

No. SR-Amex-2007-26 on the subject line.

#### Paper Comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-1090.

All submissions should refer to File No. SR-Amex-2007-26. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-Amex-2007-26 and should be submitted on or before March 28, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-4039 Filed 3-6-07; 8:45 am]

BILLING CODE 8010-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55372; File No. SR-Amex-2006-112]

### Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing of Proposed Rule Change as Modified by Amendment No. 1 Thereto Relating to the Listing and Trading of Units of the United States Natural Gas Fund, LP

February 28, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4<sup>2</sup> thereunder, notice is hereby given that on December 1, 2006, the American Stock Exchange LLC ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. On February 14, 2007, the Exchange submitted Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

#### I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to list and trade units (a "Unit" or collectively, the "Units") of the United States Natural Gas Fund, LP ("USNG" or the "Partnership") pursuant to Amex Rules 1500 *et seq.*

#### II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Amex included statements concerning the purpose of and basis for the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Amex has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

##### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

###### 1. Purpose

The Exchange proposes to list and trade the Units issued by USNG (under the symbol: "UNG") pursuant to

Exchange Rules 1500 *et seq.*<sup>3</sup> Amex Rule 1500 provides for the listing of Partnership Units, which are defined as securities: (a) That are issued by a partnership that invests in any combination of futures contracts, options on futures contracts, forward contracts, commodities, and/or securities; and (b) that are issued and redeemed daily in specified aggregate amounts at net asset value. Pursuant to Commentary .01 to Rule 1502, the Exchange will file separate proposals under Section 19(b) of the Act before listing and trading separate and distinct Partnership Units designated on different underlying investments, commodities and/or assets. The Exchange submits that the Units will conform to the initial and continued listing criteria under Rule 1502.<sup>4</sup>

The Units represent ownership of a fractional undivided beneficial interest in the net assets of USNG.<sup>5</sup> The net assets of USNG will consist of investments in futures contracts based on natural gas, crude oil, heating oil, gasoline, and other petroleum-based fuels traded on the New York Mercantile Exchange ("NYMEX"), Intercontinental Exchange ("ICE Futures") or other U.S. and foreign exchanges (collectively, "Futures Contracts"). USNG may also invest in other natural gas-related investments such as cash-settled options on Futures Contracts, forward contracts for natural gas, and over-the-counter ("OTC") transactions that are based on the price of natural gas, oil and other petroleum-based fuels, Futures Contracts and indices based on the foregoing (collectively, "Other Natural Gas Related Investments"). Futures Contracts and Other Natural Gas Related Investments collectively are referred to as "Natural Gas Interests."

USNG will invest in Natural Gas Interests to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations. In pursuing this objective, the primary focus of USNG's investment manager, Victoria Bay Asset Management, LLC ("Victoria Bay" or "General Partner"), will be the investment in Futures Contracts and the management of its investments in short-term obligations of the United States

<sup>3</sup> See Securities Exchange Act Release No. 53582 (March 31, 2006), 71 FR 17510 (April 6, 2006) (SR-Amex 2005-127) (approving Amex Rules 1500 *et seq.* and the listing and trading of Units of the United States Oil Fund, LP).

<sup>4</sup> As set forth in the section "Listing and Trading Rules," the Exchange will require a minimum of 100,000 Units to be outstanding at the start of trading.

<sup>5</sup> USNG is commodity pool that will issue Units that may be purchased and sold on the Exchange.

<sup>13</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

("Treasuries"), cash equivalents, and cash (collectively, "Cash") for margining purposes and as collateral.

The investment objective of USNG is for changes in percentage terms of a unit's net asset value ("NAV") to reflect the changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana as measured by the natural gas futures contract traded on the NYMEX (the "Benchmark Futures Contract"). The Benchmark Futures Contract employed is the near month expiration contract, except when the near month contract is within two (2) weeks of expiration, in which case it will invest in the next expiration month.<sup>6</sup>

The General Partner will attempt to place USNG's trades in Natural Gas Interests and otherwise manage USNG's investments so that "A" will be within plus/minus 10 percent of "B", where:

- A is the average daily change in USNG's NAV for any period of 30 successive valuation days, *i.e.*, any day as of which USNG calculates its NAV, and
- B is the average daily change in the price of the Benchmark Futures Contract over the same period.

An investment in the Units will allow both retail and institutional investors to easily gain exposure to the natural gas market in a cost-effective manner. In addition, the Units are also expected to provide additional means for diversifying an investor's investments or hedging exposure to changes in natural gas prices.

#### *Description of the Natural Gas Market*

**Natural Gas.** The Exchange states that Natural gas accounts for almost a quarter of U.S. energy consumption. The price of natural gas is established by the supply and demand conditions in the North American market, and more particularly, in the main refining center of the U.S. Gulf Coast. The natural gas market essentially constitutes an auction, where the highest bidder wins the supply. When markets are "strong" (*i.e.*, when demand is high and/or supply is low), the bidder must be willing to pay a higher premium to capture the supply. When markets are "weak" (*i.e.*, when demand is low and/or supply is high), a bidder may choose not to outbid competitors, waiting instead for later, possibly lower priced, supplies. Demand for natural gas by consumers, as well as agricultural, manufacturing and transportation

industries, determines the demand for natural gas. Since the precursors of product demand are linked to economic activity, natural gas demand will tend to reflect economic conditions. However, other factors such as weather significantly influence natural gas demand.

The Exchange states that NYMEX is the world's largest physical commodity futures exchange and the dominant market for the trading of energy and precious metals. The Benchmark Futures Contract trades in units of 10,000 million British thermal units ("mmBtu") and is based on delivery at the Henry Hub in Louisiana, the nexus of 16 intra and interstate natural gas pipeline systems that draw supplies from the region's prolific gas deposits.<sup>7</sup> The pipelines serve markets throughout the U.S. East Coast, the Gulf Coast, the Midwest, and up to the Canadian border.

Because of the volatility of natural gas prices, a vigorous basis market has developed in the pricing relationships between the Henry Hub and other important natural gas market centers in the continental United States and Canada. The NYMEX makes available for trading a series of basis swap futures contracts that are quoted as price differentials between approximately 30 natural gas pricing points and the Henry Hub. The basis contracts trade in units of 2,500 mmBtu on the NYMEX ClearPort<sup>®</sup> trading platform. Transactions can also be consummated off NYMEX and submitted to the NYMEX for clearing via the NYMEX ClearPort<sup>®</sup><sup>8</sup> clearing website as an exchange of futures for physicals or an exchange of futures for swaps transactions.

The price of natural gas during the period January 1995 through October 2006, ranged from a high of \$28.38 in January 2004 to a low of \$1.01 in December 1998. As of November 9, 2006 the spot price was \$7.24. Annual daily contract volume on the NYMEX from 2001 through October 2006 was: 47,457; 97,431; 76,148; 70,048; 76,265; and 102,097, respectively.

