



CFE Regulatory Circular RG18-018

Date: December 20, 2018

To: Trading Privilege Holders

From: Regulatory Division

RE: Block Trades

Replaces CFE Regulatory Circular RG18-12,¹

Cboe Futures Exchange, LLC (“CFE” or the “Exchange”) is reissuing this circular to highlight the requirements for Block Trades in CFE products as amended by two recent CFE rule filings. [SR-CFE-2018-026](#), which became effective on November 15, 2018, amends Policy and Procedure III of the Policies and Procedures Section of the CFE Rulebook to extend the time in which an Authorized Reporter must notify the Trade Desk of a mistake, inaccuracy or error in order to bust or adjust a Block Trade until 4:00 p.m. Chicago time on the business day of the transaction. [SR-CFE-2018-027](#), which became effective on November 19, 2018, removes the requirement from CFE Rule 415(f) that an Authorized Reporter must be a Trading Privilege Holder (“TPH”) or a Related Party of a TPH. This circular is not intended to provide a comprehensive description of all applicable rule provisions relating to Block Trades. TPHs should refer to CFE Rule 415 and the Block Trade provisions in the contract specifications rule chapter for each CFE product for additional detail. For additional information on these changes, please see the [Revised Block Trade/ECRP Authorized Reporter Criteria Exchange Notice](#) and the [CFE Time Frame Extension for Reporting Block Trade and ECRP Submission Errors Exchange Notice](#).

Block Trade Minimum Size Requirements

CFE Rule 415(a) requires Block Trades to meet to minimum size requirements. The minimum size requirements vary by CFE futures contract. The CFE futures contract specific minimum size requirements can be found in the contract specifications rule chapter of the CFE Rulebook applicable to that CFE futures contract.

Pursuant to CFE Rule 415(a)(i), and subject to the limited exceptions described below, orders for different accounts may not be aggregated to meet the minimum Block Trade size requirements in a CFE futures contract.

CFE Rule 415(a)(i) permits parties to a Block Trade meeting any of the enumerated criteria below to

¹ Updated sections are denoted with an ***.

aggregate orders for different accounts that are under their management or control in order to meet the minimum size requirements for a Block Trade in a CFE futures contract:

- (1) a commodity trading advisor registered under the Commodity Exchange Act (“CEA”);
- (2) an investment adviser registered as such with the Securities and Exchange Commission that is exempt from regulation under the CEA and Commodity Futures Trading Commission Regulations; and
- (3) 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 each case with total assets under management exceeding US\$25 million.

Block Trades Executed as Spread Orders

A Spread Order is defined in CFE Rule 404(c) as an Order to simultaneously purchase, sell or purchase, and sell at least two Contracts in a form permitted by the Exchange. Included within the definition of Spread Order in CFE Rule 404(c) is a “strip” which is a type of Spread Order that is exclusively for the purchase or exclusively for the sale of at least two Contracts in a form permitted by the Exchange.

CFE Rule 415(a)(i) provides that Block Trades may be executed as Spread Orders provided that the total quantity of the transaction and the quantity of each leg of the transaction meets the minimum size requirements as specified in the contract specifications rule chapter of the CFE Rulebook applicable to that CFE futures contract.

Trade at Settlement (“TAS”) Block Trade Transactions

TAS transactions in Cboe Volatility Index (“VX”) futures may be executed as Block Trades. Once listed, TAS transactions may also be executed in Cboe iBoxx iShares USD High Yield Corporate Bond Index (“IBHY”) futures. TAS transactions, including TAS Block Trades, are not permitted in any other CFE products at this time.

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

Block Trade Price Must be “Fair and Reasonable”

Pursuant to CFE Rule 415(b), the price at which a Block Trade is executed must be “fair and reasonable” in light of: (i) the size of the Block Trade; (ii) the prices and sizes, at the time of agreement to the Block Trade, of Orders in the Order book for the same Contract, the same contract on other markets and similar or related contracts on the Exchange and other markets, including without limitation the underlying cash and futures markets; (iii) the prices and sizes, at the time of agreement to the Block Trade, of transactions in the same Contract, the same contract on other markets and similar or related contracts on the Exchange and other markets, including without limitation the underlying cash and futures markets; (iv) the circumstances of the parties to the Block Trade; and (v) whether the Block Trade is executed as a Spread Order.

