



NYSE LIFFE U.S. NOTICE No. 28/2011

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Rule 423 – Guidance on Pricing and Reporting of Block Trades

Summary

This Notice provides additional guidance to Members and market participants on the pricing and reporting of block trades. First, this Notice confirms and clarifies reporting and record keeping requirements for Block Trades. Second, this Notice provides guidance with respect to the pricing and reporting of Block Trades in equity index futures that are priced by reference to a prospective closing index value.

1. Introduction

- 1.1 NYSE Liffe U.S. (the “Exchange”) Rule 423 permits Members to enter into block trades where they comply with certain requirements, including that pricing be fair and reasonable and the trade be reported to the Exchange in a certain prescribed and timely manner.
- 1.2 An overview of Block Trading execution procedures can be found at: <http://www.nyseliffeus.com/block-trading-execution>. The Exchange has also issued notices pertaining to block trades. [NYSE Liffe US Notice 6/2009](#) implemented the Exchange’s Block Trading Facility and required the entry of block trades into the Exchange’s Block Trading function on the NYSE Liffe U.S. Trading Platform. Subsequently, [NYSE Liffe US Notice 15/2010](#) announced the availability of an alternative method of reporting block trades that involved the completion and emailing of a Block Trade report form. Both of the above-cited notices set forth the specific processes involved with each of the alternative reporting methods.
- 1.3 In addition to the previously issued guidance, this Notice provides guidance regarding: (i) reporting and record keeping requirements for Block Trades; and (ii) the pricing and reporting of block trades in equity index futures that are priced by reference to a prospective closing value of the underlying index, including the timing for reporting such block trades and the relevant considerations in determining whether the price is fair and reasonable.¹

¹ Any capitalized term used but not otherwise defined herein shall have the meaning ascribed to such term as set forth in the Exchange Rules.

Web site: www.nyx.com

NYSE Liffe US LLC is NYSE Euronext’s U.S. Futures Market, a Commodity Futures Trading Commission designated contract market.

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2. Reporting of Block Trades

2.1 Among other things, members are required to report Block Trades completely and accurately within the time limits set forth by Exchange rules. The Exchange requires that each Block Trade report include at least the following:

- The futures contract commodity code (Exchange ticker symbol);
- The delivery month(s);
- The volume or quantity (of each leg, if applicable); and
- The price of the trade (or each leg of the trade, if applicable).

2.2 Additional information that must be reported includes:

- CTI codes for both the buy and sell side of the transaction;
- The specific accounts in connection with the buy and sell side of the transaction.

2.3 Although it is strongly encouraged by the Exchange that the information required in Section 1.2 above be included in the initial block trade report, it is not required. However, Members must furnish such information in the appropriate clearing system by the end of the Business Day on which the Block Trade was reported within the deadlines of the applicable Clearing Service Provider.

3. Block Trade Recordkeeping

3.1 While all information to a block trade is not required to be reported at the time of the transaction, Members are reminded that Rule 423(h) requires certain information to be recorded and maintained by the Member on its order documentation, which information must be produced to the Exchange upon request, including:

- The Contract (including the Delivery Month) to which such block trade relates;
- The number of contracts traded;
- The price of execution or premium;
- The time of execution;
- The identity of the counterparty; and
- If applicable, details regarding the Customer or Noncustomer for which the block trade was executed, the Underlying Commodity, whether the transaction involved a put or a call and the strike price.

4. Pricing of Block Trades in Equity Index Futures By Reference to the Underlying Index

4.1 Rule 423 requires that the price of a block trade be fair and reasonable in light of (i) the size of the 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 the underlying cash and futures markets, at the relevant time; and (iv) the circumstances of the parties.

4.2 Under Rule 423, it is appropriate for parties to a block trade in an equity index future to elect to price a block trade by reference to a prospective closing index value of the underlying index.

4.3 The pricing reference or mechanism of such transactions must be clear and certain and both the basis and final outright price of a block trade must be fair and reasonable. It should be noted that, among other considerations in Rule 423(c), the prices and sizes of transactions in the related market at the time the basis for calculating the block trade was

agreed upon will be considered when determining whether the basis and final price are fair and reasonable.

- 4.4 For block trades that are priced by reference to the closing index level where the closing index level is subsequently changed or modified after the block trade is reported and has been cleared, it is up to the trade parties to make any appropriate adjustments in their own books and records per the agreed terms of the transaction.

5. Reporting of Block Trades – Priced By Reference to Closing Index Level

- 5.1 Block trades must be reported to the Exchange within 15 minutes of execution. Where the trade is priced by reference to the closing level of the underlying index, the execution will occur when the final price is determined. Where the final price is determined after 4:45 pm NY time, the block trade must be reported before 8:30 am NY time the following trading day.
- 5.2 Block trades priced by reference to related markets must be reported using the alternative method involving the completion and emailing of a Block Trade report form, as discussed in [NYSE Liffe US Notice 15/2010](#). As part of its submission, the member reporting the transaction should note the appropriate supporting information on the Block Trade report form, such as:
- Identification of the underlying index and closing index value
 - Basis price
- 5.3 The Exchange, when reviewing whether such a block trade has been reported within the required time period, will look to the time at which the closing index value was known.
- 5.4 Members are reminded that all block trades are reviewed by the Exchange or its Compliance Service Provider and are subject to random selection for post-trade audits. In any such review, the market participant that submitted the block trade will have the responsibility of demonstrating compliance with Rule 423 and the Exchange's guidance on block trades. In addition, Members must continue to abide by all customer protection rules.

6. Example of a Block Trade Priced by Reference to Related Markets

- 6.1 On Monday at 3:30 pm NY time, the Parties agree to trade a block of \$10,000,000 notional value of mini MSCI EAFE Index Futures at a basis of +.3 to the next day's calculated closing index level.
- 6.2 The next day's official closing index level of 1,709.1 is available at 2:00 pm NY time on Tuesday.
- 6.3 The block trade is finally priced and executed at 1,709.4 (1,709.1 + .3) for 117 contracts ($\$10,000,000 \div (\$50 * 1,709.4)$), and reported to NYSE Liffe U.S. by 2:15 pm NY time on Tuesday.

7. Amendment to Rule 423

- 7.1 Rule 423(d) currently provides that block trades must be reported to the Exchange within 15 minutes "after the completion of negotiations." The Exchange has understood the negotiations of block trades to be completed upon execution of the trade.²

² See CFTC Rule 40.6 filing by NYSE Liffe US with the CFTC dated March 25, 2009 (Notice 6/2009).

- 7.2 Amended Rule 423(d) will eliminate any confusion in this regard by providing that block trades be reported to the Exchange within 15 minutes “after execution.”
- 7.3 For Members’ convenience, Rule 423(d) as amended is set forth below. Deleted language is shown in strikethrough text and added language is underscored:

423. Block Trading

* * *

(d) Block Trades must be reported to the Exchange in a manner prescribed from time to time by the Exchange. Block Trades must be reported to the Exchange within 15 minutes after ~~the completion of negotiations~~ the execution of the block trade, but may not be submitted any later than 15 minutes prior to the Contract’s Trading Session close time.

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For further information in relation to this Notice, Members should contact:

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