



October 24, 2005

VIA EMAIL: secretary@cftc.gov

Ms. Jean A. Webb, Secretary
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1055 21st Street N.W.
Washington, D.C. 20581

Re: Ameded Request for Commission Rule Approval and Request to Amend the Commission's Order Designating HedgeStreet as a Contract Market

Dear Secretary Webb:

Pursuant to Section 5c(c) of the Commodity Exchange Act (the "Act") and Commission Regulation 38.4(a) and 40.5, HedgeStreet, Inc ("HedgeStreet") hereby requests approval of the following amendments to HedgeStreet's Rules.

- 1. In order to introduce i) a market that allows members of the Clearing Corporation ("CCorp") to become members of HedgeStreet to trade *iHedgelets*¹ on their own behalf or on behalf of their customers in a manner other than on a fully collateralized basis prior to trade execution, and ii) *iHedgelets*, which are contracts that are similar to the Fixed Payout and Variable Payout Hedgelets that are currently offered on HedgeStreet except for the differences described herein (collectively "*iMarket*"), HedgeStreet has created a separate rulebook for the *iMarket* that incorporates many of the same rules included in the rulebook for the non-intermediated market ("Non-Intermediated Market" or "NIM") as well as incorporates the following proposed rules in order to add several new terms to Rule 1.1 and to add or amend Rules 3.1-3.3; 3.5 - 3.6; Chapter 4; 5.1; 5.3-5.9; 5.11-5.16; 5.22 – 5.23; 6.1; 8.1; 9.1-9.2; 9.7; 10.1; 10.4; and 10.7. As required by Regulation 40.5(a)(1)(ii), the following is the text of the proposed rule changes. Text to be added to the HedgeStreet *iMarket* Rulebook that are distinct from the rules currently in effect on the NIM are underlined;**

¹ HedgeStreet uses the term "*iHedgelet*" to define the contracts to be traded on the intermediated market throughout this Commission Regulation 40.5 submission and corresponding documents. However, for marketing purposes, HedgeStreet may change the term "*iHedgelet*" to another naming convention leaving the manner in which these contracts are described herein materially unchanged.



CHAPTER 1 DEFINITIONS

RULE 1.1 DEFINITIONS.

When used in these Rules:

(a) “Authorized Trader” means an individual or individuals employed by a Clearing Member who is authorized by that Clearing Member to have direct access to HedgeStreet, provided the Clearing Member maintains supervisory authority over such individual(s) trading activities.

(b) “Cap” means the maximum rate, level, amount, measure or other value of the Underlying of a Variable Payout *iHedgelet* Contract that may be the Expiration Value or the Closing Trade Value. If the actual rate, level, amount, measure, or other value of the Underlying meets or exceeds the Cap on the Expiration Date, the Cap will be the Expiration Value.

(c) “Class” means all *iHedgelets* of the same Type with the same Underlying.

(d) “Clearing Corporation” (“CCorp”) means the derivatives clearing organization designated by HedgeStreet, to clear transactions effected by Clearing Members on the Market.

(e) “Clearing Member” or “Member” means any Member of HedgeStreet that is also a CCorp Participant of the Clearing Corporation authorized to clear and settle *iHedgelets* executed on the Market.

(f) “CCorp Participant” means a Person that has been approved by the Clearing Corporation to clear and settle “exchange contracts” traded on an “exchange market”, as both terms are defined pursuant to the rules of the Clearing Corporation, but not a member of HedgeStreet.

(g) “Closing Trade Value” means the rate, level, amount, measure, or other value of the Underlying of a Variable Payout *iHedgelet* Contract at which the *iHedgelet* is closed in a Clearing Member’s account.

(h) “Commodity Futures Trading Commission” or “Commission” means the Federal regulatory agency established by the Commodity Futures Trading Act of 1974 to administer the Commodity Exchange Act.

(i) “Customer” has the meaning set forth in Commission Regulation 1.3(k).

(j) “Dollar Multiplier” means the monetary amount by which the rate, level, amount, measure, or other value of an Underlying of a Variable Payout *iHedgelet* Contract is multiplied to determine the Settlement Value.

(k) “Eligible Contract Participant” has the meaning set forth in CEA Section 1(a)(12).



(l) **“Expiration” or “Expiration Date”** means the date established by these Rules on which the Expiration Value of each [iHedgelet](#) Contract is determined.

(m) **“Expiration Value”** means the rate, level, amount, measure, or other value of the Underlying at Expiration.

(n) **“Fixed Payout [iHedgelet](#)”** means the right to receive a fixed Settlement Value, not to exceed \$10,000 per contract, from the Clearing Corporation on the Settlement Date dependent upon whether you are holding a long position or short position in a Fixed Payout [iHedgelet](#). If you are holding a long position in a Fixed Payout [iHedgelet](#), you have the right to receive a fixed Settlement Value from the Clearing Corporation on the Settlement Date, if, and only if, the Fixed Payout [iHedgelet](#)’s Payout Criteria encompasses the Expiration Value at Expiration. Conversely, if you are holding a short position in a Fixed Payout [iHedgelet](#), you have the right to receive a fixed Settlement Value if, and only if, the Fixed Payout [iHedgelet](#)’s Payout Criteria does NOT encompass the Expiration Value at Expiration.

(o) **“Floor”** means the minimum rate, level, amount, measure, or other value of the Underlying of a Variable Payout [iHedgelet](#) Contract that may be the Expiration Value or the Closing Trade Value. If the actual rate, level, amount, measure or other value of the Underlying meets or falls below the Floor on the Expiration Date, the Floor will be the Expiration Value.

(p) **“[iHedgelet](#) Contract”, “[iHedgelet](#)” or “Contract”** means a Fixed Payout [iHedgelet](#) Contract or a Variable Payout [iHedgelet](#) Contract that may only be traded by Clearing Members and cleared and settled by the Clearing Corporation.

(q) **“Last Trading Day”** means the last date on which a [Clearing](#) Member may trade an [iHedgelet](#) on the Market.

(r) **“Long Variable Payout [iHedgelet](#) Contract”** means (i) the right to receive at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting the Opening Trade Value from (A) the Closing Trade Value, if the Variable Payout [iHedgelet](#) Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout [iHedgelet](#) Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier and (ii) the obligation to pay at the time the contract is closed or on the Settlement Date any positive number resulting from subtracting from the Opening Trade Value (A) the Closing Trade Value, if the Variable Payout [iHedgelet](#) Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout [iHedgelet](#) Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier.

(s) **“Market Maker”** means a Member that is granted the privileges in exchange for assuming certain responsibilities as set forth in Chapter 4 of these Rules for the purpose of creating liquidity for certain Classes of [iHedgelets](#).



(t) “Membership Agreement” means the agreement between the Clearing Member and HedgeStreet authorizing the Clearing Member to trade on or otherwise provide access to HedgeStreet. The Clearing Member must acknowledge and agree to be bound by all of the terms and conditions contained in the Membership Agreement, including, but not limited to the HedgeStreet Rules and any other documentation HedgeStreet may require.

(u) “Person” means an individual, sole proprietorship, corporation, limited liability company, partnership, trust, or any other entity.

(v) “Opening Trade Value” means the rate, level, amount, measure, or other value of the Underlying of a Variable Payout *iHedgelet* at which the *iHedgelet* is opened in a Clearing Member’s account.

(w) “Payout Criterion” of an *iHedgelet* Contract means the Expiration Value or range of Expiration Values that will cause that *iHedgelet* Contract to be “in-the-money.”

(x) “Regulatory Agency” means any government body, including the Commission and Securities and Exchange Commission, and any organization, whether domestic or foreign, granted authority under statutory or regulatory provisions to regulate its own activities and the activities of its members, and includes HedgeStreet, any other clearing organization or contract market, any national securities exchange or clearing agency, the National Futures Association (“NFA”) and the National Association of Securities Dealers (“NASD”).

(y) “Series” means all *iHedgelets* of the same Class having identical terms, including Payout Criterion and Expiration Date.

(z) “Settlement Date” means the date on which money is paid to the account of a Clearing Member who has the right to receive money pursuant to a Fixed Payout *iHedgelet* Contract or a Variable Payout *iHedgelet* Contract held until Expiration, and on which money is paid from the account of a Clearing Member who is obligated to pay money pursuant to a Variable Payout *iHedgelet* Contract held until Expiration. Unless otherwise specified in these Rules, the Settlement Date is the same day as the Expiration Date.

(aa) “Settlement Value” means the amount paid to the accounts of holders of in-the-money *iHedgelets*. The Settlement Value of *iHedgelets* will be determined by the Clearing Corporation in accordance with its rules.

(bb) “Short Variable Payout *iHedgelet* Contract” means (i) the right to receive at the time the Contract is closed or on the Settlement Date any positive number resulting from subtracting from the Opening Trade Value (A) the Closing Trade Value, if the Variable Payout *iHedgelet* Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout *iHedgelet* Contract was held to Expiration, and then multiplying the resulting figure by the Dollar Multiplier and (ii) the obligation to pay at the time the Contract is closed or on the Settlement Date any positive number



resulting from subtracting the Opening Trade Value from (A) the Closing Trade Value, if the Variable Payout [iHedgelet](#) Contract was closed by an offsetting transaction before Expiration, or (B) the Expiration Value, if the Variable Payout [iHedgelet](#) Contract was held to Expiration, then multiplying the resulting figure by the Dollar Multiplier.

(cc) **“Source Agency”** means the agency that publishes the Underlying economic indicator and/or Expiration Value for any [iHedgelet](#).

(dd) **“Speculative Position Limits,” or “Position Limit”** means the maximum position, either net long or net short, in one Series or a combination of various Series of a particular Class that may be held or controlled by one [Person](#) as prescribed by HedgeStreet and/or the [Commission](#).

(ee) **“Type”** means the classification of [an iHedgelet](#) as a Fixed Payout [iHedgelet](#) or Variable Payout [iHedgelet](#).

(ff) **“Underlying”** means the index, rate, risk, measure, instrument, differential, indicator, value, contingency, occurrence, or extent of an occurrence the Expiration Value of which determines whether (and, in the case of a Variable Payout [iHedgelet](#), to what extent) [an iHedgelet](#) is in-the-money.

(gg) **“Variable Payout [iHedgelet](#) Contract”** means a Short Variable Payout [iHedgelet](#) and/or a Long Variable Payout [iHedgelet](#) that may be traded only by Clearing Members and is cleared and settled by the Clearing Corporation.

CHAPTER 2 MARKET GOVERNANCE

RULE 2.1 POWERS OF HEDGESTREET’S BOARD OF DIRECTORS

The board of directors of HedgeStreet has the power to manage and direct HedgeStreet including but not limited to the power to define groups of people who may access the secure portions of HedgeStreet’s website, the power to amend, adopt, or repeal these Rules, and the power to oversee the business conduct of Members and impose penalties for violation of these Rules.

RULE 2.2 RESTRICTIONS ON WHO MAY BE MEMBERS OF THE BOARD, MEMBERS OF DISCIPLINARY COMMITTEES, MEMBERS OF ARBITRATION OR OVERSIGHT PANELS, OR TEN PERCENT OR GREATER OWNERS

Commission Regulation 1.63 prohibits certain individuals who have been charged with, or have been found to have committed, disciplinary offenses (as defined in that section) within the past three years from serving on the HedgeStreet board of directors or any disciplinary committee of HedgeStreet. HedgeStreet will not permit any individual subject to disqualification under Commission Regulation 1.63(b) from serving on its board of directors, any of its disciplinary committees (including serving as compliance officer or hearing officer), oversight panels, or arbitration panels. Additionally, HedgeStreet will not permit any individual subject to disqualification under Commission Regulation 1.63(b) to own 10% or more of



HedgeStreet or to serve as a HedgeStreet hearing officer. An amended version of Commission Regulation 1.63 is a Rule of HedgeStreet and is included for your information in Chapter 11 of these Rules.

RULE 2.3 OFFICERS OF HEDGESTREET

(a) HedgeStreet has a seven member board of directors elected by a majority vote of all shareholders of HedgeStreet. Each director serves a two year term.

(b) HedgeStreet has a chief executive officer, president, secretary, and treasurer. These officers are appointed and may be dismissed (with or without cause) by majority vote of the board of directors or the shareholders.

(c) The chief executive officer of HedgeStreet must be a member of the board of directors. In the absence of the chairman, the chief executive officer will perform the chairman's duties. In the event of a disagreement between the chief executive officer and the board or the chairman of the board as to an exchange matter, the chairman and/or board shall control.

(d) Subject to the direction of the board of directors and the chief executive officer, the president will manage the day-to-day business of the exchange and is the chief operating officer of the exchange. In the absence of the chief executive officer, the president will perform the chief executive officer's duties.

(e) The treasurer of HedgeStreet will be responsible for all funds and stock of HedgeStreet and in general perform all duties incident to the office of treasurer and such other duties as from time to time may be assigned by the chief executive officer or the board of directors.

(f) The secretary of HedgeStreet will keep the minutes of the meetings of the board and in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned by the chief executive officer or the board of directors.

RULE 2.4 EMERGENCY RULES

(a) HedgeStreet may adopt emergency Rules in response to the emergencies that are described in paragraph (c) of this Rule. In the event of one of those emergencies, the board of directors may, without giving prior notice to, or securing prior approval from, the Commission, adopt a temporary emergency rule to address the emergency. Adoption of a temporary emergency rule requires the affirmative vote of two-thirds of the members of the board at a meeting of the board at which a quorum is present. HedgeStreet may count a member of the board of directors who abstains from voting on a temporary emergency rule to determine whether a quorum exists.

(b) Any temporary emergency rule adopted under this Rule may authorize HedgeStreet to act as the board of directors deems necessary or appropriate to meet the emergency, and those actions may adversely affect your ability to trade on the Market. Therefore, the chance of an emergency is one of the risks you should consider when deciding whether to trade on the Market.



(c) For the purposes of this Rule, an “emergency” is:

- (i) any activity that manipulates or attempts to manipulate the Market;
- (ii) any actual, attempted, or threatened corner, squeeze, or undue concentration of positions;
- (iii) any circumstance that may materially affect the performance of the [iHedgelet](#) traded on HedgeStreet;
- (iv) any action taken by the United States, any foreign government, any state or local governmental body, any other contract market or board of trade, or any other exchange, market, facility, or trade association (foreign or domestic) that may have a direct impact on trading on HedgeStreet;
- (v) any circumstances that may have a severe, adverse impact upon the physical functions of HedgeStreet including, for example, natural disasters such as fire or flood, terrorist acts such as bomb threats, physical plant breakdowns such as plumbing, heating, or air conditioning problems, system breakdowns such as power, telephony, cable, trading systems, or computer systems failures or interruptions to communications, the network, or the Internet;
- (vi) the imposition of any injunction or other restraint by any government agency, court, or arbitrator that may affect the ability of a Member to perform on Contracts;
- (vii) any circumstance in which it appears that a HedgeStreet Member or any other person is in such operational condition, or is conducting business in such a manner, that such person cannot be permitted to continue in business without jeopardizing the safety of HedgeStreet Members or HedgeStreet itself; and
- (viii) any other unusual, unforeseeable, and adverse circumstance which, in the opinion of the governing board, requires immediate action and threatens or may threaten such things as the fair and orderly trading in, or the liquidation of or delivery pursuant to [iHedgelets](#) traded on HedgeStreet.

(d) If deemed necessary to combat perceived market threats caused by an emergency, a HedgeStreet official authorized to do so may suspend trading on the Market during the duration of the emergency or take any other action that the official thinks is necessary or appropriate. The official will order an end to the action taken in response to the emergency as soon as the official determines that the emergency has sufficiently abated to permit the Market to function properly.

