

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71210; File No. SR-CHX-2013-24)

December 31, 2013

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend the Market Data Revenue Rebates Program

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 December 23, 2013, 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 self-regulatory organization. CHX has filed this proposal pursuant to Exchange Act Rule 19b-4(f)(6)<sup>3</sup> which is effective upon filing with the Commission [sic]. 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

CHX proposes to amend Section P of its Schedule of Fees and Assessments (the “Fee Schedule”) to include Market Data Revenue from trade reports within the purview of the Market Data Revenue Rebates Program. 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.

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

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 [sic] 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

The Exchange proposes to amend Section P of its Fee Schedule to include Market Data Revenue ("MDR") from trade reports ("Trade Reports MDR") within the purview of the MDR Rebates Program. Specifically, the amended MDR Rebates Program calls for 50% of MDR that exceeds fixed thresholds in any one of six quote or trade reports pools ("Excess MDR") to be shared with Participants in proportion to their respective Eligible Quote or Trade Activity in that pool from the previous calendar quarter. If the sum of a Participant's rebates from all pools in a given quarter satisfies the *de minimis* requirement of current Section P(3), the Participant will receive a payment equal to that amount. Aside from the proposed sharing of Trade Reports MDR, the Exchange does not propose to substantively amend the current MDR Rebates Program in any other way.

**Background**

The Securities Information Processors ("SIPs"), which include the Securities Information [sic] Automation Corporation ("SIAC") and the Unlisted Trading Privilege Plan Quotation Data Feed ("UQDF") [sic], collect fees from subscribers for trade and quote tape data received from

trading centers and reporting facilities, such as the CHX (collectively “SIP Participants”). After deducting the cost of operating each tape, the profits are allocated among the SIP Participants on a quarterly basis, according to a complex set of calculations that consider [sic] estimates of anticipated MDR, adjustments to comport to actual MDR from previous quarters and a non-linear aggregation of total trading and quoting activity in Tapes A, B and C securities in allocating MDR to each SIP Participant. Based on these calculations, the SIPs provide MDR payments to each SIP Participant during the first month of each quarter for trade and quote data from the previous calendar quarter, which are subject to adjustment through subsequent quarterly payments. These payments can be divided into six pools (i.e., quoting and trading activity in Tape A, B and C securities).

#### **Current MDR Rebates Program**

On September 27, 2013, the Exchange adopted Section P of the Fee Schedule to implement an MDR Rebates Program to share MDR from quotes (“Quotes MDR”) only, which became operative on October 1, 2013.<sup>4</sup> Specifically, current Section P(1) provides that assuming that the requirements of Section P are met, a Participant will receive a quarterly MDR Rebate attributable to the Participant’s quoting of displayed orders in Tapes A, B and C securities, collectively referred to as “eligible quote activity,” from the previous calendar quarter. Furthermore, Section P(2) provides that MDR will be calculated separately for eligible quote activity in Tape A, B and C securities, for a total of three pools. Specifically, if the MDR received by the Exchange in any given pool exceeds the following thresholds in any given

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<sup>4</sup> See Securities Exchange Act Release No. 70546 (September 27, 2013), 78 FR 61413 (October 3, 2013) (SR-CHX-2013-18) (“Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Adopt a Market Data Revenue Rebates Program”).

calendar quarter, 50% of such Excess MDR will be paid to Participants in proportion to their respective eligible quote activity in that pool.

<b>SOURCE</b>	<b>TAPE A</b>	<b>TAPE B</b>	<b>TAPE C</b>
<b>Quotes</b>	\$3,000	\$204,000	\$12,000

In addition, Section P(3) provides a *de minimis* requirement that states that a Participant will not receive an MDR Rebate in any calendar quarter in which the total MDR Rebate attributed to a Participant is less than \$500.

