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## Advisory Notice

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TO: Eris Exchange Market Participants

FROM: Eris Exchange Control Center and Market Regulation Department

ADVISORY: #12-04

DATE: June 13, 2012

SUBJECT: Notification of Eris Exchange Rule Self-Certification of adjustments related to Rule 601 (Block Trades) and updated reporting requirements

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### Background

This Advisory Notice serves to notify Participants of Eris Exchange, LLC (“Eris Exchange” or “Exchange”) that:

- I. The Exchange is updating the information required: (i) for the reporting of Block Trades to the Exchange for regulatory reporting and (ii) for the submission of Block Trades for clearing and;
- II. The Exchange has filed a notification with the Commodity Futures Trading Commission to amend Exchange Rule 601 (Block Trades) to use terminology that is consistent with Exchange Rule 1101 (Eris Exchange Interest Rate Swap Futures Contract Specification) and to make certain clarifications related to multiple leg block trades. **These amendments will be effective on June 28, 2012.**

### **I. Eris Exchange Block Trade Regulatory Reporting, Public Reporting, and Clearing Submission Requirements**

Eligible Contract Participants, as defined by the Commodity Exchange Act, are eligible to enter into privately negotiated block trades via voice negotiation and are required to report the transaction(s) pursuant to Rule 601 (Block Trades). Block trades are subject to the minimum block sizes and reporting time as set forth in Rule 601(c)(1). Block Trades are also subject to the recordkeeping requirements set forth in Rule 603.

Set forth below is detailed information related to the instructions for regulatory reporting Block Trades to the Exchange pursuant to Rule 601, the public reporting of Block Trade information, and the submission of Block Trades for clearing.

**Block Trade Regulatory Reporting Requirements**

All Block Trades must be reported to the Exchange within 15 minutes after execution as set forth in Rule 601(c)(1) to comply with regulatory requirements.

Block Trade regulatory reporting can take place by phone reporting to the Eris Control Center (ECC) or by direct entry into the Eris BlockBox system, as follows:

**(a) Phone Reporting to the ECC**

- (1) Firms using this reporting method must contact the Eris Control Center at 888-587-2699 Option 1, within 15 minutes after Block Trade execution and report the details of the Block Trade as outlined in the “Block Trade Reporting Required Information” in Section (a)(2) below.
- (2) Block Trade Reporting Required Information:
  - (a) Caller’s own name and phone number;
  - (b) Product details: Either Trade Ticker (Z-code), or Effective Date, Cash Flow Alignment Date and Fixed Rate;
  - (c) Trade Quantity;
  - (d) Trade Price stated in NPV terms (NPV per contract);
  - (e) Trade Time;
  - (f) Caller’s side of the trade information
    - i. Buy/Sell
    - ii. Firm name
    - iii. Clearing Member and Account; and,
  - (g) Counterparty information
    - i. Buy/Sell
    - ii. Firm name
    - iii. Individual trader name
    - iv. Individual trader phone number

**(b) Direct entry in Eris BlockBox system**

- Firms may also use the Eris BlockBox system to report Block Trades to the Exchange. Upon execution of a Block Trade one counterparty to the transaction must submit the trade details as specified in the Eris BlockBox system within 15 minutes of execution. Trades that have been reported to the ECC via phone for regulatory reporting purposes within 15 minutes of execution must be still be entered into Eris BlockBox by one of the counterparties for clearing purposes, as described in the Block Trade Clearing Submission Requirements below, prior to the end of the trading day.

## **Eris Exchange Public Reporting of Block Trade Transactions**

The Eris Control Center will report certain details of all Block Trade executions publicly via the Eris Exchange website at <http://www.erisfutures.com/block-trade> immediately upon receipt of the transaction report as follows:

### **Block Trades Reporting**

Instrument ID	Futures Price	Effective Date	Maturity Date	Quantity	Coupon	Trade Submission Time
ZA000120140919	100.3650	9/19/2012	09/19/2014	200	1.000	09:25:00am CT

## **Block Trade Clearing Submission Requirements**

In addition to the Block Trade regulatory reporting requirements set forth above, Participants must also submit Block Trades to the Exchange for clearing.

If a Participant reports the Block Trade via the phone reporting method, then one of the counterparties must submit the Block Trade for clearing by entering the Block Trade into the Eris BlockBox system prior to the end of the trading day.

If a Participant reports the Block Trade directly through entry into the Eris BlockBox system as set forth above, such reporting also results in the submission of the Block Trade for clearing.