(e) HedgeStreet will make every effort practicable to notify the Director of the Division of Market Oversight, his delegates, and/or other persons designated by the Commission’s Regulations that HedgeStreet intends to implement, modify, or terminate a temporary emergency rule pursuant to Rule 2.4(a) or an action



in response to an emergency pursuant to Rule 2.4(d) prior to the implementation, modification, or termination of the rule or action. If it is not possible to notify the Commission prior to the implementation, modification, or termination of the rule or action, HedgeStreet will notify the Commission of the implementation, modification, or termination of the rule or action at the earliest possible time, and in no event more than 24 hours after implementation, modification, or termination.

(f) Any time that HedgeStreet takes action in response to an emergency, either under Rule 2.4(a) or Rule 2.4(d), HedgeStreet will document its decision-making process and reasons for taking emergency action.

RULE 2.5 COMMITTEES AND SUBCOMMITTEES

(a) The HedgeStreet board of directors may create, appoint members of the board to serve on, and delegate powers to, committees and subcommittees.

(b) A majority of any committee or subcommittee will constitute a quorum, and a majority of a quorum is necessary for committee or subcommittee action. A committee or subcommittee may act by unanimous consent in writing, including by electronic mail, without a meeting.

RULE 2.6 VOTING BY INTERESTED BOARD MEMBERS

Commission regulations governing contract markets, such as HedgeStreet, exempt those markets from Commission Regulation 1.69. However, Core Principle 15 of Section 5(d) of the CEA requires that contract markets have adequate procedures to prevent conflicts of interest. Therefore, HedgeStreet has adopted an amended version of Commission Regulation 1.69 as a Rule of HedgeStreet. Commission Regulation 1.69 prohibits a member of the HedgeStreet board of directors or any disciplinary or oversight committee or subcommittee from taking part in any deliberations or voting on any matter in which the board, committee, or subcommittee member has an interest or has a relationship with a named party in interest. Regulation 1.69 also requires disclosure by board, committee, or subcommittee members of interests and relationships in certain circumstances. HedgeStreet board, committee, and subcommittee members shall not deliberate or vote on any matter in which the board, committee, or subcommittee member has an interest or has a relationship with a named party in interest and shall disclose such interests in accordance with Regulation 1.69. Regulation 1.69 as amended to be made applicable to HedgeStreet is a Rule of HedgeStreet and is included in Chapter 11 of these Rules.

RULE 2.7 INDEMNIFICATION OF DIRECTORS, OFFICERS, AND OTHERS

HedgeStreet will indemnify to the full extent authorized by law any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative in nature, by reason of the fact that such person is or was a director, officer, employee, or agent of HedgeStreet or is or was serving at the request of HedgeStreet as a director, officer, employee, or agent of HedgeStreet against expenses, including attorneys' fees, judgments, fines, and amounts paid in connection with such action, suit, or proceeding. Such



indemnification shall not be deemed exclusive of any other rights to which a person may be entitled under any agreement or as a matter of law or otherwise. HedgeStreet may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of HedgeStreet against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not HedgeStreet would have the power to indemnify such person against such liability under the provisions of this Rule. However, no person shall be indemnified from liability for fraud, bad faith, willful misconduct, or gross negligence. Further, no person shall be indemnified against a civil penalty imposed by the Commission under Section 6b of the CEA.

RULE 2.8 PROHIBITION ON USE OF MATERIAL, NON-PUBLIC INFORMATION

(a) Commission Regulation 1.59 prohibits employees and members of the board of directors of HedgeStreet from using or disclosing material, non-public information gained through their employment or board service in certain circumstances. This Rule prohibits the use and disclosure forbidden by Commission Regulation 1.59. As amended, a form of Regulation 1.59 is a Rule of HedgeStreet and is set forth in Chapter 11 of these Rules for your information.

(b) No member of the board of directors or any committee established by the board of directors or these Rules will use or disclose material, non-public information obtained as a result of participation on the board of directors or such committee for any purpose other than the performance of official duties as a board or committee member.

(c) No employee, consultant, or member of the board of directors or any committee of HedgeStreet will disclose to any other person material, nonpublic information obtained as a result of such person's employment for purposes inconsistent with such person's official duties.

(d) No employee, consultant, or member of the board of directors or any committee of HedgeStreet will trade for such person's account, or for or on behalf of any other account, in any commodity interest on the basis of any material, non-public information obtained through special access related to the performance of such person's duties as an employee, consultant, or member of the board of directors or committee.

(e) For purposes of this Rule, the terms "material information," "non-public information," "linked exchange," "commodity interest," and "related commodity interest" have the same meanings as they do in Commission Regulation 1.59.

(f) Any director, officer, or employee of HedgeStreet who violates any provision of this Rule will be required to indemnify HedgeStreet for any losses, damages, or costs caused by that violation.

CHAPTER 3 CLEARING MEMBERS

RULE 3.1 ELIGIBILITY AND APPLICATION PROCEDURES

(a) To be eligible to become a Clearing Member:



(i) if you are a natural person, you must:

(1) reside in the United States,

(2) certify that you are old enough to enter into a legally enforceable contract.

(ii) if you are an entity, you must

(1) be organized in the United States,

(2) certify that you are validly organized, in good standing, and authorized by your governing body and, if relevant, documents of organization, to trade commodities, futures and options contracts.

(3) designate Authorized Traders to trade your account,

(4) designate at least one officer who is responsible for supervising all activities of your employees relating to transactions effected on HedgeStreet or subject to HedgeStreet Rules and provide any information HedgeStreet may request regarding such officer(s),

(iii) you must certify that you have read and understand the HedgeStreet Risk Disclosure Statement if you are not an Eligible Contract Participant, and Membership Agreement,

(iv) you must agree to be bound by these Rules,

(v) you must complete and submit the HedgeStreet membership application, which includes the Membership Agreement,

(vi) you must provide HedgeStreet with any other information HedgeStreet may request;

(vii) you must have adequate financial resources and credit as determined by HedgeStreet and the Clearing Corporation;

(viii) you must be a CCorp Participant in good standing of the Clearing Corporation;

(ix) if you are a futures commission merchant registered with the Commission ("FCM"), you must submit to HedgeStreet a letter confirming that you maintain all Customer funds deposited with you in appropriately labeled customer segregated funds accounts separated from funds of non-customers, as required by Commission regulations; and

(x) you must meet any other criteria or complete any additional applications that HedgeStreet and/or the Clearing Corporation may request.



(b) HedgeStreet may investigate any Member applicant, Authorized Trader designate, or other Person associated with an applicant.

(c) Submission of your membership application to HedgeStreet constitutes your agreement to be bound by these Rules and other policies of HedgeStreet.

(d) HedgeStreet may in its sole discretion approve, deny, or condition any Member application as HedgeStreet deems necessary or appropriate.

RULE 3.2 PRIVILEGES

(a) If your application as a Clearing Member is approved by HedgeStreet, you will be a Clearing Member of HedgeStreet and will have the following Clearing Member privileges, which HedgeStreet may revoke, amend, or expand in accordance with, or by amending, these Rules:

(i) to buy iHedgelets for your own account or the account of your Customers, subject to these Rules and the rules of the Clearing Corporation;

(ii) to sell iHedgelets for your own account or the account of your Customers, subject to these Rules and the rules of the Clearing Corporation;

(iii) to view “real-time” the same best bids to buy and offers to sell iHedgelets traded on the Market as are available to all other Clearing Members;

(iv) to receive access to the Market via the HedgeStreet website or a dedicated private circuit;

(v) to view the current trading volume and open interest for the Contracts traded on the Market; and

(vi) to view all non-secure parts of the HedgeStreet website, including these Rules, description of iHedgelets traded on the Market as well as all secure parts of the HedgeStreet website

RULE 3.3 CLEARING MEMBER OBLIGATIONS

(a) As a Clearing Member, you and/or your Authorized Trader(s) must comply with these Rules, relevant provisions of the Commodity Exchange Act, and relevant Commission regulations. You must also cooperate promptly and fully with HedgeStreet, its agents, and any other Regulatory Agency in any investigation, call for information, inquiry, audit, examination, or proceeding. Additionally, you must update your e-mail address within 24 hours after it has changed and update all other information provided in your application for membership within five days after that information has changed. If you fail to satisfy



these obligations, HedgeStreet may revoke or suspend your privileges in full or in part. You may also be subject to civil or criminal prosecution.

(b) As a [Clearing Member](#), you consent to allow HedgeStreet to provide all information HedgeStreet has about you, including your trading activity, to [any Regulatory Agency](#), law enforcement authority, or judicial tribunal, including (as may be required by information sharing agreements or other contractual, regulatory, or legal provisions) foreign [Regulatory Agencies](#), law enforcement authorities, or judicial tribunals.

(c) As a [Clearing Member](#), you and/or your [Authorized Trader\(s\)](#) are required to review the “Notices” section of the HedgeStreet website to make yourself aware of material changes to these Rules or other notices that may affect your rights and obligations as a [Clearing Member](#) of HedgeStreet.

(d) As a Clearing Member, you must immediately notify HedgeStreet in writing upon becoming aware:

(i) that you, any of your officers or any of your Authorized Traders has had trading privileges suspended, access to, or membership or clearing membership in, any Regulatory Agency denied;

(ii) that you, any of your officers or any of your Authorized Traders has been convicted of, pled guilty or no contest to, or entered a plea agreement to, any felony in any domestic, foreign or military court;

(iii) that you, any of your officers or any of your Authorized Traders has been convicted of, pled guilty or no contest to, or entered a plea agreement to a misdemeanor in any domestic, foreign or military court which involves:

(1) embezzlement, theft, extortion, fraud, fraudulent conversion, forgery, counterfeiting, false pretenses, bribery, gambling, racketeering, or misappropriation of funds, securities or properties; or

(2) any transaction in or advice concerning futures, options on futures, leveraged transactions or securities;

(iv) that you, any of your officers or any of your Authorized Traders has been subject to, or associated with a firm that was subject to regulatory proceedings before any Regulatory Agency;

(v) that you, any of your officers or any of your Authorized Traders is currently a party to any investigation or proceeding, the resolution of which could result in an event described in Rule 3.3(d)(i)-(iv);



(vi) of any other material change in any information contained in the Clearing Member's membership application;

(vii) of any failure to maintain segregated funds as required by the Commission when the Member is a Clearing Member;

(viii) of becoming subject to early warning reporting under Commission Regulation 1.12 when the Member is a Clearing Member, and;

(ix) of becoming the subject of a bankruptcy proceeding or being unable to meet any financial obligation as it becomes due.

(e) As a Clearing Member, you must diligently supervise all activities of your employees and/or agents, including all Authorized Traders, relating to transactions effected on HedgeStreet. Any violation of these Rules by any employee and/or agent, including the Authorized Trader of a Clearing Member shall constitute a violation of the Rules by such Clearing Member.

(f) If you are a Clearing Member that is not an FCM, you must at all times maintain a net worth¹ at or in excess of \$50,000, provided that, such amount is not below the financial requirements of CCorp relating to CCorp Participant qualifications, in which case, CCorp financial requirements shall be controlling. If you are a Clearing Member that is also an FCM, you must comply with the financial requirements set forth by the Commission, NFA and other contract markets.

(g) As a Clearing Member, you must only handle, maintain and/or solicit Customer orders, accounts or funds if you are properly registered with the NFA in accordance with the CEA and Commission Regulations adopted thereunder to conduct futures-related business with the public.

(h) As a Clearing Member, you must submit statements of financial condition at such times and in such manner as shall be prescribed from time to time.

(i) As a Clearing Member, you must use due diligence in receiving and handling orders from Customers, entering such orders onto HedgeStreet on behalf of such Customers, responding to inquiries from Customers about their orders and reporting back to Customers the execution of such orders.

(j) As a Clearing Member, you must confirm any trades entered on behalf of a Customer to such Customer no later than the business day following the day upon which the transaction was executed. Such confirmation shall i) be in writing, ii) show the iHedgelet bought or sold, iii) show the amount, the price, and iv) the expiration date.

¹ For purposes of these rules, "Net Worth" shall have the same meaning as "net asset value" pursuant to Commission Regulation 4.10(b).



(k) As a Clearing Member, you must establish and enforce internal controls, policies and procedures to reasonably ensure that each order received from a Customer is entered on HedgeStreet prior to any order of the same Series being entered at the same price for;

(i) any proprietary account of the Clearing Member;

(ii) any account in which the Authorized Trader(s) has an interest.or;

(iii) any account over which a Clearing Member or its Authorized Trader(s) have discretionary authority.

(l) Prior to entering an order for a Customer that is not an Eligible Contract Participant, a Clearing Member must first provide such Customer with the HedgeStreet Risk Disclosure Statement.

(m) Each Clearing Member must make and file reports in accordance with Commission Regulations in a manner and form and at such times as may be prescribed by the Commission.

(n) Each Clearing Member must make and file reports with HedgeStreet at such times, in such manner and form, and containing such information as HedgeStreet may prescribe from time to time.

(o) Each Clearing Member, upon a request of HedgeStreet or Regulatory Agency, must promptly respond to any requests for information that may be requested from time to time.

(p) Each Clearing Member may invest Customer Funds as long as such funds are invested pursuant to [Commission Regulation 1.25](#).

(q) Each Clearing Member must prepare, maintain and keep current those books and records required by the rules of HedgeStreet, the CEA and/or the Commission's Regulations. Such books and records shall be open to inspection and promptly provided to HedgeStreet and/or the Commission or the U.S. Department of Justice upon request.

RULE 3.4 COMMUNICATIONS BETWEEN HEDGESTREET AND [CLEARING](#) MEMBERS

You must provide HedgeStreet with your current electronic mail address and immediately (and in any event within 24 hours) update that address whenever it changes. All communications between HedgeStreet and you, including confirmation of all transactions executed in your account, will be transmitted by electronic mail and/or posted on the HedgeStreet website. You will be responsible for promptly reviewing and, if necessary, responding to all electronic communications from HedgeStreet.

RULE 3.5 AUTHORIZED [TRADERS](#)

(a) [Clearing](#) Members other than natural persons must apply for authorization for all [Trader](#)(s) who will access their accounts. Only [Authorized Traders](#) authorized by HedgeStreet and the [Clearing](#) Member



may enter and execute transactions on the Market. Before an Authorized Trader may enter orders or execute trades on the Market, he/she must acknowledge having read and understood these Rules and agree to comply with these Rules.

(b) A Clearing Member may be required to submit evidence of the authority of an Authorized Trader to act on behalf of the Clearing Member and such other information about any Authorized Trader as HedgeStreet may request. A person may be conditionally approved as an Authorized Trader of a Clearing Member subject to any conditions HedgeStreet may consider appropriate in the interests of promoting a fair and orderly market.

(c) HedgeStreet may withdraw or suspend the registration of any Authorized Trader of any Clearing Member if HedgeStreet determines that:

(i) an Authorized Trader has caused the Clearing Member to fail to comply with the Rules of HedgeStreet;

(ii) an Authorized Trader is not properly performing the responsibilities of an Authorized Trader of a Clearing Member or Market Maker;

(iii) an Authorized Trader has failed to comply with the conditions set forth in paragraph (b) of this Rule; or

(iv) it is the best interests of maintaining a fair and orderly market to do so.

(d) If HedgeStreet suspends the registration of any Authorized Trader, the Clearing Member must ensure that the suspended Authorized Trader does not submit any quotes or orders into the HedgeStreet system.

(e) The registration of an Authorized Trader will be withdrawn upon the written request of the Clearing Member for which an Authorized Trader is registered. Such written request shall be submitted in a manner prescribed by HedgeStreet. Until such written request is received, or an Authorized Trader's registration is suspended or withdrawn pursuant to paragraph (c) of this Rule, a Clearing Member will be responsible for all order entry and trading activity of such Authorized Trader(s).

