional Brokers' transactions effected other than on CHX. See Securities Exchange Act Release No. 65615 (October 24, 2011) (SR-CHX-2010-17).

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

proposed rule change (SR-CHX-2011-29) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>15</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2011-28228 Filed 10-31-11; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65630; File No. SR-C2-2011-030]

### Self-Regulatory Organizations; C2 Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Close Trading at 3 p.m. Chicago Time on the Last Day of Trading of Expiring P.M.-Settled S&P 500 Options

October 26, 2011.

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> notice is hereby given that on October 17, 2011, the C2 Options Exchange, Incorporated (the “Exchange” or “C2”) 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 Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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 the Substance of the Proposed Rule Change

Prior to the commencement of the listing and trading on C2 of Standard & Poor's 500 Index (“S&P 500”) options with third-Friday-of-the-month (“Expiration Friday”) expiration dates for which the exercise settlement value will be based on the index value derived from the closing prices of component securities (“PM-settled”),<sup>5</sup> the Exchange

<sup>15</sup> 17 CFR 200.30-3(a)(12).

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

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

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

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

<sup>5</sup> Listing and trading of P.M.-settled S&P 500 options has already commenced, but the Exchange intends to have this change in place prior to the first Expiration Friday for such products. See email from Jeff Dritz, Attorney, C2, to Sara Hawkins,

proposes to close trading at 3 p.m. Chicago time (all times referenced herein to be Chicago time) on the last day of trading of expiring P.M.-settled S&P 500 options. Non-expiring P.M.-settled S&P 500 options will continue to trade until 3:15 p.m. The text of the proposed rule change is available on the Exchange's Web site (<http://www.cboe.org/legal>), at the Exchange's Office of the Secretary, and at the Commission.

#### 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 those 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 Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

On September 2, 2011, the Commission approved a rule change filed by the Exchange to permit, on a pilot basis, the listing and trading on C2 of PM-settled S&P 500 options.<sup>6</sup> The Exchange now proposes, prior to the commencement of trading of such products, to close trading at 3 p.m. on the last day of trading of expiring P.M.-settled S&P 500 options. Non-expiring P.M.-settled S&P 500 options will continue to trade until 3:15 p.m.

The S&P 500 is a capitalization-weighted index of 500 stocks from a broad range of industries. The component stocks are weighted according to the total market value of their outstanding shares. The impact of a component's price change is proportional to the issue's total market share value, which is the share price times the number of shares outstanding. These are summed for all 500 stocks and divided by a predetermined base value. The base value for the S&P 500 is adjusted to reflect changes in capitalization resulting from, among

Special Counsel, Division of Trading and Markets, Commission on October 20, 2011.

<sup>6</sup> See Securities Exchange Act Release No. 34-65256 (September 2, 2011), 76 FR 55969 (September 9, 2011) (SR-C2-2011-008).