**WTI Light, Sweet Crude Oil.** The Exchange states that Crude oil is the world's most actively traded commodity. The oil futures contracts for light, sweet crude oil that are traded on the NYMEX are the world's most liquid forum for crude oil trading, as well as the most liquid futures contracts on a

physical commodity. Due to the liquidity and price transparency of oil Futures Contracts, they are used as a principal international pricing benchmark. The oil futures contracts for West Texas Intermediate ("WTI") light, sweet crude oil is traded on the NYMEX in units of 1,000 U.S. barrels (42,000 gallons) and, if not closed out before maturity, will result in delivery of oil to Cushing, Oklahoma, which is also accessible to the world market by two major interstate petroleum pipeline systems.

The Exchange states that the price of crude oil is established by the supply and demand conditions in the global market overall, and more particularly, in the main refining centers of Singapore, Northwest Europe, and the U.S. Gulf Coast. Demand for petroleum products by consumers, as well as agricultural, manufacturing, and transportation industries, determines demand for crude oil by refiners. Since the precursors of product demand are linked to economic activity, crude oil demand will tend to reflect economic conditions. However, other factors such as weather also influence product and crude oil demand.

The price of WTI light, sweet crude oil has historically exhibited periods of significant volatility. The price of WTI light, sweet crude oil during the period January 1995 through October 2006, ranged from a high of \$77.03 in July 2006 to a low of \$10.76 in December 1998. As of November 9, 2006, the spot price was \$61.16. Annual daily contract volume on the NYMEX from 2001 through October 2006 was: 49,028; 182,718; 181,748; 212,382; 237,651; and 298,734, respectively.

**Heating Oil.** The Exchange states that heating oil, also known as No. 2 fuel oil, accounts for 25% of the yield of a barrel of crude oil, the second largest "cut" from oil after gasoline. The heating oil futures contract, listed and traded on NYMEX, trades in units of 42,000 gallons (1,000 barrels) and is based on delivery in New York harbor, the principal cash market center. The price of heating oil is volatile.

The price of heating oil during the period January 1995 through October 2006, ranged from a high of \$215.85 in September 2006 to a low of \$28.50 in February 1999. As of November 9, 2006, the spot price was \$169.31. Annual daily contract volume on the NYMEX from 2001 through October 2006 was: 41,710; 42,781; 46,327; 51,745; 52,333; and 60,024, respectively.

**Gasoline.** The Exchange states that gasoline is the largest single volume refined product sold in the U.S. and accounts for almost half of national oil

<sup>6</sup> The Benchmark Futures Contracts will be changed or "rolled" from the near month contract to expire over to the next month to expire over a four (4) day period.

<sup>7</sup> In practice, few natural gas Futures Contracts result in delivery of the underlying natural gas.

<sup>8</sup> The NYMEX ClearPort<sup>SM</sup> is an electronic trading platform, through which a slate of energy futures contracts are available for competitive trading.

consumption. The gasoline Futures Contract, listed and traded on the NYMEX, trades in units of 42,000 gallons (1,000 barrels) and is based on delivery at petroleum products terminals in the New York harbor, the major East Coast trading center for imports and domestic shipments from refineries in the New York harbor area or from the Gulf Coast refining centers. The price of gasoline is volatile.

The price of gasoline during the period January 1995 through October 2006, ranged from a high of \$2.70 in September 2006 to a low of \$0.3258 in December 1998. As of November 9, 2006, the spot price was \$1.71. Annual daily contract volume on the NYMEX from 2001 through October 2006 was: 38,033; 43,919; 44,688; 51,315; 52,456; and 44,996, respectively.

#### *Futures Regulation*

The Exchange states that the Commodity Exchange Act ("CEA") governs the regulation of commodity interest transactions, markets, and intermediaries. The CEA, as amended by the Commodity Futures Modernization Act of 2000, requires commodity futures exchanges to have rules and procedures to prevent market manipulation, abusive trade practices, and fraud. The Commodity Futures Trading Commission ("CFTC") administers the CEA and conducts regular reviews and inspections of the futures exchanges' enforcement programs.

The Exchange states that the CEA provides for varying degrees of regulation of commodity interest transactions, depending upon the variables of the transaction. In general, these variables include: (1) The type of instrument being traded (*e.g.*, contracts for future delivery, options, swaps or spot contracts); (2) the type of commodity underlying the instrument (distinctions are made between instruments based on agricultural commodities, energy and metals commodities, and financial commodities);

(3) the nature of the parties to the transaction (retail, eligible contract participant, or eligible commercial entity); (4) whether the transaction is entered into on a principal-to-principal or intermediated basis; (5) the type of market on which the transaction occurs; and (6) whether the transaction is subject to clearing through a clearing organization.

Non-U.S. futures exchanges differ in certain respects from their U.S. counterparts. In contrast to U.S. designated contract markets, some non-U.S. exchanges are principals' markets,

where trades remain the liability of the traders involved, and the exchange or an affiliated clearing organization, if any, does not become substituted for any party. Due to the absence of a clearing system, such exchanges are significantly more susceptible to disruptions. Further, participants in such markets must often satisfy themselves as to the individual creditworthiness of each entity with which they enter into a trade. Trading on non-U.S. exchanges is often in the currency of the exchange's home jurisdiction.

The CFTC and U.S. designated contract markets have established accountability levels and position limits on the maximum net long or net short Futures Contracts position that any person or group of persons under common trading control (other than a hedger) may hold, own or control in commodity interests. Among the purposes of accountability levels and position limits is to prevent a corner or squeeze on a market or undue influence on prices by any single trader or group of traders.

The Exchange states that most U.S. futures exchanges limit the amount of fluctuation in some futures contract or options on futures contract prices during a single trading period. These regulations specify what are referred to as daily price fluctuation limits (*i.e.*, daily limits). The daily limits establish the maximum amount that the price of a futures contract or options on futures contract may vary either up or down from the previous day's settlement price. Once the daily limit has been reached in a particular futures contract or option on a futures contract, no trades may be made at a price beyond the limit.

The Exchange states that most Commodity prices are volatile and, although ultimately determined by the interaction of supply and demand, are subject to many other influences, including the psychology of the marketplace and speculative assessments of future world and economic events. Political climate, interest rates, treaties, balance of payments, exchange controls, and other governmental interventions as well as numerous other variables affect the commodity markets, and even with complete information it is impossible for any trader to reliably predict commodity prices.

A portion of USNG's assets may be employed to enter into OTC transactions based on natural gas, oil, and other petroleum-based fuels. OTC transactions are subject to little, if any, regulation. OTC contracts are typically traded on a principal-to-principal basis through

dealer markets that are dominated by the major money center and investment banks and other institutions. In connection with the trading of OTC instruments, USNG will not receive the protection of the CEA. The markets for OTC contracts rely upon the integrity of market participants as well as contractual margin payments, collateral, and/or credit supports in lieu of additional regulation.

