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SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-73150; File No. SR-CHX-2014-15)

September 19, 2014

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Notice of Filing and Immediate
Effectiveness of Proposed Rule Change to Adopt the CHX Routing Services

Pursuant to Section 19(b)(1) [1] of the Securities Exchange Act of 1934 ("Act"),[2] and Rule

19b-4 thereunder,[3] notice is hereby given that on September 8, 2014, 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. 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 adopt and amend rules to implement the CHX Routing Services. The

text of this proposed rule change is available on the Exchange's website at (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.

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[1]   15 U.S.C.78s(b)(1).

[2]   15 U.S.C. 78a.

[3]   17 CFR 240.19b-4.

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

1.   Purpose

The Exchange proposes to adopt and amend rules to implement the proposed CHX Routing Services. Specifically, the Exchange proposes to permit Routable Orders[4] to be routed away from the CHX Matching System ("Matching System") for executions at away Trading Centers ("routing destination"),[5] if a Routing Event[6] is triggered. The proposed CHX Routing Services would be provided through CHXBD, LLC ("CHXBD"), which is an affiliated broker-dealer that will operate as a facility of the Exchange. All orders routed away from, and related executions within, the Matching System would be done in a manner compliant with Exchange rules and federal securities laws and regulations, including Regulation NMS and Regulation SHO. Incidentally, the Exchange also proposes to amend the operation of certain order modifiers and price sliding functionalities that will be impacted by the proposed CHX Routing Services, including the CHX Only and LULD Price Sliding functionalities and Do Not Display modifier, and clarify how orders are ranked, displayed and executed by the Matching System.

The Exchange believes that the proposed CHX Routing Services and related amendments will benefit market participants by providing a routing functionality that would increase the likelihood of executions resulting from Routable Orders submitted to the Matching System.

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4   As discussed below, proposed Article 1, Rule 1(oo) defines "Routable Order" as "any incoming Limit order, as defined under Article 1, Rule 2(a)(1), of any size, not marked by any order modifiers or related terms listed under Article 1, Rule 2 that prohibit the routing of the order to another Trading Center." By definition, orders resting on the CHX book are never routable.

5   Proposed Article 1, Rule 1(nn) defines "Trading Center" as it is defined under Rule 600(b)(78) under Regulation NMS.

6   As discussed below, proposed Article 19, Rule 3(a) lists three Routing Events, any of which may cause an order to be routed away pursuant to the proposed CHX Routing Services.

Consequently, the proposed CHX Routing Services and related amendments to modifiers and

price sliding functionalities will reduce the number of order cancellations and improve fill rates

on orders submitted to the Matching System, which will, in turn, enhance and streamline the

national market system by promoting executions within and without the Matching System.

Background

Current CHX Article 20 (Operation of the Matching System) provides routing rules that

were adopted when the Exchange migrated to its all-electronic trading model in 2006.[7]

However, the Exchange has never provided outbound routing of orders from the Matching

System. In sum, these current routing rules contemplate a routing functionality largely based on

the current routing of orders from Brokerplex through the Order Management System ("OMS"),

which is fundamentally different from the proposed CHX Routing Services.[8] The following

highlight the key differences between the current routing rules and the proposed CHX Routing

Services:

(1)   Unlike the proposed CHX Routing Services, the current routing rules contemplate

a routing functionality requiring Participants to enter into numerous agreements,

including one with a non-affiliated third-party routing broker directly ("third-party

routing broker").[9] In contrast, the proposed CHX Routing Services do not involve

Participants entering into any agreements with, or submitting any orders directly to, the

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[7]   See Securities Exchange Act Release No. 54550 (September 29, 2006), 71 FR 59563
(October 10, 2006) (SR-CHX-2006-05).

[8]   See CHX Article 17, Rule 5(e). Brokerplex is an order sending facility of the Exchange
distinct and separate from the Matching System. At the request of the Participant, orders
may be routed from Brokerplex through the OMS to the Matching System or to any other
Trading Center with which the Participant order sender has precedent access. The
Exchange does not place itself between Brokerplex and the away Trading Center.

[9]   See Interpretation and Policy .03(b) of CHX Article 20, Rule 5; see also Interpretation
and Policy .03(1) of CHX Article 20, Rule 8.

routing brokers associated with the CHX Routing Services, including CHXBD. As discussed in detail below, the proposed CHX Routing Services involve the routing of corresponding orders related to Routable Orders submitted to the Matching System, from the Matching System, through CHXBD, to a third-party routing broker. This third-party routing broker would then submit the order to a routing destination for execution directly, or through another non-affiliated third-party routing broker.[10]

(2)   Unlike the proposed CHX Routing Services, the current routing rules only contemplate the routing of orders directly away from the Matching System where such orders would execute in violation of Rule 611 of Regulation NMS and/or display in violation of Rule 610(d) of Regulation NMS.[11] In contrast, the proposed CHX Routing Services include additional Routing Events that would also result in routing of Routable Orders away from the Matching System.

(3)   Unlike the proposed CHX Routing Services, the current routing rules contemplate routing of orders that are rejected from the Matching System.[12] In contrast, the proposed CHX Routing Services only involve routing of Routable Orders <u>from the Matching System</u> and Routable Orders that have been rejected from the Matching System are not eligible for the proposed CHX Routing Services.

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[10]   At initial operation of the proposed CHX Routing Services, CHXBD will utilize one third-party routing broker to clear and submit trades for execution on behalf of the Exchange. The same third-party routing broker will maintain a CHXBD Error Account on behalf of CHXBD for the purpose of liquidating Error Positions, pursuant to proposed Article 19, Rule 2(a)(7). The same third-party routing broker will also liquidate such positions, pursuant to proposed Article 19, Rule 2(a)(8)(D). The proposed rules do not prohibit the Exchange from utilizing two or more third-party routing brokers in connection with the proposed CHX Routing Services.

[11]   <u>See</u> Interpretation and Policy .03 of CHX Article 20, Rule 5.

[12]   <u>See</u> CHX Article 20, Rule 8(h); <u>see also</u> Interpretation and Policy .03 of CHX Article 20, Rule 8.

Given these fundamental differences between the current routing rules and the proposed CHX Routing Services, the Exchange now proposes to delete current Interpretation and Policy .03 of Article 20, Rule 5; Article 20, Rule 8(h); and Interpretation and Policy .03 of Article 20, Rule 8. In lieu of these current rules, the Exchange proposes to adopt or amend the following rules.

Proposed Article 19 (Operation of the CHX Routing Services)

The Exchange proposes to list all rules concerning the "Operation of the CHX Routing Services" under Article 19, which is currently reserved. Thereunder, the Exchange proposes to adopt Rule 1 (CHX Routing Services), Rule 2 (Routing Brokers), and Rule 3 (Routing Events).

Proposed Article 19, Rule 1 (CHX Routing Services)

Proposed Rule 1 (CHX Routing Services) provides a general overview of the scope of the proposed CHX Routing Services. Specifically, proposed Rule 1(a) states as follows:

(a)   *Generally*. Routable Orders that have been submitted to, and accepted by, the

Matching System may be routed from the Matching System to other Trading Centers

pursuant to this Article 19 and in a manner that is compliant with other Exchange rules

and all securities laws and regulations, including, but not limited to, Regulation NMS and

Regulation SHO; provided that the Exchange's routing-related systems and facilities are

enabled and operational.

Pursuant to proposed Article 1, Rule 2(oo),[13] a "Routable Order" is an incoming limit order of any size, regardless of the attached order display modifier (i.e., fully-displayable if no display modifier is attached, Reserve Size or Do Not Display); provided that such an order is not attached with at least one order modifier listed under Article 1, Rule 2 that explicitly or

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[13]   See supra note 4.

implicitly precludes routing.[14] Once a Routable Order comes to rest on the CHX book, it is no

longer considered a Routable Order as the proposed CHX Routing Services will never route

away resting orders. Moreover, the proposed CHX Routing Services involve the routing of

Routable Orders <u>from the Matching System</u>. Routable Orders that have not been accepted by the

Matching System (<u>i.e.</u>, rejected or never submitted) or have been accepted by the Matching

System, but cancelled back to the Participant order sender, are not eligible for the proposed CHX

Routing Services.[15] Thus, the proposed CHX Routing Services can be distinguished from the

current routing of orders directly from Brokerplex, pursuant to current Article 17, Rule 5(e).[16]

Proposed Rule 1(b) states as follows:

(b)   *Limitation of liability*. Use of the CHX Routing Services is optional and subject to

the Exchange's limitation of liability, pursuant to Article 3, Rule 19.

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[14]   If any one of the following order modifiers are attached to a limit order, the order shall
not be eligible for routing: "BBO ISO," as defined under paragraph (b)(1)(A); "CHX
Only," as defined under paragraph (b)(1)(C); "Post Only," as defined under paragraph
(b)(1)(D); "Price Penetrating ISO," as defined under paragraph (b)(1)(E); "Do Not
Route," as defined under paragraph (b)(3)(A); "ISO," as defined under paragraph
(b)(3)(B); "Sell Short," as defined under paragraph (b)(3)(D), if the short sale price test
restriction of Rule 201 under Regulation SHO is in effect for the relevant security and the
order is not marked "Short Exempt," as defined under paragraph (b)(3)(E); "Fill Or
Kill," as defined under paragraph (d)(2); and "Immediate Or Cancel," as defined under
paragraph (d)(4). Cross and Market orders are not routable as they are always treated by
the Matching System as Immediate Or Cancel. <u>See</u> CHX Article 1, Rules 2(a)(2) and (3).
All Routable Orders shall be marked for Regular Way Settlement, as only Cross orders
can be for Non-Regular Way Settlement. <u>See</u> CHX Article 1, Rule 2(e)(1).

[15]   An order "rejected" by the Matching System is different than order "cancelled" by the
Matching System. While both an order rejection and cancellation would result in the
order being sent back to the Participant who submitted the order, generally speaking, an
order is "rejected" by the Matching System if the order could not be accepted by the
Matching System and "cancelled" by the Matching System only after it had been
accepted by the Matching System.

[16]   <u>See</u> <u>supra</u> note 8.

The purpose of this language is to make clear that the Exchange's absolute limitation of liability applies to the use of the proposed CHX Routing Services. Consequently, the Exchange will not provide any compensation to Participants for any alleged losses incurred due to use of the proposed CHX Routing Services.

Proposed Rule 1(c) states as follows:

(c) *Firm orders*. Routable Orders submitted to the Matching System are firm orders, pursuant to Article 20, Rule 3, and Participants that submit Routable Orders agree to be bound by all resulting executions, including the execution of routed orders at other Trading Centers. Routed orders received by another Trading Center shall be subject to the rules and procedures of that Trading Center.

This language expands the firm order rule of current Article 20, Rule 3 (Firm Orders) to include all orders, regardless of whether the order is executed within the Matching System or at another Trading Center.[17] It also clarifies that routed orders received by another Trading Center are subject to the rules of the away Trading Center, which means, inter alia, that CHX rules concerning order handling do not apply to routed orders while they are away from the Exchange and its facilities.

Proposed Article 19, Rule 2 (Routing Brokers)

Proposed Rule 2 (Routing Brokers) details rules concerning routing brokers connected with the proposed CHX Routing Services. Currently, CHXBD is the only broker-dealer affiliated with the Exchange. As such, proposed paragraph (a) details operational and governance rules concerning CHXBD, which begins as follows:

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[17] CHX Article 20, Rule 3 applies specifically to "executions within the Matching System."

(a)   *CHXBD, LLC as Outbound Router*. The Exchange shall provide the CHX Routing

Services through CHXBD, LLC ("CHXBD"), which is an affiliated broker that operates

as a facility of the Exchange. CHXBD shall utilize one or more non-affiliated third-party

brokers-dealers ("third-party routing brokers" and together with CHXBD "routing

brokers") in connection with the CHX Routing Services to route orders to away Trading

Centers. CHXBD shall only accept routing-related instructions from the Exchange to

route orders to away Trading Centers and shall not accept routing instructions from

Participants or other non-Participants directly. Thus, the Exchange will determine the

logic that provides, when, how, and where orders are routed away. Routing brokers

cannot change the terms of an order or the routing instructions, nor do the routing brokers

have any discretion about where to route an order. The Exchange shall report and allocate

executions or report cancellations of routed orders at the away Trading Centers to the

Participants that submitted the Routable Orders and to Qualified Clearing Agencies.

Neither the Exchange nor CHXBD shall have responsibility for the handling of the routed

order by the away Trading Center.

At initial operation, CHXBD will operate as an "introducing broker-dealer," which

means that CHXBD shall not be permitted to hold customer funds nor execute or clear trades.[18]

Instead, the clearing functions of the proposed CHX Routing Services will be handled by a third-

party routing broker, which will, pursuant to specific agreements entered into between each

third-party routing broker and CHXBD (e.g., carrying agreement pursuant to FINRA Rule 4311),

carry a customer account, submit orders, and clear trades.[19] CHXBD shall not engage in any

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[18]   See FINRA Rule 7310(d).

[19]   See supra note 10.

8

proprietary trading, except that a third-party routing broker shall liquidate Error Positions in the CHXBD Error Account, pursuant to proposed Article 19, Rule 2(a)(7), as discussed below.[20]

As an introducing broker-dealer, the Exchange submits that CHXBD does not have market access obligations, pursuant to Rule 15c3-5 under the Act[21] nor does it have reporting obligations pursuant to Rule 606 of Regulation NMS. Specifically, since CHXBD does not directly submit orders to any exchange or alternative trading system ("ATS") for execution and does not operate an ATS, it does not have "market access" as defined by Rule 15c3-5(a)(1) under the Act.[22] Instead, market access obligations will be handled "upstream" by Participants that submit orders to the Matching System and "downstream" by third-party broker dealers that submit orders on behalf of the Exchange to routing destinations. Moreover, since CHXBD will not have discretion as to where a corresponding routing order is to be routed, the Exchange believes that CHXBD has no reporting obligations pursuant to Rule 606 of Regulation NMS.

Mechanically, when the Exchange accepts a Routable Order in the Matching System and a Routing Event, as described under proposed Article 19, Rule 3, is triggered, the Exchange will provide CHXBD with one or more "corresponding routing orders" and instructions to route the order(s) consistent with the applicable Routing Event. As discussed below, the routed portion of the Routable Order will enter a "pending" state in the Exchange's systems until an execution or cancellation confirmation is received from the away routing destination ("pending routed portion"). CHXBD will then route the corresponding routing order(s) and instructions to a third-party routing broker, who will then route the order(s) to the ultimate routing destination(s) for execution.

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[20]   Id.

[21]   17 CFR 240.15c3-5.

[22]   17 CFR 240.15c3-5(a)(1).

In the normal course, executions will be reported backwards through the routing chain, ultimately to the Participant order sender by the Exchange.[23] In the case of cancellations of routed orders at away routing destinations ("unexecuted remainders") such unexecuted remainders would be reported backwards through the routing chain to the Exchange by CHXBD. Unexecuted remainders will only be cancelled back to the Participant order sender if a cancel message is awaiting the unexecuted remainder upon its return to the Matching System.

