SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Chicago Stock Exchange, Inc.; Order Instituting Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change To Adopt the Route QCT Cross Routing Option


I. Introduction

On March 6, 2018, 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 (“Exchange Act”),1 and Rule 19b–4 thereunder,2 a proposed rule change to adopt the Route QCT Cross routing option. The proposed rule change was published for comment in the Federal Register on March 20, 2018.3 On May 1, 2018, pursuant to Section 19(b)(2) of the Exchange Act,4 the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.5 The Commission received no comment letters on the proposed rule change. This order institutes proceedings under Section 19(b)(2)(B) of the Exchange Act6 to determine whether to approve or disapprove the proposed rule change.

II. Description of the Proposed Rule Change

Currently, under the Exchange’s rules, Routable Orders7 submitted to the CHX matching system (“Matching System”)8 for execution are routed away from the Matching System automatically if a Routing Event9 is triggered. The Exchange’s current rules provide that all Routable Orders10 are limit orders. Market11 and cross orders12 are never routable. The Exchange does not currently permit orders to be directly routed to an away Trading Center13 without first being submitted to the Matching System.

Because Qualified Contingent Trade (“QCT”) Crosses14 are exempt from the trade-through prohibition of Rule 611 of Regulation NMS,15 the Matching System permits QCT Crosses to trade-through protected quotes of away markets. Under the Exchange’s current rules, QCT Crosses are handled IOC16 and can never rest on the CHX book. Moreover, a QCT Cross submitted to the Matching System will be cancelled back to the order sender as “blocked” if a precedent limit order priced at or better than the QCT Cross is resting on the CHX book,17 except that a QCT Cross priced at the top of the CHX book (i.e., the best-ranked order on the CHX book pursuant to Article 20, Rule 8(b)) that qualifies for Cross With Size18 handling will be permitted to execute.

The Exchange has proposed to adopt the Route QCT Cross routing option, which will permit only Institutional

19 The Exchange states that it has proposed to limit use of Route QCT Cross to IBs to be consistent with the fact that only IBs are currently permitted to submit QCT Crosses to the Matching System. See CHX Article 1, Rule 2(b)(2)(E).
20 See CHX Article 1, Rule 1(a)(3).
21 See CHX Article 1, Rule 2(a)(2).
22 The Exchange states that IBs will be permitted to identify only one designated executing broker to which all Route QCT Cross orders submitted by the IB will be routed, subject to additional requirements, as described below.
23 See id., CHX Article 19, Rule 2(a).
24 See Notice, supra note 3 at 12215.
25 See id. The Exchange states that like Route QCT Cross, the “Directed Order” routing option offered by the Nasdaq Stock Market (“Nasdaq”) permits an order sender to route an order to another market center while bypassing the Nasdaq’s order book, which may result in the routed order executing at a price through Nasdaq’s top of book. See id.
26 The Exchange states that like Route QCT Cross, the “DRT” routing option offered by the CHX Cross routing option, which will permit only Institutional
a routing option, which may only be utilized by I Bs, that instructs the Exchange to route a cross order marked QCT directly to a non-affiliated third-party broker-dealer designated by the IB without submitting the order into the Matching System for execution. In addition, each IB is permitted to identify only one designated executing broker to which all Route QCT Cross orders submitted by the IB would be routed. Furthermore, the Exchange represents that prior to the Exchange accepting any Route QCT Cross orders directed to a specific designated executing broker, the Exchange would confirm that the designated executing broker has established connectivity to the Exchange’s routing systems.

In addition, the IB would be responsible for all way execution fees resulting from the execution of Route QCT Cross orders, including any guaranteed payments to its designated executing broker. Moreover, Route QCT Cross orders would be routed IOC and a Route QCT Cross order that could not be executed by a designated executing broker, for any reason, would be cancelled back to the original order sender.

As Route QCT Cross orders would be routed away from the Exchange without being submitted to the Matching System for execution, the Exchange proposes to amend Article 19, Rules 1(a) and (c), and Rule 2(a) to replace the term “Matching System” with “Exchange.” Moreover, since Route QCT Cross orders are a subset of cross orders that will not be handled upon receipt by the Exchange, and all cross orders currently received by the Exchange are deemed to have been received IOC, the Exchange proposes to amend the definition of “cross orders” under Article 1, Rule 2(a)(2) to provide that all cross orders submitted to the Matching System for execution shall be deemed to have been received IOC.

The Exchange has also proposed to amend Article 19, Rule 3(a) to provide that a Routable Order that is submitted to the Matching System would be routed away from the Matching System pursuant to the CHX Routing Services if a Routing Event is triggered.

