



20 South Wacker Drive  
Chicago, IL 60606-7499  
www.cme.com

312/930.1000 tel  
312/466.4410 fax

## Special Executive Report

S-4502

October 2, 2006

### **PIMCO<sup>®</sup> StocksPLUS<sup>®</sup> Total Return TRAKRS<sup>SM</sup> to Commence Special Marketing Period on October 3, 2006**

The Exchange will introduce PIMCO<sup>®</sup> StocksPLUS<sup>®</sup> Total Return TRAKRS<sup>SM</sup> ("PIMCO SPTR TRAKRS") with the commencement of the Special Marketing Period on October 3, 2006. PIMCO SPTR TRAKRS are non-traditional futures contracts that combine passive equity index exposure with exposure to an actively managed total return fixed-income portfolio.

Specifically, PIMCO SPTR TRAKRS are designed to track the performance of a portfolio with a target allocation of 100% notional exposure to each of the total return of the S&P 500 and the PIMCO Total Return Collateral Index. The notional exposure to the S&P 500 and the PIMCO Total Return Collateral Index will be rebalanced monthly in order to maintain full exposure to each component index. Both the Index and the PIMCO Master Index will be subject to certain fees and expenses, as described herein.

This contract represents the latest in a series of innovative new products offered by the Exchange in collaboration with Merrill Lynch, Pierce, Fenner and Smith Incorporated ("Merrill Lynch"). Previous TRAKRS offerings include ... (1) Long-Short Technology TRAKRS<sup>SM</sup> I and II; (2) Select 50 TRAKRS<sup>SM</sup>; (3) LMC TRAKRS<sup>SM</sup>; (4) Euro Currency TRAKRS<sup>SM</sup>; (5) Commodity TRAKRS<sup>SM</sup> (based on the Dow Jones-AIG Commodity Index); (6) Gold TRAKRS; (7) Rogers International Commodity<sup>SM</sup> TRAKRS; (8) BXY<sup>SM</sup> TRAKRS; and (9) PIMCO<sup>SM</sup> CommodityRealReturn<sup>SM</sup> DJ-AICCI<sup>SM</sup> TRAKRS<sup>SM</sup>.

Trading of PIMCO SPTR TRAKRS will commence on November 2, 2006 on the CME Globex<sup>®</sup> electronic trading platform. Prior to that, orders for the contract may be solicited pursuant to the Special Opening Procedures described below. In particular, the Special Marketing Period shall commence on October 3, 2006 and conclude at 10:00 a.m. (Chicago time) on November 1, 2006. For more information, please refer to [www.cme.com](http://www.cme.com) or [www.trakrs.com](http://www.trakrs.com).

*For more information, please do not hesitate to call Brett Vietmeier, Director, Equity Products at 312-930-3394; or, John W. Labuszewski, Managing Director, Research & Product Development at 312-466-7469.*

## **Introduction**

Chicago Mercantile Exchange (“CME” or “Exchange”) intends to list PIMCO<sup>®</sup> StocksPLUS<sup>®</sup> Total Return TRAKRS<sup>SM</sup> (“PIMCO SPTR TRAKRS”) Futures. PIMCO SPTR TRAKRS are non-traditional futures contracts that combine passive equity index exposure with exposure to an actively managed total return fixed-income portfolio.

PIMCO SPTR TRAKRS are designed to track the performance of the PIMCO StocksPLUS Total Return TRAKRS Index<sup>SM</sup> (the “Index”), which in turn tracks the PIMCO StocksPLUS Total Return Master Index (the “PIMCO Master Index”). The PIMCO Master Index is a total return index that represents the performance of a portfolio with a target allocation of 100% notional exposure to each of the total return of the S&P 500 and the PIMCO Total Return Collateral Index, subject to the Financing Rate Component (as defined below). The PIMCO Master Index will be calculated based on the total return value of the S&P 500 and the value of the PIMCO Total Return Collateral Index less the Financing Rate Component, as described in more detail under “Description of the PIMCO StocksPLUS Total Return Master Index.” The notional exposure to the S&P 500 and the PIMCO Total Return Collateral Index will be rebalanced monthly in order to maintain full exposure to each component index. The notional amount underlying the Financing Rate Component will be reset accordingly. The Index, the PIMCO Master Index and the PIMCO Total Return Collateral Index will be subject to certain fees and expenses, as described herein.

The S&P 500 is a market-capitalization weighted index of common stocks which reflects price changes in the component stocks. The total return of the S&P 500 includes the dividend yield on the underlying stocks. The PIMCO Total Return Collateral Index is an index that represents the performance of one or more qualified separate accounts actively managed by Pacific Investment Management Company LLC (“PIMCO”) (the “PIMCO Separately Managed Accounts” or “Accounts”). At present, only one Account is expected to satisfy the criteria for inclusion in the PIMCO Total Return Collateral Index. However, additional separate accounts managed by PIMCO may be added in the future, if other accounts satisfy these criteria. The PIMCO Separately Managed Accounts will consist of Exempt Securities and other Permissible Instruments (each defined below). The Financing Rate Component is a structural cost component that reflects the assumed financing cost associated with obtaining full exposure to each component index of the PIMCO Master Index. Please see the more detailed description under “Description of the Financing Rate Component” below.

CME intends to commence the Special Marketing Period on October 3, 2006, concluding on November 1, 2006 per Rule 37502.K, Special Opening Procedures. Subsequently, the contract shall be traded on the CME Globex<sup>®</sup> electronic trading system commencing on November 2, 2006.

## **Description of the PIMCO StocksPLUS Total Return Master Index**

**Definition and Overview** - The following is a description of the PIMCO Master Index, including a summary of the procedures used to determine and calculate the PIMCO Master Index. Standard & Poor's is under no obligation to continue to publish the PIMCO Master Index and may discontinue publication of the PIMCO Master Index at any time.

The PIMCO Master Index will initially be set to 10.00 on November 1, 2006. The PIMCO Master Index is a total return index that represents the performance of full notional exposure to both the total return of the S&P 500 and the PIMCO Total Return Collateral Index. The PIMCO Master Index is able to achieve full exposure to both component indices by means of the deduction of Financing Rate Component that represents the assumed financing cost associated with obtaining full exposure to each component index of the PIMCO Master Index. The Calculation Agent will calculate and disseminate a value of the PIMCO Master Index every fifteen (15) seconds (assuming the value has changed within such fifteen-second interval) during the hours of 7:00 a.m. to 3:00 p.m. (CT) and a daily settlement value at approximately 4:00 p.m. (CT) on each Business Day under the index symbol "PSI". Because the total return on the S&P 500 will not be valued until approximately 5:00 p.m. (CT) each Business Day and intraday values of the total return of the S&P 500 will not be calculated, intraday valuations of the PIMCO Master Index and the Index will only reflect the intraday price changes of the stocks underlying the S&P 500, not the dividends and distributions paid on such component stocks, and therefore those intraday valuations may not accurately reflect the current value of all component stocks underlying the S&P 500 Index.

In addition, because the PIMCO Total Return Collateral Index will not be valued until 5:00 p.m. (CT) each Business Day and intraday values of the PIMCO Total Return Collateral Index will not be calculated, intraday valuations of the PIMCO Master Index and the Index will not reflect changes in value of the PIMCO Total Return Collateral Index, and therefore those intraday valuations may not accurately reflect the current value of all components of the PIMCO Total Return Collateral Index. Furthermore, since the value of the PIMCO Total Return Collateral Index will not be available prior to the calculation of the daily settlement value for the PIMCO Master Index, such settlement value will reflect the value of the PIMCO Total Return Collateral Index as of the end of the immediately preceding Business Day and the closing value of the total return on the S&P 500 as of the current Business Day without adjusting for new dividends and distributions. On the morning of each Business Day, beginning at 7:00 a.m. (CT), the value of the PIMCO Master Index will reflect the value of the PIMCO Total Return Collateral Index closing value and the S&P 500 total return official value, in each case based upon the 5:00 p.m. (CT) valuation as of the prior Business Day. Both the S&P 500 and the PIMCO Total Return Collateral Index are detailed further below.

At inception, the PIMCO Master Index will establish 100% allocation to a notional investment in both the total return of the S&P 500 and the PIMCO Total Return Collateral Index, *i.e.*, 100% weighting in one index and 100% weighting in the other index. The Calculation Agent will determine a weight for the total return of the S&P 500 (the “Equity Index Weight”) and a weight for the PIMCO Total Return Collateral Index (the “Collateral Index Weight,” and each, an “Index Weight”) on November 1, 2006 such that the product of the value of the relevant index and the relevant Index Weight will equal a notional value for each component index of 10. Each Index Weight will remain constant until the next Rebalancing, as defined below.

Thereafter, the value of the PIMCO Master Index at any given time will be the sum of the product of the current Equity Index Weight and the current total return value of the S&P 500 and the product of the current value of the PIMCO Total Return Collateral Index and the current Collateral Index Weight minus the Financing Rate Component.

Therefore, the PIMCO Master Index value at any time will equal:

$$\begin{aligned} & \text{(S\&P 500 total return value multiplied by current Equity Index Weight)} \\ & \quad \text{plus} \\ & \text{(PIMCO Total Return Collateral Index value multiplied by current Collateral Index Weight)} \\ & \quad \text{minus} \\ & \text{(Financing Rate Component value)} \end{aligned}$$

***Rebalancing the PIMCO Master Index*** - On a monthly basis, at the end of the last Business Day of each month, the PIMCO Master Index will be rebalanced such that the notional exposure to the total return of the S&P 500 will approximately equal the notional exposure to the PIMCO Total Return Collateral Index.

This will be accomplished by shifting assumed gains or losses attributed to one component index, accumulated since the last rebalancing, to the other component index. The determination of the amount to be shifted, the Notional Adjustment and the Investment Adjustment (each as defined below), will be performed by the Calculation Agent on the Reconstitution Date. The net change in the exposure to the two component indices will also be reflected in an equivalent net increase or decrease in the notional amount underlying the Financing Rate Component, representing the net change in the notional amount deemed to be invested in the S&P 500 and the PIMCO Total Return Collateral Index. The “Reconstitution Date” is the second Scheduled Business Day prior to the Rebalancing Date. The “Rebalancing Date” is the last Scheduled Business Day of each month. If the Reconstitution Date is not a Business Day, the Reconstitution Date will be the next following Business Day and the Rebalancing Date will be the second Business Day following the Reconstitution Date. If the Rebalancing Date is not a Business Day, then the Rebalancing Date will be the next following Business Day. For this purpose, the term “Scheduled Business Day” means a day that would be a Business Day if no market disruption or other unanticipated event occurs that results in such day not being a Business Day. The first Reconstitution Date is expected to be November 28, 2006.

To equalize the weightings of the component indices in the PIMCO Master Index, the Calculation Agent will perform the follow steps:

*On the Reconstitution Date:*

1. Determine the gain or loss, expressed as a dollar value, associated with the notional exposure to the total return of the S&P 500 from the prior Reconstitution Date to the current Reconstitution Date, such that the “Investment Adjustment” will equal:

$$EW_{\text{CURRENT}} \times (SP_{\text{CURR RECON}} - SP_{\text{REBALANCE}}) + EW_{\text{PRIOR}} \times (SP_{\text{REBALANCE}} - SP_{\text{PRIOR RECON}})$$

*Where:*

$EW_{\text{CURRENT}}$  = the Equity Index Weight at the current Reconstitution Date

$EW_{\text{PRIOR}}$  = the Equity Index Weight at the prior Reconstitution Date

$SP_{\text{PRIOR RECON}}$  = the S&P total return value on the prior Reconstitution Date

$SP_{\text{REBALANCE}}$  = the S&P total return value on the prior Rebalance Date

$SP_{\text{CURR RECON}}$  = the S&P total return value on the current Reconstitution Date

2. Determine the gain or loss, expressed as a dollar value, of the notional exposure to the PIMCO Total Return Collateral Index from the prior Reconstitution Date to the current Reconstitution Date, such that the “Notional Adjustment” will equal:

$$CW_{\text{CURRENT}} \times (CV_{\text{CURR RECON}} - CV_{\text{REBALANCE}}) + CW_{\text{PRIOR}} \times (CV_{\text{REBALANCE}} - CV_{\text{PRIOR RECON}})$$

*Where:*

$CW_{\text{CURRENT}}$  = the Collateral Index Weight at the current Reconstitution Date

$CW_{\text{PRIOR}}$  = the Collateral Index Weight at the prior Reconstitution Date

$CV_{\text{PRIOR RECON}}$  = the Collateral Index value on the prior Reconstitution Date

$CV_{\text{REBALANCE}}$  = the Collateral Index value on the prior Rebalance Date

$CV_{\text{CURR RECON}}$  = the Collateral Index value on the current Reconstitution Date

3. Determine the accumulated expense on the notional amount of the assumed financing represented by the Financing Rate Component, expressed as a dollar amount, for the period from but excluding the last Rebalancing Date to and including the current Rebalancing Date, such that the “Financing Rate Component Adjustment” will equal:

$$(FRC_{\text{CURRENT}} - FRC_{\text{PRIOR}})$$

*Where:*

$FRC_{\text{CURRENT}}$  = the Financing Rate Component notional amount at 5:00 p.m. (CT) on the current Rebalancing Date;  
and

$FRC_{\text{PRIOR}}$  = the Financing Rate Component notional amount as determined on the prior Rebalancing Date.

