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OFFICE OF THE
SECRETARIAT

May 6, 2011

Mr. David Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: OneChicago Regulatory Notice: Block Trades
Security Futures Products Rule Submission and Rule Certification

Dear Mr. Stawick:

On behalf of OneChicago, LLC ("OCX" or "Exchange"), and pursuant to section 5c(c)(1) of the Commodity Exchange Act, as amended (the "Act"), and section 41.24 of the regulations promulgated by the Commission under the Act, submitted herewith is a regulatory notice regarding Block Trades to clarify permissible pricing and hedging activities for the block. This notice will be effective on May 11, 2011.

There are no opposing views that are not incorporated into this rule amendment.

On behalf of OCX, I hereby certify that the amendment complies with the Act and the regulations promulgated thereunder.

Sincerely,

Thomas G. McCabe
Chief Operating Officer

Enclosure: Attachment A

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OneChicago ✕

Notice to Members 2011-5

Date: May 11, 2011

RE: Rule 417, Block Trading
Rule 610, Priority of Customer Orders

Effective Date: May 11, 2011

In response to inquiries, the Exchange is providing guidance regarding block trading with customers, specifically pre-hedging block trades by executing trades in related instruments and reporting such trades. A related topic Rule 610, Priority of Customer Orders, is also addressed in the second half of this notice.

Block Trading

In some circumstances, market participants may find it beneficial to execute block trades with other market participants. OneChicago Rule 417, Block Trading, provides the ability for market participants to conduct block trading at mutually agreed prices in designated OneChicago products subject to the following conditions:

- The product has been designated as block trade eligible. All OneChicago products have been so designated.
- The order must indicate that it may be executed by means of a block trade.
- Each party to the trade must be an eligible contract participant (as such term is defined in Section 1a(12) of the CEA) or meet other registration requirements fully outlined in OneChicago Rule 417(a)(ii).
- The trade prices are reasonable given market conditions and trade size. Market conditions may include hard to borrow status, dividend forecasts where applicable, circumstances of the markets or the parties to the trade, trade executions in other markets, and interest rates. Market participants may agree on trade prices based on executions in other related markets including the underlying stock markets, related stocks, equity options, or OTC trades. For clarity, the basis must be agreed upon with the customer prior to the execution of any pre-hedging trades. The related market trades may be executed at different times and prices over the course of a trading day, including, without limitation, at the close of the market, at the opening of the market or throughout the day in a manner designed to track the volume weighted average price. Any trades executed on exchanges

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other than OneChicago are subject to the rules of that other exchange. Please note that block trades are distinguished from Exchange for Physical (“EFP”) trades. EFP trades are where two market participants execute two simultaneous trades as a package opposite each other, one trade buying (selling) futures and the other trade selling (buying) the cash and the entire trade is priced at the difference between the two components. Please see OneChicago Rules 133, Exchange of Future for Physical; and 416, Exchange of Future for Physical.

- The block trade, including all the relevant terms of the trade, must be reported to the exchange without delay. In scenarios where the block price is based on executions in other markets, the price of the OneChicago block trade is not determined until the price of the related trade is known. The OneChicago block trade must be reported without delay once the related trade prices have been determined.
- In some cases a combination of trades may be necessary to achieve a specific price for the overall block trade event. In these cases, sufficient information must be provided to link related legs to the block trade event. In such cases, the reporting market participant is required to link the series of block trades by entering a common alphanumeric designator in the optional data field in OCX.BETS™. The total quantity of the legs of a spread or a combination must meet the minimum contracts requirement.
- Non-discretionary accounts must consent to be executed via block trades. Such consent may be obtained orally order-by-order, or in writing for a standing consent; said requirement may be met by language in the customer account agreements.

The full text of OneChicago Rule 417 is attached as exhibit 1 to this notice.

Please note that Rule 611, Trading Against Customer Orders, does not prohibit taking the other side of customer orders through block trades. The full text of OneChicago Rule 611 is attached as exhibit 2 to this notice.

Priority of Customer Orders

Member firms may be part of large, financial services organizations that include affiliated asset management divisions, merchant banking operations and other areas that also trade in security futures and related products. OneChicago Rule 610, Priority of Customer Orders, requires member firms to prioritize customer orders over the firm’s proprietary trading and activity arising from discretionary account trading, and prohibits member employees with knowledge of a customer order from entering trades for the firm’s proprietary trading or discretionary accounts in the same contract or any contract with the same underlying security as the customer order. Firms may rely upon Firewall/Information Barriers between different areas to demonstrate compliance with OneChicago Rule 610.

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More specifically, firms may rely on information barriers to (i) execute a proprietary or customer securities futures order, including block trade orders, regardless of whether there is a pending customer order that may be executed at the same or better price and (ii) trade for a proprietary or customer account without limit in the same security as underlies the pending customer's order in the security futures market or in another instrument that references or is a surrogate for the security futures contract to which the customer order relates.

