

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56291; File No. SR-CHX-2006-42)

August 20, 2007

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Approving Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Modify Provisions Relating to Cross with Yield Orders

I. Introduction

On December 22, 2006, 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”)¹ and Rule 19b-4 thereunder,² a proposed rule change to permit participants submitting “cross with yield” orders to elect to yield to undisplayed interest in the Exchange’s central matching engine (“Matching System”). On July 6, 2007, the Exchange filed Amendment No. 1 to the proposed rule change. The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on July 20, 2007.³ The Commission received no comments on the proposal. This order approves the proposed rule change, as amended.

II. Description of the Proposal

The Exchange permits participants to submit “cross with yield” orders into its Matching System. A cross with yield order is an order that contains an instruction to execute a cross transaction at a specific price, together with an instruction to yield interest on the buy, sell or either side of the order, as specified in the order, to any order already displayed in the Matching

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 56064 (July 13, 2007), 72 FR 39865.

System at the same or better price, to the extent necessary to allow the cross transaction to occur.⁴ The proposed rule change would amend the Exchange's definition of a "cross with yield" order to permit a CHX participant to elect to yield to undisplayed interest in the Matching System, including undisplayed portions of reserve size orders and any undisplayed orders, in addition to bids and offers that are displayed in the Matching System.

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, and in particular, with Section 6(b)(5) of the Act,⁵ 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 perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.⁶

The Commission notes that cross with yield orders are intended to provide an efficient means to execute a cross transaction at a particular price, yielding interest to orders in the Matching System that have priority. The Commission believes that the proposed rule change will expand the flexibility of this order type by providing a greater opportunity for orders being crossed to interact with all available market interest in the Exchange's Matching System.

Accordingly, the Commission finds that the proposed rule change is consistent with the Act.

⁴ See CHX Rules, Article 1, Rule 2(h) and Article 20, Rules 4(b)(7) and 8(e).

⁵ 15 U.S.C. 78f(b)(5).

⁶ 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).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁷ that the proposed rule change (SR-CHX-2006-42), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Florence E. Harmon
Deputy Secretary

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12).