RULE 3.6 DUES, FEES, AND EXPENSES PAYABLE BY CLEARING MEMBERS

(a) Clearing Members are not required to pay dues.

(b) Clearing Members are charged fees for trading iHedgelet Contracts. The fees for trading both Fixed Payout iHedgelet Contracts and Variable Payout iHedgelet Contracts are charged in an amount to be reflected from time to time on HedgeStreet's website.



(c) Clearing Members are charged fees for settlement of iHedgelet Contracts at Expiration to HedgeStreet. Fees for settlement of iHedgelet Contracts will be charged in an amount to be reflected from time to time on HedgeStreet's website.

(d) If HedgeStreet determines in the future to impose dues or additional fees, HedgeStreet will notify you of any dues or additional fees that will be imposed at least 30 days before they take effect.

CHAPTER 4 MARKET MAKERS

RULE 4.1 REGISTRATION OF MARKET MAKERS

(a) In order to become a Market Maker you must already be a Clearing Member of HedgeStreet in good standing. A Clearing Member shall file a written Market Maker application with HedgeStreet. HedgeStreet shall consider such factors as business reputation, financial resources and trading activity in relevant futures, options or related cash markets in determining whether to approve a Market Maker application.

(b) The designation of any Market Maker may be suspended or terminated by HedgeStreet at any time and for any reason.

RULE 4.2 APPOINTMENT OF MARKET MAKERS

(a) HedgeStreet shall appoint Market Makers to certain Classes of Contracts ("Designated Classes") traded on HedgeStreet. In making such appointments, HedgeStreet shall consider (i) the financial resources available to the Market Maker, and (ii) the Market Maker's experience in market making in futures, options and other derivative products.

(b) No appointment of a Market Maker to a Designated Class shall be made without the Market Maker's consent to such appointment, provided that refusal to accept appointment to a Designated Class may be deemed sufficient cause for denial, suspension, or termination of registration as a Market Maker.

(c) HedgeStreet may suspend or terminate any appointment of a Market Maker to a Designated Class and may appoint more than one Market Maker to the same Designated Class.

(d) HedgeStreet may periodically conduct an evaluation of any Market Maker to determine whether it has fulfilled performance standards relating to, among other things, quality of the markets, competitive market making, observance of ethical standards, and administrative soundness. If the Market Maker fails to meet minimum performance standards, HedgeStreet may, among other things, (i) suspend, terminate or restrict the Market Maker's appointment to a particular Designated Class, (ii) restrict the Market Maker from appointments to additional Designated Class(es), and (iii) suspend, terminate or restrict the Market Maker's registration as such.



RULE 4.3 BENEFITS OF BECOMING A MARKET MAKER

(a) Market Makers may have access to HedgeStreet via a dedicated private circuit for an additional fee to be determined by HedgeStreet on a case-by-case basis. HedgeStreet will provide a guaranteed throughput per day with a specified peak amount of orders that may be traded per second to all Market Makers.

(b) Market Makers shall receive reduced trading fees and/or participate in revenue sharing with HedgeStreet as an incentive for fulfilling the obligations of a market maker.

(c) Market Makers shall have access to a designated group of operational specialists at HedgeStreet who handle issues relating to Market Makers.

RULE 4.4 OBLIGATIONS OF MARKET MAKERS

(a) General – Transactions of Market Makers should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers shall not make bids or offers or enter into transactions that are inconsistent with such a course of dealings. Ordinarily, Market Makers shall be obligated to maintain two-sided displayed quotes at a predefined spread (“Spread”) for a Series of Contracts for a certain period of time throughout the trading day. In ordinary market conditions, quotes must be made within a maximum Spread. This Spread will be set at the time a Series is opened for trading and will be set in accordance with the maximum loss a Market Maker may incur by quoting within the Spread. In fast market conditions, Market Makers will be permitted to widen their Spreads to a level that will be set at the time a Series is opened for trading.

(b) A Market Maker has a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for the account of the Market Maker when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity or a temporary disparity between the supply of and demand for quotations in a Series of a Designated Class to which the Market Maker is appointed. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market;

(i) To post bid and ask quotations in all Designated Classes to which the Market Maker is appointed that, absent changed market conditions, will be honored by the Market Maker.

(ii) To update quotations in response to changed market conditions in all Designated Classes to which the Market Maker is appointed



CHAPTER 5 METHOD FOR CLEARING MEMBERS TO TRADE iHEDGELET CONTRACTS

RULE 5.1 PRIOR REVIEW OF RISK DISCLOSURE STATEMENT AND THESE RULES AND ACCEPTANCE OF TERMS OF MEMBERSHIP AGREEMENT IS REQUIRED

You may not trade iHedgelet Contracts on the Market until you have received, read, understood, and accepted ~~the HedgeStreet Risk Disclosure Statement~~, these Rules, and the HedgeStreet Membership Agreement, and have certified that you have done so. If you are a Clearing Member that is not an Eligible Contract Participant, you may not trade iHedgelet Contracts on the Market until you have received, read, understood and accepted the HedgeStreet Risk Disclosure Statement.

RULE 5.2 CLEARING MEMBER ACCESS TO HEDGESTREET

(a) During the HedgeStreet membership application process, you will be required to choose a user identification (“ID”) and password. You will be required to enter the ID and password to log onto and access secure portions of the HedgeStreet website. Each time you submit your unique user ID and password to HedgeStreet to log onto HedgeStreet, you affirm that you understand and agree to be bound by these Rules and other policies of HedgeStreet, as amended.

(b) As a Clearing Member, you will be able to access the Market, execute trades, and otherwise access information regarding, or perform functions in, your account using your ID and unique password.

(c) For account security and audit trail purposes, HedgeStreet will maintain logs of your IP address when you are logged into the HedgeStreet website.

(d) You will be responsible for protecting your ID and password from improper disclosure, and you may not knowingly or negligently permit any person not authorized by HedgeStreet and by you to use your ID and password to access the secure portion of the HedgeStreet website. You are required to immediately notify HedgeStreet if you know, or if you have reason to believe, that your ID and/or password have been disclosed to any person not authorized by HedgeStreet and you to use your ID and/or password. You will have reason to believe that your ID and/or password have been disclosed to an unauthorized person 12 hours after a trade is executed by that person in your account

(e) You will be liable for all costs and any losses that you may incur from transactions executed on HedgeStreet by any person, authorized or not, using your ID and password. HedgeStreet will not be responsible in any way for unauthorized transactions in your account.

(f) You are responsible for contracting with an Internet service provider and/or obtaining a dedicated private circuit through which you will access the HedgeStreet Market and for having a backup service provider and/or dedicated private circuit if you think it is necessary. If your sole connection with the Market is via the internet, you are also responsible for maintaining an Internet connection speed adequate for your needs. HedgeStreet will not be responsible in any way for any orders delayed or trades missed or not executed in a timely fashion because of failure of your Internet service provider and/or dedicated private



circuit or slowness of your Internet connection speed and/or dedicated private circuit. No communication from you will be deemed to have been received by HedgeStreet until that communication is logged by the HedgeStreet server.

RULE 5.3 TRADING iHEDGELETS

(a) Every iHedgelet executed on the Market must be effected for the account of or through a Clearing Member authorized by the Clearing Corporation and HedgeStreet to act as a Clearing Member for the Class of iHedgelet.

(b) As a Clearing Member, you will be able to trade Fixed Payout or Variable Payout iHedgelets on the Market for your account(s) or the account(s) of your Customers by entering bids and offers at prices in which you or your Customer are willing to open or close such Contracts. After logging onto the secure portion of the HedgeStreet website, you will input orders into the HedgeStreet trading system. When an order is matched, it will be reported to the Clearing Corporation. The rules of the Clearing Corporation will govern all matched trades.

(c) Each Clearing Member must require each Customer to execute an agreement including at least the following acknowledgements and agreements, which the parties may not modify in any material respect:

THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS PROVIDED BY THE CLEARING CORPORATION (“CCORP”) TO SUBSCRIBERS OF THE HEDGESTREET (“HS”) SYSTEM RELATING TO ANY OF THE SERVICES OR FACILITIES PROVIDED BY CCORP, INCLUDING BUT NOT LIMITED TO THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE OR USE.

EXCEPT AS MAY OTHERWISE BE SPECIFICALLY AGREED WITH CCORP, IN NO EVENT SHALL CCORP OR ANY OF ITS GOVERNORS, DIRECTORS, OFFICERS OR EMPLOYEES, BE FINANCIALLY RESPONSIBLE FOR, OR OTHERWISE GUARANTEE THE PAYMENT OR RETURN BY CCORP OR ANY THIRD PARTY OF ANY ORIGINAL MARGIN OR COLLATERAL DEPOSIT, VARIATION MARGIN, OPTION PREMIUM, SETTLEMENT AMOUNT OR DELIVERY OBLIGATION IN RESPECT OF ANY HS CONTRACT. NEITHER CCORP NOR ANY OF ITS GOVERNORS, DIRECTORS, OFFICERS OR EMPLOYEES SHALL BE LIABLE TO ANY PERSON FOR ANY LOSSES, DAMAGES, COSTS OR EXPENSES (INCLUDING, BUT NOT LIMITED TO, LOSS OF PROFITS, LOSS OF USE, DIRECT, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES) ARISING FROM ANY FAILURE OR MALFUNCTION, OR ANY FAULT IN DELIVERY, DELAY, OMISSION, SUSPENSION, INACCURACY OR TERMINATION, OR ANY OTHER CAUSE, IN CONNECTION WITH THE FURNISHING, PERFORMANCE, MAINTENANCE, USE OF OR INABILITY TO USE ALL OR ANY PART OF THE SERVICES PROVIDED BY CCORP TO HS OR TO CCORP PARTICIPANTS. THE FOREGOING SHALL APPLY REGARDLESS OF WHETHER A CLAIM ARISES IN CONTRACT, TORT, NEGLIGENCE, STRICT LIABILITY OR OTHERWISE.



RULE 5.4 MARGIN

(a) Clearing Members shall collect sufficient margin from its Customers in an amount no less than 100 percent of the premium amount of a transaction.

(b) Clearing Members shall abide by all rules and policies of CCorp, including, without limitation, all rules relating to margin requirements.

(c) No Clearing Member shall extend any credit or give any rebate or gratuity of any kind to any Person for the purpose of circumventing or evading margin requirements.

RULE 5.5 ORDER ENTRY

(a) You will enter orders to purchase and sell iHedgelets Contracts by electronic transmission over the Internet or a dedicated private circuit, and HedgeStreet will maintain an electronic record of your order entries.

(b) You will enter an order to trade one or more Contracts by indicating to HedgeStreet in the manner required by HedgeStreet including, but not limited to: (i) order type (i.e., buy or sell); (ii) the Series of Contract; (iii) the price at which to buy or sell the Contract; (iv) the number of Contracts to be bought or sold; (v) whether the trade is for your account or the account of your Customer and, (vi) whether the trade is an opening or closing transaction.

(c) Upon entry of an order to trade one or more Contracts, you will be required to confirm the order before it is sent to HedgeStreet. Once the order is accepted by HedgeStreet, HedgeStreet will send to you by electronic mail an order confirmation number. You will be responsible for any and all order entries confirmed for your account and accepted by HedgeStreet.

(d) HedgeStreet's trading system will keep an electronic record of all orders to trade Contracts and all executed Contract trades. The records kept by HedgeStreet will include all of the terms identified in paragraphs (b) and (c) of this Rule as well as the date and time, ~~to the nearest tenth of a second,~~ that the transaction was completed, to the nearest tenth of a second for all executed Contract trades, and to the nearest second for all orders to trade Contracts.

RULE 5.6 RECORDKEEPING OF CUSTOMER ORDERS

(a) No separate record need be made for Customer orders received by a Clearing Member or Authorized Trader which are capable of being immediately entered onto the HedgeStreet system, unless otherwise required by these Rules. However, if a Clearing Member or Authorized Trader receives an order that cannot be immediately entered into the HedgeStreet system, such Clearing Member or Authorized Trader must prepare a written record of the order and include the account designation, date and time of



receipt and order instructions. The written record of the order shall be time-stamped and appropriately indicate whether the order was not executed, executed or cancelled.

(b) All time-stamps required under this Rule 5.6 must show the time to the nearest minute.

(c) All written orders and any other original records pertaining to orders entered through the HedgeStreet system must be retained for no less than five years. For orders that were entered immediately upon receipt into the HedgeStreet system, the information contained in the HedgeStreet system shall be deemed the original records of the transaction.

RULE 5.7 WITHHOLDING ORDERS PROHIBITED

(a) No Clearing Member or Authorized Trader may withhold or withdraw from the market any order or any part of an order for the benefit of any Person other than the Person placing the order.

RULE 5.8 DISCLOSING ORDERS PROHIBITED

(a) It is a violation of this Rule 5.8 for any Person to disclose another Person's order to buy or sell iHedgelets except as may be requested by HedgeStreet or the Commission.

(b) It is a violation of this Rule 5.8 for any Person to take action or direct another Person to take action based on non-public order information, however acquired.

RULE 5.9 ERRORS IN HANDLING ORDERS BY CLEARING MEMBERS

(a) If a Clearing Member (or an Authorized Trader of the Clearing Member), fails to execute a Customer order or under buys or under sells on a Customer order (collectively "Unfilled Order"), the Clearing Member shall execute the order or the remainder of the order in the market to correct the error made as a result of the Unfilled Order ("Filled Order"). If the Filled Order is executed at a worse price than the Customer should have received but for the Unfilled Order, the Clearing Member may allocate the Filled Order to its error account and assign the opposite side of the order to its error account at the price the Customer was entitled. If the Filled Order is executed at a more favorable price, the Customer is entitled to the better price.

(b) If a Clearing Member executes i) a Customer order in the wrong Type, Class and/or Series and/or ii) an order on the wrong side of the market (e.g. enters a buy order instead of a sell order or enters a sell order instead of a buy order) (collectively, "Erroneous Execution"), and the Erroneous Execution has been placed in the Clearing Member's error account, the Erroneous Execution may be corrected by executing the order with the correct terms ("Corrected Execution"). If the Corrected Execution is executed at a worse price due to the Erroneous Execution, the Clearing Member shall make an adjustment by check in a sufficient amount to ensure that the Customer receives the better price.



(c) If a Clearing Member over buys or over sells on an order in an attempt to correct an Unfilled Order or Erroneous Execution, the Customer is not entitled to any of the excess. A Clearing Member that has established an excess position due to an attempt to correct an Unfilled Order or Erroneous Execution must place such excess position in the error account of the Clearing Member or Authorized Trader responsible for the error. Any profits resulting from the liquidation of the trades placed in the error account belong to the Clearing Member or the Authorized Trader, and may be retained or disbursed at the discretion of the Clearing Member or the Authorized Trader.

RULE 5.10 DISPUTED ORDERS

(a) If you believe that an order to buy or sell iHedgelets was incorrectly executed or rejected by HedgeStreet you may request review of the order by providing the confirmation number for the order and stating the grounds for your disagreement with the handling of the order.

(b) Upon receipt of a request for review of an order and the accompanying confirmation number, HedgeStreet will review its electronic audit trail to determine if the HedgeStreet trading system correctly interpreted and executed your order.

(c) If the review described in paragraph (b) of this Rule reveals that the HedgeStreet trading system made a mistake, the order will be cancelled and the accounts of all Members that were party to the order will be returned to their state before the trade was executed.

(d) If the review described in paragraph (b) of this Rule reveals that the HedgeStreet trading system did not make a mistake, HedgeStreet will inform you of its determination that the order was properly handled, the evidence supporting that determination, and that an adjustment will not be made.

