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#### OneChicago Policies:

##### Block Trades, *Pre-Execution Discussions* and Cross Trades

##### Block Trades [Policy]

Pursuant to OneChicago Rule 417[(a)(i)(B)], the Exchange permits *eligible contract participants*, See Rule 417(a), to execute block trades [to be executed] away from the public auction market in privately negotiated transactions for a minimum of 500 contracts per transaction.

Each firm executing a side of a block trade must have at least one designated person pre-authorized to report block trades. Only OneChicago member firms with a clearing relationship at The Options Clearing Corporation or the Chicago Mercantile Exchange Clearing Division will be allowed to report a block trade.

The seller is obligated to call OneChicago Operations Management ("OOM") without delay after the trade is negotiated to notify the Exchange of the basic terms of the trade, including the contract, price, quantity and contra-party information. *If the transaction is a spread or combination, such as when one party is rolling a position into the next contract month,<sup>1</sup> the seller of the month closest to expiration is responsible for reporting the entire transaction.* OOM will provide the caller a Trade Identification ("Trade ID") for the block trade and report both sides of the trade to the OneChicago trade engine. The trade engine will then relay the block trade terms to the Chicago Board Options Exchange Financial Network ("CFN"), which serves as the OneChicago price distribution mechanism, and [to ]OneChicago's matched trade database. After reporting the trade to OOM, the buyer and seller must each complete and transmit the prescribed Block Trade Reporting form via facsimile or e-mail to the OOM Help Desk. Both sides must include the Trade ID given by the OOM Help Desk to the seller at the time of his call. 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 CFN. 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 given knowledge of the pending block trade until the block trade has been reported to and disseminated by the CFN 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 will 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.

##### *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, a 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

[Pursuant to ]*In accordance with OneChicago Rules 409 and 610, a Member [of the Exchange ]may cross orders, provided that the Member [exposes] enters one side of the trade [(buy or sell) to OneChicago's central order book for a minimum of ](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.*

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

OneChicago has prepared statements concerning the purpose of, and basis for, the proposed rule change, burdens on competition, and comments received from members, participants, and others. The text of these statements may be examined at the places specified in Item IV below. These statements are set forth in Sections A, B, and C below.

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

#### 1. Purpose

OneChicago is proposing to amend its current policy regarding block trades and cross trades and to add a new provision that explicitly permits pre-execution discussions. The substantive changes in the proposed rule change are the following: To amend the reporting requirements for block trades to require the seller of the front month of a block spread or combination transaction to report the entire transaction; to explicitly permit OneChicago members and access persons to enter into pre-execution discussions with other market participants when certain conditions are

<sup>1</sup> For purposes of this policy, the total quantity of the legs of a spread or a combination must meet the 500 minimum contracts requirement.