The following guidelines shall apply in determining whether the execution price of a Block Trade that is

not executed as a Spread Order is “fair and reasonable.” These guidelines are general and may not be applicable in each instance. Whether the execution price of a Block Trade is “fair and reasonable” depends upon the particular facts and circumstances.

In the event the quantity present in the Order book is greater or equal to the quantity needed to fill an Order of the size of the Block Trade, it would generally be expected that the Block Trade price would be better than the price present in the Order book. In the event the quantity present in the Order book is less than the quantity needed to fill an Order of the size of the Block Trade, it would generally be expected that the Block Trade price would be relatively close to the price present in the Order book and that the amount of the differential between the two prices would be smaller to the extent that the differential between the quantity present in the Order book and the Block Trade quantity is smaller.

*****Registration of Authorized Reporters**

CFE Rule 415(f) requires that each TPH executing a Block Trade must have at least one designated individual that is pre-authorized by a Clearing Member to report Block Trades 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 Block Trades on behalf of a TPH, the Clearing Member must also authorize the Authorized Reporter to report Exchange of Contract for Related Position (“ECRP”) transactions on behalf of the TPH pursuant to CFE Rule 414.

Authorized Reporters must be registered with the Exchange before they may report Block Trades on behalf of a TPH. A Clearing Member that authorizes an Authorized Reporter to report Block Trades 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](#).

Block Trade Reporting Time Frames

CFE Rule 415(c)(i) provides that an agreement to a Block Trade in a Contract may only occur during trading hours, or a queuing period not in connection with a trading halt for that Contract, when that Contract is not halted or suspended. Authorized Reporters must fully report Block Trades to the Exchange through the Block Trade/ECRP Reporting Tool located in the [Customer Web Portal](#) no later than ten minutes after the transaction is agreed upon (“Reporting Deadline”), as required by CFE Rule 415(c)(ii). Additionally, CFE Rule 415(c)(iii) requires that Block Trades are fully reported to the Exchange

during the Trading Hours, or a queuing period, for that Contract, when that Contract is not suspended (“Permissible Reporting Period”).

CFE Rule 415(i) requires that the Authorized Reporter that is the initiator of a notification of a Block Trade must enter the required information for the 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 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 transaction as entered by the initiating Authorized Reporter and enter contra side information for the transaction within a Permissible Reporting Period by no later than the Reporting Deadline.

Pursuant to CFE Rule 415(j), for purposes of adherence to the Reporting Deadline and Permissible Reporting Period, a Block Trade 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.

TPHs Acting as Agents for Block Trades

Only CFE TPHs can be parties to a Block Trade reported to CFE. Any non-TPH must utilize a TPH to execute a Block Trade 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 Block Trades 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.

Block Trade Order Ticket Information

CFE Rule 415(e) requires each TPH to a Block Trade to enter the following details on their 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 Block Trade);
- (v) the arrangement time, if any (i.e., the time at which the parties agreed to enter into the Block Trade at a later time);
- (vi) the identity of the counterparty;
- (vii) that the transaction is a Block Trade;
- (viii) if applicable, the account number of the Customer for which the Block Trade was executed; and
- (ix) if applicable, the expiration, strike price and type of option (put or call) in the case of an option.

Every TPH handling, executing, clearing or carrying Block Trades or positions is required to identify and

mark as such by appropriate symbol or designation all Block Trades or positions and all orders, records and memoranda pertaining thereto. Upon request by the Exchange and within the time frame designated by the Exchange, TPHs may be required to produce satisfactory evidence, including the order ticket, that the Block Trade meets the requirements set forth in CFE Rule 415.

Block Trade Notification Information

CFE Rule 415(g) requires that each party to a Block Trade has an Authorized Reporter notify the Exchange of the terms of the Block Trade after the transaction is agreed upon. Authorized Reporters must submit the notification to the Exchange through the Block Trade/ECRP Reporting Tool located in the [Customer Web Portal](#).