(e) You may appeal a determination under paragraph (d) of this Rule to a HedgeStreet compliance officer through the electronic mail address provided on the HedgeStreet website. You will be required to provide a response to the evidence described in paragraph (d) of this Rule that the order was properly handled, and you may provide any other information you wish to disclose. If your appeal does not contain a response to the evidence described in paragraph (d), it will be rejected. The compliance officer will decide your appeal no later than 10 days after its receipt, and that decision will be final.

(f) HedgeStreet will document in writing all requests for review of orders received by HedgeStreet, the time and manner in which HedgeStreet reviewed its electronic audit trail in response to the request, the outcome of that review, and the action or actions taken by HedgeStreet in response to that review, including the results of any appeal filed under paragraph (e) of this Rule and the review conducted by the compliance officer in deciding that appeal.

RULE 5.11 ACCEPTABLE ORDERS

(a) You may only enter limit orders to trade Contracts on the Market except in accordance with the conditions and procedures under which such orders may be permitted under these Rules.



(b) For the purpose of this Rule, a “limit order” is an order to buy or sell the number of Contracts you specify at the price you specify, or a better price if a better price is available.

RULE 5.12 TRADING AGAINST CUSTOMER ORDERS IS PROHIBITED

(a) No Clearing Member or Authorized Trader in possession of a Customer order may knowingly enter into a transaction for such order directly or indirectly for him/herself or any other Person with whom such Person has a direct or indirect financial interest.

(b) The restriction imposed by Rule 5.12(a) will not apply to the following transactions:

(i) Transactions executed pursuant to Rule 5.13;

(ii) Transactions where a Customer has consented in writing no more than 12 months prior to the transaction to waive the restriction imposed in Rule 5.12(a). Such transactions shall also be subject to the following conditions:

(1) the transaction shall conform to the requirements of Rule 5.15;

(2) the Member shall clearly identify all of the terms of such transactions, including i) time of execution, ii) name of the Customer, iii) Series of Contract, iv) the date, v) price and vi) quantity.

RULE 5.13 BLOCK TRADES

(a) Clearing Members acting on their own behalf or on behalf of their Customers, may enter into privately negotiated transactions with respect to any Class of iHedgelet Contract approved by HedgeStreet for such purpose (hereinafter referred to as “Block Trades”) provided that all of the following conditions of this Rule 5.13 are met:

(b) Each party to a Block Trade must be a Clearing Member or its Customer that qualifies as an Eligible Contract Participant, provided that, if the Block Trade is entered into on behalf of a Customer by a commodity trading advisor (registered with NFA) (“NFA”), or any investment advisor registered as such with the Securities and Exchange Commission that is exempt from CTA registration under the CEA or Commission regulations, in either case with total assets under management exceeding US \$25 million, the Customer need not be an Eligible Contract Participant.

(c) A Clearing Member may not take the opposite side of a Block Trade with a Customer without such Customer’s prior written consent, which may be in the form of a blanket consent to all transactions effected after such consent is given.

(d) A Clearing Member may effect a Block Trade on behalf of a Customer only if the Clearing Member has received an order to do so from the Customer. Such order must be recorded and time-stamped with the time the order is placed and the time the order is executed.



(e) Each buy or sell order underlying a Block Trade must:

- (i) explicitly state that it is to be, or may be, executed by means of a Block Trade;
- and
- (ii) be for at least the applicable minimum threshold (“Block Size”) as specified in the chart below:

<u>Contract</u>	<u>Minimum Block Size²</u>

(f) The price at which the Block Trade is executed must be “fair and reasonable” in light of:

- (i) the size of the Block Trade;
- (ii) the price and size of other transactions in the same Contract at the relevant time;
- (iii) the price and size of transactions in other relevant markets, including, without limitation, the underlying cash and futures market (if applicable) at the relevant time, or
- (iv) the circumstances of the market or the parties to such block trades.

(g) Immediately upon agreeing to enter into a Block Trade transaction, or upon the opening of the Market, if the transaction is agreed to be entered into by the parties at a time when the Market is closed, the Clearing Member who is the Block Trade seller (or whose Customer is the Block Trade seller) shall report the details of the Block Trade on the screen. The report shall include the name of the selling Clearing Member, the name of the buying Clearing Member, the Contract, Contract month, price and quantity of the transaction. Within five (5) minutes of reporting the details of the Block Trade, the Clearing Member who is the Block Trade buyer (or whose Customer is the Block Trade buyer) shall confirm such Block Trade on the screen. Block Trades must be reported to HedgeStreet within five minutes of the Time of Execution. Time of Execution means the time the agreement is entered into between the buyer and the seller. The

² HedgeStreet has not included in this submission the series of iHedgelets that will be eligible to engage in block trading nor the relevant minimum size requirements for any of these instruments. Such designations will be submitted separately to the Commission.



report must include the Contract, Contract month, price and quantity of the transactions. HedgeStreet shall immediately publish that Block Trade report onto the Market.

(h) Each time a Clearing Member arranges a Block Trade on the Market, the Clearing Member has the responsibility of ensuring that the execution of such Block Trade promotes a fair and orderly Market. Upon the request of HedgeStreet and/or NFA, a Clearing Member must provide satisfactory evidence that a Block Trade was arranged in accordance with these Rules.

RULE 5.14 TRANSFER TRADES

(a) A Clearing Member may transfer a trade in iHedgelets from one account to another account i) within the same Clearing Member or ii) to another Clearing Member, provided that the transfer would not result in a change in beneficial ownership in any iHedgelet, unless the transfer is made in order to:

(i) correct an error in a previously executed transaction, provided that the Clearing Member is able to provide evidence of such error in a form prescribed by HedgeStreet;

(ii) reflect a change in ownership occurring by operation of law due to the death or bankruptcy of a Person having an ownership interest in such iHedgelet, or;

(iii) facilitate a merger, consolidation, disposition of a line of business, reorganization, or similar event effecting such Person.

(b) A Clearing Member that transfers an iHedgelet trade shall notify HedgeStreet and CCorp of the transfer in a manner and form as prescribed by HedgeStreet and CCorp.

(c) Transfers of Clearing Member or Customer trades shall be made at the historic price at which such transactions were executed.

RULE 5.15 CROSS TRADES

(a) No Member shall enter into a Cross Trade unless the following conditions are satisfied:

(i) In the case of a Customer order, the Customer has given consent to enter into such Cross Trade (which may be in the form of a blanket consent);

(ii) During pre-negotiations and in executing Cross Trades for a Customer, the Clearing Member ensures that:

(1) it acts with due skill, care and diligence, and

(2) the Customer's interests are not prejudiced.



(iii) When a Customer order is on one side of the Cross Trade, then the Customer order must be submitted onto the Market first.

(iv) If both parties agree to execute the transaction above the existing bid price and below the existing offer price, the Cross Trade may be executed immediately on the Market. In the absence of a bid and an offer price in the relevant iHedgelet Series, then the Clearing Member seeking to execute a Cross-Trade must:

(1) Enter an order onto the Market;

(2) Allow the order to remain on the Market for 10 seconds, provided that, if the order represents the first transaction in a Series, the order shall remain on the Market for 60 seconds, and

(3) The Clearing Member may immediately enter the opposite order after the 10 second or 60 second period has expired in accordance with Rule 5.15(a)(iv)(2).

(v) A Clearing Member must not enter a bid and/or an offer onto the Market in an attempt to circumvent Rule 5.15(iv).

RULE 5.16 GIVE-UPS

(a) A Give-Up occurs when a CCorp Participant executes a trade (“Executing Participant”) on behalf of another CCorp Participant (“Carrying Participant”) and subsequently transfers the trade to the Carrying Participant.

(b) The Executing Participant must i) indicate that the transaction is being executed as a Give-Up prior to order entry, and ii) indicate the Carrying Participant.

(c) The Executing Participant must submit Give-Up transactions to CCorp for clearing and, remains responsible for the clearing and settlement of such Give-Up transaction as determined by the rules of CCorp.

RULE 5.17 PRIORITY OF ORDERS

The Market’s trading algorithms execute all trades by matching orders according first by price and then time priority. This means that orders entered at different prices will be executed in order of price, from best to worst, regardless of what time they were placed on the Market, and orders placed on the Market at the same price will be executed in order of time, from oldest to most recent.

RULE 5.18 FILLING ORDERS TO TRADE CONTRACTS

The HedgeStreet trading system will fill all orders to trade Contracts on an “or better” basis. This means that if you place an order to buy a Contract or Contracts at a price higher than the price of the best



sell offer on the market, the system will fill your order at the better sell offer price(s) until all available sell offers under or equal to your limit price are filled or until your buy order is completely filled. Likewise, if you enter a sell order at a price lower than the price of the best buy offer, the system will fill your order at the better buy offer price(s) until all available buy offers over your limit price are filled or your sell order is completely filled. If your order is only partially filled, the unfilled portion of your order will be placed in the order book as a resting order at the limit price you specified. Should a better order subsequently be placed in the system, the unfilled portion of your original order will be executed at its limit price.

[RULE 5.19](#) MODIFICATION AND CANCELLATION OF ORDERS

(a) You can either cancel or modify an order you have placed on the Market if it has not yet been executed. All your pending orders will be listed on your account page. To modify a pending order, select the order to be changed and, using the prompts, (1) cancel the order, (2) modify the order, or (3) leave the order unchanged. If you choose to cancel the order and the order has not been executed, the HedgeStreet system will withdraw the order from the order book and confirm the cancellation of the order. If you choose to amend the order, you will be shown the details of the existing order and be allowed to change any part of the order except the Underlying. You will then be given a new order confirmation number and be informed that the system will treat the modified order as a new order, causing the amended order to lose its original time priority.

(b) HedgeStreet will attempt to modify or cancel your order as soon as possible after you enter a modification or cancellation order. However, the order may be executed before HedgeStreet is able to cancel or modify it. If your order has been filled in whole or in part, you may modify or cancel only that portion of the order (if any) that has not been executed.

[RULE 5.20](#) VIEWING THE MARKET AND EXECUTED ORDERS

HedgeStreet will allow its [Clearing](#) Members to view the current best bid and offer on the Market. HedgeStreet will also allow [Clearing](#) Members to view the last executed order to trade Contracts.

[RULE 5.21](#) HOURS FOR TRADING HEDGELET CONTRACTS

The Market will be open for execution of your orders from 9:00 a.m. to 8:00 p.m. Eastern Standard Time Monday through Friday (each, a "Trade Day"), with the exception of Market holidays, which will be announced on the HedgeStreet website at least 30 calendar days in advance. You may access account information and cancel any open orders while the Market is closed, but you may not enter or modify orders unless the Market is open.

[RULE 5.22](#) PROHIBITED TRANSACTIONS AND ACTIVITIES

(a) You are prohibited from [accepting any order or attempting to enter into any trade on the Market that is or has been directly or indirectly prearranged except in accordance with the conditions and procedures under which such transactions may be permitted under these Rules.](#) In other words, you may not



agree with another Person that one of you will enter a trade and the other Person will attempt to match that trade by timing the orders or otherwise unless such agreements are permitted pursuant to these Rules.

(b) You are prohibited from accepting any order or attempting to enter into or entering into any trade on the Market that does not result in a change in beneficial ownership, that is designed to unnaturally inflate trading volume, that in any way attempts to circumvent the Market's order processing, trade ordering, and trade execution systems, or otherwise to circumvent exposure of the order to open and competitive bidding on the Market, or that has some other illegitimate purpose.

(c) You are prohibited from accepting any order or entering into any trade designed or used to cause any price for a Contract other than a true and bona fide price to be reported, registered, or recorded by the Market.

(d) You are prohibited from knowingly accepting any bids or offers to be entered, entering or causing to be entered, bids or offers onto the Market other than in good faith for the purpose of executing bona fide transactions.

(e) You are prohibited from trading in, transferring, assigning, or otherwise disposing of Contracts other than as provided for in these Rules.

(f) You are prohibited from agreeing to transfer or from transferring the benefit of any position in any iHedgelet Contract to another Person other than through a transaction executed through the Market. except in accordance with the conditions and procedures under which such transactions may be permitted under these Rules.

(g) You are prohibited from engaging in any activity that presents a risk of harm to HedgeStreet, its Members, Customers or the public.

(h) You are prohibited from engaging in any activity that adversely affects the integrity of the Market or its underlying systems.

(i) You are prohibited from intentionally providing erroneous or fraudulent information to HedgeStreet on your membership application or otherwise.

(j) You are prohibited from violating or failing to timely comply with the terms of any agreement between you and HedgeStreet or the Clearing Corporation, or any order or arbitration decision or award of HedgeStreet, NFA or the Clearing Corporation.

(k) You are prohibited from engaging in any activity that is intended to, or has the effect of, manipulating the market in violation of Sections 6(c) and 9(a)(2) of the CEA and from engaging in any other activity that would violate the CEA or the Commission's Regulations.



(l) You are prohibited from entering any bids, offers or transactions on the Market when you have, or should know that you are subject to early warning reporting requirements under Commission Regulation 1.12, are subject to a proceeding in bankruptcy or are otherwise unable to pay your obligations as they become due, without the prior written approval of HedgeStreet.

(m) You are prohibited from knowingly carrying an account, entering an order or effecting any transactions for any employee of HedgeStreet or the Clearing Corporation without the prior written consent of the employer.

(n) You are prohibited from directly or indirectly guaranteeing the execution of an order to buy or sell a Contract on HedgeStreet, or any of its terms, including quantity and price unless such order has been executed or reported on the Market.

(o) You are prohibited from handling, mainting or soliciting any Customer orders, accounts or funds unless you are properly registered with the NFA in accordance with the CEA and Commission Regulation adopted thereunder to conduct futures-related business with the public.

RULE 5.23 SPECULATIVE POSITION LIMITS

(a) HedgeStreet has imposed Speculative Position Limits on certain Classes of Contracts as defined in Chapter 12 of these Rules. Any Member who exceeds or causes any Person to exceed a Speculative Position Limit shall be deemed in violation of this Rule 5.23. In addition, any Member accepting or entering bids or offers, if accepted, causing any Person to exceed the applicable Speculative Position Limit shall be in violation of this Rule.

(b) If a Member fails to reduce any position in a manner and time as directed by HedgeStreet, HedgeStreet shall have the authority to liquidate the applicable position to a level below the defined Speculative Position Limit stipulated under the relevant Class of Contracts in Chapter 12 of these Rules.

(c) In addition to the restrictions and requirements imposed in Section 5.23(a) and (b), the first violation of a Speculative Position Limit by a Member shall result in a letter of warning to be issued by the HedgeStreet Compliance Department to the Member.

(d) In addition to the restrictions and requirements placed in Section 5.23(c), any subsequent violation of a Speculative Position Limit within the preceding 12 months by a Member shall result in the issuance of a second letter of warning to the Member and the suspension or revocation of membership privileges in accordance with Chapter 9 of these Rules.

(e) Position limits shall apply to i) all positions in accounts for which any Person by power of attorney or otherwise, directly or indirectly holds positions or controls trading, and ii) positions held by two or more Persons acting pursuant to an express or implied agreement or understanding the same as if the positions were held by, or the trading of the position were done by, a single individual.



CHAPTER 6 SETTLING iHEDGELET TRADES AND iHEDGELET CONTRACTS AT EXPIRATION

RULE 6.1 SETTLING iHEDGELETS FOR CLEARING MEMBERS

Settlement of iHedgelet trades and expirations will be conducted in accordance with the by-laws and rules of the Clearing Corporation.