*On the Rebalancing Date:*

1. Increase or decrease the notional exposure to total return of the S&P 500 (*i.e.*, the Equity Index Weight) by an amount equal to the Notional Adjustment minus the Financing Rate Component Adjustment, each as determined on the Reconstitution Date, divided by the S&P 500 value at 5:00 p.m. (CT) on the Rebalancing Date;
2. Increase or decrease the notional exposure to the PIMCO Total Return Collateral Index (*i.e.*, the Collateral Index Weight) by an amount equal to the Investment Adjustment minus the Financing Rate Component Adjustment, each as determined on the Reconstitution Date, divided by the PIMCO Total Return Collateral Index value determined at 5:00 p.m. (CT) on the Rebalancing Date; and
3. Reset the Financing Rate Component by increasing or decreasing the notional amount underlying the Financing Rate Component by an amount equal to the sum of the Notional Adjustment and the Investment Adjustment, minus the Financing Rate Component Adjustment, each as determined on the Reconstitution Date.

At the conclusion of each rebalancing, therefore, the portion of the PIMCO Master Index deemed to be invested in each component index of the PIMCO Master Index will be approximately equally weighted, representing full notional exposure to each of the total return of the S&P 500 and the PIMCO Total Return Collateral Index. The notional amount underlying the Financing Rate Component will reflect the amount of the assumed borrowing required to finance such exposure to the component indices.

**Hypothetical Example** - The methodology and effect of the monthly rebalancing of the PIMCO Master Index is illustrated in the following hypothetical example:

*Assuming the following values on the Reconstitution Date:*

	Total Return of S&P 500	PIMCO Total Return Collateral Index
Index Weight from prior Reconstitution Date	0.006513	0.944032
Index Weight on current Reconstitution Date	0.006532	0.9363
Value of component on current Reconstitution Date	1382.13	10.65
Value of component on prior Rebalancing Date	1513.06	10.57
Value of component on prior Reconstitution Date	1513.62	10.56

The Calculation Agent will determine the Notional Adjustment as described above, by:

$$\begin{aligned}
 & CW_{\text{CURRENT}} \times (CV_{\text{CURR RECON}} - CV_{\text{REBALANCE}}) + CW_{\text{PRIOR}} \times (CV_{\text{REBALANCE}} - CV_{\text{PRIOR RECON}}) \\
 & \text{or} \\
 & 0.936316 \times (10.65 - 10.57) + 0.944032 \times (10.57 - 10.56) = 0.084346
 \end{aligned}$$

In addition, the Calculation Agent will determine the Investment Adjustment as described above, by:

$$EW_{\text{CURRENT}} \times (SP_{\text{CURR RECON}} - SP_{\text{REBALANCE}}) + EW_{\text{PRIOR}} \times (SP_{\text{REBALANCE}} - SP_{\text{PRIOR RECON}})$$

or

$$0.006532 \times (1382.13 - 1513.06) + 0.006513 \times (1513.06 - 1513.62) = -0.858882$$

Therefore, the Investment Adjustment and the Notional Adjustment required by the Calculation Agent on the Rebalancing Date will be as follows:

<b>Investment Adjustment</b>	-\$0.858882
<b>Notional Adjustment</b>	\$0.084346

*Assuming the following is calculated on the Rebalancing Date:*

	<b>Notional amount underlying Financing Rate Component</b>
<b>Notional amount underlying Financing Rate Component as reset on the prior Rebalancing Date</b>	9.89985
<b>Value of the Financing Rate Component at the close on the current Rebalancing Date</b>	9.91478

The Calculation Agent will determine the Financing Rate Component Adjustment by subtracting the value of such notional amount on the prior Rebalancing Date from such notional amount on the current Rebalancing Date or  $9.91478 - 9.89985 = 0.01493$ .

*Assuming the following values on the Rebalancing Date:*

	<b>Total Return of S&amp;P 500</b>	<b>PIMCO Total Return Collateral Index</b>
<b>Value of component on Rebalancing Date</b>	1405.94	10.60
<b>Change in notional investment</b>	0.000049	-0.082437

The Calculation Agent will adjust the notional exposure by the Notional Adjustment minus the Financing Rate Component Adjustment divided by the total return value of the S&P 500 or  $(0.084346 - 0.01493) / 1405.94 = 0.000049$ . To do this the Calculation Agent will add this amount to the old Equity Index Weight to derive the new Equity Index Weight or  $0.006533 + 0.000049 = 0.006582$ .

In addition, on the Rebalancing Date the Calculation Agent will adjust the notional investment by the Investment Adjustment divided by the value of the PIMCO Total Return Collateral Index or  $(-0.858882 - 0.01493) / 10.60 = -0.082435$ . To do this the Calculation Agent will add this amount to the old Collateral Index Weight to derive the new Collateral Index Weight or  $0.936316 - 0.082435 = 0.853881$ .

Therefore, the new Index Weightings for the PIMCO Master Index will be as follows:

	<b>Total Return of S&amp;P 500</b>	<b>PIMCO Total Return Collateral Index</b>
<b>New Index Weight</b>	0.006582	0.853881

And the product of the value of the total return of the S&P 500 multiplied by its Index Weight will approximately equal the PIMCO Total Return Collateral Index multiplied by its Index Weight. The notional amount of the Financing Rate Component will be reset on the Rebalancing Date to equal the same notional as the component indices.

THE EXAMPLE PRESENTED ABOVE IS HYPOTHETICAL. NO REPRESENTATION IS BEING MADE THAT THE COMPONENT VALUES SHOWN HERE WILL BE ACHIEVED, OR THAT THE PIMCO SPTR TRAKRS WILL ACHIEVE PERFORMANCE LEVELS EQUIVALENT TO THE PERFORMANCE LEVEL IMPLIED BY SUCH COMPONENT VALUES.

### **Description of the Standard & Poor's 500 Total Return Index**

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") compiles the S&P 500, which is composed of common stocks of 500 companies as of a particular time. As of June 30, 2006, 424 companies or 86.2% of the market capitalization of the S&P 500 traded on the New York Stock Exchange (the "NYSE"); 76 companies or 13.8% of the market capitalization of the S&P 500 traded on the Nasdaq; and no companies traded on the AMEX. S&P has stated that it chooses these companies for inclusion in the S&P 500 with the aim of achieving a distribution by broad industry groupings that approximates the distribution of these groupings in the common stock population of the Standard & Poor's Stock Guide Database, which S&P uses as an assumed model for the composition of the total market. Relevant criteria employed by S&P include S&P's views as to the viability of the particular company, the extent to which that company represents the industry group to which it is assigned, the extent to which the market price of that company's common stock is generally responsive to changes in the affairs of the respective industry and the market value and trading activity of the common stock of that company. Ten main groups of companies comprise the S&P 500 with the percentage weight of the companies currently included in each group indicated in parentheses: Consumer Discretionary (10.2%); Consumer Staples (9.6%); Energy (10.2%); Financials (21.4%); Health Care (12.3%); Industrials (11.7%); Information Technology (14.9%); Materials (3.1%); Telecommunication Services (3.3%); and Utilities (3.4%).



***Calculation of the S&P 500*** - S&P currently computes the S&P 500 as of a particular time as follows:

1. The product of the market price per share and the number of then outstanding shares of each component stock, adjusted as described below, is determined as of that time (referred to as the “market value” of that stock);
2. The market values of all component stocks as of that time are aggregated;
3. The mean average of the market values as of each week in the base period of the years 1941 through 1943 of the common stock of each company in a group of 500 substantially similar companies is determined;
4. The mean average market values of all these common stocks over the base period are aggregated (the aggregate amount being referred to as the “base value”);
5. the current aggregate market value of all component stocks is divided by the base value; and
6. The resulting quotient, expressed in decimals, is multiplied by ten.

Total returns are calculated by adding the dividend income and price appreciation for a given time period. Total returns for the S&P 500 are calculated similarly; an indexed dividend return is added to the S&P 500 price change for a given time period.

S&P may from time to time, in its sole discretion, add companies to, or delete companies from, the S&P 500 to achieve the objectives stated above. Unless otherwise stated, all information herein on the S&P 500 is derived from S&P or other publicly available sources. Neither Merrill Lynch, PIMCO nor the CME makes any representation or warranty as to the accuracy or completeness of such information. This information reflects the policies of S&P as stated in publicly available sources and the policies are subject to change by S&P. S&P is under no obligation to continue to publish the S&P 500 and may discontinue publication of the S&P 500 at any time.

### **Description of the PIMCO Total Return Collateral Index**

***Definition and Overview*** - The PIMCO Total Return Collateral Index will be based on the performance of the PIMCO Separately Managed Accounts, less the daily deduction of certain management fees of 0.21% per annum, on a weighted average basis, as reported to the Calculation Agent by PIMCO or its agent. The deduction of these fees account for costs associated with maintaining the PIMCO Separately Managed Accounts that comprise the PIMCO Total Return Collateral Index.

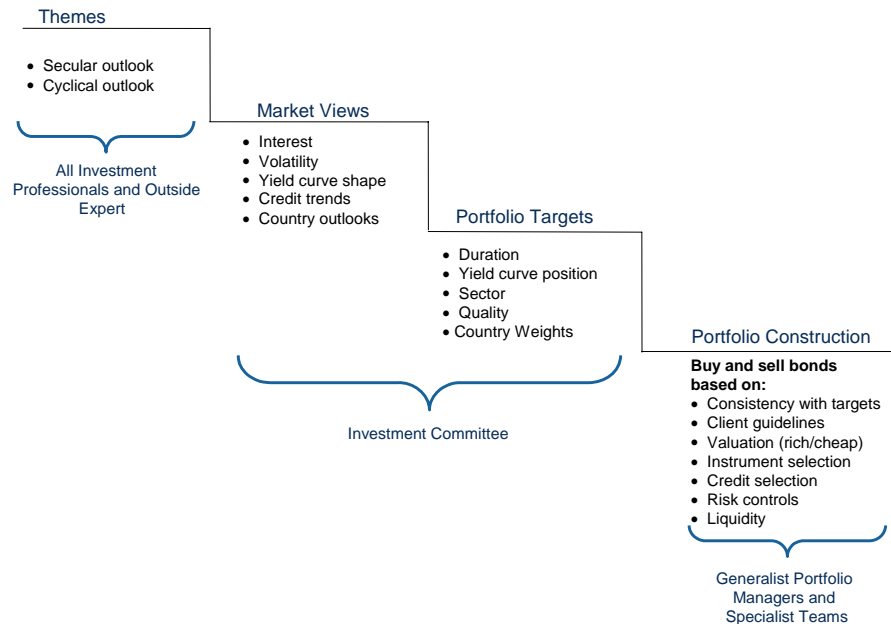
The PIMCO Total Return Collateral Index will initially be set at 10 on November 1, 2006, and will be calculated daily as of the close of trading by PIMCO or its agent. PIMCO or its agent will then provide the value of the PIMCO Total Return Collateral Index to the Calculation Agent by approximately 5:00 p.m. (CT) in order to permit the Calculation Agent to calculate the value of the PIMCO Master Index. Because the PIMCO Total Return Collateral Index will not be valued until 5:00 p.m. (CT) each Business Day and intraday values of the PIMCO Total Return Collateral Index will not be calculated, intraday valuations of the PIMCO Master Index and the Index will not reflect changes in value of the PIMCO Total Return Collateral Index, and therefore those intraday valuations may not accurately reflect the current value of all components of such indices. In addition, since the value of the PIMCO Total Return Collateral Index will not be available prior to the calculation of the daily settlement value for the PIMCO Master Index, such settlement value will reflect the value of the PIMCO Total Return Collateral Index as of the end of the immediately preceding Business Day. On the morning of each Business Day, beginning at 7:00 a.m. (CT), the value of the PIMCO Master Index will reflect the value of the PIMCO Total Return Collateral Index closing value and the S&P 500 total return official value, in each case based upon the 5:00 p.m. (CT) valuation as of the prior Business Day.

For convenience of calculating the PIMCO Total Return Collateral Index, PIMCO or its agent may divide the total account value of each PIMCO Separately Managed Account into hypothetical accounting units where each such hypothetical accounting unit will initially be given a value of 10.00 and will change in value in proportion to gains or losses of the applicable Account as a whole.

