OneChicago

Via Portal Submission

February 6, 2020

Christopher J. Kirkpatrick
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: OneChicago, LLC Rule Submission
Amending Rule 417 (Block Trading) and Issuing Regulatory Release 2020-02
(OneChicago Submission Number 20-003)

Dear Mr. Kirkpatrick:

Pursuant to §5c(c)(1) of the Commodity Exchange Act, as amended (the "Act"), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission ("CFTC" or the "Commission") under the Act, OneChicago, LLC ("OneChicago" or the "Exchange") hereby is modifying Rule 417 (Block Trading). This change will be effective on February 24, 2020.

OneChicago markets are equity finance markets, they reflect the current price of the stock plus financing costs. Price discovery for the current stock price occurs in the deep and liquid underlying stock markets, single stock futures markets merely reflect that discovered price. While the liquidity for spread trades on the OneChicago Central Limit Order Book ("CLOB") tends to be high, Eligible Contact Participants find executing smaller quantities for outright orders (less than 5 contracts) to be problematic as the quotes in the CLOB for some products may be non-existent or too wide/shallow. In these cases, the ECP's broker shops the trade with liquidity providers, agrees upon a basis and meet in the CLOB at the liquidity provider's hedge price plus the basis, the very same process used in a block trade. However, the liquidity provider is assuming risk as there is no guarantee that the liquidity provider and the ECP will in fact meet in the CLOB. Thus, this arrangement is fraught with peril for the liquidity provider who is stepping out of their general mandate to not take risk in order to facilitate these small transactions for ECPs who are their frequent block counterparties.

In order to provide certainty, ensure continuity and to address the wide markets in the CLOB, as one year pilot program, OneChicago proposes to amend Rule 417 (Block Trading) to reduce the minimum block size from 5 contracts to 2 contracts for all contracts for outright orders and trades. As is the case today, no block trades will be allowed in spreads where both legs expire to stock on a T+2 basis. As block trade prices and quantity are published, pricing levels continue to be communicated to market participants. OneChicago will assess the impact of the pilot program during its one year tenure. We believe that easing friction for these smaller trades supports continued participation which facilitates growing the market and may attract additional liquidity providers. If the liquidity issues improve, OneChicago will terminate the pilot program even if that occurs sooner than one year. Attached as Attachment B is the corresponding Regulatory Release 2020-02.

OneChicago is not aware of any substantive opposing views to this rule amendment. OneChicago certifies that the rule amendment complies with the Act, including the core principles, and the Commission's regulations promulgated thereunder. OneChicago further certifies that a copy of this submission has been posted on the OneChicago website.

OneChicago staff has reviewed the core principles applicable to DCMs, and has concluded that the rule change may have some bearing upon the following core principle(s):

Core Principle 7: Core Principle 7 requires that a DCM make available to market authorities, market participants, and the public accurate information concerning the rules, regulations and mechanisms for executing transactions on or through the facilities of the contract market. This NTM supports Core Principle 7 in that it informs market participants of the manner in which block trades can be reported to the Exchange.

Core Principle 9: Core Principle 9 requires a DCM to provide a competitive, open and efficient market and mechanism for executing transactions that protect the price discovery process of trading in the centralized market. OneChicago provides a central limit order book ("CLOB") for executing all orders and encourages participation in the CLOB. The bona fide business purpose of the amendment is to provide an additional execution path when ECPs find the CLOB markets do not meet their needs as to price or quantity. CLOB markets are not harmed by this rule certification.

If you have any questions or comments related to this filing, please feel free to contact me by telephone at (312) 883-3430 or through e-mail at tmccabe@onechicago.com.

