

OneChicago ✕

July 22, 2004

Ms. Jean A. Webb  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: Security Futures Products Rule Submission and Rule Certification

Dear Ms. Webb:

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 rule amendment to add a new OneChicago, LLC ("OneChicago") Market Maker Registration Policy and Procedures and a corresponding amendment to OneChicago Rule 514.

The effective date of this amendment is July 30, 2004. There are no opposing views that are not incorporated into this amendment.

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

Sincerely,



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Managing Director

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**OneChicago**

**Market Maker Registration Policy and Procedures**

**OneChicago Market Maker Program**

Pursuant to OneChicago Rule 514, the Exchange has adopted a market maker program under which clearing members or exchange members (collectively, “members”) may be designated as market makers in respect of one or more OneChicago contracts (“Contracts”) to provide liquidity and orderliness in the market for such Contracts. To be designated as a OneChicago market maker, a member must complete and file with the Exchange a OneChicago Market Maker Registration Form (attached below). By signing the registration form the member will confirm that it meets and will continue to meet the qualifications to act as market maker in accordance with OneChicago Rules. The member will be required to identify all OneChicago Contracts for which it seeks to be designated as a market maker and elect which of the three alternative sets of market maker obligations specified in OneChicago Rule 515(n) it intends to undertake.

**Market Maker Exclusion from OneChicago Customer Margin Requirements**

To qualify for the market maker exclusion for purposes of OneChicago’s customer margin rules, a person must:

- (1) be a OneChicago member that is registered with OneChicago as a dealer in security futures as defined in Section 3(a)(5) of the Securities Exchange Act of 1934 (“Exchange Act”);
- (2) be registered as a floor trader or a floor broker under Section 4f(a)(1) of the Commodity Exchange Act (“CEA”) or as a dealer with the Securities and Exchange Commission (“SEC”) under Section 15(b) of the Exchange Act;
- (3) maintain records sufficient to prove compliance with the requirements of OneChicago Rule 515(n) and the Commodity Futures Trading Commission (“CFTC”) Rule 41.42(c)(2)(v) and SEC Rule 400(c)(2)(v) under the Exchange Act as applicable, including without limitation trading account statements and other financial records sufficient to detail activity; and
- (4) hold itself out as being willing to buy and sell security futures for its own account on a regular or continuous basis.

In addition, the market maker exclusion provides that any market maker that fails to comply with the rules of OneChicago or the margin rules adopted by the SEC and the CFTC shall be subject to disciplinary action in accordance with Chapter 7 of OneChicago's rules, and that appropriate sanctions in the case of any such failure shall include, without limitation, a revocation of such market maker's registration as a dealer in security futures.

### **Market Maker Categories**

OneChicago Rule 515(n) specifies three alternative ways for a member to satisfy the requirement that a market maker hold itself out as being willing to buy and sell security futures for its own account on a regular or continuous basis. Each member seeking market maker designation must register for one of the following three market maker categories and will undertake to perform all of the obligations set forth in the elected category:

Category 1. The market maker will provide continuous two-sided quotations throughout the trading day for all delivery months of Contracts representing a meaningful proportion of the total trading volume on the Exchange,\* subject to relaxation during unusual market conditions as determined by OneChicago (such as a fast market in either a Contract or a security underlying such Contract) at which times such market maker must use its best efforts to quote continuously and competitively; and when providing quotations, quotes for a minimum of one Contract with a maximum bid/ask spread of no more than the greater of \$0.20 or 150 per cent of the bid/ask spread in the primary market for the security underlying each Contract; or

Category 2. The market maker will respond to at least 75 per cent of the requests for quotations for all delivery months of Contracts representing a meaningful proportion of the total trading volume on the Exchange,\* subject to relaxation during unusual market conditions as determined by the Exchange (such as fast market in either a Contract or a security underlying such Contract) at which times such market maker must use its best efforts to quote competitively; and when responding to requests for quotation, quotes within five seconds for a minimum of one Contract with a maximum bid/ask spread of no more than the greater of \$0.20 or 150 per cent of the bid/ask spread in the primary market for the security underlying each Contract; or