If, in the reasonable judgment of PIMCO, a market disruption event occurs or is continuing on any Business Day that prevents the calculation of the value of the PIMCO Total Return Collateral Index, PIMCO or its agent will provide the value of the PIMCO Total Return Collateral Index on the next available Business Day on which a market disruption does not occur and is not continuing. In the event that market disruption events postpone the calculation of the PIMCO Total Return Collateral Index for 15 consecutive Business Days, then the Calculation Agent will determine the value of the PIMCO Total Return Collateral Index after consultation with PIMCO or its agent, if reasonably practicable.

***The PIMCO Separately Managed Accounts*** - PIMCO will invest in Permissible Instruments on behalf of the PIMCO Separately Managed Accounts, including various fixed-income Exempt Securities, as well as in certain other financial instruments, which may include swaps, futures, forwards and other fixed income financial derivatives.

The strategy for the PIMCO Separately Managed Accounts combines top-down macroeconomic and market analysis with bottom-up sector and security selection to structure a portfolio PIMCO believes will maximize total return (taking into account both yield and price fluctuation) relative to risk or volatility of return.



PIMCO's investment process begins with the formulation of both secular, or long-term (3 to 5-year), and cyclical (6-12 month) economic outlooks involving participation by all the firm's investment professionals. Next, PIMCO's Investment Committee considers the economic themes in light of bond market conditions to formulate market views on interest rate direction and volatility, yield curve shape, the environment for credit risk, and outlooks for specific countries' bond markets. The Investment Committee translates these market views into specific high level portfolio targets on risk measures such as duration, yield curve positioning, sector weightings, credit quality and individual country weightings.

With these targets in mind, portfolio managers construct portfolios of individual securities and other instruments seeking consistency with the portfolio targets and taking into account specific investment guidelines, security valuation, and liquidity needs, incorporating a range of proprietary risk measurements and controls. A schematic description of PIMCO's investment process appears above.

**Types of Investments** - PIMCO will have discretion to invest in a range of Permissible Instruments on behalf of the PIMCO Separately Managed Accounts. Investments in common stocks and related equity indices, equity futures, other equity derivatives, registered investment companies, real estate investment trusts, S corporations and partnerships are explicitly prohibited (*i.e.*, these are not Permissible Instruments).

The Permissible Instruments to be traded by PIMCO for the PIMCO Separately Managed Accounts may include but are not limited to:

1. U.S. Treasury and Agency Notes and Bonds
2. U.S. Government Agency Issued Mortgage-Backed Securities (including TBAs, CMOs and REMIC regular interests)
3. Inflation-indexed Exempt Securities
4. Securities issued by foreign governments that are Exempt Securities under Securities and Exchange Commission Rule 3a12-8 (including both U.S. Dollar denominated and non-U.S. Dollar denominated securities)
5. Mortgage Derivatives
6. Bank Loans
7. Exempt Money Market Instruments (other than shares of registered investment companies)
8. Futures and Forwards (including Exchange Traded Swap Futures)
9. Options, Caps and Floors
10. Swaps
11. Credit Default Swaps (Buy Protection and Sell Protection)

The only securities held directly in the PIMCO Separately Managed Accounts will be Exempt Securities. The PIMCO Separately Managed Accounts also may hold non-securities. However, PIMCO may obtain indirect exposure, on behalf of the PIMCO Separately Managed Accounts, to a wide variety of non-Exempt Securities, as well as baskets or indices containing non-Exempt Securities, through the use of derivative instruments including but not limited to futures, forwards and total return swaps and, additionally, structured notes that are issued as Exempt Securities. Each of these instruments listed above are Permissible Instruments for all purposes described herein. Types of non-Exempt Securities to which such indirect exposures may be obtained include, but are not limited to:

1. Corporate Debt Securities
2. Non-agency Mortgage Backed Securities
3. Asset Backed Securities
4. Emerging Market Debt Securities
5. Municipal Securities
6. Non-US Dollar denominated securities issued by corporations and other entities
7. Event-linked Securities

In the event that there is a regulatory change after this date whereby the inclusion of other instruments besides Exempt Securities or non-securities in the Accounts will not cause the PIMCO Total Return Collateral Index to fail to be excluded from the definition of a “narrow based security index” under Section 1a(25) of the Commodity Exchange Act, or under any rules of the Commodity Futures Trading Commission adopted with respect to the definition of a “narrow based security index” under the Commodity Exchange Act, such other instruments shall also be Permissible Instruments in which PIMCO may invest on behalf of the Account, so long as PIMCO has obtained the written consent of CME and Merrill Lynch, which consent shall be in each such entity’s sole discretion. Such change shall not require the consent of the owner of an Account.

**Term of Instruments** - The average portfolio duration of the PIMCO Separately Managed Accounts normally will vary within one to six years, based on PIMCO’s forecast for interest rates and other considerations.

**Transaction Types** - PIMCO will purchase and sell Permissible Instruments for the PIMCO Separately Managed Accounts. Transactions will be executed on a regular or deferred/forward settlement basis. PIMCO may also utilize hedging, spread and income generating strategies that include the use of short sales of securities or short positions in derivatives. PIMCO may engage in repurchase agreements and reverse repurchase agreements.

**Concentration Limits** - PIMCO will limit the concentrations of investments or exposures through derivatives within the PIMCO Separately Managed Accounts to the following:

<b>Issue or Issuer</b> - Excludes sovereign debt of OECD governments and U.S. agencies. Specific mortgage pools and trusts are considered separate issuers, and each tranche within a CMO is considered a separate issue	5%
<b>Below BBB-</b>	10%
<b>Emerging Markets</b> - PIMCO uses the World Bank’s definition for emerging markets, which is based on a GNP per capita calculation	10%
<b>Private Placements</b> - Excluding securities eligible for resale under Rule 144A	10%
<b>Mortgage Derivatives</b>	3%
<b>Event-Linked Securities</b>	5%
<b>Foreign Currency Exposure</b>	20%
<b>Non-U.S. Dollar Denominated Instruments</b> - Excluding money-market instruments	50%

The percentage limitations referenced above will apply at the time of the purchase of assets for the PIMCO Separately Managed Accounts and are subject to change. Foreign currency exposure will be based on the absolute value of all positions (long and short) versus the U.S. dollar. Both long and short foreign currency positions may be held without owning securities denominated in such currencies.

**Rating Requirements** - PIMCO will apply quality ratings to the securities held in (or securities underlying the derivatives held in) the PIMCO Separately Managed Accounts using the higher of Moody's, S&P or Fitch. If a security is not rated by one of these rating agencies, then PIMCO will determine a rating.

<b>Minimum Average Portfolio Quality</b>	A- Rating
<b>Minimum Issue Quality</b>	B- Rating
<b>Minimum Commercial Paper Quality</b>	A2/P2

If a security is downgraded below these minimums, PIMCO will determine whether to sell or hold based on the perceived risk and expected return.

**Daily Valuation of the PIMCO Separately Managed Accounts and the PIMCO Total Return Collateral Index** - The value of each PIMCO Separately Managed Account ("Account Value") is determined by calculating the total value of the PIMCO Separately Managed Account's portfolio investments and other assets, less liabilities, attributable to such Account, after application of the management fee of 0.21% per annum, deducted pro rata on a daily basis, (the "Collateral Index Fees"). The return on the PIMCO Total Return Collateral Index is equal to the weighted average of the return of each PIMCO Separately Managed Account.

In the event that the Account Value for one or more Accounts is unavailable for any reason when PIMCO or its agent is required to provide a value of the PIMCO Total Return Collateral Index, PIMCO will make a good faith estimate of the value of such Accounts and the PIMCO Total Return Collateral Index.

Each PIMCO Separately Managed Account is valued as of the close of regular trading (normally 3:00 p.m., CT) (the "NYSE Close") on each day that the NYSE is open. For purposes of calculating the Account Value, PIMCO normally uses pricing data for domestic fixed income securities reflecting the earlier closing of the principal markets for those securities, subject to the fair valuation pricing procedures described below. Information that becomes known to PIMCO or its agents after the Account Value has been calculated on a particular day will not generally be used to retroactively adjust the price of a security or the Account Value determined earlier that day unless determined to be significant.

For purposes of calculating Account Value, portfolio securities and other assets for which market quotes are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Short-term investments having a maturity of 60 days or less are generally valued at amortized cost. Exchange traded futures and options on futures are valued at the settlement price determined by the exchange.

Positions in over-the-counter derivatives held in a PIMCO Separately Managed Account, such as swaps and forwards, will be valued at their market value, which will generally be based on quotations obtained from the counterparties to such transactions or from other dealers in the derivatives. If no such quotations are available, positions in over-the-counter derivatives will be valued in the reasonable judgment of PIMCO or its agent.

Investments or exposures initially valued in currencies other than the U.S. dollar are converted to U.S. dollars using exchange rates obtained from pricing services. As a result, the Account Value (and the return on the PIMCO Total Return Collateral Index) may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed.

Securities and other assets for which market quotes are not readily available are valued at fair value as determined in good faith by PIMCO or persons acting at its direction. PIMCO has adopted methods for valuing securities and other assets in circumstances where market quotes are not readily available. In the event that market quotes are not readily available, and the security or asset cannot be valued pursuant to one of the valuation methods, the value of the security or asset will be determined in good faith by PIMCO.

Market quotes are considered not readily available in circumstances where there is an absence of current or reliable market-based data (*e.g.*, trade information, bid/asked information, broker quotes), including where events occur after the close of the relevant market, but prior to the NYSE Close, that materially affect the values of the securities or assets held by the PIMCO Separately Managed Accounts. In addition, market quotes are considered not readily available when, due to extraordinary circumstances, the exchanges or markets on which the securities trade, do not open for trading for the entire day and no other market prices are available.

PIMCO is responsible for monitoring significant events that may materially affect the values of the securities or assets held by the PIMCO Separately Managed Accounts and for determining whether the value of the applicable securities or assets should be re-evaluated in light of such significant events.

When PIMCO uses fair value pricing to determine the Account Value, securities or other instruments held by the PIMCO Separately Managed Accounts will not be priced on the basis of quotations from the primary market in which they are traded, but rather may be priced by another method that PIMCO or persons acting at its direction believe accurately reflects fair value. PIMCO's policy is intended to result in a calculation of the Account Value (and the return on the PIMCO Total Return Collateral Index) that fairly reflects the value of a security or other instrument as of the time of pricing. However, fair values determined by PIMCO or persons acting at its direction may not accurately reflect the price that the PIMCO Separately Managed Accounts could obtain for a security or other instrument if it were to dispose of that security or other instrument as of the time of pricing. Fair value pricing may require subjective determinations about the value of a security or other instrument.

Errors in computation of the Account Value may, under certain circumstances require that corrections or adjustments be made. In such circumstances, all such adjustments shall be made in good faith. Changes in holdings of portfolio securities of each PIMCO Separately Managed Account will be reflected no later than in the first calculation of the Account Value of each such Account on the first business day following the trade date of such portfolio securities.

***Additional Information on the PIMCO Separately Managed Accounts*** - An entity that seeks to establish a PIMCO Separately Managed Account may finance its investment in the Account through a swap with a financial institution, pursuant to which the financial institution might establish a PIMCO Separately Managed Account in its own name (or such Account may be established in the name of an affiliate of such financial institution, which may be a special purpose vehicle) and pass through to the Account Performance Recipient (as defined below) the profit or loss, or the return, on the PIMCO Separately Managed Account.

Under such circumstances, the financial institution providing the swap will, if it establishes a PIMCO Separately Managed Account directly, be the owner of that Account (or, if an affiliate of the financial institution establishes a PIMCO Separately Managed Account, such affiliate will be the owner of the Account), but the Account Performance Recipient will in effect own the economic interest in the Account. The financial institution providing the financing or its affiliate, if it opens a PIMCO Separately Managed Account, will enter into the Investment Management Agreement (“IMA”) with PIMCO and will have all of the rights and obligations of the Account owner. The financial institution or its affiliate, as applicable, will have the right to lend securities held in the Account and to retain for itself the income generated by such securities lending transactions.

The Account Performance Recipient will have no direct interest in the Account but will have an economic interest in the performance of the Account and will obtain the economic indicia of ownership of the Account through the swap. The existence of such financing swaps gives rise to certain risks and conflicts, as described above. The financial institution providing the financing may be an affiliate of PIMCO or Merrill Lynch. Alternatively, a party seeking to obtain exposure on a financed basis to the PIMCO Total Return Collateral Index may enter into a swap based on the PIMCO Total Return Collateral Index or on PIMCO Separately Managed Accounts with a financial institution that elects not to establish its own PIMCO Separately Managed Account and hedges its own exposure under the swap in another manner.

