OneChicago

Via Electronic Mail

November 20, 2014

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

Re: OneChicago, LLC Rule Submission
Bilateral Block and EFP Reporting Guidance – Notice to Members 2014-33
(OCX Submission #14-009)

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," "OCX," or the "Exchange") hereby submits the following Notice to Members ("NTM"), which will become effective on December 10, 2014.

OCX is providing its market participants with guidance regarding the reporting of bilateral blocks and bilateral EFPs. Specifically, NTM 2014-33 covers four aspects of bilateral trade reporting: (1) block trade completion times; (2) acceptable sequencing for dual-party block posting; (3) updated block reporting timeframes; and (4) circumstances in which delayed reporting of a bilateral block or bilateral EFP may be permissible. The NTM is attached as Exhibit A.

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The purpose and effect of the NTM is to provide guidance to OCX's market participants regarding several aspects related to bilateral block and bilateral EFP reporting. Comments on this rule change have not been solicited and none have been received. OneChicago is not aware of any substantive opposing views to this rule change. OneChicago certifies that the rule change 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 proposed rule change may have some bearing upon the following core principles:

Core Principle 7: Core Principle 7 requires DCMs to make available to market authorities, market participants, and the public accurate information concerning the terms and conditions of the contracts of the contract market and the rules, regulations and mechanisms for executing transactions on or through the facilities of the contract market. This filing supports Core Principle 7 in that it makes market participants aware of the method by which OneChicago will permit bilateral block and bilateral EFP trades to be reported.

Core Principle 9: Core Principle 9 permits DCMs to authorize, for bona fide business purposes, a market participant to enter into or confirm the execution of a contract for the purchase or sale of a commodity for future delivery if the contract is reported, recorded, or cleared in accordance with the rules of the contract market. This filing supports Core Principle 9 in that it provides market participants with guidance regarding the Rules under which market participants may report bilateral block or bilateral EFP trades to the Exchange.

If you have any questions or comments related to this filing, please feel free to contact me by telephone at (312) 424-8524 or through e-mail at wbarazi@onechicago.com.

Respectfully Submitted,

Waseem Barazi

Waseem Barazi
Chief Regulatory Officer

Encl: Exhibit A

OneChicago

Notice to Members 2014-33

Date: November 20, 2014

Re: Bilateral Block and Bilateral EFP Reporting Guidance

Effective Date: December 10, 2014

OneChicago, LLC ("OCX") is issuing this Notice to Members ("NTM") 2014-33 to provide market participants with guidance regarding block and EFP reporting with respect to four issues: (1) block trade completion times; (2) acceptable sequencing for dual-party block posting; (3) updated block reporting timeframes; and (4) circumstances in which delayed reporting of a block or EFP may be permissible.

1. Block Trade Completion

This section of NTM 2014-33 applies to those OCX block trades in which one party to the block (referred to herein as the "customer" or "order originator") seeks directional exposure to the futures contract, while the other party (referred to herein as the "liquidity provider") hedges in a related product—such as the underlying equity—and then buys/sells the equivalent number of single-stock futures from/to the customer. Previously, OCX considered a block of this type of trade to be complete when the liquidity provider has successfully pre-hedged in the related product and adds/subtracts the agreed upon basis from the hedge price to arrive at the futures block price (see NTM 2012-13). This interpretation has led to concerns regarding how to appropriately report amounts that meet the block trade minimum quantity threshold, but that do not satisfy the customer's full order quantity (*i.e.*, how to report "blockable" portions of futures orders intraday). Such situations may arise when a liquidity provider has completed a blockable amount, but can no longer execute (at least temporarily) the remaining customer order due to the customer's limit price being crossed or a lack of liquidity in the hedge product. Because OCX's block trading rules require reporting of a block "without delay," uncertainty has developed as to when a market participant's block reporting obligations are triggered in the above scenario.

OCX is now clarifying that market participants will not be required to report these "partial fill" amounts throughout the day if the liquidity provider has not yet completed the customer's entire futures order quantity. In other words, the requirement to report a block trade (of the type described above) 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 not able to complete the customer's entire futures order quantity by the end of the day, the firm should report the amount that the liquidity provider was able to complete, so long as that amount meets the minimum block trade quantity threshold. If the liquidity provider was not able to hedge an amount equal to or greater than the minimum block trade threshold, no block trade may be reported, and the liquidity provider may offset (for example, by selling long stock or covering a short stock position) or may maintain its long or short position. For the avoidance of doubt, a customer is required to accept a futures block that the liquidity provider has completed. That is, while a customer may cancel the unexecuted balance of its order, it may not cancel an amount that the liquidity provider has successfully hedged.