#### *Structure and Regulation of USNG*

USNG, a Delaware limited partnership formed in September 2006, is a commodity pool that will invest in Natural Gas Interests.<sup>9</sup> It is operated by Victoria Bay, a single member Delaware limited liability company, which is wholly owned by Wainwright Holdings, Inc. The General Partner is registered as a commodity pool operator ("CPO") with the CFTC and is a member of the National Futures Association (the "NFA").

Information regarding USNG and the General Partner, as well as detailed descriptions of the manner in which the Units will be offered and sold, and the investment strategy of USNG, are included in the registration statement regarding the offering of the Units filed with the Commission under the Securities Act of 1933.<sup>10</sup>

*Clearing Broker.* A CFTC-registered futures commission merchant ("FCM") will execute and clear USNG's futures contract transactions, hold the margin related to its Futures Contracts investments and perform certain administrative services for USNG (the "Clearing Broker"). USNG may use other FCMs as its investments increase or as may be required to trade particular Natural Gas Interests.

*Administrator and Custodian.* Under separate agreements with USNG, Brown Brothers Harriman & Co. will serve as USNG's administrator, registrar, transfer agent, and custodian (the "Administrator" or "Custodian"). The Administrator will perform or supervise the performance of services necessary for the operation and administration of USNG. These services include, but are not limited to, investment accounting, financial reporting, broker and trader reconciliation, calculation of the NAV, and valuation of Treasuries and cash equivalents used to purchase or redeem Units and other USNG assets or liabilities. As Custodian, it: (i) Will receive payments from purchasers of Creation Baskets; (ii) will make

<sup>9</sup> USNG is not an investment company as defined in Section 3(a) of the Investment Company Act of 1940.

<sup>10</sup> See Form S-1 filed with the Commission on October 6, 2006 (File No. 333-137871).

payments to Sellers for Redemption Baskets, as described below; and (iii) will hold the cash, cash equivalents, and Treasuries of USNG, as well as collateral posted by USNG's derivatives counterparties, and will make transfers of margin and collateral with respect to USNG's investments to and from its FCMs or counterparties.

**Marketing Agent.** A registered broker-dealer will be the marketing agent for USNG ("Marketing Agent"). The Marketing Agent, on behalf of USNG, will continuously offer Creation and Redemption Baskets and will receive and process orders from Authorized Purchasers (as defined below) and coordinate the processing of orders for the creation or redemption of Units with the General Partner and the Depository Trust Company ("DTC").

#### *Investment Strategy*

USNG will pursue its investment objective by investing its assets in Futures Contracts and Other Natural Gas Related Investments to the fullest extent possible without being leveraged or unable to satisfy its current or potential margin or collateral obligations with respect to those investments. USNG will attempt to manage its investments so that changes in percentage terms of a Unit's net asset value reflect the changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana as measured by the Benchmark Futures Contract, that is the near month expiration contract, except when the near month contract is within two weeks of expiration, in which case it will invest in the next expiration month. In connection with tracking the price of the Benchmark Futures Contract, the General Partner will endeavor to place USNG's trades in Futures Contracts and Other Natural Gas Related Investments and otherwise manage USNG's investments so that "A" will be within  $\pm 10$  percent of "B", where:

- "A" is the average daily change in USNG's NAV for any period of 30 successive valuation days, *i.e.*, any day as of which USNG calculates its NAV; and

- "B" is the average daily change in the price of the Benchmark Futures Contract over the same period.

The Benchmark Futures Contract will be changed or "rolled" from the near expiration month contract to the next month expiration ratably over a four (4) day period. The changes in the Benchmark Futures Contract will occur two (2) weeks prior to the expiration of the nearest contract month. Thereafter, the calculation of the movement in the Benchmark Futures Contract will be

based solely on the next month expiration contract.

The Exchange believes that market arbitrage opportunities should cause USNG's Unit price to closely track USNG's per Unit NAV which is targeted at the current Benchmark Futures Contract.

**Investments.** USNG believes that it will be able to use a combination of Futures Contracts and Other Natural Gas Related Investments to manage the portfolio to achieve its investment objective. USNG further anticipates that the exact mix of Futures Contracts and Other Natural Gas Related Investments held by the portfolio will vary over time depending on, among other things, the amount of invested assets in the portfolio, price movements of natural gas, the rules and regulations of the various futures and commodities exchanges and trading platforms that deal in Natural Gas Interests, and innovations in the Natural Gas Interests' marketplace including both the creation of new Natural Gas Interest investment vehicles, and the creation of new trading venues that trade in Natural Gas Interests.

**Futures Contracts.** The principal Natural Gas Interests to be invested in by USNG are Futures Contracts. USNG initially expects to purchase the Benchmark Futures Contract. USNG may also invest in Futures Contracts in crude oil, heating oil, gasoline, and other petroleum-based fuels that are traded on the NYMEX, ICE Futures or other U.S. and foreign exchanges.

The Benchmark Futures Contract has historically closely tracked the investment objective of USNG over both the short-term, medium-term, and the long-term. For that reason, USNG anticipates making significant investments in the Benchmark Futures Contract. The Exchange notes that the General Partner states that other Futures Contracts have also tended to track the investment objective of USNG, though not as closely as the Benchmark Futures Contract.

**Other Natural Gas Related Investments.** USNG may also purchase Other Natural Gas-Related Investments such as cash-settled options on Futures Contracts, forward contracts for natural gas, and over-the-counter transactions that are based on the price of natural gas, oil and other petroleum-based fuels, Futures Contracts, and indices based on the foregoing. Option contracts offer investors and hedgers another vehicle for managing exposure to the natural gas market. USNG may purchase options on natural gas Futures Contracts on the principal commodities and futures

exchanges in pursuing its investment objective.

The Exchange states that in addition to these listed options, there also exists an active OTC market in derivatives linked to natural gas. These OTC derivative transactions are privately-negotiated agreements between two (2) parties. Unlike Futures Contracts or related options, each party to an OTC contract bears the credit risk that the counterparty may not be able to perform its obligations.

Some OTC contracts contain fairly generic terms and conditions and are available from a wide range of participants, while other OTC contracts have highly customized terms and conditions and are not as widely available. Many OTC contracts are cash-settled forwards for the future delivery of natural gas or petroleum-based fuels that have terms similar to the Futures Contracts. Others take the form of "swaps" in which the two parties exchange cash flows based on pre-determined formulas tied to the price of natural gas as determined by the spot, forward or futures markets. USNG may enter into OTC derivative contracts whose value will be tied to changes in the difference between the natural gas spot price, the price of Futures Contracts traded on NYMEX and the prices of non-NYMEX Futures Contracts that may be invested in by USNG.