If the owner of a PIMCO Separately Managed Account engages in any securities lending activities, any income generated or losses incurred through such activities will be retained or borne by the owner of the PIMCO Separately Managed Account and will not be reflected in the PIMCO Total Return Collateral Index. Since the PIMCO Total Return Collateral Index is a component of the PIMCO Master Index, and in turn, the Index, this return or loss on the lending of securities will not be reflected in such indices.



Under the terms of the IMA, PIMCO is not liable to the owner or the Account Performance Recipient of a PIMCO Separately Managed Account for the acts or omissions of any other fiduciary or other person respecting the Account or for anything done or omitted by PIMCO under the terms of the IMA with such Account owner if PIMCO has acted in good faith and has exercised the degree of prudence, competence and expertise customarily exhibited by managers of institutional portfolios. Without limiting the generality of the foregoing, PIMCO will not be liable for any indirect, special, incidental or consequential damages. PIMCO will not be deemed to have breached the IMA or the investment guidelines in connection with fluctuations arising from market movements and other events outside the control of PIMCO.

Additionally, an Account Performance Recipient is a third party beneficiary with respect to the IMA only with respect to certain limited sections of the IMA as agreed to in writing with PIMCO, and PIMCO will not be liable in any situation to an Account Performance Recipient under any other section of the IMA. No holder of PIMCO SPTR TRAKRS is a third party beneficiary under the IMA, and under no circumstances shall PIMCO be liable to any holder of PIMCO SPTR TRAKRS for any damages due to a breach of the IMA or the investment guidelines.

The PIMCO Separately Managed Accounts included in the PIMCO Total Return Collateral Index are all accounts under the discretionary management of PIMCO that qualify for inclusion in the PIMCO Total Return Collateral Index based upon the following eligibility criteria:

1. The Account has a minimum of \$50 million in assets;
2. PIMCO will manage the Account, and the IMA between PIMCO and the Account owner requires PIMCO to manage the Account in accordance with the PIMCO Total Return Collateral Index Guidelines, as described herein;
3. The owner of the Account or, in the case of a party financing its interest in an Account through the owner, the recipient of the performance of such Account (the "Account Performance Recipient"), represents and warrants to PIMCO in the IMA or in a separate agreement that it will enter into and maintain an equalization swap with the Equalization Swap Counterparty as described more fully above; and
4. The owner of the Account or the Account Performance Recipient has used reasonable efforts to put and maintain sufficient informational barriers in place so that information regarding the Account, including the holdings of such Account, is not used by the owner of the Account or the Account Performance Recipient or its affiliates in connection with brokerage, hedging or trading activities for its own accounts or the accounts of clients.

PIMCO in its sole discretion may choose not to open an account with any party desiring to have its account be included in the PIMCO Total Return Collateral Index, whether or not such party otherwise meets the above listed criteria. Among the items that PIMCO will require to open an account to be included in the PIMCO Total Return Collateral Index is a representation either (1) in the IMA that the sole purpose of the investment in the proposed account is to use such account for hedging purposes with respect to positions in TRAKRS or (2) in a separate agreement with the Account Performance Recipient for such Account that at all times during the term of the IMA, such Account Performance Recipient will utilize the returns from the Account that it receives through the financing swap solely for hedging purposes with respect to positions in TRAKRS. In the event that the applicable representation noted in the previous sentence or other applicable representations in the IMA are breached, PIMCO is permitted to terminate the IMA and remove the account from the PIMCO Total Return Collateral Index.

If the IMA between PIMCO and an Account holder terminates (including, without limitation, because of a failure to meet the eligibility requirements), the relevant PIMCO Separately Managed Account will be removed from the PIMCO Total Return Collateral Index. In the event of a termination of an IMA, the value of the PIMCO Total Return Collateral Index will not include the value of such terminated Account on the effective date of termination or thereafter, irrespective of when during the day the Account is terminated. Therefore, the final value of the terminated PIMCO Separately Managed Account that will be included in the calculation of the PIMCO Total Return Collateral Index is the value of the terminated Account that was included in the valuation of the PIMCO Total Return Collateral Index at 5:00 p.m. (CT) on the business day prior to the effective date of termination of the Account.

If there are one or more other PIMCO Separately Managed Accounts that qualify for inclusion in the PIMCO Total Return Collateral Index at the time of termination of the terminated Account, then the PIMCO Total Return Collateral Index will thereafter be calculated based on such other PIMCO Separately Managed Accounts only. If after termination of such Account, there are no other PIMCO Separately Managed Accounts that qualify for inclusion in the PIMCO Total Return Collateral Index, PIMCO will determine the level of the PIMCO Total Return Collateral Index by making a good faith estimate of the value of the PIMCO Total Return Collateral Index, which estimate may be based on the value of one or more instruments that were held in the terminated Account.

In such case, PIMCO will use a good faith estimate to value the PIMCO Total Return Collateral Index until PIMCO implements one of the alternatives set forth below when there are no accounts that qualify for inclusion in the PIMCO Total Return Collateral Index (*i.e.*, reliance on other accounts managed by PIMCO or on a new account established by PIMCO). Such other accounts managed by PIMCO or such new account established by PIMCO, in each case in the event of no PIMCO Separately Managed Account, shall be referred to herein as the “Alternative Account”.

If during the period between the termination of the last eligible PIMCO Separately Managed Account and the implementation of the Alternative Account PIMCO is unable to determine the value of the PIMCO Total Return Collateral Index for any reason, the value of the PIMCO Total Return Collateral Index will be determined by the Calculation Agent after consultation with PIMCO. Once an Alternative Account is implemented by PIMCO, the PIMCO Total Return Collateral Index will thereafter be calculated on the basis of such Alternative Account until a new PIMCO Separately Managed Account is established that meets all of the eligibility requirements for inclusion in the PIMCO Total Return Collateral Index. During the first five business days after the establishment of a new PIMCO Separately Managed Account to replace the Alternative Account, PIMCO may, in its reasonable discretion, value the PIMCO Total Return Collateral Index based on the value of the Alternative Account. In such case, PIMCO will, in its reasonable discretion, decide when during this five business day period to stop including the Alternative Account in the calculation of the PIMCO Total Return Collateral Index and instead to use the new PIMCO Separately Managed Account as a basis for calculating the PIMCO Total Return Collateral Index.

If only one Account exists which would otherwise qualify for inclusion in the PIMCO Total Return Collateral Index if an equalization swap were entered into and maintained, the equalization swap for such Account will be deemed to be entered into and maintained for the purpose of satisfying the foregoing criteria. However, the owner of such Account or the Account Performance Recipient, as the case may be, will be required, after proper notice from PIMCO, to enter into and maintain an equalization swap with the Equalization Swap Counterparty by the date prescribed by PIMCO, if any other Account qualifies for inclusion. If the owner of the Account or Account Performance Recipient, as the case may be, fails to enter into the equalization swap with the Equalization Swap Counterparty on or before the prescribed date set by PIMCO, such account will be removed from the PIMCO Total Return Collateral Index on the prescribed date.

As of this date, only one PIMCO Separately Managed Account, which will be managed by PIMCO on behalf of Merrill Lynch or a third party, which may be a financial institution that enters into a financing swap with Merrill Lynch or an affiliate of such financial institution, is expected to satisfy the criteria for inclusion in the PIMCO Total Return Collateral Index. Accordingly, the calculation of and returns on the PIMCO Total Return Collateral Index will be based exclusively on the value of and returns on the Account managed by PIMCO on behalf of Merrill Lynch or such third party. In addition, while it is possible that other accounts may satisfy the eligibility criteria in the future, and be included in the PIMCO Total Return Collateral Index, there can be no assurance that any such accounts will be so included in the future. In any event, it is not anticipated that there will be more than a limited number of PIMCO Separately Managed Accounts included in the PIMCO Total Return Collateral Index at any time.

There can be no assurance that an Equalization Swap Counterparty will make available an equalization swap on attractive terms. In the event that no equalization swap is available upon the inception of the PIMCO SPTR TRAKRS, or if an equalization swap previously entered into terminates without the availability of a successor swap, then pursuant to the terms of each IMA or a separate agreement with each Account Performance Recipient, PIMCO will have the right to terminate the IMA with each owner of a PIMCO Separately Managed Account. Under the terms of the IMA with each owner of a PIMCO Separately Managed Account or a separate agreement with the Account Performance Recipient, if there is only one PIMCO Separately Managed Account, the owner of the Account or Account Performance Recipient, as applicable, will be deemed to have entered into an equalization swap. In such situation, therefore, the owner of one PIMCO Separately Managed Account or one Account Performance Recipient will not have breached the representations in its IMA or applicable agreement and such PIMCO Separately Managed Account could remain an eligible Account to be included in the PIMCO Total Return Collateral Index. Therefore, in the circumstance where no equalization swap is available, PIMCO will choose one PIMCO Separately Managed Account to continue to manage and include in the PIMCO Total Return Collateral Index, and PIMCO may terminate the other PIMCO Separately Managed Accounts. PIMCO may, however, in its sole discretion, choose to continue to manage some or all of the other existing PIMCO Separately Managed Accounts, but only the one Account chosen by PIMCO will be included in the PIMCO Total Return Collateral Index.

In the event that, during the life of the PIMCO SPTR TRAKRS, the number of PIMCO Separately Managed Accounts is reduced to zero then, at the discretion of PIMCO, (1) the PIMCO Total Return Collateral Index will be based on a selected composite of PIMCO Total Return Accounts selected by PIMCO that hold Permissible Instruments only; or (2) PIMCO will deposit \$5 million into an account that will qualify as a PIMCO Separately Managed Account and the PIMCO Total Return Collateral Index will be based on that Account. The account(s) chosen by PIMCO is the “Alternative Account” described above.

In the event that the license granted by PIMCO to CME and Merrill Lynch in connection with PIMCO SPTR TRAKRS is terminated prior to the Final Settlement Date (as defined below), CME and Merrill Lynch may continue to use the intellectual property granted under the license agreement with respect to previously issued and/or listed PIMCO SPTR TRAKRS that are and remain outstanding and trading as of the effective date of termination of such agreement (the “Issued Products”). In such event, CME and Merrill Lynch would continue to be bound by all of their obligations, and PIMCO would continue to be entitled to all of its rights under the license agreement with respect to such Issued Products. Such license would remain effective until the Issued Products mature, expire or terminate in accordance with their terms.

Notwithstanding the foregoing, in the event of a termination of the license agreement under certain circumstances due to a material breach by either CME or Merrill Lynch that remains unremedied for a specified period of time, PIMCO may request that CME and Merrill Lynch assist PIMCO in removing all references to the licensed intellectual property, including the words “PIMCO”, “StocksPLUS” and “PIMCO Total Return Collateral Index”, with respect to Issued Products, and in the event of such request, to the extent permitted by applicable law, CME and Merrill Lynch agree to use reasonable efforts to assist PIMCO in the removal of such intellectual property from Issued Products. If PIMCO makes such a request, PIMCO will reimburse CME and Merrill Lynch for reasonable expenses in relation to such removal of such intellectual property from Issued Products.

**Information on PIMCO** - Pacific Investment Management Company LLC (“PIMCO”) is a subsidiary of Allianz AG, an international insurance and financial services provider. PIMCO is an institutional money manager specializing in fixed income management and is located at 840 Newport Center Drive, Newport Beach, CA 92660. Founded in 1971, PIMCO had approximately \$617 billion in assets under management as of June 30, 2006.

### **Description of the Financing Rate Component**

The Financing Rate Component is a structural cost component of the PIMCO Master Index that represents the assumed financing cost associated with obtaining full exposure to both component indices of the PIMCO Master Index. The PIMCO Master Index value is determined as if, on each Rebalancing Date, 100% of targeted exposure to the PIMCO Master Index is invested in both the total return of the S&P 500 and the PIMCO Total Return Collateral Index. As a result, the deduction of the Financing Rate Component represents a cost adjustment that is inherently part of obtaining full exposure to both component indices.

The Financing Rate Component is determined on a daily basis by applying the Financing Rate to a notional amount that will be initially set to 10.00 on November 1, 2006 and reset monthly on each Rebalancing Date, as described above under “Description of the PIMCO StocksPLUS Total Return Master Index”. The notional amount on which the Financing Rate Component is based, as well as the Financing Rate itself, will not change in any intra-month calculations of the value of the PIMCO Master Index.

The Financing Rate is equal to LIBOR with a designated maturity of one month plus 0.33% per annum. On the morning of each Business Day, beginning at 7:00 a.m. (CT), the value of the PIMCO Master Index will reflect the overnight accrual embedded in the Financing Rate Component since the last Rebalancing Date and will equal

$$\begin{aligned} &\text{Notional amount as of the most recent Rebalancing Date} \\ &\quad \text{multiplied by} \\ &\quad \text{Financing Rate (LIBOR plus 0.33\%)} \\ &\quad \text{multiplied by} \\ &\text{the number of days from the most recent Rebalancing Date divided by 360.} \end{aligned}$$

The Financing Rate Component will reduce the value of the Index over the term of the contract and at maturity. Customers should view the Financing Rate Component as a structural economic component that is embedded in the value of the Master Index and should consider the deduction of the Financing Rate Component as they evaluate the desirability of a position in PIMCO SPTR TRAKRS.