Respectfully Submitted,

Thomas G. McCabe

Thomas G. McCabe
Chief Regulatory Officer

Encl: Attachment A

Attachment A

(See Following Page)

417. Block Trading

(a) Clearing Members, Exchange Members and Access Persons may enter into transactions at reasonable 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 2 ~~5~~ Contracts in the No Dividend Risk futures; ~~OCX.NoDivRisk futures;~~ *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(18) 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) – (h) No Change

Attachment B

(See Following Page)

6 FEBRUARY 2020

BLOCK TRADING

Effective Date

February 24, 2020

OneChicago is announcing a one year Block Trade pilot program commencing on February 24, 2020 ending on February 23, 2021. The pilot program lowers the block trade minimum from 5 contracts to 2 contracts to encourage additional exchange participation and relieve pricing friction.

This RR supersedes Regulatory Release 2018-3. All other block trading rules and procedures have not changed.

OneChicago Block Trading Policy and Procedures

A. Introduction

In some circumstances, market participants may find it beneficial to execute block trades with other market participants. Pursuant to OneChicago Rule 417(a), the Exchange permits eligible contract participants to transact block trades for a minimum number of 2 contracts per transaction.

Block trades can be transacted between 7:00 a.m. CT and 4:00 p.m. CT on each business day the exchange is open. All trades must be reported by 4:00 p.m. CT and must be reported through the OneChicago platform.

To protect market integrity during the negotiation and reporting period, any party with knowledge of the pending block trade is prohibited from entering offsetting orders in the specific, or any related, OneChicago product for its own benefit until the block trade has been reported to and disseminated by the OneChicago system.

OneChicago allows block trades to be busted or adjusted under certain conditions. Please see OneChicago's Error Trade Policy for current procedures and guidance for requesting a bust of a block trade.

B. Requirements

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:

1. The product has been designated as block trade eligible. All OneChicago outright SSF products have been so designated, as well as select calendar spreads
2. The order must indicate that it may be executed by means of a block trade. Customer and/or 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.
3. Each party to the trade must be an eligible contract participant (as such term is defined in Section 1(a)(18) of the CEA) or meet other registration requirements fully outlined in OneChicago Rule 417(a)(ii).
4. 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. Errors are not an acceptable basis for the pricing of a block trade.
5. OneChicago Rule 611, Trading Against Customer Orders, does not prohibit taking the other side of customer orders through block trades.

Any questions regarding this Regulatory Release can be directed to Market Surveillance by email at marketsurveillance@onechicago.com or by phone at 312.883.3409

6. Parties to a potential block trade may engage in pre-hedging or anticipatory hedging of the position that they believe in good faith will result from the consummation of the block trade, except for an intermediary that takes the opposite side of its own customer order in which case pre-hedging is allowed provided the basis (a.k.a. financing rate, bid/offer rate, etc.) of a block trade is explicitly agreed upon prior to the initiation of the related pre-hedging trade(s).
7. 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 prices in the related market. Any trades executed on exchanges other than OneChicago are subject to the rules of that other exchange.
8. Please note that block trades are distinguished from Exchange of Future for Physical ("EFP") trades. An EFP is a Futures transaction and a transaction in the underlying security that are integrally related and combined into a single transaction with two legs, one leg being the Futures and the other leg being the underlying security and is priced as a differential between the Futures and the underlying security. Please see OneChicago Rule 416, Exchange of Future for Physical.
9. The block trade, including all the relevant terms of the trade, must be reported to the Exchange without delay. Please see below for additional information and guidance on block trade reporting requirements.

C. Reporting

This section provides guidance regarding the reporting of block trades, with respect to the required reporting times and completion conditions. Additionally, attached are several frequently asked questions concerning the completion of block trades.