**Counterparty Procedures.** To protect itself from the credit risk that arises in connection with such contracts, USNG will enter into agreements with each counterparty that provide for the netting of its overall exposure to its counterparty and/or provide collateral or other credit support to address USNG's exposure. The counterparties to an OTC contract will generally be major broker-dealers and banks or their affiliates, though certain institutions, such as large energy companies or other institutions active in the natural gas commodities markets, may also be counterparties. The General Partner will assess or review, as appropriate, the creditworthiness of each potential or existing counterparty to an OTC contract pursuant to guidelines approved by the General Partner's board of directors. Furthermore, the General Partner on behalf of USNG will only enter into OTC contracts with: (a) Members of the Federal Reserve System or foreign banks with branches regulated by the Federal Reserve Board; (b) primary dealers in U.S. government securities; (c) broker-dealers; (d) commodities futures merchants; or (e) affiliates of the foregoing.

USNG anticipates that the use of Other Natural Gas Related Investments

together with its investments in Futures Contracts will produce price and total return results that closely track the investment objective of USNG.

*Cash, Cash Equivalents, and Treasuries.* USNG will invest virtually all of its assets not invested in Natural Gas Interests, in cash, cash equivalents, and Treasuries with a remaining maturity of two years or less. The cash, cash equivalents, and Treasuries will be available to be used to meet USNG's current or potential margin and collateral requirements with respect to its investments in Natural Gas Interests. USNG will not use cash, cash equivalents, and Treasuries as margin for new investments unless it has a sufficient amount of cash, cash equivalents, and Treasuries to meet the margin or collateral requirements that may arise due to changes in the value of its currently held Natural Gas Interests. Other than in connection with a redemption of Units, USNG does not intend to distribute cash or property to its Unit holders. Interest earned on cash, cash equivalents, and Treasuries held by USNG will be retained by it to pay its expenses, to make investments to satisfy its investment objectives, or to satisfy its margin or collateral requirements.

*Impact of Accountability Levels and Position Limits.* The CFTC and U.S. designated contract markets such as the NYMEX have established accountability levels and position limits on the maximum net long or net short Futures Contracts that any person or group of persons under common trading control (other than hedgers) may hold, own or control in commodity interests. The Exchange states that accountability levels and position limits are intended among other things, to prevent a corner or squeeze on a market or undue influence on prices by any single trader or group of traders. The net position is the difference between an individual or firm's open long contracts and open short contracts in any one commodity.

The Exchange states that most U.S. futures exchanges also limit the amount of fluctuation in the prices of some futures contracts or options on futures contracts during a single trading day. These regulations specify what are referred to as daily price fluctuation limits (*i.e.*, daily limits). The daily limits establish the maximum amount that the price of a futures contract or an option on a futures contract may vary either up or down from the previous day's settlement price. Once the daily limit has been reached in a particular futures contract or option on a futures contract, no trades may be made at a price beyond the limit.

The accountability levels for the Benchmark Futures Contract and other Futures Contracts traded on NYMEX are not a fixed ceiling, but rather a threshold above which the NYMEX may exercise greater scrutiny and control over an investor's positions. The current accountability level for the Benchmark Futures Contract is 12,000 contracts. If USNG exceeds this accountability level for the Benchmark Futures Contract, NYMEX will monitor USNG's exposure and ask for further information on USNG's activities including the total size of all positions, investment and trading strategy, and the extent of USNG's liquidity resources. If deemed necessary by NYMEX, it could also order USNG to reduce its position back to the accountability level.

If NYMEX orders USNG to reduce its position back to the accountability level, or to an accountability level that NYMEX deems appropriate for USNG, such an accountability level may impact the mix of investments in Natural Gas Interests made by USNG. To illustrate, assume that the Benchmark Futures Contract and the unit price of USNG are each \$10, and that NYMEX has determined that USNG may not own more than 12,000 contracts. In such case, USNG could invest up to \$1.2 billion of its daily net assets in the Benchmark Futures Contract (*i.e.*, \$10 per contract multiplied by 10,000 (a Benchmark Futures Contract is a contract for 10,000 million British Thermal Units) multiplied by 12,000 contracts) before reaching the accountability level imposed by the NYMEX. Once the daily net assets of the portfolio exceed \$1.2 billion in the Benchmark Futures Contract, the portfolio may not be able to make any further investments in the Benchmark Futures Contract, depending on whether the NYMEX imposes limits. If NYMEX does impose limits at the \$1.2 billion level (or another level), USNG anticipates that it will invest the majority of its assets above that level in a mix of other Futures Contracts or Other Natural Gas-Related Investments.

The Exchange states that in addition to accountability levels, NYMEX imposes position limits on contracts held in the last few days of trading in the near month contract. It is unlikely that USNG will run up against such position limits because USNG's investment strategy is to exit from the near month contract over a four day period beginning two weeks from expiration of the contract.

#### *The Markets for USNG's Units*

There will be two markets for investors to purchase and sell Units.

New issuances of the Units will be made only in baskets of 100,000 Units or multiples thereof (a "Basket"). SNG will issue and redeem Baskets of the Units on a continuous basis, by or through participants who have each entered into an authorized purchaser agreement ("Authorized Purchaser Agreement" and each such participant, an "Authorized Purchaser")<sup>11</sup> with the General Partner, at the NAV per Unit next determined after an order to purchase the Units in a Basket is received in proper form. Baskets may be issued and redeemed on any "business day" (defined as any day other than a day on which the Amex, the NYMEX or the New York Stock Exchange is closed for regular trading) through the Marketing Agent in exchange for cash and/or Treasuries, which the Custodian receives from Authorized Purchasers or transfers to Authorized Purchasers, in each case on behalf of USNG. Baskets are then separable upon issuance into identical Units that will be listed and traded on the Exchange.<sup>12</sup>

The Units will thereafter be traded on the Exchange similar to other equity securities. Units will be registered in book-entry form through DTC. Trading in the Units on the Exchange will be effected until 4:15 p.m. Eastern time ("ET") each business day. The minimum trading increment for such units will be \$.01.

Each Authorized Purchaser, and each distributor offering and selling newly issued Units as part of the distribution of such Units, is required to comply with the prospectus delivery and disclosure requirements of the Securities Act of 1933, as well as the requirements of the CEA including, the requirement that prospective investors provide an acknowledgement of receipt of such disclosure materials prior to the payment for any newly issued Units.

*Calculation of the Basket Amount.* Baskets will be issued in exchange for Treasuries and/or cash in an amount equal to the NAV per Unit times 100,000 Units (the "Basket Amount"). Baskets will be delivered by the Marketing Agent to each Authorized Purchaser only after execution of the Authorized Purchaser Agreement. Units in a Basket are issued and redeemed in accordance with the Authorized

<sup>11</sup> An "Authorized Purchaser" is a person, who at the time of submitting to the Marketing Agent an order to create or redeem one or more Baskets: (i) Is a registered broker-dealer or other market participants, such as banks and other financial institutions, that are exempt from broker-dealer registration; (ii) is a DTC Participant; and (iii) has in effect a valid Authorized Participant Agreement.

