

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-56042; File No. SR-NYSEArca-2007-45)

July 11, 2007

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to 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 15, 2007, NYSE Arca, Inc. (the “Exchange”), through its wholly-owned subsidiary, NYSE Arca Equities, Inc. (“NYSE Arca Equities”), 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 proposed rule change on an accelerated basis.

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

The Exchange, through NYSE Arca Equities, proposes to trade partnership units (“Units”) of the United States Natural Gas Fund, LP (“USNG” or “Partnership”) pursuant to unlisted trading privileges (“UTP”). The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and [www.nyse.com](http://www.nyse.com).

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

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

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

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

Under NYSE Arca Equities Rule 8.300, which permits the trading of Partnership Units either by listing or pursuant to UTP,<sup>3</sup> the Exchange proposes to trade pursuant to UTP the Units of the Partnership. Each Unit represents ownership of a fractional undivided beneficial interest in the net assets of USNG.<sup>4</sup> The Commission has approved the listing and trading of the Units on the American Stock Exchange LLC (“Amex”).<sup>5</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 (such futures contracts collectively referred to herein as “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; over-the-counter instruments that are based on the price of natural gas, oil, and other petroleum-based fuels; Futures Contracts; and indices based on the foregoing (collectively referred to herein as “Other Natural Gas Related

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<sup>3</sup> See Securities Exchange Act Release No. 53875 (May 25, 2006), 71 FR 32164 (June 2, 2006) (SR-NYSEArca-2006-11) (approving NYSE Arca Equities Rule 8.300 and the trading of Partnership Units of the United States Oil Fund, LP pursuant to UTP).

<sup>4</sup> USNG is a commodity pool that issues Units that would be purchased and sold on the Exchange.

<sup>5</sup> See Securities Exchange Act Release No. 55632 (April 13, 2007), 72 FR 19987 (April 20, 2007) (SR-Amex-2006-112) (granting approval to list and trade the Units on Amex); Securities Exchange Act Release No. 55372 (February 28, 2007), 72 FR 10267 (March 7, 2007) (SR-Amex-2006-112) (providing notice of Amex’s proposal to list and trade the Units) (“Amex Notice”).

Investments,” and together with Futures Contracts, “Natural Gas Interests”). A detailed discussion of the natural gas, crude oil, heating oil, and gasoline markets; futures regulation and the regulation of USNG; investment strategy; creations and redemptions of baskets of Units; and calculation methodology of the net asset value (“NAV”) for the Units, among others, can be found in the Amex Notice.<sup>6</sup>

The Web site for Amex at [www.amex.com](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 in relation to the NAV as of the time the NAV is calculated (“Bid-Ask Price”);<sup>7</sup> (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 Commodity Futures Trading Commission; and (6) other applicable quantitative information.

The NAV for USNG is calculated and disseminated daily.<sup>8</sup> Amex disseminates for USNG on a daily basis through the facilities of the Consolidated Tape Association (CTA/CQ High Speed Lines) information with respect to the Indicative Partnership Value (as discussed

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<sup>6</sup> See id.

<sup>7</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>8</sup> See Amex Notice, 72 FR at 10273 n.18 (confirming that a representation would be obtained from USNG that its NAV per Unit will be calculated daily and made available to all market participants at the same time).

below), recent NAV, Units outstanding, the Basket Amount,<sup>9</sup> and the Deposit Amount.<sup>10</sup> Amex also makes available on its Web site daily Unit trading volume and closing prices.

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 Consolidated Tape Association 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. Eastern Time (“ET”). The Indicative Partnership Value is calculated based on the Cash<sup>11</sup> required for creations and redemptions (i.e., NAV per Unit x 100,000 Units) and adjusted to reflect the price changes of the Benchmark Futures Contract.<sup>12</sup>

The Indicative Partnership Value does not reflect price changes to the price of the Benchmark Futures Contract between the close of open-outcry trading of such contract on NYMEX at 2:30 p.m. ET and the open of trading on the NYMEX ACCESS market at 3:15 p.m.

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<sup>9</sup> A “Basket Amount” is the amount equal to the NAV per Unit, times 100,000 Units (each such aggregation of Units, a “Basket”) calculated for the purpose of issuing Baskets to Authorized Purchasers. See Amex Notice, 72 FR at 10271. An “Authorized Purchaser” is a person, who, at the time of submitting an order to create or redeem Units, is (1) a registered broker-dealer or other market participant, such as a bank or other financial institution, that is exempt from broker-dealer registration, (2) a Depository Trust Company participant, and (3) a party to a valid Authorized Purchaser agreement. See id.

