

MEMORANDUM

TO: Philadelphia Board of Trade Members and Member Organizations

FROM: Legal Department

DATE: March 29, 2007

RE: SR-PBOT-2007-02 (PBOT Rules E-2 and E-18)
SR-PBOT-2007-03 (PBOT Rules 363 and 1500)

SUMMARY

On March 28, 2007 the Philadelphia Board of Trade filed with the Commodity Futures Trading Commission SR-PBOT-2007-02, amending PBOT Rules E-2 and E-18, and SR-PBOT-2007-03, redesignating PBOT Rule 363 as PBOT Rule 1500. The amendments to Rules E-2 and E-18 will become effective on March 30, 2007. The redesignation of Rule 363 as Rule 1500 is effective immediately. The rules are set forth below in italics, marked to show changes from the existing rules (new language is underlined; deletions are struck through).

SR-PBOT-2007-02

The first proposed rule change amends Rules E2 and E18 to reflect the PBOT XL “Day 2” functionality that will be implemented on March 30, 2007. A discussion of the new functionality will be separately distributed to PBOT members in an operational circular.

Rule E2. Definitions and Rules of Construction
(a) *When used in these Rules, these terms have the following meanings:...*

PBOT Best Bid and Offer. The term “PBOT Best Bid and Offer” means for each Contract then listed and trading through PBOT XL the current disseminated highest bid and lowest offer in the Order Book and/or available by Quote ~~except as provided by Rule E18(c) and excluding those Orders or Quotes that at the time~~

of receipt are matchable and are due execution pursuant to the procedures described in Rule E18.

Rule E18. Order and Quote Matching

(a) Except as described in Rule E18(d), PBOT XL matches Orders and Quotes in price priority with the highest bid or lowest offer for a Contract having priority over all other Orders and Quotes for the same Contract Month. When the PBOT XL has multiple Orders or Quotes for a contract at the highest bid or lowest offer, then

(1) ~~Customer Orders for Customers receive priority over Orders for Members or Member Organizations and Market Maker Quotes; and among Customer Orders, the first Customer Order in time at a price has priority over all other Customer Orders for the same Contract at the same price; and~~

(2) ~~Orders for Members and Member Organizations and Market Maker Quotes at the same price participate in proportion to the Order or Quote quantity relative to the total quantity of all Member or Member Organization Orders and Market Maker Quotes for the same Contract at the same price.~~

~~(b) When PBOT XL receives an Order for a Contract that crosses the PBOT Best Bid and Offer (i.e., the Order is either a bid that exceeds the lowest offer or is an offer that is less than the highest bid), PBOT XL will reject the Order and notify the Member or Member Organization through which the Order was submitted of the rejection.~~

~~(c) When PBOT XL receives a Quote for a Contract that crosses the PBOT Best Bid and Offer (the "Crossing Quote"), PBOT XL (1) establishes a new PBOT Best Bid and Offer reflecting a locked market (i.e., the highest bid equals the lowest offer) and the Crossing Quote becomes either the highest bid or lowest offer as applicable and (2) executes at the new PBOT Best Bid and Offer against the Crossing Quote in price priority Orders and Quotes at or better than the new PBOT Best Bid and Offer until no other executable bids or offers exist and/or the quantity associated with the Crossing Quote is exhausted.~~

(b) When PBOT XL receives a Quote that locks (i.e., the highest bid equals the lowest offer) or crosses (i.e., the highest bid exceeds the lowest offer) the PBOT XL Best Bid and Offer, PBOT XL will first disseminate a new PBOT XL Best Bid and Offer at either the locked price or the resting price crossed by the Quote, then execute the Quote at that price.

(c) When PBOT XL receives an Order that locks or crosses the PBOT XL Best Bid and Offer, PBOT XL will first execute the Order at either the locked price or the resting price crossed by the Order, then calculate and disseminate a new PBOT Best Bid and Offer.

(d) An electronic auction occurs on PBOT XL when two or more Orders or Quotes for a Contract are submitted, modified, or cancelled virtually simultaneously that would lock or cross market. During an electronic auction, PBOT XL determines the price at which the most Contracts will trade based on all Orders in the Order Book and Quotes in PBOT XL, with each Order or Quote filled receiving its stated price or better. During an electronic auction, a trade may occur outside the last disseminated PBOT Best Bid and Offer.

SR-PBOT-2007-03

The second proposed rule change simply renumbers Rule 363, Clearing Corporation Rules, redesignating it as Rule 1500.

Rule 1500 363 ***Clearing Corporation Rules***

The rights and obligations of purchasers and sellers of futures, options thereon and commodity options cleared by the Clearing Corporation, including but not limited to rights and obligations in respect of clearing and settlement, variation payments and performance at maturity, and in the case of futures options and commodity options upon exercise thereof, shall be as set forth in the By-Laws and Rules of the Clearing Corporation.

Rule 363. [Reserved.]

Questions regarding these rule filings should be directed to Carla Behnfeldt, Director and Counsel, at (215) 496-5208.