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September 20, 2004

VIA EMAIL: [secretary@cftc.gov](mailto:secretary@cftc.gov)

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

**RE: Self-Certification filing amending HedgeStreet Rules 5.4(b) - (e),  
5.5(d)**

Dear Secretary Webb:

In accordance with Commission Regulation 40.6(a)(2) and (3), HedgeStreet, Inc. ("HedgeStreet") hereby files with the Commission the amendments described below with the text of the rules stated in Exhibit A. The rule deletions are stricken out and the amendments or additions are underlined. HedgeStreet intends to implement these amendments on September 21, 2004. No substantive opposing views were expressed to HedgeStreet with respect to these amendments. HedgeStreet hereby certifies that HedgeStreet's Rules, as amended by these amendments, comply with the Commodity Exchange Act, as amended, and the Commission's regulations adopted thereunder.

**DESCRIPTION OF ADDITIONS AND AMENDMENTS**

**Rules 5.4(b) - (e), 5.5(d)**

HedgeStreet is amending Rule 5.4(b)-(d) and 5.5(d) and, adding new Rule 5.4(e) in order to permit Market Makers to enter Market Maker Orders in Variable Payout Hedgelet Contracts.

Should you have any questions regarding the above, please do not hesitate to contact me.

Sincerely,

Stephanie Ford  
Vice President, Legal & Compliance

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## EXHIBIT A

### RULE 5.4 TRADING CONTRACTS

(a) You will be able to trade Fixed Payout Hedgelet Contracts on the Market by entering bids to purchase or offers to sell those Contracts and to trade Variable Payout Hedgelet Contracts by entering values or levels of the Underlying at which you are willing to open a Long Variable Payout Hedgelet Contract or a Short Variable Payout Hedgelet Contract. After logging into the secure portion of the HedgeStreet website, you will input your orders into the HedgeStreet trading system.

(b) For orders other than Market Maker sell and buy orders in Fixed Payout Hedgelet Contracts, (which are subject to Rule 5.4(~~d-c~~) and 5.4(~~ed~~) respectively) (~~“Market Maker Orders”~~) and Market Maker orders in Variable Payout Hedgelet Contracts (which are subject to Rule 5.4(e)) (collectively “Market Maker Orders”);

(i) if your order is to sell one or more Fixed Payout Hedgelet Contracts, HedgeStreet will check your account to ensure you have the number of Contracts you are attempting to sell. If you do, HedgeStreet will place your order on the Market and “block” the Fixed Payout Hedgelet Contracts you are attempting to sell. Such Contracts will remain blocked and unavailable for any other purpose until the order is modified or cancelled. If you do not have the necessary Fixed Payout Hedgelet Contracts in your account, HedgeStreet will cancel your order prior to placing it in the order book. Upon trade execution, HedgeStreet will debit the account of the buyer(s) and credit the account of the seller(s) of the Contract, adjust the Contracts in your account and the account of the other Member(s) in accordance with the matched trade, and inform you by electronic mail that the trade has been executed

(ii) if your order is to purchase one or more Fixed Payout Hedgelet Contracts, HedgeStreet will check your account to ensure you have the funds necessary to complete the purchase. If you do have the necessary funds in your account, HedgeStreet will place your order on the Market and “block” the funds in your account necessary to complete the purchase. Such funds will remain blocked and unavailable for any other purpose unless the order is modified or cancelled. If you do not have the necessary funds in your account, HedgeStreet will cancel your order prior to placing it in the order book. Upon trade execution, HedgeStreet will debit the account of the buyer(s) and credit the account of the seller(s) of the Contract, adjust the Contracts in your account and the account of the other Member(s) in accordance with the



matched trade, and inform you by electronic mail that the trade has been executed

(iii) If your order is to enter into one or more Variable Payout Hedgelet Contracts for which you do not have an offsetting position in your account, HedgeStreet will check your account to ensure you have enough funds to cover your maximum loss under the Variable Payout Hedgelet Contract(s) you are attempting to enter into. If you do not have the necessary funds in your account, HedgeStreet will cancel your order prior to placing it in the order book. If you do have the necessary funds in your account, HedgeStreet will place your order on the Market and “block” the funds in your account necessary to cover the maximum loss. Prior to the order’s execution, those funds will remain blocked and unavailable for any other purpose unless the order is modified or cancelled. Upon the order’s execution, those funds will be debited from your account and credited to the HedgeStreet settlement account, and HedgeStreet will place the Variable Payout Hedgelet Contracts that were the subject of the order into your account and notify you by electronic mail that the trade has been executed. The maximum amount that you can lose under a Long Variable Payout Hedgelet Contract (and, therefore, the amount that will be blocked and then paid into the HedgeStreet settlement account) is determined by subtracting the Floor from the Opening Trade Value and then multiplying the resulting figure by the Dollar Multiplier. The maximum amount that you can lose under a Short Variable Payout Hedgelet Contract is determined by subtracting the Opening Trade Value from the Cap and then multiplying the resulting figure by the Dollar Multiplier.

(iv) If the transaction involves entering into one or more Variable Payout Hedgelet Contracts for which you have an offsetting position in your account (for example, entering into a Short Variable Payout Hedgelet Contract of a Series when you have a Long Variable Payout Hedgelet Contract of that same Series in your account), upon execution of the trade HedgeStreet will: (i) close the offsetting position in your account; (ii) debit the HedgeStreet settlement account in the amount of (A) any gains realized by the offsetting transaction and (B) any blocked funds that were debited from your account at the time the Variable Payout Hedgelet Contract(s) that is being closed was entered into that were not used to pay any losses on such Contract(s); (iii) credit those amounts to your account, and (iv) notify you by electronic mail that the trade has been executed.