CHAPTER 7 ADJUSTMENTS NECESSITATED BY MATERIAL CHANGES IN THE UNDERLYING

RULE 7.1 ADJUSTMENTS

In the event that, during the term of a Series, changes beyond the control of HedgeStreet occur in the way the Underlying is calculated or an Expiration Value for the Underlying is unavailable or undefined in light of intervening events, HedgeStreet may adjust the terms of outstanding Series as it deems appropriate in its discretion to achieve fairness to holders of Contracts of the affected Series. In addition, if the outcome of the underlying event is unclear, HedgeStreet may, at its sole discretion, delay settlement of the Series until the outcome is clear to HedgeStreet as determined by reasonable means. While it is impossible to provide in advance for all possible events that could require an adjustment to be made, HedgeStreet will abide by any guidelines that may be established in this Chapter for making Contract adjustments.

RULE 7.2 GOVERNMENT ACTIONS

Any change in instructions, order, ruling, directive, or law issued or enacted by any court or agency of the Federal Government of the United States that conflicts with the Rules contained in this Chapter shall take precedence, immediately become a part of these Rules, and be effective for all currently traded and newly listed Series.

CHAPTER 8 INVESTMENT OF CLEARING MEMBER ACCOUNT FUNDS

RULE 8.1 INVESTMENT OF CLEARING MEMBER FUNDS HELD AT THE CLEARING CORPORATION

Clearing Member funds and the funds of Clearing Member Customers on deposit at the Clearing Corporation will be deposited and invested in accordance with the Clearing Corporation's policies and rules.



CHAPTER 9 RULE ENFORCEMENT

RULE 9.1 MONITORING THE MARKET

HedgeStreet's trading system will record and store for a period of not less than 5 years in a searchable, read-only database a record of all data entered into the HedgeStreet trading system, including the Member's identity and the information in Rule 5.5. Programs are run on this data by HedgeStreet and by an organization with which HedgeStreet has entered into an agreement to provide certain market surveillance and trade practice surveillance [and investigatory](#) services, and those programs will alert HedgeStreet or its market/trade practice surveillance services provider when potentially unusual trading activity takes place. HedgeStreet or its services provider will initiate investigations upon receipt of notice of unusual trading activity, and HedgeStreet [and/or its service provider](#) will review and further investigate any reports of such activity provided by its market surveillance services provider. HedgeStreet will also investigate any time it has other reason to believe that inappropriate activity of any sort is taking place on the Market or its website.

RULE 9.2 INVESTIGATIONS, HEARINGS, AND APPEALS

(a) HedgeStreet has a compliance department consisting of one or more compliance officers. [In addition, HedgeStreet may enter into agreements with one or more investigatory service providers in order to perform the specified functions assigned by these Rules to HedgeStreet compliance officers.](#) Compliance officers investigate unusual trading activity or other activity that compliance officers have reasonable cause to believe could constitute a violation of these Rules. HedgeStreet [has a Disciplinary Committee that determines whether disciplinary action should be brought against a Member based on the findings of compliance officers.](#) HedgeStreet also retains hearing officers, who adjudicate findings by compliance officers that are disputed by Members. Hearing officers and compliance officers may not communicate regarding a matter brought before the hearing officer without informing the Member who is the subject of the communication of its substance and allowing the Member an opportunity to respond. Compliance officers and hearing officers may compel testimony, subpoena documents, and require statements under oath from any Member or its authorized representative. Compliance officers, hearing officers, and employees or agents of HedgeStreet working under their supervision, may not be a Member or an authorized representative of a Member or trade, directly or indirectly, in any commodity interest traded on or subject to the rules of any registered contract market.

(b) Upon the conclusion of any investigation by a compliance officer, the officer will draft a document detailing the facts that led to the opening of the investigation, the facts that were found during the investigation, and the compliance officer's analysis and conclusion. If the compliance officer concludes that there is reasonable cause to believe a Member has violated HedgeStreet's Rules or other applicable statutes or regulations, [the compliance officer will present his/her analysis and conclusions to the HedgeStreet Disciplinary Committee for review and final determination as to whether disciplinary proceedings should commence against the Member. If the Disciplinary Committee determines that disciplinary proceedings](#)



[should be brought against the Member](#), the compliance officer will submit by electronic mail to the Member whose activity is the subject of the investigation a report that will include:

- (i) the reason the investigation was begun;
- (ii) the charges or a summary of the charges;
- (iii) the response, if any, or a summary of the response;
- (iv) a summary of the investigation conducted;
- (v) findings and conclusions as to each charge, including which of these Rules the Member or its authorized representative violated, if any; and
- (vi) the penalty, if any, proposed by the [Disciplinary Committee](#).

(c) The Member whose activity is the subject of the investigation may contest the [Disciplinary Committee](#)'s findings by forwarding a response to those findings by electronic mail to the compliance officer within 15 days. The Member has a right to examine the evidence relied upon by the compliance officer [and Disciplinary Committee](#). The Member's response must contain a detailed response to the findings and conclusions as to each charge and any other information the Member thinks is relevant.

(d) If the findings of the [Disciplinary Committee](#) are not contested by the Member, HedgeStreet will deem those findings admitted by the Member and impose the penalty (if any) proposed by the [Disciplinary Committee](#). The Member will be notified of the imposition of any penalty by electronic mail.

(e) If the findings of the [Disciplinary Committee](#) are contested, the compliance officer's report and the Member's response will be submitted to a HedgeStreet hearing officer. The hearing officer will conduct a telephonic hearing with the compliance officer and the Member within 20 days of receipt of the Member's response contesting the [Disciplinary Committee](#)'s finding and/or proposed sanction and, within 20 days after that hearing, issue findings, which will be delivered to the Member by electronic mail. Prior to the hearing, the parties may (but need not) submit proposed findings, briefs, and exhibits (including affidavits), and during the hearing the parties may present witnesses. The telephonic hearing will be recorded, and all information submitted by the parties (including the compliance officer's report and the Member's response) as well as the recording of the hearing, will be preserved by the hearing officer, along with the hearing officer's findings, as the record of the proceedings (the "hearing record"). The findings of the hearing officer will contain the following information:

- (i) a brief description of the allegations;
- (ii) a brief summary of the evidence received;
- (iii) findings and conclusions;



(iv) a declaration of any penalty to be imposed on the Member as the result of the findings and conclusions;

(v) the effective date and duration of that penalty; and

(vi) a statement that the Member has the right to appeal any adverse decision by the hearing officer to the HedgeStreet board of directors, but must do so within 15 days.

(f) Either the Member or the compliance officer may appeal the decision of the hearing officer within 15 days by filing an appeal by electronic mail with the HedgeStreet board of directors and forwarding a copy to the other parties to the appeal. Any penalties will be stayed pending appeal unless the hearing officer determines that a stay pending appeal would likely be detrimental to the exchange, other Members, or the public. The board of directors will review the hearing record and any information submitted by the compliance officer and the Member on appeal and issue its decision, which shall be final. The member shall be notified of the decision by electronic mail. The hearing record, any information submitted on appeal, and the board's decisions shall be preserved as the record on appeal. The decision will contain the information listed in paragraph (e) of this Rule, except for (e)(vi), and will also contain:

(i) a statement that any person aggrieved by the action may have a right to appeal the action pursuant to Part 9 of the Commission's Regulations, within 30 days of service; and

(ii) a statement that any person aggrieved by the action may petition the Commission for a stay pursuant to Part 9 of the Commission's Regulations, within 10 days of service.

RULE 9.3 SETTLEMENT OF INVESTIGATIONS

(a) HedgeStreet may enter into settlements with any Member or its authorized representative who is the subject of an investigation. The Member, its authorized representative, or a compliance officer may initiate a settlement offer. Any settlement offer shall be forwarded to a HedgeStreet hearing officer with a recommendation by the compliance officer that the proposed settlement be accepted, rejected, or modified. A settlement offer may be withdrawn at any time before it is accepted by the hearing officer.

(b) The hearing officer may accept, reject, or offer a modification to the proposed settlement, and the decision of the hearing officer will be final.

(c) Any settlement under this Rule will be written and will state:

(i) the charges or a summary of the charges;

(ii) the response, if any, or a summary of the response;

(iii) a summary of the investigation conducted;



(iv) findings and conclusions as to each charge, including each act the person charged was found to have committed or omitted, be committing or omitting, or be about to commit or omit, and each of these Rules that such act or practice violated, is violating, or is about to violate; and

(v) any penalty imposed and the penalty's effective date.

(d) Failed settlement negotiations, or withdrawn settlement offers, will not prejudice a Member or otherwise affect subsequent procedures in the rule enforcement process.

RULE 9.4 NOTICE AND PUBLICATION OF DECISION

(a) HedgeStreet will provide to the person charged and to the Commission a copy of an adverse investigation report, appeal determination, or settlement within 30 days after it becomes final in accordance with the provisions of Commission Regulation 9.11.

(b) HedgeStreet will publish the outcome of all disciplinary proceedings and settlements on its website.

RULE 9.5 PENALTIES

As a result of a disciplinary proceeding or as part of a settlement, HedgeStreet may impose one or more of the following penalties:

(a) a letter of warning, censure, or reprimand;

(b) a fine or penalty fee;

(c) suspension of membership status or privileges for a specified period, including partial suspension of such privileges (for example, suspension of trading privileges in particular types of Contracts or of placement of certain types of orders); and

(d) revocation of membership status or privileges, including partial revocation of such privileges (for example, revocation of trading privileges in particular types of Contracts or of placement of certain types of orders).

RULE 9.6 SUMMARY SUSPENSION

(a) HedgeStreet may summarily suspend or restrict a Member (or any of its authorized representative's) privileges if the chairman and the chief executive officer believe suspension or restriction is necessary to protect the commodity futures markets, HedgeStreet, the public, or other Members. If either the chief executive officer or the chairman or an entity with whom the chief executive officer or chairman is associated has a financial, personal, or other direct interest in the matter that is the basis of the summary



action, the chief executive officer and/or chairman will not make any decision with respect to summary action and that decision will instead be made by a member of the board of directors chosen by a compliance officer to act in the place of the chief executive officer and/or chairman.

(b) Whenever practicable HedgeStreet will notify the Member whose privileges are to be summarily suspended by electronic mail before the action is taken. If prior notice is not practicable, the Member shall be served with notice by electronic mail at the earliest opportunity. This notice shall:

- (i) state the action taken or to be taken;
- (ii) briefly state the reasons for the action;
- (iii) state the time and date when the action became or becomes effective and its duration; and
- (iv) state that any person aggrieved by the action may petition the Commission for a stay of the effective date of the action pending a hearing pursuant to Part 9 of the Commission's Regulations, within 10 days of service.

(c) The Member whose privileges are to be summarily suspended shall be given an opportunity for appeal under the procedures outlined in Rule 9.2(f) of these Rules. The decision affirming, modifying, or reversing the summary suspension shall be furnished by electronic mail to the suspended Member and the Commission no later than one business day after it is issued. The decision shall contain:

- (i) a description of the action taken and the reasons for the action;
- (ii) a brief summary of the evidence received during the appeal process;
- (iii) findings and conclusions;
- (iv) a determination as to whether the summary action that was taken should be affirmed, modified, or reversed;
- (v) a declaration of any action to be taken against the suspended Member as the result of that determination;
- (vi) the effective date and duration of that action;
- (vii) a determination of the appropriate relief based on the findings and conclusions;
- (viii) a statement that any person aggrieved by the action may have a right to appeal the action pursuant to Part 9 of the Commission's Regulations, within 30 days of service; and



(ix) a statement that any person aggrieved by the action may petition the Commission for a stay pursuant to Part 9 of the Commission’s Regulations, within 10 days of service.

RULE 9.7 ACTIONS RESPECTING NON-MEMBERS

(a) If HedgeStreet has reason to believe that any non-Member is conducting trading activities in violation of the CEA or that would be a violation of these Rules if the non-Member were a Member, HedgeStreet may require any Clearing Member that acts on behalf of the non-Member, to appear, produce documents and testify, at a HedgeStreet Compliance Department interview or investigation, or a disciplinary proceeding before a hearing officer.

(b) If it is determined at the conclusion of the disciplinary proceeding that the actions of the non-Member violate the CEA or would violate these Rules if the non-Member were a Member, the hearing officer may:

(i) order any Clearing Member to liquidate any or all portion of such non-Member’s positions;

(ii) order that no Clearing Member accept new positions on behalf of any such non-Member;

(iii) deny or terminate access of such non-Member to the Market; or

(iv) order such other action as the hearing officer deems is necessary or advisable to prevent the actions that may violate the CEA or would violate these Rules if the non-Member were a Member.

CHAPTER 10 LIMITATION OF LIABILITY; TIME PERIOD IN WHICH TO BRING ACTIONS; GOVERNING LAW; ARBITRATION

RULE 10.1 LIMITATION OF LIABILITY

(a) AS A MEMBER YOU AGREE THAT NEITHER HEDGESTREET, THE CLEARING CORPORATION, NOR THEIR RESPECTIVE OFFICERS, DIRECTORS, AGENTS AND/OR EMPLOYEES (COLLECTIVELY REFERRED TO AS “HEDGESTREET PARTIES”) SHALL HAVE ANY RESPONSIBILITY FOR COMPLIANCE BY MEMBER WITH ANY LAW OR REGULATION GOVERNING MEMBER’S CONDUCT. MOREOVER, YOU ALSO AGREE THAT NO HEDGESTREET PARTY SHALL BE LIABLE IN ANY MANNER WHATSOEVER FOR ANY LOSS OR DAMAGE SUSTAINED BY MEMBER, INCLUDING ANY CONSEQUENTIAL LOSS, LOSS OF PROFIT OR LOSS OF TRADING OPPORTUNITY, AS A RESULT OF ANY ACTUAL OR PROPOSED TRANSACTIONS OR AS A DIRECT OR INDIRECT RESULT OF ANY SERVICES PROVIDED BY HEDGESTREET PARTIES (INCLUDING, WITHOUT LIMITATION, ANY FAILURE IN HEDGESTREET’S SYSTEMS OR ANY INACCURATE INFORMATION PROVIDED BY A HEDGESTREET PARTY), UNLESS THE RELEVANT HEDGESTREET PARTY IS DETERMINED BY



FINAL RULING OF AN ARBITRATION PROCEEDING TO HAVE ACTED OR FAILED TO ACT IN A MANNER THAT IS GROSSLY NEGLIGENT, RECKLESS, OR FRAUDULENT. FOR THE AVOIDANCE OF DOUBT, NOTHING IN THIS RULE IS INTENDED TO LIMIT THE LIABILITY OF ANY PERSON AS MAY BE PROVIDED IN THE CEA, THE REGULATIONS OF THE COMMISSION, OR BY ACTS OF WILLFUL OR WANTON MISCONDUCT OR FRAUD.

(b) AS A MEMBER, YOU AGREE THAT YOU MAY NOT BRING ANY ACTION AGAINST A HEDGESTREET PARTY UNLESS YOU BRING SUCH ACTION WITHIN 2 YEARS OF THE FIRST OCCURRENCE OR LACK OF OCCURRENCE OF THE ACT OR OMISSION COMPLAINED OF.

(c) AS A MEMBER, YOU AGREE THAT ANY ACTION YOU BRING AGAINST HEDGESTREET PARTY WILL BE GOVERNED BY ILLINOIS LAW, WITHOUT REGARD TO STATUTES, PRECEDENT, LEGAL DOCTRINE, OR CONTRACTUAL PROVISIONS THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A DIFFERENT JURISDICTION.

(d) AS A MEMBER, YOU AGREE THAT ANY ACTION YOU BRING AGAINST A HEDGESTREET PARTY OR AGAINST ANOTHER HEDGESTREET MEMBER WILL BE RESOLVED BY BINDING ARBITRATION, IN ACCORDANCE WITH THE RULES OF THIS CHAPTER AND OTHER RULES OF HEDGESTREET, IF APPLICABLE.