In contrast, clearing submissions for routed orders executed at away Trading Centers ("street-side trade") will be submitted for clearance and settlement in the name of the third-party routing broker on behalf of the Exchange and the Exchange will, in turn, execute corresponding non-tape clearing-only trade(s) with the Participant order sender. As such, the sequence of non-tape clearing only trades connecting the street-side trade with the Participant order sender will never involve CHXBD. Thus, the Exchange, not CHXBD, will arrange for any resulting securities positions to be delivered to the Participant order sender that submitted the Routable Order to the Matching System. Mechanically, upon receipt of an execution confirmation for a routed order, the Exchange's systems will (1) automatically pair the execution with the pending routed portion of the Participant order sender's Routable Order that is resting on the Matching System and (2) report that trade to a Qualified Clearing Agency for clearance and settlement purposes by submitting a non-tape, clearing only report. In sum, positions would be delivered from the "street" to the Exchange and the Exchange would, in turn, deliver the positions to Participant order senders.

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[23]   As discussed below, these execution and cancellation confirmations will be utilized by the Exchange's routing systems to determine how to treat pending routed portions awaiting away execution(s).

Proposed Rule 2(a) further provides that for so long as CHXBD is affiliated with the Exchange and is providing outbound routing from the Exchange to away Trading Centers, proposed paragraphs (a)(1) to (a)(7) shall apply. Much of the proposed language is virtually identical to the rules of other exchanges, such as NYSE, BATS Y-Exchange ("BYX"), and Nasdaq.[24] Proposed paragraphs (a)(1) – (a)(6) state as follows:

> (1)   The Exchange will regulate CHXBD as a facility (as defined in Section 3(a)(2) of the Act), subject to Section 6 of the Act.[25] In particular, and without limitation, under the Act, the Exchange will be responsible for filing with the Commission rule changes and fees relating to CHXBD and CHXBD will be subject to the Exchange's non-discrimination requirements.
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> (2)   FINRA, a self-regulatory organization unaffiliated with the Exchange or any of its affiliates, will carry out oversight and enforcement responsibilities as the designated examining authority designated by the Commission pursuant to Rule 17d-1 of the Act[26] with the responsibility for examining CHXBD for compliance with applicable financial responsibility rules.
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> (3)   Participants' use of CHXBD to route orders to away Trading Centers will be optional. Participants that do not desire to use CHXBD must designate orders entered into the Matching System as "Do Not Route" or any other order modifier available through the Exchange that is ineligible for routing. Any Participant that does not want to use CHXBD may use other routers to route orders to away Trading Centers.

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[24]   See NYSE Rule 17; see also BYX Rule 2.11; see also Nasdaq Rule 4758(b).

[25]   See 15 U.S.C. 78c(a)(2); see also 15 U.S.C. 78f.

[26]   17 CFR 240.17d-1.

(4)   CHXBD will not engage in any business other than (A) its outbound router function for the Exchange, (B) its usage of CHXBD Error Accounts in compliance with paragraph (b)(7) below, and (C) any other activities it may engage in as approved by the Commission.

(5)   The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and its facilities (including CHXBD as its routing facility) and any other entity; or, where there is a third-party routing broker, the Exchange, the routing facility and any third-party routing broker, and any other entity, including any affiliate of the third-party routing broker (and if the third-party routing broker or any of its affiliates engages in any other business activities other than providing the routing services to the Exchange, between the segment of the third-party routing broker or affiliate that provides the other business activities and the segment of the third-party routing broker that provides the routing services).

(6)   The books, records, premises, officers, agents, directors and employees of CHXBD as a facility of the Exchange shall be deemed to be the books, records, premises, officers, agents, directors and employees of the Exchange for the purposes of, and subject to oversight pursuant to, the Act. The books and records of CHXBD as a facility of the Exchange shall be subject at all times to inspection and copying by the Exchange and the Commission. Nothing in these Rules shall preclude officers, agents, directors or employees of the Exchange from also serving as officers, agents, directors and employees of CHXBD.

With respect to proposed paragraph (a)(3), by submitting a Routable Order to the Matching System, a Participant is electing to utilize the proposed CHX Routing Services. If a Participant does not wish for an order to be routed, the order submitted to the Matching System must not be a Routable Order, which is achieved by attaching any order modifier to the order that is ineligible for routing, including, but not limited to, Do Not Route.[27] Thus, the CHX Routing Services is optional in that a Participant may elect not to submit a Routable Order to the Matching System. Once a Routable Order is submitted to the Matching System, however, the CHX Routing Services would be the only option through which an order could be routed away directly from the Matching System, without an intervening order cancellation.[28] If a Participant wishes to utilize another routing option after submitting a Routable Order to the Matching System, the Participant would have to cancel the original order.

With respect to proposed paragraph (a)(5), prior to becoming operational, CHXBD will adopt policies and procedures related to the handling of confidential and proprietary information, as required by proposed paragraph (a)(5).

Proposed paragraph (a)(7) details rules concerning Error Position and, specifically, how Error Positions would be handled by the Exchange and/or CHXBD. Proposed paragraph (a)(7) begins as follows:

> (7)   CHXBD shall maintain a CHXBD Error Account for the purpose of
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> liquidating unpaired trade positions that are the result of an execution or
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> executions that are not clearly erroneous under Article 20, Rule 10[29] and result

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[27]   See supra note 14.

[28]   See infra note 71.

[29]   As defined under Article 20, Rule 10, a transaction executed on the Exchange is "clearly erroneous" where there is an obvious error in any term, such as price, number of shares or unit of trading, or identification of the security.

13

from a technical or systems issue at CHXBD, the Exchange, a routing destination,

or non-affiliated third-party broker-dealers. ("Error Positions").[30]

The proposed definition of "Error Positions" excludes clearly erroneous transactions because

clearly erroneous trades should be cancelled pursuant to the clearly erroneous rules of the

executing exchange.

Proposed subparagraph (A) states as follows:

> (A)   CHXBD shall not accept any positions in a CHXBD Error Account
> from an account of a Participant or permit any Participant to transfer any
> positions from its account to a CHXBD Error Account; provided,
> however, that CHXBD may accept into its CHXBD Error Account
> positions erroneously allocated to Participants to the extent that the
> alternatives listed under subparagraph (C) below have been exhausted or
> are impracticable.

Proposed subparagraph (A) provides a narrow exception from the general prohibition against

CHXBD accepting positions from Participants. Specifically, the exception is narrowly tailored to

the improbable scenario where a systems or technical issue at the Exchange would result in a

position being erroneously allocated to a Participant (e.g., an erroneous pairing of an execution

confirmation with a pending Routable Order). In such a situation, the erroneously allocated

position would have been an Error Position, but for the erroneous allocation. The proposed

exception would only apply to Error Positions that could not otherwise be addressed pursuant to

proposed subparagraph (C), as discussed below. Given that the Exchange does not provide

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[30]   See supra note 10.

Participants with the ability to file claims for alleged losses, the Exchange submits that this narrow exception is necessary and appropriate.[31]

Proposed subparagraph (B) states as follows:

> (B)   If a technical or systems issue on the Exchange or CHXBD results in the Exchange not having valid clearing instructions for a Participant to a trade, the Exchange may assume that Participant's side of the trade so that the trade can be automatically processed for clearance and settlement on a locked-in basis.

This proposed language permits the Exchange to take a Participant's side to an away execution where a systems or technical issue at the Exchange or CHXBD results in the Exchange not having valid clearing instructions for the Participant to the trade.[32] Assuming that the execution

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[31]   Compare BYX Rule 11.16. In support of its absolute prohibition on accepting error positions from its Members, BATS Y-Exchange stated the following: To the extent a Member receives locked-in positions in connection with a technical or systems issue, that Member may seek to rely on BYX Rule 11.16 if it experiences a loss. That rule provides Members with the ability to file claims against the Exchange for "losses resulting directly from the malfunction of the Exchange's physical equipment, devices, and/or programming or the negligent acts or omissions of its employees." See Exchange Act Release No. 69226 (June 12, 2013), 78 FR 36612 (June 18, 2013) (SR-BYX-2013-018) ("Notice").

[32]   As discussed above, CHXBD will operate as a facility of the Exchange. Accordingly, pursuant to proposed CHX Article 19, Rule 2(a)(1), the Exchange is responsible for filing with the Commission rule changes and fees relating to the functions of CHXBD. In addition, the Exchange is using the phrase "the Exchange or CHXBD" in this rule filing to reflect the fact that a decision to take action with respect to orders affected by a technical or systems issue may be made in the capacity of CHXBD or the Exchange depending on the circumstances of the issue. At initial operation, the Exchange will use one or more non-affiliate third-party broker-dealers to provide outbound routing services (i.e., third-party routing brokers). Mechanically, orders will be submitted to the third-party routing broker through CHXBD, which will act as an introducing broker-dealer. The third-party routing broker will then route the orders to the routing destination in its name, and any executions will be submitted for clearance and settlement in the name of the third-party routing broker on behalf of the Exchange, so that any resulting positions are delivered to the Exchange upon settlement. As described above, the Exchange would

at the away Trading Center is valid, the Exchange would be obligated to settle that execution. The resulting position would then be liquidated pursuant to proposed subparagraph (D).[33]

Proposed subparagraph (C) states as follows:

> (C)   In connection with a particular technical or systems issue and prior to accepting any resulting Error Positions into the CHXBD Error Account, the Exchange or CHXBD shall, if practicable, -1- assign such Error Positions to Participants in accordance with subparagraph (C)(i) below; -2- cause to have any erroneous executions cancelled on the Trading Centers on which they were executed; or -3- allocate Error Positions to third-party routing brokers, if the technical or systems issue occurred away from the Exchange and CHXBD. Error Positions that could not be handled in this manner shall be taken into the CHXBD Error Account and liquidated in accordance with subparagraph (D). Determinations on how to treat Error Positions shall be made in a nondiscriminatory manner.[34]

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then normally arrange for any resulting securities positions to be delivered to the Participant that submitted the Routable Order to the Exchange. If Error Positions (as defined in proposed CHX Article 19, Rule 2(a)(7)) result in connection with the Exchange's use of a third-party routing broker for outbound routing, and those positions are delivered to the Exchange through the clearance and settlement process, the Exchange or CHXBD would be permitted to resolve those positions in accordance with proposed CHX Article 19, Rule 2(a)(7). If the third-party routing broker received Error Positions in connection with its role as a routing broker for the Exchange, and the Error Positions were not delivered to the Exchange through the clearance and settlement process, then the third-party Routing Broker would resolve the Error Positions itself and CHXBD would not be permitted to accept the Error Positions, as set forth in proposed CHX Article 19, Rule 2(a)(7)(A).

[33]   See infra Example 6.

[34]   Prior to becoming operational, CHXBD will adopt policies and procedures designed to ensure that any determinations considering how to treat Error Positions will be done in a manner nondiscriminatory to our Participants.

(i)   The Exchange or CHXBD shall assign all Error Positions

resulting from a particular technical or systems issue to the

Participants affected by that technical or systems issue if the

Exchange or CHXBD:

          (1)   Determines that it has accurate and sufficient

information (including valid clearing information) to assign

the positions to all of the Participants affected by that

technical or systems issue;

          (2)   Determines that it has sufficient time pursuant to

normal clearance and settlement deadlines to evaluate the

information necessary to assign the positions to all of the

Participants affected by that technical or systems issue; and

          (3)   Has not determined to cancel all orders affected by

that technical or systems issue in accordance with Article

20, Rule 12.

Although the CHXBD Error Account may be utilized to liquidate any Error Positions, regardless

of where the systems or technical issue occurred, proposed subparagraph (C) requires three

alternatives be pursued, if practicable, prior to accepting a Error Position into the CHXBD Error

Account.[35]

With respect to the allocation of unpaired positions pursuant to proposed subparagraph

(C)(i), a technical or systems issue of limited scope or duration may occur at a routing

destination and the resulting trades may be submitted for clearance and settlement by such

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[35]   While the alternatives detailed under proposed subparagraph (C) are being considered,
Error Positions will not be transferred into the CHXBD Error Account. See supra note 10.

routing destinations to a Qualified Clearing Agency. If there were a small number of trades, there may be sufficient time to match positions with Participant orders and avoid using the CHXBD Error Account. There may be scenarios, however, where the Exchange or CHXBD determines that it is unable to assign all Error Positions resulting from a particular technical or systems issue to all of the affected Participants, or determines to cancel all affected routed orders, pursuant to proposed Article 20, Rule 12. For example, in some cases, the volume of questionable executions and positions resulting from a technical or systems issues might be such that the research necessary to determine which Participants to assign those executions could be expected to extend past the normal settlement cycle for such executions. Furthermore, if a routing destination experiences a technical or systems issue after CHXBD has transmitted IOC orders to it that prevent CHXBD from receiving responses to those orders, the Exchange or CHXBD may cancel/release all Routable Orders affected by the issue, pursuant to proposed Article 20, Rule 12(b), as discussed below. In such a situation, the Exchange or CHXBD would not pass on to the Participants any executions on the routed orders subsequently received from the routing destination. Thus, where Error Positions could not be assigned to Participants, the Exchange would seek to either cancel the related executions[36] or have the third-party routing broker accept the positions, prior to accepting Error Positions into the CHXBD Error Account.

Pursuant to agreement between CHXBD and third-party routing brokers, third-party routing brokers would typically be required to accept Error Positions where the positions result from systems or technical issues away from the Exchange and CHXBD.[37] If an Error Position

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[36]   Cancellations of executions that comprise an Error Position would be effected pursuant to the rules of the executing venue.

[37]   The Exchange believes it is reasonable and appropriate to require such Error Positions to be addressed through the error account of a third-party routing broker because, among other reasons, it is the executing broker associated with these transactions.

gets erroneously allocated to the Exchange's customer account, the Exchange would require the third-party routing broker to take back the Error Position. Thus, ideally, the CHXBD Error Account would only be used (1) to liquidate Error Positions resulting from systems or technical issues at the Exchange/CHXBD or (2) where a third-party routing broker is unable to utilize its own error account to liquidate Error Positions resulting from systems or technical issues away from the Exchange and CHXBD. However, the Exchange recognizes that some Error Positions resulting from systems or technical issues away from the Exchange/CHXBD may not be taken by a third-party routing broker or may not be cancelled by the executing routing destination and, as such, it is important that CHXBD retain the discretion to take any Error Positions into the CHXBD Error Account.[38]

If an Error Position is taken into the CHXBD Error Account, proposed subparagraph (D) details how such Error Positions would be liquidated, which states as follows:

> (D)   If the Exchange or CHXBD is unable to address Error Positions in accordance with subparagraph (C) above or if the Exchange or CHXBD determines to cancel all orders affected by the technical or systems issue in accordance with Article 20, Rule 12, then such Error Positions shall be taken into the CHXBD Error Account and CHXBD shall cause to have such positions liquidated as soon as practicable. In liquidating such Error Positions, the Exchange or CHXBD shall:
>
> > (i)   Provide complete time and price discretion for the trading to liquidate the Error Positions to a non-affiliated third-party

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[38]   To the extent that CHXBD incurred a loss in covering its positions, short or long, and to the extent that the Error Position resulted from a systems or technical issue at a third-party routing broker or routing destination, it would submit a reimbursement claim to the third-party routing broker or routing destination, as applicable.

broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading; provided, however, that CHXBD may provide a general instruction to the non-affiliated third-party broker-dealer that the Error Positions should be liquidated in a timely manner using commercially reasonable efforts in accordance with custom and practice within the securities industry while minimizing market fluctuation to the extent possible; and

(ii)   Establish and enforce policies and procedures that are reasonably designed to restrict the flow of confidential and proprietary information between the non-affiliated third-party broker-dealer and CHXBD/the Exchange associated with the liquidation of the Error Positions.

