

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-64985; File No. SR-CHX-2011-21]

### Self-Regulatory Organizations; Chicago Stock Exchange, Incorporated; Notice of Filing of Proposed Rule Change To Amend Article 20, Rule 9 (Cancellation of Transactions) and Interpretation and Policy .01 Thereunder Regarding the Cancellation of the Stock Leg of Stock-Option Transactions Done on the Exchange

July 28, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 26, 2011, Chicago Stock Exchange, Incorporated ("Exchange" or "CHX") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Article 20, Rule 9 (Cancellation of Transactions) and Interpretation and Policy .01 thereunder regarding the cancellation of the stock leg of stock-option transactions done on the Exchange. The text of this proposed rule change is available on the Exchange's Web site at (<http://www.chx.com>), at the Exchange's Office of the Secretary 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 change and discussed any comments it received regarding the proposal. The text of these statements may be examined at the places specified in Item IV below. The CHX has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

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

##### 1. Purpose

The Exchange proposes to amend CHX Article 20, Rule 9 (Cancellation of Transactions) and Interpretation and Policy .01 thereunder in order to expand the circumstances in which the stock leg of a combination stock-option order may be cancelled and make related modifications. Currently, under Interpretation and Policy .01, the stock leg of stock-option order can be cancelled only if market conditions in the options exchange prevented the execution of the options leg at the price agreed upon by the parties to the options transaction. We propose to move the text of the current Interpretation and Policy .01 to a separate section of Rule 9, since the Exchange believes that the requirements of that Interpretation and Policy constitute an independent basis for the cancellation of transactions, rather than act as an interpretation of the general provisions of current Rule 9.<sup>3</sup>

Through this filing, the Exchange proposes to expand the circumstances in which transactions executed on the CHX's facilities may be cancelled pursuant to provisions applicable only to combination stock-option orders to include situations in which the options leg is executed, but subsequently cancelled by the options exchange pursuant to their rules. In such circumstances, the cancellation of the stock leg at the request of the parties thereto is substantially similar to situations when the options trade is not executed at all. Otherwise, the parties would be left with an unwanted stock position, which was a hedge on or otherwise a component of the now-cancelled options transaction.<sup>4</sup> The

<sup>3</sup> The Exchange proposes to renumber the text of existing Rule 9 as subsection (a) to that rule, while Interpretation and Policy .01 (with the modification proposed herein) will become section (b) of Rule 9.

<sup>4</sup> As noted in note 5 to the Commission's notice of filing of the Exchange's proposed addition of the stock-option cancellation interpretation, "the stock leg of a stock-option order is always presented to the CHX participant with an identified buyer and seller who have agreed to the terms of the trade. Both buyer and seller are aware of the possibility that the stock leg of a stock-option order may be cancelled on the CHX if the corresponding options leg is cancelled on an options market. Because both the buyer and seller are identified when the stock leg is presented to the CHX, there is no possibility that another CHX member's order could be matched against a stock-option order. Accordingly, there is no risk that an investor's order could be involuntarily cancelled without notice to the investor. \* \* \* Securities Exchange Rel. No. 34-54185 (July 20, 2006), 71 FR 42693 (July 27, 2006) (SR-CHX-2005-34).

expansion of the authority to cancel transactions would permit a CHX Participant to cancel the unwanted stock leg of a stock-option order if the options trade was cancelled without having to resort to the open market to liquidate the stock leg.

The Exchange also proposes to require that any proposed cancellation of a transaction involving a stock-option order be made by or on behalf of all Participants to the transaction, rather than by any Participant. The Exchange believes that requiring all Participants to consent to the transaction will help prevent the possible abuse of the cancellation provisions by a single party acting unilaterally. The CHX understands that the ultimate parties to the cash equities transaction are the same parties to the equity options transaction, so any cancellation of the Exchange transaction will not have an impact on other market participants.<sup>5</sup> A special trade indicator will be reported by the Exchange to the Consolidated Tape in order that the parties and other market participants are aware that the transaction may be cancelled by the parties if the requirements of the rule are satisfied.

Finally, proposed Rule 9(b)(3) requires Participants acting as the broker in trades cancelled pursuant to proposed Rule 9(b)(1)(ii) to maintain records sufficient to establish that the options leg was in fact cancelled by the options exchange on which it was executed. Proposed Rule 9(b)(4) requires, among other things, that the Participant acting as broker on the trade identify the reason that the trade was cancelled. The Exchange will use such records to verify that the requirements imposed by the proposed rule changes have been met, and would treat the failure to properly document such cancellations as a rule violation subject to disciplinary treatment under Article 12 of the Exchange's rules.<sup>6</sup>

##### 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general,<sup>7</sup> and furthers the objectives of Section 6(b)(5)

<sup>5</sup> In some instances, the parties to the options transactions may not be Exchange Participants. The orders of such firms would be executed on the Exchange in the name of its clearing firm, which must be an Exchange Participant. The clearing firm would then allocate the transaction to the options firm.

<sup>6</sup> The Exchange represents that it will implement surveillance procedures reasonably designed to detect possible violations of these provisions simultaneous with the approval of the proposed rule changes.

<sup>7</sup> 15 U.S.C. 78f(b).

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

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

in particular,<sup>8</sup> in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transaction in securities, to remove impediments and perfect the mechanisms of a free and open market, and, in general, to protect investors and the public interest by allowing CHX to amend its rules to permit the cancellation of previously executed stock trades which are a component of a combination stock-option order when the options exchange cancels the options leg of the transaction. By allowing the cancellation of the stock leg of a combination stock-option order when the parties desire that result, the proposed changes will assist in the efficient processing of such transactions. The cancellation of the stock leg in such circumstances should also result in lower fees to Exchange order senders, since they would otherwise have to pay additional transaction fees to execute an offsetting trade. Since the cancellation of a trade pursuant to the proposed rule changes eliminates the need for the parties to execute and report an offsetting trade, the proposal should bolster the integrity of the publicly disseminated trade reporting information by removing the need for duplicative trade reports. The “double counting” of the initial trade and a reported reversal of that trade could give an inaccurate impression of the amount of shares actually changing hands in the marketplace. Since the cancellation would only impact the parties to the options transaction, the proposed amendments would not impact other market participants which submit orders to the CHX’s facilities for execution. Finally, permitting the cancellation of the stock leg when the options trade has been cancelled should reduce the credit risk to the parties involved in the transaction. Failure to cancel or offset the stock leg would leave the parties with an unwanted stock position, which was a hedge on or otherwise a component of the now-cancelled options transaction.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

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

No written comments were either solicited or received.

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

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) As the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve or disapprove the proposed rule change, or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission’s Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-CHX-2011-21 on the subject line.

##### *Paper Comments*

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

All submissions should refer to File Number SR-CHX-2011-21. 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 Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than

those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission’s Public Reference Room, 100 F Street, NE., Washington, DC 20549, on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CHX-2011-21 and should be submitted on or before August 24, 2011.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>9</sup>

**Elizabeth M. Murphy,**

*Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-[64982]; File No. SR-OCC-2011-08]**

### **Self-Regulatory Organizations; Options Clearing Corporation; Notice of Filing of Proposed Rule Change to Provide Specific Authority to Use an Auction Process as One of the Means to Liquidate a Defaulting Clearing Member’s Accounts**

July 28, 2011.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”) <sup>1</sup> and Rule 19b-4 thereunder <sup>2</sup> notice is hereby given that on July 14, 2011, The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

#### **I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change**

The purpose of the proposed rule change is to provide OCC specific authority to use an auction process as

<sup>9</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>8</sup> 15 U.S.C. 78f(b)(5).