PBOT Circular No. 0016-06-R

M E M O R A N D U M

TO: Philadelphia Board of Trade Members and Member Organizations

FROM: Legal Department

DATE: October 4, 2006

RE: SR-PBOT-2006-01: Rule Changes

On June 1, 2006 the Philadelphia Board of Trade filed SR-PBOT-2006-01 with the Commodity Futures Trading Commission regarding the rule changes set forth below. These rule changes will become effective on October 6, 2006.

Please contact Carla Behnfeldt, Director and Counsel, at (215) 496-5208 if you have any questions regarding these rule changes.

- **Addition of New Rule 367, Simultaneous Buy and Sell Orders For the Same Beneficial Owner Prohibited**
- **Amendments to Rule 16, Emergency; Rule 60, Emergency Action; Rule 202, Financial Requirements; Rule 410, Judgment and Sanctions; Rule 1210, Margin Requirements for Foreign Currency Contracts and Rule 1300, Voting By Members of Board and Certain Committees**
- **Deletion of Rules 1001 – 1014, Eurodollar Time Deposit Options, and Rules 1101-1112, XOC Index Futures**

1. Rule 367. Rule 367, below, is new. The purpose of Rule 367 is to specifically prohibit wash trades.

All new language.

Rule 367. Simultaneous Buy and Sell Orders For the Same Beneficial Owner Prohibited.

No person shall accept from, or place for, the same beneficial owner simultaneous buy and sell orders for the same product and expiration month, and, for a put or call option, the same strike price.

2. Rule 16. Rule 16 is being amended to replace an outdated reference to Commission Rule 1.41(a)(4) with an updated reference to Commission Rule 40.1(g).

Additions are underlined; deletions are bracketed

Rule 16. Emergency

The term "emergency" means any occurrence or circumstance listed in Commission Regulation [1.41(a)(4)] 40.1(g) which the Board of Directors determines requires immediate action and threatens or may threaten such things as fair and orderly trading in, or the liquidation of or delivery pursuant to, any commodity interest, which is limited to one of the following:

(a) – (h) No change.

3. Rule 60. Rule 60 is being amended to update cross references to CFTC rules and to delete a reference to the affirmative vote of "two or more" persons.

Additions are underlined; deletions are bracketed

Rule 60.
Emergency Action

(a) In the event of an emergency, the Exchange, by a two-thirds vote of the Board of Directors may place into immediate effect a temporary emergency Rule which may provide for, or may authorize the Exchange, the Board of Directors or any committee of the Board of Directors to undertake actions necessary or appropriate to meet the emergency, including, but not limited to, such actions as:

(i) – (ix) No Change.

(b) For purposes of this Rule, the term "two-thirds vote" of the Board of Directors means the affirmative vote of [two or more] persons constituting not less than two-thirds of the members of the Board of Directors either

(1) physically present and voting at a meeting of the Board of Directors at which a quorum of at least one-third of the Board of Directors is physically in attendance or

(2) voting in any manner other than at a meeting at which a quorum is physically in attendance as may be permitted by law.

(c) No Change.

(d) Commission Notification. Notification of emergency action taken pursuant to this rule or any emergency rule implemented pursuant to this rule shall be made to the Commission pursuant to Commission Regulation [1.41(f).] 40.6(a)(2).

4. Rule 202. Rules 202(a) and (b) are being amended to add cross references to CFTC Rules 1.10 and 1.18 in both rules. Rule 202(d) is amended by adding a cross reference to CFTC Rule 1.12.

Additions are underlined; deletions are bracketed

Rule 202.
Financial Requirements

(a) Each member and member organization which is a futures commission merchant or an introducing broker shall comply with the requirements prescribed in Commission Regulations 1.10, 1.12, [and] 1.17 and 1.18 and with the additional requirements of this Rule.

(b) Each member and member organization which is not subject to the requirements prescribed in Commission Regulations 1.10, 1.12, [and] 1.17 and 1.18 shall at the time of application for admission to membership or for approval as a member organization, and upon admission to membership or approval as a member organization have net liquid assets in the amount of $25,000 or more.

(1) – (3) No Change.

(c) No change.

(d) Each member and member organization shall file with the Exchange a copy of any notice required to be filed with the Commission pursuant to Commission Regulations 1.12 and 1.17 concurrently with the same being filed with the Commission.

(e) – (f) No Change.

5. Rule 410. Rule 410 is being amended to correct a cross reference. The existing reference to Section 9.11(b) of the Commodity Exchange Act is being corrected to refer to Section 9.11(b) of the CFTC rules.

Additions are underlined; deletions are bracketed

Rule 410.
Judgment and Sanctions

(a) – (c) No Change.

(d) Customer Notification of Disciplinary Actions. Pursuant to Commission Regulation 1.67, respecting a final disciplinary action finding that a member committed a rule violation that involved the execution of a transaction for a customer that resulted in financial harm to the customer, the Exchange shall promptly provide written notice of the disciplinary action to the futures commission merchant that cleared the transaction. In addition, such futures commission merchant shall promptly provide written notice of such action to the individual or entity maintaining the account for which the transaction was executed, as such individual or entity is identified on the records of the clearing or carrying futures commission merchant, upon receipt of notice from a contract market or another futures commission merchant. Such written notice shall contain the principal facts of the case involved and shall conform to the requirements of <u>Commission Rule</u> [Section] 9.11(b) [of the Act].

6. <u>Rule 1300</u>. Rule 1300 is being revised to provide that the term "emergency" is defined in CFTC Regulation 40.1.

Additions are underlined; deletions are bracketed

Rule 1300.
Voting By Members of Board and Certain Committees

(a) Definitions. For purposes of this Rule:

(1) – (5) No Change.