See the following frequently asked questions:

Block Trade Completion Frequently Asked Questions

Q1. When do I report executions for a five contract OCX.NoDivRisk order where 500 shares of the underlying hedge have been executed?

A1. These executions should be reported without delay (please see Section 3, below), as the block trade is considered complete upon execution of the underlying hedge (and calculation of the corresponding futures price) for the customer's entire futures order quantity. (In the case of an OCX.Original order for which the block trade threshold is twenty-five contracts, a minimum of 2,500 shares of the underlying would have to be executed before the block trade may be reported).

Q2. When do I report executions for a seven contract OCX.NoDivRisk order with a limit price, where 500 shares of the underlying hedge have been executed and the limit price has been crossed, rendering me unable to continue to execute in the underlying at the price requested by the customer?

A2. You should not report a block trade until the customer's full futures order quantity has been completed, the end of the day, or the customer has cancelled the remaining two contract balance of its order. A five contract block trade should not be reported in this case because the customer's full order quantity has not yet been completed. If the remaining 200 shares of the underlying hedge cannot be executed within the customer's limit price by the end of the day, the firm should simply report a five contract block trade, with the balance of the original seven contract order remaining unfilled. (OCX.Original: consider a 33 contract order with 2,500 shares complete before the limit price in the underlying equity is crossed. In such a case, the firm would not report the completed 25 contract block until either the remaining 800 shares of the hedge are executed, the end of the day, or the balance of the customer's order has been cancelled. As was the case with the OCX.NoDivRisk example, if the remaining 800 shares of the underlying hedge cannot be executed within the customer's limit price by the end of the day, the firm should simply report a twenty-five contract block trade with the balance of the original 33 contract order remaining unfilled).

Q3. What should I report if only 300 shares of the underlying hedge of a six contract OCX.NoDivRisk futures order have been completed by the end of the day?

A3. The firm should not report anything because the block trade minimum quantity threshold has not been met, and therefore there is no reportable amount. In such a case, the customer's order is determined unable to be filled. The liquidity provider may hold its hedge position or may dispose/offset the position. For example, if the liquidity provider hedged in the underlying by buying 300 shares, it may continue to hold the 300 shares or may sell the shares.

Q4. What should I report if 600 shares of a ten contract OCX.NoDivRisk futures order have been completed and the customer cancels its order?

A4. The firm should report a six contract futures block. The customer is required to accept the six contract block. A customer may not cancel a completed block; it may only cancel an unexecuted balance. In this case, the customer may inform the liquidity provider that it wishes to cancel the four contract unexecuted balance, but may not cancel the six contract futures block that has been completed.

2. Dual-Party Block Posting

With regard to the posting requirements of bilateral block trades, OCX is clarifying that the liquidity providing party to a block trade may inform the order originator that the hedge is complete, thereby allowing the order originator to post the block. Previous OCX guidance was silent on this issue.

3. Updated Block Reporting Time Requirements

OCX Rule 417 requires that block trades be reported to the Exchange "without delay." NTM 2012-25 interprets the term without delay to mean within five minutes of the hedge completion or, if there is no hedge involved in the trade, agreement to the terms of the trade. Specifically, the party inserting the bilateral trade is required to enter the trade into the OCX System within 5 minutes of execution and the other party is required to accept the trade within 5 minutes of its entry in the OCX System. OCX is updating this requirement to account for block trades that involve one party hedging in a related market.

In instances in which one party to a block trade is hedging in a related market, OCX is proposing two alternative reporting time requirements depending on which party will be reporting the block trade:

- If the <u>liquidity provider</u> is posting the block trade to the Exchange, the liquidity provider has 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 OCX System. The order originator then has ten (10) minutes to accept the trade in the OCX System.

- If 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 counterparty that the final execution of the hedge has taken place. The order originator then has fifteen (15) minutes to insert the details of the trade into the OCX System. The liquidity provider then has five (5) additional minutes to accept the trade in the OCX System.

NTM 2012-13 and 2012-25 remain applicable for those block trades in which there is no hedge in a related market, as well as for bilateral EFP trades. Parties to these types of trades must report the trade without delay. As such, the reporting party has five (5) minutes to insert the trade details into the OCX System and the accepting party then has five (5) minutes to accept the trade.

4. Delayed EFP and Block Trade Reporting

Block and 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 OCX may consider to constitute an extenuating circumstance:

- Technical malfunction or systems outage
- Disagreement between reporting parties on price or some other material term of the trade
- Firm is reporting or accepting multiple block trades within a short time period
- Unusual market conditions (such as regulatory halts, trading suspensions, or fast markets)

Any questions should be directed to marketsurveillance@onechicago.com or (312) 424-8530.