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Chicago Board of Trade

Bernard W. Dan
President and
Chief Executive Officer

COMMENT

May 10, 2006

BY E-MAIL AND CERTIFIED MAIL

Ms. Jean A. Webb
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Joint Proposed Rules: Application of the Definition of Narrow-Based Security Index to Debt Securities Indexes and Security Futures on Debt Securities - File No. S7-07-06; RIN 3038 AB86

Dear Ms. Webb and Ms. Morris:

The Board of Trade of the City of Chicago, Inc. ("CBOT®" or "Exchange") appreciates the opportunity to comment on the joint proposal of the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") (collectively, the "Commissions") to adopt a new rule and to amend an existing rule under the Commodity Exchange Act ("CEA") and to adopt two new rules under the Securities Exchange Act of 1934 ("Exchange Act"). The proposed rules and rule amendments would exclude debt securities indexes that satisfy specified criteria from the definition of a "narrow-based security index" such that futures on such debt securities indexes would not be security futures and could trade subject to the exclusive jurisdiction of the CFTC. The proposed rules would also expand the statutory listing standards requirements to permit security futures to be based on debt securities and narrow-based security indexes composed of debt securities.

The CBOT commends the Commissions' recognition that the criteria that are appropriate for determining whether an index composed of equity securities is a "narrow-based security index" may not be appropriate for making such a determination with respect to an index composed of debt securities. The Commissions have proposed certain modified criteria that could be used to evaluate whether debt securities indexes are narrow-based indexes, in recognition of the differences between the manner in which equity and debt securities trade. In particular, the modified criteria specify: (a) the type of security that may be included in the index, i.e., each component security must be a debt security; (b) the maximum weighting and concentration of securities of any issuer in the index, which are essentially the same as for indexes composed of equity securities; (c) eligibility conditions regarding the issuer of any security in the index that is not an exempted security under the Exchange Act, which are designed to ensure that there is sufficient

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public availability of information about the issuer; and (d) a minimum remaining outstanding principal amount for each security in the index.

With respect to the minimum remaining outstanding principal amount, the Commissions have proposed that $250 million is an appropriate amount, based upon their conclusion that trading volume generally increases for debt securities that have at least this amount in total remaining principal amount outstanding. The Commissions have stated that this proposed minimum principal amount criterion, along with other proposed criteria, are intended to provide a substitute for the trading volume criterion that is specified in the definition of narrow-based equity securities indexes.

The CBOT generally supports the criteria that the Commissions have proposed for determining whether a debt securities index will be excluded from the definition of a narrow-based security index. However, the Exchange recommends that the Commissions modify their proposal to require that each security included in such an index must have a minimum remaining outstanding principal amount of $250 million. A minimum amount of $100 million would be more than sufficient in light of the intent of the proposal, and would make it more likely that an exchange would be able to identify a sufficient number of debt securities for inclusion in such an index.

An analysis of data relating to the index underlying the CBOT's recently de-listed 10-Year Municipal Note Index futures contract is instructive. In designing this futures contract, the Exchange's goal was to develop an underlying municipal bond index benchmark that reflected the national triple A-rated sector of large-sized, highly-liquid, general and special purpose municipal bonds. To this end, the CBOT, together with FT Interactive Data Corporation ("FT"), developed a rigorous set of global rules to determine the component bonds that would be eligible for inclusion in the index. Specifically, eligible bonds had to have a minimum principal amount outstanding of $50 million, be a component tranche of a municipal issue with a minimum deal size of $200 million, be triple A-rated, have a remaining maturity between 10 years and 40 years, pay fixed semi-annual coupons, and, if callable, have a minimum remaining time to the first call date of no less than 7 years. The CBOT developed these rules over a six-month period of exhaustive research, utilizing FT's extensive municipal bond database of over 2.6 million municipal securities.

The attached spreadsheet shows selected statistics for the municipal bond index underlying the CBOT's 10-Year Municipal Note Index futures contract for the March 2001 through March 2006 expiries. As reflected in the spreadsheet, the CBOT was able to cull a universe of an average of 248 bonds for the index for expirations over this five-year period. As stated above, each of these bonds had a minimum remaining principal amount outstanding of $50 million. If the criteria proposed by the Commissions had applied to this municipal bond index, and the CBOT had used a minimum principal amount of $250 million, only a dozen bonds on average (i.e., about 5% of the original number of component index bonds) would have met this requirement. In short, based upon the CBOT's experience with the municipal bond index underlying its 10-Year Municipal Note Index futures contract, it appears that a $250 million requirement may also make it difficult for an exchange to develop a viable debt index futures contract that is based on a cash market index that contains domestic or foreign non-exempt debt securities. In general, issuance amounts for such securities tend to be smaller than $250 million.

As the spreadsheet shows with respect to the index underlying the CBOT's 10-Year Municipal Note Index futures contract, approximately 125 bonds on average (i.e., about 50% of the original number of component index bonds) had a minimum principal amount of $100 million. Therefore, the municipal bond index underlying the CBOT's 10-Year Municipal Note Index futures contract would have been approximately half the size if a $100 million minimum principal amount requirement had applied. Certainly, a minimum principal amount requirement of $100 million would be more likely to ensure that there would be a sufficient number of securities in a debt securities index comprised of non-exempt securities, than would a minimum requirement of $250 million. Moreover, a requirement for a minimum remaining outstanding principal amount of $100 million would be more than adequate to provide a substitute criterion for trading volume and decrease any likelihood that a futures contract on such an index would be readily susceptible to manipulation.