“LIBOR” means on any Rebalancing Date, the rate for deposits in U.S. dollars for a period of one month which appears on the Telerate Page 3750 as of 11:00 a.m., London time, on the day that is two London Banking Days preceding that Rebalancing Date. If such rate does not appear on the Telerate Page 3750, the rate for that Rebalancing Date will be determined on the basis of rates at which deposits in U.S. Dollars are offered by four major banks in the London interbank market at approximately 11:00 a.m., London time, on the day that is two London Banking Days preceding that Rebalancing Date to prime banks in the London interbank market for a period of one month commencing on the Rebalancing Date. The Calculation Agent will request the principal London office of each of the four major banks in the London interbank market to provide a quotation of its rate. If at least two such quotations are provided, the rate for the Rebalancing Date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that Rebalancing Date will be the arithmetic mean of the rate quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on that Rebalancing Date for loans in U.S. Dollars to leading European banks for a period of one month, commencing on that Rebalancing Date.

“Telerate Page 3750” means the display page designated “3750” on Bridge’s Telerate Service (or any such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purposes of displaying rates or prices comparable to LIBOR).

### **Description of the PIMCO StocksPLUS Total Return TRAKRS Index**

The Index will initially be set to 25.00 on November 1, 2006. The Calculation Agent will calculate and disseminate a value of the Index every fifteen (15) seconds (assuming the value has changed within such fifteen-second interval) during the hours of 7:00 a.m. to 3:00 p.m. (CT) and a daily settlement value at approximately 4:00 p.m. (CT) on each Business Day under the index symbol “PSX”. Because the total return value of the S&P 500 and the PIMCO Total Return Collateral Index will not be valued until approximately 5:00 p.m. (CT) each Business Day and intraday values of the total return value of the S&P 500 and the PIMCO Total Return Collateral Index will not be calculated, intraday valuations of the PIMCO Master Index and the Index will not reflect any reinvested dividends or distributions related to the underlying stocks in the S&P 500 or changes in value of the PIMCO Total Return Collateral Index, and therefore those intraday valuations may not accurately reflect the current value of all components of such indices.

In addition, since the total return value of the S&P 500 and the value of the PIMCO Total Return Collateral Index will not be available prior to the calculation of the daily settlement value for the PIMCO Master Index, such settlement value will reflect the value of the PIMCO Total Return Collateral Index as of the end of the immediately preceding Business Day and only the price changes of the underlying stocks in the S&P 500 as of the current Business Day, without adjusting for new dividends and distributions. On the morning of each Business Day, beginning at 7:00 a.m. (CT), the value of the PIMCO Master Index will reflect the value of the PIMCO Total Return Collateral Index closing value and the S&P 500 total return official value, in each case based upon the 5:00 p.m. (CT) valuation as of the prior Business Day. The value of the Index, at any given time, will equal the product of the value of the PIMCO Master Index and the Multiplier, plus the Amortizing Expense Factor.

The Calculation Agent will determine a multiplier (the “Multiplier”), that will be used to calculate the Index. On any given day during the term of PIMCO SPTR TRAKRS, the “Multiplier” will be reduced on a daily basis to reflect the application of the Index Expense Factor equal to 1.13% per annum.

The daily application of the Index Expense Factor will decrease the Multiplier over time, which will reduce the value of the Index over the term of the contract and at maturity. The Index Expense Factor reflects a number of fees, including (i) a “Spread” of 0.00%, (ii) the “TRAKRS Platform Fees” of 1.08% per annum and (iii), Estimated Index Replication Fees of 0.05% per annum. The TRAKRS Platform Fees include, but are not limited to, the licensing fees paid to PIMCO and Standard & Poor’s, estimated custodial fees for the PIMCO Separately Managed Accounts, and listing and development fees paid to CME and Merrill Lynch.

The “Amortizing Expense Factor” will be charged to non-institutional customers and electing institutional customers purchasing PIMCO SPTR TRAKRS during the first 90-day period beginning November 2, 2006. The Amortizing Expense Factor will be equal to \$0.50 (2% of the initial Index value of \$25.00) and will be reduced each calendar day for such 90-day period by an amount equal to \$0.005556 (2.00% of the initial Index value divided by 90). The Amortizing Expense Factor may be used to compensate brokers offering PIMCO SPTR TRAKRS in the scheduled opening.

Non-institutional customers and electing institutional customers should view the Index Expense Factor and the Amortizing Expense Factor as an economic cost that is embedded in the value of PIMCO SPTR TRAKRS and should consider this cost as they evaluate the desirability of a position in PIMCO SPTR TRAKRS.

## **Final Settlement of the PIMCO StocksPLUS Total Return TRAKRS**

Trading of PIMCO SPTR TRAKRS will terminate at 3:00 p.m. (CT) on October 26, 2011 (the “Final Settlement Date”). The final settlement price for PIMCO SPTR TRAKRS (the “Final Settlement Price”) will be based on the Final Index Value, which will be determined on the Final Settlement Date, or, if necessary, such later date constituting the end of the Final Price Determination Period. The “Final Index Value” will be equal to the average of five closing prices of the Index that are observed (each, a “Final Closing Price”) from, and including, October 20, 2011 through October 26, 2011, or, if necessary, during an extended period as described below (the “Final Price Determination Period”).

If all five Final Closing Prices have not become available as of the Final Settlement Date, the Calculation Agent will identify the Final Settlement Price after five Final Closing Prices do become available over the next 15 Business Days. If five Final Closing Prices do not become available over the next 15 Business Days, then, in order to identify the Final Settlement Price, the Calculation Agent will determine the outstanding Final Closing Prices in its sole discretion. If the value of the PIMCO Total Return Collateral Index is unavailable for any day during the Final Price Determination Period because of a scheduled closing, then the contribution to the Final Closing Price for the Index shall be based on the PIMCO Total Return Collateral Index of the first preceding Business Day.

If the value of the PIMCO Total Return Collateral Index is unavailable during the Final Price Determination Period because of an unanticipated and/or unannounced delay in the publication of the PIMCO Total Return Collateral Index, then the value of the PIMCO Total Return Collateral Index to be used in calculating the Final Closing Prices shall be the next available official value.

If the value of the total return of the S&P 500 is unavailable during the Final Price Determination Period because of a Market Disruption Event (as defined below), then the value of the S&P 500 to be used in calculating the Final Closing Prices shall be the next available official value.

“Market Disruption Event” means either of the following events as determined by the Calculation Agent:

1. The suspension of or material limitation on trading for more than two hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange on which the stock included in the S&P 500 trade as determined by the Calculation Agent (without taking into account any extended or after-hours trading session), in 20% or more of the stocks which then comprise the Index or any successor index; or



2. The suspension of or material limitation on trading for more than two hours of trading, or during the one-half hour period preceding the close of trading, on the primary exchange that trade options contracts or futures contracts related to the stocks included in the S&P 500 as determined by the Calculation Agent (without taking into account any extended or after-hours trading session), whether by reason of movements in price otherwise exceeding levels permitted by the relevant exchange or otherwise, in option contracts or futures contracts related to the Index, or any successor index.

For the purpose of determining whether a Market Disruption Event has occurred:

1. A limitation on the hours in a trading day and/or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the relevant exchange
2. A decision to permanently discontinue trading in the relevant futures or options contracts related to the Index, or any successor index, will not constitute a Market Disruption Event;
3. A suspension in trading in a futures or options contract on the S&P 500, or any successor index, by a major securities market by reason of (a) a price change violating limits set by that securities market, (b) an imbalance of orders relating to those contracts or (c) a disparity in bid and ask quotes relating to those contracts will constitute a suspension of or material limitation on trading in futures or options contracts related to the Index;
4. A suspension of or material limitation on trading on the relevant exchange will not include any time when that exchange is closed for trading under ordinary circumstances; and
5. For the purpose of clause 1 above, any limitations on trading during significant market fluctuations under NYSE Rule 80B, or any applicable rule or regulation enacted or promulgated by the NYSE or any other self regulatory organization or the Securities and Exchange Commission of similar scope as determined by the calculation agent, will be considered “material”.

The occurrence of a Market Disruption Event could affect the value of total return of the S&P 500 and, consequently, the value of the Index and the PIMCO Master Index, and may adversely affect trading in PIMCO SPTR TRAKRS. A Market Disruption Event may also delay final settlement of PIMCO SPTR TRAKRS.

### **Publication of Successor Indexes**

If, under certain circumstances, the license granted by Standard & Poor's to CME and Merrill Lynch is terminated prior to the Final Settlement Date, then, Merrill Lynch will use commercially reasonable efforts to publish or have its agent publish a successor or substitute index (the "Successor Index") that is substantially comparable to the S&P 500. The PIMCO Master Index will thereafter be calculated on the basis of the Successor Index using substantially the same formula for and method of calculating the PIMCO Master Index as at the time of the termination of the license granted by Standard & Poor's to CME and Merrill Lynch. The obligation of Standard & Poor's to publish the Successor Index will be conditioned on CME and Merrill Lynch entering into a license agreement with Standard & Poor's with respect to such Successor Index on substantially the same terms and conditions as the license granted by Standard & Poor's to CME and Merrill Lynch. If no Successor Index is available, PIMCO SPTR TRAKRS will be terminated and delisted, and open positions will be settled at prices determined in accordance with CME Rules.

If, under certain circumstances, the license granted by PIMCO to CME and Merrill Lynch is terminated prior to the Final Settlement Date, then, the Calculation Agent may publish a successor or substitute index (the "Successor Total Return Collateral Index"), which may consist of separately managed accounts managed by a different entity. The PIMCO Master Index will thereafter be calculated on the basis of the Successor Total Return Collateral Index using substantially the same formula for and method of calculating the PIMCO Total Return Collateral Index as at the time of the termination of the license granted by PIMCO to CME and Merrill Lynch. If no Successor Total Return Collateral Index is available, PIMCO SPTR TRAKRS will be terminated and delisted, and open positions will be settled at prices determined in accordance with CME Rules.

## **Review of Individual Contract Terms**

This Section is intended to provide a review of the individual contract terms and conditions associated with PIMCO SPTR TRAKRS futures. The following section provides a complete copy of the contract rules.

**Contract Size** - Rule 37501.A., Underlying Index, provides that “PIMCO SPTR TRAKRS are based upon the value of \$1 times the PIMCO StocksPLUS Total Return TRAKRS Index<sup>SM</sup> (the “Index”), which tracks the PIMCO StocksPLUS Total Return Master Index (the “PIMCO Master Index”).” Rule 37501.B., Calculation of the Index Value, further provides that “[t]he value of the Index, at any given time, will equal the product of the PIMCO Master Index and the Multiplier, plus the Amortizing Expense Factor ... On November 1, 2006 (the Business Day prior to the first full day of trading of PIMCO SPTR TRAKRS), the value of the Index will be set at 25.00. The Calculation Agent will determine the Multiplier on November 1, 2006, so that the product of the closing price of the PIMCO Master Index and the Multiplier will equal 25.00.”

As such, PIMCO SPTR TRAKRS contract will initially be priced in the vicinity of \$25.00, similar to prior TRAKRS products. Full details regarding the calculation of the Index and its component parts are included above.

**Quotation Specification** - Rule 37502.C. Minimum Increments, specifies that “[b]ids and offers shall be quoted in terms of the PIMCO SPTR TRAKRS Index. The minimum fluctuation of the futures contract shall be 0.01 index point, equivalent to \$0.01 per TRAKRS futures contract.” This tick size is intended to allow for the possibility of a very competitive marketplace.

**Final Settlement** – The Exchange intends to trade a single PIMCO SPTR TRAKRS futures contract which shall be settled in cash on October 26, 2011. Given that trade shall commence on the CME Globex electronic trading platform on November 2, 2006, (see discussion under “Special Opening Procedures” below), the contract will be open for approximately five (5) full years.

Rule 37503.A., Final Settlement Price, specifies that “[t]he Final Settlement shall be equal to \$1.00 multiplied by the Final Index Value. The Final Index Value shall be equal to the weighted average of five Final Closing Prices that are determined over the course of five Business Days from October 20, 2011 through October 26, 2011 (or if necessary, an extended period) (the “Final Price Determination Period”).” Rule 37503.A. further includes provisions for various contingencies based upon any potential inability to collect the information requisite to the calculation of the Final Index Value.

**Early Termination** – In the event that the Index falls to a value of zero or below, the Exchange contemplates a discontinuation of trading in the contract and an immediate cash settlement at a value of zero (\$0.00) per contract per Rule 37503.B., Early Termination.

