V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (SR–CBOE–2006–27), as amended, is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[13]

Jill M. Peterson,

Assistant Secretary.

[FR Doc. E6–12155 Filed 7–28–06; 8:45 am]

BILLING CODE 8010–01–P

[12] *Id.*

[13] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–54191; File No. SR–CHX–2006–04]

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval to a Proposed Rule Change and Amendment Nos. 1, 2 and 3 Thereto Relating to the Transfer of Securities Among Co.-Specialists Within a Specialist Firm

July 21, 2006.

On March 8, 2006, the Chicago Stock Exchange, Inc. (''CHX'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to amend its rules to permit the transfer of securities to different co-specialists within a specialist firm. On May 3, 2006, CHX filed Amendment No. 1 to the proposed rule change.[3] On May 22, 2006, CHX filed Amendment No. 2 to the proposed rule change.[4] The proposed rule change, as amended, was published for comment in the **Federal Register** on June 15, 2006.[5] On July 3, 2006, CHX filed Amendment No. 3 to the proposed rule change.[6] The Commission received no comments regarding the proposal, as amended. This order approves the proposed rule change, as amended.

Under the Exchange's current rules relating to the assignment of securities to specialist firms, the Committee on Specialist Assignment and Evaluation (''CSAE'') assigns each security to a specialist firm and this firm is responsible both financially and as a regulatory matter for the trading of the security.[7] At the same time, however, when a specialist firm applies to trade a security, it must identify the co-specialist that will trade the security and the CSAE will review the co-specialist's trading performance in making its assignment decision.[8] As an overall matter, the specialist firm and the individual co-specialist are jointly responsible for each assigned security and the decision by either the firm or the individual trader to deregister in a security could result in the posting of the security for re-assignment.[9]

The current Exchange rules generally require that a co-specialist to whom a security was assigned in competition to keep the assigned security for a period of two years.[10] Alternatively, if the specialist unit agrees to have the security posted, a period of at least one year must have elapsed from the date of the original assignment.[11] Further, securities assigned without competition may be transferred without a waiting period. However, in all situations, the transfers must be approved by the CSAE.[12]

The Exchange proposes to delete the waiting period requirement prior to approving a request for deregistration and to permit the transfer of securities among co-specialists within a firm, without seeking prior CSAE approval, as long as: (1) The specialist unit immediately notifies the Exchange of such transfer; and (2) when such a transfer is made within six months of an initial assignment of the security to the specialist unit, the specialist unit provides written notification to the Exchange of the transfer decision and of its reasons for making the change. Accordingly, each intrafirm transfer by the specialist unit effectively would deregister a co-specialist in the securities that the co-specialist no longer trades and register another co-specialist in any newly-assigned securities.

In addition, under the Exchange's existing rules, when the CSAE makes a decision to assign a particular security, the CSAE considers the qualifications of the specialist unit and the co-specialist's demonstrated ability and experience. Because the CSAE bases its decision, in part, on a co-specialist's qualifications, the Exchange proposes to make explicit in its rules that it is important that a specialist firm accurately represent plans for having a particular co-specialist trade a security. Under the proposal, a specialist unit must not designate a co-specialist with relatively strong demonstrated ability and experience when applying for a security and then immediately transfer the security to a co-specialist with less demonstrated ability and experience without good cause for making the change.

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[13] In particular, the Commission believes that the proposal, as amended, is consistent with Section 6(b)(5) of the Act, which requires that the rules of an exchange be designed to promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system, and, in general, protect investors and the public interest. The Commission believes that the proposed rule change, as amended, is designed to provide specialist firms with greater flexibility to respond to various market conditions that may require prompt transfer of securities among co-specialists within the same firm. With respect to the Exchange's proposal to require that a specialist unit not designate a co-specialist with relatively strong demonstrated ability and experience when applying for a security and then immediately transfer the security to a co-specialist with less demonstrated ability and experience without good cause for making the change, the Commission believes that

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

[2] 17 CFR 240.19b–4.

[3] In Amendment No. 1, the Exchange revised the rule text of the proposed rule change to clarify the application of the proposal to intrafirm transfers and revised the purpose section to discuss the proposed provision requiring the specialist unit to accurately represent its plans in the specialist application regarding designating a particular co-specialist to trade a security.

[4] In Amendment No. 2, the Exchange revised the rule text of the proposed rule change to clarify the impact of an intrafirm transfer on the deregistration and registration of individual co-specialists within a specialist firm and made non-substantive changes to the proposed rule text. The proposed rule text set forth in Amendment No. 2 superceded and replaced the rule text set forth in the initial filing and Amendment No. 1 in its entirety.

[5] *See* Securities Exchange Act Release No. 53949 (June 6, 2006), 71 FR 34648.

[6] In Amendment No. 3, the Exchange makes minor, non-substantive changes to the rule text of the proposed rule change. This is a technical amendment and is not subject to notice and comment.

