

August 28, 2007

## **NOTICE**

### **Revised Daily Settlement Procedures for 30-Year U.S. Treasury Bond Options Contracts** *(Effective September 4, 2007)*

Effective September 4, 2007, the first two listed quarterly contract months in U.S. Treasury Bond options, and all intermediate serial months, will be settled in accordance with the following procedures on a pilot basis:

CBOT Market Operations will identify daily the strikes that approximate the 50 delta, 25 delta and 5 delta puts and calls. These will be the priority strikes used by Market Operations to produce the volatility skew. Should there be strikes around these values that have significantly greater open interest, Market Operations may, at its discretion, substitute the higher open interest strikes.

Approximately 30 minutes prior to the designated close, the trading community will be notified of the priority strikes via an e-cbot® broadcast message and a display in the pit.

Market Operations will determine the settlement prices for the priority strikes based upon the midpoint of the best bid and offer on e-cbot at 2:00 p.m. provided that the quantity at the best bid and offer meet the minimum quantity threshold established by Market Operations.

- If the best bid and/or offer is below the quantity threshold, the price level at which the cumulative bid or offer quantity meets this threshold shall be used.
- If the midpoint between the best bid and best offer is between two tics, the option will settle to the tic that is closer to the previous day's settlement price.

Market Operations will generate the skew based on the settlement prices of the priority strikes, and the remaining out-of-the-money options will settle in accordance with the corresponding interpolated values. In-the-money options will be settled in accordance with put/call parity with appropriate cost of carry adjustments. The interest rate input will be the midpoint between the Federal Funds Target Rate and the Broker Loan Rate.

In the event that anomalous activity (including bids and offers entered without allowing market participants sufficient time prior to 2:00:00 p.m. to respond) affects the settlement determinations, Market Operations, in its discretion, may establish a settlement price independent of the criteria referenced above.

The Pit Committee may advise Market Operations, through Market Report staff, of significant market information regarding bids, offers, or trades that occur in the pit during the close. Market Operations may consider such input, as well as other market information it deems relevant, in determining the final settlement prices.

The settlement prices determined in accordance with the foregoing procedures will be communicated by Market Operations to the Market Report staff, who shall in turn post the settlement prices.

The Pit Committee will remain responsible for recommending settlements in those contract months beyond the second listed quarterly contract.

Questions regarding this notice may be directed to the following individuals:

Market Regulation

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Vice President & Secretary