

these large S&P 500 contracts will provide more liquidity to the opening of the underlying markets. Thus, the final settlement price based on opening prices is designed to deter manipulation.

In addition, OneChicago Rule 603 specifically prohibits market manipulation, and OneChicago Rule 604 prohibits members or access persons from violating applicable laws. Therefore, OneChicago believes that it meets this requirement.

Section 6(h)(3)(I)⁵⁰ of the Act requires that procedures be in place for coordinated surveillance among the market on which the SFP is traded, any market on which any security underlying the SFP is traded and other markets on which any related security is traded to detect manipulation and insider trading. OneChicago is an affiliate member of the Intermarket Surveillance Group through which it has an agreement to share market surveillance and regulatory information with other members of the group, which includes all of the predominant U.S. securities exchanges. OneChicago is also a member of the Joint Audit Committee, in which the futures self-regulatory organizations have an agreement to share information for regulatory purposes. Therefore, OneChicago believes it meets this requirement.

Section 6(h)(3)(J) of the Act⁵¹ requires that an exchange have audit trails that are necessary or appropriate to facilitate the coordinated surveillance required under Section 6(h)(3)(I) of the Act.⁵² The audit trail capability provided by CBOE*direct*®, the trade matching engine used by OneChicago, will create and maintain an electronic transaction history database that contains information with respect to all orders, whether executed or not, and resulting transactions on the Exchange. This applies to orders entered through CBOE*direct*® terminals as well as to orders routed to CBOE*direct*® through CME's Globex® system. The information recorded with respect to each order includes: time received (by CBOE*direct*® or Globex®), terms of the order, order type, instrument and contract month, price quantity, account type, account designation, user code and clearing firm.

OneChicago's electronic audit trail will consist of data recorded by CBOE*direct*® and Globex®, and OneChicago will have full access to all such data. Information logged by CBOE*direct*®, including in respect of

orders received through CBOE*direct*® terminals, will be archived and provided to OneChicago each day. Orders received through Globex® will be archived and maintained at CME. Together these data sets will enable OneChicago to trace each order back to the clearing firm by or through which it was submitted. If any question or issue arises as to the source of an order prior to submission by or through a clearing firm, OneChicago will request that the clearing firm provide an electronic or other record of the order.

For orders that cannot be immediately entered into either CBOE*direct*® and Globex®, and therefore will not be recorded electronically at the time they are placed, OneChicago Rule 403(b) requires that the Clearing Member or, if applicable, the Exchange Member or the Access Person receiving such order must prepare an order form in a non-alterable written medium, which must be time-stamped when received and include the account designation, date and other required information (*i.e.*, order terms, order type, instrument and contract month, price and quantity). Each such form must be retained for at least five years from the time it is prepared. In addition, OneChicago Rule 501 establishes a general recordkeeping requirement pursuant to which each Clearing Member, Exchange Member and Access Person must keep all books and records as required to be kept by it pursuant to the Commodity Exchange Act, CFTC regulations, the Act, regulations under the Act and the Rules of the Exchange. OneChicago Rule 501 also requires that such books and records be made available to the Exchange upon request. Current CFTC regulations require books and records to be maintained for a period of five years. OneChicago believes that its audit trail meets the requirement of section 6(h)(3)(J) of the Act.⁵³

Block trades will be entered in CBOE*direct*® by OneChicago's operations management after they are verbally reported by designated individuals at the Clearing Member for the selling party. At the time of each such verbal report, a trade identification number will be assigned and provided to the caller. Both the buyer and the seller in each trade will then follow up the verbal report by submitting a block trade reporting form via facsimile or email to OneChicago. Generally, the same procedures apply to exchange of futures for physical ("EFP") transactions, except that no verbal report is required for such transactions. Since block trades and EFP transactions

involve orders that cannot be immediately entered into either CBOE's or CME's systems, the Clearing Members or, if applicable, Exchange Members or Access Persons involved must comply with the procedures specified in the preceding paragraph.

Section 6(h)(3)(K) of the Act⁵⁴ requires that a market on which a security futures product is traded have in place procedures to coordinate trading halts between such market and any market on which any security underlying the security futures product is traded and other markets on which any related security is traded. OneChicago Rule 419 requires that trading in a security future be halted at all times that a regulatory halt has been instituted for the relevant underlying security or securities.

Section 6(h)(3)(L) of the Act⁵⁵ requires that the margin requirements for a security futures product comply with the regulations prescribed pursuant to section 7(c)(2)(B) of the Act.⁵⁶ The Commission approved OneChicago Rule 515, which fulfills this requirement.⁵⁷

2. Statutory Basis

OneChicago states that the proposed rule change is consistent with section 6(b)(5) of the Act⁵⁸ in that it promotes competition, is designed to prevent fraudulent and manipulative acts and practices, and is designed to protect investors and the public interest. OneChicago states that the proposed rule change would promote competition by making new products available to the public. OneChicago also states that the proposed rule change is also designed to deter manipulation of MicroSector Futures and to prevent using the product for fraudulent or manipulative trading in the component securities and their derivatives. In addition, the proposed position limit and final settlement rules along with surveillance and enforcement of these proposed rules are intended to deter manipulative activity in this product. In this manner, OneChicago states that the proposed rule change is designed to protect investors and the public interest.

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

OneChicago does not believe that the proposed rule change will have an impact on competition because it

⁵⁴ 15 U.S.C. 78(h)(3)(K).

⁵⁵ 15 U.S.C. 78f(h)(3)(L).

⁵⁶ 15 U.S.C. 78g(c)(2)(B).

⁵⁷ Securities Exchange Act Release No. 46787 (November 7, 2002), 67 FR 69059 (November 14, 2002) (SR-OC-2002-01).

⁵⁸ 15 U.S.C. 78f(b)(5).

⁵⁰ 15 U.S.C. 78f(h)(3)(I).

⁵¹ 15 U.S.C. 78f(h)(3)(J).

⁵² 15 U.S.C. 78f(h)(3)(I).

⁵³ 15 U.S.C. 78f(f)(3)(J).