



Via Portal Submission

September 17, 2018

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
Issuing Consolidated Exchange of Future for Physical Guidance
(OneChicago Submission Number 18-017)

Dear Mr. Kirkpatrick:

Pursuant to section 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 submits Regulatory Notice (“RR”) 2018-12 providing consolidated guidance for Exchange of Future for Physical (“EFP”) transactions, which will become effective on October 1, 2018.

RR 2018-12 is enclosed as Attachment A.

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The purpose and effect of the RR is to provide market participants comprehensive guidance for participating in OneChicago EFPs. Comments on the RR have not been solicited and none have been received. OneChicago is not aware of any substantive opposing views to this rule filing. OneChicago certifies that the RR 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 designated contract markets (“DCMs”), and has concluded that the RR may have some bearing upon the following core principle(s):

Core Principle 2: Core Principle 2 requires DCMs to establish, monitor, and enforce compliance with the rules of the exchange. The RR supports Core Principle 2 in that it provides market participants with guidance for conducting EFP transactions at OneChicago and therefore remain compliant with OneChicago Rule 416.

Core Principle 7: Core Principle 7 requires DCMs to make available to market authorities, market participants, and the public accurate information concerning the rules and regulations for executing transactions on the contract market. The RR supports Principle 7 in that it informs market participants of its policies and procedures regarding EFP trades.

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)

Date: September 17, 2018
Re: Exchange of Future for Physical Trading
Effective Date: October 1, 2018

OneChicago is issuing this Regulatory Release (2018-12) to provide consolidated guidance for Exchange of Future for Physical (“EFP”) transactions. This notice replaces Regulatory Release 2012-4 and the EFP portions of Regulatory Release 2014-33.

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.

As required in OneChicago Rule 416 (Exchange of Future for Physical), EFP transactions must be done at a reasonable price mutually agreed upon by the parties to the transaction.

Delaying the posting of one leg of an EFP does not make the transaction a block trade, the trade will remain subject to OneChicago Rule 416.

Reporting

EFP trades must be reported within 10 minutes of execution. For single-sided entry, one side of a trade will enter their respective side of the trade within 5 minutes of execution and allege that trade against the other party. In this case the other party must accept the alleged trade within 5 minutes.

EFP 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 to constitute an extenuating circumstance:

- Technical malfunction or systems outage
- Firm is reporting or accepting multiple EFP trades within a short time period
- Unusual market conditions (such as regulatory halts, trading suspensions, or fast markets)

Markup/Markdown

Securities firms can markup/markdown the cash leg price on EFP trades to include commissions and fees provided the stock confirmation shows the original stock price and the markup.

OneChicago has determined that the firm also needs to provide the actual (gross) EFP execution price as well as the net EFP price to the customer when the trade is confirmed, regardless of whether the confirmation is verbal, text, instant message, email, or fax. For example, a firm buys an EFP at \$0.10, the futures leg is priced at \$20.00 and the stock leg is priced at \$19.90 with a \$0.30 markdown to \$19.60. The EFP confirmation needs to indicate an EFP execution price of \$0.10 with net price of \$0.40 including the markdown.

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Any questions about this notice can be directed via email to the OneChicago Compliance Department at marketsurveillance@onechicago.com or by phone at (312) 883-3409.

Exhibit A

416. Exchange of Future for Physical

(a) A *bona fide* Exchange of Future for Physical may be entered into with respect to any Contract in accordance with the applicable trading increments set forth in the rules governing such Contract, at a reasonable price mutually agreed upon by the parties to such transaction. Each Exchange of Future for Physical must contain the following four essential elements:

- (i) A Futures transaction and a transaction in the underlying security that are integrally related and combined into a single transaction with two legs
 - (a) One leg being the Futures and the other leg being the underlying security
 - (b) Priced as a differential between the Futures and the underlying security.
- (ii) An exchange of Futures for the underlying security where the Futures provide for the transfer of ownership of such security to the cash buyer upon performance of the terms of such Futures, with delivery to take place in accordance with the Futures contract specifications; and
- (iii) Separate parties, such that the accounts involved on each side of the Exchange of Future for Physical have different beneficial ownership or are under separate control.
- (iv) In every Exchange of Future for Physical, one party must be the buyer of the security and the simultaneous seller of the corresponding Futures and the other party must be the seller of the security and the simultaneous buyer of the corresponding Futures. Further, the quantity of the security traded in an Exchange of Future for Physical must be equivalent to the quantity of the security represented by the Futures portion of the transaction.

(b) The trading day for Exchange of Future for Physical transactions with respect to any Contract shall be as set forth in the rules governing such Contract.

(c) Each Exchange of Future for Physical shall be designated as such and cleared through the Clearing Corporation as if it were a transaction executed through the OneChicago System.

(d) Each Clearing Member or Exchange Member involved in any Exchange of Future for Physical shall maintain records evidencing compliance with the criteria set forth in this Rule 416. Upon request, each such Clearing Member or Exchange Member shall provide documentation evidencing the underlying cash transaction to the Exchange.

(e) An Exchange Member or Access Person authorized by a Clearing Member, whose bid or offer for an Exchange of Future for Physical is matched to a counterparty by the OneChicago System, is obligated to complete the transaction including the submission of the securities portion of the transaction to the market centers, as defined in Exchange Act Regulation §

600(b)(38), designated by the Exchange unless some other provision of these Rules provides otherwise.