RULE 10.2 ARBITRATION OF MEMBER-MEMBER DISPUTES

Any dispute, controversy, or claim between or among Members arising out of or relating to transactions on HedgeStreet shall be submitted to binding arbitration in Cook County, Illinois before, and according to the arbitration rules of, National Futures Association. The decision of the arbitrator or arbitrators will be final, and judgment upon that decision may be entered in any court of competent jurisdiction. Unless the arbitrator or arbitrators find that one of the parties has acted in bad faith, each party will pay its own expenses.

RULE 10.3 ARBITRATION OF HEDGESTREET-MEMBER DISPUTES

Any dispute, controversy, or claim brought against HedgeStreet by any Member shall be submitted to binding arbitration in Cook County, Illinois before, and according to the arbitration rules of, National Futures Association. The decision of the arbitrator or arbitrators will be final, and judgment upon that decision may be entered in any court of competent jurisdiction. Unless the arbitrator or arbitrators find that one of the parties has acted in bad faith, each party will pay its own expenses. Upon request of either party the arbitrator or arbitrators will make a finding as to whether HedgeStreet has acted in a manner that is grossly negligent, reckless, or fraudulent.

RULE 10.4 ARBITRATION OF CLEARING MEMBER-CUSTOMER DISPUTES

Any dispute, controversy, or claim brought against any Clearing Member by any Customer arising out of or relating to transactions on HedgeStreet shall be submitted to binding arbitration in Cook County,



Illinois, before, and according to the arbitration rules of National Futures Association, or in the case of any Customer which is an ECP, such other self-regulatory organization as the parties may agree; provided, however, that the submission of such dispute to arbitration shall be voluntary on the part of any Customer which is not an ECP. The decision of the arbitrator or arbitrators or court of law, will be final, and judgment upon that decision may be entered in any court of competent jurisdiction. The failure by any Clearing Member to comply with any decision issued by the arbitrator or arbitrators in resolving any such dispute shall constitute a violation of these Rules, unless the decision is the subject of pending judicial review.

RULE 10.7 DISPUTES INVOLVING CLEARING OF iHEDGELETS

Notwithstanding anything to the contrary in these Rules, any disputes arising from or connection with the clearance of iHedgelets shall be resolved pursuant to the procedures set forth in the Clearing Corporation's rules and policies.

[end of Rulebook]

* * * * *

2. Proposed effective date of proposed rule change, action taken to adopt the proposed rule change, and Rules of HedgeStreet that authorize the adoption of the proposed rule change, as required by Regulation 40.5(a)(1)(iii):

As provided by Commission Regulation 40.5(b), HedgeStreet initially proposed that these rule changes take effect forty-five days after its receipt by the Commission. However, HedgeStreet has requested a thirty day extension to the forty-five day statutory review period and therefore proposes that the rule changes take effect seventy-five days from the initial receipt of this submission to the Commission dated September 6, 2005. The proposed rule change was approved by HedgeStreet's Rule Committee, as designated by the HedgeStreet Board of Directors in accordance with HedgeStreet Rules 2.1 and 2.5(a) at a meeting held September 2, 2005. The action of the Rule Committee to adopt the proposed rule changes was authorized by the Board of Directors pursuant to HedgeStreet Rule 2.5(a).

3. Explanation of the operation, purpose, and effect of the proposed rule change, including, if applicable, a description of the anticipated benefits to market participants or others, any potential anticompetitive effect on market participants or others, how the proposed rules fit into HedgeStreet's framework of self-regulation, and any other information that HedgeStreet believes may be beneficial to the Commission in analyzing the proposed rule change, as required by Regulation 40.5(a)(1)(iv):

BACKGROUND

HedgeStreet is currently designated as a contract market ("DCM") and registered as a derivatives clearing organization ("DCO") with the Commodity Futures Trading Commission (the "Commission") offering small contract sizes directly to the general public on a fully collateralized basis ("Non-Intermediated Market"). HedgeStreet's activities as both a DCO and DCM currently preclude intermediation on its market, rather it currently has only one class of members who interact directly with the exchange on behalf of themselves. HedgeStreet's



activities as a DCO are currently limited to clearing fully collateralized cash-settled futures and option contracts listed for trading on the contract market, HedgeStreet, Inc. “Fully collateralized” is defined in HedgeStreet’s amended DCO order of registration that it must hold, at all times, sufficient funds of each HedgeStreet Member to cover the maximum possible loss that may be sustained by such Member upon liquidation of any or all HedgeStreet contracts to which such Member is a party.

HedgeStreet currently lists two types of contracts on its market: a fixed payout hedgelet (“FPH”) contract and a variable payout hedgelet (“VPH”) contract. The FPHs are long cash-settled, binary European-style options. A “Pair” of FPH contracts consists of two independently trading FPHs with a Payout Criteria that are mutually exclusive of each other but that together cover all possible values of the underlying interest. Each FPH contract in the Pair has a defined “Payout Criterion” representing a range of possible values for the FPH’s underlying interest. If the value of the underlying interest is within the payout criterion at expiration of the FPH, the FPH will settle for \$10. If the value of the underlying interest is outside the payout criterion at expiration, the FPH will settle for \$0. Thus, it will always be the case that one of the FPH in a Pair will settle in the money for \$10 and the other FPH in the Pair will settle out of the money for \$0. The VPHs, on the other hand, are essentially futures contracts with a cap and a floor. Unlike FPHs, VPHs are not issued in Pairs nor is a premium price paid for a VPH because it is not an option. Instead, just like any other futures contract, a VPH is entered into at a value or level agreed upon by the long and the short. However, unlike traditional futures contracts, the risk margin collected at the time a VPH is entered into is 100%, and HedgeStreet therefore has no credit exposure to any Member in respect of VPHs. Therefore, no variation margin payments are made during the life of the VPH, and risk margin that is not needed to pay the settlement value when the VPH is closed or expires is returned to the trader at that time.

HedgeStreet is now proposing that it be permitted to establish essentially a new market (“iMarket”) that introduces i) a new class of members that can trade for their own accounts or the accounts of their customers (“Clearing Members”) on the HedgeStreet market, ii) an alternative margining methodology other than full collateralization pursuant to an arrangement with the Clearing Corporation (“CCorp” and, iii) larger size contract that are fundamentally similar to both the FPH and VPH contracts (“iHedgelets”) in order to attract large institutional members onto HedgeStreet.

HOW THE NEW iMARKET WILL WORK

The iMarket Generally

The new iMarket will be a market in which members of the CCorp that are also Clearing Members of HedgeStreet may trade iHedgelets for their proprietary account(s) and/or on behalf of qualified Customers. Qualified Customers will be Customers of Clearing Members who are approved to trade futures in accordance with the Clearing Member’s requirements as a member of CCorp. Clearing Members will therefore act as both executing and clearing brokers for their Customers.

Types of Contracts Offered on the iMarket

HedgeStreet intends to offer two types of contracts on the iMarket. The first type of contract will have similar characteristics to the FPH contract and the second type of contract will have similar characteristics to the VPH. The only differences between the instruments currently trading on HedgeStreet and iHedgelets are the following: i) both types of iHedgelets could have a notional value in any amount between \$0 - \$10,000 in comparison to the \$0 and \$10 notional value of the contracts traded on the Non-Intermediated Market, ii) the Settlement Value for the Fixed



Payout *iHedgelet* could be a fixed amount between \$0 - \$10,000 with such fixed amount being dependent upon the notional value of the contract while the Settlement Value for the variable payout *iHedgelet* could range in value between \$0-\$10,000; iii) all *iHedgelets* will be cleared and settled by CCorp; iv) *iHedgelets* may be traded on margin subject to the rules of HedgeStreet and the CCorp, and v), Fixed Payout *iHedgelets* will not come in Yes/No pairs as the same results will be expressed with such *iHedgelets* by either going long or short a single Fixed Payout contract. Thus, Clearing Members may enter into either long or short positions in both types of *iHedgelet* contracts.

Examples of *iHedgelets*

Fixed Payout *iHedgelet* – Currently, HedgeStreet offers Hedgelet Pairs that are comprised of two contracts: a Yes contract and a No contract where a member may only take a long position in either contract. To illustrate, suppose HedgeStreet currently lists a Pair whereby each contract in the Pair will have a separate Payout Criteria that represents whether the price of Gold will be greater than \$433.50 on September 1, 2005; one contract represents the position that, yes, Gold will be greater than \$433.50 (the call contract) while the other contract represents that, no, Gold will not be greater than \$433.50 (the put contract). If the price of Gold is greater than \$433.50 on September 1, 2005, the holder of the call contract will be in the money and receive a payout of \$10. Conversely, if the price of Gold is less than or equal to \$433.50, the put contract will be in the money. In the new *iMarket*, there will only be one contract that represents both sides of the market by the trader either going long or short the contract. To further illustrate and expanding on the example above, suppose Trader A goes long the *iHedgelet* contract that states Gold will be greater than \$433.50 on September 1, 2005 and pays \$400 (his maximum loss). Trader A will be in the money on the settlement day if Gold is greater than \$433.50 on September 1, 2005 and receive a fixed settlement value based on the notional value of the contract. However, if Trader B goes short this same contract and pays \$600 (her maximum loss), Trader B will be in the money on the settlement date if Gold is equal to or less than \$433.50 on September 1, 2005 and receive a fixed settlement value based on the notional value of the contract. Assuming the notional value of the contract is \$1,000, the in-the money contract holder will be paid \$1,000 on the settlement date while the out of the money contract holder will receive \$0 on the settlement date.

Variable Payout *iHedgelet* – Currently, HedgeStreet offers VPH contracts that are comprised of one contract where a member may take either a long or short position in such contract. For example, a Gold VPH contract may have a Payout Criteria that has a Floor of \$432.05 and a Cap of \$452.05 with any \$2 change in the price of Gold, representing a \$1 move in the contract. If Trader A goes long the VPH contract and pays her maximum loss and holds the contract until expiration date, she will receive a varying payout if the price of Gold is greater than the Floor price (\$432.05) on the settlement date. Conversely, if Trader B goes short the same VPH contract and pays her maximum loss and holds the contract until the expiration date, she will receive a varying payout if the price of Gold is less than the Cap (\$452.05) on the settlement date. In the new *iMarket*, the variable payout *iHedgelets* will behave in much the same way except that the notional value will be larger in size, thus creating a larger varying settlement value.

Though HedgeStreet has not provided the terms and conditions for any *iHedgelets* in this submission, HedgeStreet intends to certify that the contracts to be traded on the exchange comply with the Commodity Exchange Act and the regulations adopted thereunder.

Clearing and Settlement of *iHedgelets*



As indicated above, HedgeStreet’s activities as a DCO are limited to clearing and settling fully collateralized contracts on behalf of its current members. HedgeStreet has therefore entered into a clearing services agreement (“CSA²”) with CCorp in order for CCorp to clear and settle iHedgelets on the HedgeStreet iMarket. CCorp, formally the Board of Trade Clearing Corporation, is a registered clearing organization with the Commission and is authorized to clear and settle contracts in a less restrictive manner than on a fully collateralized basis.

Market, Financial and Trade Practice Surveillance Program of the iMarket

HedgeStreet has entered into a Regulatory Services Agreement (“RSA”) with the National Futures Association (“NFA”) in order to perform certain regulatory services for its non-intermediated market. HedgeStreet and NFA have also entered into an amended RSA (“Amended RSA”) in order to expand the terms of the RSA so that NFA will conduct necessary trade practice surveillance, financial surveillance and market surveillance to detect abuses that may occur on intermediated markets.³ In addition to the surveillance NFA currently conducts on behalf of HedgeStreet, NFA will monitor for such activities as Trading Ahead, Taking the Other Side, Front Running, Crossing, Error Account Activity, and Off-Exchange Large Block Trading

RULE CHANGES

In order to introduce the iMarket, HedgeStreet has created a separate rulebook for the iMarket that includes many of the rules from the Non-Intermediated Market as well as several new defined terms and rules that incorporate intermediation, iHedgelets, the role of the Clearing Corporation, and the responsibility of Clearing Members in entering transactions on the market for themselves or for their Customers on the new HedgeStreet market. Many of the rules in the iMarket rulebook have been taken directly from the Non-Intermediated Market rulebook where such rules are applicable. For example, the rules in Chapters 2 and 11 are almost identical for both the iMarket and the Non-Intermediated Market. Below, HedgeStreet addresses only those rules that are distinct from the Non-Intermediated Market. Those rules that are the same or similar to those rules contained on the Non-Intermediated Market are not explained herein unless to use as a comparison between the rules applicable to the iMarket. Finally, a few rule changes that are referenced herein were only made in order to clarify certain terms. For example, the term “dedicated private circuit” was added to the rules in order to distinguish between the different ways in which a Clearing Member is able to access the HedgeStreet iMarket.

DEFINED TERMS - RULE 1.1

Participants in the iMarket

The term “Clearing Corporation” has been added to define the DCO that will be clearing and settling all of the iHedgelet contracts on behalf of CCorp Participants. The term “CCorp Participant” has been added in order to define members of CCorp that are not members of HedgeStreet. “Clearing Member” has been added to define those HedgeStreet Members that are also Clearing Participants in good standing with CCorp. “Commodity Futures Trading Commission” has been added to define the federal agency that has regulatory oversight of HedgeStreet. “Authorized Trader” has been added in order to introduce brokers and traders of Clearing Members. All Clearing Members are responsible for the trading activities of Authorized Traders that effect, either directly or indirectly, the HedgeStreet Market. The term “Customer” has been added since Clearing Members, that are properly registered with

² HedgeStreet will provide a copy of the CSA to the Commission under a request of confidential treatment pursuant to Commission Regulation 145.9 concurrently with this request for Commission Rule Approval submission.

³ HedgeStreet will provide a copy of the Amended RSA for the iMarket under a request of confidential treatment pursuant to Commission Regulation 145.9 concurrently with this request for Commission Rule Approval submission.



NFA to conduct futures business with the public may enter orders on the *iMarket* for themselves or their Customers. The term “Eligible Contract Participant” or “ECP” has been added in order to i) limit the scope of those participants that may engage in block trading in accordance with HedgeStreet Rules and ii) allow an ECP to have the flexibility to choose an arbitration forum other than NFA as agreed upon between the Clearing Member and ECP Customer. “Person” has been added in order to clarify certain definitions in HedgeStreet’s rules such as the definition of Transfer Trades. The term “Regulatory Agency” has been added in order to broaden the scope of Clearing Member obligations since many Clearing Members may be regulated by various Regulatory Agencies.

Contracts

The term “Fixed Payout *iHedgelet*” and “Variable Payout *iHedgelet*” have been added in order to introduce the instruments to be traded on the new *iMarket* and cleared and settled by CCorp. Fixed and Variable Payout *iHedgelets* will operate similarly to the current Fixed Payout and Variable Payout Hedgelets that trade on the Non-Intermediated Market as described above in this Section 3, except that the former have i) a notional value in any amount between \$0 - \$10,000 and not between \$0 and \$10 as is the case on the Non-Intermediated Market, ii) the Settlement Value for the Fixed Payout *iHedgelet* could be a fixed amount between \$0 - \$10,000 with such fixed amount being dependent upon the notional value of the contract while the Settlement Value for the variable payout *iHedgelet* could range in value between \$0-\$10,000; iii) all *iHedgelets* will be cleared and settled by CCorp; iv) *iHedgelets* may be traded on margin subject to the rules of HedgeStreet and the CCorp, v), *iHedgelets* will not come in Yes/No pairs since the same results are expressed with *iHedgelets* by either going long or short a single contract and, vi) Clearing Members may enter into either long or short positions in *iHedgelet* contracts. The definition of “Settlement Value” is similar to the term used in the Non-Intermediated rulebook except that CCorp will be paying the Settlement Value on all *iHedgelets* to market participants as opposed to HedgeStreet. The definition of the term “Type” was added in order to incorporate two different Types of *iHedgelets* which are the Fixed Payout *iHedgelet* and Variable Payout *iHedgelet*.

