



141 West Jackson, Suite 1065  
Chicago, Illinois 60604

Via Electronic Mail

September 10, 2012

Mr. David Stawick  
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  
Revisions to OneChicago Rule 417, Block Trading and the related Block Trading  
Notice

Dear Mr. Stawick:

Pursuant to section 5c(c)(1) of the Commodity Exchange Act, as amended (the “Act”), §40.6 and §41.24 of the regulations promulgated by the Commission under the Act, submitted herewith is an amended Rule 417, Block Trading; an updated Block Trading Notice and an updated Rule 143, OCX.BETS™. OneChicago (“OCX”) is self-certifying these changes to the OCX rules.

These changes reflect a lowering of the minimum block trade size to 25 contracts, clarification of block trading audit trail requirements and block trade practices and update the definition of OCX.BETS to clearly state that it is a reporting and trading platform.

We recently conducted an analysis of our 2011 and 2012<sup>1</sup> trading activity in blocks and in our central order book hosted on our CBOEdirect platform (“regular central order book”).

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<sup>1</sup> 2012 activity includes January 1 – July 31, 2012

During this analysis, we noted the following facts:

- The mean block trade size in 2011 and 2012 was at least 250 times larger than the mean regular central order book trade. Specifically, the mean block trade in 2011 was 1,633 contracts; in 2012 it was 1,546 contracts while the mean regular central order book trade was 6 contracts in both 2011 and 2012.
- In 2011, less than 1% of regular central order book trades were for 25 contracts or greater. Similarly, in 2012, only 1.5% were for 25 contracts or greater.
- Only 7% of our products had more than 100 trades for all of 2011 and only 3% of our products had more than 100 trades in 2012.
- Only 10 products traded on more than half of the trading days in 2011, in 2012, 11 products traded on more than half of the trading days.
- There were no products that traded every day in 2011 or 2012.

Based on this analysis, we are temporarily lowering our block size to 25 contracts from 100 contracts for all OCX products for a 6 month (September 2012 – March 2012) period. We will review the activity throughout this period, provide monthly updates to Commission staff and based on our experience during the 6 months period, we will submit an updated block trade size rule at the end of the period. As less than 1.5% of the transactions in the regular order book have been greater than 25 contracts between January 2011 and July 2012, we do not anticipate a significant shift of order or trades from the central order book to the block market.

Specifically, Rule 143, OCX.BETS, is being updated to reflect that OCX.BETS is both a trade reporting and trade matching central order book for blocks and exchange of future for physical trades. The amended Rule 143, OCX.BETS is included as Attachment A. Deleted text is shown by a strikethrough (---) and new text is underlined (      ).

Specifically, Rule 417, Block Trading, is being amended to state that blocks can be competitively traded or can be privately negotiated, to update the Act cite for the Eligible Contract Participant definition in section (a)ii of OCX Rule 417, to clarify record keeping requirements for block orders and bilateral block trades; and to directly incorporate the block minimum size in the rule as opposed to an OCX notice. The amended Rule 417, Block Trading, is included as Attachment A. Deleted text is shown by a strikethrough (---) and new text is underlined (      ).

The updated Block Trading notice reflects moving the minimum block size to Rule 417, clarifies that blocks can be competitively traded or privately negotiated, and clarifies trading/reporting times and the use of OCX.BETS for trading and reporting block trades. The revised notice also removes the Pre-Execution Discussion and the Cross Trade sections; those two sections were moved to a separate Notice to Members, 2012-24, dated August 29, 2012. The amended block trading notice is included as Attachment B. Deleted text is shown by a strikethrough (---) and new text is underlined (      ).

These amendments will become effective on September 25, 2012.

The reduction in block size supports Core Principle 8, Daily Publication of Trading Information and Core Principle 9, Execution of Transactions.