<sup>12</sup> The Exchange expects that the number of outstanding Units will increase and decrease as a result of creations and redemptions of Baskets.

Purchaser Agreement. Authorized Purchasers that wish to purchase a Basket must transfer the Basket Amount, for each Basket purchased, to the Custodian (the "Deposit Amount"). Authorized Purchasers that wish to redeem a Basket will receive an amount of Treasuries and/or cash in exchange for each Basket surrendered in an amount equal to the NAV per Basket (the "Redemption Amount").

On each business day, the Administrator will make available immediately prior to the opening of trading on the Exchange, the Basket Amount for the creation of a Basket based on the prior day's NAV. The Exchange will disseminate at least every 15 seconds throughout the trading day, via the facilities of the Consolidated Tape Association ("CTA"), an amount representing, on a per Unit basis, the current indicative value of the Basket Amount (see "Indicative Partnership Value" below). Shortly after 4 p.m. ET, the Administrator will determine the NAV for USNG as described below. At or about 4 p.m. ET on each business day, the Administrator will determine the Basket Amount for orders placed by Authorized Purchasers received before 12 p.m. ET that day. Because orders to purchase and/or redeem Baskets must be placed by 12 p.m. ET, but the Basket Amount will not be determined until shortly after 4 p.m. ET, on the date the purchase order or redemption order, as applicable, is received, Authorized Participants will not know the total payment required to create or redeem a Basket, as applicable, at the time they submit such irrevocable purchase and/or redemption order. This is similar to exchange-traded funds and mutual funds. USNG's registration statement discloses that NAV and the Basket Amount could rise and fall substantially between the time an irrevocable purchase order and/or redemption order is submitted and the time the Basket Amount is determined.

Shortly after 4 p.m. ET on each business day, the Administrator, Amex and the General Partner will disseminate the NAV for the Units and the Basket Amount (for orders placed during the day). The Basket Amount and the NAV are communicated by the Administrator to all Authorized Purchasers via facsimile or electronic mail message. The Amex will also disclose the NAV and Basket Amount on its Web site at <http://www.amex.com>. The Basket Amount necessary for the creation of a Basket will change from day to day. On each day that the Amex is open for regular trading, the Administrator will adjust the Deposit Amount as appropriate to reflect the

prior day's Partnership NAV and accrued expenses. The Administrator will then determine the Deposit Amount for a given business day.<sup>13</sup>

*Calculation of USNG's NAV.* The Administrator will calculate NAV as follows: (1) Determine the current value of USNG assets and (2) subtract the liabilities of USNG. The NAV will be calculated shortly after the close of trading on the Exchange using the settlement value<sup>14</sup> of Futures Contracts traded on the NYMEX as of the close of open-outcry trading on the NYMEX at 2:30 p.m. ET, and for the value of other Natural Gas Interests, Treasuries and cash equivalents, the value of such investments as of the earlier of 4 p.m. New York time or the close of trading on the New York Stock Exchange. The NAV is calculated by including any unrealized profit or loss on Futures Contracts and Other Natural Gas Related Investments and any other credit or debit accruing to USNG but unpaid or not received by USNG. The NAV is then used to compute all fees (including the management and administrative fees) that are calculated from the value of Partnership assets. The Administrator will calculate the NAV per Unit by dividing the NAV by the number of Units outstanding.

When calculating NAV for USNG, the Administrator will value Futures Contracts based on the closing settlement prices quoted on the relevant commodities and futures exchange and obtained from various market data vendors such as Bloomberg or Reuters. The value of the Other Natural Gas Related Investments for purposes of determining the NAV will be based upon the determination of the Administrator as to the fair market value. Certain types of Other Natural Gas Related Investments, such as listed options on Futures Contracts, have closing prices that are available from the exchange upon which they are traded or from various market data vendors. Other Natural Gas Related Investments will be valued based on the last sale price on the exchange or market where traded. If a contract fails to trade, the value shall be the most recent bid quotation from the third party source. Some types of Other Natural Gas Related Investments, such as natural gas forward contracts do not trade on established exchanges, but typically have prices that are widely available from third-party sources. The Administrator may make use of such

third-party sources in calculating a fair market value of these Other Natural Gas Related Investments.

Certain types of Other Natural Gas Related Investments, such as OTC derivative contracts such as "swaps" also do not have established exchanges upon which they trade and may not have readily available price quotes from third parties. Swaps and other similar derivative or contractual-type instruments will be first valued at a price provided by a single broker or dealer, typically the counterparty. If no such price is available, the contract will be valued at a price at which the counterparty to such contract could repurchase the instrument or terminate the contract. In determining the fair market value of such derivative contracts, the Administrator may make use of quotes from other providers of similar derivatives. If these are not available, the Administrator may calculate a fair market value of the derivative contract based on the terms of the contract and the movement of the underlying price factors of the contract.

*Calculation and Payment of the Deposit Amount.* The Deposit Amount of Treasuries and/or cash will be in the same proportion to the total net assets of USNG as the number of Units to be created is in proportion to the total number of Units outstanding as of the date the purchase order is accepted. The General Partner will determine the requirements for the Treasuries that may be included in the Deposit Amount and will disseminate these requirements at the start of each business day. The amount of cash that is required is the difference between the aggregate market value of the Treasuries required to be included in the Deposit Amount as of 4 p.m. ET on the date of purchase and the total required deposit.

All purchase orders must be received by the Marketing Agent by 12 p.m. ET for consideration on that business day. Delivery of the Deposit Amount, *i.e.*, Treasuries and/or cash, to the Administrator must occur by the third business day following the purchase order date (T+3).<sup>15</sup> Thus, the General Partner will disseminate shortly after 4 p.m. ET on the date the purchase order was properly submitted, the amount of Treasuries and/or cash to be deposited with the Custodian for each Basket.

*Calculation and Payment of the Redemption Amount.* The Units will not be individually redeemable but will only be redeemable in Baskets. To redeem, an Authorized Purchaser will

<sup>13</sup> The Exchange will obtain a representation from USNG that its NAV per Unit will be calculated daily and made available to all market participants at the same time.

<sup>14</sup> See Rule 6.52A of the NYMEX Rulebook.