[7] *See* Article XXX, Rule 1, Interpretation and Policy .01, Section II, Introductory paragraphs; and Section I.4.

[8] *See* Article XXX, Rule 1, Interpretation and Policy .01, Sections II and III.

[9] *See* Article XXX, Rule 1, Interpretation and Policy .01, Section I.4.

[10] *See* Article XXX, Rule 1, Interpretation and Policy .01, Section I.2.

[11] *Id.*

[12] *Id.*

[13] In approving this proposed rule change, as amended, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. *See* 15 U.S.C. 78c(f).

this requirement is designed to provide the CSAE with accurate and complete information at the time it makes specialist assignment decisions and to protect the integrity of the specialist assignment process.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[14] that the proposed rule change (SR–CHX–2006–04), as amended, is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[15]

Jill M. Peterson,

Assistant Secretary.

[FR Doc. E6–12151 Filed 7–28–06; 8:45 am]

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[14] 15 U.S.C. 78s(b)(2).

[15] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–54198; File No. SR–CHX–2005–01]

Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Granting Approval of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto and Notice of Filing and Order Granting Accelerated Approval to Amendment No. 3 Relating to the Exchange's Order Priority Rule and the Mandatory Use of Order Match Functionalities

July 24, 2006.

I. Introduction

On February 3, 2005, the Chicago Stock Exchange, Inc. (''CHX'' or ''Exchange''), filed with the Securities and Exchange Commission (''Commission'') a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] to amend Exchange Article XXX, Rule 2 to clarify the requirements of the Exchange's priority rule and to require specialists to make use of Exchange-provided order match functionalities except in limited circumstances. On September 16, 2005 and October 6, 2005, the Exchange filed Amendment Nos. 1 and 2, respectively, to the proposed rule change. The proposed rule change, as amended, was published for comment in the **Federal Register** on October 28, 2005.[3] The Commission received no comments on the proposal. On July 13, 2006, the Exchange filed Amendment No. 3.[4] This order approves the proposed rule change, as amended by Amendment Nos. 1, 2, and 3, grants accelerated approval to Amendment No. 3, and solicits comments on Amendment No. 3.

II. Description

The Exchange proposes to amend Exchange Article XXX, Rule 2, to clarify the requirements of the Exchange's priority rule and to require specialists to make use of Exchange-provided order match functionalities except in limited circumstances. The Exchange's priority rule generally requires Exchange specialists to give precedence to orders in their books for the purchase or sale of securities over their own dealer (proprietary) orders.[5]

The Exchange's systems incorporate order match functionalities that are designed to replace proposed specialist proprietary orders with eligible customer orders in the specialist's book. These order match functionalities, among other things, prevent a specialist from manually executing a proprietary order when there is a customer order on the same side on the book that is eligible for execution. The proposed rule change would require specialists to use the order match functionalities except when there are system problems with the order match functionalities,[6] and in certain circumstances related to the execution of preopening orders pursuant to the Exchange's rules,[7] or related to satisfaction through ITS of a trade through of a customer order.[8]

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

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 52647 (October 21, 2005), 70 FR 62152 (''Notice'').

[4] *See* Partial Amendment dated July 13, 2006 (''Amendment No. 3''). The text of Amendment No. 3 is available on the Exchange's Web site (*http://www.chx.com/rules/ proposed_rules.htm*), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

[5] *See* Exchange Article XXX, Rule 2, Precedence to Orders in Book. Specialists, however, are not required to give precedence to certain professional orders.

[6] The Exchange stated that it does not anticipate that systems problems will occur frequently, but has included this exception to the rule to address those relatively rare circumstances when the order match functionality is not operating properly due to unexpected consequences of unrelated systems changes or a software failure. The Exchange stated that it did not intend the exception to allow participants to avoid the use of order match functionalities, but to recognize that there could be limited circumstances when the order match functionalities are malfunctioning.

[7] *See* Exchange Article XXX, Rule 37(a)(4). In Amendment No. 3, the Exchange clarified that this proposed exception only applies to listed securities.

[8] In addition, in Amendment No. 3, the Exchange eliminated the proposed exception that when a specialist received an inbound ITS execution in satisfaction of a complaint lodged by an Exchange specialist against another market center, the specialist would not be required fill any other customer order(s) in his or its book as a result of having received the ''satisfying'' ITS execution. In Amendment No. 3, the Exchange revised the rule text to clarify that when a specialist receives an inbound ITS execution in satisfaction of another market center's trade-through of a customer order that the specialist has already filled, the specialist, under current Exchange rules, is required to give the customer order that was traded through by the other ITS market center any better price that the specialists receives in satisfaction of the trade-through.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning Amendment No. 3, including whether Amendment No. 3 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*. Please include File Number SR–CHX–2005–01 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR–CHX–2005–01. 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 inspection and copying in the Commission's Public Reference Room. 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 Amendment No. 3 of File Number SR–CHX–2005–01 and should be submitted on or before August 21, 2006.