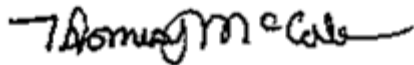
There is no operational impact related to these changes. The OneChicago OCX.BETS trading platform will need to be modified to reflect the lower block trade minimum size.

Comments on the OneChicago proposed rule change have not been solicited and none have been received. The Regulatory Oversight Committee has reviewed and approved these changes.

On behalf of OneChicago, I hereby certify that a notice of pending rule certification with the Commission and a copy of the submission has been posted on the OneChicago website at [http://www.onechicago.com/?page\\_id=8917](http://www.onechicago.com/?page_id=8917).

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

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas G. McCabe". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Thomas G. McCabe  
Chief Operating Officer  
OneChicago, LLC

Encl: Attachment A  
Attachment B

## Attachment A

### 143. OCX.BETS<sup>®TM</sup>

The term “OCX.BETS<sup>®TM</sup>” means the OneChicago Block & EFP Trading System<sup>®</sup>, a trade reporting and trade matching central order book for block trades and EFP (“exchange of future for physical”) trades.

### 417. Block Trading

- (a) Clearing Members, Exchange Members and Access Persons may enter into transactions ~~outside the OneChicago System~~, 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 ~~25 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(4218) 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.

\* Amended June 15, 2011, Amended August 29, 2012

- (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, 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 bilateral 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.

Each OCX.BETS authorized trade reporter entering block orders into OCX.BETS shall input for each block order: the price, quantity, product, expiration month, account origin code and account designation.

With respect to block orders which are capable of being immediately entered into OCX.BETS, no record other than that set forth above in the preceding paragraph need be made. However, if an authorized trade reporter receives a block order which cannot be immediately entered into OCX.BETS, the authorized trader reporter must prepare a written order and include the account designation, date, time of receipt, buy or sell, the Contract (including the delivery or expiry month), the number of Contracts, and the requested price. The order must be entered into OCX.BETS when it becomes executable or when it has been privately negotiated.

- (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.
  - (h) Block trades can be competitively executed on the OCX.BETS system by placing anonymous bids or offers. Alternatively, block trades can be privately negotiated and reported as bilateral transactions using the OCX.BETS system.

Attachment B



**NOTICE TO MEMBERS #~~2010-13~~2012-25**

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Date: September 10, 2012

RE: Block Trades

Effective Date: September 25, 2012

**~~Block Trades~~**

Pursuant to OneChicago Rule 417(a), the Exchange permits eligible contract participants to ~~transact~~ execute block trades ~~away from the public auction market in privately negotiated transactions~~ for a minimum number of ~~25~~100 contracts per transaction. Block trades can also be traded competitively. Block trades can be transacted between 8:00 and 4:00 pm on each Business day the exchange is open. All block trades must be reported without delay within 5 minutes of being executed. All trades must be reported by 4:00 p.m. All block trades must be executed and reported no earlier than 30 minutes before trading begins in the Contract of the block trade on the Business Day of execution and no later than 60 minutes (45 minutes for ETFs) after trading ends in the Contract of the block trade on the Business day of execution.

~~Each firm executing a side of a block trade must have at least one designated person preauthorized to report block trades. Only OneChicago member firms with a clearing relationship at The Options Clearing Corporation will be allowed to report a block trade.~~

All block trades must traded or reported through the OneChicago OCX.BETS@ platform.

Block trades can be competitively executed on the OCX.BETS system by placing anonymous bids or offers. Competitively executed block trades are considered executed and reported when traded.

Alternatively, block trades can be privately negotiated and reported as bilateral transactions using the OCX.BETS system. All bilateral trades are required to be entered into OCX.BETS without delay within 5 minutes of being executed. For the avoidance of doubt, the party entering the bilateral trade is required to enter the trade into OCX.BETS within 5 minutes of execution and the other party is required to accept the trade within 5 minutes of it being entered in OCX.BETS.