Although proposed subparagraph (D)(i) provides full price/time discretion to a third-party broker-dealer, the Exchange submits that it should be permitted to provide a general instruction to the third-party broker-dealer to effectuate the liquidation of the position in a timely manner with minimum market fluctuation, in order to improve the likelihood that the liquidation be effected in market conditions similar to when the Error Position was obtained, so as to minimize the potential for loss to the Exchange.

Proposed subparagraph (E) states as follows:

(E)   The Exchange and CHXBD shall make and keep records to document all determinations to treat positions as Error Positions and all determinations for the liquidation of Error Positions through the non-

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affiliated third-party broker-dealer, as well as records associated with the

liquidation of Error Positions through the non-affiliated third-party broker-

dealer.

Incidentally, proposed Article 20, Rule 12 (Order Cancellation by the Exchange)

provides the Exchange and CHXBD with the authority to cancel orders, including cancelling

and/or releasing orders subject to the proposed CHX Routing Services, which states as follows:

(a)   The Exchange or CHXBD may cancel orders as it deems to be necessary

to maintain fair and orderly markets if a technical or systems issue occurs at the

Exchange, CHXBD, a non-affiliated third party broker in connection with the

CHX Routing Services provided under Article 19, or another Trading Center to

which an order has been routed. The Exchange or CHXBD shall provide notice of

the cancellation to affected Participants as soon as practicable.

(b)   The Exchange may release orders being held on the Exchange awaiting

another Trading Center execution as it deems necessary to maintain fair and

orderly markets if a technical or systems issue occurs at the Exchange, CHXBD, a

non-affiliated third-party broker, or another Trading Center to which an order has

been routed.

The proposed rule gives the Exchange authority to cancel orders as necessary to maintain

fair and orderly markets in <u>all situations</u>, not only in connection with the proposed CHX Routing

Services.[39] In the context of the proposed CHX Routing Services, proposed paragraph (a)

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[39]   Such a situation may not cause the Exchange to declare self-help against the routing
destination pursuant to Rule 611 of Regulation NMS. If the Exchange or CHXBD
determines to cancel orders routed to a routing destination under proposed Article 20,
Rule 12(a), but does not declare self-help against that routing destination, the Exchange
would continue to be subject to the trade-through requirements in Rule 611 with respect

permits the Exchange to cancel the unrouted portion of a Routable Order posted to the CHX book, whereas proposed paragraph (b) provides the Exchange with the authority to release the pending routed portion of a Routable Order that is pending on the Exchange's systems (i.e., the portion represented by the corresponding order that has been routed away). If the Exchange releases a routed order, the Participant order sender would be given an "out" and any resulting executions would be treated as Error Positions.

Incidentally, the Exchange also proposes to amend current Article 20, Rule 8(f) to clarify how cancel messages are currently handled for orders resting on the CHX book and how they would be handled in connection with routed orders. The amended Article 20, Rule 8(f) provides as follows:

(f)   *Cancellation of orders*. Order cancellation messages submitted by Participants shall be handled as follows:

(1)   Orders resting on the CHX book shall be immediately and automatically cancelled upon receipt of a cancellation message; provided, however, that cross orders (other than opening cross orders) cannot be cancelled or changed because they are always handled IOC;[40] and

(2)   Cancel messages for routed orders shall be held by the Exchange while the routed order is away and only the unexecuted routed portion of a routed order shall be cancelled upon its return to the Matching System; provided, however, that the Exchange may release the pending routed portion of a Routable Order pursuant to Article 20, Rule 12.

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to that routing destination.

[40]   The Exchange proposes replace current language describing the Immediate Or Cancel order modifier with a reference to the modifier itself. See CHX Article 1, Rule 2(d)(4).

Notably, the Exchange proposes to replace current language describing the Immediate Or Cancel order modifier with a reference to the modifier itself.[41] Also, given that cancel messages from Participant order senders for routed orders will not be forwarded on to the routing destination because all routed orders shall be marked IOC,[42] routed orders shall only be cancelled at the request of Participants to the extent that an unexecuted remainder is returned to the Matching System.

The following Examples 1 and 2 illustrate when and how the Exchange would seek to cancel orders in the context of the proposed CHX Routing Services:[43]

Example 1. If CHXBD, a third-party routing broker, or a routing destination experiences a technical or systems issue that results in CHXBD not receiving responses to IOC orders that it routed away, the Exchange may release the routed portion of the Routable Order pending on the Exchange's systems, pursuant to proposed Article 20, Rule 12(b).

Example 2. If the Exchange experiences a systems issue, the Exchange may take steps to cancel all outstanding orders resting on the CHX book affected by that issue, including the unrouted portion of Routable Orders posted to the CHX book, and notify affected Participants of the cancellations. In addition, the Exchange may also seek to release any pending routed portions awaiting away confirmations.

The following Examples 3 – 6 illustrate how certain Error Positions may result and be resolved:

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[41]   See CHX Article 1, Rule 2(d)(4).

[42]   Pursuant to proposed Article 19, Rule 3(b), all routed orders shall be marked IOC. Thus, routed orders shall not be permitted to rest at away routing destinations.

[43]   The examples are not an exhaustive list of scenarios.

Example 3. An Error Position may result from an order processing issue at a routing destination. For instance, if a routing destination experienced a systems problem that affects its order processing, it may transmit back a message purporting to cancel a routed order, but then subsequently submit an execution of that same order to The Depository Trust & Clearing Company ("DTCC") for clearance and settlement.

In such a situation, the Exchange would not then allocate the execution to the Participant because of the earlier cancellation message from the routing destination. Instead, CHXBD would first cause to have such executions cancelled pursuant to the rules of the executing venue or allocate the position to a third-party routing broker, if practicable. If the executions could not be cancelled or allocated, CHXBD would post those positions into its CHXBD Error Account and have the positions liquidated pursuant to proposed Article 19, Rule 2(a)(7)(D).

Example 4. Error Positions may result if the Exchange receives an execution report from a routing destination but does not receive clearing instructions for the execution from the routing destination. For instance, assume that a Participant submits a Routable Order to buy 100 shares of ABC stock, which causes CHXBD to send an order to a third-party routing broker, which in turn sends the order to a routing destination that is subsequently executed, cleared, and closed out by that routing destination, and the execution is ultimately communicated back to that Participant. On the next trading day (T+1), if the routing destination does not provide clearing instructions for that execution, the Exchange would still be responsible for settling that Participant's purchase, but would be left with a short position in the CHXBD Error Account.[44]

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[44]   To the extent that CHXBD incurred a loss in covering its positions, short or long, it

In such a situation, the Exchange would take the opposite side of the Participant's purchase, but submit a claim for reimbursement from the third-party routing broker or routing destination or cause to have the routing destination submit valid clearing instructions to cover the Exchange's short position, if practicable.

Example 5. Error Positions may result from a technical or systems issue that causes orders to be executed in the name of the Exchange or a third-party routing broker[45] that are not related to any corresponding Routable Orders initially submitted to the Matching System. As a result, the Exchange would not be able to assign any positions resulting from such an issue to Participants.

If the technical or systems issue occurred away from the Exchange and CHXBD, pursuant to proposed Article 19, Rule 2(a)(7)(C), CHXBD would first cause to have such executions cancelled pursuant to the rules of the executing market or have the responsible third-party routing broker accept the position, if practicable. If the executions could not be cancelled or accepted by the responsible third-party routing broker or if the technical or systems issue occurred at the Exchange or CHXBD, CHXBD would post those positions into its CHXBD Error Account and have the positions liquidated pursuant to proposed Article 19, Rule 2(a)(7)(D).

Example 6. Error Positions may result from a technical or systems issue at the Exchange through which the Exchange does not receive sufficient notice that a Participant that has executed trades on the Exchange has lost the ability to clear trades through DTCC, as well as where the Exchange received notice of such Participant's loss of ability to clear

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would submit reimbursement claims to either the routing destination and/or third-party routing broker related to the routed order execution.

[45] Given that CHXBD is an introducing broker-dealer, routed orders will never be executed in the name of CHXBD.

trades through DTCC, but, because of a technical or systems issue at the Exchange, the Exchange was unable to react to such notice in a timely manner.

In such a situation, the Exchange would not have valid clearing information from its Participant, which would prevent the trade from being automatically processed for clearance and settlement on a locked-in basis. Thus, pursuant to proposed Article 19, Rule 2(a)(7)(B), the Exchange would assume that Participant's side of the trades so that the counterparties can settle the trade. CHXBD would post those positions into the CHXBD Error Account and have the positions liquidated pursuant to proposed Article 19, Rule 2(a)(7)(D).

Proposed Article 19, Rule 3 (Routing Events)

Proposed Rule 3 (Routing Events) outlines when and how a Routable Order would be routed away from the Matching System and states as follows:

(a) *Routing Events*. A Routable Order, or a portion thereof, shall be routed pursuant to the CHX Routing Services in compliance with CHX rules and all federal securities laws, rules and regulations, including Regulation NMS and Regulation SHO, to the extent necessary: [46]

> (1) To permit the display and/or execution of an incoming Routable Order on the Exchange in compliance with Rules 610(d) and 611 of Regulations NMS;
>
> (2) To prevent the execution of an incoming Routable Order for an Odd Lot if it would trade-through a Protected Quotation of an external market; or
>
> (3) To execute an incoming Routable Order marked Do Not Display or a Routable Order of an Odd Lot that could not be displayed ("incoming undisplayed

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[46] A routed order may nevertheless execute against hidden liquidity priced better than the Protected Quotation.

Routable Order") against any Protected Quotation(s) of external market(s) priced at or through the limit price of the Routable Order if there are no contra-side resting orders on the CHX book against which the incoming undisplayed Routable Order could execute.

(b)   *Marking routed orders*. Every order routed away pursuant to a Routing Event shall be marked IOC.

(c)   *Handling unexecuted remainders*. If an unexecuted remainder of a routed order is returned to the Matching System in one or more parts, each shall be handled pursuant to Article 20, Rule 8(b)(7).

(d)   *Cancelling routed orders*. Cancellation requests of routed orders from Participants shall be handled pursuant to Article 20, Rule 8(f). The Exchange may release pending routed portions of Routable Orders pursuant to Article 20, Rule 12(b).

Proposed paragraph (a)(1) permits the routing of a Routable Order to the extent necessary for an order to be displayed and/or executed on the Exchange in compliance with Rules 610(d) and Rule 611 of Regulations NMS ("Routing Event #1").

With respect to Rule 610(d) of Regulation NMS, if the display of an incoming Routable Order would impermissibly lock or cross the market in violation of Rule 610(d) of Regulation NMS, the portion of the Routable Order necessary to satisfy all contra-side Protected Quotations of external markets priced at or better than the Routable Order shall be routed away to execute against such Protected Quotations. Thus, if the Routable Order is smaller than, or the same size as, the aggregate size of all contra-side Protected Quotations of external markets priced at or better than the Routable Order, the entire Routable Order would be routed away. However, if the Routable Order is larger than the aggregate size of all contra-side Protected Quotations of

external markets priced at or better than the Routable Order, only the portion of the Routable Order necessary to satisfy such Protected Quotations shall be routed away. The following Examples 7 and 8 illustrate how an order would be routed to permit a Routable Order to be displayed on the Exchange in compliance with Rule 610(d) of Regulation NMS:

Example 7. Assume that the NBBO for security XYZ is $10.00 x $10.01 where Exchange A and Exchange B are each displaying for 100 shares at the NBO and Exchange C is displaying a Protected Offer for 100 shares at $10.02. Assume there are no other Protected Offers of external markets in security XYZ. Assume also that the displayed CHX BBO is $10.00 x $10.03 and there are no offers priced better than $10.03 resting on the CHX book. Assume then that an incoming fully-displayable Routable Bid for 100 shares of security XYZ priced at $10.02/share is received by the Matching System ("Routable Bid 1"). As such, there are 300 shares worth of Protected Offers of external markets priced at or better than Routable Bid 1.

In this situation, the display of Routable Bid 1 at $10.02 would cross the Protected Offers of Exchange A and B at $10.01 and lock the Protected Offer of Exchange C at $10.02, in violation of Rule 610(d) of Regulations NMS.

Thus, Routing Event #1 would be triggered and the Exchange's routing systems would create a corresponding buy order marked IOC for 100 shares of security XYZ,[47] and route the corresponding buy order to CHXBD, with instructions for the third-party routing broker to route the order utilizing its smart-routing technology pursuant to the Exchange's routing table.[48] The entire balance of Routable Bid 1 would then be placed in

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[47]   See supra note 42.

[48]   Where the routed order is smaller than the aggregate size of two or more contra-side Protected Quotations that could be satisfied, the Exchange will rely on the third-party

a pending routed state. CHXBD would then forward the corresponding buy order with instructions to the third-party routing broker and the third-party routing broker would then route the corresponding buy order to Exchange A and/or Exchange B..[49]

Any unexecuted remainders returned to the Matching System would be handled pursuant to proposed Article 20, Rule 8(b)(7), as discussed below.

Example 8. Assume the same as Example 7, except that Routable Bid 1 is for 500 shares of security XYZ.

In this situation, similar to Example 7, the display of Routable Bid 1 at $10.02 would cross the Protected Offers of Exchange A and B at $10.01 and lock the Protected Offer of Exchange C at $10.02, all in violation of Rule 610(d) of Regulations NMS.

As such, Routing Event #1 would be triggered and since Routable Bid 1 for 500 shares is larger than the aggregate size of all Protected Offers of external markets priced at or better than Routable Bid 1 (i.e., 300 shares total), the Exchange's routing systems would create three corresponding buy orders marked IOC and ISO with instructions to route one buy order for 100 shares priced at $10.01/share to Exchange A, one buy order for 100

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routing broker to utilize its smart-routing technology to route the order pursuant to a routing table provided by the Exchange. Thus, the relevant snapshot of the NBBO for Regulation NMS purposes will be taken by the third-party routing broker and the third-party routing broker would route orders IOC and ISO. However, where the routed order is smaller than the size of one Protected Quotation that could be satisfied or is the same size as the aggregate size of one or more contra-side Protected Quotations that could be satisfied, the Exchange will direct the third-party routing broker to route orders to specific routing destinations. Thus, the relevant snapshot of the NBBO will be taken by the Exchange and the Exchange would mark the directed orders IOC and ISO.

[49] Given the frequency at which the bids and offers change in the national market system, it is possible that a Protected Quotation identified by the Exchange as having to be satisfied pursuant to Regulation NMS may no longer be displayed when the third-party routing-broker receives the corresponding routing order. Nevertheless, the third-party routing broker will route the order as received from CHXBD utilizing its smart-routing technology and pursuant to the Exchange's routing table.

shares priced at $10.01/share to Exchange B and one buy order for 100 shares priced at $10.02/share to Exchange C.[50] The routed portion would then enter a pending routed state on the Exchange's system and the remaining 200 shares would immediately be displayed on the CHX book at $10.02. This "ship and post" would permit the unrouted portion to be displayed in compliance with Rule 610(d) of Regulations NMS.