Pursuant to CFE Rule 415(h), notification to the Exchange of a Block Trade must include:

- (i) whether the block trade is a single leg transaction, a transaction in a spread or a transaction in a strip;
- (ii) the Contract identifier (or product and contract expiration for a future), price and quantity of the block trade and whether the block trade 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 trade;
- (vi) Executing Firm ID ("EFID");
- (vii) account;
- (viii) Clearing Corporation origin code;
- (ix) Customer Type Indicator ("CTI") code; and
- (x) any other information required by the Exchange

A Block Trade may not be changed or canceled after it has been fully reported to the Exchange, except to the extent that the 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.

Electronic Reporting of Block Trades

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 a Block Trade 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 Block Trade for acceptance in the web portal.

For additional information regarding the Block Trade/ECRP Reporting Tool including how to obtain access to the Block/ECRP Reporting Tool please see the [CFE Block Trade/ECRP Reporting Tool Exchange Notice](#).

Block Trades Between Affiliated Parties

CFE Rule 415(o) permits Block Trades between affiliated parties as long as the following three conditions are satisfied:

- (i) the Block Trade is priced on a competitive market price, either by falling within the contemporaneous bid-ask spread on the Order book or calculated based on a contemporaneous market price in a related cash market;
- (ii) each party to the Block Trade has a separate and independent legal bona fide business purpose for engaging in the Block Trade; and
- (iii) each party's decision to enter into the Block Trade is made by a separate and independent decision-maker.

An affiliated party for purposes of CFE Rule 415(o) is a party that directly or indirectly through one or more Persons controls, is controlled by or is under common control with another party.

Customer Orders Executed by Way of Block Trade

Pursuant to CFE Rule 415(n), TPHs may only execute an Order placed for a non-discretionary Customer account by way of a Block Trade if the Customer has previously consented thereto. Consent to enter Orders for non-discretionary Customer accounts by way of Block Trade may be obtained on a trade-by-trade basis or for all Orders submitted by the Customer.

Rejection of a Block Trade that Does Not Conform with CFE Rule 415 Requirements

The Exchange or CFE System may bust or reject the submission of a Block Trade that does not conform, or that is reported to the Exchange in a manner that does not conform, to the requirements CFE Rule 415. The acceptance by the Exchange or CFE System of the submission of a Block Trade does not constitute a determination by the Exchange that the transaction was effected or reported in conformity with the requirements of CFE Rule 415. Any Block Trade in violation of the requirements of CFE Rule 415 may result in disciplinary action.

*****Busting or Adjusting a Block Trade 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 a Block Trade if (i) there was a mistake, inaccuracy or error in the information that was inputted into the CFE System Block Trade and (ii) an Authorized Reporter or party to 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 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 Block Trades 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 a Block Trade that Exceeds Risk Controls

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

Disclosure of Block Trade Details Only Permitted to Facilitate Execution of the Block Trade

CFE Rule 415(p) prohibits parties involved in the solicitation or negotiation of a Block Trade from disclosing the details of those communications to any other party for any purpose other than to facilitate the execution of the Block Trade. Parties that are privy to nonpublic information regarding a consummated Block Trade may not disclose such information to any other party prior to the public report of the Block Trade by the Exchange. A broker negotiating a Block Trade on behalf of a Customer may disclose the identity of the Customer to potential counterparties, including the counterparty with which the Block Trade is consummated, only with the permission of the Customer.

Pre-Hedging of Block Trades

CFE Rule 415(p) permits parties to a potential Block Trade to 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. However, an intermediary taking the opposite side of its own Customer Order is prohibited from engaging in pre-hedging. Intermediaries may enter into a transaction to offset the position resulting from the Block Trade after the Block Trade has been consummated.

The Exchange may initiate an enforcement action when the facts and circumstances of pre-hedging suggest deceptive or manipulative conduct by any of the involved parties, including when an intermediary handling a customer order acts against its customer's best interests.

Front Running of Block Trades Prohibited

Pursuant to CFE Rule 415(q), engaging in the front running of a Block Trade when acting on material non-public information regarding an impending transaction by another Person, acting on non-public information obtained through a confidential employee/employer relationship, broker/customer relationship or in breach of a pre-existing duty is a violation of CFE Rule 415.

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.