In addition, the Exchange proposes non-substantive amendments to Article 19, Rules 3(a)(1)–(5) to clarify the current operation of the Routing Events.

II. Proceedings To Determine Whether To Approve or Disapprove SR–CHX–2018–001 and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Exchange Act to determine whether the proposed rule change should be approved or disapproved. Institution of such proceedings is appropriate at this time in view of the legal and policy issues raised by the proposed rule change. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, as described below, the Commission seeks and encourages interested persons to provide comments on the proposed rule change.

Pursuant to Section 19(b)(2)(B) of the Exchange Act, the Commission is providing notice of the grounds for disapproval under consideration. As discussed above, the Exchange has proposed to offer a new Route QCT Cross routing option, which would be available only to I Bs. Route QCT Crosses would not check the CHX order book. In addition, Route QCT Crosses would only route to a single designated broker, as designated by each IB, for execution.

The Commission is instituting proceedings to allow for additional analysis of the proposed rule change’s consistency with Sections 6(b)(5) and 6(b)(8) of the Exchange Act. Section 6(b)(5) of the Exchange Act requires that the rules of a national securities exchange be designed, among other things, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. Section 6(b)(8) of the Exchange Act requires that the rules of a national securities exchange not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Exchange Act.

III. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the proposal. In particular, the Commission invites the written views of interested persons concerning whether the proposal is consistent with Sections 6(b)(5) and 6(b)(8), or any other provision of the Exchange Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b–4, any request for an opportunity to make an oral presentation.

Interested persons are invited to submit written data, views, and arguments regarding whether the proposal should be approved or disapproved by July 10, 2018. Any person who wishes to file a rebuttal to any other person’s submission must file that rebuttal by July 24, 2018. 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 email to rule-comments@sec.gov. Please include File Number SR–CHX–2018–001 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 Numbers SR–CHX–2018–001. This file number should be included on the subject line if email 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

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The Exchange proposes an additional incentive to member organizations and SLPs in Tape A securities that add liquidity to the Exchange in UTP Securities, as follows.

As proposed, member organizations that meet the current requirements for the Non-Tier Adding Credit, Tier 3 Adding Credit, and Tier 4 Adding Credit on Tape A would be eligible to receive an additional $0.0001 per share if the member organization adds liquidity, excluding liquidity added as an SLP, in UTP Securities of at least 0.20% of Tape B and Tape C consolidated average daily volume ("CADV") combined. Similarly, SLPs that meet the current requirements for SLP Tier 3, SLP Tier 2 and SLP Tier 1A credits, and (2) add liquidity in UTP Securities of at least 0.30% of Tape B and Tape C CADV combined, would be eligible for an additional $0.0001 per share in securities with a per share price of $1.00 or more that meet the 10% average or more quoting requirement in an assigned security pursuant to Rule 107B (quotes of an SLP-Prop and an SLMM of the same member organization would not be aggregated).

New SLP Tier 4

The Exchange proposes a new, fifth SLP Tier designated "4" that would provide that an SLP that either (1) is in the first two calendar months as an SLP, or (2) adds liquidity for all assigned SLP securities in the aggregate (including shares of both an SLP-Prop and an SLMM of the same and an affiliated member organization) of an ADV of more than 0.03% of NYSE CADV after averaging less an adding ADV of than 0.01% in each of the prior 3 months, after a discount of the percentage for the prior quarter of NYSE CADV in DMM assigned securities as of the last business day of the prior month, would receive a credit of $0.0029, or $0.00010 if a Non-Displayed Reserve Order, if the SLP meets the 10% average or more quoting requirement in an assigned security pursuant to Rule 107B when adding liquidity to the NYSE with orders, other than Mid-Point Liquidity ("MPL") orders, in securities with a per share price of $1.00 or more. For

As proposed, member organizations that meet the current requirements for the Non-Tier Adding Credit, Tier 3 Adding Credit, and Tier 4 Adding Credit on Tape A would be eligible to receive an additional $0.0001 per share if the member organization adds liquidity, excluding liquidity added as an SLP, in UTP Securities of at least 0.20% of Tape B and Tape C consolidated average daily volume ("CADV") combined. Similarly, SLPs that meet the current requirements for SLP Tier 3, SLP Tier 2 and SLP Tier 1A credits, and (2) add liquidity in UTP Securities of at least 0.30% of Tape B and Tape C CADV combined, would be eligible for an additional $0.0001 per share in securities with a per share price of $1.00 or more that meet the 10% average or more quoting requirement in an assigned security pursuant to Rule 107B (quotes of an SLP-Prop and an SLMM of the same member organization would not be aggregated).

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