OneChicago

June 3, 2011

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

RE: **CORE PRINCIPLES AND OTHER REQUIREMENTS FOR DESIGNATED CONTRACT MARKETS**
RIN 3038-AD09

Dear Mr. Stawick:

OneChicago, LLC ("OCX") appreciates the opportunity to once again comment on the Commodity Futures Trading Commission's ("CFTC" or "Commission") Notice of Proposed Rulemaking ("NPRM") that was published in the Federal Register on December 22, 2010. Our comments in this letter are in addition to the comments in our original February 22, 2011 comment letter.

OneChicago is the only domestic security futures exchange; we provide a marketplace for trading futures on over 1,900 individual equities, ETFs and Narrow Based Indices. Security futures were authorized by the Commodity Futures Modernization Act of 2000 ("CMFA"), which placed security futures under the joint regulation of the CFTC and the Securities and Exchange Commission ("SEC").

Security Futures are not Price Discovery
Security futures products are a delta one[1] substitute for the underlying equity. Security futures are equity finance products that provide the ability to maintain and/or obtain long or short equity delta at a lower overall finance cost, which are oftentimes the largest cost borne by investors. The OneChicago OCX.NoDivRisk™ Exchange for Derivative Related Position ("EDRP" or "EFP") trade is an exchange traded, central counterparty cleared, economic equivalent to OTC equity swaps, OTC equity repos and OTC stock lending transactions, the very transactions that the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") has mandated move to exchange traded, central counterparty cleared transactions.

[1] **Delta One** products are a class of financial derivative that have no optionality and, as such, have a delta of one (or very close to one) – that is, a 1% move in the underlying equity results in a very close to 1% move in the derivative.

As noted in our original comment letter, the OneChicago markets are not price discovery. Unlike some other traditional futures markets, there is a deep and liquid cash market for the security future underlyings that is fully regulated by the SEC. All price discovery occurs in those markets, the security futures markets merely reflect those already discovered prices.

EDRP transactions are an interest rate trade that is again merely reflecting the interest rates prevailing in the market place. When two parties agree to do an EDRP trade they simply agree on a basis (i.e. differential) that reflects an interest rate carried out to expiration between the two legs. Much like any spread trade, It is important to understand that what price either of legs is done at is not important so long as the second leg is priced with the agreed upon basis. The fact is that when someone executes an EDRP on our OCX.BETS (Block and EFP Trading System) an algorithm controlled by OneChicago actually determines the price that will be assigned to the underlying leg, relying only on SEC Short Sale requirements. Once the underlying leg price is established, we attach the basis to the future leg and report the transaction to the participants. This is not price discovery. In fact the SEC requires the underlying leg to be posted as a Qualified Contingent Trade ("QCT") that does not update last price, signifying their belief that these are not considered price discovery trades in the cash market.

In the case of block transactions done at OneChicago, it is again the case that they do not discover prices at all but are simply the result of one participant looking for exposure using the security futures and the counterparty who is providing the liquidity to pre-hedge the transaction and once hedged to append the agreed upon basis to the hedge price for reporting.
These customers tend to be large CTAs who do not have the ability to trade in the securities markets but can trade the futures which track the underlying point for point. Since they cannot take delivery these customers will roll the positions as expiry nears creating Block Roll volume that again is simply a function of time and interest rates and has nothing to do with price discovery.

OneChicago is concerned that these legitimate financing transactions could be effectively be eliminated as a trading source if an episodic transaction of large size in a particular name which is rolled as expiry nears forces us to delist the product.

<u>Alternative to 85% Threshold</u>
Alternatively, should the Commission proceed to implement an 85% threshold, it should also implement:

- Exemptions for non-price discovery markets such as security futures, or
- Exemptions for markets where there are available bid and offers but where various reasons the market participants choose to execute bi-lateral block transactions rather than accessing the available bids and offers; or
- Only apply thresholds to markets that have a minimum number of transactions each day. For instance, the thresholds will only apply when there are more than 10,000 transactions each trading session. This will support the ability for niche markets to grow while still meeting some of the Commissions concerns

Conclusion

OneChicago thanks the Commission for the opportunity to comment on this subject. We would be happy to discuss any related issues with CFTC staff. If you have any questions, please do not hesitate to contact me at (312) 424-8512 or via email at tmccabe@onechicago.com

Sincerely,

Thomas G McCabe

Thomas G McCabe
Chief Operating Officer