Any unexecuted remainders returned to the Matching System would be handled pursuant to proposed Article 20, Rule 8(b)(7), as discussed below.

With respect to Rule 611 of Regulation NMS, if the execution of an incoming Routable Order against a resting order on the CHX book would result in an impermissible trade-through of a Protected Quotation of an external market in violation of Rule 611 of Regulation NMS, the portion of the Routable Order necessary to prevent an improper trade-through shall be routed away to execute against such Protected Quotations of external markets. Thus, if the Routable Order is smaller than, or the same size as, the aggregate size of all contra-side Protected Quotations of external markets priced better than the Routable Order, the entire Routable Order would be routed away. However, if the Routable Order is larger than the aggregate size of all contra-side Protected Quotations of external markets priced better than the Routable Order, only the portion of the Routable Order necessary to satisfy such Protected Quotations shall be routed away. The following Examples 9 and 10 illustrate how an order would be routed to permit a Routable Order to execute within the Matching System in compliance with Rule 611 of Regulation NMS:

Example 9. Assume that the NBBO for security XYZ is $10.00 x $10.01 where Exchange A and Exchange B are each displaying 100 shares at $10.01 and Exchange C is

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[50]   See supra note 48.

displaying a Protected Offer for 100 shares at $10.02. Assume there are no other

Protected Offers of external markets in security XYZ. Assume then that the CHX BBO is

$10.00 x $10.03, with 100 shares displaying at the $10.03 and there are no offers priced

better than $10.03 resting on the CHX book. Assume then that an incoming fully-

displayable Routable Bid for 100 shares of security XYZ priced at $10.03/share is

received by the Matching System ("Routable Bid 1"). As such, there are 300 shares worth

of Protected Offers of external markets priced better than Routable Bid 1.

In this situation, the execution of Routable Bid 1 at $10.03 against the CHX Best Offer

would result in an impermissible trade-through of the Protected Offers of Exchanges A, B

and C, in violation of Rule 611 of Regulations NMS.

Thus, Routing Event #1 would be triggered and the Exchange's routing systems would

create a corresponding buy order marked IOC for 100 shares of security XYZ,[51] and

route the corresponding buy order to CHXBD, with instructions for the third-party

routing broker to route the order utilizing its smart-routing technology pursuant to the

Exchange's routing table.[52] The entire balance of Routable Bid 1 would then be placed in

a pending routed state. CHXBD would then forward the corresponding buy order with

instructions to the third-party routing broker and the third-party routing broker would

then route the corresponding buy order to Exchange A and/or Exchange B.[53]

Any unexecuted remainders returned to the Matching System would be handled pursuant

to proposed Article 20, Rule 8(b)(7), as discussed below.

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[51]   See supra note 42.

[52]   See supra note 48.

[53]   See supra note 49.

Example 10. Assume the same as Example 9, except that Routable Bid 1 is for 500 shares of security XYZ.

In this situation, the execution of Routable Bid 1 at $10.03 against the CHX Best Offer would result in an impermissible trade-through of the Protected Offers of Exchanges A, B and C, in violation of Rule 611 of Regulations NMS.

As such, Routing Event #1 would be triggered and since Routable Bid 1 for 500 shares is larger than the aggregate size of all Protected Offers of external markets priced at or better than Routable Bid 1 (i.e., 300 shares total), the Exchange's routing systems would create three corresponding buy orders marked IOC and ISO with instructions to route one buy order for 100 shares priced at $10.01/share to Exchange A, one buy order for 100 shares priced at $10.01/share to Exchange B and one buy order for 100 shares priced at $10.02/share to Exchange C. [54] The routed portion would then enter a pending routed state on the Exchange's system and 100 shares of the unrouted portion of Routable Bid 1 would execute against the CHX Best Offer at $10.03/share. Since there is no other resting liquidity against which the remaining 100 shares of the unrouted portion of Routable Bid 1 could execute, the Exchange would post and display the unexecuted remainder of the unrouted portion at $10.03. This "ship and execute" would permit the unrouted portion to be executed within the Matching System in compliance with Rule 611 of Regulations NMS.

Any unexecuted remainders returned to the Matching System would be handled pursuant to proposed Article 20, Rule 8(b)(7), as discussed below.

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[54]   See supra note 48.

Proposed paragraph (a)(2) provides that an incoming Routable Order for an Odd Lot will be routed away if its execution on the Exchange would trade-through a Protected Quotation of an external market ("Routing Event #2"). This language is consistent with a proposed amendment to current Article 20, Rule 5(b) that will prohibit the execution of incoming Odd Lot limit orders if the execution would trade-through a Protected Quotation of an external market, as discussed below, but would permit resting Odd Lot orders to be executed through the NBBO.[55] The following Example 11 illustrates how Routing Event #2 would be triggered.

Example 11. Assume that the NBBO for security XYZ is $10.00 x $10.01 and Exchange A is the only Protected Offer at the NBO and is displaying 100 shares. Assume also that CHX has a Protected Offer for 100 shares priced at $10.02/share and there are no other orders resting on the CHX book with respect security XYZ. Assume then that an incoming fully-displayable Routable Bid for 50 shares of security XYZ priced at $10.02/share is received by the Matching System ("Routable Bid 1").

In this situation, Routing Event #2 would be triggered and the Exchange's routing systems would create a corresponding buy order marked IOC for 50 shares of security XYZ priced at $10.01/share and route the order away with instructions to direct the order to Exchange A.[56] The entire balance of Routable Bid 1 would then be placed in a pending routed state. CHXBD would then forward the corresponding buy order with instructions

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[55] Current CHX Article 20, Rule 5(b) permits inbound Odd Lot orders to execute through Protected Quotations of external markets. Also, incoming Odd Lot limit orders are permitted to post to, or remain on, the CHX book through the NBBO, provided that it could not be displayed pursuant to CHX Article 20, Rule 8(b)(6). Odd Lot orders that are displayed pursuant to current CHX Article 20, Rule 8(b)(6) are treated like Round Lot orders for the purposes of Rule 610(d) of Regulation NMS.

[56] Current Article 20, Rule 5(b) would permit Routable Bid 1 to execute against the resting offer at $10.02 for 50 shares of XYZ, as the execution would be for an Odd Lot.

to the third-party routing broker and the third-party routing broker would then route the corresponding buy order to Exchange A.

Any unexecuted remainders returned to the Matching System would be handled pursuant to proposed Article 20, Rule 8(b)(7), as discussed below.

Proposed paragraph (a)(3) provides that an incoming Routable Order that is either marked Do Not Display or is an undisplayed yet displayable Odd Lot will be routed away to execute against any Protected Quotation(s) of external market(s) priced at or better than the limit price of the incoming undisplayed Routable Order if there is no resting liquidity on the CHX book against which the incoming undisplayed Routable Order could execute ("Routing Event #3").[57] Thus, the difference between Routing Event #1 and Routing Event #3 is that Routing Event #3 would not result in a trade-through of a Protected Quotation of an external market because there are no resting contra-side orders on the CHX book nor a locked or crossed market in violation of Rule 610(d) of Regulation NMS because the incoming Routable Order could not be displayed.[58] The following Examples 12-13 illustrate how Routing Event #3 could be triggered:

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[57]   An incoming Routable Order marked Reserve Size, as defined under Article 1, Rule 2(c)(3), will always be treated as fully-displayed order for the purposes of the proposed CHX Routing Services.

[58]   Currently, the Exchange permits undisplayed yet displayable orders (e.g., Odd Lot limit orders that could not be aggregated with other Odd Lots or Mixed Lots, pursuant to CHX Article 20, Rule 8(d)(6)) and fully-undisplayed orders) (e.g., limit orders marked Do Not Display) to rest through the NBBO. However, if a subsequent incoming contra-side order would result in a resting order priced through the NBBO being executed, the resting order "shall be cancelled to the extent necessary to allow the inbound order to be executed or quoted." See CHX Article 20, Rule 5(a). As discussed in detail below, the Exchange now proposes to expand the applicability of the CHX Only modifier, which offers the CHX Only Price Sliding Processes, to all limit orders, regardless of the attached order display modifier and to require all Do Not Display orders that are resting on the CHX book to be handled as CHX Only, even if they were not originally marked CHX Only by the order sender.

Example 12. Assume that the NBBO for security XYZ is $10.00 x $10.02 and only

Exchange A has a Protected Offer at $10.02, which is for 100 shares. Assume also that

the CHX book is empty with respect security XYZ. Assume then that an incoming

Routable Bid marked Do Not Display for 200 shares of security XYZ, priced at $10.03 is

received by the Matching System ("Routable Bid 1").

In this situation, since the posting of Routable Bid 1 at $10.03 would result in a bid

resting on the CHX book through the NBO, Routing Event #3 would be triggered and the

Exchange's routing systems would create a corresponding buy order marked IOC for 100

shares priced at $10.02/share and route the corresponding buy order to Exchange A. The

routed portion would then enter a pending routed state on the Exchange's systems.

Immediately after routing the corresponding buy order away, the unrouted 100 shares

would be posted to the CHX book undisplayed at $10.03.

Any unexecuted remainders returned to the Matching System would be handled pursuant

to proposed Article 20, Rule 8(b)(7), as discussed below.

Example 13. Assume the same as Example 12 and that after the unrouted 100 shares of

Routable Bid 1 posted to the CHX book at $10.03, Exchange B displayed a Protected

Offer for 100 shares of security XYZ at $10.02.

In this situation, since the Exchange will not route away resting orders, Routable Bid 1

would be price slid to the NBO locking price of $10.02, as all resting orders marked Do

Not Display will be handled as CHX Only and subject to price sliding.[59]

Incidentally, given that the Exchange proposes to permit certain limit orders marked Do

Not Display to be routable, the Exchange proposes to amend the definition of "Do Not Route,"

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[59]   Id.

under Article 1, Rule 2(b)(3)(A), by replacing the current term "displayed" with the more inclusive term "ranked." As such, amended Article 1, Rule 2(b)(3)(A) will provide that "Do Not Route" means "a limit or market order modifier that requires an order to only be executed or ranked within the Exchange's Matching System and not be routed to another market."

With respect to how unexecuted remainders of routed orders would be treated by the Matching System, amended Article 20, Rule 8(b)(7) states as follows:

> (7)   *Priority of unexecuted remainders of routed orders returned to the Matching System*. An unexecuted remainder of a routed order returned to the Matching System in one or more parts shall be added to the existing balance of the related Routable Order already posted to the CHX book. If no balance exists at the time a part of an unexecuted remainder of a routed order is returned to the Matching System, it shall be treated as a new incoming order.[60]

As discussed above, when a Routing Event is triggered, a corresponding routing order is created by the Exchange's routing system that represents the relevant portion of the Routable Order that is to be routed away.[61] Upon routing of the corresponding routed order, the routed portion of the Routable Order enters a pending state on the Matching System ("pending routed portion"). If the Exchange receives an execution confirmation concerning the corresponding routed order, the related pending routed portion will be released as executed to the extent represented by the execution confirmation. If, however, the Exchange receives a cancellation confirmation from the away Trading Center, the pending routed portion will be released as

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[60]   Current Article 20, Rule 8(b)(7) provides language that the Exchange proposes to delete concerning order execution priority for price slid orders because the concept of the "Working Price" enunciated in the rule is actually applicable to execution priority for all orders, as discussed in detail below.

[61]   See supra Examples 7-13.

unexecuted to the extent represented by the cancellation confirmation.[62] In turn, the pending

routed portion released as unexecuted will either (1) be added to any existing balance of the

Routable Order already posted to the CHX book or (2) be treated as a new incoming order to the

Matching System.[63]

An existing balance can occur if an unrouted portion had posted to the CHX book

immediately after the routed portion had been routed away (i.e., "ship and post") and the

unrouted portion was resting on the CHX book when the pending routed portion was released as

unexecuted. An existing balance could also occur even if there was no portion of the Routable

Order initially posted to the CHX book where the routed portion returned to the Matching

System in two or more parts. In such a situation, the first unexecuted remainder to return to the

Exchange would be treated as an incoming order and any subsequent unexecuted remainders

would be added to any existing balance of previously returned remainders. The portion of a

Routable Order released as unexecuted that is treated as an incoming order may result in that

released portion being routed away again, if a proposed Routing Event is triggered, executed

against the CHX book, or posted to the CHX book as a new order. The following Examples 14 -

16 illustrate how unexecuted remainders of routed orders would be handled by the Matching

System:

Example 14. Assume that a Routable Order to buy 500 shares of security XYZ at

$10.00/share is received by the Matching System that will be subject to a "ship and post"

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[62] The Exchange can also release pending routed portions pursuant to proposed Article 20, Rule 12, in connection with a systems or technical issue. In such a case, the pending routed portion would be released as unexecuted and cancelled back to the order sender.

[63] It is important to note that a cancel message from the away routing destination is not a new incoming order. Once the cancel message is received by the Matching System, the released pending routed portion may be handled as an incoming order if there is no existing balance of the Routable Order already posted to the CHX book.

because Exchange A and Exchange B are displaying Protected Offers at the NBO priced at $10.00/share ("Protected Offer A" and "Protected Offer B"). Assume that pursuant to Routing Event #1, the Exchange's routing systems created two corresponding buy orders for 200 shares each to be routed to Exchange A and Exchange B ("Routed Bid A" and "Routed Bid B," respectively). The routed portion then enters a pending routed state on the Exchange's systems. Immediately after Routed Bid A and Routed Bid B are routed way, the remaining 100 shares of the unrouted portion of the Routable Order are posted to the CHX book. Assume that while the unrouted portion remains posted to the CHX book, the Matching System receives an execution confirmation for Routed Bid A for 200 shares, an execution confirmation for Routed Bid B for 100 shares, and a cancellation message for Routed Bid B for 100 shares.

In this situation, of the 400 shares representing the pending routed portion, 200 of those shares would be released as executed and reported to clearing. Upon receipt of the second execution, 100 of those shares would be released as executed and reported to clearing. Upon receipt of the cancellation message, the remaining 100 shares would be released as unexecuted and would be posted to the existing balance of the Routable Order already posted to the CHX book, which would result in 200 shares of the Routable Order being posted to the CHX book priced at $10.00/share.

Example 15. Assume the same as Example 14, except that by the time the first execution confirmation returned to the Matching System, the unrouted portion of the Routable Order resting on the CHX book was fully executed.

In this situation, upon receipt of the first execution confirmation, 200 of those shares would be released as executed and reported to clearing. Upon receipt of the second

38

execution, 100 of those shares would be released as executed and reported to clearing.

Upon receipt of the cancellation message, the remaining 100 shares would be released as unexecuted and would be treated as a new incoming bid to purchase 100 shares of security XYZ at $10.00/share.