Miscellaneous

The term “Membership Agreement” was added in order to define the purpose of this agreement so Clearing Members understand their obligations upon agreeing to all of the terms in the Membership Agreement.

RULE 3.1 ELIGIBILITY AND APPLICATION PROCEDURES

Rule 3.1 delineates the eligibility and application requirements for Clearing Members. Rule 3.1(a)(i) requires that to be eligible to be a Clearing Member if you are a natural person, you must reside in the United States and be old enough to enter into a legally enforceable contract. Rule 3.1(a)(ii) requires that to be eligible to be a Clearing Member if you are an entity you must (1) be organized in the United States, (2) certify that it is validly organized and authorized by the governing body to trade commodities, futures and option contracts, (3) designate Authorized Traders and (4) designate at least one officer who is responsible for supervising all activities of the Clearing Member’s employees. Rule 3.1(a)(iii) requires that a Clearing Member certify that it has read the Risk Disclosure Statement if a Clearing Member is not an ECP, and the Membership Agreement. Rule 3.1(a)(vii) was added in order to inform Clearing Members that they are required to maintain adequate financial resources and credit, especially for those Clearing Members that are registered with the NFA and are permitted to maintain Customer accounts. Rule 3.1(a)(viii) was added in order to inform Clearing Members that they must be a CCorp Participant in good standing before they are eligible to become a Clearing Member of HedgeStreet. Rule 3.1(a)(ix) was added in order to require Clearing Members that are FCMs to present a letter confirming that it maintains a customer segregated funds account in accordance with Commission regulations. Rule 3.1(a)(x) was added in order to inform Clearing Members that



HedgeStreet and CCorp have the right to request further information or impose further eligibility requirements if either deems it necessary or appropriate.

RULE 3.2 PRIVILEGES

Rule 3.2 defines the privileges granted to Clearing Members. The rules in this section are similar to the privileges afforded to Members of the Non-Intermediate Market however only those Clearing Members that satisfy the eligibility requirements of Clearing Membership in Rule 3.1 will be afforded the privileges in this rule 3.2. Rule 3.2(a)(i) and (ii) have been added to define the types of contracts (*iHedgelets*) a Clearing Member may trade on the Market for its own account(s) or the accounts of its Customers.

RULE 3.3 MEMBER OBLIGATIONS

Rule 3.3 defines Clearing Member obligations on the *iMarket*. Rule 3.3(a)-(c) are similar to the language currently in the Non-Intermediated Market rulebook and were only amended in order to incorporate two new defined terms of Authorized Trader and Regulatory Agency. New Rule 3.3(d) expressly requires that Clearing Members immediately notify HedgeStreet if they are aware of any negative information relating to such Clearing Member or Clearing Member's Authorized Trader's regulatory and/or disciplinary status that is inconsistent with the information provided to HedgeStreet during the membership application process. Rule 3.3(e) was added to require Clearing Members to supervise their employees and/or agents that engage in any activity on HedgeStreet as well as notify such Clearing Members that they are responsible for such employee and agent activity. HedgeStreet has added additional obligations that shall apply to Clearing Members. Many of these rules have been incorporated in order to ensure proper protection of customer funds, accounts and transactions. For example, Rule 3.3(f) was added in order to establish minimum financial standards that must be maintained by Clearing Members in order to protect, among other things, customer funds held at FCM Clearing Members. Rule 3.3(g) was added in order to ensure that no Clearing Member maintains Customer accounts or handles Customer orders or funds unless such Clearing Member is properly registered with NFA to engage in futures related business in accordance with the CEA and Commission Regulations. Rule 3.3(h) requires Clearing Members to submit financial statements in a manner described by HedgeStreet in order to assist NFA in conducting initial and on-going financial surveillance of Clearing Members on behalf of HedgeStreet. Rule 3.3(i) requires authorized Clearing Members to use due diligence in handling Customer orders. Rule 3.3(j) requires authorized Clearing members to provide written Customer confirmations in a timely fashion. Rule 3.3(k) requires that Clearing Members give priority to Customer orders, specifically in situations where the Clearing Member or its Authorized Traders may be holding an order for its own benefit or interest in conflict with the best interests of the Customer. Rule 3.3(l) requires authorized Clearing Members to provide a copy of the Risk Disclosure Statement to Customers that are not ECP in accordance with the CEA and Commission Regulations. Rule 3.3(m) requires Clearing Members to submit reports to the Commission as proscribed under the CEA and Commission Regulations. Such reports include, but are not limited to, Regulation 16 Clearing Member Reports as well as Regulation 17 large trader reports. Rule 3.3(n) requires Clearing Members to provide any reports that HedgeStreet may require in order to perform its self-regulatory function. Rule 3.3(p) permits authorized Clearing Members to invest Customer funds as long as such funds are invested in accordance with Commission Regulation 1.25. Rule 3.3(q) notifies all Clearing Members that they must maintain books and records in accordance HedgeStreet Rules, the CEA and/or Commission Regulations.

RULE 3.5 AUTHORIZED TRADERS



There have been no substantive changes made to the Authorized Trader rules from those rules contained in the Non-Intermediated Rulebook except for the fact that the term “Authorized Representative” defined in Rule 3.4 of the NIM rulebook and “Market Maker Representative” defined in Rule 4.2 of the NIM rulebook have been combined and changed to the new term “Authorized Trader” defined in the *iMarket* rulebook under this Rule 3.5.

RULE 3.6 DUES, FEES AND EXPENSES PAYABLE BY CLEARING MEMBERS

There have been no substantive changes made to Rule 3.6 relating to dues, fees and expenses on the *iMarket* (Rule 3.5 in the Non-Intermediated Market) except for removal of the fees incurred relating to Subscription and Redemption as well as those fees relating to wire transfers and check deposits both of which are inapplicable on the *iMarket*. All fees relating to the *iMarket* will be posted on the HedgeStreet website.

CHAPTER 4 MARKET MAKERS

The rules surrounding market makers on the *iMarket* are very similar to those rules currently on the Non-Intermediated Market, except that since intermediation is permitted on the *iMarket* as well as trading in a manner less restrictive than on a fully collateralized basis prior to trade execution, HedgeStreet has removed those rules that would limit Clearing Members to such activities.

RULE 5.1 PRIOR REVIEW OF RISK DISCLOSURE STATEMENT AND THESE RULES AND ACCEPTANCE OF TERMS OF MEMBERSHIP AGREEMENT IS REQUIRED

HedgeStreet has added this Rule to ensure that Clearing Members certify that they have received, read, understood and accepted the Rules of HedgeStreet and the Membership Agreement before trading any *iHedgelet* contracts on the *iMarket*. In addition, HedgeStreet requires those Clearing Members that are not Eligible Contract Participants to read, understand and accept the HedgeStreet Risk Disclosure Statement before trading any *iHedgelet* contracts on the *iMarket*.

RULE 5.3 TRADING *iHEDGELETS*

HedgeStreet added Rule 5.3 in order to describe the manner in which Clearing Members will trade on the *iMarket*. Rule 5.3(a) requires that all *iHedgelets* executed on the market must be effected for the account of or through a Clearing Member. Rule 5.3(b) was added to describe the manner in which Clearing Members will enter bids and offers for *iHedgelets* on behalf of such Clearing Members or their Customers. CCorp contractually required HedgeStreet to draft Rule 5.3(c) requiring the Clearing Members to include the limitation of liability and no warranties language to any agreements such Clearing Members have with Customers.

RULE 5.4 MARGIN

HedgeStreet added Rule 5.4 in order to define the manner in which Clearing Members may extend margin to their Customers. HedgeStreet Rule 5.4(a) requires that Clearing Members collect 100% percent of the transaction price from their Customers. Rule 5.4(c) has been added in order to ensure that a Clearing Member does not attempt to guarantee any Person against a loss in order to evade HedgeStreet’s and/or CCorp’s margin requirements in accordance with the Act.

RULE 5.5 ORDER ENTRY



HedgeStreet added Rule 5.5 to stipulate the manner in which Clearing Members should enter orders on the iMarket. Specifically, Rule 5.5(b) was added in order to stipulate the information required when Clearing Members enter orders for either their own accounts or the accounts of their Customers. Clearing Members will be permitted to trade iHedgelets in a manner less restrictive than full-collateralization prior to order execution and are will be permitted to enter orders on behalf of their Customers if such Clearing Members are properly registered in accordance with the Act and Commission Regulations. Therefore, HedgeStreet is requiring in this rule that the Clearing Member indicate whether i) an order is an opening or closing transaction for purposes of determining the requisite amount of variation margin that will be collected during a trading day by CCorp as well as performing open interest calculations and ii) an order is being entered on behalf of such Clearing Member or for their Customers in order to detect such trade practice violations such as front running or trading ahead.

HedgeStreet amended Rule 5.5(d) in order to accurately reflect the manner in which the HedgeStreet trading system, as originally designed, maintains records of orders entered on the Market.

RULE 5.6 RECORDKEEPING OF CUSTOMER ORDERS

Rule 5.6 was added to ensure proper recordkeeping of Customer orders. Unless otherwise required by HedgeStreet Rules, Rule 5.6(a) does not require recordkeeping of a Customer order by the Clearing Member if such order is immediately entered onto the Market since the Market is completely electronic and will record the time in which the Clearing Member entered the Customer order. However, if the Clearing Member or Authorized Trader receive a Customer Order that cannot be immediately entered onto the Market, such Clearing Member or Authorized Trader will be required to maintain a written record of such order that contains the information defined in Rule 5.6(a). Rule 5.6(b) requires that all time-stamps required pursuant to this Rule 5.6 must show the time to the nearest minute. Rule 5.6(c) requires that the Clearing Member retain such written records of Customer orders for a minimum of 5 years.

RULE 5.7 WITHHOLDING ORDERS PROHIBITED

Rule 5.7 was added to preclude any Clearing Member or Authorized Trader from withholding or withdrawing from the Market any part of an order for the benefit of any Person except for the Person placing the order.

RULE 5.8 DISCLOSING ORDERS PROHIBITED

Rule 5.8(a) precludes any Person from disclosing another Person's order to buy or sell Hedgelets except at the request of HedgeStreet or the Commission. Rule 5.8(b) precludes any Person from taking action or directing another Person to take action based on non-public order information no matter how the information was acquired. This Rule 5.8 prevents any Person from having an unfair advantage by being in possession of knowledge of orders that are not yet viewed on the market by all market participants.

RULE 5.9 ERRORS IN HANDLING ORDERS BY CLEARING MEMBERS

HedgeStreet added new Rule 5.9 in order to ensure the proper handling of orders that were entered erroneously onto the iMarket by a Clearing Member or its Authorized Traders. In order to ensure proper monitoring of Clearing Member error accounts, NFA has agreed to monitor error account activity of Clearing Members in accordance with the RSA to ensure compliance with Rule 5.9 as well as any unusual activity in such error accounts. Rule 5.8(a) explains the manner in which Clearing Members should handle unfilled orders or orders that were executed at



quantities below the amount requested by the Customer. Upon notification of the error, the Clearing Member will be required to enter the correct order on the market in accordance with the Customer's instructions. If the order is executed at a worse price than the Customer should have received but for the error, the Clearing Member may assign the opposite side of the order to its error account in order to give the Customer the price at which she should have received if the order had been timely executed. If the order is executed at a more favorable price, the Customer is entitled to the better price. Rule 5.8(b) explains the manner in which Clearing Members should handle order that were executed with the incorrect Type, Class and or Series, or just entered on the wrong side of the market. The Clearing Member may put the error in its error account and then execute a new transaction with the correct terms. If the order is executed at a worse price than the Customer should have received but for the error, the Clearing Member should make a monetary adjustment by writing a check in a sufficient amount to ensure the Customer is made whole. Rule 5.8(c) explains the manner in which Clearing Members should handle orders that were i) executed in excess of the amount requested by the Customer or, ii) executed or not executed in accordance with the Customer instructions. The Customer is not entitled to any of the excess quantity that may result and such excess must be placed into the Clearing Member's error account. Any profit that may be credited in the Clearing Member error account upon liquidation of any excess position may be distributed at the discretion of the Clearing Member or Authorized Trader.

RULE 5.11 ACCEPTABLE ORDERS

The only acceptable orders on the iMarket will be limit order to trade Contracts. However, Rule 5.11 does acknowledge that orders may be entered in accordance with other rules of the iMarket such as Rule 5.13 (Block Trades) and Rule 5.15 (Cross Trades).

RULE 5.12 TRADING AGAINST CUSTOMER ORDERS PROHIBITED

Rule 5.12 has been added to preclude Clearing Members or Authorized Traders from trading against Customer orders unless in accordance with HedgeStreet Rules. Rule 5.12(b)(i) allows Clearing Members or their Authorized Traders to trade against Customer orders pursuant to Rule 5.13 (Block Trades) as long as such Clearing Members obtains the prior written consent of the Customer which may be in the form of a blanket consent (See Rule 5.13(c)). Rule 5.12(b)(ii) allows Clearing Members or their Authorized Traders to trade against Customer orders as long as the Customer has given written consent within the past 12 months prior to the transaction to waive the restriction imposed in Rule 5.12(a) as long as (1) the transaction conforms to the requirements of Rule 5.15 (Cross Trades) (Rule 5.12(b)(ii)(1)) and (2) the Clearing Member clearly identify the terms required in this Rule (Rule 5.12(b)(ii)(2)).

Non-Competitive Transactions

HedgeStreet will vigorously promote the competitive execution of transactions by requiring that all trades be executed on the iMarket. However, under certain rare exceptions, HedgeStreet will allow for certain non-competitive transactions as long as such transactions are executed in accordance with HedgeStreet Rules, the Act and the Commission regulations adopted thereunder. Therefore, HedgeStreet is proposing Rules 5.13 – 5.15 in order to allow non-competitive trading under certain narrow exceptions stipulated below.

RULE 5.13 BLOCK TRADES

HedgeStreet added Rule 5.13 in order to permit Clearing Members to enter Block Trades on the Market in accordance with this HedgeStreet Rule. HedgeStreet believes that the integrity of prices and price discovery on the iHedgelet market is best promoted by ensuring that trades that can be executed in the normal course without causing market



disruption and unfair execution to the parties to the trade be executed outside the block trading mechanism while trades that do not meet this description be eligible for block trading.

Rule 5.13(b) was added to ensure that each party to the Block Trade be an ECP, unless certain conditions are met as defined in the rule. Rule 5.13(c) was added to require Clearing Members to obtain Customer authorization before taking the other side of a Block Trade in order to ensure that the Customer is aware of any potential conflicts of interest that are present when entering into such Block Trades with the Clearing Member. Rule 5.13(d) requires that a Clearing Member receive an order to enter into a Block Trade from the Customer before entering into a Block Trade on such Customer's behalf. In other words, a Clearing Member cannot enter a Customer order as part of a Block Trade unless the Customer has requested it. Rule 5.13(e) was added in order to identify the information that is required in order to enter into a Block Trade on HedgeStreet, including an express indication that the transaction is being entered as a Block Trade. Rule 5.13(e)(ii) was added to implement a minimum Block size that must be satisfied prior to executing a Block Trade on the Market⁴. Rule 5.13(f) was added requiring Clearing Members to only enter into Block Trades at prices that are fair and reasonable in order to protect the integrity of price and price discovery and do not cause market disruption. Rule 5.13(g) was added in order to stipulate the manner in which such trades should be entered onto the Market by Clearing Members. This rule requires once both parties have agreed to the terms of the Block Trade, the seller is to immediately enter the details of the Block Trade onto the screen. The "immediate" requirement has been added to ensure that i) Clearing Members enter such Block Trades as quickly as possible to prevent the market price from moving away from the participants to the Block Trade potentially compromising the "fair and reasonable" standard required in Rule 5.13(f) and ii) the Market place is notified of the execution of such Block Trade in a timely fashion. HedgeStreet incorporated Rule 5.13(h) in order to place the responsibility on the Clearing Member that it must only enter block trades that promote a fair and orderly market. Such Clearing Member will be required to provide evidence, if requested to do so by HedgeStreet or NFA⁵, that such Block Trade could not have been effectively executed on the market.

