



CFE Regulatory Circular 20-003

Date: March 30, 2020

Exchanges: CFE

Markets: Futures

To: Trading Privilege Holders

Re: Exchange of Contract for Related Position Transactions

Replaces CFE Regulatory Circular RG18-017

Cboe Futures Exchange, LLC ("CFE" or the "Exchange") is reissuing this circular to highlight the requirements for Exchange of Contract for Related Position ("ECRP") transactions. This circular is not intended to provide a comprehensive description of all applicable rule provisions relating to ECRP transactions. CFE Trading Privilege Holders ("TPHs") should refer to CFE Rule 414 and the ECRP transaction provisions in the contract specifications rule chapter for each CFE product for additional detail.

Required Elements of an ECRP

CFE Rule 414(a) requires that an ECRP transaction contain the following three essential elements:

- (1) a transaction in a Contract that is listed on CFE and a transaction in a related position or an option on the related position (referred to as the "Related Position");
- (2) an actual transfer of ownership which must include an ability to perform the ECRP and a transfer of title of the Contract and Related Position upon consummation of the exchange; and
- (3) separate parties such that the accounts involved on each side of the ECRP have a different beneficial owner or are under separate control, provided that separate profit centers of a futures commission merchant operating under separate control are deemed separate parties for this purpose.

Pursuant to CFE Rule 414(c), in every ECRP transaction, one party must be the buyer of (or the holder of the long market exposure associated with) the Related Position and the seller of the corresponding Contract and the other party must be the seller of (or the holder of the short market exposure associated with) the Related Position and the buyer of the corresponding Contract.

Additionally, CFE Rule 414(d) prohibits ECRP transactions that are contingent upon the execution of another ECRP or related position transaction between the parties where the transactions result in the offset of the related position without the incurrence of market risk that is material in the context of the related position transactions.

Related Positions

CFE Rule 414(b) provides that a Related Position in an ECRP transaction may include, but is not limited to, a security, a derivative, any commodity as that term is defined by the Commodity Exchange Act (“CEA”), or a group or basket of any of the foregoing. The Related Position being exchanged need not be the same as the underlying of the Contract transaction being exchanged, but the Related Position must have a high degree of price correlation to the underlying of the Contract transaction so that the Contract transaction would serve as an appropriate hedge for the Related Position. CFE Rule 414(b) prohibits a Related Position being exchanged in an ECRP transaction from being a contract traded on or subject to CFE Rules.

Rule 414(c) requires that the quantity of the Related Position traded in an ECRP transaction must also correlate to the quantity represented by the CFE Contract portion of the transaction.

Please note the above provisions regarding Related Positions are subject to the following conditions:

- **Exchange Traded Products (“ETPs”) as Related Positions in ECRP Transactions**
An ETP, including an Exchange Traded Fund (“ETF”) and or Exchange Traded Note (“ETNs”), may be a Related Position in an ECRP transaction provided that the transaction satisfies the requirements of CFE Rule 414, including the requirements in CFE Rule 414(b) regarding Related Positions, and other applicable CFE rules.
- **Related Positions for Cboe® iBoxx® iShares® \$ High Yield Corporate Bond Index (“IBHY”) Futures or Cboe® iBoxx® iShares® \$ Investment Grade Corporate Bond Index (“IBIG”) Futures**
For any ECRP transaction involving IBHY or IBIG futures, the related position portion of the transaction must be either an exchange-traded fund or a total return swap.

Registration of Authorized Reporters

CFE Rule 414(i) requires that each TPH executing an ECRP transaction must have at least one designated individual that is pre-authorized by a Clearing Member to report ECRP transactions on behalf of the TPH (“Authorized Reporter”). To the extent required by Applicable Law, an Authorized Reporter must be registered or otherwise permitted by the appropriate regulatory body or bodies to act in the capacity of an Authorized Reporter and to conduct related activities. If a Clearing Member authorizes an Authorized Reporter to report ECRP transactions on behalf of a TPH, the Clearing Member must also authorize the Authorized Reporter to report Block Trades on behalf of the TPH pursuant to Rule 415.

Authorized Reporters must be registered with the Exchange before they may report ECRP transactions on behalf of a TPH. A Clearing Member that authorizes an Authorized Reporter to report ECRP transactions on behalf of a TPH accepts responsibility for all such transactions reported to the Exchange by the Authorized Reporter on behalf of the TPH. If a TPH desires to designate an individual that is affiliated with the TPH as an Authorized Reporter, the TPH and applicable Clearing Member must complete the [Block Trade/ECRP Affiliated Authorized Reporter Registration and Guarantee Form](#). If a TPH desires to designate as an Authorized Reporter an individual that is affiliated with a different TPH, the TPH and applicable Clearing Member must complete the [Block Trade/ECRP Non-Affiliated Authorized Reporter Registration and Guarantee Form](#). If a TPH desires to designate as an Authorized Reporter an individual that is not a TPH or a Related Party of a TPH, the TPH and applicable Clearing

Member must complete [Block Trade/ECRP Authorized Reporter Registration and Guarantee Form For Authorized Reporter Not Affiliated with a Trading Privilege Holder](#).

