



U.S. COMMODITY FUTURES TRADING COMMISSION

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December 5, 2005

Ms. Stephanie Ford
Vice President, Legal
Chief Compliance Officer
HedgeStreet, Inc.
1825 S. Grant Street, Suite 500
San Mateo, CA 94402

Re: Request to amend HedgeStreet, Inc. Designation Order and approve HedgeStreet *iMarket* Rulebook

Dear Ms. Ford:

By letters dated September 6, 2005 through November 18, 2005, HedgeStreet, Inc. ("HedgeStreet" or "Exchange") submitted to the Commodity Futures Trading Commission ("Commission"), a request to amend the Commission's Order designating HedgeStreet as a Contract Market and a request for approval, pursuant to Section 5c(c) of the Commodity Exchange Act ("Act") and Commission Regulations 38.4(a) and 40.5 of new and amended rules, both in order to facilitate intermediated trading on its new intermediated market, known as "*iMarket*." The Commission has reviewed the materials submitted, and has determined to amend HedgeStreet's Order of Designation and approve HedgeStreet's new and amended rules for its new *iMarket*.

The Commission's approval and amendment to the Designation Order are based upon, among other things, written submissions, explanations, representations and demonstrations provided by the Exchange describing the manner in which the HedgeStreet *iMarket* will operate. The Commission's approval and amendment to HedgeStreet's Order of Designation are also based upon written submissions, explanations, representations, and demonstrations provided by the National Futures Association ("NFA"), and The Clearing Corporation ("CCorp") concerning how NFA and CCorp shall assist HedgeStreet in meeting the Exchange's self-regulatory, clearing and settlement obligations. HedgeStreet should inform the Commission of any material modifications to the operation of the HedgeStreet *iMarket*, the HedgeStreet *iMarket* Trading System, HedgeStreet's self-regulatory program, or HedgeStreet's clearing and settlement arrangements, including, but not limited to those services provided by the NFA and CCorp. The Commission notes that HedgeStreet should also continue to notify the Commission of comparable modifications to the HedgeStreet non-intermediated market. Any change in the identity of the regulatory service provider or clearing and settlement provider, or services they provide to the Exchange are considered rule changes, and should be submitted to the Commission as such, pursuant to Section 5c(c) of the Act.

In approving HedgeStreet's new *iMarket* rules, the Commission is not approving either the amended agreement for compliance and surveillance services between HedgeStreet and NFA or the agreement for clearing and settlement services between HedgeStreet and CCorp. In this connection, HedgeStreet itself shall remain responsible for ensuring the performance of all self-regulatory functions required of it as a designated contract market ("DCM") under the Act and the Commission's regulations, including enforcement of the terms of all of HedgeStreet's rules.

The Commission reminds HedgeStreet that any modification to its trade matching algorithm also constitutes a rule change that must be submitted to the Commission pursuant to Section 5c(c) of the Act. The Commission further reminds the Exchange that position limits or position accountability procedures may need to be specified for contracts listed by the Exchange as warranted under Core Principle 5. All position limits or position accountability procedures should be included with the Exchange's filing to the Commission in connection with the listing of each contract submitted under the Commission's certification or approval procedures.

The Commission notes that HedgeStreet will continue to operate as both a DCM and derivatives clearing organization ("DCO") for its non-intermediated market. Accordingly, for the non-intermediated market, HedgeStreet shall continue to file large trader reports and forms under Part 17 on behalf of its clearing members and comply with commitments it made to the Commission by letter dated February 9, 2004.

With respect to HedgeStreet's *iMarket*, HedgeStreet shall operate as a DCM and CCorp shall operate as a DCO. The Commission's amended Order limits HedgeStreet to offering contracts that will be collateralized for the maximum possible loss each participant may incur. With respect to this requirement, HedgeStreet may seek, in the future, to further amend its DCM Order of Designation to remove this restriction. In its application for such amendment, HedgeStreet should demonstrate (a) an ability to conduct financial surveillance of FCMs, in particular the ability to assess the potential impact of potential market moves in cases where *iHedgelets* are margined at less than 100 percent of possible losses; (b) as applicable, a methodology for margining Fixed Price *iHedgelets* at less than 100 percent of possible losses; and/or (c) as applicable, an ability to set settlement prices for Variable Price *iHedgelets* for illiquid markets where daily prices for the underlying are unavailable to HedgeStreet, all as required by Designation Criterion 5 and Core Principle 11. HedgeStreet must also meet the requirements of Commission Regulation § 38.3(a)(1)(ii)(D) and (E) that, in relevant part, require an applicant DCM to provide an executed or executable copy of any agreements or contracts with any third party regulatory service that enable the applicant to comply with a designation criterion or core principle, and documents describing, with specificity, the manner in which the applicant will conduct financial surveillance.

The Commission finally reminds HedgeStreet that it must comply with the terms of the enclosed Amended Order of Designation for both its non-intermediated market and *iMarket*.

Sincerely,

Catherine D. Daniels
Assistant Secretary of the Commission