

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74357; File No. SR-CHX-2015-01]

### Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Concerning the Use of Market Data Feeds by the Exchange

February 24, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that, on February 12, 2015, the Chicago Stock Exchange, Inc. (“CHX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I 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

CHX proposes to clarify for Participants and non-Participants the Exchange’s use of data feeds for order handling and execution, order routing and regulatory compliance.<sup>3</sup> On July 16, 2014, the Exchange filed a proposed rule change that described its use of the consolidated market data disseminated by the securities information processors (“SIP data feeds”) for all operational and regulatory compliance purposes (the “initial rule filing”) with the Securities and Exchange Commission (the “Commission”).<sup>4</sup> The Exchange now submits this supplemental filing.<sup>5</sup> The Exchange has designated this proposed rule change as non-

controversial and provided the Commission with the notice required by Rule 19b-4(f)(6)(iii) under the Act.<sup>6</sup>

The text of this proposed rule change is available on the Exchange’s Web site at ([www.chx.com](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 changes 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 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

On June 5, 2014, Chair White requested that all national securities exchanges develop proposed rule changes to disclose their use of data feeds to execute and route orders and comply with regulatory requirements.<sup>7</sup> In addition, on June 20, 2014, the Commission’s Division of Trading and Markets requested that the Exchange file proposed rule changes that disclose its usage of particular market data feeds, among other things.<sup>8</sup> In response to these requests, the Exchange filed an initial rule filing with the Commission on July 16, 2014.<sup>9</sup> The Exchange now submits this supplemental filing concerning the use of SIP data feeds for the CHX Routing Services,<sup>10</sup> which is not yet operational, and the pricing of cross orders marked Midpoint Cross.<sup>11</sup>

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

<sup>7</sup> See Mary Jo White, Chair, Securities and Exchange Commission, Speech at Sandler O’Neil & Partners L.P. Global Exchange and Brokerage Conference (June 5, 2014).

<sup>8</sup> See letter from Stephen Luparello, Division of Trading and Markets, Securities and Exchange Commission, to John K. Kerin, Chief Executive Officer and President, Chicago Stock Exchange, Inc., dated June 20, 2014.

<sup>9</sup> See *supra* note 4.

<sup>10</sup> See Exchange Act Release No. 73150 (September 19, 2014), 79 FR 57603 (September 25, 2014) (SR-CHX-2014-15).

<sup>11</sup> CHX Article 1, Rule 2(b)(2)(D) defines “Midpoint Cross” as follows:

a cross order modifier with an instruction to execute it at the midpoint between the NBBO. If the NBBO is locked at the time a Midpoint Cross is received, the Midpoint Cross will execute at the locked NBBO. If the NBBO is crossed at the time

#### Initial Rule Filing

Under the initial rule filing, the Exchange adopted Article 1, Rule 4, which provides that the consolidated market data disseminated by the securities information processors shall be the only market data feed utilized by the Exchange for all operational and regulatory compliance purposes.<sup>12</sup> The Exchange also noted the following:

- The SIP data feeds are the only data feeds utilized by the Exchange to calculate the National Best Bid and Offer (“NBBO”) for the purposes of compliance with Regulation NMS and Regulation SHO. The Exchange does not utilize direct feeds from away markets for such purposes.

- In addition to the SIP data feeds, the Exchange uses its own internal data for operational and regulatory compliance purposes.

- The Exchange does not ignore or modify SIP quote data for the purposes of establishing the NBBO under any circumstances where the SIP data feed shows an uncrossed market.<sup>13</sup>

- The Exchange does not offer outbound routing of orders, but that if the Exchange were to adopt such functionality in the future, the Exchange would only utilize the SIP data feeds for routing purposes.

- The Exchange does not offer pegged orders that have limit prices that track the NBBO.

The Exchange continues to utilize the SIP data feeds for all operational and regulatory compliance purposes, as described under initial filing, and submits the following updates and points of clarification.

#### CHX Routing Services

On September 8, 2014, the Exchange filed SR-CHX-2014-15, through which the Exchange adopted rules concerning the CHX Routing Services, an outbound order routing service that is not yet operational.<sup>14</sup> As described in the initial rule filing, the CHX Routing Services will only utilize the SIP data feeds for order routing purposes.

Thus, the Exchange proposes to amend Article 1, Rule 4(a) to explicitly provide that the consolidated market

a Midpoint Cross is received, the Midpoint Cross will be automatically cancelled. A Midpoint Cross order may only be executed in an increment permitted by Article 20, Rule 4(a)(7)(b).