For additional information, please see the [Revised Block Trade/ECRP Authorized Reporter Criteria Exchange Notice](#).

ECRP Reporting Time Requirements

CFE Rule 414(e)(i) requires that an agreement to an ECRP transaction may only occur during trading hours, or a queuing period not in connection with a trading halt, for the Contract that comprises the contract leg of the ECRP transaction, when that Contract is not halted or suspended. Authorized Reporters must fully report ECRP transactions to the Exchange through the Block Trade/ECRP Reporting Tool located in the [Customer Web Portal](#) no later than thirty minutes after the transaction is agreed upon ("Reporting Deadline"), as required by CFE Rule 414(e)(ii). Additionally, CFE Rule 414(e)(iii) requires that ECRP transactions are fully reported to the Exchange during Trading Hours, or a queuing period, for the Contract that comprises the Contract leg of the transaction, when the Contract is not suspended ("Permissible Reporting Period").

CFE Rule 414(l) requires that the Authorized Reporter that is the initiator of the ECRP transaction must enter the required information for the ECRP transaction into the CFE System and provide the reference ID generated by the CFE System to the Authorized Reporter for the contra side of the ECRP transaction promptly enough to allow a reasonable amount of time for the contra side Authorized Reporter to accept the notification to the Exchange of the ECRP transaction as entered by the initiating Authorized Reporter and enter contra side information for the ECRP transaction within a Permissible Reporting Period by no later than the Reporting Deadline.

Pursuant to CFE Rule 414(m), for purposes of adherence to the Reporting Deadline and Permissible Reporting Period, an ECRP transaction shall be deemed to have been fully reported to the Exchange when the full report of the transaction has been received by the CFE System matching engine following notification to the CFE System of required information relating to the transaction by the initiating Authorized Reporter and acceptance and notification to the CFE System of required information relating to the transaction by the contra side Authorized Reporter.

ECRP Notification Information

Pursuant to CFE Rule 414(k), notification to the Exchange of an ECRP transaction must include:

- (i) whether the component of the transaction in the Contract listed on the Exchange is a single leg transaction, a transaction in a spread or transaction in a strip;
- (ii) the Contract identifier (or product and contract expiration for a future), price and quantity of the relevant contract leg of the transaction and whether the relevant contract leg is buy or sell;
- (iii) the time of execution (i.e., the time at which the parties agreed to the transaction);
- (iv) the arrangement time, if any (i.e., the time at which the parties agreed to enter into the transaction at a later time);
- (v) Order Entry Operator ID ("OEO ID") of the Authorized Reporter reporting the transaction;
- (vi) Executing Firm ID ("EFID");
- (vii) account;
- (viii) Clearing Corporation origin code;
- (ix) Customer Type Indicator ("CTI") code;

- (x) the identity, quantity and price or premium of the related position (including the expiration, strike price, type of option (put or call) and delta in the case of an option); and
- (xi) any other information required by the Exchange.

After an ECRP transaction has fully reported to the Exchange, the ECRP transaction may not be changed or canceled except to the extent the Contract leg(s) of the ECRP transaction may be busted by the Trade Desk in Accordance with Policy and Procedure III of the Policies and Procedures Section of the CFE Rulebook.

TPHs Acting as Agents for ECRP Transactions

Only CFE TPHs can be parties to an ECRP transaction reported to CFE. Any non-TPH must utilize a TPH to execute an ECRP transaction as agent on behalf of that non-TPH just as a non-TPH would need to use a TPH to execute an order through CFE's trading system.

Pursuant to CFE Rule 308(c) and (d), non-TPHs that enter into ECRP transactions in CFE products are bound by, and required to comply, with various Exchange Rules, including, but not limited to CFE Rule 414 and the provisions of the contract specification rule chapters for CFE products, to the same extent as a TPH is. Please see CFE Rule 308(d) for a complete list of applicable rules.

ECRP Order Ticket Information

CFE Rule 414(g) requires TPHs acting as agents for an ECRP transaction to record the following details with respect to the Contract leg of the ECRP on its order ticket:

- (i) the Contract (including the expiration);
- (ii) the number of contracts traded;
- (iii) the price of execution or premium;
- (iv) the time of execution (i.e., the time at which the parties agreed to the ECRP);
- (v) the arrangement time, if any (i.e., the time at which the parties agreed to enter into the transaction at a later time);
- (vi) the identity of the counterparty;
- (vii) that the transaction is an ECRP;
- (viii) the account number of the Customer for which the ECRP was executed; and
- (ix) the identity, quantity and price or premium of the Related Position (including the expiration, strike price, type of option (put or call) and delta in the case of an option).