(6) Significant Action shall mean any actions or rule changes which address an "emergency" as defined in Commission Regulation [Section 1.41(a)(4)] <u>40.1(g)</u> (exclusive of physical emergencies), and any changes in margin levels that are designed to respond to extraordinary market conditions or are likely to have a substantial effect on prices in any contract traded at the Exchange.

(b) – (d) No Change.

In addition, the Executive Committee is requested to ratify the following rule changes:

7. Rule 1210. Rule 1210 (the margin rule for foreign currency futures) was amended in order to specify in the rule itself the types of acceptable margin. (These margin types have been in place for many years; this amendment simply imports them into Rule 1210 and eliminates references to subparagraph (d)(2)(i)-(iv) of PBOT Rule 1006 which is being deleted.)

Additions are underlined; deletions are bracketed

Rule 1210.
Margin Requirements for Foreign Currency Contracts

(a)- (c) No Change.

(d) The terms and conditions under which margin must be required and accepted from customers shall be as follows:

(1) No Change.

(2) Margin may be deposited by a customer with a member or member organization in one or more of the following forms:

(i) Cash; [one or more of the forms set out in subparagraph (d)(2)(i)-(iv) of Rule 1006;] or

(ii) Obligations of the United States; provided, however, that such obligations shall not be accepted as margin for an amount greater than the lesser of face value or market value of such obligations;

(iii) Securities acceptable as margin in accordance with Regulation T of the Board of Governors of the Federal Reserve Board, as amended from time to time; provided, however, that such securities shall not be accepted as margin for an amount greater than seventy percent of the current market value of such securities;

(iv) Irrevocable letter of credit issued by a bank acceptable to the Exchange; or

[(ii)](v) Liquidation of futures contracts or closing transactions for option contracts carried in the account, plus, if necessary a deposit of additional margin made by the customer in one or more of the forms set out in the foregoing subparagraphs (d)(2)(i)-(iv) of this Rule [1006].

(e)- (f) No Change.

8. Rules 1001 - 1014. Rules 1001 – 1014, Eurodollar Time Deposit Options Contracts, were deleted because these contracts are not expected to be listed. Brackets indicate deletion.

[EURODOLLAR TIME DEPOSIT OPTION CONTRACTS

Rule 1001. Applicability

The Rules in this Section shall be applicable to the trading on the Exchange of Eurodollar Time Deposit option contracts ("Eurodollar options") issued by the Clearing Corporation, the terms and conditions of such contracts, the exercise and settlement thereof, and other matters relating to such contracts.

Rule 1002. Commodity Specifications

Each Eurodollar option contract traded on the Exchange shall be for cash settlement based upon the London Interbank Offered Rate (LIBOR) for a Eurodollar Time Deposit having a principal value of $1,000,000 with a three-month maturity, as determined by the Exchange pursuant to Rule 1012.

Rule 1003. Hours of Trading

Eurodollar options may be traded on the Exchange from 8:30 A.M. until 2:30 P.M. Philadelphia time each business day.

Rule 1004. Premium Quotations

Premiums for Eurodollar option contracts shall be quoted in points. A point is equal to .01 with the dollar value for each point equivalent to $25. The minimum fluctuation shall be .01 point.

Rule 1005. Series of Options Open for Trading

(a) Exercise Price Intervals—Exercise prices of Eurodollar option contracts shall be established at intervals of .25 (25 basis points).

(b) Expiration Months—Trading in Eurodollar option contracts shall be conducted in the following option months: March, June, September and December. Trading shall at all times be conducted in three option months. Trading in a new option month shall be initiated at the opening of trading on the last trading day of an expiring option month.

(c) Exercise Prices—At the commencement of trading in each expiration month of Eurodollar option contracts the Exchange shall open one series of Eurodollar contracts having an exercise price at the interval of .25 (25 basis points) nearest to the then current PBOT Eurodollar Reference Price as determined by the Exchange pursuant to Rule 1007, and shall open series of Eurodollar option contracts having exercise prices which bracket (two above and two below) the then current PBOT Eurodollar Reference Price at the interval specified in paragraph (a) hereof. Additional exercise prices for a series of Eurodollar option contracts expiring in a particular month shall be introduced whenever the PBOT Eurodollar Reference Price moves to or through the next to the highest or next to the lowest exercise price of such series of options then open for trading; provided,

however, that no new exercise price in respect of a series of Eurodollar option contract may be introduced during the expiration month of such series of options. The opening of a new series of Eurodollar option contracts on the Exchange shall not affect any other series of Eurodollar option contracts previously opened. The Exchange's determination of the PBOT Eurodollar Reference Price for the purpose of establishing exercise prices pursuant to this Rule shall be calculated pursuant to Rule 1007 and shall be conclusive.

Rule 1006. Margin Requirements for Eurodollar Option Positions

(a) As used herein, the following terms shall have the following meanings:

(1) The term "at-the-money-option" shall mean any Eurodollar option contract that has an exercise price at the interval of .25 (25 basis points) nearest to the PBOT Eurodollar Reference Price as calculated by the Exchange pursuant to Rule 1007 at 3:00 P.M. (the "Eurodollar Reference Price as calculated at 3:00 P.M.") on that business day.

(2) The term "current market value" of a Eurodollar option contract shall mean $25 multiplied by (i) on the date the option contract is purchased or sold, the purchase or sale price thereof, as the case may be and (ii) on any subsequent date, the price of the last reported transaction in that particular series of option contract during a business day, provided such price is within the bid and the offering price, or equal to such bid or offer, established on the Exchange at the close of the market. If such last reported transaction is outside the range of the bid and the offer at the close of the market, the closing price shall be the offering price at the close.

(3) The term "customer" shall have the meaning set forth in Rule 14.

(4) The term "customer's account" shall mean any account of a customer maintained by a member or member organization, except that for purposes of paragraphs (e) - (j) hereof, the term "customer account" shall not include any RCT account.

