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SECURITIES AND EXCHANGE COMMISSION  
[Release No. 34-73715; File No. SR-OC-2014-06]

Self-Regulatory Organizations; OneChicago, LLC; Notice of Filing of Proposed Rule Change Relating to Bilateral Block and Bilateral EFP Reporting Guidance  
December 2, 2014.

Pursuant to Section 19(b)(7) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup>, notice is hereby given that on November 20, 2014, OneChicago, LLC (“OneChicago,” “OCX,” or the “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. OneChicago has also filed this rule change with the Commodity Futures Trading Commission (“CFTC”). OneChicago filed a written certification with the CFTC under Section 5c(c) of the Commodity Exchange Act (“CEA”) on November 20, 2014.

I. Self-Regulatory Organization’s Description of the Proposed Rule Change

OCX is proposing to issue Notice to Members (“NTM”) 2014-33, which provides guidance to market participants regarding bilateral block and bilateral Exchange of Future for Physical (“EFP”) reporting. NTM 2014-33 provides guidance relating to four aspects of bilateral block and bilateral EFP reporting.

First, NTM 2014-33 defines the completion time of certain types of block trades. Specifically, the NTM relates to block trades in which a liquidity provider pre-hedges the customer’s futures block order by executing in a related product, such as the underlying equity. OCX is clarifying that those types of block trades must be reported upon completion of the

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<sup>1</sup> 15 U.S.C. 78s(b)(7).

customer's full futures order quantity, and are not required to be reported in partial portions throughout the day.

The second topic on which NTM 2014-33 provides guidance is the order in which market participants may report a block trade. Specifically, for block trades that involve an order originator or customer on one side and a liquidity provider on the other, OCX is clarifying that it is acceptable for the liquidity provider to inform the order originator that the trade is complete, and for the order originator to then post the trade to the Exchange (after which time the liquidity provider would then accept the trade details in the OneChicago System). Previous OCX guidance was silent on this issue.

Furthermore, OneChicago is proposing to update its reporting time requirements to account for the dual-party posting guidance described above. Generally, OCX requires the posting party of a block trade to post the trade within five minutes of execution, and the accepting party to accept the reported trade details within five minutes from the time it was posted. OCX is proposing to modify this requirement for pre-hedged blocks for two reasons. First, OCX has become aware that market participants may be unable to comply with a strict five minute deadline when executing a block that involves a hedge in a related market. Second, OCX is tailoring the reporting requirements imposed on each side of a block trade to allow the side with greater reporting requirements more time to meet those obligations.

Finally, NTM 2014-33 states that block and EFP trades may be reported outside the time parameters described in the NTM only in extenuating circumstances. The NTM then provides a non-exhaustive list of scenarios that OCX may consider to constitute an extenuating circumstance.

### Block Trade Completion

Generally, block trades in OCX's products occur with one party (the order originator or customer) seeking directional exposure to a single stock future. The counterparty (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 order originator/customer. OCX considers this type of "pre-hedged" block trade to be complete when the liquidity provider hedges in the related market and then calculates the futures price by adding or subtracting the agreed upon basis from the hedge price.

Under this interpretation, a block trade may be considered complete before the customer's entire order quantity is filled. This interpretation has led to concerns among market participants 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. These situations generally arise when a liquidity provider has completed a blockable amount, but can no longer execute the remaining customer order due to the customer's limit price being crossed, or because of a lack of liquidity in the hedge product.

OCX is now clarifying in NTM 2014-33 that market participants are not required to report these "partial fill" amounts throughout the day. Rather, a block trade of this type is considered complete when the liquidity provider has completed the hedge for the customer's full futures block order quantity. The NTM then lists certain requirements relating to the reporting of block trades pursuant to the NTM. First, if the liquidity provider is unable to complete the customer's entire futures order quantity equivalent by the end of the day, the reporting 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. Second, if the liquidity provider was not able

to hedge an amount at least equal to the minimum block trade quantity threshold, a futures block was not created, and thus no block trade may be reported. In such a situation, the liquidity provider may offset or maintain its long or short position in the hedge product. For example, a liquidity provider that bought stock to hedge its sale of futures may sell the stock if it was unable to hedge enough shares of stock to reach the minimum block trade quantity threshold.