If a Protected Offer of an external market priced at $10.00/share were displayed prior the final 100 shares of the Routable Order being released as unexecuted, Routing Event #1 would be triggered again and the Exchange's routing systems would create a corresponding buy order for 100 shares of XYZ priced at $10.00/share and the Routable Order would be routed to the venue displaying the new Protected Offer. If, instead, the Exchange received an offer for security XYZ priced at $10.00/share or better on the Matching System prior to the final 100 shares of the Routable Order being released as unexecuted, the 100 released shares would execute against the resting offer on the CHX book. However, if the CHX book were empty and the NBBO did not prohibit the posting of a bid at $10.00/share, the 100 released share would be posted to the CHX book and ranked on the CHX book pursuant to Article 20, Rule 8(b).[64]

Example 16. Assume the same as Example 14, except that the Matching System receives an execution confirmation for Routed Bid A for 100 shares, a cancellation confirmation for Routed Bid A for 100 shares, and a cancellation message for Routed Bid B for 200 shares. Assume also that the portion of the Routed Order released as unexecuted pursuant to the first cancellation message resulted in 100 shares of the Routed Order being posted to the CHX book.

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[64] As discussed in detail below, the Exchange proposes to amend current CHX Article 20, Rule 8 in order to clarify how the Exchange currently ranks orders on the CHX book.

In this situation, the 200 shares of the pending routed portion would be released as unexecuted pursuant to Routed Bid B being returned cancelled and would be added to the existing balance of 100 shares already posted to the CHX book due to the earlier cancellation message received regarding Routed Bid A.

<u>Exception from Article 3, Rule 20 (No Affiliation between Exchange and any Participant)</u>

Current Article 3, Rule 20 provides, in pertinent part, that the Exchange or any entity with which it is affiliated shall not, directly or indirectly, acquire or maintain an ownership interest in a Participant in the absence of an effective filing under Section 19(b) of the Act. The rule further provides that a Participant shall not be or become an affiliate of the Exchange or any affiliate of the Exchange in the absence of an effective filing under Section 19(b) of the Act. The purpose of Article 3, Rule 20 is to prevent or manage potential conflicts of interest that could arise from the Exchange or its affiliates having an ownership interest in a Participant, particularly with respect to the Exchange's obligation under Section 19(g) of the Act to enforce its Participants' compliance with the Act, the Commission's rules thereunder, and Exchange Rules.

The Exchange is currently in compliance with Article 3, Rule 20. CHX Holdings Inc. wholly owns the Exchange and CHXBD. As such, the Exchange is affiliated with CHXBD, which is a registered broker-dealer and member of FINRA. However, CHXBD is not yet a Participant of the Exchange.

The Exchange believes that CHXBD should now be permitted to operate as an affiliated Participant outbound router on behalf of the Exchange and, to this end, the Exchange submits this immediately effective filing pursuant to Section 19(b)(3)(A) of the Act, which is consistent with the requirements of Article 3, Rule 20. Specifically, the Exchange believes that proposed

40

Article 19, Rule 2(a) would eliminate any potential conflict of interest that could arise in the context of an affiliation between the Exchange and CHXBD, as a Participant, by requiring the following:

- The Exchange will regulate CHXBD as a facility of the Exchange;

- FINRA, a self-regulatory organization unaffiliated with the Exchange or any of its affiliates, is CHXBD's designated examining authority;

- CHXBD will not engage in any other business other than (a) its outbound router function and (b) any other activities it may engage in as approved by the Commission;

- The use of CHXBD for outbound routing by Participants is optional;

- The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and its facilities (including CHXBD as its routing facility) and any other entity; and

- The books, records, premises, officers, agents, directors and employees of CHXBD as a facility of the Exchange shall be deemed to be the books, records, premises, officers, agents, directors and employees of the Exchange for the purposes of, and subject to oversight pursuant to, the Act.

As a facility of the Exchange, CHXBD will be subject to the Exchange's and the Commission's regulatory oversight, and the Exchange will be responsible for ensuring that CHXBD's outbound routing function is operated consistent with Section 6 of the Act and the Exchange's proposed rules. In addition, the Exchange will be required to file with the Commission proposed rule changes and fees relating to CHXBD's outbound routing function. Any such rules and fees

relating to CHXBD's outbound routing function will be subject to the Exchange's non-discrimination requirements. The Exchange also notes that the Commission has previously approved an affiliation between an exchange and its member outbound routing facility based on rules similar to the provisions of proposed Article 19, Rule 2(a) stated above.[65] Thus, the Exchange submits that CHXBD becoming an affiliate Participant of the Exchange to be consistent with the Act.

Amended Article 20, Rule 5 (Prevention of Trade-Throughs)

In light of the proposed CHX Routing Services, the Exchange proposes to amend current Article 20, Rule 5 to clarify how the Matching System will treat orders received by the Matching System that could not be executed within the Matching System in compliance with Rule 611 of Regulation NMS and to prohibit incoming Odd Lot orders from executing through the NBBO. Amended Rule 5(a) states as follows:

(a)   An inbound order for at least a round lot is not eligible for execution on the Exchange if its execution would be improper under Rule 611 of Regulation NMS (but not including the exception set out in Rule 611(b)(8)) (an "improper trade-through") and such an order shall be handled by the Exchange as follows:

(1)   If the execution of all or part of an inbound Routable Order, as defined under Article 1, Rule 1(oo), would cause an improper trade-through, that Routable Order (or the portion of that order that would cause an improper trade-through) shall be routed away, pursuant to Article 19, Rule 3(a)(1); or

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65   See BYX Rule 2.11; see also Securities Exchange Act Release No. 62716 (August 13, 2010), 75 FR 51295 (August 19, 2010) (In the Matter of the Application of BATS Y-Exchange Inc. for Registration as a National Securities Exchange Findings, Opinion, and Order of the Commission).

(2)   If the execution of all or part of an inbound order would cause an improper trade-through and the order cannot be routed away, the order shall be automatically cancelled; provided, however, that such an order marked CHX Only may be subject to the CHX Only Price Sliding Processes, detailed under Article 1, Rule 2(b)(1)(C) and not automatically cancelled.

Specifically, under amended paragraph (a), the Exchange proposes to clarify that "Rule 611" refers to Rule 611 of "Regulation NMS." Under proposed paragraph (a)(1), the Exchange proposes to add language clarifying that inbound orders that are "Routable Orders," as defined under proposed Article 1, Rule 1(oo), would be routed away pursuant to proposed Article 19, Rule 3(a)(1),[66] as opposed to current Interpretation and Policy .03 of Article 20, Rule 5, if an improper trade-through would result.[67] Also, under proposed paragraph (a)(2), the Exchange proposes to clarify that all inbound non-Routable Orders that would cause an improper trade-through shall be automatically cancelled; provided, however, that if the order is marked CHX Only and eligible for price sliding, it shall be price slid and not automatically cancelled.[68]

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[66]   See supra Examples 9 and 10.

[67]   As discussed above, the Exchange proposes to delete Interpretation and Policy .03 of Rule 5, as the routing functionality contemplated under that language is not what the Exchange now proposes through the proposed CHX Routing Services. With respect to paragraph (a) thereunder, given that the Cross With Satisfy modifier is not currently available and only certain Limit orders could be routed away pursuant to the proposed CHX Routing Services, the Exchange proposes to delete the current paragraph (a). When and if the Exchange decides to reactivate the Cross With Satisfy modifier, the Exchange will propose new language concerning the routing of Cross With Satisfy orders pursuant to Rule 19b-4 under the Act.

[68]   See CHX Article 1, Rule 2(b)(1)(C). As discussed below, the Exchange proposes to amend the CHX Only modifier to apply to all Limit orders, regardless of display modifier. The CHX Only modifier is currently only applicable to "fully-displayable" Limit orders, which exclude orders marked Do Not Display or Reserve Size.

The Exchange also proposes to delete language stating that undisplayed orders resting through the NBBO shall be cancelled to the extent necessary for an inbound order, against which an execution would result in an improper trade-through, to be executed or quoted.[69] This is because the Exchange now proposes to require all resting orders marked Do Not Display to be price slid if the execution of such a resting order would result in an impermissible trade-through of a Protected Quotation of an external market, as discussed below.

Amended paragraph (b) states as follows:

(b)   Odd Lot crosses and resting Odd Lot limit orders/remainders priced through a contra-side Protected Quotation of an external market shall be eligible for execution on the Exchange even if the execution would trade-through a Protected Quotation of an external market. Inbound Odd Lot limit and market orders shall not be permitted to trade-through a contra-side Protected Quotation of an external market and shall be treated the same as Round Lots.

Currently, the Exchange permits incoming and resting Odd Lot orders to execute through the NBBO. However, the Exchange now proposes to prohibit incoming Odd Lot orders from trading through a contra-side Protected Quotation of an external market, while continuing to permit resting Odd Lot orders to trade-through a contra-side Protected Quotation of an external market.

As proposed, if an incoming Odd Lot Routable Bid (Offer) were matchable against an offer (bid) resting on the CHX book and the execution of the incoming bid (offer) would result in a trade-through of the NBO (NBB), proposed Routing Event #2 would be triggered and the incoming Odd Lot bid (offer) would be routed away. If, however, the incoming Odd Lot order is not a Routable Order, the incoming Odd Lot order would be price slid if marked CHX Only or

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[69]   The Exchange also propose [sic] to delete Article 20, Rule 8(e)(6), which provides similar language.

cancelled if not eligible for price sliding. Thus, the Exchange proposes to treat incoming Odd Lot orders the same as Round Lots.

Amended Article 1, Rule 2(c)(2) (Do Not Display)

The Exchange proposes to amend the definition of the Do Not Display modifier under current Article 1, Rule 2(c)(2) to add that all limit orders marked Do Not Display resting on the CHX book shall be handled as CHX Only, even if such orders were not originally marked CHX Only, which cannot be overridden by an order sender. By definition, this would include, inter alia, Routable Orders marked Do Not Display that immediately posted to the CHX book or where an unexecuted remainder of a Routable Order marked Do Not Display posted to the CHX book (i.e., a routed order returned to the Matching System as unexecuted). In the later situation, the Routable Order marked Do Not Display would only be handled as CHX Only after the order was posted to the CHX book, as handling such an order CHX Only prior to its posting to the CHX book would preclude routing.

The Exchange also proposes to amend current Article 1, Rule 2(c)(2) to delete language that incorrectly states that an order may be marked Do Not Display "in part," as a limit order marked Do Not Display can only be fully-hidden. Incidentally, the Exchange proposes to expand the applicability of the CHX Only modifier to all limit orders, regardless of order display modifier, as discussed below.

Amended Article 20, Rule 6(d) (Locked and Crossed Markets)

In light of the proposed CHX Routing Services, the Exchange proposes to amend current Article 20, Rule 6(d) to clarify how the Matching System will treat orders received by the Matching System that could not be displayed in compliance with Rule 610(d) of Regulation NMS. As such, amended Rule 6(d) states as follows:

(d)   *Matching System operation*. Except as permitted in paragraph (c) above, an order is not eligible for display on the Exchange if its display would lock or cross a Protected Quotation of an external market in violation of Rule 610 of Regulation NMS and such an order shall be handled by the Exchange as follows:

(1)   If the display of a Routable Order, as defined under Article 1, Rule 1(oo), would impermissibly lock or cross a Protected Quotation of an external market, that Routable Order, or a portion thereof, shall be routed away, pursuant to Article 19, Rule 3(a)(1); or

(2)   If the display of an order would impermissibly lock or cross a Protected Quotation of an external market and the order cannot be routed away, that order shall be automatically cancelled; provided, however, that such an order marked CHX Only may be subject to the CHX Only Price Sliding Processes, detailed under Article 1, Rule 2(b)(1)(C) and not automatically cancelled.

Specifically, under paragraph (d), the Exchange proposes to specify that "Rule 610" refers to "Rule 610 of Regulation NMS." Thereunder, amended paragraph (d)(1) provides that if the display of a Routable Order would impermissibly lock or cross a Protected Quotation of an external market, that Routable Order, or a portion thereof, shall be routed away, pursuant to Article 19, Rule 3(a)(1),[70] as opposed to current Interpretation and Policy .03 of Article 20, Rule 5. In addition, amended paragraph (b)(2) provides that if the display of an order would impermissibly lock or cross a Protected Quotation of an external market and the order cannot be routed away, that order shall be automatically cancelled; provided however that such an order

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[70]   See supra Examples 7 and 8.

marked CHX Only may be subject to the CHX Only Price Sliding Processes, detailed under Article 1, Rule 2(b)(1)(C) and not automatically cancelled.

Amended Article 20, Rule 8 (Operation of the Matching System)

The Exchange proposes to amend Article 20, Rule 8 to adopt provisions concerning the proposed CHX Routing Services and to clarify how orders are currently ranked, displayed and executed by the CHX Matching System.

The Exchange proposes to amend Rule 8(a) to provide that Participants may route orders to the Matching System through any communications line approved by the Exchange and may only route orders away from the Matching System by utilizing the proposed CHX Routing Services, pursuant to proposed Article 19.[71]

Current Rules 8(b) and (d) describes the ranking, display and execution of orders within the Matching System. Although the current language is accurate, the Exchange submits that additional granularity is appropriate in light of the proposed CHX Routing Services and proposed amendment to the CHX Only modifier to expand its applicability to Do Not Display and Reserve Size limit orders, as described below. It is important to note that the Exchange does not propose to substantively modify any functionality described under current paragraphs (b) and (d).

Amended paragraph (b) begins as follows:

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[71] As noted above in the discussion concerning proposed CHX Article 19, Rule 2(a)(3), the use of CHXBD to route orders is optional because Participants are always free to submit orders to away markets without utilizing CHX or CHXBD. However, to the extent that a Participant wishes to route an order directly away from the Matching System, the Participant must use the proposed CHX Routing Services, by submitting a Routable Order to the Matching System.

(b) All orders accepted by the Matching System that will post to the CHX book shall be ranked at each price point up to its limit price by display status then sequence number. Resting limit orders shall be ranked as follows:

Unlike current paragraph (b), which refers to orders "sent to" the Matching System, amended paragraph (b) refers more accurately to orders "accepted" by the Matching System, as orders sent to the Matching System may be rejected by the Matching System and never ranked. In addition, unlike current paragraph (b), which simply refers to ranking orders "according to their price and time of receipt," amended paragraph (b) provides that orders are ranked at each price point up to its limit price by "display status" then "sequence number."[72] That is, when an order is to be posted to the CHX book, at each price point up to its limit price, the order is sorted into one of three pools based on "display status" at each price point, and within each pool, prioritized based on "sequence number," which reflects time priority (e.g., a bid that will be posted to CHX book with limit price of $10.00 is ranked at $10.00, $9.99, $9.98, etc …). This ranking of orders at numerous price points is particularly necessary given the Exchange's price sliding functionalities, which requires price slid orders to maintain original time priority, even if the price slid order is executable at a price less aggressive than its limit price (i.e., order always execute at its "Working Price").[73] Specifically, the ranking of orders at each price point up to its

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[72]   Time priority in the Matching System is established by a unique "sequence number" (e.g., 1, 2, 3, etc …) that the Matching System assigns to each incoming order at the original time of order entry. These sequence numbers ensure that orders retain their relative time priority to each other, even as they are priced slid, and these sequence numbers will not be changed nor will an order receive a new sequence number, so long as it is resting in the CHX book. "Display status" refers to one of three categories, described in paragraphs (b)(1) – (3), under which each order received by the Matching System is sorted.