(5) The term "RCT account" shall mean any account of a registered commodities trader containing positions in Eurodollar option contracts established by him in his capacity as such.

(6) The term "in-the-money amount" shall mean, with respect to a Eurodollar option contract, the amount by which the Eurodollar Reference Price as calculated at 3:00 P.M. on that business day

(i) exceeds the exercise price in the case of a call or

(ii) is less than the exercise price in the case of a put, multiplied by $2,500.

(7) The term "out-of-the-money amount" shall mean, with respect to a Eurodollar option contract, the amount by which the Eurodollar Reference Price as calculated at 3:00 P.M. on that business day

(i) is less than the exercise price in the case of a call or

(ii) exceeds the exercise price in the case of a put, multiplied by $2,500.

(b) The Exchange shall establish and notify members and member organizations of the minimum amount of margin which must be obtained by all members and member organizations from customers, the amount of margin that must be maintained by customers, and the terms and conditions under which margin must be required and accepted from customers, with respect to Eurodollar option contracts (hereinafter "option contracts" or "options").

(c) No member or member organization shall accept any order to purchase or write an option contract unless

(1) the premium is on deposit or forthcoming within a reasonable time in the case of an order to purchase an option contract, or

(2) the required margin is on deposit or forthcoming within a reasonable time in the case of an order to write an option contract.

(d) The terms and conditions under which margin must be required and accepted from customers shall be as follows:

(1) On each business day, each member or member organization carrying an option contract for a customer shall compute the margin required therefor in accordance with the provisions of this Rule and shall promptly issue a margin call to such customer in the event that the customer's margin is below the required level.

(2) Margin may be deposited by a customer with a member or member organization in one or more of the following forms:

(i) Cash;

(ii) Obligations of the United States; provided, however, that such obligations shall not be accepted as margin for an amount greater than the lesser of face value or market value of such obligations;

(iii) Securities acceptable as margin in accordance with Regulation T of the Board of Governors of the Federal Reserve Board, as amended from time to time; provided, however, that such securities shall not be accepted as margin for an amount greater than seventy percent of the current market value of such securities;

(iv) Irrevocable letter of credit issued by a bank acceptable to the Exchange; or

(v) The intrinsic value of long options in the customer's account for which the premiums have been paid in full.

(3) If a customer fails to meet a required margin call promptly, the member or member organization shall close out the customer's position or sufficient positions in the customer's account to restore the customer's account to required margin status.

(e) The minimum margin on any option contract issued, guaranteed or carried " short" in a customer's account shall be the current market value of the option contract, plus an additional amount (the " Standard Add-On") which the Exchange shall establish (and may revise from time to time) on the basis of the current volatility of three month Eurodollar time deposit rates, minus any out-of-the-money amount; provided, however, that such minimum margin may not be less than the market value of the option contract plus an additional amount (the " Minimum Add-On") which the Exchange shall establish (and may revise from time to time) on the basis of the current volatility of three-month Eurodollar time deposit rates. Notwithstanding the foregoing, the requirements set forth in paragraphs (f), (g), (h), (i) and (j) hereof shall be applicable to the cases described therein.

(f) Option Spreads. In the case of a short call (put) option contract matched with a long call (put) option contract, the total amount of margin required for both contracts, combined, shall be as follows:

(1) in the case of option contracts with the same expiration date and different exercise prices,

(i) if the exercise price of a long call (short put) option is less than the exercise price of a short call (long put) option, no margin shall be required other than payment of the premium for the long option contract.

(ii) if the exercise price of a long call (short put) option contract is greater than the exercise price of a short call (long put) option contract, the margin required shall be the sum of the premium for the long option contract and the dollar value of the difference between the exercise prices.

(2) in the case of option contracts with different expiration dates and the same exercise price,

(i) if the expiration date of a long option contract occurs on or after the expiration date of the short option contract, no margin shall be required other than payment of the premium for the long option contract.

(ii) if the exercise price of a long option contract precedes the expiration date of the short option contract, no margin shall be required other than payment of the premium for the long option contract until expiration of the long option contract; thereafter, the margin required for the short option contract shall be as specified in paragraph (e) hereof.

(3) in the case of option contracts with different expiration dates and different exercise prices,

(i) if the exercise price of a long call (short put) option contract is less than the exercise price of a short call (long put) option contract and the expiration date of the long option contract occurs on or after the expiration date of the short option contract, no margin shall be required other than payment of the premium for the long option contract.

(ii) if the exercise price of a long call (short put) option contract is greater than the exercise price of a short call (long put) option contract and the expiration date of the long option contract occurs on or after the expiration date of the short option contract, the margin required shall be the sum of the premium for the long option contract and the dollar value of the difference between the exercise prices.

(iii) if the exercise price of a long call (short put) option contract is less than the exercise price of a short call (long put) option contract and the expiration date of the long option contract precedes the expiration date of the short option contract, no margin shall be required other than payment of the premium for the long option contract until expiration of the long option contract; thereafter, the margin required for the short option contract shall be as specified in paragraph (e) hereof.

(iv) if the exercise price of a long call (short put) option contract is greater than the exercise price of a short call (long put) option contract and the expiration date of the long option contract precedes the expiration date of the short option contract, the margin required shall be the sum of the premium for the long option contract and the dollar value of the difference between the exercise prices until expiration of the long option contract; thereafter, the margin required for the short option contract shall be as specified in paragraph (e) hereof.

(g) Butterfly Spreads. In any case of two short call (put) option contracts having the same exercise price matched with two long call (put) option contracts, one with an exercise price greater than and one with an exercise price less than the exercise price of the short call (put) option contracts or in any case of two long call (put) option contracts having the same exercise price matched with two short call (put) option contracts, one with an exercise price greater than and one with an exercise price less than the exercise price of the long call (put) option contracts, the total amount of margin required for all four option contracts, combined, shall be:

(1) in the case where the combined premiums of the short options exceed the combined premiums of the long options or the middle exercise price is not halfway between the remaining exercise prices, the margin required shall be an amount equal to the dollar value of the largest difference between adjacent exercise prices, with the premiums for the long options paid in full.