(c) ~~(d)~~ Notwithstanding anything to the contrary in Rule 5.4(b)(i) ~~or 5.4(e)~~, each Market Maker shall have the ability to enter sell orders on the market without having the Fixed Payout Hedgelet Contracts to be sold in its account at the time of



order acceptance by HedgeStreet, and without HedgeStreet “blocking” the Fixed Payout Hedgelet Contracts necessary to satisfy such sell orders. Instead, a Market Maker sell order will be placed on the Market immediately when entered. When a Market Maker sell order is matched with a buy order from another Member, HedgeStreet will check the Market Maker’s account to determine whether the Market Maker has the number of Contracts necessary to fill the sell order.

(i) If the Market Maker does have the necessary number of Contracts, HedgeStreet will execute the trade.

(ii) If the Market Maker does not have the necessary number of Contracts in its account to fill the sell order, HedgeStreet will check the Market Maker’s account to determine if the account has sufficient funds to pay for the number of Hedgelet Pairs equal to the number of Contracts in the sell order, minus the sale price of the Contracts in the sell order, plus the fees (if any) the Market Maker will be charged for the Subscriptions and the execution of the sell order.

(1) If the Market Maker has the necessary funds, HedgeStreet will simultaneously Subscribe for the account of the Market Maker the number of Pairs containing the Contract to be sold equal to the number of Contracts to be sold, sell the Contracts to be sold, debit the Market Maker’s account with the difference between the sale price and the cost of the Subscription, credit the sale price and the amount debited from the Market Maker’s account to the HedgeStreet settlement account, debit the Market Maker’s account with any fees and credit the fees to the HedgeStreet proprietary account, and credit the Market Maker’s account with the Contracts in the Pair that were Subscribed for but not sold.

(i) For example, if the Market Maker’s order is to sell 10 “Yes” Contracts for \$4, the Market Maker’s account contains none of those Contracts but does contain \$70, and the cost to the Market Maker of executing the trade would be \$1.00, when the sell order is matched, HedgeStreet will for the account of the Market Maker Subscribe for 10 Pairs containing the “Yes” Contract, sell the 10 “Yes” Contracts for \$40, debit the Market Maker’s account \$60, credit the \$100 from the proceeds of the sale and the debit to the Market Maker’s account to the HedgeStreet settlement account as payment for the 10 Pairs, debit the Market Maker’s account \$1 for the cost of the trade, credit that \$1 to the HedgeStreet proprietary account, and leave the 10 “No” Contracts that remain from the 10 Pairs Subscribed for in the Market Maker’s account. This process is called “Subscription on Demand.”



(2) If the Market Maker does not have the Contracts or the necessary funds in its account to pay for the Subscription on Demand when the sell order is matched with a buy order, the sell order will be canceled by HedgeStreet and removed from the order book.

(d) ~~(e)~~ Notwithstanding anything to the contrary in 5.4(b)(ii) ~~or 5.4(e)~~, each Market Maker shall have the ability to enter a buy orders on the market without having the necessary funds available in its account at the time of order acceptance by HedgeStreet, and without HedgeStreet “blocking” the necessary funds to satisfy such buy orders. Instead, a Market Maker buy order will be placed on the Market immediately when entered. When a Market Maker buy order is matched with a sell order from another Member, HedgeStreet will check the Market Maker’s account to determine whether the Market Maker has the necessary funds to cover the cost of the buy order.

(i) If the Market Maker does have the necessary funds, HedgeStreet will execute the trade.

(ii) If the Market Maker does not have the necessary funds in its account to purchase the Fixed Payout Hedgelet Contracts when the buy order is matched with a sell order, the buy order will be cancelled by HedgeStreet and removed from the order book.

(e) Notwithstanding anything to the contrary in Rule 5.4(b)(iii), each Market Maker shall have the ability to enter orders for Variable Payout Hedgelets, on the market, for which it does not have an offsetting position, without having the necessary funds available in its account at the time of order acceptance by HedgeStreet, and without “blocking” the necessary funds to satisfy such orders. Instead, a Market Maker Order for a Long Variable Payout Hedgelet and/or a Short Variable Payout Hedgelet will be placed on the Market immediately when entered. Upon trade execution, HedgeStreet will debit the Market Maker’s account in an amount necessary to cover the maximum loss, as defined in Rule 5.4(b)(iii), under the Variable Payout Hedgelet Contract(s) it is entering into.

(f) If your order is placed on the market and not immediately matched by an order from another Member, it will rest on the market until it is matched and executed in accordance with the procedures outlined above in this Rule, until you cancel it, or until it is cancelled by HedgeStreet upon the Expiration of the Series or otherwise in accordance with these Rules.

## RULE 5.5 ORDER ENTRY



(a) – (c) [unchanged]

(d) Upon entry of an order to Subscribe for or Redeem a Hedgelet Pair or to trade one or more Contracts, you will be required to confirm the order before it is sent to HedgeStreet. If the order is accepted by HedgeStreet after the checks described in Rule 5.4(b), ~~(d)~~ and (e), 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.