<sup>12</sup> At the time SR-CHX-2014-10 was filed, the SIP data feeds were the only data feeds utilized by the Exchange for operational and regulatory compliance purposes.

<sup>13</sup> Where the SIP data feeds show a crossed NBBO, the Exchange’s NBBO calculation protocol ignores crossing quotes and executes orders up to the first uncrossed NBBO. See paragraph .01(d) of CHX Article 20, Rule 5

<sup>14</sup> See *supra* note 10.

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

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

<sup>3</sup> CHX Article 1, Rule 1(s) defines “Participant,” in pertinent part, as “any Participant Firm that holds a valid Trading Permit and any person associated with a Participant Firm who is registered with the Exchange under Articles 16 and 17 as a Market Maker Trader or Institutional Broker Representative, respectively. A Participant shall be considered a ‘member’ of the Exchange for purposes of the Exchange Act.”

<sup>4</sup> See Securities Exchange Act Release No. 72711 (July 29, 2014), 79 FR 45570 (August 5, 2014) (SR-CHX-2014-10). Other national securities exchanges filed similar proposals. See e.g., Securities Exchange Act Release Nos. 72710 (July 29, 2014), 79 FR 45511 (August 5, 2014) (SR-NYSE-2014-38), and 72684 (July 28, 2014), 79 FR 44956 (August 1, 2014) (SR-NASDAQ-2014-072).

<sup>5</sup> The Exchange understands that other national securities exchanges will file similar proposed rule changes with the Commission to further describe their use of data feeds for order handling and execution, order routing and regulatory compliance.

data disseminated by the securities information processor shall be the only market data feeds utilized by the Exchange for the handling, execution and routing of orders, as well as for the regulatory compliance processes related to those functions.<sup>15</sup>

#### Midpoint Cross

Under the initial rule filing, the Exchange noted that it does not offer pegged orders that have limit prices that track the NBBO. To clarify, the Exchange has never offered *single-sided orders* that are continuously repriced to follow changes to the NBBO (“single-sided pegged orders”). The Exchange does, however, offer Midpoint Cross, which is a cross order (*i.e.*, two-sided order) modifier that instructs the Matching System to execute the order at the midpoint of the NBBO.<sup>16</sup> Unlike single-sided pegged orders, cross orders marked Midpoint Cross are not continuously repriced to follow changes to the NBBO because cross orders are always handled Immediate Or Cancel (“IOC”).<sup>17</sup>

Mechanically, upon receipt of a cross order marked Midpoint Cross, the Matching System will utilize the NBBO calculated from the SIP data feed and internal CHX book data in the subject security to identify the NBBO midpoint price. The Matching System utilizes the internal CHX book data in the subject security, in addition to the SIP data feed, because the internal CHX book data always reflects the most recent CHX quote(s) in the subject security, which may not yet be reflected in the SIP data feed. Assuming that the order is otherwise executable within the CHX book, the Matching System will immediately execute the order at the NBBO midpoint. Incidentally, the Exchange clarifies that it does not ignore or modify SIP quote data concerning *away market quotes* under any circumstances where the SIP data feed shows an uncrossed market. The Exchange may, however, ignore SIP quote data regarding its own market if the Exchange’s internal data in the subject security is different from what is received from the SIP, such as when pricing the Midpoint Cross order.

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities

<sup>15</sup> The Exchange may utilize other data feeds in conducting manual reviews of Matching System activity.

<sup>16</sup> See *supra* note 11.

<sup>17</sup> See CHX Article 1, Rule 2(a)(2).

exchange, and, in particular, with the requirements of Section 6(b) of the Act.<sup>18</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>19</sup> because it would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system.

Specifically, the Exchange believes that the proposed update and clarifications concerning the Exchange’s use of the SIP data feeds in the context of the CHX Routing Services and the Midpoint Cross order modifier will enhance transparency concerning the operation of the Exchange. This will, in turn, promote the public confidence and strengthen the national market system.

#### B. Self-Regulatory Organization’s Statement on Burden on Competition

The Exchange does not believe that the proposed rule change implicates any competitive issues. To the contrary, the Exchange anticipates that other national securities exchanges will also make similar clarifications concerning their respective use of data feeds and this proposed rule will ensure consistent treatment of this subject matter in the respective rulebooks.

#### C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

No written comments were either solicited or received.

#### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>20</sup> and Rule 19b-4(f)(6) thereunder.<sup>21</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if

<sup>18</sup> 15 U.S.C. 78f(b).