(2) in the case where the combined premiums of the long options exceed the combined premiums of the short options and the middle exercise price is halfway between the remaining exercise prices, no margin shall be required other than payment of the premiums of the long options.

(h) Option Box. In any case of a short put option matched with a long call option, both having the same exercise price, and a short call option matched with a long put option, both having the same exercise price, with all four options expiring concurrently, the total amount of margin required for all four option contracts, combined, shall be:

(1) in the case where the combined premiums of the short options exceed the combined premiums of the long options, the margin required shall be the sum of the premiums of the long options and the dollar value of the difference between exercise prices.

(2) in the case where the combined premiums of the long options exceed the combined premiums of the short options, no margin shall be required other than payment of the premium of the long options.

(i) Option Straddles. In any case of a short call option matched with a short put option, the total amount of margin required for both contracts, combined, shall be the sum of:

(A) the greater of the margin required for the short call or put options under paragraph (e) hereof, and

(B) the in-the-money amount of the short option contract having the smaller margin requirement.

(j) Option-Futures Spreads. When a customer's account is short a call option and the account is also long a futures contract on a three-month Eurodollar time deposit traded on the International Monetary Market of the Chicago Mercantile Exchange or the London International Financial Futures Exchange (" Eurodollar futures contract") having a delivery month no earlier than the expiration month of the short call option, or when a customer's account is short a put option and the account is also short a Eurodollar futures contract having a delivery month no earlier than the expiration month of the short put option, the minimum margin which must be maintained in respect of the short option position shall be the current market value of the option contract.

(k) The minimum margin on any option contract issued, guaranteed or carried " short" in an RCT account shall be the current market value of the option contract,

provided, however, that the amount of such minimum margin may not be less than one hundred dollars per contract.

(l) When an RCT account is short a call option and the account is also long a call option expiring on or after the expiration date of the short call option or when an RCT account is short a put option and the account is also long a put option expiring on or after the expiration date of the short put option, the minimum margin which must be maintained in respect of the short option position shall be the amount, if any, by which the current market value of the short position exceeds the current market value of the long position.

(m) Notwithstanding anything to the contrary in paragraphs (k) or (l), if option positions of the nature described in paragraphs (f), (g), (h), (i) or (j) are carried in an RCT account and the minimum margin required for such option positions under paragraphs (k) or (l) hereof exceeds that which would be required for the same positions under such paragraphs (f), (g), (h), (i) or (j), then the minimum margin required for such positions hereunder shall be that which would be required under paragraphs (f), (g), (h), (i) or (j), respectively.

(n) Nothing in this Rule shall preclude the Exchange or any member or member organization in its discretion from imposing higher margin requirements than those set forth herein with respect to any option position.

Rule 1007. Calculation of the PBOT Eurodollar Reference Price

The PBOT Eurodollar Reference Price shall be calculated as follows. Determine the arithmetic average of the five most recent Eurodollar three-month time deposit quotes transmitted over the Telerate System (page 270) (bids and offers will be totalled and divided by 10). Subtract the resulting figure from 100, rounded to the nearest 1/100th of a percentage point, to determine the PBOT Eurodollar Reference Price. In selecting the five most recent quotes from the Telerate System for purposes of determining the PBOT Eurodollar Reference Price, any quotation which, in the Exchange staff's determination, is not consistent with the then prevailing market will be eliminated from consideration, only the most recent quotation from any one institution will be included and no more than one quotation (bid and offer) will be considered from affiliated institutions. A record of each such quotation which is eliminated from consideration hereunder and the reason therefor shall be kept.

Rule 1008. Position Limit for Eurodollar Options

(a) Except for Eurodollar option contracts that are part of conversions, reverse conversions, box spreads, one-to-one option-option spreads, or one-to-one option-futures spreads in which all components of the position, futures and option, are carried in the same account, no person shall own or control more than 2,000 long call options, 2,000 short call options, 2,000 long put options and 2,000 short put options in all Eurodollar option series combined.

(b)(1) With respect to Eurodollar option contracts that are part of conversions, reverse conversions, box spreads, one-to-one option-option spreads, or one-to-one option-futures spreads meeting the requirements of paragraphs (a) and (d) hereof, no person shall own or control more than 4,000 long call options, 4,000 short call options, 4,000 long put options and 4,000 short put options in all Eurodollar option series combined, in addition to the number of Eurodollar option contracts permitted under the position limits set forth in paragraph (a).

(2) The Exchange may, at its discretion, reduce the position limits on conversions, reverse conversions, box spreads, one-to-one option-option spreads, or one-to-one option-futures spreads meeting the requirements of paragraphs (a) and (d) hereof.

(c)(1) The foregoing position limits shall not be applicable to option positions meeting the requirements of Rule 1014; and

(2) Notwithstanding anything in paragraph (a), the Exchange may exempt from the position limits set forth therein conversions, reverse conversions, box spreads, one-to-one option-option spreads or one-to-one option-futures spreads in which all components of such positions are not carried in the same account in accordance with the provisions of Rule 1014.

(d) For the purposes of this Rule, the following terms shall mean:

(1) A Eurodollar futures contract means a futures contract on a three-month Eurodollar time deposit traded on the International Monetary Market of the Chicago Mercantile Exchange or the London International Financial Futures Exchange.

(2) A conversion means long one Eurodollar futures contract, long one Eurodollar put option, and short one Eurodollar call option, where all positions have the same contract month and the options have the same exercise price.