## **II. Amendment to Rule 601 (Block Trades)**

Eris Exchange has amended Rule 601(c)(1) to use the term Remaining Tenor in order to reference and be consistent with Rule 1101 (the Contract Specification). In addition, amended Rule 601(b)(1) clarifies that commodity trading advisors and foreign persons may aggregate orders for block trades consistent with the provisions of Rule 601.

Rules 601(b)(7) and (8) have been amended to clarify the Block Trade Reporting Method and Information required when Block Trades are reported to the Exchange. Section I of this Advisory sets forth in detail the reporting method and information required when Block Trades are reported to the Exchange.

Rule 601(b)(2) has been amended to clarify the Exchange's rules related to block trades involving multiple legs, such as a curve, combination, or spread trades (e.g., a multiple leg block trade composed of a 2-year Eris Exchange Interest Rate Swap Futures Contract ("Contract"), a 5-year Contract, and a 10-year Contract executed as a block trade). Pursuant to the amended Rule 601, a multiple leg block trade is permitted, provided that "the sum of the legs of the block trade meets the Minimum Block Size for the leg with the shortest Remaining Tenor."

The amended Rule 601 is attached in redline format (Attachment A), as well as in final form (Attachment B).



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## ATTACHMENT A

### RULE 601. Block Trades

- (a) The Exchange shall designate the products in which block trades shall be permitted and determine the minimum quantity thresholds for such transactions.
- (b) The following shall govern block trade
- (1) A block trade must be for a quantity that is at or in excess of the applicable minimum threshold. Orders may not be aggregated in order to achieve the minimum transaction size, except by those entities described in Sections (10) and (11) below and as provided in Rule 601(b)(2).
  - (2) Multi-legged block trades may be executed as block trades, provided that the sum of the legs of the block trade meets the Minimum Block Size for the leg with the shortest Remaining Tenor as provided in Rule 602(c)(1).—Yield curve spread trades may be executed as block trades, provided that the quantity of each leg of the spread meets the minimum quantity for each respective maturity.
  - (3) Each Person to a block trade must be an Eligible Contract Participant.
  - (4) A broker for a Person shall not execute any order by means of a block trade for a Person unless such Person has specified that the order be executed as a block trade.
  - (5) 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 of other transactions in the same contract at the relevant time, (iii) the prices and sizes of transactions in other relevant markets, including without limitation the underlying cash market or related futures markets, at the relevant time, and (iv) the circumstances of the markets or the Participants to the block trade.
  - (6) Block trades shall not set off conditional orders (e.g., Stop Orders and MIT Orders) or otherwise affect orders in the regular market.
  - (7) One of the Persons or the broker of one of the Persons to the block trade must ensure that each block trade is reported to the Exchange within the time limit set forth below in subsection (c)(1). ~~The block trade report must include the coupon, effective date, expiration date, quantity, Clearing Firms, and time of execution. For unwind trades, the block trade report must include the originally-issued trade identification convention (i.e., trade ticker convention), futures price, effective date, expiration date, quantity, Clearing Firms, and time of execution.~~ The Exchange shall promptly publish such information separately from the reports of transactions in the regular market.
  - (8) Reporting Method and Information
    - (i) Block trades must be reported to the Exchange by calling the Eris Control Center, through entry into Eris BlockBox, or in accordance with an other approved reporting method.
    - (ii) The block trade report must include the information related to the block trade specified in the Exchange's approved reporting method, including: the identification

of parties to the block trade; product details; trade quantity, price, and time; and, Clearing Firm.

- (9) Clearing Firms, Participants, Participant Firms, and Broker Firms involved in the execution of block trades must maintain a record of the transaction in accordance with Rules 401 and 603.
  - (10) A commodity trading advisor ("CTA") registered or exempt from registration under the Act, including, without limitation, any investment advisor registered or exempt from registration under the Investment Advisors Act of 1940, shall be the applicable entity for purposes of Sections (1), (2), (3) and (4), provided such advisors have total assets under management exceeding \$25 million and the block trade is suitable for the customers of such advisors.
  - (11) A foreign Person performing a similar role or function to a CTA or investment advisor as described in Section I, and subject as such to foreign regulation, shall be the applicable entity for purposes of Sections (1), (2), (3) and (4), provided such Persons have total assets under management exceeding \$25 million and the block trade is suitable for the customers of such Persons.
- (c) Products designated for Block Trades.