The NTM then describes a customer's obligation to accept a pre-hedged amount greater than or equal to the minimum block trade quantity threshold. A customer is required to accept a futures block that the liquidity provider has completed by pre-hedging. In other words, once a liquidity provider has pre-hedged an amount in a related market, the customer may not refuse to accept the futures equivalent of that pre-hedge. Nonetheless, a customer may permissibly cancel the unexecuted balance of its order that has not been pre-hedged. In such a case, the firms simply report the futures equivalent of the completed pre-hedge amount, so long as that amount meets the minimum block trade quantity threshold.

#### Dual Party Posting

The OneChicago System requires dual-party posting. Specifically, one party to the block trade must report the details of the trade, while the counterparty must then accept the reported details of the trade. In the case of a block trade described above in which one party seeks directional exposure and the counterparty provides liquidity by pre-hedging in a related market, NTM 2014-33 proposes to allow either side to the trade (the customer/order originator or the liquidity provider) to initially post the trade. Previous Exchange block trading guidance was silent on this issue.

OCX recognizes that for business or operational purposes, market participants may prefer in certain instances for the order originator/customer to initially report the trade and for the

liquidity provider to then accept the trade details. Therefore, NTM 2014-33 expressly permits market participants to report bilateral blocks in this manner.

#### Updated Reporting Time Requirements

OCX Rule 417 (Block Trading) requires that block trades be reported to the Exchange “without delay.” The term “without delay” is interpreted by NTM 2012-25 to mean within five minutes of completion of the hedge or, if there is no hedge involved, within five minutes of agreement to the terms of the trade. NTM 2012-25 clarifies that each party to the trade has five minutes to report the trade; that is, the party inserting the trade is required to enter the trade into the OneChicago System within five minutes of execution and the other party is required to accept the trade within five minutes of it being entered into the OneChicago System.

OCX has determined that five minutes per side is not sufficient to allow parties enough time to accurately report their block trades when the block trade is of the type that involves a liquidity provider pre-hedging in a related market, because a trade of this type does not involve a single point of execution during which parties agree to the terms of a trade then immediately report the trade details to the Exchange. Rather, these block trades involve multiple steps. Also, because the point of execution depends on executions in a related market, parties to a block trade need time to respond to their block execution and report the trade to the Exchange.

Accordingly, NTM 2014-33 proposes two alternative reporting time requirements depending on whether the liquidity provider or the customer/order originator is posting the block trade. The proposed reporting times have been made more flexible to account for: (1) the amount of time required for the liquidity provider to calculate the futures price based on its hedge price; (2) the amount of time required for the posting party to enter the trade details into

the OneChicago System; and (3) the time it may take for a party not on notice to react to an inbound message or alert from a counterparty or the OneChicago System.<sup>2</sup>

Under NTM 2014-33, in cases where the liquidity provider is initially posting the block trade to the Exchange, the liquidity provider has fifteen minutes from the final execution of its hedge in the related market to calculate the futures price and then insert the trade details into the OneChicago System. The liquidity provider in this case has fifteen minutes rather than the standard five because the liquidity provider must calculate the futures price from its hedge price and manually enter the details of the trade into the OneChicago System. The order originator then has ten minutes to accept the trade in the OneChicago System. The order originator in this case has ten minutes rather than the standard five because it is considered a non-notice party in that it will not become aware that its obligation to post its side of the trade is running until it receives a trade report from the OneChicago System.

Conversely, when the order originator will be posting the block trade, the liquidity provider has ten minutes to calculate the futures price based on the hedge price and then inform the order originator of the futures price. The order originator then has fifteen minutes to insert the details of the trade into the OneChicago System. The liquidity provider then has five additional minutes to accept the trade in the OneChicago System. In this case, the liquidity provider initially has ten minutes rather than the standard five in order to calculate the futures price. The liquidity provider here does not receive the full fifteen minutes, however, because it

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<sup>2</sup> For example, when an order originator sends an order to a liquidity provider, the order originator is not on notice as to when it will receive a message from the liquidity provider that the hedge is complete (or, alternatively, receive a message from the OneChicago System that the liquidity provider has inserted the trade details into the OneChicago System and that such details must now be accepted or rejected). Accordingly, requiring a “non-notice party” (such as the order originator in this example) to accept or post a trade within five minutes may be unreasonably burdensome, as the non-notice party may receive this message at any time in the trading day.

is not also entering the trade details into the OneChicago System, as was the case in the previous example. The order originator has fifteen minutes rather than the standard five because it is considered a non-notice party that also needs to insert the details of the trade into the OneChicago System. Finally, the liquidity provider then has the standard five minutes to accept the inserted trade because it is on notice that the trade will soon be posted and simply has to review the trade details and accept the trade, and therefore, does not require any additional time.

