

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55781; File No. SR-NASDAQ-2007-052)

May 17, 2007

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to the Trade Units of the United States Natural Gas Fund, LP Pursuant to Unlisted Trading Privileges

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 May 10, 2007, The NASDAQ Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by the Exchange. This order provides notice of the proposed rule change and approves the proposal on an accelerated basis.

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

Nasdaq proposes to trade, pursuant to unlisted trading privileges (“UTP”), units (“Units”) of the United States Natural Gas Fund, LP (“USNG” or the “Partnership”).

The text of the proposed rule change is available from Nasdaq’s Web site at <http://www.nasdaq.complinet.com>, at Nasdaq’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 Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it

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

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

received on the proposed rule change. The text of these statements may be examined at the places specified in Item III 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

Nasdaq proposes to trade pursuant to UTP the Units, which represent ownership of a fractional undivided interest in the net assets of USNG.<sup>3</sup> The net assets of USNG 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 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.”

The investment objective of USNG is for changes in percentage terms of a Unit’s net asset value (“NAV”)<sup>4</sup> to reflect the changes in percentage terms of the price of natural gas delivered to the Henry Hub, Louisiana as measured by the natural gas futures

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<sup>3</sup> USNG is commodity pool that issues Units that may be purchased and sold on Nasdaq.

<sup>4</sup> NAV is the total assets less total liabilities of USNG, determined on the basis of generally accepted accounting principles. NAV per Unit is the NAV of USNG divided by the number of outstanding Units.

contract traded on NYMEX (“Benchmark Futures Contract”). The Benchmark Futures Contract employed is the near month expiration contract, except when the near month contract is within two weeks of expiration, in which case USNG would invest in the next expiration month. USNG invests 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 (“General Partner”), is the investment in Futures Contracts and the management of its investments in short-term obligations of the United States (“Treasuries”), cash equivalents, and cash for margining purposes and as collateral. The Commission previously approved the original listing and trading of the Units by the American Stock Exchange (“Amex”).<sup>5</sup>

Issuances of the Units of USNG is made only in baskets of 100,000 Units (“Basket”) or multiples thereof. A Basket is issued in exchange for Treasuries and/or cash in an amount equal to the NAV per Unit times 100,000 Units (“Basket Amount”). An Authorized Purchaser<sup>6</sup> that wishes to purchase a Basket must transfer the Basket Amount to the administrator<sup>7</sup> (“Deposit Amount”). An Authorized Purchaser that wishes

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<sup>5</sup> See Securities Exchange Act Release No. 55632 (April 13, 2007), 72 FR 19987 (April 20, 2007) (“Amex Order”); Securities Exchange Act Release No. 55372 (February 28, 2007), 72 FR 10267 (March 7, 2007) (SR-Amex-2006-112) (“Amex Notice”).

<sup>6</sup> An “Authorized Purchaser” is a person, who at the time of submitting to the General Partner of USNG an order to create or redeem one or more Baskets, (i) is a registered broker-dealer or other market participant, such as a bank or other financial institution that is exempt from broker-dealer registration; (ii) is a Depository Trust Company Participant; and (iii) has in effect a valid Authorized Purchaser Agreement.

<sup>7</sup> Under separate agreements with USNG, Brown Brothers Harriman & Co. serves as USNG’s administrator, registrar, transfer agent, and custodian.

to redeem a Basket would receive an amount of Treasuries and cash in exchange for each Basket surrendered in an amount equal to the NAV per Basket.

The daily settlement prices for the NYMEX-traded Futures Contracts held by USNG are publicly available on the NYMEX Web site at <http://www.nymex.com>. Nasdaq on its Web site at <http://www.nasdaq.com> will include a hyperlink to the NYMEX Web site for the purpose of disclosing futures contract pricing. 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 Web site and the ICE Futures Web site at <http://www.icefutures.com>.

The Web site for Amex at <http://www.amex.com>, which is publicly accessible at no charge, contains 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>8</sup> in relation to the NAV as of the time the NAV is calculated ("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 previous calendar quarters; (5) the prospectus; and the most recent periodic reports filed with the Commission or required by the CFTC; and (6) other applicable quantitative information.

USNG's total portfolio composition is disclosed, each business day that Amex is open for trading, on USNG's Web site at <http://www.unitedstatesnaturalgasfund.com>.

USNG expects that Web site disclosure of portfolio holdings will be made daily and will

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<sup>8</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.