RULE 5.14 TRANSFER TRADES

HedgeStreet added Rule 5.14 in order to allow for transfer trades to different beneficial owners on an exception basis only in very limited circumstances; in order to; i) correct justifiable errors conducted by Clearing Members on the market (Rule 5.14(a)(i) or ii) to facilitate a change in ownership of the Contracts directed by operation of law (Rule 5.14(a)(ii) and (iii)). Rule 5.14(b) requires that the Clearing Member timely notify HedgeStreet and CCorp of such transfer trade to ensure accurate reporting of such transactions. HedgeStreet limited the instances in which transfer of positions could occur in order to drastically limit the amount of ex-pit transactions that occur outside of the Market. However, certain rare events may occur that require for positions to be transferred among different beneficial owners.

RULE 5.15 CROSS TRADES

HedgeStreet added Rule 5.15 in order to allow for Clearing Members that may be holding both buying and selling orders for execution on the market for different principles to enter into cross trades as long as all of the conditions

⁴ HedgeStreet has not included in this submission the series of iHedgelets that will be eligible to engage in block trading nor the relevant minimum size requirements for any of these instruments. Such designations will be submitted separately to the Commission in accordance with the CEA and Commission Regulations adopted thereunder.

⁵ Pursuant to the executable copy of Schedule A of the RSA with NFA, NFA will review select block trades executed on HedgeStreet to determine whether they were executed in accordance with HedgeStreet's block trading rules.



defined in this Rule 5.15 are met. Rule 5.15(a) precludes any Member from entering into a Cross Trade unless the conditions of this Rule 5.15 are met. Rule 5.15(a)(i) requires that a Customer must consent to allowing his/her order to be on one side of a cross trade to ensure that the Customer is aware that the Clearing Member or Authorized Trader is agreeing to execute a transaction outside of the competitive marketplace and that potential conflicts may be present. Rule 5.15(a)(ii) requires that the Clearing Member protect the Customer's interests and use due care when negotiating and executing Cross Trades on behalf of such Customers. In order to ensure the priority of Customer orders, Rule 5.15(a)(iii) requires that if a Customer order is on one side of the Cross Trade, the Customer order is entered onto the Market first. The first part of Rule 5.15(a)(iv) allows the immediate execution of the Cross Trade if the price at which both parties agreed are done at the current market price. However, the second part of this Rule states that if there is no current market price for the particular *iHedgelet*, the Clearing Member must (1) enter an order on the Market and (2) let it rest for the requisite period of time in the order book to allow the order to be subject to competitive execution before entering the opposite side of the Cross Trade. Rule 5.15(a)(iv)(3) allows the Clearing Member to enter the opposite side of the Cross Trade as long as the requisite amount of time stipulated in 5.15(a)(iv)(2) has expired. Rule 5.15(a)(v) has been added in order to reinforce the requirement that the Clearing Member must enter all Cross Trades at either the market price or, give both sides of the Cross Trade an opportunity to be subject to competitive execution if no market price is available.

RULE 5.16 GIVE-UPS

HedgeStreet has added Rule 5.16 in order to define rules for engaging in Give-Up transactions. Rule 5.16(a) defines the term "Give-Up" and requires that only Clearing Participants may engage in Give-Up transactions. Rule 5.16(b) states certain record keeping requirements when entering Give-Up transactions. Rule 5.16(c) defines the reporting obligation and responsibility of the Executing Participant to CCorp for Give-Up transactions.

RULE 5.22 PROHIBITED TRANSACTIONS

HedgeStreet has added rules prohibiting certain types of transactions on the *iMarket* under Rule 5.22 in order to prohibit market participants from engaging in certain activities that could compromise the promotion of a fair and orderly market. Rule 5.22(a) has been added to preclude Clearing Members from accepting any order or entering into any trade that has been directly or indirectly prearranged except in accordance with the conditions and procedures under which such transactions may be permitted under HedgeStreet Rules, such as block trades (Rule 5.13) or cross trades (Rule 5.15). Rule 5.22(b) has been added in order to preclude Clearing Members and their Authorized Traders from accepting any orders or attempting to enter into or entering into any trade stipulated in this rule. Rule 5.22(c) has been added to preclude Clearing Members and their Authorized Traders from accepting any order or entering into any trade designed or used to cause any price for a Contract other than a true and bona fide price to be reported on the market. Rule 5.22(d) has been added to preclude Clearing Members and their Authorized Traders from accepting or entering any bids or offers onto the market other than in good faith for purposes of executing bona fide transactions in order to maintain a fair and orderly market and not for any other purpose. Rule 5.22(f) has been added in order to preclude Clearing Members from transferring any position in *iHedgelets* to another Person other than through a transaction executed through the Market except in accordance with HedgeStreet Rules. This exception has been added in order to facilitate errors executed by Clearing Members on behalf of Customers or to reflect a change in ownership occurring by operation of law (See Rule 5.14 Transfer Traders). Rule 5.22(g) precludes Clearing Members from engaging in activity that presents a risk of harm toward Customers of Clearing Members as well as any other Member or the public. Rule 5.22(j) has been added in order to obligate Clearing Members to abide by any agreement of the Clearing Corporation or HedgeStreet, or arbitration decision or award stipulated by HedgeStreet, NFA or the Clearing Corporation. Because Clearing Members may be registrants with the NFA, such as Futures Commission



Merchants, authorized to handle Customer funds, Rule 5.22(l) has been added requiring such Clearing Members to maintain certain financial requirements in accordance with HedgeStreet Rules and Commission Regulations as well as precluding such Members that undergo serious financial difficulty from entering bids or offers on the Market without HedgeStreet prior written approval. Rule 5.22(m) has been added in order to obligate Clearing Members to inform HedgeStreet or the Clearing Corporation if such Members are aware that an employee of HedgeStreet or CCorp attempts to open or trade for an account in direct violation of HedgeStreet and CCorp Rules as well as Commission Regulations. Rule 5.22(n) has been added in order to preclude Clearing Members from guaranteeing an execution of an order given by a Customer prior to such order being executed on the Market. Rule 5.22(o) has been added prohibiting Clearing Members that are not properly registered in accordance with the Act and Commission Regulations to engage in futures related business with the public from, directly or indirectly, handling Customer funds, orders, or accounts.

RULE 5.23 SPECULATIVE POSITION LIMITS

Rule 5.23 is similar to the Rule 5.14 in the NIM rulebook except that the term Person has been added in order to cover situations where Customers may exceed speculative position limits caused by Clearing Members trading on behalf of such Customers.

RULE 6.1 SETTLING iHEDGELETS FOR CLEARING MEMBERS

Rule 6.1 was added in order to stipulate that *iHedgelets* are cleared and settled by CCorp in its capacity as the DCO for the *iMarket*.

RULE 8.1 INVESTMENT OF CLEARING MEMBER FUNDS HELD AT THE CLEARING CORPORATION

Rule 8.1 was added in order to stipulate that CCorp invests Clearing Member funds in accordance with the policies and rules of CCorp.

RULE 9.1 MONITORING THE MARKET

Rule 9.1 was amended for clarification purposes only.

RULE 9.2 INVESTIGATIONS, HEARINGS AND APPEALS

Rule 9.2(a) was added in order to define the different parties involved in conducting investigations, hearings and appeals on HedgeStreet. Rule 9.2(a) informs Clearing Members that HedgeStreet may enter into an agreement with a third party service provider, such as NFA, to assist with certain functions conducted by a compliance officer of HedgeStreet as may be necessary from time to time. In addition, this Rule 9.2(a) was added in order to introduce the establishment of a Disciplinary Committee that will make the final determination as to whether disciplinary action should be brought against a particular Clearing Member based on the investigations and final analysis of the compliance officer. Rule 9.2(b) was added in order to define the process that occurs after the Compliance Officer has conducted an investigation of a Clearing Member that may have violated HedgeStreet rules. Rule 9.2(b) specifically requires the Compliance Officer to present his/her analysis and conclusions of a particular investigation to the Disciplinary Committee for final review and determination as to whether disciplinary action should be taken against a particular Clearing Member or Clearing Members. The rest of the additions to this Rule 9.2 were done in order to incorporate the Disciplinary Committee into the investigatory process.



RULE 9.7 ACTIONS RESPECTING NON-MEMBERS

Since authorized Clearing Members may trade on behalf of Customers that are not members of HedgeStreet, Rule 9.7 was added in order to address activities of non-Members that may violate the CEA and/or HedgeStreet Rules. Rule 9.7(a) notifies a Clearing Member that it may be required to present certain information relating to the activities of the non-Member in order for a proper investigation to be performed by HedgeStreet. Rule 9.7(b) defines certain actions that may be required to be taken by a Clearing Member pursuant to a decision by HedgeStreet or a hearing officer that the non-Member engaged in activities that violates the CEA and/or HedgeStreet Rules.

RULE 10.1 LIMITATION OF LIABILITY

Rule 10.1(a) was amended from the Limitation of Liability Rule in the Non-Intermediated Market in order to incorporate CCorp into HedgeStreet's limitation of liability clause as it applies to its Clearing Members. Rule 10.1(c) was amended in order to correct a typographical error.

RULE 10.4 ARBITRATION OF CLEARING MEMBER-CUSTOMER DISPUTES

Rule 10.4 was added in order to facilitate the handling of disputes arising between Clearing Members and their Customers. All such disputes will be handled pursuant to the arbitration rules of the NFA, provided that, i) if the Customer is an ECP, the Customer may choose another self-regulatory organization as agreed upon between the parties or, ii) if the Customer is not an ECP, the submission of such dispute to NFA shall be voluntary in accordance with Commission Regulation 166.5.

RULE 10.7 DISPUTES INVOLVING CLEARING OF iHEDGELETS

Rule 10.7 was added in order to notify Clearing Members that disputes arising from the clearing of iHedgelet contracts shall be handled in accordance with the rules and procedures of CCorp.

4. Text of any HedgeStreet Rule the application of which is affected, directly or indirectly, by the proposed rule change, and description of that effect as required by Regulation 40.5(a)(1)(iv):

Other than the Rules amended above, no other HedgeStreet Rules are affected by the proposed rule change.

5. Brief description of any substantive opposing views expressed with respect to the proposed rule changes that were not incorporated into the proposed rule changes prior to its submission to the Commission, as required by Regulation 40.5(a)(1)(v):

No substantive opposing views have been expressed to HedgeStreet with respect to the proposed rule changes.

6. Commission Regulation that may need to be amended or Section of the Act or Commission Regulations that the Commission may need to interpret, in order to approve the proposed rule change, and if such an amendment or interpretation is necessary, analysis supporting the amendment or interpretation, as required by Regulation 40.5(a)(1)(vi):



HedgeStreet is not aware of any Commission Regulation that may need to be amended, or Sections of the Act or Commission Regulations that the Commission may need to interpret, in order to approve the proposed rule changes. However, Commission's February 18, 2004 Order of Designation ("Original Order") designating HedgeStreet as a contract market will need to be amended in order to authorize HedgeStreet to permit intermediation on its *iMarket*. The paragraph numbered (5) of the order states that "in the place of filing clearing member reports under Rule 16.00 and until further order of the Commission, HedgeStreet shall file large trader reports and forms under Part 17 on behalf of its clearing members...." In the February 18th covering letter to HedgeStreet's order of designation, the Commission stated that "since all trading on HedgeStreet will be non-intermediated, the reports filed under Rule 17.00 would capture the essential information regarding traders and their positions that would also be provided by reports under Rule 16.00. In these circumstances, and until otherwise warranted, the Commission does not believe that it is necessary for HedgeStreet to file clearing member reports under Rule 16.00 so long as HedgeStreet files large trader reports on behalf of its clearing members under Part 17." Since the proposed *iMarket* is anticipating there will be intermediation by Clearing Members, HedgeStreet understands that the Commission may request that HedgeStreet commence filing clearing member reports as defined under Rule 16.00 for the *iMarket* while requiring Clearing Member to file Part 17 reports with the Commission in accordance with Rule 17.00. HedgeStreet will continue to file Rule 17.00 reports for the Non-Intermediated Market unless otherwise instructed by the Commission.

In addition to paragraph 5 of the Original Order, the Commission will need to revise paragraph 2 and 6 of the Original Order which required HedgeStreet to make certain commitments⁶ in its capacity as a non-intermediated DCM. The paragraph numbered (2) states that "the Commission FINDS that HedgeStreet has committed to certain conditions and undertakings as set forth in Section VII of the Staff Memorandum. The paragraph numbered (6) of the Original Order states that "the Commission has accepted the February 9th commitments from HedgeStreet in light of the fact that HedgeStreet's structure and intended manner of operation is qualitatively different from more traditional exchanges. HedgeStreet will not have any intermediaries, rather it will have members who interact directly with the trading facility. Most traditional markets have been intermediated markets in which the intermediaries conduct most customer solicitation. Since HedgeStreet is nonintermediated, any solicitation that occurs will be by HedgeStreet. In these circumstances, these commitments are appropriate to ensure that HedgeStreet customers receive a similar level of protection against fraudulent conduct, including fraudulent solicitation, as customers of more traditional exchanges." HedgeStreet will continue to abide by all of the commitments in the February 9th letter to the Commission since HedgeStreet will continue to operate the Non-Intermediated Market. However, in light of the fact that the *iMarket* will have Clearing Members that may be intermediaries soliciting Customer orders, such Customers will be afforded the protections against fraudulent conduct, fraudulent solicitation as provided under the Act and Commission Regulations adopted thereunder. Therefore, HedgeStreet requests that the Commission amend the Original Order authorizing HedgeStreet to permit intermediation⁶ on its market in accordance with the conditions provided herein.

7. Information in this submission that is subject to a request for confidential treatment and justification for such treatment, as required by Regulation 40.5(a)(1)(vii):

⁶ On February 9, 2004 in a letter sent to the Commission, HedgeStreet agreed to comply with the following commitments; HedgeStreet and any official, agent or other person acting on behalf of HedgeStreet within the scope of his or her employment or office shall not, in or in connection with the offer or sale of HedgeStreet products; (a) Cheat or defraud or attempt to cheat or defraud any person; (b) Willfully make or cause to be made to any person any fake report or statement or cause to be entered for any person any false record; or (c) Willfully deceive or attempt to deceive any person by any means whatsoever.



On September 6, 2005, HedgeStreet previously submitted the following documents pursuant to Regulation 145.9 on the grounds that the disclosure of such documents would reveal HedgeStreet's trade secrets or confidential commercial or financial information. HedgeStreet is submitting these Appendices with this revised submission, however, HedgeStreet requests that the Confidential Treatment requested on September 6, 2005 remain in full force and effect until otherwise notified by HedgeStreet.

Documents Submitted Pursuant to Commission Regulation 145.9

Appendix 5a – 5g – Regulatory Services Agreement – NFA

Appendix 7 – Clearing Services Agreement with The Clearing Corporation

Please do not hesitate to contact me at (650) 638-3511 if you or anyone else at the Commission have questions regarding these proposed rule changes.

Sincerely,

Stephanie Ford
Vice President, Legal & Compliance

cc: Ms. Jane Croessmann – CFTC
Ms. Riva Adriance – CFTC
Mr. Tom Bloom – CFTC
Clarissa Manansala – HedgeStreet, Inc.