

April 16, 2007

## **NOTICE**

### **Revised Daily Settlement Procedures for Treasury and Swap Futures Contracts** *(effective May 1, 2007)*

Effective May 1, 2007, all Treasury and Swap futures contracts (Treasury Bonds, 10-Year Notes, 5-Year Notes, 2-Year Notes, 30-Year Interest Rate Swaps, 10-Year Interest Rate Swaps and 5-Year Interest Rate Swaps) will be settled in accordance with the following procedures:

#### **Settlement of the Lead Month Contract**

CBOT Market Operations will establish the daily settlement price for the lead month contract at the price within the e-cbot® bid/offer at 2:00:00 p.m. that is closest to the volume weighted average price of transactions executed on e-cbot between 1:59:30 and 2:00:00 p.m. If the volume weighted average is the midpoint between two tics within the bid/offer range, the contract will settle to the tic that is closer to the previous day's settlement price.

If there are no transactions during the last 30 seconds, the contract will settle at the midpoint of the bid/offer at 2:00:00 p.m. If the midpoint is between two tics, the contract will settle to the tic that is closer to the previous day's settlement price.

#### **Settlement of the First Deferred Month Contract**

**(The expiring contract will be considered the first deferred month from the official roll date through second to last day of trading)**

Market Operations will determine the best bid/best offer in the market at 2:00:00 p.m. The best bid (best offer) will be the better of a) the bid (offer) price in the outright contract, and b) the bid (offer) implied by the reduced-tic spread market. If the best bid (offer) price is a non-tradable tic, the bid (offer) will be rounded up (down) to the next tradable tic.

- If the best bid equals the best offer, the contract will settle at that price.
- If the best bid is lower than the best offer, the contract will settle at the midpoint of the best bid/best offer. If the midpoint is equidistant between two tics, the contract will settle at the tic that results in a settlement closer to the net change of the lead month contract.
- If the best bid exceeds the best offer, the contract will settle at the outright bid or offer price that would be penetrated by the crossed market.

### **Settlement Of All Other Contract Months**

Market Operations will establish the daily settlements for each contract month other than the first two contract months consistent with the net change of the immediately preceding expiration month, provided that such settlement does not penetrate the e-cbot best bid/best offer (as described above) of 100 or more contracts at 2:00:00 p.m. In the event that such best bid/best offer of 100 or more contracts would be penetrated, the contract will settle at the bid or offer price that would otherwise be penetrated.

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 sole discretion, may establish a settlement price independent of the criteria referenced above.

The preliminary settlement prices determined in accordance with the foregoing procedures will be communicated by Market Operations to the Market Report staff, who shall in turn communicate the settlement prices to the Pit Committee Chairman or designated Pit Committee representative. The Pit Committee representative may provide input regarding the preliminary settlements, and such input shall be communicated to and considered by Market Operations in the context of other available information prior to publishing the final settlements. However, Market Operations will be responsible for determining the final settlement prices.

There will continue to be a two-minute modified closing call in the open auction venue in accordance with current procedures.

### **Settlement of Expiring Treasury Futures on Last Trading Day**

Expiring futures in Treasury Bonds and Treasury Notes will continue to be settled on the last trading day in accordance with previously established procedures. These procedures are detailed in a notice that can be found at the following link:

<http://www.cbot.com/cbot/docs/65482.pdf>

Questions regarding this notice may be directed to the following individuals in the Office of Investigations and Audits: Jennifer Baum, Managing Director, (312) 341-3124, [jbaum@cbot.com](mailto:jbaum@cbot.com) or Dean Payton, Vice President, (312) 435-3658, [dpayton@cbot.com](mailto:dpayton@cbot.com).

Paul J. Draths  
Vice President & Secretary

## Settlement Methodology Example Ten Year Treasury Notes

### **Market Information**

Date-	April 11, 2007
Lead Month-	June 2007
June Market at 2:00-	107.055 bid (2,149 contracts)/107.060 offer (1,595 contracts)
VWA of June (1:59:30-2:00)-	107.055
June/Sep Spread at 2:00-	-32/-30
Sep Market at 2:00-	107.085 bid (849 contracts)/107.090 offer (49 contracts)
Dec Market at 2:00-	none
Sep/Dec Spread at 2:00-	none
Previous Day's Settlements-	June- 106.240
	Sep- 106.270
	Dec- 106.285

### **Lead Month Settlement- June 2007 contract**

Bid/Offer at 2:00-	107.055 bid (2,149 contracts)/107.060 offer (1,595 contracts)
VWA of June (1:59:30-2:00)-	107.055

***June 2007 Settlement- 107.055***  
***Price within the bid/offer that is closest to the VWA***

June Net Change- +13.5

### **First Deferred Settlement- Sep 2007 contract**

Best Outright Sep Bid- 107.085 (849 contracts)  
 Best Implied Sep Bid- (June bid) - (June/Sep Offer)  
 $107.055 - (-30) = 107.085$   
***Best Sep Bid- 107.085***

Best Outright Sep Offer- 107.090  
 Best Implied Sep Offer- (June offer) - (June/Sep Bid)  
 $107.06 - (-32) = 107.092$   
***Best Sep Offer- 107.090***

Midpoint Best Bid/Best Offer- 107.0875

Settlement Choices- 107.085 (Net Change +13.5)  
 107.09 (Net Change +14)

***Sep 2007 Settlement- 107.085***  
***Midpoint best bid/offer closest to net change of lead month***

Sep Net Change- +13.5

**All Other Months- December 2007 contract**

Possible Settlement- (previous day's Dec settlement) + (Sep net change)  
 $106.285 + 13.5 = 107.10$

***Settlement***

***107.10***

As there is no Dec market at 2:00 or Sep/Dec market, the contract settles at the net change of the immediately preceding month.