1. **Reporting Time Requirements**

OneChicago Rule 417 requires that block trades be reported to the Exchange "without delay." The interpretation of the term "without delay" is dependent on the circumstances of the block trade:

a) Liquidity Provider Posting

When the liquidity provider is posting the block trade to the Exchange, the liquidity provider is allowed fifteen (15) minutes from the final execution of the hedge in the underlying market to calculate the futures price and insert the details of the trade to the OneChicago System. The order originator then has ten (10) minutes to accept the trade in the OneChicago System.

b) Order Originator Posting

When the order originator is posting the block trade to the Exchange, the liquidity provider has ten (10) minutes to calculate the futures price and inform the order originator that the final execution of the hedge has taken place and of the final price of the trade. The order originator then has fifteen (15) minutes to insert the details of the trade into the OneChicago System. The liquidity provider then has five (5) additional minutes to accept the trade in the OneChicago System.

c) Non-Hedged Block

The party inserting the block trade is required to enter the trade into the OneChicago System within 5 minutes of execution and the other party is required to accept the trade within 5 minutes of its entry in the OneChicago System. Calendar spreads are included in the non-hedged block reporting requirements.

d) Delayed Block Trade Reporting

Block trades may be reported outside the time parameters described above only in extenuating circumstances. The following is a non-exhaustive list of scenarios that OneChicago may consider an extenuating circumstance: technical malfunction or systems outage, disagreement between parties on material terms of the trade, firm accepting multiple block trades within a short period of time, and unusual market conditions such as regulatory halts or trading suspensions.

Block trade participants are advised to notify the exchange of these scenarios when they occur by sending an email to the OneChicago Compliance Department at marketsurveillance@onechicago.com.

2. Block Trade Completion

In most situations, OneChicago considers a block trade to be completed when the liquidity provider has successfully pre-hedged in the related product and has calculated the futures block price based on the completed hedge price.

OneChicago acknowledges that there are situations in which a liquidity provider has completed an amount above the block trade minimum quantity (a "blockable" quantity) but is unable to fill the customer's total order quantity. This situation can arise due to a limit price restriction, or lack of liquidity in the associated hedge product. OneChicago does not require market participants to report these partial fill amounts if the liquidity provider has not yet completed the customer's entire futures order quantity. In summary, the requirement to report a block trade will not be triggered until the liquidity provider has successfully pre-hedged the equivalent quantity of the customer's entire futures order quantity.

If the liquidity provider is unable to complete the customer's entire futures order quantity by the end of the day, the amount that the liquidity provider was able to complete should be reported if it meets the minimum block trade quantity. If the completed quantity of the hedge does not meet the minimum block trade quantity, no block trade can be reported and the liquidity provider can offset or maintain the acquired hedge. For the avoidance of doubt, a customer is required to accept a futures block that the liquidity provider has completed; that is, a customer may only cancel an unexecuted balance on an order and not any amount that that liquidity provider has successfully hedged.

3. Frequently Asked Questions (FAQ)

Q1. When should executions for a 2-contract block trade be reported when 200 shares of the related hedge have been executed?

A1. The executions should be reported without delay, per the reporting guidelines in Section 1 (Reporting Time Requirements). The execution meets the minimum block trade quantity and represents a complete fill of the 2-contract order.

Q2. When should executions for a 7-contract block trade wherein 200 shares of the related hedge have been executed, but in which the limit price has been crossed (preventing completion of the full 700 shares of the related hedge), be reported?

A2. The block trade should not be reported until either: (1) the full futures order quantity had been completed, (2) the end of trading for the day (if the remaining quantity is unfilled by end of day, the block should be reported as a 2-contract execution), or (3) the customer cancels the remaining 5-contract balance of the order.

Q3. What should be reported if 100 shares of the related hedge of a 3-contract futures order have been completed by the end of the day?

A3. No block trade should be reported, as the block trade minimum quantity has not been met and there is no reportable amount. The liquidity provider may hold the related hedge position or offset it.

Q4. What should be reported if 600 shares of the related hedge of a 10-contract futures order have been completed and the customer cancels the order?

A4. The firm should report a 6-contract futures block. The customer is required to accept the 6-contract block, as the trade is considered complete following the hedge; only unexecuted balances may be cancelled. In this case, the customer could cancel the remaining unexecuted 4-contract portion of the order, but not the completed 6-contract portion.

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