

**REGULATORY CHART
APPLICATION FOR CONTRACT MARKET DESIGNATION REINSTATEMENT
PURSUANT TO CFTC RULE 38.3(C) (“APPLICATION”)
COMPLIANCE WITH DESIGNATION CRITERIA AND CORE PRINCIPALS**

DESIGNATION CRITERIA	PBOT REINSTATEMENT APPLICATION
<p>Sec. 5(a) Applications – “A board of trade applying to the Commission for designation as a contract market shall submit an application to the Commission that includes any relevant materials and records the Commission may require consistent with the Act.”</p>	<p>See the responses in this Regulatory Chart, the Philadelphia Board of Trade (“PBOT”) Rule Book and other appendices submitted with this Application.</p>
<p>Designation Criterion 1 – In General: “To be designated as a contract market, the board of trade shall demonstrate to the Commission that the board of trade meets the criteria specified in this subsection.”</p>	<p>See the responses in this Regulatory Chart, the PBOT Rule Book and other appendices submitted with this Application.</p> <p>PBOT was approved by the Commission as a designated contract market in May 1985 and has over 20 years experience as a designated contract market in good standing. PBOT has subsequently filed various rule changes with the Commission; a summary of the substantive rule changes since 1994 (when the Commission completed its last Rule Enforcement Review of PBOT) is included in Appendix A of the Application.</p> <p>PBOT is a wholly-owned subsidiary of the Philadelphia Stock Exchange’s (“Phlx”). Phlx is licensed as a national securities exchange under the Securities Exchange Act and is regulated by the Securities and Exchange Commission (“SEC”). Among other securities, Phlx trades options currencies.</p>
<p>Designation Criterion 2 – Prevention of Market Manipulation: “The board of trade shall have the capacity to prevent market manipulation through market surveillance, compliance, and enforcement practices and procedures, including methods for conducting real-time monitoring of trading and comprehensive and accurate trade reconstructions.”</p>	<p>See the PBOT Market Surveillance Procedures Manual included in Appendix E of this Application.</p> <p>PBOT Rule 364 prohibits market manipulation, attempted manipulation and cornering of the market of any commodity traded on PBOT. In addition, PBOT is authorized pursuant to Rule 60 to take certain actions in the case of an emergency.</p> <p>PBOT uses a real-time trade reporting, matching and comparison system, which links into various operational and regulatory systems, including its computerized Trade Data Access System</p>

	<p>(“TDAS”) used for preparing various compliance reports. Based on its 1994 Rule Enforcement Review of PBOT, the Commission stated its findings in a 1996 report that PBOT has an “on-line, locked-in trade matching system” which “produce[s] unalterable, continual, fully sequenced, independent, electronic audit trail times.”¹</p> <p>From the outset, the PBOT trade practice and market surveillance program has been administered by Phlx Options Surveillance Department. PBOT conducts real-time monitoring of trading with assistance from and in coordination with designated Phlx Options Surveillance staff and is ultimately responsible for enforcing disciplinary rules designed to deter abuses of its Rules. The Commission also concluded in its report of its 1994 Rule Enforcement Review that PBOT had adequate trade practice surveillance, disciplinary programs and audit trail system.</p> <p>The PBOT Disciplinary Rules are contained in Rules 401-460 of the PBOT Rule Book. See also the response to <i>Designation Criterion 6</i> for a description of PBOT disciplinary procedures.</p>
<p>Designation Criterion 3 – Fair and Equitable Trading: “The board of trade shall establish and enforce trading rules to ensure fair and equitable trading through the facilities of the contract market, and [sic] the capacity to detect, investigate, and discipline any person that violates the rules.”</p>	<p>See PBOT General Trading Rules 301-366 and Disciplinary Rules 401-460. In addition, see the responses to <i>Designation Criteria 2, 4 and 6</i>.</p> <p>PBOT has trading rules to ensure fair and equitable trading. PBOT rules prohibit pre-arranged trades (Rule 318), trading ahead of customer orders (Rule 320) and other trading-related abuses. PBOT does not permit dual trading (See Rule 305(c)).</p> <p>PBOT Rule 361 governs exchange of futures for physical (“EFPs”) transactions. See also notices 2-89 and 3-89, which explain the requirements of Rule 361 to members. These notices are included in Appendix A to this Application. As explained in these materials, PBOT does not currently permit EFPs involving cash-settled futures contracts.</p> <p>PBOT Rule 327 governs cross-trading. See also the notice dated October 21, 1992, which explains the requirements of this rule to members. This notice is included in Appendix A to this Application.</p>

¹ The Commission issued this report on August 12, 1996.