(3) A reverse conversion means short one Eurodollar futures contract, long one Eurodollar call option, and short one Eurodollar put option, where all positions have the same contract month and the options have the same exercise price.

(4) A box spread means short one put option matched with long one call option, where both options have the same exercise price and short one call option matched with long one put option, where both options have the same exercise price, and all four options have the same expiration date.

(5) A one-to-one option-option spread means:

(i) short one Eurodollar call option and long one Eurodollar call option; or

(ii) short one Eurodollar put option and long one Eurodollar put option.

(6) One-to-one option-futures spread means:

(i) long one Eurodollar futures contract and short one Eurodollar call option;

(ii) long one Eurodollar futures contract and long one Eurodollar put option;

(iii) short one Eurodollar futures contract and long one Eurodollar call option; or

(iv) short one Eurodollar futures contract and short one Eurodollar put option.

(e) In determining whether any person has exceeded the position limit established by the Exchange for each class of option, all positions in accounts for which such person by power of attorney or otherwise directly or indirectly controls trading shall be included with the positions held by such person; such limit upon positions shall apply to positions held by two or more persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single person.

Rule 1009. Last Day of Trading; Time of Expiration

Trading in each expiring series of Eurodollar options shall terminate at 3:30 p.m. London time on the Monday immediately preceding the third Wednesday of the expiration month. This is 10:30 a.m. Philadelphia time, except when Daylight Savings Time is in effect in either, but not both, London or Philadelphia. If the termination of trading date as determined by the first sentence is either an Exchange or London bank holiday, trading in such series of Eurodollar options shall terminate on the prior business day common to London banks and the Exchange. Each series of Eurodollar options shall expire at 8:00 p.m. Philadelphia time on the Tuesday immediately preceding the third Wednesday of the expiration month.

Rule 1010. Exercise of Eurodollar Option Contracts

An outstanding Eurodollar option contract of a particular series may not be exercised at any time prior to the termination of trading in such series and then solely in accordance with the procedures set forth in the Rules of the Clearing Corporation.

Rule 1011. Settlement of Eurodollar Option Exercises

(a) Exercises of Eurodollar option contracts shall be settled in cash in accordance with the requirements of this Rule and the By-Laws and Rules of the Clearing Corporation.

(b) Each writer of a Eurodollar option contract which has been exercised shall be required to pay to the Clearing Corporation, and each option holder in whose behalf an option has been exercised shall be entitled to receive from the Clearing Corporation,

(1) in the case of a call, the amount by which the applicable Eurodollar option final settlement price as determined under Rule 1012 exceeds the exercise price of the option multiplied by $2,500, or (2) in the case of a put, the amount by which the exercise price of the option exceeds the applicable Eurodollar option final settlement price multiplied by $2,500.

(c) An option exercise shall be settled with the Clearing Corporation in accordance with its rules on the business day following the day of expiration of the particular option series.

Rule 1012. Eurodollar Option Final Settlement Price

The final settlement price shall be determined by the Exchange as follows. On the last day of trading the Exchange shall determine the London Interbank Offered Rate (LIBOR) for three-month Eurodollar Time Deposit funds both at the time of termination of trading and at a randomly selected time within the last 90 minutes of trading. The final settlement price shall be 100 minus the arithmetic mean, rounded to the nearest 1/100th of a percentage point, of these two rates. To determine the rate at either time the Exchange shall select at random 12 reference banks from a list of no less than 20 participating banks that are major banks in the London Interbank Eurodollar market. Each reference bank shall quote to the Exchange its perception of the rate at which the three-month Eurodollar Time Deposit funds are currently offered by the market to prime banks. These rates must be confirmed in writing by telex before they are accepted as official; only after confirmation will they be used to determine the final settlement price. The two highest and the two lowest offered rates shall be eliminated. The arithmetic mean of the remaining 8 offered rates shall be the rate at that time. If for any reason there is difficulty in obtaining a quote within a reasonable time interval from one of the banks in the sample, that bank shall be dropped from the sample, and another shall be randomly selected to replace it.

Rule 1013. Reports

(a) An account which is the holder of 50 or more Eurodollar call option contracts in the option contract month next to expire or 250 or more Eurodollar call option contracts in any subsequent option contract month shall be deemed a Reportable Call Account. An account which is the holder of 50 or more Eurodollar put option contracts in the option contract month next to expire or 250 or more Eurodollar put option contracts in any subsequent option contract month shall be deemed a Reportable Put Account.

(b) Each member or member organization that maintains a Reportable Call or Put Account for itself or a customer shall submit a daily report to the Exchange setting forth:

(1) for a Reportable Call Account, the entire Eurodollar call option position of such account for the option contract month next to expire by exercise price

and the entire position in the Eurodollar call option contracts expiring subsequently by option contract month; and

(2) for a Reportable Put Account, the entire Eurodollar put option position of such account for the option contract month next to expire by exercise price and the entire position in the Eurodollar put option contracts expiring subsequently by option contract month. Each such report shall be compiled as of the close of business and shall be submitted to the Exchange by 12:00 P.M. on the following business day. The first time such report is submitted, it shall be accompanied by a copy of the current Commission Form 102 completed for the Reportable Call or Put Account. Any subsequent changes in Form 102 shall be reported to the Exchange when they occur.

(c) For purposes of determining the number of Eurodollar option contracts in any Reportable Call or Put Account:

(1) all positions shall be calculated on a gross, rather than a net, basis; and

(2) positions of any person shall be aggregated in accordance with the provisions of Rule 1008(e).

(d) If such Reportable Call or Put Account contains more than 2,000 option contracts of the same type, i.e., long calls, short calls, long puts or short puts, and any portion thereof consists of option components of conversions, reverse conversions or spreads, with respect to any futures contracts the member or member organization maintaining such account shall also set forth in the daily reports respecting such account any positions in futures contracts maintained therein.