**Price Limits** – The contract does not contemplate use of price limits.

**Customer Distinctions** - Rule 37504.A. Customers, provides a distinction between “Institutional Customers,” “Electing Institutional Customers” and “Non-Institutional Customers.” In particular, the Rule states that “[f]or purposes of this Rule, ‘Institutional Customers’ are market participants that (1) qualify as Qualified Institutional Buyers (‘QIBs’) under Rule 144A promulgated under the Securities Act of 1933, as amended; and, (2) CME members registered as floor brokers or floor traders. ‘Non-Institutional Customers’ are market participants that do not qualify as Institutional Customers as defined herein ... Institutional Customers who place orders with a Registered Representative (‘RR’) of a securities Broker-Dealer (‘BD’) that is notice registered with the National Futures Association (‘NFA’) as a limited purpose Futures Commission Merchant (‘LP/FCM’); or, an entity that is dually registered as a BD and FCM (‘BD/FCM’), and maintaining such resulting positions in a securities account, as described in Rule 37504.B., Qualified Intermediaries, shall be referred to as an ‘Electing Institutional Customer.’”

These distinctions are applied for purposes of (1) identifying intermediaries authorized to solicit and write orders for the futures contract, (2) the interest rate pass-through feature, and (3) performance bond and variation margin procedures, as described below.

**Qualified Intermediaries** – Rule 37504.B., Qualified Intermediaries, specifies that “Institutional and Non-Institutional Customers may place PIMCO SPTR TRAKRS orders with (1) an Associated Person (‘AP’) of a registered Introducing Broker (‘IB’) or Futures Commission Merchant (‘FCM’), such resulting positions to be maintained in a futures account; or (2) a Registered Representative (‘RR’) of a securities Broker-Dealer (‘BD’) that is notice registered with the National Futures Association (‘NFA’) as a limited-purpose FCM (‘LP/FCM’) or an entity that is dually registered as a BD and FCM (‘BD/FCM’), such resulting positions to be maintained in a securities account.”

Note that these provisions are consistent with the terms of a No-Action Letter issued by the Commission dated July 11, 2001 as amended by a subsequent No-Action Letter dated September 7, 2006 which modified the prior relief.<sup>1</sup>

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<sup>1</sup> Specifically, the Letter dated September 7, 2006 clarifies that the Division of Clearing and Intermediary Oversight “will not recommend that the Commission take any enforcement action against registered broker-dealers (‘BDs’) or their registered representatives (‘RRs’) if they give ‘institutional customers’ ... the option either: 1. to maintain a traditional futures account at a registered introducing broker (‘IB’) or futures commission merchant (‘FCM’), place orders with an associated person (‘AP’) of the IB or FCM or directly through GLOBEX, and to comply with CME’s standard performance bond and settlement variation requirements; or 2. to maintain a securities account and execute trades through a BD/FCM in full compliance with the Prior Letter as it relates to TRAKRS<sup>SM</sup> trades by non-institutional customers.”

***Interest Pass-Through Feature*** – Rule 37504.C. Interest Rate Pass-Through, specifies that “[e]ach trading day after the determination of the daily Settlement Price, each clearing FCM that maintains long PIMCO SPTR TRAKRS positions will be required to pay the CME Clearing House (based on the amount of long PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price) a daily market rate of interest equal to the Federal Funds Effective Rate less the Spread. The CME Clearing House in turn will pay each clearing FCM that maintains short PIMCO SPTR TRAKRS positions (based on the amount of short PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price), a daily market rate of interest equal to the Federal Funds Effective Rate less the sum of the Spread and the TRAKRS Platform Fees.”

Note that, per Rule 37501.D., “[t]he Spread shall equal 0.00% per annum” while “TRAKRS Platform Fees shall equal 1.08% per annum.”

The application of this interest charge to long positions is expected to impact upon contract pricing in such a manner as to cause the futures contract value in some instances to more closely resemble the spot value of the portfolio represented in the Index.

Futures may price at a premium, or a discount, to the underlying market measure. Such premiums or discounts reflect the cost of buying and carrying (the “cost of carry”) the commodity until futures contract maturity. Futures may price at a discount to the cash or spot price where payouts associated with the underlying instrument exceed financing charges associated with borrowing to finance the purchase (“positive carry”). Futures may price at a premium to the cash or spot price where the reverse is true and financing rates are less than the payouts associated with the instrument (“negative carry”).

Note that arbitrageurs generally force futures prices to levels that reflect the spot value of the underlying instrument plus financing costs less any payouts associated with holding the underlying instrument(s). As such, the futures price, in the absence of an interest rate pass-through feature, should reflect the value of the Index further adjusted upwards by finance charges implicit in the domestic interest rate less payouts.

$$\text{TRAKRS Futures Price} = \text{Index Value} + \text{Finance Charges} - \text{Payouts}$$

The interest rate pass through feature has the effect of offsetting a portion of the finance charges from the equation ...

$$\begin{aligned} \text{TRAKRS Futures Price} &= \text{Index Value} + \text{Finance Charges} - \text{Payouts} \\ &\quad - (\text{Fed Funds Effective Rate} - \text{Spread}) \end{aligned}$$

As a result, the PIMCO SPTR TRAKRS futures contract is expected to be valued at levels that more closely reflect the value of the underlying index. We believe that this simplification will make the benefits of this market more accessible to traders who currently may not be utilizing futures.

Note that such interest rate pass-through payments are required of Institutional Customers but not of Non-Institutional Customers or Electing Institutional Customers. Further, it is the responsibility of the clearing FCM to administer such payments. Institutional Customers will be subject to normal Exchange performance bond and variation margin requirements. On the other hand, Non-Institutional Customers and Electing Institutional Customers are not permitted to margin their long positions nor are they subject to variation margin payments as described above. In other words, long Non-Institutional Customers and Electing Institutional Customers will be required to pay in full and will not be permitted to leverage their investment. Thus, it is appropriate to require this payment of Institutional but not of Non-Institutional Customers or Electing Institutional Customers if the contract is to price in the intended manner. Finally, note that should the Fed Funds Effective Rate fall below the value of the Spread, the flow of funds will reverse from short Institutional Customers to long Institutional Customers.

***Performance Bond and Variation Settlements*** – Rule 37504.E., Performance Bond, specifies that “Non-Institutional Customers purchasing PIMCO SPTR TRAKRS, maintained in a futures account or a securities account, shall deposit 100% of the purchase price with their long clearing member. Non-Institutional Customers selling PIMCO SPTR TRAKRS, maintained in a futures account or a securities account, shall deposit 50% of the sale price with their short clearing member ... Electing Institutional Customers purchasing PIMCO SPTR TRAKRS, maintained in a securities account, shall deposit 100% of the purchase price with their long clearing member. Electing Institutional Customers selling PIMCO SPTR TRAKRS, maintained in a securities account, shall deposit 50% of the sale price with their short clearing member ... Institutional Customers purchasing or selling PIMCO SPTR TRAKRS, maintained in a futures account, shall be subject to the performance bond requirements established by the Exchange and their FCMs.”

While the initial and subsequent variation margin requirements imposed upon Institutional Customers are identical to those required of any other futures trader, the margin requirements imposed upon Non-Institutional Customers and Electing Institutional Customers are different. Specifically, the Non-Institutional or Electing Institutional buyer of a contract will be required to pay in full upon purchase and is not permitted the use of leverage, while the Non-Institutional or Electing Institutional short seller will be required to post 50% margin.

Accordingly, subsequent variation margins will not be required of long Non-Institutional Customers and Electing Institutional Customers. Short Non-Institutional Customers and Electing Institutional Customers are subject, per Rule 37504.F., Settlement Variation, to simplified variation margin requirements.

The following table is provided to summarize the differing flow of funds treatments accorded Institutional Customers, Electing Institutional Customers and Non-Institutional Customers.

**TRAKRS Flow-of-Funds Summary**

<b>Customer Type</b>	<b>Execution thru</b>	<b>Positions Maintained in</b>	<b>Initial Performance Bond Requirements</b>	<b>Subject to Interest Rate Pass-Through?</b>
Institutional Customers	APs of IBs or FCMs	Futures Account	Normal Performance Bond Requirements	Yes
Electing Institutional Customers	Notice-Registered RRs of Notice-Registered BD/FCMs	Securities Account	100% for Longs; 50% for Shorts	No
Non-Institutional Customers	APs of IBs or FCMs	Futures Account	100% for Longs; 50% for Shorts	No
	Notice-Registered RRs of Notice-Registered BD/FCMs	Securities Account	100% for Longs; 50% for Shorts	No

***Special Opening Procedures*** - In order to facilitate a liquid and orderly introduction of the PIMCO SPTR TRAKRS futures contract, the Exchange will employ Special Opening Procedures as described in Rule 37502.K. These procedures will permit authorized notice-registered broker-dealers and FCMs to commence marketing of the product and to solicit limit orders during a Special Marketing Period commencing on October 3, 2006.

The Special Marketing Period shall conclude at 10:00 a.m. (Chicago time) on November 1, 2006, at which time solicitation per these Special Opening Procedures shall be terminated and buy limit orders and sell limit orders received during the course of the Special Marketing Period shall be matched. Rule 37502.K specifies that solicitation shall terminate and all orders shall be reported by Exchange clearing members to the Exchange at 10:00 a.m. (Chicago time) on the Initial Open Date.

Per Rule 37502.K, the Exchange ... “shall thereupon match purchase and sale orders based upon an Allocation Algorithm and report such matches promptly to Clearing Members. The Exchange shall match buy orders to sell orders prioritized by sell price. At each sell price at which buy orders will be matched, buy orders with limit prices equal to or greater than the sell price shall be allocated on a pro rata basis. If multiple sell orders are received at the same limit price, and the total sell order quantity exceeds the total buy order quantity that may be matched at that price, the allocation of orders shall be made on a pro rata basis by reference to the quantities associated with such orders, subject to the restriction that all sell orders at that price are filled before a proprietary sell order of any Exchange-appointed Market Maker.” These matches shall promptly be reported to Clearing Members.

Note that, per Rule 37502.K., “[t]he Exchange reserves the authority to limit the size of the open interest created as a result of these Special Opening Procedures. The Exchange further reserves the authority to delay the Initial Open Date if it determines in its discretion that market conditions are not conducive to an orderly opening.”

Subsequently, the Initial Value of the PIMCO SPTR TRAKRS Index shall be established at 25.00. On November 2, 2006, trading shall commence per normal procedures on the CME Globex electronic trading platform.

**Block Trades** - Block trades are now authorized in the context of PIMCO SPTR TRAKRS futures with a minimum block transaction quantity of 100,000 contracts. Note that the PIMCO SPTR TRAKRS futures contract is expected to commence trading with an initial value in the vicinity of \$25.00 per contract. Thus, 100,000 contracts represent a value of perhaps \$2.5 million.

**No-Bust Range** – The CME Globex error trade policy with respect to all TRAKRS provides for a “no-bust range” of 25 cents per contract (noting that the tick size of the contract is \$0.01).

**Reportable Position** – The reportable position is established at 50,000 contracts. This quantity is identical to the reportable position established in the context of the other previously established TRAKRS futures contracts. Noting that the contract is expected initially to trade in the vicinity of \$25 per contract, a 50,000 contract position may represent something on the order of \$1,250,000 in notional value and not outside of the range of notional values that represent reportable positions in other futures contracts.