Trade at Settlement ("TAS") ECRP Transactions

TAS transactions in Cboe Volatility Index ("VX") futures, IBHY, and IBIG futures may be executed as ECRP transactions. TAS transactions, including TAS ECRP transactions, are not permitted in any other CFE product at this time.

TAS transactions in VX futures are executed under the trading symbol VXT. The ticker symbol for TAS transactions in IBHY futures is IBHYT, and the ticker symbol for TAS transactions in IBIG futures is IBIGT. TAS transactions are reported to clearing after the actual price of the transactions are known following establishment of the daily settlement price.

Electronic Reporting of ECRP Transactions

The Block Trade/ECRP Reporting Tool is located in the [Cboe Customer Web Portal](#).

Instructions for the Block Trade/ECRP Reporting Tool can be found in the Customer Web Portal in the “Block and ECRP Trades” section of the “U.S. Customer Web Portal Specifications.”

The Block Trade/ECRP Reporting Tool uses Executing Firm IDs (“EFIDs”) as the identifier for trading participants. Trade details are entered into specific fields of the Block Trade/ECRP Reporting Tool.

Parties to an ECRP transaction need to share their EFID with their Authorized Reporter so that the Authorized Reporter can provide the EFID when the Authorized Reporter posts the transaction to the Block Trade/ECRP Reporting Tool. A reference ID is provided through the web portal and via email to the Authorized Reporter that initiates the transaction notification in the web portal. That Authorized Reporter must then provide the reference ID to the Authorized Reporter for the contra-party to the transaction so that the Authorized Reporter of the contra-party can access the ECRP transaction for acceptance in the web portal.

Busting or Adjusting Contract Legs of ECRP Transactions Due to Mistake, Inaccuracy or Error

Pursuant to CFE Rule 416 and Policy & Procedure III of the Policies and Procedures Section of the CFE Rulebook, the Trade Desk is authorized to bust or adjust the Contract leg of an ECRP if (i) there was a mistake, inaccuracy or error in the information that was inputted into the CFE System for the Contract leg of the ECRP transaction and (ii) an Authorized Reporter or party on each side of the transaction notifies the Trade Desk of the mistake, inaccuracy or error by submitting an [Error Trade Form](#) to the Exchange by no later than 4:00 p.m. Chicago time on the Business Day of the transaction. Please note that an Authorized Reporter or party on one side of the Block Trade or ECRP transaction is required to enter the bust or adjustment request through the above form, and an Authorized Reporter or party for the contra side of the transaction must agree to the request and on the mistake, inaccuracy, or error that occurred via email confirmation to cfetradedesk@cboe.com. Both of these submissions must be made by 4:00 p.m. Chicago time on the business day of the transaction in order for the Trade Desk to consider the bust or adjustment request. Please also note that reporting errors on ECRP transactions that occur during the 3:30 p.m. to 4:00 p.m. Extended Trading Hours must be reported to the Trade Desk by 4:00 p.m. of that day. For additional information, please see [CFE Time Frame Extension for Reporting Block Trade and ECRP Submission Errors Exchange Notice](#).

Rejection of an ECRP Transaction that Does Not Conform with CFE Rule 414 Requirements

The Exchange or CFE System may reject the submission of an ECRP transaction (or bust the Contract leg of an ECRP transaction) that does not conform, or that is reported to the Exchange in a manner that does not conform, to the requirements of CFE Rule 414. The acceptance by the Exchange or CFE System of the submission of an ECRP transaction does not constitute a determination by the Exchange that the transaction was effected or reported in conformity with the requirements of CFE Rule 414. Any ECRP transaction in violation of the requirements of CFE Rule 414 may result in disciplinary action.

Rejection of an ECRP Transaction that Exceeds Risk Controls

The CFE System will reject the submission of an ECRP transaction if the transaction would cause a net long (short) risk control pursuant to CFE Rule 513A(c) to be exceeded for either side of the transaction.

Adherence to CFE and Other Applicable Rules for Related Positions

Compliance with CFE Rules by TPHs executing ECRP transactions on their own behalf or as an agent for a non-TPH does not constitute compliance with any non-CFE rules applicable to the Related Position. For example, a TPH executing an ECRP transaction involving a CFE product and a Cboe Exchange, Inc. (“Cboe Options”) product must satisfy the requirements in CFE Rule 414 as well as the requirements of any Cboe Options rules applicable to the transaction. As an additional example, a TPH executing an ECRP transaction involving a CFE Contract and an ETP must comply with CFE Rules and rules of the exchange on which the ETP is traded or the Trade Reporting Facility requirements for transactions effected otherwise than on an exchange.

TPHs are reminded to review the CFE contract specifications for CFE product specific ECRP requirements as well as any non-CFE rules applicable to the Related Position prior to executing an ECRP transaction on CFE.

Additional Information

Please contact CFE Regulatory Interpretations at (312) 786-7229 or CFERegInterps@cboe.com with any questions regarding this regulatory circular or the provisions referenced in this circular.