<sup>15</sup> Authorized Purchasers are required to pay a transaction fee of \$1,000 for each order to create one or more Baskets.

be required to accumulate enough Units to constitute a Basket (*i.e.*, 100,000 Units). An Authorized Purchaser redeeming a Basket will receive the Redemption Amount. Upon the surrender of the Units and payment of applicable redemption transaction fee,<sup>16</sup> taxes or charges, the Custodian will deliver to the redeeming Authorized Purchaser the Redemption Amount. The Redemption Amount of Treasuries and/or cash will be in the same proportion to the total net assets of USNG as the number of Units to be redeemed is in proportion to the total number of Units outstanding as of the date the redemption order is accepted. The General Partner will determine the Treasuries to be included in the Redemption Amount. The amount of cash that is required is the difference between the aggregate market value of the Treasuries required to be included in the Redemption Amount as of 4 p.m. ET on the date of redemption and the total Redemption Amount. All redemption orders must be received by the Marketing Agent by 12 p.m. ET on the business day redemption is requested and are irrevocable. Delivery of the Basket to be redeemed to the Custodian and payment of Redemption Amount will occur by the third business day following the redemption order date (T+3).

#### Arbitrage

The Exchange believes that the Units will not trade at a material discount or premium to a Unit's NAV based on potential arbitrage opportunities. Due to the fact that the Units can be created and redeemed only in Baskets at NAV, the Exchange submits that arbitrage opportunities should provide a mechanism to mitigate the effect of any premiums or discounts that may exist from time to time.

#### Dissemination and Availability of Information

**Futures Contracts.** The daily settlement prices for the NYMEX traded Futures Contracts held by USNG are publicly available on the NYMEX website at <http://www.nymex.com>. The Exchange on its website at <http://www.amex.com> will also include a hyperlink to the NYMEX website for the purpose of disclosing futures contract pricing. In addition, various market data vendors and news publications publish futures prices and related data. The Exchange represents that quote and last sale information for the Futures Contracts are widely disseminated through a variety of market data vendors

worldwide, including Bloomberg and Reuters. In addition, the Exchange further represents that real-time futures data is available by subscription from Reuters and Bloomberg. The NYMEX also provides delayed futures information on current and past trading sessions and market news free of charge on its Web site. The specific contract specifications for the Futures Contracts are also available on the NYMEX website and the ICE Futures Web site at <http://www.icefutures.com>.

**USNG Units.** The Web site for the Exchange at <http://www.amex.com>, which is publicly accessible at no charge, will contain the following information: (1) The prior business day's NAV and the reported closing price; (2) the mid-point of the bid-ask price<sup>17</sup> in relation to the NAV as of the time the NAV is calculated (the "Bid-Ask Price"); (3) calculation of the premium or discount of such price against such NAV; (4) data in chart form displaying the frequency distribution of discounts and premiums of the Bid-Ask Price against the NAV, within appropriate ranges for each of the four (4) previous calendar quarters; (5) the prospectus and the most recent periodic reports filed with the SEC or required by the CFTC; and (6) other applicable quantitative information.

**Portfolio Disclosure.** USNG's total portfolio composition will be disclosed, each business day that the Amex is open for trading, on USNG's website at <http://www.unitedstatesnaturalgasfund.com>. USNG expects that website disclosure of portfolio holdings will be made daily and will include, as applicable, the name and value of each Natural Gas Interest, the specific types of Natural Gas Interests and characteristics of such Natural Gas Interests, Treasuries, and amount of cash and cash equivalents held in the portfolio of USNG. The public Web site disclosure of the portfolio composition of USNG will coincide with the disclosure by the Administrator on each business day of the NAV for the Units and the Basket Amount (for orders placed during the day). Therefore, the same portfolio information will be provided on the public Web site as well as in the facsimile or electronic mail message to Authorized Purchasers containing the NAV and Basket Amount ("Daily Dissemination"). The format of the public Web site disclosure and the Daily Dissemination will differ because the public Web site will list all portfolio

holdings while the Daily Dissemination will provide the portfolio holdings in a format appropriate for Authorized Purchasers, *i.e.*, the exact components of a Creation Unit.

As described above, the NAV for USNG will be calculated and disseminated daily.<sup>18</sup> The Amex also intends to disseminate for USNG on a daily basis by means of CTA/CQ High Speed Lines information with respect to the Indicative Partnership Value (as discussed below), recent NAV, Units outstanding, the Basket Amount, and the Deposit Amount. The Exchange will also make available on its Web site daily trading volume, closing prices, and the NAV. The closing price and settlement prices of the Futures Contracts held by USNG are also readily available from the NYMEX, automated quotation systems, published or other public sources, or on-line information services such as Bloomberg or Reuters. In addition, the Exchange will provide a hyperlink on its Web site at <http://www.amex.com> to USNG's Web site.

**Indicative Partnership Value.** In order to provide updated information relating to USNG for use by investors, professionals, and persons wishing to create or redeem the Units, the Exchange will disseminate through the facilities of the CTA an updated Indicative Partnership Value (the "Indicative Partnership Value"). The Indicative Partnership Value will be disseminated on a per Unit basis at least every fifteen seconds during the regular Amex trading hours of 9:30 a.m. to 4:15 p.m. ET. The Indicative Partnership Value will be calculated based on the Treasuries and cash required for creations and redemptions (*i.e.*, NAV per limit x 100,000) adjusted to reflect the price changes of the Benchmark Futures Contract.

The Indicative Partnership Value will not reflect price changes to the price of the Benchmark Futures Contract between the close of open-outcry trading of such contract on the NYMEX at 2:30 p.m. ET and the open of trading on the NYMEX ACCESS market at 3:15 p.m. ET. The Indicative Partnership Value after 3:15 p.m. ET<sup>19</sup> will reflect changes to the Benchmark Futures Contract as provided for through NYMEX ACCESS. The value of a Unit

<sup>18</sup> The Exchange will obtain a representation from USNG that its NAV per Unit will be calculated daily and made available to all market participants at the same time.

<sup>19</sup> NYMEX ACCESS®, an electronic trading system, is open for price discovery on the Benchmark Futures Contract each Monday through Thursday at 3:15 p.m. ET through the following morning at 9:30 a.m. E.T., and from 7 p.m. Sunday night until Monday morning 9:30 a.m. E.T.

<sup>17</sup> The Bid-Ask Price of Units is determined using the highest bid and lowest offer as of the time of calculation of the NAV.

<sup>16</sup> *Id.*

may accordingly be influenced by non-concurrent trading hours between the Amex and NYMEX. While the Units will trade on the Amex from 9:30 a.m. to 4:15 p.m. ET, the Benchmark Futures Contract will trade, in open-outcry, on the NYMEX from 10 a.m. ET to 2:30 pm ET and NYMEX ACCESS from 3:15 p.m. ET through the following morning 9:30 a.m. ET.