<sup>10</sup> The “Deposit Amount” is the amount transferred from a purchaser to the Administrator for the purpose of purchasing a Basket of Units. See Amex Notice, 72 FR at 10272. The “Administrator” is Brown Brothers Harriman & Co., performing or supervising the performance of services necessary for the operation and administration of USNG. See Amex Notice, 72 FR at 10269.

<sup>11</sup> “Cash” includes short-term obligations of the United States, cash equivalents, and cash.

<sup>12</sup> The “Benchmark Futures Contract,” which is used to measure changes in percentage terms of a Unit’s NAV, is the natural gas futures contract traded on NYMEX reflecting the price and change in price of natural gas delivered at the Henry Hub, Louisiana.

ET.<sup>13</sup> The Indicative Partnership Value after 3:15 p.m. ET will reflect changes to the Benchmark Futures Contract as provided for through NYMEX ACCESS. The value of a Unit may accordingly be influenced by non-concurrent trading hours between the NYSE Arca Marketplace and NYMEX. While the Units will trade on the NYSE Arca Marketplace in accordance with NYSE Arca Equities Rule 7.34 (4:00 a.m. to 8:00 p.m. ET), the Benchmark Futures Contract will trade, in open-outcry, on NYMEX from 10:00 a.m. to 2:30 pm ET and NYMEX ACCESS from 3:15 p.m. through the following morning 9:30 a.m. ET.

While 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 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 Indicative Partnership Value on a per-Unit basis disseminated from 9:30 a.m. to 4:15 p.m. ET should not be viewed as a real-time update of the NAV, which is calculated only once a day.

The Exchange represents that it will cease trading the Units of USNG if: (1) the original listing market stops trading the Units; or (b) the original listing market delists the Units. Additionally, the Exchange may cease trading the Units if such other event shall occur or condition exists which, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.<sup>14</sup> UTP trading in the Units is also governed by the trading halts provisions of NYSE

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<sup>13</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. ET, and from 7:00 p.m. Sunday night until Monday morning 9:30 a.m. ET.

<sup>14</sup> With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Units. These may include (1) the extent to which trading is not occurring in the underlying Futures Contracts, or (2) whether other

Arca Equities Rule 7.34 relating to temporary interruptions in the calculation or wide dissemination of the Indicative Partnership Value or the value of the Benchmark Futures Contract.<sup>15</sup>

The Exchange 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. Units will trade on the NYSE Arca Marketplace from 4:00 a.m. ET until 8:00 p.m. ET in accordance with NYSE Arca Equities Rule 7.34 (Opening, Core, and Late Trading Sessions). The Exchange states that it has appropriate rules to facilitate transactions in the Units during all trading sessions.

The Exchange intends to utilize its existing surveillance procedures applicable to derivative products to monitor trading in the Units. The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Units in all trading sessions and to deter and detect violations of Exchange rules. The Exchange may also obtain information via the Intermarket Surveillance Group ("ISG") from other exchanges who are members or affiliate members of ISG. In addition, the Exchange has information sharing agreements in place with NYMEX and ICE Futures for the purpose of providing information in connection with

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unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in the Units could be halted pursuant to the Exchange's "circuit breaker" rule or by the halt or suspension of trading of the underlying securities. See NYSE Arca Equities Rule 7.12 (Trading Halts Due to Extraordinary Market Volatility).

<sup>15</sup> The Exchange states that NYSE Arca Equities Rule 7.34(a) literally addresses temporary interruptions in the calculation or wide dissemination of the Indicative Intra-Day Value and the value of an underlying index. The Units, however, do not have an underlying index, but have an underlying Benchmark Futures Contract. Therefore, the Exchange represents that the provisions in NYSE Arca Equities Rule 7.34(a) that address interruptions in the calculation or wide dissemination of the value of an underlying index shall also apply, in this case, to interruptions in the calculation or wide dissemination of the value of the underlying Benchmark Futures Contract. See infra

trading in or related to futures contracts traded on NYMEX and ICE Futures, respectively. To the extent that USNG invests in Natural Gas Interests traded on other exchanges, the Exchange will seek to enter into information sharing agreements with those particular exchanges. In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

Prior to the commencement of trading, the Exchange will inform its ETP Holders<sup>16</sup> in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Units. Specifically, the Bulletin will discuss the following: (1) the risks involved in trading the Units during the Opening and Late Trading Sessions when an updated Indicative Partnership Value will not be calculated or publicly disseminated;<sup>17</sup> (2) the procedures for purchases and redemptions of Units in Baskets (and that Units are not individually redeemable); (3) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Units; (4) how and when information regarding the Indicative Partnership Value and NAV is disseminated; (5) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Units prior to or concurrently with the confirmation of a transaction; and (6) other relevant trading information. In addition, the Bulletin will reference that the Partnership is subject to various fees and expenses and that there is no regulated source of last-sale information regarding physical commodities. The Bulletin will also discuss any exemptive, no-action, and/or interpretive relief granted by the Commission from any rules under the Act.

