



January 3, 2005

Ms. Jean A. Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Center
1155 21st Street, NW
Washington, DC 20581

RE: Rule Certification: HedgeStreet filing an Amendment to existing Terms and Conditions for Gold Hedgelet Contracts

Dear Secretary Webb:

In accordance with Commission Regulation 40.6, HedgeStreet, Inc. ("HedgeStreet") hereby files with the Commission an amendment to the existing terms and conditions of Gold Hedgelet Contracts. The new terms and conditions of the aforementioned Contract are defined in amended HedgeStreet Rule 12.10 (b) and (c) under Exhibit A in accordance with Commission Regulation 40.6. In addition, HedgeStreet has enclosed under Exhibit B, a summary of the unbiased methodology used by HedgeStreet to calculate the Expiration Value for the Gold Contracts. The rule deletions are stricken out and the amendments or additions are underlined. HedgeStreet intends to issue these instruments on January 4, 2005.

No substantive opposing views were expressed to HedgeStreet with respect to these additions and amendments.

HedgeStreet hereby certifies that the Contracts and the clearing of the Contracts, including all rules defining the terms and conditions of said Contracts contained herein, complies with the Act and the Commission Regulations adopted thereunder.

Should you have any questions, please contact the undersigned at sford@hedgestreet.com or (650) 638-3511.

Sincerely,

Stephanie Ford
Vice President, Legal & Compliance



EXHIBIT A

RULE 12.28 GOLD CONTRACTS

(a) [unchanged]

(b) UNDERLYING - The Underlying for this Class of Contracts is the Gold (London PM Gold Fix price, per troy ounce, in US dollars, herein after referred to as "Gold") last reported by the Source Agency price per troy ounce (in US dollars), herein after referred to as "Gold", as calculated by HedgeStreet using a proprietary algorithm which takes a sampling of prices¹ obtained from the February 05 Gold Futures contracts currently trading in the COMEX Division on NYMEX²

(c) SOURCE AGENCY – The Source Agency is the London Gold Market Fixing Ltd. HedgeStreet.

(d) – (o) [unchanged]

¹ The term "Prices" does not include any settlement prices calculated or issued by NYMEX. HedgeStreet only uses the prices reported on the exchange during the last 30 minutes of trading in order to formulate its own settlement price.

² NYMEX® is a registered service mark of the New York Mercantile Exchange, Inc. HedgeStreet, Inc. is not affiliated with the New York Mercantile Exchange, Inc. and neither the New York Mercantile Exchange, nor its affiliates, sponsor or endorse HedgeStreet, Inc. in any way.



EXHIBIT B

DESCRIPTION OF AN UNBAISED METHODOLOGY FOR DETERMINING SETTLEMENT VALUES TO BE USED ON THE HEDGESTREET EXCHANGE

OVERVIEW:

This paper describes a methodology for calculating the settlement value of a final market price, from a sample of prices observed in the market just prior to the market closing, making only minimal assumptions to quantify the uncertainty. Specifically the methodology is applied to establishing a reliable settlement price of gold, using 15 of the most recently traded prices that gold actually traded on the market as input, while discarding data outliers.

The methodology is based on the results of well published prior research. The justification for using the probability distribution is based on a formula derived in an innovative paper on “non-parametric” statistical problems [1]. The estimation of the settlement value from that distribution is based on a principle established by another landmark paper [2].

THE PROBLEM:

HedgeStreet, a CTFC designated contracts market, issues financial instruments (Hedgelets) that its members use for hedging against economic risks. A hedgelet allows the member to take a position on what the value of an underlying will be at a specified future time. Examples of underlyings are indices, commodity prices, currencies, economic releases, and interest rates.

For many underlyings such as the Consumer Price Index, or the Federal Funds Rate, the value at the specified time is very easy to determine. It is published by a reputable source using a well accepted and rigorous methodology, such that publishing agent is responsible for determining the exact settlement price. This is not the case for other types of underlyings. The market for gold provides a good example. In this market, contracts are entered into throughout the day, each at a price specific to it. The net result is that there really isn't an exact or definitive price for gold. As such, only a series of data points from which a representative data price can be inferred. Because of the binary nature of Hedgelets, one definitive settlement price needs to be calculated that is representative of all the prices,



therefore the settlement price needs to be as representative of the variable being estimated at that particular time.

In addition to providing a relevant and reliable settlement value, the calculation methodology must not be susceptible to the following:

Collusion by data contributors or market participants:

It should not be possible for data contributors or market participants to either conduct trades in the market or otherwise influence data elements unfairly, such that the results of the settlement methodology are susceptible to manipulation.

Ability for participants to receive a sneak peak ahead of the release time:

It should not be possible for any single participant to have access to data or information that is not generally available to all the other participants with the result that they receive a sneak peak ahead of the formal release of the settlement number.

THE APPROACH:

The approach taken here is that the market, through the activity of its participants, is seeking to determine a price that is uncertain and in doing so is providing data points of value that can be used to estimate a representative settlement price.

1) Data Capture:

We take 15 prices (data points) from the 15 trades just prior to the end of day trading close. These trades usually occur in the last 90 seconds of the trading session.

2) Data Entry:

These prices are entered into an application.

3) Data Cleansing:

The application screens these prices for statistical outliers and discards these if any are encountered. If data points are discarded, they are noted and an entry is made in the compliance files.

4) Creation of Probability Distribution:

The application then creates a probability distribution using the Gull Fielden Formula.



5) Calculation of Settlement Value:

The application then calculates the mean of the probability distribution created by using the Gull Fielden Formula. This mean is used as the expiration value.

REFERENCES

1. Gull S. F. and J. Fielden, "Bayesian Non-Parametric Statistics", *Proceedings of the Fourth Maximum Entropy Workshop* (Calgary 1984), Maximum Entropy and Bayesian Methods in Applied Statistics, Cambridge University Press 1986, 85-94
2. Howard, Ronald A., "Decision Analysis: Perspectives on Inference, Decision, and Experimentation", *Proceedings of the IEEE, Vol. 58, No. 5, May 1970*, 823-834

ABOUT THE AUTHOR:

Dr. Ab Kader is a Senior Scientist at HedgeStreet. He holds an MS degree in management science and engineering and a PhD in Optimization & Computer Science, both from Stanford University, in addition to a BS in Mathematics from the University of London, as well as a BS degree in Electrical Engineering. Dr. Kader has extensive experience in applying decision analysis and financial modeling. At the Electrical Power Research Institute (EPRI), he was responsible for applications using decision analysis to mitigate the risks associated with trading electric power, failures in nuclear reactors, and resource planning. He also co-authored the following works, published in scientific magazines and conference proceedings:

1. Powercoach, an Electricity Trading Advisor, *Ab Kader, Riaz Siddiqi, IEEE Computer Applications in Power* 1994
2. A Model for Software Quality Rating, *Ab Kader, David Cain, Giora Ben-Yaacov, American Society for Quality Control (ASQC)* 1995
3. Information Security and The Electric Power Industry, *Ab Kader, Ron Skelton, Fourth Workshop on Computer Misuse and Anomaly Detection (CMAD-IV)* 1996