NTM 2014-33 clarifies that for block trades where there is no hedge in a related market (both parties simply agree to a block trade then post to the Exchange), NTM 2012-25 controls, and the parties must report the block without delay. As such, the reporting party has five minutes to insert the trade details into the OneChicago System and the accepting party then has five minutes to accept the trade. OCX is also clarifying that the standard five minute reporting and five minute accepting requirements are also applicable to bilateral EFP trades, because those trades do not involve a pre-hedge like the block trades described in NTM 2014-33.

#### Delayed EFP and Block Trade Reporting

OCX recognizes that in some instances parties to a block trade may be unable to report their blocks and EFPs within the timelines required by the Exchange. Accordingly, OCX is permitting market participants to report block or EFP trades outside the reporting requirements in certain situations that the Exchange considers extenuating circumstances. NTM 2014-33 provides a non-exhaustive list of scenarios that the Exchange may consider to be extenuating circumstances, including (1) a technical malfunction or systems outage; (2) disagreement between reporting parties on price or some other material term of the trade; (3) a firm is reporting or accepting multiple block trades within short time period; and (4) unusual or abnormal market conditions.

The text of the proposed rule change is attached as Exhibit 4 to the filing submitted by the Exchange but is not attached to the published notice of the filing.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OneChicago included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of OneChicago's filing is to provide its market participants with guidance regarding the method by which bilateral blocks and bilateral EFPs may be reported to the Exchange. Specifically, market participants have raised questions regarding various aspects of bilateral block and bilateral EFP reporting, including how to deal with partial fills and remainders when reporting a bilateral block, which party to a bilateral block must report the trade first, how much time parties have to report a block trade to the Exchange, and under what circumstances, if any, OCX would allow parties to a bilateral block or bilateral EFP trade to exceed the reporting time requirements. OCX is updating its guidance in NTM 2014-33 to account for these questions that have been raised by market participants.

2. Statutory Basis

OneChicago believes that the proposed rule change is consistent with Section 6(b) of the

Act,<sup>3</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>4</sup> in particular, in that it is designed to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and remove impediments to and perfect the mechanism of a free and open market and national market system. OneChicago believes that providing guidance to its market participants regarding the reporting of bilateral trades allows market participants to engage in these types of trades with regulatory certainty.

B. Self-Regulatory Organization's Statement on Burden on Competition

OneChicago does not believe that the proposed rule changes will impose any impact, or impose any burden, on competition not necessary or appropriate in furtherance of the purposes of the Act, in that the NTM simply provides guidance regarding how to comply with OCX's bilateral block and bilateral EFP reporting rules. The rule change furthers competition by updating its bilateral block and bilateral EFP guidance to account for the various ways market participants engage in such trades. The Exchange believes that the proposed rule change is equitable and not unfairly discriminatory because all of the amended rules apply equally to all market participants.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The rule change will become operative on December 10, 2014.

At any time within 60 days of the date of effectiveness of the proposed rule change, the Commission, after consultation with the CFTC, may summarily abrogate the proposed rule

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<sup>3</sup> 15 U.S.C. 78f(b).

<sup>4</sup> 15 U.S.C. 78(f)(b)(5).

change and require that the proposed rule change be refiled in accordance with the provisions of Section 19(b)(1) of the Act.<sup>5</sup>

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-OC-2014-06 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OC-2014-06. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F

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<sup>5</sup> 15 U.S.C. 78s(b)(1).

Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-OC-2014-06, and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>6</sup>

Kevin M. O'Neill,  
Deputy Secretary.

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<sup>6</sup> 17 CFR 200.30-3(a)(12).