[73]   Proposed Article 1, Rule 1(pp), defines "Working Price" as "the most aggressive price at which a resting Limit order, as defined under Article 1, Rule 2(a)(1), can execute within the Matching System, in compliance with Rule 611 under Regulation NMS. An order's

limit price permits such orders to preserve its original time priority within the CHX book, notwithstanding the number of price sliding events. This ranking scheme also prevents the Matching System from having to re-establish time priority after each price sliding event, as their relative rank is established at the time the order is accepted by the Matching System.

Amended paragraph (b)(1) describes display status pool #1 and states as follows:

> (1) *Fully-displayable orders and displayed portions of Reserve Size orders*. At each price point up to their limit prices, fully-displayable limit orders of any size and the displayed portion of Reserve Size orders, as defined under Article 1, Rule 2(c)(3), shall be ranked based on their sequence numbers by the Exchange's Matching system and shall be ranked ahead of undisplayed portions of Reserve Size orders and orders marked Do Not Display. Orders sent to an Institutional Broker for handling shall not have any priority within the Matching System unless and until they are received by the Matching System.

Amended paragraph (b)(1) is substantively similar to current paragraph (b)(1), with amendments to explicitly refer to the ranking of orders at each price point up to its limit price and to replace "times of receipt" with the more accurate "sequence numbers." Also, the Exchange proposes to eliminate references to Mixed Lot and Odd Lot orders, as Mixed Lot and Odd Lot orders are always "fully-displayable," but may not actually be displayed, if such orders are not at the CHX Best Bid or Offer ("CHX BBO") and cannot be aggregated into Round Lots.[74] Thus, "fully-displayable" orders are limit orders of any size not marked Do Not Display or Reserve Size.

Working Price may be any price up to and including its limit price."

[74] See CHX Article 20, Rule 8(b)(6).

Along with fully-displayable orders, the displayed portions of Reserve Size orders are currently part of display status pool #1, which is ranked ahead of other display statuses.

Amended paragraph (b)(2) describes display status pool #2 and states as follows:

> (2) *Undisplayed portion of Reserve Size orders.* At each price point up to their limit prices, the undisplayed portions of Reserve Size orders shall be ranked based on their sequence numbers by the Exchange's Matching System, but shall be ranked after any orders as described in paragraph (b)(1) above.

Amended paragraph (b)(2) is substantively similar to current paragraph (b)(2), with amendments to explicitly refer to the ranking of orders at each price point up to its limit price, to clarify that the paragraph applies to the "undisplayed portion of Reserve Size orders,"[75] to replace "times of receipt" with the more accurate "sequence numbers," and to clarify that undisplayed portions of Reserve Size orders are ranked behind orders in display status pool #1.

Amended paragraph (b)(3) describes the display status pool #3 and states as follows:

> (3) *Orders marked Do Not Display.* At each price point up to their limit prices, limit orders marked Do Not Display, as defined under Article 1, Rule 2(c)(2), shall be ranked based on their sequence numbers by the Exchange's Matching System, but shall be ranked after all orders as described under subparagraphs (b)(1) and (b)(2) above.

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[75] The only "orders that are not displayed in part" are limit orders marked Reserve Size, where the reserve portion is undisplayed. See CHX Article 1, Rule 2(c)(3). As discussed above, the Exchange proposes to amend the definition of "Do Not Display" to correct a misstatement that orders may be Do Not Display "in part." Only orders marked Reserve Size may be hidden in part.

Amended paragraph (b)(3) is substantively similar to current paragraph (b)(3), with amendments to explicitly refer to the ranking of orders at each price point up to its limit price, to clarify that the paragraph applies to the "orders marked Do Not Display,"[76] to replace "times of receipt" with the more accurate "sequence numbers," and to clarify that orders marked Do Not Display are ranked orders in display statuses #1 and #2.

The following Examples 17–19 illustrate how orders are currently ranked on the CHX book, as clarified by the proposed amendments:

Example 17. Assume that the CHX book is empty with respect to security XYZ and the NBBO for security XYZ is $10.00 x $10.02. Assume then that the Matching System accepts a limit order to buy 100 shares of security XYZ at $10.00/share marked Do Not Display and the order is assigned a sequence number of "1" ("Bid 1").

In this situation, Bid 1 would be ranked on the CHX book as follows (values in parentheses indicate size): [77]

x ≤ 9.98			**9.99**			**10.00**		
(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)
1(100)			**1(100)**			**1(100)**		

Pursuant to amended paragraph (b)(3), Bid 1 would be ranked at each price point up to its limit price of $10.00 and allocated to display status pool #3 for limit orders marked Do Not Display.[78]

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[76] The only "orders that are not displayed at all" are limit orders marked Do Not Display. See CHX Article 1, Rule 2(c)(2). See id.

[77] Examples 17-22 represent order execution priority at each price point up to the order's limit price, which starts on the far right from top to bottom, then from right to left.

[78] The Working Price of Bid 1 would be $10.00 as the limit price of the Bid 1 is at the NBB. See supra note 73.

Example 18. Assume the same as Example 17 and while Bid 1 is resting on the CHX book, the Matching System accepts a limit order to buy 50 shares of security XYZ at $9.99/share that is "fully-displayable" and the order is assigned a sequence number of "2" ("Bid 2").

In this situation, Bid 2 would be ranked on the CHX book as follows:

x ≤ 9.98			9.99			10.00		
(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)
1(100)		**2(50)**	1(100)		**2(50)**	1(100)		

Pursuant to amended paragraph (b)(1), Bid 2 would be ranked at each price point up to its limit price of $9.99 and allocated to display status pool #1 for fully-displayable limit orders. However, as discussed below, although Bid 2 represents the CHX BO, it cannot be <u>displayed</u> because it is for an Odd Lot and cannot be aggregated with other Odd Lots or Mixed Lots to be displayed as a Round Lot. This, however, has no bearing on its rank on the CHX book.

Example 19. Assume the same as Example 18 and while Bid 1 and Bid 2 are resting on the CHX book, the Matching System accepts a limit order to buy 500 shares of security XYX at $10.00/share that is marked Reserve Size, with a displayable amount of 100 shares, refresh threshold of 0, and the order is assigned a sequence number 3.

In this situation, Bid 3 would be ranked on the CHX book as follows:

x ≤ 9.98			9.99			10.00		
(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)
1(100)	**3(400)**	2(50)	1(100)	**3(400)**	2(50)	1(100)	**3(400)**	**3(100)**

3(100)   3(100)

Pursuant to amended paragraph (b)(1), the 100 shares of Bid 3 that represent the displayed portion of Bid 3 will be ranked at each price point up to its limit price of $10.00 and allocated to display status pool #1 for fully-displayable orders and displayed portions of Reserve Size orders. Thus, the displayed portion of Bid 3 will be ranked ahead of Bid 1 at every price point up to $10.00. However, given that Bid 3 has an inferior sequence number to Bid 2, Bid 3 will be ranked behind Bid 2 at each price point up to $9.99. Since Bid 2 has a limit price of $9.99, the displayed portion of Bid 3 will be at the top of the CHX book at the $10.00.

Pursuant to amended paragraph (b)(2), the 400 shares of Bid 3 that represent the undisplayed portion of the Bid 3 will be ranked at each price point up to its limit price of $10.00 and allocated to display status pool #2 for undisplayed portions of Reserve Size orders. Thus, the undisplayed portion of Bid 3 will be ranked ahead of Bid 1, but behind the displayed portion of Bid 3 and Bid 2 up to $9.99 and behind the displayed portion of Bid 3 only at $10.00.

Amended paragraph (b)(4) clarifies how Reserve Size orders are handled for ranking purposes when the displayed portion is refreshed and states as follows:

> (4)   *Refreshed portions of Reserve Size orders*. When the displayed portion of a Reserve Size order reaches a threshold set by the Participant submitting the order (the "submitting Participant"), the displayed portion of the order shall be refreshed to the original displayed quantity (or with the remaining number of shares, if less) and the undisplayed portion of the order shall be decremented by that number of shares. The refreshed

displayed portion of the Reserve Size order shall receive a new display sequence number based on the time at which it was refreshed, whereas any remaining undisplayed portion of the Reserve Size order shall retain its original sequence number.

Correspondingly, the Exchange proposes to amend Article 20, Rule 2(c)(3), which defines the "Reserve Size" modifier to add that the refreshed displayed portions of Reserve Size orders shall be ranked in the CHX book pursuant to amended Article 20, Rule 8(b)(4).

Amended paragraph (b)(4) is substantively similar to current paragraph (b)(4), with amendments to describe the ranking of the Reserve Size orders in terms of "sequence numbers," so as to be consistent with the foregoing proposed amendments to paragraph (b). That is, amended paragraph (b)(4) clarifies that when the displayed portion of a Reserve Size order is refreshed, the refreshed displayed portion will receive a new sequence number and lose priority to all other orders in the first display status pool, whereas the undisplayed portion will retain its original sequence number and retain its original priority in display status pool #2. The following Example 20 illustrates how the refreshed Reserve Size orders are currently treated, as clarified by the proposed amendment:

Example 20. Assume the same as Example 19. Assume then that Bid 2 is cancelled by the order sender and soon thereafter, the Matching System accepts a limit order to buy 500 shares of security XYX at $10.00/share that is marked Reserve Size, with a displayable amount of 100 shares, with a refresh threshold of 0, and the order is assigned a sequence number 4.

In this situation, Bid 3 would be ranked on the CHX book as follows:

x ≤ 9.98			**9.99**			**10.00**		
(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)
1(100)	3(400)	3(100)	1(100)	3(400)	3(100)	1(100)	3(400)	3(100)
	4(400)	**4(100)**		**4(400)**	**4(100)**		**4(400)**	**4(100)**

Assume then that the Matching System receives an incoming limit order to sell 100 shares of security XYZ at $10.00/share that is marked IOC.

In this situation, the incoming offer would execute against the full displayed portion of Bid 3 at $10.00/share. Pursuant to amended paragraph (b)(4), the displayed portion of Bid 3 would then be refreshed to 100 shares and would receive a new sequence number reflecting the time of the refresh, while the undisplayed portion of Bid 3 would be decremented by 100 shares and would retain its original sequence number.

Thus, Bid 3 would now be ranked on the CHX book as follows:

x ≤ 9.98			**9.99**			**10.00**		
(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)
1(100)	**3(300)**	4(100)	1(100)	**3(300)**	4(100)	1(100)	**3(300)**	4(100)
	4(400)	**31(100)**		4(400)	**31(100)**		4(400)	**31(100)**

This chart clearly shows that the refreshed display portion of Bid 3 loses priority to the displayed portion of Bid 4, but the undisplayed portion of Bid 3 maintains priority over the undisplayed portion of Bid 4.

Amended paragraph (b)(5) describes the impact of change of size or price to an order and states as follows:

(5)   *Other changes in order size or price*. When a Participant reduces

the number of shares in an order, the order will continue to be ranked at

the price and time at which it was originally received. When a Participant

increases the number of shares in an order, the order will be ranked at the

original limit price, but shall receive a new ranking based on the time at

which shares were added to the order. Any change in the price of an order

shall result in a new ranking for the order based on the new limit price and

the time at which the price change was received. Any change to the

display instruction associated with an order (including, but not limited to,

a change that identifies an order as Reserve Size or Do Not Display) must

be submitted as a new order and shall be ranked based on the time at

which the new order was received.

Amended paragraph (b)(5) is virtually identical to current paragraph (b)(5), with proposed

amendments to replace the term "instruction" with the more accurate "modifier", to capitalize the

term "Reserve Size," and to replace "undisplayed orders" with the more accurate term "Do Not

Display."

Amended paragraph (b)(6) describes which orders are displayed and how certain Odd Lot

and Mixed Lot orders are handled for display purposes and states follows:

(6)   *Displayed CHX Best Bid and Offer*. Except as provided in Rule 5

above, all orders or portions of orders described under paragraph (b)(1)

above that constitute the best bid(s) or offer(s) in the Matching System in

each security, the display of which would not violate Rule 610 under

Regulation NMS ("displayable CHX BBO"), shall be immediately and

publicly displayed through the processes set out in the appropriate

reporting plan for each security, provided that the displayable CHX BBO

is for at least a Round Lot. The displayable CHX BBO for a security shall

only be displayed in multiples of a Round Lot. If the displayable CHX

BBO for a security is for an Odd Lot, it shall not be displayed, but the bids

or offers that constitute the undisplayed yet displayable CHX BBO shall

maintain their execution priority pursuant to paragraph (b)(1) above. If the

displayable CHX BBO for a security is for a Mixed Lot, it shall be

rounded down to the nearest integer multiple of a Round Lot for display

purposes only and the displayable yet undisplayed Odd Lot remainder(s)

shall maintain their execution priority pursuant to paragraph (b)(1) above.

Amended paragraph (b)(6) is substantively identical to current paragraph (b)(6), but changes the

way order aggregation for display purposes is described and deletes surplus language already

included in the foregoing paragraphs. In sum, amended paragraph (b)(6) makes clear the

distinction between aggregation of orders for display purposes and the rank of individual orders

on the CHX book. Specifically, it clarifies that the CHX BBO can only be displayed in Round

Lots or multiples of Round Lots and Odd Lot and Mixed Lot orders will be displayed to the

extent that they can be aggregated together into a multiple of a Round Lot. The amended

paragraph further clarifies that order rank will not be affected by aggregation of orders for

display purposes as described under amended paragraphs (b)(1)-(5).

Amended paragraph (b)(7) replaces current language concerning the execution priority of

price slid orders, with language describing how unexecuted remainders of routed orders would

be ranked on the CHX book, as discussed above.[79] The Exchange submits that the current

language is redundant of the proposed amendments to the CHX Only modifier and automated

matching of orders, both described below, because all orders, regardless of whether or not they

are subject to any price sliding functionality, would be executed at its "Working Price," which

the Exchange proposes to adopt in the CHX rules as a defined term.[80]

Amended paragraph (d)(1) clarifies how orders resting on the CHX book are currently

executed and states as follows:

> (1)   Except for certain orders which shall be executed as described in
> Rule 8(e), below, an incoming order shall be matched against one or more
> resting orders in the Matching System, in the order in which the resting
> orders are ranked on the CHX book, pursuant to Rule 8(b) above, at the
> Working Price of each resting order, as defined under Article 1, Rule
> 1(pp), for the full amount of shares available at that price, or for the size of
> the incoming order, if smaller.

Amended paragraph (d)(1) is substantively identical to current paragraph (d)(1), with

amendments to clarify that orders are executed according to their rank on the CHX book,

pursuant to amended paragraph (b), and at the Working Price of each resting order, as defined

under proposed Article 1, Rule 1(pp).[81] The Working Price of a resting order that is not eligible

for price sliding will always be its limit price, whereas the Working Price of a resting order that

is eligible for price sliding will be the most aggressive price at which the order can execute,

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[79]   See supra Examples 14-16.

[80]   See supra note 73.

[81]   Id.

depending on the prevailing NBBO for the subject security.[82] The following Examples 21 – 23

illustrate how orders resting on the CHX book are currently executed:

Example 21. Assume the same as Example 20 above, that the NBBO for security XYZ is

$10.00 x $10.01, and that the Exchange is the only market at the NBB displaying 200

shares at $10.00.