Rule 1014. Exemptions from Position Limits

(a) The position limits for Eurodollar option contracts specified in Rule 1008 shall not apply to positions which are determined by the Exchange pursuant to paragraphs (b) and (c) hereof to be economically appropriate to the reduction of risks in the conduct and management of a commercial enterprise as defined in Commission Regulation 1.3(z)(1) or to be part of conversions, reverse conversions, box spreads, one-to-one option-option spreads, or one-to-one option-futures spreads as defined in paragraph (d) of Rule 1008. Notwithstanding the foregoing, no positions shall be exempted from the position limits set forth in Rule 1008, unless such positions are established and liquidated in an orderly manner in accordance with sound commercial practices.

(b) To be eligible for an exemption under this Rule 1014, a member or member organization shall submit to the Exchange a written request in a form acceptable to the Exchange which shall include the following:

(1) a description of the maximum size and nature of the proposed transactions;

(2) information which will demonstrate that the proposed transactions will be bona fide hedging transactions or conversions, reverse conversions, box spreads, one-to-one option-option spreads, or one-to-one option-futures spreads, as the case may be;

(3) a statement indicating whether the person on whose behalf the request is made:

(i) maintains positions in the Eurodollar option contract with any other member or member organization, and/or

(ii) has made a previous or contemporaneous request pursuant to this Rule 1014 through another member or member organization, and if so, the relationship of the information set forth in such requests;

(4) a statement affirming that the intended transactions will be bona fide hedges or conversions, reverse conversions, box spreads, one-to-one option-option spreads or one-to-one option-futures spreads, as the case may be;

(5) in the case of conversions, reverse conversions, box spreads, one-to-one option-option spreads or one-to-one option-futures spreads, in which all components of the position are not carried in the same account, such information as the Exchange shall deem necessary for the consideration of the request;

(6) a statement that the applicant shall immediately supply the Exchange with any changes to the information submitted pursuant hereto, if such information is then no longer accurate; and

(7) a statement that the applicant will provide such further information as the Exchange may request at any time.

(c) The Exchange shall notify the member or member organization whether the exemption has been granted, including a maximum exemption level, and the limitations, if any, placed thereon. Such exemption level may be the level proposed by the applicant or a level lower than that proposed by the applicant. In determining a request for an exemption hereunder, the Exchange shall consider the applicant's business needs and circumstances, financial ability, personal integrity and the liquidity of the market.

(d) The Exchange may at any time and from time to time review any determination made hereunder; require any applicant to submit such additional information as the Exchange may consider necessary or appropriate for the purposes of this Rule, and revoke, modify, condition or otherwise limit any determination made hereunder.

Rules 1015—1100. Reserved.]

9. <u>Rules 1101-1112</u>. Rules 1101-1112, XOC Index Futures, were deleted because these contracts are not expected to be listed. Brackets indicate deletion.

[XOC INDEX FUTURES

Rule 1101. Scope and Application of Section

The Rules in this Section shall be applicable to the trading on the Exchange of XOC Index futures contracts issued by the Clearing Corporation, the terms and conditions of such contracts, the delivery and settlement thereof, and other matters relating to such contracts.

Rule 1102. Obligations of Parties to Contract

The Seller of an XOC Index futures contract agrees to deliver to the purchaser, and the purchaser agrees to receive from the seller, $500 times the value of the XOC Index underlying such contract in accordance with the Rules of the Exchange and the Rules of the Clearing Corporation.

Rule 1103. Periods Traded

(a) Trading in XOC Index futures contracts shall be conducted for delivery in five contract months, beginning with the first month following the spot month. Three such months shall be the first three among March, June, September and December following the spot month (the "cycle months") and two such months shall be the first two calendar months following the spot month which are not cycle months.

(b) Trading in the next cycle month in which trading has not been opened shall be initiated at the opening of trading on the first business day following the last trading day for a cycle month which has become the spot month and trading in the next calendar month (not a cycle month) in which trading has not been opened shall be initiated at the opening of trading on the first business day following the last trading day for a calendar month which has become the spot month.

Rule 1104. Hours of Trading

The hours of trading in XOC Index futures contracts shall be 10:00 a.m. to 4:15 p.m., Philadelphia time, on all business days, except that the hours of trading in the contract month of the XOC Index futures contract which has become the spot month shall be 10:00 a.m. to 4:00 p.m., Philadelphia time on the last trading day in that contract month.

Rule 1105. Last Trading Day

No trades in any XOC Index futures contract which must be settled in any current contract month shall be made after the close of trading in that contract month (4:00 p.m., Philadelphia time) on the Friday preceding the third Saturday of the contract month, or if that day is not a business day, then on the prior business day.

Rule 1106. Price Basis

The minimum price fluctuation of an XOC Index futures contract shall be .05 index points and shall be known as five basis points. The dollar value of five basis points shall be $25.00.

Rule 1107. Position Limits

(a) No person shall own or control more than:

(1) 5,000 XOC Index futures contracts, net long or net short, in all contract months combined.

(b) The foregoing position limits shall not apply to futures positions meeting the requirements of Rule 1110.

(c) In determining whether any person has exceeded the position limits set forth herein, all positions in accounts for which such person by power of attorney or otherwise directly or indirectly controls trading shall be included with the positions held by such person; such limits upon positions shall apply to positions held by two or more persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single person.

Amendment.

December 6, 1986

Rule 1108. Reportable Positions

(a) A position of 500 or more XOC Index futures contracts, long or short, in any one contract month which is held or controlled by any person and carried by a member or member organization, shall be a reportable position.

(b) Every member or member organization shall report each reportable position to the Exchange at such times and in such form and manner as shall be prescribed by the Exchange.

(c) For purposes of determining the number of XOC Index futures contracts held or controlled by any person, positions in all accounts shall be aggregated in accordance with the provisions of Rule 1107(c).