The Commissions have proposed a de minimis exception with regard to the issuer eligibility and minimum outstanding principal balance criteria. Pursuant to this exception, a debt securities index could still be excluded from the definition of a narrow-based security index if: (a) all securities of the issuer included in the index represent less than 5% of the index's weighting; and (b) securities comprising at least 80% of the index's weighting satisfy the issuer eligibility and minimum outstanding principal balance criteria. The CBOT agrees that it is appropriate to provide a de minimis exception to permit indexes that include debt securities of a small number of issuers and securities that do not meet the specified criteria to nevertheless qualify for the exclusion from the definition of a narrow-based security index. This is especially prudent in light of the fact that the Commissions and the exchanges that they regulate do not yet have experience with futures on debt security indexes (other than municipal bonds), which makes it difficult to anticipate all of the potential variations of the products that may be developed.

The CBOT applauds the Commissions for proposing rules and rule amendments that would allow exchanges to list futures contracts on debt security indexes that would be excluded from the definition of a narrow-based security index, and that would permit the trading of security futures on debt securities and narrow-based security indexes, in order to provide additional ways for market participants to diversify and manage risk.

The CBOT concurs with the recommendation made by Chicago Mercantile Exchange, Inc., in its April 25, 2006 comment letter, urging the SEC to publish for comment appropriate listing standards for security futures on debt securities and debt security indexes that are tailored to the nature of these products. We look forward to the development of such listing standards so that exchanges will be able to list these additional types of security futures products in an expeditious manner after adoption of the proposed rules and rule amendments.

If you have any questions about these comments, please feel free to contact Anne Polaski, Assistant General Counsel, at (312) 435-3757 or apolaski@cbot.com.

Sincerely,

Bernard W D

Bernard W. Dan

CBOT 10-Year Municipal Note Index Futures Contract

Selected Statistics for the Underlying Cash Municipal Market Index for the March 2001 through March 2006 Futures Expiries

	# of Bonds	Average Principal	Highest Principal	Lowest Principal	=> $50 Million		=> $100 Million		=> $150 Million		# => $200 Million		=> $250 Million	
					# of Bonds	% Share	# of Bonds	% Share	# of Bonds	% Share	# of Bonds	% Share	# of Bonds	% Share
March 2001	247	$105,136,538	$465,060,000	$57,145,000	247	100.0%	99	40.1%	34	13.8%	17	6.9%	8	3.2%
June 2001	243	$109,535,226	$465,060,000	$62,235,000	243	100.0%	106	43.6%	38	15.6%	18	7.4%	8	3.3%
September 2001	246	$99,333,557	$402,170,000	$55,000,000	246	100.0%	89	36.2%	31	12.6%	14	5.7%	7	2.8%
December 2001	249	$101,037,108	$402,170,000	$55,000,000	249	100.0%	96	38.6%	33	13.3%	12	4.8%	7	2.8%
March 2002	248	$97,712,762	$283,515,000	$55,000,000	248	100.0%	90	36.3%	26	10.5%	8	3.2%	3	1.2%
June 2002	250	$104,409,260	$645,265,000	$57,245,000	250	100.0%	101	40.4%	30	12.0%	12	4.8%	6	2.4%
September 2002	247	$113,343,198	$645,265,000	$62,355,000	247	100.0%	114	46.2%	40	16.2%	16	6.5%	9	3.6%
December 2002	248	$110,479,073	$645,265,000	$58,325,000	248	100.0%	107	43.1%	39	15.7%	16	6.5%	9	3.6%
March 2003	248	$108,744,435	$645,265,000	$56,230,000	248	100.0%	101	40.7%	37	14.9%	16	6.5%	11	4.4%
June 2003	250	$119,554,680	$645,265,000	$61,250,000	250	100.0%	120	48.0%	46	18.4%	23	9.2%	17	6.8%
September 2003	249	$123,841,707	$645,265,000	$61,250,000	249	100.0%	127	51.0%	50	20.1%	24	9.6%	17	6.8%
December 2003	247	$125,315,729	$645,265,000	$63,405,000	247	100.0%	130	52.6%	49	19.8%	22	8.9%	15	6.1%
March 2004	243	$129,498,992	$645,265,000	$63,130,000	243	100.0%	140	57.6%	54	22.2%	26	10.7%	17	7.0%
June 2004	249	$129,973,896	$645,265,000	$64,560,000	249	100.0%	147	59.0%	57	22.9%	26	10.4%	16	6.4%
September 2004	249	$128,387,610	$645,265,000	$63,130,000	249	100.0%	138	55.4%	54	21.7%	26	10.4%	16	6.4%
December 2004	249	$130,940,060	$645,265,000	$64,560,000	249	100.0%	145	58.2%	56	22.5%	28	11.2%	18	7.2%
March 2005	249	$134,811,526	$645,265,000	$65,045,000	249	100.0%	156	62.7%	58	23.3%	30	12.0%	21	8.4%
June 2005	249	$134,463,735	$645,265,000	$71,315,000	249	100.0%	161	64.7%	58	23.3%	29	11.6%	18	7.2%
September 2005	242	$129,457,541	$645,265,000	$68,220,000	242	100.0%	145	59.9%	50	20.7%	27	11.2%	15	6.2%
December 2005	250	$127,299,820	$667,740,000	$69,070,000	250	100.0%	137	54.8%	47	18.8%	25	10.0%	15	6.0%
March 2006	249	$135,106,526	$667,740,000	$71,160,000	249	100.0%	144	57.8%	59	23.7%	34	13.7%	20	8.0%
Average:	248	$118,970,618	$589,865,000	$62,125,238	248	100.0%	123	49.9%	45	18.2%	21	8.6%	13	5.2%