The CHX book as to security XYZ looks like this:

x ≤ 9.98			**9.99**			**10.00**		
(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)
1(100)	3(300)	4(100)	1(100)	3(300)	4(100)	1(100)	3(300)	4(100)
	4(400)	31(100)		4(400)	31(100)		4(400)	31(100)

Assume then that after the displayed portion of Bid 3 is refreshed, the Matching System

receives an incoming limit order to sell 1000 shares of security XYZ at $10.00/share.

In this situation, since the size of the incoming offer is equal to the total number of shares

represented by all resting bids at $10.00, the incoming offer would execute against all

resting bids on the CHX book at the Working Price of the resting orders, which are their

limit prices because they have not been price slid, in the following order: 4(100), 31

(100), 3(300), 4(400), 1(100).

Example 22. Assume the same as Example 21, except that the CHX book is empty with

respect to security XYZ, and the NBBO for security XYZ is $9.99 x $10.00. Assume

then that the Matching System accepts two orders in quick succession. The first order is a

Routable Order to buy 100 shares of security XYZ at $9.99/share (not eligible for NMS

Price Sliding) and is assigned a sequence number of "5" ("Bid 5"). The second order is a

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[82]   Id.

59

limit order to buy 100 shares of security XYZ at $10.01/share marked CHX Only

(eligible for NMS Price Sliding)[83] and is assigned a sequence number of "6" ("Bid 6").

In this situation, pursuant to paragraph (b)(1), Bid 5 would be ranked at every price point

up to its limit price of $9.99 and Bid 6 would be ranked at every price point up to its limit

price of $10.01. However, since the display of Bid 6 at $10.01 would cross the NBO in

violation of Rule 610(d) of Regulation NMS, Bid 6 would be price slid and would only

be executable at the NBO locking price of $10.00 (i.e., Working Price) and displayable at

one price increment below the NBO, at $9.99. The Matching System would then

aggregate Bids 5 and 6 for display purposes, pursuant to amended paragraph (b)(6), and

display a CHX Protected Bid at $9.99 for 200 shares of security XYZ. However, the bids

would receive order execution priority as follows:

x ≤ 9.99			**10.00**			**~~10.01~~**		
(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)	(b)(3)	(b)(2)	(b)(1)
		5 (100)			6 (100)			~~6 (100)~~
		6 (100)						

Thus, Bid 6 would have a Working Price of $10.00/share and Bid 5 would have a

Working Price of $9.99/share, which is its limit price. That is, if the Matching System

then accepted an incoming offer for 200 shares of security XYZ priced at $9.99/share, the

incoming offer would first execute 100 shares against Bid 6 at $10.00/share, then against

Bid 5 at $9.99/share.

Example 23. Assume the same as Example 22, except that prior to the Matching System

receiving an incoming offer for 200 shares of security XYZ priced at $9.99/share, the

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83   See CHX Article 1, Rule 2(b)(1)(C).

Upper Price Band for security XYZ moved to $9.99. As such, order could not be

executed at a price more aggressive than $9.99 and the bids would receive order

execution priority as follows:

x ≤ 9.99				~~**10.00**~~				~~**10.01**~~	
(b)(3)	(b)(2)	(b)(1)		(b)(3)	(b)(2)	(b)(1)		(b)(3)	(b)(2)	(b)(1)
		5 (100)				~~6 (100)~~				~~6 (100)~~
		6 (100)								

Thus, both Bid 5 and Bid 6 would have a Working Price of $9.99/share. Thus, if the

Matching System then accepted an incoming offer for 200 shares of security XYZ priced

at $9.99/share, the incoming offer would first execute 100 shares against Bid 5 at

$9.99/share, then against Bid 6 at $9.99/share.

Amended paragraph (d)(3) reflects changes to the handling of Odd Lot orders pursuant to

the proposed CHX Routing Services and states as follows:

> (3)   Odd Lot orders and unexecuted Odd Lot remainders that are
>
> unable to be immediately displayed according to Rule 8(b)(6) above
>
> (because they are at a price that is better than the current CHX quote) shall
>
> be posted to, remain in, or be routed or cancelled from, the Exchange's
>
> Matching System according to the attached order modifiers. Orders
>
> remaining in the Matching System will continue to be ranked at the price
>
> and time at which they were originally received.

Specifically, pursuant to proposed Article 19, Rule 3(a), amended paragraph (d)(3) adds that Odd

Lot orders could be posted to, or routed away from, the Matching System, in addition to either

remaining in, or being cancelled from, the Matching System.[84] Also, amended paragraph (d)(3) replaced the phrase "Participant's instruction," with the more technically accurate "order modifiers." Moreover, as discussed above, the Exchange proposes to delete reference to current Article 20, Rule 8(h) in current paragraph (d)(3), as the Exchange proposes to delete Article 20, Rule 8(h) in its entirety as obsolete.

The Exchange proposes to amend paragraph (d)(4) to adopt style edits and to provide additional detail as to how the Matching System currently handles orders that are subject to Rule 201 of Regulation SHO. Specifically, in order to clarify the scope of the rule, the Exchange proposes to entitle the paragraph "Rule 201 of Regulation SHO." The Exchange also proposes to capitalize all references to "Trading Center," as the Exchange now proposes to define the term in the CHX rules;[85] to replace reference to "short sale" orders with "Sell Short," as short sale orders are, more accurately, limit orders marked Sell Short, as defined under Article 1, Rule 2(b)(3)(D); to insert a cross-reference to Article 1, Rule 2(b)(3)(E), which defines "Short Exempt"; and to replace the current citation to Article 20, Rule 8(h) with a citation to proposed Article 19, Rule 3, which details the proposed Routing Events. Also, given that current Rule 8(d)(4) addresses exceptions to the short sale price test restriction, as provided under Rules 201(b)(1)(iii)(A) and (B) of Regulation SHO, the Exchange proposes to adopt those citations in the amended rule.[86]

In addition, the Exchange proposes to adopt language that clarifies how the Matching

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[84] Incoming or resting Odd Lots priced at the CHX BBO that could not be aggregated with other orders for display purposes will be cancelled by the Matching System if it is marked Always Quote, as defined under CHX Article 1, Rule 2(c)(1).

[85] See supra note 5.

[86] Rule 201(b)(1)(iii)(A) of Regulation SHO provides the Exchange's policies and procedures must be reasonably designed to permit "the execution of a displayed short sale order of a covered security by a trading center if, at the time of initial display of the short sale order, the order was at a price above the current national best bid.'"

System currently applies the Rule 201(b)(1)(iii)(A) exception to resting limit orders marked Sell Short and Reserve Size. The proposed language provides that the Rule 201(b)(1)(iii)(A) exception shall also apply to resting limit orders marked Sell Short and Reserve Size, as defined under Article 1, Rule 2(c)(3), and, pursuant to the exception, such orders shall be permitted to execute at its initially displayed price, up to its full size, including the undisplayed portion, during one order-matching event.[87] The proposed language also provides that Reserve Size orders may not be modified or refreshed during an order-matching event.[88]

The purpose of this language is to clarify that the Rule 201(b)(1)(iii)(A) exception applies to the entire Reserve Size order, including the undisplayed portion, so long as (1) the Reserve Size order was initially displayed at a price above the then-current NBB and (2) any execution(s) against the Reserve Size order at a price below one minimum price increment above the NBB is the result of one order-matching event. Thus, the proposed language continues by providing that if a Reserve Size order is refreshed after an order-matching event (e.g., the incoming order was smaller than the resting Reserve Size order), but the refreshed quote cannot be permissibly displayed at the initially displayed price in compliance with Regulation SHO, the entire Reserve Size order shall be cancelled or price slid, if the order is marked CHX Only, as defined under the amended Article 1, Rule 2(b)(1)(C).

Moreover, the Exchange proposes to adopt language that provides that if the NBBO for a covered security subject to the short sale price test restriction become crossed, a Sell Short order

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[87] An "order-matching event" refers to the matching of one incoming order against one or more marketable contra-side orders resting on the CHX book. The simplest example involves one incoming order matching against one resting order at one price point. However, an order-matching event could also involve one incoming order matching against two or more orders, sometimes at multiple price points.

[88] During an order matching event, an order sender cannot not change the size or price of the Reserve Size order.

63

in the covered security may be displayed or executed at a price that is less than or equal to the current NBB while the market is crossed. This language is virtually identical to the response to Question 6.1 of the "Division of Trading and Markets: Responses to Frequency Asked Questions Concerning Rule 201 of Regulation SHO" ("Regulation SHO FAQs").[89]

Amended Article 1, Rule 2(b)(1)(C) (CHX Only)

The Exchange proposes to expand the applicability of the current CHX Only modifier to limit orders marked Do Not Display or Reserve Size and not just "fully-displayable" limit orders (i.e., limit orders not marked by an order display modifier).[90] Moreover, in light of the foregoing amendments to the Article 20, Rule 8(b) and (d), the Exchange proposes to make similar amendments to terminology used in defining the CHX Only modifier to be consistent with proposed Article 20, Rule 8(b) and (d).

In 2011, the Exchange introduced the CHX Only order type, amended twice in 2013,[91] which is designed to encourage displayed liquidity on the Exchange and to reduce automatic cancellations by the Matching System.[92] The CHX Only modifier is a limit order modifier that requires the order to be ranked and executed on the Exchange, without routing away to another trading center. Order senders have the option to default all limit orders to "CHX Only" and therefore be subject to the CHX Only Price Sliding Processes. The CHX Only Price Sliding

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[89] "Division of Trading and Markets: Responses to Frequency Asked Questions Concerning Rule 201 of Regulation SHO." U.S. Securities and Exchange Commission, 20 Jan. 2011. Web. 16 June 2014. <http://www.sec.gov/divisions/marketreg/rule201faq.htm>.

[90] See Article 1, Rule 2(b)(1)(C).

[91] See Securities Exchange Act Release No. 69319 (April 5, 2013), 78 FR 21634 (April 11, 2013) (SR-CHX-2013-08); see also Securities Exchange Act Release No. 69075 (March 8, 2013), 78 FR 16311 (March 14, 2013) (SR-CHX-2013-07).

[92] Prior to the recent amendment, the CHX Only order type was originally adopted in 2011. See Securities Exchange Act Release No. 64319 (Apr. 21, 2011), 76 FR 23634 (Apr. 27, 2011) (SR-CHX-2011-04).

Processes is an order handling functionality comprised of NMS Price Sliding and Short Sale Price Sliding designed to ensure compliance with Rule 610(d) of Regulation NMS and Rule 201 of Regulation SHO. The CHX Only Price Sliding Processes are applied to all CHX Only orders that, at the time of order entry, would be in violation of Rule 610(d) of Regulation NMS and/or Rule 201 of Regulation SHO, if displayed or executed at the limit price. However, a CHX Only order that, at the time of order entry, could be displayed or executed in compliance with Regulation NMS and Rule 201 of Regulation SHO will not be subject to the CHX Only Price Sliding Processes and shall be displayed and executable without price sliding.

Mechanically, for those orders subject to the CHX Only Price Sliding Processes, the Matching System will price slide orders multiple times depending on changes to the NBBO (the repricing of CHX Only sell short orders subject to Rule 201 of Regulation SHO is dependent solely on declines to the NBB), so long as the order can be displayed and executable in an increment consistent with the provisions of Rule 610(d) of Regulation NMS and Rule 201 of Regulation SHO, until the order is executed, cancelled or the original limit price is reached. Also, the CHX Only Price Sliding Processes are based on Protected Quotations at equities exchanges other than the Exchange (Short Sale Price Sliding is based on the NBB) and all CHX Only limit orders subject to the CHX Only Price Sliding Processes shall maintain their original limit price and shall retain their time priority with respect to other orders based upon the time those orders were initially received by the Matching System. Like all limit orders ranked on the CHX book, CHX Only orders are ranked at every price point up to its limit price, as fully-displayable orders, then by sequence number. CHX Only orders that are price slid maintain their original sequence number, notwithstanding price sliding.

The Exchange now proposes several amendments to the CHX Only modifier to permit the modifier to be attached to limit orders marked Do Not Display and Reserve Size and to clarify that Odd Lot orders marked CHX Only are also subject to the CHX Only Price Sliding Processes.

Notably, the Exchange proposes to add additional language to Article 1, Rule 2(b)(1)(C)(i)(a), which outlines "Initial NMS Price Sliding," to provide that in addition to when a CHX Only would lock or cross a Protected Quotation of an external market in violation of Rule 610(d), NMS Price Sliding will also occur if, at the time of entry, a CHX Only order is priced at or through a contra-side Protected Quotation of an external market and is for an Odd Lot or is priced through a contra-side Protected Quotation of an external market and is marked Do Not Display. This additional language is necessary because Odd Lots could not, by themselves, be Protected Quotations and, thus, are not subject to Rule 610(d) of Regulation NMS.[93] Moreover, since CHX Only orders marked Do Not Display could never be displayed at any price, a violation of Rule 610(d) of Regulation NMS would never occur.

In addition, the Exchange proposes the following global changes under subparagraph (C):

(1)   The Exchange proposes to replace all reference to "ranked" or "re-rank" with the more accurate term "executable." Pursuant to proposed Article 20, Rule 8(b), a limit order is ranked <u>at each price point up to its limit price</u> by its display status then sequence number. Thus, an order subject to price sliding is not quite "re-ranked," as it maintains its original rank in the CHX book behind orders already resting on the CHX book.[94] Thus,

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[93]   <u>See</u> CHX Article 20, Rule 8(b)(6).

[94]   This concept is already codified under current Article 20, Rule 2(b)(1)(C)(iv), which provides that CHX Only order subject to the Price Sliding Processes will retain their time priority versus other orders based upon the time those orders were initially received by the Matching System.

the more accurate term is "executable," as price slid orders are ranked at every price point up to its limit price, but only executable at the most aggressive price permissible by Rule 611 of Regulation NMS (i.e., its "Working Price").[95]

(2)   The Exchange also proposes to adopt the term "displayable," in addition to the current term "displayed," because Odd Lot orders that are marked CHX Only would not be displayed at the Permitted Display Price if it could not be aggregated with other Odd Lots or Mixed Lots for display purposes, pursuant to current Article 20, Rule 8(b)(6). Thus, price slid Odd Lots would be executable at the locking price and displayable at the Permitted Display Price, if the Odd Lot could not be aggregated for display purposes pursuant to current Article 20, Rule 8(b)(6).

 (3)   The Exchange proposes to eliminate language in current subparagraphs (C)(i)(b)(1) and (2) and (C)(ii)(b) states that CHX Only orders "shall receive a new timestamp" at each price sliding event, as such language is confusing and unnecessary. As the Exchange clarified in SR-CHX-2013-07, the purpose of timestamp "is to simply record the time of the price adjustment, as opposed to establishing or retaining time priority."[96] Pursuant to subparagraph (C)(iv), CHX Only orders subject to the Price Sliding Processes retain their time priority versus other orders based upon the time those orders were initially received by the Matching System. Thus, for clarity, the Exchange proposes to delete reference to a "new timestamp."

Moreover, the Exchange proposes the following specific amendments. With respect to current subparagraph (C), the Exchange propose to capitalize the term "Trading Center" in the

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95   See supra note 73.