<sup>19</sup> 15 U.S.C. 78f(b)(5).

<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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:

##### Electronic Comments

- Use the Commission’s Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2015-01 on the subject line.

##### Paper Comments

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

All submissions should refer to File Number SR-CHX-2015-01. 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, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. 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-CHX-

2015-01 and should be submitted on or before March 23, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-74363; File No. SR-BX-2015-013]

### Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Amend the Fee Schedule Under Exchange Rule 7018(a) and (e) With Respect to Transactions in Securities Priced at \$1 per Share or More

February 24, 2015.

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 February 11, 2015, NASDAQ OMX BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 amend the fee schedule under Exchange Rule 7018 with respect to transactions in securities priced at \$1 or more per share.

The text of the proposed rule change is also available on the Exchange’s Web site at <http://nasdaqomxbx.cchwallstreet.com>, at the principal office of the Exchange, and at 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 Exchange 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 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 is proposing to amend BX Rule 7018(a) and (e) to modify the fees and rebates assessed under the rule applicable to transactions in securities priced at \$1 or more. Specifically, the Exchange proposes to clarify and make uniform throughout BX Rule 7018(a) the term “Midpoint pegging”, as well as in BX Rule 7018(e) regarding credits for retail orders. The Exchange also proposes to include within BX Rule 7018(a) a specific line item for a credit for an “Order with Midpoint pegging that removes liquidity” of \$0.0005 per share executed. The Exchange believes that these proposed changes increase transparency as to how a member’s credit is determined, clarify the fee schedule, and do not change the overall current rate for such credits except for the one minor change noted above.<sup>3</sup>

Changing the language for non-displayed orders entered by a member that provides an average daily volume of 3.5 million or more shares (but less than 5 million shares) of non-displayed liquidity to include “other than orders with Midpoint pegging” instead of “including those pegged to the midpoint” results in no actual change. Currently, a member would never receive the \$0.0024 per share executed charge for an order with Midpoint pegging because instead the member would have qualified for the \$0.0005 per share executed charge for an order with Midpoint pegging entered by a member that provides an average daily volume of 2 million or more shares of non-displayed liquidity during the month.

Additionally, the Exchange proposes to define “price improvement” to mean instances when the accepted price of an order differs from the executed price of an order and incorporate it where applicable in BX Rule 7018(a) and (e). The accepted price is the price the matching engine assigns an order based on the instructions submitted by the

member. It may differ from a customer’s limit price because of the order type (e.g., pegging and post only orders) or for regulatory reasons (e.g., Reg SHO, Reg NMS compliance or other regulatory restrictions). The accepted price of an order will not be more aggressive than the customer’s limit price, and is often the same as the customer’s submitted limit price. An order can execute up to its accepted price and this is the least advantageous price at which an order can execute. Any execution price that is different than the accepted price must be more advantageous than the accepted price. Thus, executions where the accepted price does not equal the execution price are situations when the order is receiving price improvement versus its accepted price.

The Exchange also proposes to change the fee assessed for BTFY and BCRT orders in securities listed on The NASDAQ Stock Market LLC (“NASDAQ”) (“Tape C”), the New York Stock Exchange (“NYSE”) (“Tape A”) and on exchanges other than NASDAQ and the NYSE (“Tape B”) (collectively, the “Tapes”).

BTFY<sup>4</sup> is a routing option under which orders check the order execution and trade reporting system owned and operated by BX (the “System”) for available shares only if so instructed by the entering firm and are thereafter routed to destinations on the System routing table. If shares remain unexecuted after routing, they are posted to the System book. Once on the System book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

BCRT<sup>5</sup> is a routing option under which orders check the System and then route to PSX and NASDAQ. If shares remain unexecuted, they are posted to the System book or cancelled. Once on the System book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

For BTFY and BCRT orders, the Exchange currently passes through all fees and rebates for orders that execute on PSX or NASDAQ. BTFY and BCRT orders executed on BX result in a pass through charge of \$0.0025 or \$0.0026 per share executed on PSX<sup>6</sup> and \$0.0030 per share executed on

<sup>3</sup> The addition of the language concerning price improvement to BX Rule 7018 merely reflects how the system for credits and fees already currently operates, which is why this new language does not change the overall current rates for such credits.

<sup>4</sup> See BX Rule 4758(a)(v).

<sup>5</sup> See BX Rule 4758(a)(vii).

<sup>6</sup> See NASDAQ OMX PHLX LLC Pricing Schedule, Section VIII(a)(1).

<sup>22</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.