Information barriers mean:

- Written policies and procedures that are reasonably designed to prevent the flow of order information from one part of a firm to another or from one trading area within a firm to another.
- Written policies and procedures that are reasonably designed to prevent persons in possession of material, non-public customer or market information on one side of an Information Barrier from divulging such information to persons on the other side of the Information Barrier.
- Written policies and procedures that are reasonably designed to restrict persons on one side of an Information Barrier from exercising influence or control over the trading decisions of persons on the other side of the Information Barrier, except that such persons may be under common management provided such managerial oversight (a) does not conflict with or compromise the firm's responsibilities under the Rules of the Exchange and (b) persons occupying managerial positions do not divulge information or allow information to be divulged pertaining to customer facilitation trading activities to any person on the other side of the Information Barrier so that any person on one side of the Information Barrier becomes aware of pending or anticipated quotes or unfilled orders on the other side of the Information Barrier.

The exchange expects that firms take appropriate action against any person violating this Information Barrier and related internal compliance and audit procedures. Firms are expected to notify the Exchange of any such violations.

Market participants are reminded that any trading by a person while in possession of material, non-public information received as a result of the breach of the internal controls required under this notice may be a violation of the CEA, the Commission's Regulations, the Exchange Act, the rules thereunder or the Rules of the Exchange.

OneChicago Rule 610 does not restrict a member firm from trading the security or securities underlying a security futures contract in which the member holds a customer order or a related financial instrument, such as a futures contract or swap having the same underlying security or securities as the security futures for which the firm holds a customer order.

The full text of OneChicago Rule 610 is attached as Exhibit 3.

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Any questions can be directed to OneChicago compliance at 312.424.8530 or
MarketSurveillance@OneChicago.com

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EXHIBIT 1

417. Block Trading

- (a) Clearing Members, Exchange Members and Access Persons may enter into transactions outside the OneChicago System, at prices mutually agreed, with respect to Contracts that have been designated by the Exchange for such purpose, provided all of the following conditions are satisfied (such transactions, "Block Trades"):
- (i) Each buy or sell order underlying a Block Trade must (A) state explicitly that it is to be, or may be, executed by means of a Block Trade and (B) be for at least such minimum number of Contracts as will from time to time be specified by the Exchange; *provided* that only (x) a commodity trading advisor registered under the CEA, (y) an investment adviser registered as such with the Securities and Exchange Commission that is exempt from regulation under the CEA and Commission Regulations thereunder and (z) any Person authorized to perform functions similar or equivalent to those of a commodity trading advisor in any jurisdiction outside the United States of America in which the Exchange may be permitted from time to time to operate OneChicago Workstations, in each case with total assets under management exceeding US\$25 million, may satisfy this requirement by aggregating orders for different accounts.
 - (ii) Each party to a Block Trade must qualify as an "eligible contract participant" (as such term is defined in Section 1a(12) of the CEA); *provided* that, if the Block Trade is entered into on behalf of a Customer by a Clearing Member or, if applicable, Exchange Member or Access Person that is (A) a commodity trading advisor registered under the Act, (B) an investment adviser registered as such with the Securities and Exchange Commission that is exempt from regulation under the Act and Commission Regulations thereunder or (C) any Person authorized to perform functions similar or equivalent to those of a commodity trading advisor in any jurisdiction outside the United States of America in which the Exchange may be permitted from time to time to operate OneChicago Workstations, in each case with total assets under management exceeding US\$25 million, then only such commodity trading advisor or investment adviser, but not the individual Customers, need to so qualify.
- (b) Each party to a Block Trade shall comply with all applicable Rules of the Exchange other than those which by their terms only apply to trading through the OneChicago System.
- (c) Each Block Trade shall be designated as such, and cleared through the Clearing Corporation as if it were a transaction executed through the OneChicago System. Information identifying the relevant Contract, contract month, price, quantity, time of execution, counterparty Clearing Member for each Block Trade and, if applicable, the underlying commodity must be reported to the Exchange without delay. The Exchange will publicize information identifying the trade as a Block Trade and identifying the relevant Contract, contract month, price, quantity for each Block Trade and, if applicable,

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the underlying commodity immediately after such information has been reported to the Exchange.

- (d) Each Clearing Member, Exchange Member and Access Person that is party to a Block Trade shall record the following details on its order ticket: the Contract (including the delivery or expiry month) to which such Block Trade relates; the number of Contracts traded; the price of execution; the time of execution; the identity of the counterparty; and, if applicable, details regarding the Customer for which the Block Trade was executed and the underlying commodity. A Clearing Member or, if applicable, Exchange Member or Access Person may execute an Order placed for a non-discretionary Customer account by means of a Block Trade only if the Customer has previously consented thereto. Upon request by the Exchange, such Clearing Member, Exchange Member or Access Person shall produce satisfactory evidence, including the order ticket referred to in the preceding sentence, that the Block Trade meets the requirements set forth in this Rule 417.
- (e) No natural person associated with a Clearing Member, Exchange Member or Access Person that has knowledge of a pending Block Trade of such Clearing Member, Exchange Member or Access Person, or a Customer thereof, may enter an Order or execute a transaction, whether for his or her own account or, if applicable, for the account of a Customer over which he or she has control, for or in the Contract to which such Block Trade relates until after (i) such Block Trade has been reported to and published by the Exchange and (ii) any additional time period from time to time prescribed by the Exchange in its block trading procedures or contract specifications has expired.
- (f) No natural person associated with a Clearing Member, Exchange Member or Access Person that has knowledge of a pending block trade of such Clearing Member, Exchange Member or Access Person, or a Customer thereof, on any other exchange or trading system, may enter an Order or execute a transaction on the Exchange, whether for his or her own account or, if applicable, for the account of a Customer over which he or she has control, for any Contract which has the same underlying security as the contract to which such block trade relates until after (i) such block trade is reported and published in accordance with the rules, procedures or contract specifications of such exchange or trading system and (ii) any additional time period prescribed by the Exchange in its block trading procedures or contract specifications has expired.
- (g) Any Block Trade in violation of these requirements shall constitute conduct which is inconsistent with just and equitable principles of trade.