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 coincides with the disclosure by the administrator on each business day of the NAV for the Units. Therefore, the same portfolio information is provided on the public Web site as well as in the facsimile or e-mail to Authorized Purchasers containing the NAV and Basket Amount (“Daily Dissemination”). The format of the public Web site disclosure and the Daily Dissemination differ because the public Web site lists all portfolio holdings while the Daily Dissemination provides 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 is calculated and disseminated daily.<sup>9</sup> Amex also disseminates 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. Amex also makes 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, Nasdaq will provide a hyperlink on its Web site at <http://www.nasdaq.com> to USNG’s Web site.

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<sup>9</sup> Amex has obtained a representation from USNG that its NAV per Unit will be calculated daily and made available to all market participants at the same time.

In order to provide updated information relating to USNG for use by investors, professionals, and persons wishing to create or redeem the Units, Amex disseminates through the facilities of the CTA an updated Indicative Partnership Value (“Indicative Partnership Value”). The Indicative Partnership Value is disseminated on a per-Unit basis at least every 15 seconds during the regular trading hours of 9:30 a.m. to 4:15 p.m. ET. The Indicative Partnership Value is 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.

Nasdaq will halt trading in the Units under the conditions specified in Nasdaq Rules 4120 and 4121. The conditions for a halt include a regulatory halt by the listing market. UTP trading in the Units will also be governed by provisions of Nasdaq Rule 4120(b) relating to temporary interruptions in the calculation or wide dissemination of the Indicative Partnership Value. Additionally, Nasdaq may cease trading the Units if other unusual conditions or circumstances exist which, in the opinion of Nasdaq, make further dealings on Nasdaq detrimental to the maintenance of a fair and orderly market. Nasdaq will also follow any procedures with respect to trading halts as set forth in Nasdaq Rule 4120(c). Finally, Nasdaq will stop trading the Units if the listing market delists them.

Nasdaq deems the Units to be equity securities, thus rendering trading in the Units subject to its existing rules governing the trading of equity securities, including Rule 4630, which governs trading of Commodity-Related Securities. The trading hours for the Units on the Exchange would be 9:30 a.m. to 4:15 p.m., ET.

Nasdaq believes that its surveillance procedures are adequate to address any concerns about the trading of the Units on Nasdaq. Trading of the Units through Nasdaq

facilities is currently subject to NASD's surveillance procedures for equity securities in general and ETFs in particular.<sup>10</sup>

Nasdaq is able to obtain information regarding trading in the Units and the underlying Futures Contracts through its members in connection with the proprietary or customer trades that such members effect on any relevant market. In addition, Nasdaq may obtain trading information via the Intermarket Surveillance Group ("ISG") from other exchanges who are members or affiliates of the ISG. Finally, Nasdaq is party to Information Sharing Agreements with NYMEX and ICE Futures for the purpose of providing information in connection with trading in or related to Futures Contracts traded on the those markets. To the extent that USNG invests in Natural Gas Interests traded on other exchanges, Nasdaq will enter into information sharing agreements with those particular exchanges.<sup>11</sup>

Prior to the commencement of trading, Nasdaq will inform its members in an Information Circular of the special characteristics and risks associated with trading the Units. Specifically, the Information Circular will discuss the following: (1) the procedures for purchases and redemptions of Units in Baskets (and that Units are not individually redeemable); (2) Nasdaq Rule 2310, which imposes suitability obligations on Nasdaq members with respect to recommending transactions in the Units to customers; (3) how information regarding the Intraday Partnership Value is disseminated; (4) the requirement that members deliver a prospectus to investors purchasing newly issued Units prior to or concurrently with the confirmation of a transaction; and (5)

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<sup>10</sup> NASD surveils trading pursuant to a regulatory services agreement. Nasdaq is responsible for NASD's performance under this regulatory services agreement.

<sup>11</sup> In such event, Nasdaq will file a proposed rule change pursuant to Rule 19b-4 of the Act, indicating such surveillance arrangements.

trading information. The Information Circular will also discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act.

In addition, the Information Circular will reference that USNG is subject to various fees and expenses described in the Registration Statement. The Information Circular will also reference that the CFTC has regulatory jurisdiction over the trading of natural-gas-based futures contracts and related options.