**PIMCO® SPTR TRAKRS<sup>SM</sup>**

<b>Underlying Index</b>	PIMCO SPTR TRAKRS based on value of \$1 times PIMCO StocksPLUS Total Return TRAKRS Index <sup>SM</sup> (the “Index”), which tracks PIMCO StocksPLUS Total Return Master Index (“PIMCO Master Index”). PIMCO Master Index is a total return index that represents performance of a portfolio with target allocation of 100% notional exposure to each of (1) total return of S&P 500, (2) PIMCO Total Return Collateral Index, and (3) a component that represents the implicit financing costs of maintaining 100% exposure to each of the forementioned indices, subject to certain fees and expenses.										
<b>Trading Unit</b>	\$1.00 multiplied by the value of Index. On the Business Day prior to first full day of trading of PIMCO SPTR TRAKRS, value of Index initially set at 25.00.										
<b>Embedded Fees and Expenses</b>	<p>Fees and expenses embedded in Index include the Amortizing Expense Factor of 2.00% of initial Index value, amortized over 90 calendar days, and the following:</p> <table> <tr> <td>Spread Fee (based on the daily closing Index value)</td><td>0.00%</td></tr> <tr> <td>TRAKRS Platform Fees (based on daily closing Index value)</td><td>1.08%</td></tr> <tr> <td>Est. Index Replication Fees (based on daily closing Index value)</td><td>0.05%</td></tr> <tr> <td>Collateral Index Fee (based on daily closing PIMCO accounts value)</td><td><u>0.21%</u></td></tr> <tr> <td>Total Embedded Fees (excluding Amortizing Expense Factor)</td><td><u>1.34%</u></td></tr> </table> <p>In addition, the Financing Rate Component associated with obtaining full exposure to each of the total return of S&amp;P 500 and PIMCO Total Return Collateral Index is deducted in calculating PIMCO Master Index. A money market based interest rate (the “Financing Rate”) is applied to notional amount underlying Financing Rate Component on a daily basis. The Financing Rate applied equals one-month LIBOR plus 0.33%.</p>	Spread Fee (based on the daily closing Index value)	0.00%	TRAKRS Platform Fees (based on daily closing Index value)	1.08%	Est. Index Replication Fees (based on daily closing Index value)	0.05%	Collateral Index Fee (based on daily closing PIMCO accounts value)	<u>0.21%</u>	Total Embedded Fees (excluding Amortizing Expense Factor)	<u>1.34%</u>
Spread Fee (based on the daily closing Index value)	0.00%										
TRAKRS Platform Fees (based on daily closing Index value)	1.08%										
Est. Index Replication Fees (based on daily closing Index value)	0.05%										
Collateral Index Fee (based on daily closing PIMCO accounts value)	<u>0.21%</u>										
Total Embedded Fees (excluding Amortizing Expense Factor)	<u>1.34%</u>										
<b>Interest Rate Pass-Thru Feature</b>	Each trading day after the determination of the daily Settlement Price, each clearing FCM that maintains long PIMCO SPTR TRAKRS positions will be required to pay the CME Clearing House (based on the amount of long PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price) a daily market rate of interest equal to the Federal Funds Effective Rate less the Spread. The CME Clearing House in turn will pay each clearing FCM that maintains short PIMCO SPTR TRAKRS positions (based on the amount of short PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price), a daily market rate of interest equal to the Federal Funds Effective Rate less the sum of the Spread and TRAKRS Platform Fees.										
<b>Margins and Settlements</b>	Institutional Customers subject to normal margin/variation requirements. Non-Institutional and Electing Institutional Customers purchasing TRAKRS required to post 100% performance bond with no further variations. Non-Institutional and Electing Institutional Customers selling TRAKRS required to post a 50% performance bond. If price movements render that original deposit equal to 30% or 70% of TRAKRS value, customers must pay or collect sufficient funds to restore original 50% margin.										
<b>Contract Months</b>	One contract month expiring on October 26, 2011.										
<b>Trading Hours</b>	Traded on the CME Globex® electronic trading platform on Mondays through Fridays from 8:30 a.m. to 3:00 p.m. (all times are Chicago time).										
<b>Minimum Fluctuation</b>	0.01 Index Points or \$0.01 per contract.										
<b>Position Limits</b>	22,000,000 Contracts.										
<b>Final Settlement Date</b>	The Exchange will offer a single PIMCO SPTR TRAKRS Index futures contract which shall be settled on October 26, 2011										
<b>1<sup>st</sup> Globex Trading Day</b>	November 2, 2006										
<b>Last Trading Day</b>	October 26, 2011										
<b>Final Settlement Price</b>	\$1.00 multiplied by Final Index Value. Final Index Value equals weighted average of five Final Closing Prices October 20, 2011 through October 26, 2011.										
<b>Ticker Symbol</b>	Ticker for PIMCO SPTR TRAKRS futures is “PST”										

## **Contract Specifications for PIMCO SPTR TRAKRS**

### **CHAPTER 375: PIMCO<sup>®</sup> StocksPLUS Total Return<sup>SM</sup> TRAKRS<sup>SM</sup>**

#### **37500. SCOPE OF CHAPTER**

This chapter is limited in application to trading in PIMCO<sup>®</sup> StocksPLUS Total Return<sup>SM</sup> TRAKRS<sup>SM</sup> (“PIMCO SPTR TRAKRS”). The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

#### **37501. COMMODITY SPECIFICATIONS**

##### **37501.A. Underlying Index**

PIMCO SPTR TRAKRS are based upon the value of \$1 times the PIMCO StocksPLUS Total Return TRAKRS Index<sup>SM</sup> (the “Index”), which tracks the PIMCO StocksPLUS Total Return Master Index (the “PIMCO Master Index”). The PIMCO Master Index is a total return index that represents the performance of a portfolio with a target allocation of 100% notional exposure to each of the total return of the S&P 500 and the PIMCO Total Return Collateral Index, subject to the Financing Rate Component (as defined below). The PIMCO Master Index will be calculated based on the total return value of the S&P 500 and the value of the PIMCO Total Return Collateral Index less the Financing Rate Component. The notional exposure to the S&P 500 and the PIMCO Total Return Collateral Index will be rebalanced monthly in order to maintain full exposure to each component index. The notional amount underlying the Financing Rate Component will be reset accordingly. Both the Index and the PIMCO Master Index will be subject to certain fees and expenses, as described herein.

The S&P 500 is a market-capitalization weighted index of common stocks which reflects price changes in the component stocks. The total return of the S&P 500 includes the dividend yield on the underlying stocks. The PIMCO Total Return Collateral Index is an index that represents the performance of one or more qualified separate accounts actively managed by Pacific Investment Management Company LLC (“PIMCO”) (the “PIMCO Separately Managed Accounts” or “Accounts”). At present, only one Account is expected to satisfy the criteria for inclusion in the PIMCO Total Return Collateral Index. However, additional separate accounts managed by PIMCO may be added in the future, if other accounts satisfy these criteria. The PIMCO Separately Managed Accounts will consist of Exempt Securities and other Permissible Instruments. The Financing Rate Component is a structural cost component that reflects the assumed financing cost associated with obtaining full exposure to each component index of the PIMCO Master Index.

##### **37501.B. Calculation of the Index Value**

The value of the Index, at any given time, will equal the product of the PIMCO Master Index and the Multiplier, plus the Amortizing Expense Factor.

On November 1, 2006 (the Business Day prior to the first full day of trading of PIMCO SPTR TRAKRS), the value of the Index will be set at 25.00. The Calculation Agent will determine the Multiplier on November 1, 2006, so that the product of the closing price of the PIMCO Master Index and the Multiplier will equal 25.00.

**37501.C. Financing Rate Component**

The PIMCO Master Index will be calculated in reference to full notional exposure to both the total return of the S&P 500 and the PIMCO Total Return Collateral Index less the Financing Rate Component. The Financing Cost Component is a structural cost component that reflects the application of a money-market based interest rate (the “Financing Rate”) to the notional amount deemed invested in the PIMCO Master Index, which is reset monthly. The Financing Rate will be equal to LIBOR with a designated maturity of one month plus 0.33%.

**37501.D. Index Expense Factor**

The Index Expense Factor shall be 1.13% per annum. Each day, the Index Expense Factor will be applied to the Multiplier *pro rata* based on a 365-day year. The daily application of the Index Expense Factor will reduce the Multiplier, which will, in turn, reduce the value of the Index on a daily basis. The Index Expense Factor will equal the sum of the Spread, the TRAKRS Platform Fees and the Estimated Index Replication Fees.

**37501.E. Spread**

The Spread shall be 0.00% per annum.

**37501.F. TRAKRS Platform Fees**

TRAKRS Platform Fees shall be 1.08% per annum.

**37501.G. Index Replication Fees**

Index Replication Fees shall be 0.05% per annum.

**37501.H. Collateral Index Fee**

The Collateral Index Fee shall be 0.21% per annum. Each day, the Collateral Index Fee will be applied to each PIMCO Separately Managed Account *pro rata* based on a 365-day year. The daily application of the Collateral Index Fee will reduce the returns on each PIMCO Separately Managed Account, which will, in turn, reduce the value of the PIMCO Total Return Collateral Index and the Index on a daily basis.

**37501.I. Amortizing Expense Factor**

The Amortizing Expense Factor shall be 2% of the initial Index value of PIMCO SPTR TRAKRS (*i.e.*, \$0.50) and will be deducted from the Index over the 90-day period beginning November 2, 2006. The Index will be reduced each day of such 90-day period by an amount equal to \$0.005556

**37501.H. Daily Amortizing Expense Factor Payment**

Each trading day during the 90-day period beginning November 2, 2006, each institutional customers (other than an electing institutional customer) or non-institutional customer holding a short position in PIMCO SPTR TRAKRS will be required to pay its clearing FCM an amount equal to the Amortizing Expense Factor divided by 90 days, applied to the initial Index value (the “Daily Amortizing Expense Factor Payment”), multiplied by the number of short PIMCO SPTR TRAKRS held by the customer).

Each FCM that maintains short PIMCO SPTR TRAKRS positions will in turn pay the Daily Amortizing Expense Factor Payment allocable to that FCM (based on the number of short PIMCO SPTR TRAKRS the clearing FCM maintains) to the CME Clearing House. The CME Clearing House will then pay each clearing FCM that maintains long PIMCO SPTR TRAKRS positions (based on the amount of long PIMCO SPTR TRAKRS the clearing FCM maintains) the portion of the Daily Amortizing Expense Factor Payment allocable to that FCM.

Each institutional customer (other than an electing institutional customer) holding long PIMCO SPTR TRAKRS positions will be entitled to receive this amount from its FCM, based on the amount of long PIMCO SPTR TRAKRS held by the institutional customer.

An electing institutional customer or a non-institutional customer holding long PIMCO SPTR TRAKRS positions will not be entitled to receive this amount from its FCM.

**37502. FUTURES CALL**

**37502.A. Schedule**

The Exchange shall list a single contract month in PIMCO SPTR TRAKRS futures. The final settlement date shall be October 26, 2011. Futures contracts shall be scheduled for trading during such hours as may be determined by the Board of Directors.

**37502.B. Reserved**

**37502.C. Minimum Increments**

Bids and offers shall be quoted in terms of the PIMCO SPTR TRAKRS Index. The minimum fluctuation of the futures contract shall be 0.01 index point, equivalent to \$0.01 per TRAKRS futures contract.

**37502.D. Position Limits**

A person shall not own or control more than 22,000,000 contracts net long or net short.

**37502.E. Accumulation of Positions**

For the purposes of this rule, the positions of all accounts directly or indirectly owned or controlled by a person or persons, and the positions of all accounts of a person or persons acting pursuant to an expressed or implied agreement or understanding, and the positions of all accounts in which a person or persons have a proprietary or beneficial interest, shall be cumulated.

**37502.F. Exemptions**

The foregoing position limits shall not apply to (1) bona fide hedge positions meeting the requirements of Regulation 1.3(z)(1) of the CFTC and the rules of the Exchange, (2) other positions exempted pursuant to Rule 543, and (3) cash-substitute positions described in Rule 37506.

**37502.G. Termination of Trading**

Futures trading shall terminate on the day of determination of the Final Settlement Price.

**37502.H. Contract Modifications**

Specifications shall be fixed as of the first day of trading of a contract. If any U.S. governmental agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

**37502.I. Reserved**

**37502.J. Reserved**

**37502.K. Special Opening Procedures**

Special Opening Procedures shall be employed to facilitate an orderly market in PIMCO SPTR TRAKRS futures. These Special Opening Procedures shall be conducted during a Special Marketing Period. This Special Marketing Period shall commence on the Commencement Date of October 3, 2006; and, shall culminate in a Special Opening at 10:00 a.m. (Chicago time) on the Initial Open Date of November 1, 2006.

During the Special Marketing Period, FCMs and notice-registered BDs per Rule 37504.B. may solicit customer orders to buy or sell PIMCO SPTR TRAKRS futures at a specified limit bid price or limit offer price, respectively. The Special Marketing Period shall conclude at 10:00 a.m. (Chicago time) on the Initial Open Date. Clearing Members shall report their limit buy and limit sell orders to the Exchange in a manner and format specified by the Exchange by 10:00 a.m. (Chicago time) on the Initial Open Date.

## **PIMCO<sup>®</sup> SPTR TRAKRS<sup>SM</sup> (S-4502)**

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The Exchange shall thereupon match purchase and sale orders based upon an Allocation Algorithm and report such matches to Clearing Members. The Exchange shall match buy orders to sell orders prioritized by sell price. At each sell price at which buy orders will be matched, buy orders with limit prices equal to or greater than the sell price shall be allocated on a pro rata basis. If multiple sell orders are received at the same limit price, and the total sell order quantity exceeds the total buy order quantity that may be matched at that price, the allocation of orders shall be made on a pro rata basis by reference to the quantities associated with such orders, subject to the restriction that all sell orders at that price are filled before a proprietary sell order of Merrill Lynch, if any.

The Exchange reserves the authority to limit the size of the open interest created as a result of these Special Opening Procedures. The Exchange further reserves the authority to delay the Initial Open Date if it determines in its discretion that market conditions are not conducive to an orderly opening.

The Initial Index Value shall be established at 25.00 Index Points on November 1, 2006.

