

Funds' board of trustees will review the advisory fees charged by the Fund of Funds' Adviser to ensure that they are based on services provided that are in addition to, rather than duplicative of, services provided pursuant to the advisory agreement of any investment company in which the Fund of Funds may invest.

Applicants' Legal Analysis

1. Section 12(d)(1)(A) of the Act provides that no registered investment company ("acquiring company") may acquire securities of another investment company ("acquired company") if such securities represent more than 3% of the acquired company's outstanding voting stock or more than 5% of the acquiring company's total assets, or if such securities, together with the securities of other investment companies, represent more than 10% of the acquiring company's total assets. Section 12(d)(1)(B) of the Act provides that no registered open-end investment company may sell its securities to another investment company if the sale will cause the acquiring company to own more than 3% of the acquired company's voting stock, or cause more than 10% of the acquired company's voting stock to be owned by investment companies and companies controlled by them.

2. Section 12(d)(1)(G) of the Act provides, in part, that section 12(d)(1) will not apply to securities of an acquired company purchased by an acquiring company if: (i) The acquired company and acquiring company are part of the same group of investment companies; (ii) the acquiring company holds only securities of acquired companies that are part of the same group of investment companies, government securities, and short-term paper; (iii) the aggregate sales loads and distribution-related fees of the acquiring company and the acquired company are not excessive under rules adopted pursuant to section 22(b) or section 22(c) of the Act by a securities association registered under section 15A of the Securities Exchange Act of 1934 or by the Commission; and (iv) the acquired company has a policy that prohibits it from acquiring securities of registered open-end investment companies or registered unit investment trusts in reliance on section 12(d)(1)(F) or (G) of the Act.

3. Rule 12d1-2 under the Act permits a registered open-end investment company or a registered unit investment trust that relies on section 12(d)(1)(G) of the Act to acquire, in addition to securities issued by another registered investment company in the same group

of investment companies, government securities, and short-term paper: (i) Securities issued by an investment company that is not in the same group of investment companies, when the acquisition is in reliance on section 12(d)(1)(A) or 12(d)(1)(F) of the Act; (ii) securities (other than securities issued by an investment company); and (iii) securities issued by a money market fund, when the investment is in reliance on rule 12d1-1 under the Act. For the purposes of rule 12d1-2, "securities" means any security as defined in section 2(a)(36) of the Act.

4. Section 6(c) of the Act provides that the Commission may exempt any person, security, or transaction from any provision of the Act, or from any rule under the Act, if such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the Act.

5. Applicants state that the Funds of Funds will comply with rule 12d1-2 under the Act, but for the fact that the Funds of Funds may invest a portion of their assets in Other Investments. Applicants request an order under section 6(c) of the Act for an exemption from rule 12d1-2(a) to allow the Funds of Funds to invest in Other Investments while investing in Underlying Funds. Applicants assert that permitting the Funds of Funds to invest in Other Investments as described in the application would not raise any of the concerns that the requirements of section 12(d)(1) were designed to address.

Applicants' Condition

Applicants agree that the order granting the requested relief will be subject to the following condition:

Applicants will comply with all provisions of rule 12d1-2 under the Act, except for paragraph (a)(2) to the extent that it restricts any Fund of Funds from investing in Other Investments as described in the application.

For the Commission, by the Division of Investment Management, under delegated authority.

Elizabeth M. Murphy,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65300; File No. SR-CHX-2011-17]

Self-Regulatory Organizations; Chicago Stock Exchange, Incorporated; Notice of Designation of a Longer Period for Commission Action on Proposed Rule Change Regarding the Submission by the Exchange of Clearing-Related Information for Trades Executed on the Exchange as Well as for Trades Executed Otherwise Than on the Exchange

September 8, 2011.

I. Introduction

On July 7, 2011, the Chicago Stock Exchange, Incorporated ("Exchange" or "CHX") filed with the Securities and Exchange Commission (the "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 add CHX Rule 6 (Submission of Clearing Information) to Article 21 (Clearance and Settlement) to set forth the terms upon which CHX will submit information for clearing and settlement and to amend Article 1, Rule 1 (Definitions) and Article 21, Rule 1 (Trade Recording with a Qualified Clearing Agency) to add, delete, and modify certain defined terms. The proposed rule change was published for comment in the **Federal Register** on July 26, 2011.³ The Commission received one comment on the proposal.⁴

Section 19(b)(2)(A) of the Act⁵ provides that not later than 45 days after the date of publication of a proposed rule change, or within such longer period up to 90 days as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or as to which the self-regulatory organization consents, the Commission shall either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether the proposed rule change should be disapproved. The 45th day for this filing is September 9, 2011.

The Commission hereby extends the 45-day time period for Commission

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See *Securities Exchange Act* Release No. 64937 (July 20, 2011), 76 FR 44638 ("Notice").