The following products are designated for block trades:

- (1) **INTEREST RATE SWAP FUTURES CONTRACTS:** For Interest Rate Swap Futures Contracts, the minimum block size and reporting time is based on Remaining Tenor, defined as the duration of time from the transaction date to the Cash Flow Alignment Date (defined in Rule 1101), of the Contract as follows:

<u>Remaining Tenor</u>	<u>Minimum Block Size:</u> <u>Notional</u>	<u>Reporting Time</u>
<u>Less than 5 years</u>	<u>\$50mm</u>	<u>15 minutes</u>
<u>5 years or more</u>	<u>\$25mm</u>	<u>15 minutes</u>

~~on initial maturity of the Contract as follows:~~

<del>Initial Maturity</del>	<del>Minimum Block Size</del> <del>(\$ Notional)</del>	<del>Reporting Time</del>
<del>Less than 5 years</del>	<del>50mm</del>	<del>15 minutes</del>
<del>5 years or more</del>	<del>25mm</del>	<del>15 minutes</del>

## ATTACHMENT B

### RULE 601. Block Trades

- (d) The Exchange shall designate the products in which block trades shall be permitted and determine the minimum quantity thresholds for such transactions.
- (e) The following shall govern block trade
- (1) A block trade must be for a quantity that is at or in excess of the applicable minimum threshold. Orders may not be aggregated in order to achieve the minimum transaction size, except by those entities described in Sections (10) and (11) below and as provided in Rule 601(b)(2).
  - (2) Multi-legged block trades may be executed as block trades, provided that the sum of the legs of the block trade meets the Minimum Block Size for the leg with the shortest Remaining Tenor as provided in Rule 602(c)(1).
  - (3) Each Person to a block trade must be an Eligible Contract Participant.
  - (4) A broker for a Person shall not execute any order by means of a block trade for a Person unless such Person has specified that the order be executed as a block trade.
  - (5) 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 of other transactions in the same contract at the relevant time, (iii) the prices and sizes of transactions in other relevant markets, including without limitation the underlying cash market or related futures markets, at the relevant time, and (iv) the circumstances of the markets or the Participants to the block trade.
  - (6) Block trades shall not set off conditional orders (e.g., Stop Orders and MIT Orders) or otherwise affect orders in the regular market.
  - (7) One of the Persons or the broker of one of the Persons to the block trade must ensure that each block trade is reported to the Exchange within the time limit set forth below in subsection (c)(1). The Exchange shall promptly publish such information separately from the reports of transactions in the regular market.
  - (8) Reporting Method and Information
    - (i) Block trades must be reported to the Exchange by calling the Eris Control Center, through entry into Eris BlockBox, or in accordance with another approved reporting method.
    - (ii) The block trade report must include the information related to the block trade specified in the Exchange's approved reporting method, including: the identification of parties to the block trade; product details; trade quantity, price, and time; and, Clearing Firms.
  - (9) Clearing Firms, Participants, Participant Firms, and Broker Firms involved in the execution of block trades must maintain a record of the transaction in accordance with Rules 401 and 603.

- (10) A commodity trading advisor ("CTA") registered or exempt from registration under the Act, including, without limitation, any investment advisor registered or exempt from registration under the Investment Advisors Act of 1940, shall be the applicable entity for purposes of Sections (1), (2), (3) and (4), provided such advisors have total assets under management exceeding \$25 million and the block trade is suitable for the customers of such advisors.
- (11) A foreign Person performing a similar role or function to a CTA or investment advisor as described in Section I, and subject as such to foreign regulation, shall be the applicable entity for purposes of Sections (1), (2), (3) and (4), provided such Persons have total assets under management exceeding \$25 million and the block trade is suitable for the customers of such Persons.
- (f) Products designated for Block Trades.

The following products are designated for block trades:

- (1) **INTEREST RATE SWAP FUTURES CONTRACTS:** For Interest Rate Swap Futures Contracts, the minimum block size and reporting time is based on Remaining Tenor, defined as the duration of time from the transaction date to the Cash Flow Alignment Date (defined in Rule 1101), of the Contract as follows:

<b><u>Remaining Tenor</u></b>	<b><u>Minimum Block Size:</u></b> <b><u>Notional</u></b>	<b><u>Reporting Time</u></b>
Less than 5 years	\$50mm	15 minutes
5 years or more	\$25mm	15 minutes

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