<p>Designation Criterion 4 – Trade Execution Facility: “The board of trade shall (A) establish and enforce rules defining, or specifications detailing, the manner of operation of the trade execution facility maintained by the board of trade, including rules or specifications describing the operation of any electronic matching platform; and (B) demonstrate that the trade execution facility operates in accordance with the rules or specifications.”</p>	<p>Since its inception, PBOT has operated as an open outcry floor-based exchange. A description of PBOT’s trading system is included in Appendix B of this Application.</p> <p>Open outcry trading is governed by PBOT’s General Trading Rules 301-366. PBOT Disciplinary Rules are contained in Rules 401-460. In addition, see the responses to <i>Designation Criteria 2, 3 and 6</i>.</p>
<p>Designation Criterion 5 – Financial Integrity of Transactions: “The board of trade shall establish and enforce rules and procedures for ensuring the financial integrity of transactions entered into by or through the facilities of the contract market, including the clearance and settlement of the transactions with a derivatives clearing organization.”</p>	<p>PBOT Rule 202 sets forth the financial requirements of the PBOT and requires members to file certain documents and financial information with the PBOT. Under Rule 203, members are required to provide PBOT with copies of financial reports filed with the Commission pursuant to Regulation 1.10, or if not applicable, to provide PBOT with an annual financial audit report. Rule 203 also requires members to provide PBOT with financial information upon request. Financial Surveillance staff of Phlx is responsible for reviewing these financial reports.</p> <p>In addition, all member firm FCMs are subject to minimum net capital requirements under Commission, NFA and exchange rules. PBOT is a member of the Joint Audit Committee (“JAC”). For FCMs that belong to multiple self-regulatory organizations (“SROs”), the JAC designates one of the SROs as having primary responsibility as the “DSRO” for financial oversight of that firm, including review of financial reports for compliance with minimum net capital requirements. PBOT is not a DSRO for any FCMs.</p> <p>In the past, a number of PBOT members have also been members of Phlx, to facilitate trading strategies involving currency options traded on Phlx and currency futures traded on PBOT. Those members are registered as broker-dealers with the SEC and are subject to SEC and Phlx minimum capital requirements. As before, Phlx will conduct routine financial surveillance of dual member Phlx-PBOT member firms pursuant to established financial surveillance programs.</p> <p>The Options Clearing Corporation (“OCC”) clears futures contracts traded on PBOT pursuant to a 2003 clearing agreement between PBOT and OCC, and thus clearing of PBOT futures contracts is subject to OCC rules. See PBOT Rule 363. A</p>

	<p>copy of the clearing agreement is included in Appendix D of the Application (subject to a request for confidential treatment). OCC is registered with the Commission as a derivatives clearing organization (“DCO”) and is subject to the core principles for DCOs set out in Section 5b of the CEA. OCC also clears all options traded on Phlx, including currency options. Clearing member firms are subject to OCC capital requirements.</p> <p>As before, PBOT will establish minimum customer margin requirements for any futures contracts it offers (see PBOT Rule 1210 with respect to setting of margin requirements for currency futures).</p> <p>PBOT Rule 262 imposes Commission customer funds segregation requirements on member firms that are futures commission merchants (“FCMs”).</p>
<p>Designation Criterion 6 – Disciplinary Procedures: “The board of trade shall establish and enforce disciplinary procedures that authorize the board of trade to discipline, suspend, or expel members or market participants that violate the rules of the board of trade, or similar methods for performing the same functions, including delegation of the functions to third parties.”</p>	<p>PBOT Disciplinary Rules are contained in Rules 401-460 of the PBOT Rule Book. These rules were developed pursuant to and in conformity with the Commission’s Part 8 Rules.</p> <p>Under these rules, written investigative reports are presented to the Business Conduct Committee (“BCC”), which is required to review the report promptly. Based on its review, the BCC determines whether the matter should be adjudicated in a disciplinary action. To institute such a proceeding, the BCC directs the issuance of a complaint, referred to as a Statement of Charges. Upon request of the respondent or the BCC, a hearing is conducted by a Hearing Panel appointed by the chairman of the BCC, after which the Hearing Panel submits recommendations to the BCC based on a review of the proceeding’s entire record. The BCC promptly must issue a written decision specifying, among other things, any rules found to have been violated and any sanctions imposed. Rule 410 specifies that sanctions imposed by the disciplinary panel may include a fine, censure, the termination or suspension of trading privileges, the barring or suspension of association with a member, or other appropriate sanctions.</p>
<p>Designation Criterion 7 – Public Access: “The board of trade shall provide the public with access to the rules, regulations, and contract specifications of the board of trade.”</p>	<p>PBOT Rules and Contract Specifications are available through its website (http://www.phlx.com/pbot/index.html) and through the CCH Service.</p>

