

October 26, 2006

NOTICE

**Re: Trade Matching Algorithm Pilot Program for Five Year Treasury Futures:
The Reintroduction of FIFO Match Algorithm**

The CBOT continues to monitor and review the performance of the pilot program for e-cbot trade matching algorithms utilized for 2 and 5 Year Treasury Futures. The Exchange's goal for the pilot program is to maximize participation across a broad and diverse base of users while continuing to promote growth in our Treasury complex.

As part of this review, we have received feedback from a wide variety of users regarding the rapid development of automated trading modules, auto spreaders, and other technologies and the impact on e-cbot trading. Given this feedback, it has been suggested that the CBOT's approach to algorithms be refined to ensure we continually support broader participation across all user profiles. Although many users prefer a straight FIFO algorithm which matches trades on a strict time and price priority, others prefer a Pro Rata algorithm which matches trades based on a distributed proportionate approach.

On July 3rd, 2006 the Exchange introduced the Pro Rata with Priority algorithm as a pilot program for 5 Year Treasury Note futures. The 5 Year contract formerly utilized a strict FIFO algorithm.

The purpose of the pilot program was to: 1) assess the impact on trading profiles and behavior, 2) identify the demographics of participants pre and post pilot implementation, to determine whether the change in algorithm impacted the number of participants in a contract and 3) assess the growth rate of the 5 Year T-Note contracts benchmarked against relevant instruments along the yield curve.

Based on the analysis and extensive feedback from the marketplace, it became clear that there are strong and divergent viewpoints on utilizing a straight FIFO versus a Pure Pro Rata algorithm. However, most users were receptive to utilizing an algorithm that blends elements of FIFO and Pro Rata. In response to this feedback, on September 18th, the Exchange amended the pilot program for 5 Year Treasury Notes to include a FIFO enhanced Pro Rata algorithm which integrates a FIFO component for residual quantities remaining after the initial Pro-Rata distribution. Under this latest modification, residual quantities are allocated strictly on a FIFO basis.

The Exchange has continued to solicit feedback from the market place on the FIFO enhanced ProRata algorithm. Although the general feedback has been positive, many users have indicated that the current combination of FIFO versus ProRata has not been a significant benefit to the overall trading experience. Certain users, particularly yield curve spreaders, have indicated that the fluctuation of residuals on every trade complicates the process for establishing spreads across the yield curve. Further, given that the longer end of the yield curve utilizes a straight FIFO algorithm and the 5 year

utilizes ProRata with some FIFO, users have found it increasingly challenging to establish their spread positions, particularly ratio spreads. Most users advocate developing a hybrid combination of FIFO and ProRata which provides users with a more definitive ratio of the FIFO/ProRata blend than what is currently available with the FIFO enhanced ProRata algorithm. Management has vetted many concepts with the user community in this regard and is continuing to explore certain refinements.

After considering this feedback, reviewing contract volume trends, assessing order entry/order management behavior, and observing changes in market participation levels, the Exchange has determined to re-establish the **Straight FIFO algorithm in the 5 Year Treasury Note contract.**

The Exchange will continue to monitor changes in contract volume, participation levels, and order management behavior. We will also continue to solicit feedback from users to determine the effects, if any, this change has on user experience.

Making this most recent change demonstrates the Exchange's commitment to being responsive to market feedback, and to modifying our approach as innovation and market dynamics evolve. We encourage your active participation and continued feedback as we introduce this modification and assess the impacts.

The modification to reintroduce the FIFO algorithm will only apply to the **5 Year Treasury Note Futures** contract and becomes effective **on November 6, 2006.**

Please direct any feedback or questions to Bryan Durkin at 435-3687 or your designated Key Account Manager.