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June 8, 2004

VIA E-MAIL: **secretary@cftc.gov**

Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581
ATTENTION: Office of the Secretariat

COMMENT

RE: Large Trader Reporting Rules - 69 Federal Register 26333 (May 12, 2004)

Dear Ms. Webb:

HedgeStreet, Inc. ("HedgeStreet") welcomes the opportunity to comment on the proposed amendments to the Commission's large trader reporting rules.

As you know, HedgeStreet is a newly designated contract market and derivatives clearing organization regulated by the Commission. When it commences trading, HedgeStreet will offer cash-settled contracts on a variety of underlying instruments, many of which have no cash market. HedgeStreet's contracts have a very small average notional value of $5.

Generally, HedgeStreet supports the Commission's proposal to increase the large trader reporting level across all contracts, whether traded on HedgeStreet or not. The explosive growth of futures trading, and the depth and liquidity of the markets for the underlying instruments, indicates that the levels can be safely raised without raising market protection concerns.

More specifically, HedgeStreet supports the Commission's proposal to set the large trader reporting level on HedgeStreet contracts on economic indexes at 125,000. This would make the average notional value of the large trader reporting level for such contracts at $625,000. This is roughly five per cent of the average notional large trader reporting level for the Chicago Mercantile Exchange's ("CME") Consumer Price Index ("CPI") contract,[1] and seems to HedgeStreet to be an appropriate starting point for large trader reporting for members of HedgeStreet.

However, HedgeStreet respectfully requests that the Commission also set a default level for HedgeStreet contracts that will not have economic indexes as their underlying. HedgeStreet anticipates listing contracts on a variety of currencies, rates, and commodities (collectively "Non-EI Contracts"). Under the proposed large trader reporting rules, Non-EI Contracts traded on HedgeStreet would not be defined and would therefore fall under the

[1] The CME's CPI contract is listed as having a notional value of $2,500 x the CPI, which is currently near 185. The CME's CPI contract presumably falls under the default large trader reporting level of 25 contracts. Thus, the notional large trader reporting level for the CME's CPI contract is $2,500 x 185 x 25 = $11,526,500.

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default 25 contract reporting level. As the Commission notes in the proposing release, the average notional contract size for a HedgeStreet contract is \$5. Thus, the notional "large trader" reporting level for Non-EI Contracts would be \$125. This level is much too small. First, such a small notional position cannot conceivably be used for market manipulation, particularly because HedgeStreet contracts are cash settled. Second, this notional level is so small that virtually every trader on HedgeStreet will be a large trader, and the Commission will be overwhelmed with meaningless large trader reports. Third, this notional level bears no relation to the notional levels set for comparable contracts. For instance, the CME's TRAKRS products have a uniform base reporting level of 50,000, despite the fact that their typical notional value is more than five times larger than a HedgeStreet contract.[2] Since HedgeStreet contracts are a fifth of the size of a TRKRS Contract, HedgeStreet believes HedgeStreet's small-sized contracts should have a default reporting level that is higher than 25 contracts, and that such level should be no less than 125,000 contracts. Reports at 125,000 contracts or above would appropriately appraise the Commission of a somewhat significant position while relieving unnecessary burdens on HedgeStreet and its members.

HedgeStreet strongly supports the Commission's use of the large trader reporting system as part of the Commission's market surveillance program. HedgeStreet believes that raising the default reporting level for all HedgeStreet contracts to 125,000 will make that system more effective by limiting the reports received by the Commission to those that actually represent large positions that could be used for manipulative purposes. HedgeStreet thanks the Commission for the opportunity to comment on the proposed changes to the large trader reporting rules. If you have questions or comments or would like further information, please do not hesitate to contact me.

Sincerely,

Michael Connor
President

cc: John Nafeh (jnafeh@hedgestreet.com)

[2] For instance, the Gold TRAKR is designed to have an initial notional size of \$25. Thus, the notional large trader reporting size for Gold TRAKRs is \$25 x 50,000 = \$1,250,000. If the default level for HedgeStreet's contracts were placed at 125,000, the average notional large trader reporting level would be \$5 x \$125,000 = \$625,000.

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