⁴ See letter from Christopher Meyer, Chief Compliance Officer, E*Trade Capital Markets, LLC, to Elizabeth M. Murphy, Secretary, Commission, dated August 16, 2011.

⁵ 15 U.S.C. 78s(b)(2)(A).

action on the proposed rule change. The Commission finds that it is appropriate to designate a longer period within which to take action on the proposed rule change to help ensure that the Commission has sufficient time to consider whether the proposal is consistent with the Act and, thus, whether the proposal should be approved or disapproved.

Accordingly, pursuant to Section 19(b)(2)(A)(ii)(I) of the Act⁶ and for the reason stated above, the Commission designates October 24, 2011, as the date by which the Commission should approve, disapprove, or institute proceedings to determine whether to disapprove File No. SR-CHX-2011-17.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁷

Elizabeth M. Murphy,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-65308; File No. SR-CHX-2011-21]

Self-Regulatory Organizations; Chicago Stock Exchange, Incorporated; Order Approving a 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

September 9, 2011.

I. Introduction

On July 26, 2011, Chicago Stock Exchange, Incorporated (“Exchange” or “CHX”) 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 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 proposed rule change was published for comment in the *Federal Register* on August 3, 2011.³ The Commission

received four comment letters on the proposed rule change.⁴ This order approves the proposed rule change.

II. Description of the Proposed Rule Change

Under its former Interpretations and Policies .01(a) to CHX Article 20, Rule 9,⁵ a trade representing the execution of the stock leg of a stock-option order could 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. By this proposed rule change, the Exchange expands the circumstances in which the stock leg of a stock-option order executed on the CHX’s facilities may be cancelled to include situations in which the options leg is executed, but subsequently is cancelled by an options exchange pursuant to its rules. A transaction may not be cancelled pursuant to the provisions of Rule 9(b) unless the original trade was identified by a special trade indicator.⁶

Without the ability to cancel the stock leg of the stock-option trade at the request of the Participants when the transaction representing the options leg has been cancelled, the Exchange states that the parties to the transaction would be left with an unwanted stock position, which originally was taken as a component of (e.g., to hedge) the cancelled options transaction.⁷ The Exchange asserts that the circumstance where a trade that represents the stock leg of a stock-option order is cancelled at the request of the parties involved when the transaction representing the options leg has been cancelled is substantially similar to the situation where a trade that represents the stock leg of a stock-option order is cancelled when the options leg of a stock-option order is not executed at all, and that

allowing cancellation of a trade that represents the unwanted stock leg of a stock-option order when the corresponding options leg trade was cancelled would eliminate the need to liquidate the unwanted stock leg.⁸

The Exchange also proposes to require that any request to cancel a transaction involving a stock-option order be made by or on behalf of all Participants that are parties to the transaction, rather than by any party. The Exchange believes that requiring all Participant parties to consent to the cancellation will help prevent the possible abuse by a single party acting unilaterally. The Exchange represents 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.⁹

Finally, the Exchange proposes corresponding recordkeeping requirements in connection with stock-option order cancellations. CHX Rule 9(b)(3) requires the Participant 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 in fact was cancelled by the options exchange on which it was executed. A new requirement of CHX Rule 9(b)(4) is that the Participant acting as broker on the trade identify the reason that the trade was cancelled. The Exchange states that it will use the 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.¹⁰

III. Discussion and Commission’s Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act¹¹ and the rules and regulations thereunder applicable to a national securities exchange.¹² In

⁶ See *id.*

⁹ 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.

¹⁰ See Notice, *supra* note 3, 76 FR at 46866. 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. See *id.* at note 6.

¹¹ 15 U.S.C. 78f.

¹² In approving this proposed rule change, the Commission has considered the proposed rule’s

Continued

⁶ 15 U.S.C. 78s(b)(2)(A)(ii)(I).

⁷ 17 CFR 200.30-3(a)(31).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 64985 (July 28, 2011), 76 FR 46866 (“Notice”).

⁴ See letters from Darren Story, CFA, Student Options, LLC, dated July 27, 2011 (“Story Letter”); Mike Bristow, Managing Director, Institutional Stock & Options, dated July 28, 2011 (“Bristow”); Nick DiCicco, D and D Securities, dated August 23, 2011; and Stephen Floirendo, Broker, Husky Trading, dated August 23, 2011 (“Floirendo Letter”).

⁵ By this proposal, CHX reorganizes its Rule 9, moving the text of Interpretation and Policy .01 into new paragraph (b), because 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 Rule 9. See Notice, *supra* note 3, 76 FR at 46866.

⁶ See CHX Article 20, Rule 9(b)(6). See also Notice, *supra* note 3, 76 FR at 46866 (“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.”).

⁷ See Notice, *supra* note 3, 76 FR at 46866.