Category 3. The market maker will be (i) assigned to a group of Contracts that is either unlimited in nature ("Unlimited Assignment") or is assigned to no

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\* A "meaningful proportion of the total trading volume on the Exchange" shall mean a minimum of 20 per cent of such trading volume.

more than 20 per cent of the Contracts listed on OneChicago (“Limited Assignment”); (ii) at least 75 per cent of such market maker’s total trading activity in Exchange products is in its assigned Contracts, measured on a quarterly basis; (iii) during at least 50 per cent of the trading day such market maker has bids or offers in the market that are at or near the best market, except in unusual market conditions as determined by OneChicago (such as fast market in either a Contract or a security underlying such Contract), with respect to at least 25 per cent (in the case of an Unlimited Assignment) or at least one (in the case of a Limited Assignment) of its assigned Contracts; and (iv) the requirements set forth in (ii) and (iii) are satisfied on at least 90 per cent (in the case of an Unlimited Assignment) or 80 per cent (in the case of a Limited Assignment) of the trading days in each calendar quarter.

### **Qualification for “60/40” Tax Treatment**

To qualify as a “dealer” in security futures contracts within the meaning of section 1256(g)(9) of the Internal Revenue Code of 1986, as amended, (the “Code”) a member is required (i) to register as a market maker for purposes of OneChicago’s margin rules under Category 1 or Category 2 above; (ii) to undertake in its registration form to provide quotations for all products specified for the market maker exclusion from the OneChicago margin rules; and (iii) to quote a minimum size of

\_\_\_\_\_ (A) ten (10) contracts for each product not covered by (B) or (C) below;

\_\_\_\_\_ (B) five (5) contracts for each product specified by the member to the extent such quotations are provided for delivery months other than the next two delivery months then trading; and

\_\_\_\_\_ (C) one (1) contract for any single stock futures Contract where the average market price for the underlying stock was \$100 or higher for the preceding calendar month or for any futures contract on a narrow-based security index, as defined by Section 1a(25) of the Commodity Exchange Act.

## **Products**

As noted above in completing the OneChicago Market Maker Registration Form, a member must specify all OneChicago Contracts for which it intends to act as a market maker. The Exchange will assign to the member all of the Contracts listed on its registration form, unless the Exchange provides written notice to the member identifying any Contracts for which such assignment is withheld. A member may change the list of Contracts for which he undertakes to act as market maker for any calendar quarter by filing a revised Market Maker Registration Form with the Exchange on any business day prior to the last trading day of such quarter, and such change shall be effective retroactive to the first trading day of such quarter. Each market maker shall be responsible for maintaining books and records that confirm that it has fulfilled its quarterly obligations under the market maker category elected on its Market Maker Registration Form in respect of all Contracts designated for that calendar quarter.

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### **514. Market Maker Programs**

The Exchange may from time to time adopt one or more programs under which one or more Clearing Members or Exchange Members may be designated as market makers with respect to one or more Contracts in order to provide liquidity and orderliness in the market or markets for such Contract or Contracts. Any such program may provide for any or all of the following:

- (a) qualifications, including any minimum net capital requirements, that any such market maker must satisfy;
- (b) the procedure by which Clearing Members or Exchange Members may seek and receive designation as market makers;
- (c) the obligations of such market makers, including any applicable minimum bid and offer commitments; and
- (d) the benefits accruing to such market makers, including priority in the execution of transactions effected by Clearing Members or Exchange Members in their capacity as market makers, reduced transaction fees or the receipt of compensatory payments from the Exchange.

Without limiting the generality of the foregoing, the Exchange may adopt a program under which one or more Clearing Members or Exchange Members may be designated as lead market makers, and as such, allocated certain numbers and types of Contracts with respect to which they are required to make two-sided markets. For further details see “Market Maker Registration Policy and Procedures” at [www.onechicago.com/020000\\_about/oc\\_020400.html](http://www.onechicago.com/020000_about/oc_020400.html).