While the NYMEX is open for trading, the Indicative Partnership Value can be expected to closely approximate the value per unit of the Basket Amount. However, during Amex trading hours when the Futures Contracts have ceased trading, spreads and resulting premiums or discounts may widen, and therefore, increase the difference between the price of the Units and the NAV of the Units. The Exchange submits that the Indicative Partnership Value on a per Unit basis disseminated during Amex trading hours should not be viewed as a real-time update of the NAV, which is calculated only once a day. The Exchange believes that dissemination of the Indicative Partnership Value based on the cash amount required for a Basket provides additional information that is not otherwise available to the public and is useful to professionals and investors in connection with the Units trading on the Exchange or the creation or redemption of the Units.

#### *Partnership Termination Events*

USNG will continue in effect from the date of its formation in perpetuity, unless sooner terminated upon the occurrence of any one or more of the following circumstances: (1) The death, adjudication of incompetence, bankruptcy, dissolution, withdrawal, or removal of a general partner who is the sole remaining general partner, unless a majority in interest of limited partners within 90 days after such event elects to continue USNG and appoints a successor general partner; or (2) the affirmative vote to terminate USNG by a majority in interest of the limited partners subject to certain conditions.

Upon termination of USNG, holders of the Units will surrender their Units and the assets of USNG shall be distributed to the Unit holders pro rata in accordance with the value of the Units, in cash or in kind, as determined by the General Partner.

#### *Disclosure*

The Exchange, in an Information Circular (described below) to Exchange members and member organizations, will inform members and member organizations, prior to the commencement of trading, of the prospectus delivery requirements

applicable to USNG. The Exchange notes that investors purchasing Units directly from USNG (by delivery of the Deposit Amount) will receive a prospectus. Amex members purchasing Units from USNG for resale to investors will deliver a prospectus to such investors.

#### *Purchase and Redemptions in Baskets*

In the Information Circular, members and member organizations will be informed that procedures for purchases and redemptions of Units in Baskets are described in the Prospectus and that Units are not individually redeemable but are redeemable only in Baskets or multiples thereof.

#### *Listing and Trading Rules*

USNG will be subject to the criteria in Rule 1502 for initial and continued listing of the Units. The Exchange will require a minimum of 100,000 Units to be outstanding at the start of trading. The Exchange expects that the initial price of a Unit will be \$50.00.<sup>20</sup> The Exchange believes that the anticipated minimum number of Units outstanding at the start of trading is sufficient to provide adequate market liquidity and to further USNG's objective to seek to provide a simple and cost effective means of accessing the commodity futures markets. The Exchange represents that it prohibits the initial and/or continued listing of any security that is not in compliance with Rule 10A-3 under the Act.<sup>21</sup> The Exchange will file a proposed rule change with the Commission pursuant to Rule 19b-4 under the 1934 Act seeking approval to continue trading the Units and, unless approved, the Exchange will commence delisting the Units if more than a temporary disruption exists in connection with the pricing of the Benchmark Futures Contract or the calculation or dissemination of the NAV is more than temporarily disrupted, or the NAV is not disseminated to all market participants at the same time.

The Amex original listing fee applicable to the listing of USNG is \$5,000. In addition, the annual listing fee applicable under Section 141 of the Amex Company Guide will be based upon the year-end aggregate number of Units in all series of USNG outstanding at the end of each calendar year.

<sup>20</sup> USNG expects that the initial Authorized Purchaser will purchase the initial Basket of 100,000 Units at the initial offering price per Unit of \$50.00. On the date of the public offering and thereafter, USNG will continuously issue Units in Baskets of 100,000 Units to Authorized Purchasers at NAV.

<sup>21</sup> See 17 CFR 240.10A-3.

Amex Rule 154, Commentary .04(c) provides that stop and stop limit orders to buy or sell a security (other than an option, which is covered by Rule 950(f) and Commentary thereto) the price of which is derivatively priced based upon another security or index of securities, may with the prior approval of a Floor Official, be elected by a quotation, as set forth in Commentary .04(c) (i-v). The Exchange has designated the Units as eligible for this treatment.<sup>22</sup>

The Units will be deemed "Eligible Securities", as defined in Amex Rule 230, for purposes of the Intermarket Trading System Plan and therefore will be subject to the trade through provisions of Amex Rule 236, which requires that Amex members avoid initiating trade-throughs for ITS securities.

Specialist transactions of the Units made in connection with the creation and redemption of Units will not be subject to the prohibitions of Amex Rule 190.<sup>23</sup> The Units will not be subject to the short sale rule, Rule 10a-1 under the Act, pursuant to no-action relief granted.<sup>24</sup> If exemptive or no-action relief is provided, the Exchange will issue a notice detailing the terms of the exemption or relief. The Units will generally be subject to the Exchange's stabilization rule, Amex Rule 170, except that specialists may buy on "plus ticks" and sell on "minus ticks," in order to bring the Units into parity with the underlying commodity or commodities and/or futures contract price. Proposed Commentary .01 to Amex Rule 1503 sets forth this limited exception to Rule 170.

The Exchange submits that its surveillance procedures are adequate to deter and detect violations of Exchange rules relating to the trading of the Units. The surveillance procedures for the Units will be similar to those used for units of the United States Oil Fund, LP as well as other commodity-based trusts, trust issued receipts ("TIR"s) and exchange-traded funds. In addition, the surveillance procedures will incorporate and rely upon existing Amex surveillance procedures governing options and equities.

Amex Rule 1503 relating to certain specialist prohibitions will address potential conflicts of interest in

<sup>22</sup> See Securities Exchange Act Release No. 29063 (April 10, 1991), 56 FR 15652 (April 17, 1991) (SR-Amex 90-31) at note 9, regarding the Exchange's designation of equity derivative securities as eligible for such treatment under Amex Rule 154, Commentary .04(c).

<sup>23</sup> See Commentary .05 to Amex Rule 190.

<sup>24</sup> See letter to George T. Simon, Esq. Foley & Lardner, LLP, from Racquel L. Russell, Branch Chief, Office of Trading Practices and Processing, Commission, dated June 21, 2006.



connection with acting as a specialist in the Units. Specifically, Rule 1503 provides that the prohibitions in Rule 175(c) apply to a specialist in the Units so that the specialist or affiliated person may not act or function as a market-maker in an underlying asset, related futures contract or option or any other related derivative. An affiliated person of the specialist consistent with Rule 193 may be afforded an exemption to act in a market making capacity, other than as a specialist in the Units on another market center, in the underlying asset, related futures or options or any other related derivative. In particular, Amex Rule 1503 provides that an approved person of an equity specialist that has established and obtained Exchange approval for procedures restricting the flow of material, non-public market information between itself and the specialist member organization, and any member, officer, or employee associated therewith, may act in a market making capacity, other than as a specialist in the Units on another market center, in the underlying asset or commodity, related futures or options on futures, or any other related derivatives.