96   See Securities Exchange Act Release No. 69075 (March 8, 2013), 78 FR 16311 (March 14, 2013) (SR-CHX-2013-07).

67

first paragraph, as the Exchange proposes to adopt the term as a defined term under Article 1, Rule 1(nn).[97] Moreover, the Exchange proposes to eliminate the first sentence of the fourth paragraph under subparagraph (C), as the Exchange proposes to make the CHX Only modifier applicable to all limit orders, regardless of the attached order display modifier.

In addition, given that the Exchange proposes to permit Do Not Display orders to be marked CHX Only and require all resting limit orders marked Do Not Display to be handled as CHX Only, all resting sell short orders marked Do Not Display shall be subject to Short Sale Price Sliding. As such, if the short sale price test restriction under Rule 201 of Regulation SHO is in effect, resting sell short orders marked Do Not Display will not be cancelled if it would execute at a price at or below the NBB because such resting orders will always be price slid to the Permitted Price (i.e., one minimum price increment above the NBB). Thus, the Exchange proposes to delete the last sentence of the fourth paragraph under subparagraph (C), as such orders will be subject to the Short Sale Price Sliding Processes.

Incidentally, the Exchange proposes to add a sentence to current Article 1, Rule 2(b)(1)(C)(ii)(b), which provides that to reflect increases in the NBB, the Matching System will continue to reprice an undisplayed CHX Only Sell Short order (i.e., CHX Only Sell Short order for an Odd Lot that could not be aggregated into a displayed round lot or a CHX Only Sell Short order marked Do Not Display) to the greater of the Permitted Price or the Lower Price Band, until the order is executed, cancelled or its original limit price is reached.

With respect to subparagraph (C)(i)(a), aside from the amendments discussed above, the Exchange also proposes to add "if not marked Do Not Display," prior to the word "displayed," to clarify that orders marked Do Not Display would never be displayed at any price. The Exchange

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[97]   See supra note 5.

proposes to make similar amendments to the second paragraph under subparagraph (C)(i)(a), which details the interplay between the CHX Only Price Sliding Processes and Limit Up-Limit Down Price Sliding ("LULD Price Sliding"),[98] which currently provides that the more aggressive of the NBB (NBO) and Lower (Upper) Price Band will dictate how an order would be price slid.[99] Also, with respect to subparagraph (C)(i)(b), the Exchange proposes to replace "re-ranked and re-displayed" with the more general "price slid," because the price sliding of orders marked Do Not Display will never result in the order being "re-displayed."

The Exchange proposes to adopt subparagraphs (C)(i)(b)(5) and (6) to address "multiple NMS Price Sliding" for CHX Only orders marked Do Not Display and Reserve Size, respectively. Proposed subparagraph (C)(i)(b)(5) provides that in the event that a Protected Offer (Bid) of an external market crosses a resting CHX Only bid (offer) marked Do Not Display, the resting bid (offer) marked Do Not Display shall be price slid to lock the Protected Offer (Bid) of the external market.[100] The following Example 24 illustrates this price sliding for resting CHX Only orders marked Do Not Display:

> Example 24. Assume that the NBBO for security XYZ is $10.00 x $10.01. Assume that the CHX book has one resting bid marked Do Not Display and CHX Only for 100 shares of security XYZ priced at $10.01/share ("CHX Only Bid 1"). Assume then that the NBBO moves to $9.99 x $10.00.

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[98] See CHX Article 20, Rule 2A(b)(2)(A)(i).

[99] See the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the "Limit Up-Limit Down Plan" or the "Plan"), Securities Exchange Act Release No. 67091 (May 31, 2012), 77 FR 33498 (June 6, 2012) (the "Limit Up-Limit Down Release").

[100] This is in contrast to fully-displayed CHX Only orders, which would be permitted to stand its ground at its displayed price where a subsequent contra-side Protected Quotation of an external market locked or crossed the fully-displayed CHX Only order.

In this situation, pursuant to proposed subparagraph (C)(i)(b)(5), CHX Only Bid would be price slid and executable at the NBO locking price of $10.00.

Proposed subparagraph (C)(i)(b)(6) provides that a resting CHX Only order marked Reserve Size shall be price slid to a less aggressive price if a <u>refreshed display of the order</u> would lock or cross a Protected Quotation of an external market and shall receive execution priority pursuant to Article 20, Rule 8(b)(4). If a contra-side Protected Quotation of an external market locked or crossed the displayed portion of a CHX Only Reserve Size order, the CHX Only Reserve Size order would be permitted to remain displayed at its current displayed price because displayed portions of reserve size orders are treated the same as fully-displayed limit orders for the purposes of Rule 610(d) of Regulation NMS. The following Examples 25 and 26 illustrates this price sliding for CHX Only orders marked Do Not Display:

Example 25. Assume the same as Example 24, except that the resting bid is marked Reserve Size and CHX Only and is for 500 shares of security XYZ, 100 of which are displayed, priced at $10.00/share ("CHX Only Bid 2"). Assume then that the NBBO moves to $9.99 x $10.00.

In this situation, CHX Only Bid 2 would be permitted to remain displayed at $10.00 because it was displayed at a price below the NBO at the time it was initially displayed. Furthermore, pursuant to Interpretation and Policy .01(d) of Article 20, Rule 5, the Matching System would ignore the crossing quotes and execute orders pursuant to the first uncrossed set of Protected Quotations.

Example 26. Assume the same as Example 25 and that prior to the NBBO moving to $9.99 x $10.00, the Matching System receives a limit order to sell 100 shares of security XYZ at $10.00/share, which is immediately executed against the displayed portion of

CHX Only Bid 2. Assume then that prior to the displayed portion of CHX Only Bid 2 being refreshed, the NBBO moves to $9.99 x $10.00. Thus, a refreshed display of 100 shares of security XYZ at $10.00/share would lock the markets in violation of Rule 610(d) of Regulation NMS.

In this situation, the remaining 400 shares of CHX Only Bid 2 would be price slid and executable at the NBO locking price of $10.00/share, but the displayed portion would be displayed at the Permitted Display Price of $9.99. Thus, if an incoming offer for 400 shares of security XYZ priced at $9.99/share were subsequently received by the Matching System, the incoming offer would execute against the full size of CHX Only Bid 2 (i.e., the first 100 displayed shares, followed by the 300 shares that are undisplayed) at $10.00/share.

Also, the Exchange proposes to amend the last sentence under subparagraph (c)(i)(b) to include "subparagraphs (3) to (6)."

Pursuant to current Article 20, Rule 8(b)(4), when the displayed portion of a Reserve Size order is refreshed, the displayed portion receives a new sequence number reflecting the time at which the display was refreshed, regardless of whether the Reserve Size order is price slid. However, the undisplayed portion of a Reserve Size order will always maintain its original sequence number, provided that the size of the undisplayed portion is only decremented. As such, the Exchange proposes to amend subparagraph (C)(iv) to provide that CHX Only orders subject to the Price Sliding Processes will retain their time priority versus other orders based upon the time those orders were initially received by the Matching System; provided, however,

that the displayed portion of a Reserve Size CHX Only order that is refreshed shall have time priority based on the time the displayed order was refreshed.[101]

Under subparagraph (C)(ii), aside from the amendments discussed above, the Exchange proposes several amendments. Immediately after the title of subparagraph (C)(ii) "Short Sale Price Sliding," the Exchange proposes to add language clarifying that a limit order marked Sell Short, as defined under Article 1, Rule 2(b)(3)(D), must comply with the requirements of Article 20, Rule 8(d)(4), which outlines how the Matching System handles orders subject to the short sale price test restriction under Rule 201 of Regulation SHO. The proposed language continues by providing that if the Sell Short order is marked CHX Only, the order shall be price slid pursuant to the Short Sale Price Sliding rule.

In addition, the Exchange proposes to replace all reference under subparagraph (C)(ii) to "repriced and displayed" and "reprice and display" with the more accurate "repriced (and displayed, if applicable)" and "reprice (and re-display, if applicable)," respectively, since limit orders marked Do Not Display and CHX Only will never be displayed at any price. The Exchange also proposes to capitalize all references to the term "Sell Short," as it is a defined term under Article 1, Rule 2(b)(3)(D).

Under subparagraph (C)(ii)(a), the Exchange proposes to delete reference to the Limit Up-Limit Down Lower Price Band within subparagraph (C)(ii)(a) and restate that language as a separate paragraph, which provides that if the Permitted Price is priced below the Lower Price Band, an incoming CHX Only Sell Short order that, at the time of entry, is priced below the Lower Price Band, shall be repriced (and displayed, if applicable) at the Lower Price Band, pursuant to Article 20, Rule 2A(b)(2)(A)(i). The Exchange submits that this proposed

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[101] See supra Example 20.

72

amendment will improve the logical flow of the rule. Similarly, the Exchange proposes to replace "irrespective of the prices at which such orders are priced and displayed" with the simplified "notwithstanding price sliding."

Under subparagraph (C)(ii)(b), the Exchange proposes to add language that provides that to reflect increases in the NBB, the Matching System will continue to reprice an undisplayed CHX Only Sell Short order to the greater of the Permitted Price or the Lower Price Band, until the order is executed, cancelled or its original limit price is reached, pursuant to Article 20, Rule 2A(b)(2)(A)(ii). This language is necessary because undisplayed CHX Only Sell Short orders cannot not rely upon the Rule 201(b)(1)(iii)(A) of Regulation SHO exception to the short sale price test restriction to be executable at a price below one minimum price above the then current NBB.[102] Given that the Exchange proposes to handle all orders marked Do Not Display as CHX Only, the Exchange intends to price slide these orders, as opposed to cancelling them, as the Exchange does currently.

Under subparagraph (C)(ii)(d)(1), the Exchange proposes to add language to cross-reference current Article 20, Rule 8(b)(4), which currently codifies Rule 201(b)(1)(iii)(A) of Regulation SHO in CHX rules.[103] The Exchange also proposes to delete language referring to CHX Only Sell Short orders that are "subject to Short Sale Price Sliding," as all CHX Only Sell Short orders are eligible for this exception, even if the order was not initially price slid upon acceptance by the Matching System. Finally, the Exchange proposes to amend the language referring to the Lower Price Band to simply provide that a CHX Only Sell Short order may never execute (or be displayed, if applicable) at a price below the Lower Price Band.

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[102]   See supra note 86.

[103]   Id.

Aside from the foregoing, the Exchange does not propose to otherwise amend the operation of the CHX Only modifier. Thus, the CHX Only modifier shall remain compatible or incompatible with other order modifiers as described under SR-CHX-2013-07.[104]

Amended Article 20, Rule 2A(b) (LULD Price Sliding)

In light of the proposed amendment to the CHX Only modifier, the Exchange proposes to amend Article 20, Rule 2A(b)(1), which details the operation of Limit Up-Limit Down Price Sliding ("LULD Price Sliding"), to amend the definition of "eligible orders" for LULD Price Sliding to provide that "all incoming and resting limit orders shall be eligible for LULD Price Sliding." This amendment would make LULD Price Sliding consistent with the amended CHX Only modifier, which the Exchange now proposes to make applicable to Do Not Display and Reserve Size orders. Aside from this amendment, the Exchange does not propose to otherwise amend the operation of LULD Price Sliding as described under SR-CHX-2013-08.[105]

Operative Date of Proposed Rule Change

This proposed rule filing shall become effective upon filing, pursuant to Section 19(b)(3)(A) of the Act[106] and Rule 19b-4(f)(6) thereunder,[107] but will be implemented upon two weeks' notice by the Exchange to its Participants via Regulatory Notice. The Exchange anticipates that the proposed CHX Routing Services and other amendments described herein will become operational, at earliest, by the end of 2014. In addition, prior to the proposed CHX Routing Services becoming operational, the Exchange will adopt a fee for use of the proposed CHX Routing Services, in a separate Rule 19b-4 filing.

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[104] See supra note 96.

[105] See Exchange Act Release No. 69319 (April 5, 2013), 78 FR 21634 (April 11, 2013) (SR-CHX-2013-08).

[106] 15 U.S.C. 78s(b)(3)(A).

[107] 17 CFR 240.19b-4(f)(6).

2.   Statutory Basis

The Exchange submits that the proposed rule change to adopt the proposed CHX Routing Services, modify the Exchange's price sliding functionalities, and clarify the operation of the Matching System, is consistent with Section 6(b) of the Act in general[108] and furthers the objectives of Section 6(b)(5) in particular,[109] because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transaction in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and, in general, protect investors and the public interest.

The proposed CHX Routing Services will increase the likelihood of order executions resulting from orders submitted to the Matching System, as Routable Orders that could not be executed within the Matching System will be routed for execution at an away routing destination by the Exchange, provided that a Routing Event is triggered. As such, the routing of orders to execute against Protected Quotations of external markets will enhance the efficiency of the National Market System by permitting Participants to obtain executions for orders at protected markets displaying better priced contra-side quotes, without having to submit orders in addition to Routable Orders already submitted to the Matching System. This will, in turn, result in more efficient order sending activity, which is consistent with the aforementioned objectives of Section 6(b)(5).

Also, the proposed expansion of the CHX Only modifier and LULD Price Sliding to include limit orders marked Do Not Display and Reserve Size and amendment to the Do Not Display modifier to require all resting Do Not Display orders to be handled as CHX Only will

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[108]   15 U.S.C. 78f(b).

[109]   15 U.S.C. 78f(b)(5).

reduce the number of order cancellations within the Matching System by price sliding orders that would otherwise be cancelled if they could not be displayed or executed in compliance with Regulation NMS. Consequently, there will be more liquidity resting on the CHX book, which will increase the likelihood of order executions, which is also consistent with the aforementioned objectives of Section 6(b)(5).

In addition, the proposed amendment to the Do Not Display modifier to correct a misstatement that such orders may [sic] hidden "in part" will result in the description of the order modifier to be more accurate, which is consistent with the aforementioned objectives of Section 6(b)(5).

Moreover, the proposed amendments to Article 20, Rule 8 to clarify how orders are currently ranked, displayed, and automatically executed within the Matching System will promote a better understanding of how orders are handled within the Matching System. This greater transparency will provide better protection to investors and promote the public interest, which is consistent with the aforementioned objectives of Section 6(b)(5).

B.   Self-Regulatory Organization's Statement of Burden on Competition

The Exchange does not believe that the proposed rule change will have an impact on competition that is unnecessary or inappropriate in furtherance of the purposes of the Act. To the contrary, the proposed CHX Routing Services and proposed amendments to the CHX Only and Do Not Display modifier and the LULD Price Sliding Processes should act as a positive force for competition by providing a more transparent and versatile alternative to similar routing services and price sliding functionalities offered by other exchanges. Moreover, the proposed clarification of the operation of the Matching System would have no impact on competition as it does not introduce any new functionality not already offered by the Exchange.

C.	Self-Regulatory Organization's Statement on Comments Regarding the Proposed Rule Changes 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 from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act[110] and subparagraph (f)(6) of Rule 19b-4 thereunder.[111]

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:

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[110]	15 U.S.C. 78s(b)(3)(A).

[111]	17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change along with a brief description and 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. The Exchange has satisfied this requirement.

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CHX-2014-15 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-2014-15. 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 the 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 available publicly. All submissions should refer to File Number SR-CHX-2014-15 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.[112]

Kevin M. O'Neill,
Deputy Secretary.

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[112]   17 CFR 200.30-3(a)(12).