~~All block trades must be reported to OneChicago without delay after the trade is executed must include the basic terms of the trade, including the relevant Contract, contract month, price, quantity, time of execution, and counterparty clearing member for each block trade. Block trades can be executed or reported via OCX.BETS. Voice brokered block trades must be reported without delay following their execution by entering a Bi lateral transaction in OCX.BETS. Please reference OneChicago Block Trade reporting procedures on [www.OneChicago.com](http://www.OneChicago.com).~~

It is the responsibility of the buying and selling firms to effect any subsequent allocations or necessary updates to non-critical matching fields utilizing their chosen post-trade processing system.

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 the benefit of the account or accounts related to a party to the block trade until the block trade has been reported to and disseminated by the OneChicago price distribution mechanism. However, as discussed in Regulatory notice 2011-8, trade participants can pre-hedge. Please see that notice for additional details. Additionally, no party with knowledge of the pending block trade report is allowed to exercise discretion by withholding (or placing) orders for any account that would have (or would not have) been placed but for the knowledge of the pending block trade until the block trade has been reported to and disseminated by the OneChicago price distribution mechanism. Parties subject to the jurisdiction of a member or an affiliate of the Intermarket Surveillance Group ("ISG") are further prohibited from submitting related offsetting orders on OneChicago if they utilize block trade reporting facilities of any other ISG participant exchange until such trades have been disseminated to the marketplace via the standard public reporting mechanism for that exchange.

OneChicago considers busting block trades to be a serious matter and may deny a bust request based on the factors surrounding the request, including but not limited to the market impact of the original report, the amount of variation between the block trade price and the market price at the time of the report and the length of time transpiring since the block trade was reported to the public. Fees may be levied for busting a block trade.

Any attempt to circumvent this policy or misrepresent a transaction as a block trade will be forwarded to the appropriate party for investigation.



Any questions can be directed to OneChicago compliance at 312.424.8530 or [marketsurveillance@onechicago.com](mailto:marketsurveillance@onechicago.com).

#### ~~Pre Execution Discussions~~

~~In accordance with OneChicago Rule 614, the Exchange permits Members and Access Persons to engage in pre-execution discussions pursuant to which one party may agree in advance to take the opposite side of the other party's order for a transaction to be executed on the Exchange, on the following conditions~~

~~1. Customers of each such party must consent to allow pre-execution discussions with other market participants;~~

~~2. Any Member or Access Person who is solicited to participate in a OneChicago transaction through pre-execution discussions shall not (i) disclose to any other party the details of such discussions or (ii) enter an order or quote through the Exchange to take advantage of information conveyed during such discussions unless such Member or Access Person has agreed during the pre-execution discussions to participate in the transaction in accordance with this policy and the order or quote is entered to implement that agreement; and~~

~~3. Except for block trades conducted pursuant to Rule 417 and exchange of future for physical transactions conducted pursuant to Rule 416, period of four seconds shall elapse between entering the first order or quote and entering the second order for the opposite side. The order or quote initially entered may be filled or lifted by a third party during the four second waiting period rather than consummating the transaction with the intended party as contemplated by the pre-execution discussions~~

#### ~~Cross Trades~~

~~1. In accordance with OneChicago Rules 409 and 610, any Member or Access Person may cross orders provided that the Member or Access Person enters one side of the trade (which shall be the Customer's side in the event that the Member or its affiliate is taking the other side) into OneChicago's trading system at least four seconds before entering the order for the opposite side.~~

~~2. Notwithstanding the foregoing, any Member or Access Person shall not be in violation of Rule 409 and 610 due to cross trades as defined above, where neither Member nor Access Person has knowledge of the other's Order and there is no coordination or prearrangement of the cross trade, provided that the relevant Member or Access Person shall be responsible, upon the request of OCX, to demonstrate to OCX's reasonable satisfaction, that neither Member nor Access Person had knowledge of the other's Order.~~

~~**3. This Policy recognizes the electronic nature of the Exchange and the order entry and trading processes associated therewith.**~~