<p>Designation Criterion 8 – Ability to Obtain Information: “The board of trade shall establish and enforce rules that will allow the board of trade to obtain any necessary information to perform any of the functions described in this subsection, including the capacity to carry out such international information-sharing agreements as the Commission may require.”</p>	<p>PBOT Rule 212 requires PBOT members to provide information to the Exchange upon request. PBOT is a member of the JAC and has access to financial information through this organization. PBOT’s parent, Phlx, is a member of the Intermarket Surveillance Group, which also provides an information sharing framework for PBOT.</p> <p>Due to PBOT’s relationship with Phlx, the two exchanges coordinate and cooperate with respect to market surveillance of foreign currency options trading on Phlx and foreign currency futures trading on PBOT.</p>
<p>CORE PRINCIPLES</p>	<p>PROPOSAL AND COMMENT</p>
<p>Core Principle 1 – In General: “To maintain the designation as a contract market, the board of trade shall comply with the core principles specified in the subsection.”</p>	<p>See the responses in this Regulatory Chart, the PBOT Rule Book and other appendices submitted with this Application.</p>
<p>Core Principle 2 – Compliance with Rules: “The board of trade shall monitor and enforce compliance with the rules of the contract market, including the terms and conditions of any contracts to be traded and any limitations on access to the contract market.”</p>	<p>See the responses to <i>Designation Criteria 2, 3 and 6</i>.</p>
<p>Core Principle 3 – Contracts not Readily Subject to Manipulation: “The board of trade shall list on the contract market only contracts that are not readily susceptible to manipulation.”</p>	<p>PBOT plans to re-list the Euro Futures Contract under the same terms and conditions as in effect on November 30, 2005. The underlying Euro has a very deep and liquid cash market, and thus the contract is not readily susceptible to manipulation. PBOT submitted the terms and conditions for the Euro Futures contract pursuant to self-certification on October 23, 2003.</p> <p>For new contracts, PBOT intends to list only contracts that are not readily susceptible to manipulation. Under current regulatory requirements, when PBOT submits the terms and conditions for a new contract pursuant to self-certification, it will certify that those rules comply with the CEA and rules thereunder.</p>
<p>Core Principle 4 – Monitoring of Trading: “The</p>	<p>See the responses to <i>Designation Criteria 2, 3 and</i></p>

<p>board of trade shall monitor trading to prevent manipulation, price distortion, and disruptions of the delivery or cash-settlement process.”</p>	<p>6.</p>
<p>Core Principle 5 – Position Limitations or Accountability: “To reduce the potential threat of market manipulation or congestion, especially during trading in the delivery month, the board of trade shall adopt position limitations or position accountability for speculators, where necessary and appropriate.”</p>	<p>Consistent with the Commission’s guidance on Core Principle 4 (in Appendix B to the Commission’s Part 38 Rules), PBOT does not have position limits for its Euro Futures Contract because the Euro is a major currency with a very liquid and deep cash markets. PBOT Rules 1208 and 1209 on Aggregation of Positions and Reporting of Positions, respectively, set forth PBOT’s policies for monitoring of positions in PBOT currency futures that are owned, controlled or held by any person.</p> <p>For new contracts, PBOT will consider on a case by case basis whether to impose speculative position limits or position accountability standards. Under current regulatory requirements, when PBOT submits the terms and conditions for a new contract pursuant to self-certification, it will certify that those rules comply with the CEA and rules thereunder.</p>
<p>Core Principle 6 – Emergency Authority: “The board of trade shall adopt rules to provide for the exercise of emergency authority, in consultation or cooperation with the Commission, where necessary and appropriate, including the authority to—(A) liquidate or transfer open positions in any contract; (B) suspend or curtail trading in any contract; and (C) require market participants in any contract to meet special margin requirements.”</p>	<p>Procedures and guidelines for the exercise of emergency authority by PBOT are set forth in Rule 60. The measures available to PBOT in the case of an emergency include each of the items listed in the Commission’s guidance on Core Principle 6 in Appendix B to the Commission’s Part 38 Rules.</p>
<p>Core Principle 7 – Availability of General Information: “The board of trade shall make available to market authorities, market participants, and the public information concerning—(A) the terms and conditions of the contracts of the contract market; and (B) the mechanisms for executing transactions on or through the facilities of the contract market.”</p>	<p>See the response to <i>Designation Criterion 7</i> above.</p>
<p>Core Principle 8 – Daily Publication of Trading Information: “The board of trade shall make public daily information on settlement prices, volume, open interest, and opening and closing ranges for actively traded contracts on the contract market.”</p>	<p>PBOT publishes information regarding settlement prices, volume, open interests and open and closing ranges for actively traded contracts on a timely basis through its website. PBOT also publishes market data through vendors such as Reuters.</p>