The Exchange utilizes a set of calculations to attribute Quotes MDR to Participants that are similar to calculations currently utilized by the SIPs in attributing Quotes MDR to SIP Participants. In sum, if Excess MDR exists in a given quotes pool, the Exchange assigns quote credits to each Participant according to their [sic] eligible quote activity in that pool, which takes into account the actual dollar amount of the quote and how long the quote was at the National Best Bid or Offer (“NBBO”). In turn, the actual dollar amount of the rebate for a Participant is the product of the percentage of the total quote credits assigned to the Participant in a given pool and 50% of the Excess MDR in the same pool. If a Participant is eligible for MDR Rebates from multiple pools, the Participant will be eligible to receive an MDR Rebate equal to the sum of all the rebates. However, if the sum of the rebates is less than \$500, the Participant will not receive a payment and the rebate will be kept by the Exchange. The purpose of the *de minimis* requirement is to encourage significant quote activity and for the Exchange to avoid having to pay Participants for *de minimis* Excess MDR.

As for calculating the pool of funds from which MDR Rebates will be paid, unlike the SIPs, the Exchange derives MDR Rebate allocation from a fixed value that is not be subject to

adjustment (i.e., the amount of MDR actually received by the Exchange on a quarterly basis). This avoids the problem of having to adjust MDR Rebates that have already been paid to Participants to comport to adjustments to MDR made by the SIPs.<sup>5</sup>

Moreover, the Excess MDR thresholds were selected based on historical data of the Exchange's quote activity and MDR that has been paid to the Exchange in previous quarters. The dollar values represent the amount of MDR that must be paid to the Exchange by the SIPs before the 50% of the Excess MDR would be eligible for sharing pursuant to the MDR Rebates Program.

### **Amended MDR Rebates Program**

The Exchange now proposes to expand the current MDR Rebates Program to share Trade Reports MDR. Aside from this, the Exchange does not propose to substantively amend the current MDR Rebates Program in any other way.

Specifically, proposed Section P(1) provides that assuming that the requirements of this Section are met, a Participant will receive a quarterly MDR Rebate in proportion to the Participant's quoting of displayed orders in Tapes A, B and C securities ("Eligible Quote Activity")<sup>6</sup> and trades resulting from single-sided resting orders submitted by the Participant in Tapes A, B and C securities ("Eligible Trade Activity") from the previous calendar quarter. Initially, the Exchange proposes to replace the term "attributable" with "in proportion" in order to be consistent with the use of the phrase "in proportion" in current Section P(2). Also, trades

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<sup>5</sup> For example, if MDR paid to the Exchange was less than anticipated in Q3 2014 due to an adjustment to the MDR paid to the Exchange in Q2 2014 (i.e., actual MDR in Q2 fell short of estimates), the Exchange will not recoup the difference from the Participants that had been paid the Q2 MDR Rebate. Instead, the MDR Rebate for Q3 will be calculated based on the actual MDR paid to the Exchange in Q3.

<sup>6</sup> The Exchange proposes to capitalize the current "eligible quote activity" and proposed "Eligible Trade Activity," as they are defined terms.

resulting from cross orders<sup>7</sup> and single-sided orders submitted by the Participant that executed against resting order(s) on the CHX Book are not “Eligible Trade Activity.” The purpose of excluding these types of orders from the definition of “Eligible Trade Activity” is to specifically encourage Participants to post marketable limit orders on the CHX Book and, thereby, increase liquidity on the Exchange.

Furthermore, proposed Section P(2) provides that MDR will be calculated separately for quotes and trade reports in Tape A, B and C securities, for a total of six pools. Notably, the Exchange proposes to replace the term “eligible quote activity” with the more general “quotes and trade reports” to clarify that the MDR thresholds in each of the six pools are calculated not based on Eligible Quote or Trading Activity, but rather, on all Quotes and Trade Reports MDR received by the Exchange. Moreover, proposed Section P(2) also provides that if the MDR received by the Exchange in any given pool exceeds the following proposed thresholds in any given calendar quarter, 50% of such Excess MDR will be paid to Participants in proportion to their respective Eligible Quote or Trade Activity in that pool.

<b>SOURCE</b>	<b>TAPE A</b>	<b>TAPE B</b>	<b>TAPE C</b>
<b>Quotes</b>	\$3,000	\$204,000	\$12,000
<b>Trade Reports<sup>8</sup></b>	\$27,000	\$36,000	\$18,000

<sup>7</sup> CHX Article 1, Rule 2(a)(2) defines a “cross” order, in pertinent part, as “an order to buy and sell the same security at a specific price better than the best bid and offer displayed in the Matching System and which would not constitute a trade-through under Reg NMS (including all applicable exceptions and exemptions).”