Amendment.

December 6, 1986

Rule 1109. Settlement of XOC Index Futures Contracts

(a) All settlements of an XOC Index futures contract must be made through and in accordance with the Rules of the Clearing Corporation.

(b) Final settlement of an XOC Index futures contract for any contract month shall be made on the next business day following the last day of trading of the contract month.

(c) The amount to be paid in final settlement of each XOC Index futures contract shall be determined by multiplying $5.00 times the basis point difference between the settlement price of the previous trading day for such contract and the value of the XOC Index to the nearest .01 as of the close of trading in that contract month on the last trading day; except that the amount to be paid on a contract purchased or sold on the last day of trading and held to the close of trading on that day shall be determined by multiplying $5.00 times the basis point difference between the price of such purchase or sale on that day and the value of the XOC Index to the nearest .01 as of the close of trading in that contract month on that day.

(d) Except as otherwise provided herein with respect to the settlement price for the spot month on the last trading day for that month, the settlement price for each XOC Index futures contract shall be the weighted average of the prices traded within the last minute of trading, as determined by the Exchange. If a contract month of an XOC Index futures contract has not traded in the last minute of trading, the settlement price for that contract month shall be fixed by the Exchange at the median of the highest bid and the lowest offer for that contract month during the last minute of trading. If both a bid and an offer have not been made during the final minute of trading in a contract month, the settlement price for that contract month shall be set at the same differential which such contract month had to the next earlier contract month (in the case where the contract month is the spot month, the next later contract month) using the previous day's settlement prices to determine said differential. If such settlement price is not consistent with other sales in other contract months of the XOC Index futures contract during the closing range or with market information known to the designated Exchange official supervising the closing, such Exchange official may establish a settlement price at a level consistent with such other sales or market information, and shall prepare a written record setting forth the basis for any modification of such settlement price made pursuant to this paragraph (d).

Rule 1110. Exemptions from Position Limits

(a)(1) The position limit for XOC Index futures contracts specified in subparagraph (a)(1) of Rule 1107 shall not apply to positions which are determined by the Exchange pursuant to paragraphs (b) and (c) hereof to be bona fide hedging positions as defined in Commission Regulation 1.3(z)(1), or to arbitrage or intercommodity spread positions enumerated by the Exchange.

Notwithstanding the foregoing, no positions shall be exempted from the position limits set forth in subparagraph (a)(1) of Rule 1107, unless such positions are established and liquidated in an orderly manner in accordance with sound commercial practices.

(b) To be eligible for an exemption under this Rule 1110, a member or member organization shall submit to the Exchange a written request in a form acceptable to the Exchange which shall include the following:

(1) a description of the maximum size and nature of the proposed transactions;

(2) information which will demonstrate that the proposed transactions will be bona fide hedging transactions, arbitrage or intercommodity spreads, or conversions or reverse conversions, as the case may be;

(3) a statement indicating whether the person on whose behalf the request is made:

(i) maintains positions in the XOC Index futures contract with any other member or member organization, and/or

(ii) has made a previous or contemporaneous request pursuant to this Rule 1110 through another member or member organization, and if so, the relationship of the information set forth in such requests;

(4) a statement affirming that the intended transactions will be bona fide hedges or arbitrage or intercommodity spreads, or conversions or reverse conversions, as the case may be;

(5) in the case of arbitrage or intercommodity spreads in which all components of the position are not carried in the same account, or of conversions or reverse conversions in which all components of the position are not carried in accounts with the same member or member organization, such information as the Exchange shall deem necessary for the consideration of the request;

(6) a statement that the applicant shall immediately supply the Exchange with any changes to the information submitted pursuant hereto, if such information is then no longer accurate; and

(7) a statement that the applicant will provide such further information as the Exchange may request at any time.

(c) The Exchange shall notify the member or member organization whether the exemption has been granted, including a maximum exemption level, and the limitations, if any, placed thereon. Such exemption level may be the level proposed by the applicant or a level lower than that proposed by the applicant. In determining a request for an exemption hereunder, the Exchange shall consider the applicant's business needs and circumstances, financial ability, personal integrity and the liquidity of the market.

(d) The Exchange may at any time and from time to time review any determination made hereunder; require any applicant to submit such additional information as the Exchange may consider necessary or appropriate for the purposes of this Rule, and revoke, modify, condition or otherwise limit any determination made hereunder.

(e) For the purposes of this Rule,

(1) A conversion means long one XOC Index futures contract, long one XOC Index put option, and short one XOC Index call option, where all positions have the same contract month and the options have the same exercise price.

(2) A reverse conversion means short one XOC Index Futures contract, long one XOC Index call option, and short one XOC Index put option, where all positions have the same contract month and the options have the same exercise price.

Amendment.

December 6, 1990

Rule 1111. Composition, Computation and Method of Stock Selection of XOC Index

(a) Trading in the XOC Index futures contract shall be based on the value of the XOC Index. The XOC Index shall be composed of the one hundred largest issues of common stock by market value which are traded over-the-counter by at least four market-makers and are not listed on any national securities exchange, and are each quoted on the National Market System. The XOC Index shall be weighted by the market value of each component stock, which weighting is to be calculated by multiplying the number of shares of such stock outstanding by its market price.

(b) The Exchange shall determine the issues that comprise the XOC Index by surveying the market value of stocks quoted on the National Market System semiannually each January and July. With respect to the number of shares outstanding, such survey shall be based upon publicly available information on file with the Securities and Exchange Commission ("SEC") on the last business day of December and June of each year, respectively. With respect to market price, such survey shall be based upon the closing prices of such issues on the last business day of December and June of each year, respectively, as reported by the National Association of Securities Dealers' Automated Quotation System ("NASDAQ").