Subsequent to the conclusion of these Special Opening Procedures, trading shall be conducted on the CME<sup>®</sup> Globex<sup>®</sup> electronic trading platform per the Rules of the Exchange, commencing November 2, 2006.

### **37503. DELIVERY**

Delivery of PIMCO SPTR TRAKRS futures shall be by cash settlement.

#### **37503.A. Final Settlement Price**

The Final Settlement Date shall be October 26, 2011.

The Final Settlement shall be equal to \$1.00 multiplied by the Final Index Value. The Final Index Value shall be equal to the weighted average of five Final Closing Prices that are determined over the course of five Business Days from October 20, 2011 through October 26, 2011 (or if necessary, an extended period) (the "Final Price Determination Period").

If all five Final Closing Prices have not become available as of Final Settlement Date, the Calculation Agent will identify the Final Settlement Price after five Final Closing Prices do become available over the next 15 Business Days. If five Final Closing Prices do not become available over the next 15 Business Days, then, in order to identify the Final Settlement Price, the Calculation Agent will determine the outstanding Final Closing Prices in its sole discretion.

#### **37503.B. Delivery**

Clearing members holding open positions in PIMCO SPTR TRAKRS futures at the time of termination of trading in that contract shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on a settlement price equal to the final settlement price.

#### **37503.C. Reserved**

**37503.D. Early Termination**

If the value of the Index should at any time equal zero or less, trading in PIMCO SPTR TRAKRS futures shall be discontinued and all outstanding contracts shall be settled in cash at a value of zero (\$0.00) per contract.

**37504. FLOW OF FUNDS**

**37504.A. Customers**

For purposes of this Rule, “Institutional Customers” are market participants that (1) qualify as Qualified Institutional Buyers (“QIBs”) under Rule 144A promulgated under the Securities Act of 1933, as amended; and, (2) CME members registered as floor brokers or floor traders. “Non-Institutional Customers” are market participants that do not qualify as Institutional Customers as defined herein.

Institutional Customers who place orders with a Registered Representative (“RR”) of a securities Broker-Dealer (“BD”) that is notice registered with the National Futures Association (“NFA”) as a limited purpose Futures Commission Merchant (“LP/FCM”); or, an entity that is dually registered as a BD and FCM (“BD/FCM”), and maintaining such resulting positions in a securities account, as described in Rule 37504.B., Qualified Intermediaries, shall be referred to as an “Electing Institutional Customer.”

**37504.B. Qualified Intermediaries**

Institutional and Non-Institutional Customers may place PIMCO SPTR TRAKRS orders with (1) an Associated Person (“AP”) of a registered Introducing Broker (“IB”) or Futures Commission Merchant (“FCM”), such resulting positions to be maintained in a futures account; or (2) a Registered Representative (“RR”) of a securities Broker-Dealer (“BD”) that is notice registered with the National Futures Association (“NFA”) as a limited-purpose FCM (“LP/FCM”) or an entity that is dually registered as a BD and FCM (“BD/FCM”), such resulting positions to be maintained in a securities account.

**37504.C. Interest Rate Pass-Through**

Each trading day after the determination of the daily Settlement Price, each clearing FCM that maintains long PIMCO SPTR TRAKRS positions will be required to pay the CME Clearing House (based on the amount of long PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price) a daily market rate of interest equal to the Federal Funds Effective Rate less the Spread. The CME Clearing House in turn will pay each clearing FCM that maintains short PIMCO SPTR TRAKRS positions (based on the amount of short PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price), a daily market rate of interest equal to the Federal Funds Effective Rate less the sum of the Spread and the TRAKRS Platform Fees.

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If, on any day, the Federal Funds Effective Rate is less than the sum of the TRAKRS Platform Fees and the Spread, then each clearing FCM that maintains short PIMCO SPTR TRAKRS positions will be required to pay to the CME Clearing House (based on the amount of short PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price) a daily market rate of interest equal to the sum of the TRAKRS Platform Fees and the Spread less the Federal Funds Effective Rate. If the Federal Funds Effective Rate is less than the Spread, the CME Clearing House in turn will pay each clearing FCM that maintains long PIMCO SPTR TRAKRS positions (based on the amount of long PIMCO SPTR TRAKRS the clearing FCM maintains multiplied by the PIMCO SPTR TRAKRS Settlement Price) a daily market rate of interest equal to the Spread less the Federal Funds Effective Rate.

Each trading day after the determination of the daily Settlement Price, each Institutional Customer (other than an Electing Institutional Customer) holding long PIMCO SPTR TRAKRS positions will be required to pay its FCM, based on the amount of long PIMCO SPTR TRAKRS held by such Institutional Customer multiplied by the PIMCO SPTR TRAKRS Settlement Price, a daily market rate of interest equal to the Federal Funds Effective Rate less the Spread, which the clearing FCM will pass on to the CME Clearing House. If the Federal Funds Effective Rate is less than the Spread, the CME Clearing House in turn will pay to each short clearing FCM for Institutional Customers a daily market rate of interest equal to the Federal Funds Effective Rate less the sum of the Spread and the TRAKRS Platform Fees and each Institutional Customer (other than an Electing Institutional Customer) holding short PIMCO SPTR TRAKRS positions will be entitled to receive this amount from its FCM, based on the amount of short PIMCO SPTR TRAKRS held by such Institutional Customer multiplied by the PIMCO SPTR TRAKRS Settlement Price.

If, on any day, the Federal Funds Effective Rate is less than the sum of the TRAKRS Platform Fees and the Spread then each Institutional Customer (other than an Electing Institutional Customer) holding short PIMCO SPTR TRAKRS positions will be required to pay its FCM (based on the amount of short PIMCO SPTR TRAKRS held by such Institutional Customer multiplied by the PIMCO SPTR TRAKRS Settlement Price) a daily market rate of interest equal to the sum of the TRAKRS Platform Fees and the Spread less the Federal Funds Effective Rate, which the clearing FCM will pass on to the CME Clearing House. The CME Clearing House in turn will pay to each long clearing FCM for Institutional Customers (other than Electing Institutional Customers) a daily market rate of interest equal to the Spread less the Federal Funds Effective Rate, and each Institutional Customer (other than an Electing Institutional customer) holding long PIMCO SPTR TRAKRS positions will be entitled to receive this amount from its FCM, based on the amount of long PIMCO SPTR TRAKRS held by such Institutional Customer multiplied by the PIMCO SPTR TRAKRS Settlement Price.

Long Non-Institutional Customers and long Electing Institutional Customers are not responsible for paying, and short Non-Institutional and Electing Institutional Customers are not entitled to receive, this interest rate pass-through; although the long clearing FCM (or, if the Federal Funds Effective Rate is less than the Spread, the short clearing FCM) is still responsible for paying the interest payment, which is passed-through by the CME Clearing House to the short clearing FCM (or, if applicable, the long clearing FCM).

The CME Clearing House will determine all such interest rate pass-through amounts.



**37504.D. Federal Funds Effective Rate**

The “Federal Funds Effective Rate,” for any day, shall mean the most recently available closing daily overnight Federal funds rate as determined by the Federal Reserve.

**37504.E. Performance Bond**

Non-Institutional Customers purchasing PIMCO SPTR TRAKRS, maintained in a futures account or a securities account, shall deposit 100% of the purchase price with their long clearing member. Non-Institutional Customers selling PIMCO SPTR TRAKRS, maintained in a futures account or a securities account, shall deposit 50% of the sale price with their short clearing member.

Electing Institutional Customers purchasing PIMCO SPTR TRAKRS, maintained in a securities account, shall deposit 100% of the purchase price with their long clearing member. Electing Institutional Customers selling PIMCO SPTR TRAKRS, maintained in a securities account, shall deposit 50% of the sale price with their short clearing member.

Institutional Customers purchasing or selling PIMCO SPTR TRAKRS, maintained in a futures account, shall be subject to the performance bond requirements established by the Exchange and their FCMs.

**37504.F. Settlement Variation**

Non-Institutional Customers that purchase PIMCO SPTR TRAKRS, maintained in a futures account or a securities account, shall not be subject to variation margin procedures nor shall they pay or collect settlement variations with respect to their PIMCO SPTR TRAKRS positions.

Non-Institutional Customers that sell PIMCO SPTR TRAKRS, maintained in a futures account or a securities account, shall be subject to variation margin pay and collect requirements per the following conditions. If the settlement price advances such that a Non-Institutional Customer’s performance bond is less than 30% of the current PIMCO SPTR TRAKRS value, the Non-Institutional Customer shall be required to make a variation margin payment to restore the performance bond to 50% of the current PIMCO SPTR TRAKRS value. If the settlement price declines such that a Non-Institutional Customer’s performance bond is greater than 70% of the current PIMCO SPTR TRAKRS value, the Non-Institutional Customer shall be entitled to collect a variation margin payment to restore the performance bond to 50% of the current PIMCO SPTR TRAKRS value.

Electing Institutional Customers that purchase PIMCO SPTR TRAKRS, maintained in a securities account, shall not be subject to variation margin procedures nor shall they pay or collect settlement variations with respect to their PIMCO SPTR TRAKRS positions.

Electing Institutional Customers that sell PIMCO SPTR TRAKRS, maintained in a securities account, shall be subject to variation margin pay and collect requirements per the following conditions. If the settlement price advances such that an Electing Institutional Customer's performance bond is less than 30% of the current PIMCO SPTR TRAKRS value, the Electing Institutional Customer shall be required to make a variation margin payment to restore the performance bond to 50% of the current PIMCO SPTR TRAKRS value. If the settlement price declines such that an Electing Institutional Customer's performance bond is greater than 70% of the current PIMCO SPTR TRAKRS value, the Electing Institutional Customer shall be entitled to collect a variation margin payment to restore the performance bond to 50% of the current PIMCO SPTR TRAKRS value.

Institutional Customers that purchase or sell PIMCO SPTR TRAKRS, maintained in a futures account, shall be subject to normal variation margin procedures.

### **37505. EMERGENCIES, ACTS OF GOD, ACTS OF GOVERNMENT**

If delivery or acceptance or any precondition or requirement of either is prevented by a strike, fire, accident, action of government or act of God, the seller or buyer shall immediately notify the Exchange President. If the President determines that emergency action may be necessary, he shall call a special meeting of the Board of Directors and arrange for the presentation of evidence respecting the emergency condition. If the Board determines that an emergency exists, it shall take such action as it deems necessary under the circumstances and its decision shall be binding upon all parties to the contract.

### **37506. CASH-SUBSTITUTE POSITIONS**

For purposes of this rule, the term "cash-substitute positions" means long positions which are economically appropriate to the management of risks in the conduct and management of a commercial enterprise engaged substantially in the cash equities market, and whose underlying commodity value does not exceed the sum of:

1. Cash set aside in an identifiable manner, or unencumbered short-term U.S. Treasury obligations or other U.S. dollar denominated, high-quality, short-term debt instruments so set aside, plus any funds deposited as performance bond on such positions; and
2. Accrued profits on such positions held at the futures commission merchant.

A clearing member shall not carry a cash-substitute account which by itself or in accumulative total with other accounts of the owner exceeds the speculative position limits of Chapter 40, unless the President approves and unless the applicant has applied to the Division of Market Regulation on forms provided by the Exchange, wherein he requests a maximum number of positions, fully explains the nature and extent of his business, and states under oath that:

1. The intended positions will be cash-substitute positions.
2. The positions are kept in a special account on the books of a clearing member.
3. The prospective applicant will comply with whatever limitations are applied by the Exchange with regard to said positions.

4. The applicant agrees to submit immediately a supplemental statement explaining any change in circumstances affecting his position.
5. The applicant complies with all other Exchange rules and requirements.
6. The positions are moved in an orderly manner in accordance with sound commercial practices, and are not initiated or liquidated in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes. The applicant does not use said positions in an attempt to violate or avoid Exchange rules, or otherwise impair the good name or dignity of the Exchange.

The President shall, on the basis of the applicant and supplemental information which the Exchange may request, determine whether the positions shall be approved as cash-substitute positions. The President may impose such limitations as are commensurate with the liquidity of the markets and with the applicant's business needs, financial ability and personal integrity. The President and the Business Conduct Committee may, from time to time, review approvals and, for cause, revoke said approvals or place limitations thereon.

The applicant may appeal any decision of the President or the Business Conduct Committee to the Board. The applicant shall be exempt from emergency orders reducing speculative limits or restricting trading but only to the extent provided in such order and only if the approvals required by this rule are secured by the applicant.

(End Chapter 375)

**INTERPRETATIONS & SPECIAL NOTICES RELATING TO CHAPTER 375**

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*For more information, please do not hesitate to call Brett Vietmeier, Director, Equity Products at 312-930-3394; or, John W. Labuszewski, Managing Director, Research & Product Development at 312-466-7469.*

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