Amex Rule 1504 will also ensure that specialists handling the Units provide the Exchange with all the necessary information relating to their trading in physical assets or commodities, related futures contracts and options thereon or any other derivative. As a general matter, the Exchange has regulatory jurisdiction over its members, member organizations and approved persons of a member organization. The Exchange also has regulatory jurisdiction over any person or entity controlling a member organization as well as a subsidiary or affiliate of a member organization that is in the securities business. A subsidiary or affiliate of a member organization that does business only in commodities or futures contracts would not be subject to Exchange jurisdiction, but the Exchange could obtain information regarding the activities of such subsidiary or affiliate through surveillance sharing agreements with regulatory organizations of which such subsidiary or affiliate is a member.

#### *Trading Halts*

If the Indicative Partnership Value is not being disseminated by one or more major market data vendors, the Exchange may halt trading during the day in which the interruption to the dissemination of such Indicative Partnership Value occurs. If the interruption to the dissemination of an Indicative Partnership Value persists past the trading day in which it occurred, the Exchange will halt trading

no later than the beginning of the trading day following the interruption.

Prior to the commencement of trading, the Exchange will issue an Information Circular to members informing them of, among other things, Exchange policies regarding trading halts in the Units. First, the Information Circular will advise that trading will be halted in the event the market volatility trading halt parameters set forth in Amex Rule 117 have been reached. Second, the Information Circular will advise that, in addition to the parameters set forth in Rule 117, the Exchange will halt trading in the Units if trading in the underlying Futures Contract(s) is halted or suspended. Third, with respect to a halt in trading that is not specified above, the Exchange may also consider other relevant factors and the existence of unusual conditions or circumstances that may be detrimental to the maintenance of a fair and orderly market.

#### *Suitability*

The Information Circular will inform members and member organizations of the characteristics of USNG Units and of applicable Exchange rules, as well as of the requirements of Amex Rule 411 (Duty to Know and Approve Customers).

The Exchange notes that pursuant to Rule 411, members and member organizations are required in connection with recommending transactions in the Units to have a reasonable basis to believe that a customer is suitable for the particular investment given reasonable inquiry concerning the customer's investment objectives, financial situation, needs, and any other information known by such member.

#### *Information Circular*

The Amex will distribute an Information Circular to its members in connection with the trading of the Units. The Information Circular will discuss the special characteristics of and risks of trading in the Units. Specifically, the Information Circular, among other things, will discuss what the Units are, how a basket is created and redeemed, the requirement that members and member firms deliver a prospectus to investors purchasing the Units prior to or concurrently with the confirmation of a transaction, applicable Amex rules, dissemination information regarding the per unit Indicative Partnership Value, trading information and applicable suitability rules. The Information Circular will also explain that USNG is subject to various fees and expenses described in the Registration Statement. The Information Circular

will also reference the fact that there is no regulated source of last sale information regarding physical commodities, that the SEC has no jurisdiction over the trading of natural gas, crude oil, heating oil, gasoline or other petroleum-based fuels, and that the CFTC has regulatory jurisdiction over the trading of natural gas-based futures contracts and related options.

The Information Circular will also notify members and member organizations about the procedures for purchases and redemptions of Units in Baskets, and that Units are not individually redeemable but are redeemable only in Baskets or multiples thereof. The Information Circular will advise members of their suitability obligations with respect to recommended transactions to customers in the Units. The Information Circular will also discuss any relief, if granted, by the Commission or the staff from any rules under the Act.

The Information Circular will disclose that the NAV for Units will be calculated shortly after 4 p.m. ET each trading day.

#### *Surveillance*

Exchange surveillance procedures applicable to trading in the proposed Units will be similar to those applicable to TIRs, Portfolio Depository Receipts, Index Fund Shares, and Partnership Units currently trading on the Exchange. The Exchange currently has in place an Information Sharing Agreement with the NYMEX and ICE Futures for the purpose of providing information in connection with trading in or related to futures contracts traded on the NYMEX and ICE Futures, respectively. To the extent that USNG invests in Natural Gas Interests traded on other exchanges, the Amex will seek to enter into Information Sharing arrangements with those particular exchanges.

#### 2. Statutory Basis

The Amex believes that the proposed rule change is consistent with the requirements of Section 6(b) of the Act<sup>25</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>26</sup> of the Act in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the

<sup>25</sup> 15 U.S.C. 78f(b).

<sup>26</sup> 15 U.S.C. 78f(b)(5).

mechanism of a free and open market and a national market system.

#### *B. Self-Regulatory Organization's Statement on Burden on Competition*

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

#### *C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others*

The Exchange has neither solicited nor received written comments on the proposed rule change.

#### **III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve such proposed rule change or
- (B) Institute proceedings to determine whether the proposed rule change should be disapproved.

The Amex has requested accelerated approval of this proposed rule change prior to the 30th day after the date of publication of the notice of the filing thereof. The Commission has determined that a 15-day comment period is appropriate in this case.

#### **IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Exchange Act. Comments may be submitted by any of the following methods:

##### *Electronic Comments*

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Amex-2006-112 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-Amex-2006-112. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Amex. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Amex-2006-112 and should be submitted on or before March 21, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>27</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

[FR Doc. E7-4040 Filed 3-6-07; 8:45 am]

**BILLING CODE 8010-01-P**

#### **SECURITIES AND EXCHANGE COMMISSION**

**[Release No. 34-55373; File No. SR-BSE-2006-11]**

#### **Self-Regulatory Organizations; Boston Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change and Amendments No. 1 and 2 Relating to the Boston Options Exchange's Minor Rule Violation Plan**

February 28, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 6, 2006, the Boston Stock Exchange ("BSE" or "Exchange") filed with the Securities and Exchange Commission

("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. The Exchange filed Amendments Nos. 1 and 2 to the proposed rule change on June 28, 2006, and July 14, 2006, respectively. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

#### **I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Exchange proposes to amend and make additions to sections of the Boston Options Exchange ("BOX") Rules related to its Minor Rule Violation Plan ("MRVP"). The text of the proposed rule change is available on BSE's Web site at <http://www.bostonstock.com/legal>, at BSE's principal office, and at the Commission's Public Reference Room.

#### **II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the BSE included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

##### *A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

##### **1. Purpose**

The Exchange proposes to amend Chapter X of its rules relating to the BOX MRVP to include five additional violations of BOX's rules governing Market Makers doing business on BOX and the Intermarket Linkage Rules. The rule proposal imposes sanctions for each violation, which become more significant with each additional violation occurring within a 24-month period.

These provisions impose sanctions in BOX Rule Chapter X, Section 2(e) for contrary exercise advice infractions of Chapter VII, Section 1(c), (d), (f), and (g); in Section 2(f) for locked and crossed market infringements of Chapter XII, Section 4; in Section 2(g) for Market Maker assigned activity violations of Chapter VI, Section 4(e); in Section 2(h) for a Market Maker's failure to respond to a request for a quote within the

<sup>27</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.