(c) The Exchange shall make revisions to the XOC Index to reflect additions and deletions of component stocks and changes in the capitalization of component stocks as follows:

(1) Stocks included in the XOC Index which become listed on a national securities exchange or cease to trade due to a merger or acquisition will be deleted from the XOC Index and replaced with the next eligible stock, as determined by reference to the rankings established during the Exchange's preceding semiannual market survey set forth in paragraph (b) of this Rule.

(2) Additions and deletions of component stocks other than those made pursuant to subparagraph (c)(1) will be made after conducting the semiannual market survey set forth in paragraph (b) of this Rule. Stocks which have declined in market value so that they are no longer in the top one hundred will be deleted and replaced with those which have reached the top one hundred. Such

revisions shall be effective on the opening of trading on the Monday following the third Saturday of each January and July, respectively, or if such day is not a business day, then on the business day immediately thereafter.

(3) *Revisions to an issue's weight in the Index, because of changes in the number of shares of its stock outstanding, shall also be made on an ongoing basis during the periods between the semiannual market surveys described in paragraph (b) of this Rule; provided that, except as set forth in subparagraph*

(c)(1) of this Rule, the stocks included in the XOC Index on the basis of the preceding semiannual market survey shall not change. With respect to the number of shares of stock outstanding, such revisions shall be based upon publicly available information on file with the SEC and shall be effective concurrent with the effectiveness of a change in the number of shares outstanding.

(d)(1) The value of the XOC Index shall be computed pursuant to the following equation:

$$\frac{MV(1) + MV(2) + MV(3) + \ldots MV(N) \times 100,}{BMV}$$

where MV(1) + MV(2) + MV(3) + ... MV(N) means the sum of the market price multiplied by the number of shares outstanding for each stock included in the XOC Index; BMV means the sum of the closing prices of each such stock multiplied by the number of the shares outstanding of each such stock, both as of the close of the day immediately preceding the most recent revision of the Index; the market prices and closing prices of the stocks shall be those reported by NASDAQ; and the number of shares outstanding of each such stock shall be based upon publicly available information on file with the SEC.

(2) *The divisor of the Index (BMV) shall be adjusted to reflect any changes in the component stocks of the Index or in capitalization of the component stocks of the Index (except in the case of stock splits and stock dividends) pursuant to the following equation:*

$$\frac{NBMV = OBMV \times NMV,}{OMV}$$

where NBMV means the new base market value; OBMV means the old (previous) base market value; NMV means new MV; OMV means old MV;

And MV has the meaning set forth in subparagraph (d)(1) with respect to MV(1) + MV(2) + MV(3) + ... MV(N); provided that, when a new stock is added to the XOC Index, the divisor shall be adjusted so that the value of the XOC Index immediately after this addition shall equal the value of the SOC Index immediately preceding this addition.

Rule 1112. Margin Requirements for XOC Index Futures Contracts *(a) The Exchange shall establish and notify members and member organizations of the minimum amount of margin which must be obtained by all members and member organizations from customers, the amount of margin that must be maintained by customers, and the terms and conditions under which margin must be required and accepted from customers, with respect to XOC Index futures contracts (hereinafter "futures contracts" or "futures"). The Exchange may establish different levels of initial and maintenance margin for different classes of customers. For the purpose of this Rule, the term " customer" shall have the meaning set forth in Rule 14.*

(b) No member or member organization shall accept an order for any account to purchase or sell a futures contract unless the initial margin established by the Exchange is on deposit or is forthcoming within a reasonable time and the margin in the account with respect to pre-existing open positions complies with applicable maintenance margin requirements established by the Exchange or is forthcoming within a reasonable time.

(c) The member or member organization may call for additional margin at its discretion, but whenever a customer's margin is below the maintenance margin required by the Exchange, the member or member organization must call for such additional maintenance margin as will restore the account to the level of initial margin required by the Exchange, and if within a reasonable time the customer fails to comply with such demand, the member or member organization must close out the customer's position or sufficient contracts to restore the customer's account to required margin status.

(d) The terms and conditions under which margin must be required and accepted from customers shall be as follows:

(1) On each business day, each member or member organization carrying a futures contract for a customer shall compute the amount of margin required therefor in accordance with the requirements of the Exchange and shall promptly issue a margin call to such customer in the event that the customer's margin is below the required level.

(2) Margin may be deposited by a customer with a member or member organization in one or more of the following forms:

(i) one or more of the forms set out in subparagraph (d)(2)(i)-(iv) of Rule 1006; or

(ii) liquidation of futures contracts or closing transactions for option contracts carried in the account, plus, if necessary a deposit of additional margin made by the customer in one or more of the forms set out in subparagraph (d)(2)(i)-(iv) of Rule 1006.

(e) The initial and maintenance margin generally required pursuant to paragraph (a) hereof shall not be applicable to:

(1) transactions which are bona fide hedging positions within the meaning of Commission Regulation 1.3(z)(1), provided that a hedging declaration in a

form acceptable to the Exchange has been filed by the customer with the member or member organization. In such case, the levels of initial and maintenance margin established by the Exchange for bona fide hedge positions pursuant to paragraph (a) hereof shall be applicable to such transactions; or

(2) inter-market spread transactions enumerated by the Exchange. In such case, the levels of initial and maintenance margin established by the Exchange for inter-market spread transactions pursuant to paragraph (a) hereof shall be applicable to such transactions. Such inter-market spread transactions shall include positions in the XOC Index futures contract matched with positions in the XOC Index option contract traded on PHLX or with positions in the Value Line option contract traded on PHLX, which option positions are in an account carried with the member or member organization which carries the account in which the positions in the XOC Index futures contract are maintained.

(f) Nothing in this Rule shall preclude any member or member organization in its discretion from imposing higher margin requirements than those established by the Exchange pursuant hereto with respect to any futures position.]