

Date: February 27, 2018

Re: Block Trading

Effective Date: March 13, 2018

This Regulatory Release (“RR”) 2018-3 contains updated OneChicago block trading guidance. This update supersedes Regulatory Release 2011-8, Regulatory Release 2012-25 and Regulatory Release 2014-33. The full texts of the relevant rules are attached to this notice as **Exhibit A**.

The primary change to the block trade guidance is a modification to the requirements for pre-hedging, found in **Section B(6)** below. OneChicago is removing the requirement that parties to a block trade explicitly agree to the basis prior to commencing the pre-hedging trades, unless the block is executed against a customer (directly or via an affiliated intermediary).

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 5 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 Delta1 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 (full text in **Exhibit A**).
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 5-contract NoDivRisk block trade be reported when 500 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 5-contract order.

Q2. When should executions for a 7-contract NoDivRisk block trade wherein 500 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 5-contract execution), or (3) the customer cancels the remaining 2-contract balance of the order.

Q3. What should be reported if 300 shares of the related hedge of a 6-contract NoDivRisk 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 NoDivRisk 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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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

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 5 Contracts in the OCX.NoDivRisk futures and at least 25 Contracts for all other products; 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) 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.

(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 nondiscretionary 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 authorized trade reporter entering block orders into the OneChicago System 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 the OneChicago System, 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 the OneChicago System, 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 the OneChicago System 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 OneChicago System by placing anonymous bids or offers. Alternatively, block trades can be privately negotiated and reported as bilateral transactions using the OneChicago System.

611. Trading Against Customers' Orders

No Clearing Member or, if applicable, Exchange Member or Access Person (including in each case its employees and agents) shall enter into a transaction on behalf of a Customer in which such Clearing Member, Exchange Member or Access Person or any Person trading for an account in which such Clearing Member, Exchange Member or Access Person has a financial interest, intentionally assumes the opposite side of the transaction. The foregoing restriction shall not prohibit pre-execution discussions conducted in accordance with procedures established by the Exchange from time to time, and shall not apply to any Exchange of Future for Physical, any Block Trade or any transaction meeting all of the following criteria (or such other criteria as may be established by the Exchange from time to time):

(a) the Customer has previously consented to such transactions;

(b) the Clearing Member or if applicable, Exchange Member or Access Person (including in each case its employees and agents) has waited for a reasonable period of time, as determined by the Exchange, after first entering the Order received from the Customer into the OneChicago System before taking the opposite side of the transaction;

(c) the Clearing Member or, if applicable, Exchange Member or Access Person maintains a record that clearly identifies, by appropriate descriptive words, all such transactions, including the time of execution, commodity, date, price, quantity and delivery month; and

(d) the Clearing Member or, if applicable, Exchange Member or Access Person provides a copy of the record referred to in clause (c) above to the Exchange.