The Information Circular will also disclose the trading hours of the Units of USNG and that the NAV for the Units will be calculated after 4:00 p.m. ET each trading day. The Information Circular will also disclose that information about the Units of USNG will be publicly available on USNG's Web site.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>12</sup> in general and Section 6(b)(5) of the Act<sup>13</sup> in particular, in that in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to a free and open market and a national market system, and, in general, to protect investors and the public interest. In addition, Nasdaq believes that the proposal is consistent with Rule 12f-5 under the Act<sup>14</sup> because it deems the Covered Securities to be an equity securities, thus rendering trading in the Covered Securities subject to Nasdaq's existing rules governing the trading of equity securities.

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

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<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

<sup>14</sup> 17 CFR 240.12f-5.



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

Written comments on the proposed rule change were neither solicited nor received.

III. 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 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-NASDAQ-2007-052 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-NASDAQ-2007-052. 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 Number SR-NASDAQ-2007-052 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>15</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>16</sup> which requires that an exchange have rules designed, among other things, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general to protect investors and the

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<sup>15</sup> In approving this rule change, the Commission notes that it has considered the proposal's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>16</sup> 15 U.S.C. 78f(b)(5).

public interest. The Commission believes that this proposal should benefit investors by increasing competition among markets that trade the Units.

In addition, the Commission finds that the proposal is consistent with Section 12(f) of the Act,<sup>17</sup> which permits an exchange to trade, pursuant to UTP, a security that is listed and registered on another exchange.<sup>18</sup> The Commission notes that it previously approved the listing and trading of the Units on Amex.<sup>19</sup> The Commission also finds that the proposal is consistent with Rule 12f-5 under the Act,<sup>20</sup> which provides that an exchange shall not extend UTP to a security unless the exchange has in effect a rule or rules providing for transactions in the class or type of security to which the exchange extends UTP. The Exchange has represented that it meets this requirement because it deems the Units to be equity securities, thus rendering trading in the Units subject to the Exchange's existing rules governing the trading of equity securities.

The Commission further believes that the proposal is consistent with Section 11A(a)(1)(C)(iii) of the Act,<sup>21</sup> which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information

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<sup>17</sup> 15 U.S.C. 78l(f).

<sup>18</sup> Section 12(a) of the Act, 15 U.S.C. 78l(a), generally prohibits a broker-dealer from trading a security on a national securities exchange unless the security is registered on that exchange pursuant to Section 12 of the Act. Section 12(f) of the Act excludes from this restriction trading in any security to which an exchange "extends UTP." When an exchange extends UTP to a security, it allows its members to trade the security as if it were listed and registered on the exchange even though it is not so listed and registered.

<sup>19</sup> See supra note 5.

<sup>20</sup> 17 CFR 240.12f-5.

<sup>21</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

with respect to quotations for and transactions in securities. Quotations for and last-sale information regarding the Units are disseminated through the facilities of the CTA and the Consolidated Quotation System. Furthermore, the Indicative Partnership Value is calculated by Amex and published via the facilities of the Consolidated Tape Association on a 15-second delayed basis throughout the trading hours for the Units. In addition, if the listing market halts trading when the Indicative Partnership Value is not being calculated or disseminated, the Exchange would halt trading in the Shares.

The Commission notes that, if the Units should be delisted by the listing exchange, the Exchange would no longer have authority to trade the Units pursuant to this order.

In support of this proposal, the Exchange has made the following representations:

1. The Exchange 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 USNG invests in Natural Gas Interests traded on other exchanges, the Exchange will enter into information sharing agreements with those particular exchanges.
2. The Exchange's surveillance procedures are adequate to properly monitor trading of the Units on the Exchange.
3. Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Units.

4. The Information Circular will discuss the requirement that members deliver a prospectus to investors purchasing newly issued Units prior to or concurrently with the confirmation of a transaction.

This approval order is conditioned on the Exchange's adherence to these representations.

The Commission finds good cause for approving this proposal before the thirtieth day after the publication of notice thereof in the Federal Register. As noted previously, the Commission previously found that the listing and trading of the Units on Amex is consistent with the Act. The Commission presently is not aware of any regulatory issue that should cause it to revisit that finding or would preclude the trading of the Units on the Exchange pursuant to UTP. Therefore, accelerating approval of this proposal should benefit investors by creating, without undue delay, additional competition in the market for the Units.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>22</sup> that the proposed rule change (SR-NASDAQ-2007-052), be and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>23</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>22</sup> 15 U.S.C. 78s(b)(2).

<sup>23</sup> 17 CFR 200.30-3(a)(12).