<p>Core Principle 9 – Execution of Transactions: “The board of trade shall provide a competitive, open, and efficient market and mechanism for executing transactions.”</p>	<p>See the responses to <i>Designation Criteria 2, 3, 4</i> and 6.</p>
<p>Core Principle 10 – Trade Information: “The board of trade shall maintain rules and procedures to provide for the recording and safe storage of all identifying trade information in a manner that enables the contract market to use the information for purposes of assisting in the prevention of customer and market abuses and providing evidence of any violations of the rules of the contract market.”</p>	<p>See the responses to <i>Designation Criteria 2</i> and 3.</p>
<p>Core Principle 11 – Financial Integrity of Contracts: “The board of trade shall establish and enforce rules providing for the financial integrity of any contracts traded on the contract market (including the clearance and settlement of the transactions with a derivatives clearing organization), and rules to ensure the financial integrity of any futures commission merchants and introducing brokers and the protection of customer funds.”</p>	<p>See the response to <i>Designation Criterion 5</i> above.</p>
<p>Core Principle 12 – Protection of Market Participants: “The board of trade shall establish and enforce rules to protect market participants from abusive practices committed by any party acting as an agent for the participants.”</p>	<p>See PBOT’s customer protection rules, which are PBOT Rules 250 through 262.</p> <p>See also the responses to <i>Designation Criteria 2, 3</i> and 6.</p> <p>Please refer to the PBOT Market Surveillance Procedures Manual included in Appendix E to this Application for a description of PBOT’s trade practice and market surveillance programs.</p>
<p>Core Principle 13 – Dispute Resolution: “The board of trade shall establish and enforce rules regarding and provide facilities for alternative dispute resolution as appropriate for market participants and any market intermediaries.”</p>	<p>NFA provides arbitration services for PBOT pursuant to a 2003 agreement. On November 14, 2003, pursuant to self-certification, PBOT amended its arbitration rules to establish new Rules 501 and 502, to reflect this change in its arbitration program. A copy of PBOT’s agreement with NFA is included as part of Appendix D.</p>
<p>Core Principle 14 – Governance Fitness Standards: “The board of trade shall establish and enforce appropriate fitness standards for directors, members of any disciplinary committee, members of the contract market, and any other persons with direct access to the facility (including any parties</p>	<p>PBOT Rules 103 and 104 relate to qualifications of the members of the PBOT Board of Directors.</p>

<p>affiliated with any of the persons described in this paragraph).”</p>	
<p>Core Principle 15 – Conflicts of Interest: “The board of trade shall establish and enforce rules to minimize conflicts of interest in the decision making process of the contract market and establish a process for resolving such conflicts of interest.”</p>	<p>PBOT Rule 1300 governs conflicts of interest in decision making and related matters. The Commission approved this rule in 1999, under the standards of Commission Rule 1.69. See also PBOT Rule 208, on trading by exchange officers and employees, which the Commission approved in 1994, under the standards of Commission Rule 1.59. See also PBOT Rule 412, which requires a Board or committee member to recuse himself or herself from deliberating on a disciplinary matter if such person cannot render a fair and impartial decision. Please also refer to PBOT’s September 27, 2004 letter to the CFTC, a copy of which is included in Appendix C.</p>
<p>Core Principle 16 – Composition of Boards of Mutually Owned Contract Markets: “In case of a mutually owned contract market, the board of trade shall ensure that the composition of the governing board reflects market participants.”</p>	<p>This is not applicable because PBOT is not a mutually owned contract market. PBOT is a wholly-owned subsidiary of Phlx. On January 20, 2004, Phlx changed its structure from a member-owned exchange to a Delaware stock corporation, pursuant to a plan of demutualization.</p>
<p>Core Principle 17 – Recordkeeping: “The board of trade shall maintain records of all activities related to the business of the contract market in a form and manner acceptable to the Commission for a period of 5 years.”</p>	<p>PBOT will maintain records of all activities related to its business for a period of five years and in accordance with Commission Regulation 1.31.</p>
<p>Core Principle 18 – Antitrust Considerations: “The board of trade shall endeavor to avoid— (A) adopting any rules or taking any actions that result in any unreasonable restraints of trade; or (B) imposing any material anticompetitive burden on trading on the contract market.”</p>	<p>PBOT believes that its rules have been designed to avoid unreasonable restraints of trade or the imposition of any material anti-competitive burden on trading.</p>