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EXHIBIT 2

611. Trading Against Customers' Orders

No Clearing Member or, if applicable, Exchange Member or Access Person (including in each case its employees and agents) shall enter into a transaction on behalf of a Customer in which such Clearing Member, Exchange Member or Access Person or any Person trading for an account in which such Clearing Member, Exchange Member or Access Person has a financial interest, intentionally assumes the opposite side of the transaction. The foregoing restriction shall not prohibit pre-execution discussions conducted in accordance with procedures established by the Exchange from time to time, and shall not apply to any Exchange of Future for Physical, any Block Trade or any transaction meeting all of the following criteria (or such other criteria as may be established by the Exchange from time to time):

- (a) the Customer has previously consented to such transactions;
- (b) the Clearing Member or if applicable, Exchange Member or Access Person (including in each case its employees and agents) has waited for a reasonable period of time, as determined by the Exchange, after first entering the Order received from the Customer into the OneChicago System before taking the opposite side of the transaction;
- (c) the Clearing Member or, if applicable, Exchange Member or Access Person maintains a record that clearly identifies, by appropriate descriptive words, all such transactions, including the time of execution, commodity, date, price, quantity and delivery month; and
- (d) the Clearing Member or, if applicable, Exchange Member or Access Person provides a copy of the record referred to in clause (c) above to the Exchange.

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EXHIBIT 3

610. Priority of Customers' Orders

- (a) No Clearing Member or, if applicable, Exchange Member or Access Person (including in each case its Related Parties) shall knowingly buy a Contract for a personal or proprietary account of such Clearing Member, Exchange Member or Access Person or for an account in which such Clearing Member, Exchange Member or Access Person has a proprietary interest, when such Clearing Member, Exchange Member or Access Person has in hand Orders to buy the same Contract for any other Person at the same price or at the market price. No Clearing Member or, if applicable, Exchange Member or Access Person (including in each case its Related Parties) shall knowingly sell a Contract for a personal or proprietary account of such Clearing Member, Exchange Member or Access Person or for an account in which such Clearing Member, Exchange Member or Access Person has a proprietary interest, when such Clearing Member, Exchange Member or Access Person has in hand Orders to sell the same Contract for any other Person at the same price or at the market price.
- (b) No Clearing Member or, if applicable, Exchange Member or Access Person (including in each case its Related Parties) shall knowingly execute a discretionary Order for any Contract, including, without limitation, an Order allowing such Clearing Member, Exchange Member or Access Person (including in each case its Related Parties) discretion as to time and price, for an immediate family member or for a personal or proprietary account of any other Clearing Member, Exchange Member or Access Person, when such Clearing Member, Exchange Member or Access Person has in hand any Customer Market Order for the same Contract open as to time and price. A Clearing Member or, if applicable, Exchange Member or Access Person (including in each case its Related Parties) may trade for a personal or proprietary account of such Clearing Member, Exchange Member or Access Person, without violating this Rule 610, while holding any Customer Order for the same Contract open as to time and price, provided such Customer has previously consented thereto.
- (c) A Clearing Member or, if applicable, Exchange Member or Access Person (including in each case its Related Parties) entering Orders into the OneChicago System must enter all Customer Orders that the OneChicago System is capable of accepting before entering an Order for a personal or proprietary account of such Clearing Member, Exchange Member or Access Person, an account in which such Clearing Member, Exchange Member or Access Person has a proprietary interest or an Order for a discretionary account, including an Order allowing such Clearing Member, Exchange Member or Access Person discretion as to time and price, for an immediate family member or for a personal or proprietary account of any other Clearing Member, Exchange Member or Access Person.
- (d) For purposes of this Rule 610, no Clearing Member or, if applicable, Exchange Member or Access Person, in each case that consists of more than one individual, shall be deemed to knowingly buy or sell a Contract or execute a discretionary Order if (i) such Clearing Member, Exchange Member or Access Person has in place appropriate "firewall" or

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separation of function procedures and (ii) the individual buying or selling the Contract or executing the discretionary Order in question has no direct knowledge of the Order to buy or sell the same Contract for any other Person at the same price or at the mark market price or of the Customer Order for the same Contract, as the case may be.