<sup>8</sup> Like the current Quotes MDR thresholds, the proposed Trade Reports MDR thresholds were selected based on historical data of the Exchange’s trading activity and MDR that has been paid to the Exchange in previous quarters.

The Exchange notes that the SIPs do not distinguish between trades from single-sided orders and trades from cross orders in attributing Trade Reports MDR to a SIP Participant. As such, the Exchange proposes to similarly consider all Trade Reports MDR received from the SIPs in determining whether or not Excess MDR exists in a given trade reports pool. However, given that the Exchange's proposed definition of "Eligible Trade Activity," Excess MDR in a given trade reports pool will be allocated to Participants based solely on trades resulting from single-sided resting orders submitted by the Participant. [sic] That is, a Participant's trading activity based on cross orders or single-sided orders that take liquidity from the CHX Book will not count as Eligible Trade Activity.

The Exchange does not propose to amend current Section P(3), which provides an aggregate \$500.00 *de minimis* threshold that must be met before an MDR Rebate is payable to a Participant.

The Exchange proposes to utilize a set of calculations to attribute Trade Reports MDR to Participants that are similar to calculations currently utilized by the SIPs in attributing Trade Reports MDR to SIP Participants. If Excess MDR exists in any given trade reports pool, the Exchange proposes to assign trade credits to each Participant according to their [sic] Eligible Trade Activity per trade reports pool. Specifically, the trade credit values will be derived from a set of calculations that will consider, *inter alia*, a Participant's percentage of (A) the total dollar amount of trades in a given security and (B) the total number of qualified trade reports in the same security. In turn, similar to how Quotes MDR is currently attributed to Participants, the actual dollar amount of Trade Reports MDR attributed to a Participant in a given pool will be the product of the percentage of the total trade credits assigned to the Participant in that pool and 50% of the Excess MDR in that pool. If a Participant is eligible for MDR Rebates from multiple

quotes and trade reports pools, the Participant will be eligible to receive a payment that is equal to the sum of all the rebates for a given calendar quarter. However, if the sum of the rebates is less than \$500, the Participant will not receive a payment and the rebate will be kept by the Exchange.

Similar to the current Quote MDR Rebates, the Exchange does not propose to adjust the Trade Reports MDR Rebates paid to Participants in subsequent quarters to comport to adjustments made by the SIPs to previous MDR payments made to the Exchange. This avoids the problem of having to adjust Trade Reports MDR Rebates that have already been paid.

The following *Examples 1 and 2* illustrate how Excess MDR will be calculated and distributed.

*Example 1.* The following table represents the proposed MDR pool thresholds:

<b>SOURCE</b>	<b>TAPE A</b>	<b>TAPE B</b>	<b>TAPE C</b>
<b>Quotes</b>	\$3,000	\$204,000	\$12,000
<b>Trade Reports (single-sided orders only)</b>	\$27,000	\$36,000	\$18,000

Assume that the Q1 2014 MDR paid to the Exchange is apportioned as follows:

<b>SOURCE</b>	<b>TAPE A</b>	<b>TAPE B</b>	<b>TAPE C</b>
<b>Quotes</b>	\$2,900	\$244,000	\$12,000
<b>Trade Reports (single-sided orders only)</b>	\$20,000	\$50,000	\$18,000

With respect to quotes, the Tape B quotes pool has Excess MDR in the amount of \$40,000. However, the Tapes A and C quotes pools have no Excess MDR because the actual MDR received by the Exchange in the Tape A pool was \$100 short of its \$3,000 threshold and the Tape C pool was equal to its \$12,000 threshold. Thus, Participants may be paid MDR



Rebates in proportion to their quote credits from 50% of the Excess MDR in the Tape B pool, which is \$20,000.

With respect to trade reports, the Tape B trade reports pool has Excess MDR in the amount of \$14,000. However, the Tapes A and C trade reports pools have no Excess MDR because the actual MDR received by the Exchange in the Tape A pool was \$7,000 short of its \$27,000 threshold and the Tape C pool was equal to its \$18,000 threshold. Thus, Participants may be paid MDR Rebates in proportion to their trade credits from 50% of the Excess MDR in the Tape B trade reports pool, which is \$7,000.

