

MEMORANDUM

TO: Philadelphia Board of Trade Members and Member Organizations
FROM: Legal Department
DATE: October 4, 2006
RE: SR-PBOT-2006-04: Daily Expiry™ US Dollar 3-Month BBA LIBOR™
Futures

On October 3, 2006, the Philadelphia Board of Trade filed with the Commodity Futures Trading Commission proposed Rules 1401 through 1405, set forth below, which deal with the Exchange's new Daily Expiry™ US Dollar 3-Month BBA LIBOR™ Futures.

Rules 1401 through 1405 will become effective on October 6, 2006.

For any questions on the rule filing, please contact Carla Behnfeldt, Director and Counsel, at (215) 496-5208. For any questions on Daily Expiry™ US Dollar 3-Month BBA LIBOR™ Futures, please contact Dan Carrigan, Vice President – Business Development, at (215) 496-5017, Walt Smith, Vice President & General Manager, at 215-496-5532 or Dennis Boylan, Director – Market Operations, at (215) 496-5338.

Chapter 1400
Daily Expiry™ US Dollar 3-Month BBA LIBOR™ Futures
Contract Specifications

1401. Scope of Chapter

This chapter applies to trading in Daily Expiry™ US Dollar 3-Month BBA LIBOR™ Futures (“3-Month BBA LIBOR Futures”). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the generally applicable rules of the Exchange.

1402. Contract Specifications.

(a) Trading Unit. A British Bankers Association US Dollar LIBOR with a three (3) month term and a \$1,000,000 notional value.

(b) Schedule. The Exchange at any given time may list for trading 3-Month BBA LIBOR Futures Contracts having maturities from one day to eleven and one half years, with one 3-Month BBA LIBOR Futures contract maturing on every business day. The maturity of each 3-Month BBA LIBOR Futures contract shall be established by the Exchange on the date each such contract is listed by the Exchange.

(c) Minimum Increments. Bids and offers shall be quoted in terms of 100.00 minus the yield on an annual basis for a 360-day year. (For example, a deposit rate of 3.10% shall be quoted as 96.90.) Minimum fluctuations shall be in multiples of .0025 (\$6.25). For each .0025 increase, the Clearing Corporation shall credit (\$6.25 per contract) those clearing members holding open long positions and debit (\$6.25 per contract) those clearing members holding open short positions. For each .0025 decline, the Clearing Corporation shall debit (\$6.25 per contract) those clearing members holding open long positions and credit (\$6.25 per contract) those clearing members holding open long positions.

(d) Termination of Trading. Trading of 3-Month BBA LIBOR Futures terminates at the close of trading on the business day preceding the Final Settlement Date.

(e) Contract Modifications. Specifications are fixed as of the first day of trading of a contract. If any U.S. government agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

(f) Block Trades. 3-Month BBA LIBOR Futures are eligible for block trading pursuant to Rule E23. Pursuant to Rule E23(c), the minimum quantity threshold is 50 contracts.

(g) No-Bust Range. Pursuant to Rule E26, the “No-Bust Range” for 3-Month BBA LIBOR Futures is any price that is less than 10 ticks on either side of the market price of the applicable 3-Month BBA LIBOR Future.

(h) Reportable Position. Pursuant to Commission Regulation Section 15.03 and Commission Regulation Part 17, the position level that is required to be reported to the Commission is any open position in a 3-Month BBA LIBOR Future at the close of trading on any trading day equal to or in excess of three thousand on either side of the market.

(i) Position Accountability. A person owning or controlling more than 10,000 contracts net long or net short in all Contract Months (as that term is defined in Rule E2) combined shall provide, in a timely fashion, upon request by the Exchange, information regarding the nature of the position, trading strategy, and hedging information if applicable.

1403. Settlement

(a) Daily Settlement Price. Each Trading Day except for the Last Day of Trading, the Exchange will determine the Daily Settlement Price for 3-Month BBA LIBOR Futures Contracts according to the following criteria:

(1) The Daily Settlement Price shall be calculated as the arithmetic average (rounded to the MPF using the Bankers Rounding method) of the closing best bid and offer (“BBO”) for the product.

(2) If the closing BBO is one-sided (i.e., either the bid or offer is zero) then the price that is non-zero will be used as the settlement value.

(3) If the closing BBO is zero by zero (i.e., the product was halted or there was not quote or order volume on both bid and offer at closing) then the BBO prior to closing will be used to determine the settlement value (note that the prior BBO may be one or two-sided and the settlement will be calculated according to the first bullet regarding one-sided BBO).

(4) If the product had no BBO for the entire day, then the settlement value from the preceding day will be used.

(5) Notwithstanding Rules 103(a)(1) through (4), the Exchange may, in its sole discretion, establish a Daily Settlement Price that is a fair and appropriate reflection of the market. In arriving at the Daily Settlement Price pursuant to this Rule 103(a)(5), the Exchange will, among other factors, consider the criteria of Rule 103(a)(1) through (4).

(b) Final Settlement. Delivery under the 3-Month BBA LIBOR Futures contract shall be by cash settlement. The final settlement price shall be 100 minus the British Bankers' Association Interest Settlement Rate for Three-Month Eurodollar Interbank Time Deposits, rounded to the nearest 1/10000th of a percentage point, on the maturity date of the contract. (Decimal fractions ending in a five (5) are rounded up. For example, an average rate of 3.10616% would be rounded to 3.1062 and then subtracted from 100 to determine a final settlement price of 96.8938.) (The minimum 8 reference banks selected by the British Bankers' Association to provide offered rates are major participants in the London Market.) If the final settlement price is not available on the contract's maturity date or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the final settlement price will be the most recently announced final settlement price. This Rule 1403(b) shall not apply if the final

settlement price is fixed in accordance with the Rules and By-Laws of The Options Clearing Corporation.

Settlement of each 3-Month BBA LIBOR Future will result in the delivery of a cash settlement amount on the business day immediately following the maturity date. The cash settlement amount on the day immediately following the maturity date shall be the final mark to market amount against the final settlement value of the 3-Month BBA LIBOR Future multiplied by \$2,500.

Clearing Members holding open positions in a 3-Month BBA LIBOR Future at the termination of trading in that Contract shall make payment to or receive payment from the Clearing Corporation in accordance with normal variation and performance bond procedures based on the final settlement amount.

1404. Contract Modifications. *Specifications shall be fixed as of the first day of trading of a contract except that all deliveries must conform to governmental regulations in force at the time of delivery. If any U.S. governmental agency or body issues an order, ruling, directive or law pertaining to the trading or delivery of 3-Month BBA LIBOR Futures, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subjected to such government orders.*

1405. Disclaimer.

Derivative Designs LLC has entered into a licence with BBA Enterprises Limited (“BBAE”) which grants Derivative Designs LLC the right to use BBA LIBOR as a basis for settling 3-Month BBA LIBOR Futures and to refer to BBA LIBOR in connection with creating, marketing, trading, clearing and promoting 3-Month BBA LIBOR Futures. Derivative Designs LLC has conveyed certain rights under the licence to the Exchange.

3-Month BBA LIBOR Futures are not in any way sponsored, endorsed, sold or promoted by the BBA, and BBA has no obligations or liability in connection with the trading of any such contracts. BBA LIBOR is compiled and calculated solely by BBA. However, BBA shall not be liable (whether in negligence or otherwise) to any person for any error in BBA LIBOR or use of the same (whether or not arising from the negligence of BBA), and BBA shall not be under any obligation to advise any person of any error therein.

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