**Example 2.** Assume the same as Example 1 and there are five Participants (i.e., Participants A, B, C, D and E) that had Eligible Quote and Trading Activity in Tape B securities in the previous calendar quarter. After calculating the Tape B quote credits and Tape B trade credits for each Participant, the attributed MDR for each Participant would be as follows:

*Table 1. Quotes Credits*

<b>PARTICIPANT</b>	<b>TAPE B QUOTES CREDITS</b>	<b>ATTRIBUTED MDR</b>
<b>A</b>	24,000	\$480
<b>B</b>	75,000	\$1,500
<b>C</b>	201,000	\$4,020
<b>D</b>	300,000	\$6,000
<b>E</b>	400,000	\$8,000
<b>TOTAL</b>	1,000,000	\$20,000

*Table 2. Trade Credits*

<b>PARTICIPANT</b>	<b>TAPE B TRADE CREDITS</b>	<b>ATTRIBUTED MDR</b>
<b>A</b>	500	\$3.50
<b>B</b>	77,500	\$542.50
<b>C</b>	210,000	\$1,470
<b>D</b>	305,000	\$2,135

<b>E</b>	407,000	\$2,849
<b>TOTAL</b>	1,000,000	\$7,000

Each Participant is attributed MDR according to their [sic] respective percentage of the total Tape B quote or trade credits assigned. For instance, Participant A was allocated 2.4% (i.e., 24,000 credits) of the total 1,000,000 Tape B quotes credits attributed to all five Participants. As such, Participant A would be attributed 2.4% of the Excess MDR in the Tape B quotes pool, which is \$480 (i.e., 2.4% x \$20,000 = \$480). Participant A was also allocated .05% (i.e., 500 credits) of the total 1,000,000 Tape B trade credits attributed to all five Participants. As such, Participant A would also be attributed 0.05% of the Excess MDR in the Tape B trade reports pool, which is \$3.50. In total, Participant A would be attributed a total of \$483.50 for the quarter. However, since the total MDR attributed to Participant A is less than \$500 and there are no other MDR pools with Excess MDR, the *de minimis* exception would result in Participant A not receiving an MDR payment for that quarter. In contrast, since the other Participants were attributed MDR in amounts greater than \$500, these Participants would be paid an MDR Rebate in an amount that is the sum of their attributed MDR in each of the two Tape B pools.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>9</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>10</sup> in particular, in that it provides for the equitable allocation of MDR Rebates among members and other persons using any facility or system which the Exchange operates or controls. The Exchange believes that the amended MDR Rebates Program will promote display liquidity and order flow to the

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

<sup>10</sup> 15 U.S.C. 78f(b)(4).

Exchange. In addition, these changes to the Fee Schedule would equitably allocate MDR Rebates among Participants by paying MDR Rebates in proportion to their Eligible Quote and Trade Activity in Tape A, B and C securities in any given calendar quarter.

B. Self-Regulatory Organization's Statement on 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. The proposed change to amend the MDR Rebates Program contributes to the protection of investors and the public interest by promoting display liquidity on, and order flow to, the Exchange. Consequently, the MDR rebates, as amended, will promote competition that is necessary and appropriate in furtherance of the purpose of the Act.

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 foregoing 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 after the date of the filing, or such shorter time as the Commission may designate, it has become effective pursuant to 19(b)(3)(A) of the Act<sup>11</sup> and Rule 19b-4(f)(6)<sup>12</sup> thereunder.

The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest. The Exchange proposes to implement the program in time for

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<sup>11</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>12</sup> 17 CFR 240.19b-4(f)(6).

the initial calendar quarter for 2014. Waiver would allow the Exchange to adhere to this proposed timetable. Also, prompt implementation of the changes to the program may encourage competition among exchanges that have market data revenue sharing programs. For these reasons, and because the proposed rule change presents no novel issues, the Commission designates the proposal operative upon filing.<sup>13</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 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 e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CHX-2013-24 on the subject line.

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<sup>13</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2013-24. 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 website (<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 website 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 such filing also will be available for inspection and copying at the principal offices 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-2013-24, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>14</sup>

Elizabeth M. Murphy  
Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).