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<sup>16</sup> An ETP Holder is a registered broker or dealer that has been issued an Equity Trading Permit (ETP) by NYSE Arca Equities.

<sup>17</sup> E-mail from Timothy J. Malinowski, Director, NYSE Group, Inc., to Edward Cho, Special Counsel, Division of Market Regulation, Commission, dated July 9, 2007 (confirming that such risks will be disclosed in the Bulletin).

## 2. Statutory Basis

The proposal is consistent with Section 6(b) of the Act,<sup>18</sup> in general, and Section 6(b)(5) of the Act,<sup>19</sup> 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 mechanism of a free and open market and a national market system. In addition, the proposal is consistent with Rule 12f-5 under the Act<sup>20</sup> because the Exchange 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.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purpose 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. 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:

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<sup>18</sup> 15 U.S.C. 78f(b).

<sup>19</sup> 15 U.S.C. 78f(b)(5).

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

- 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-NYSEArca-2007-45 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-NYSEArca-2007-45. 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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-NYSEArca-2007-45 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>21</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>22</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 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>23</sup> which permits an exchange to trade, pursuant to UTP, a security that is listed and registered on another exchange.<sup>24</sup> The Commission notes that it previously approved the original listing and trading of the Units on Amex.<sup>25</sup> The Commission finds that the proposal is consistent with Rule 12f-5 under the Act,<sup>26</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

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<sup>21</sup> In approving this rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>22</sup> 15 U.S.C. 78f(b)(5).

<sup>23</sup> 15 U.S.C. 78l(f).

<sup>24</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>25</sup> See supra note 5.

<sup>26</sup> 17 CFR 240.12f-5.

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 notes that it previously approved for trading on the Exchange pursuant to UTP Partnership Units issued by the United States Oil Fund, LP, which are similar to the Units issued by USNG.<sup>27</sup>

The Commission further believes that the proposal is consistent with Section 11A(a)(1)(C)(iii) of the Act,<sup>28</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 with respect to quotations for and transactions in securities. Quotations for and last-sale information regarding the Units will be disseminated through the Consolidated Quotation System and the Consolidated Tape Association, respectively.<sup>29</sup> In addition, Amex disseminates a variety of information through the facilities of the Consolidated Tape Association including the Indicative Partnership Value on a per-Unit basis at least every 15 seconds during regular Amex trading hours, the number of Units outstanding, the Basket Amount, and the Deposit Amount. Daily closing and settlement prices for the NYMEX-traded Futures Contracts held by USNG, delayed futures information on current and past trading sessions, and market news are publicly available on the NYMEX Web site. Quotations and last-sale information for the Futures Contracts are widely disseminated through a variety of market data vendors worldwide, including Bloomberg and Reuters. Amex's Web site

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<sup>27</sup> See supra note 3.

<sup>28</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

<sup>29</sup> E-mail from Timothy J. Malinowski, Director, NYSE Group, Inc., to Edward Cho, Special Counsel, Division of Market Regulation, Commission, dated July 9, 2007 (confirming the method of dissemination of quotations and last-sale information regarding the Units).

contains information related to the NAV, including the Bid-Ask Price, calculation information and other data of the premium or discount of the Bid-Ask Price against the NAV, the prospectus and other periodically-filed reports, trading volume data, Unit closing prices, and other applicable quantitative information. Finally, USNG's Web site discloses on each business day that Amex is open for trading the total portfolio composition of USNG, including the name, value, type, and characteristics of the Natural Gas Interests and Cash held.

The Commission also believes that the Exchange's trading halt rules are reasonably designed to prevent trading in the Shares when transparency is impaired. Existing NYSE Arca Equities Rule 7.34(a)(4), which will apply to the trading of the Units, provides that, if the Benchmark Futures Contract or Indicative Partnership Value is no longer calculated or disseminated as required (a) during the Opening Session (4:00 a.m. to 9:30 a.m. ET), the Exchange may continue to trade the Units for the remainder of the Opening Session; (b) during the Core Trading Session (9:30 a.m. to 4:00 p.m. ET), the Exchange must halt trading in the Units; and (c) during the Late Trading Session (4:00 p.m. to 8:00 p.m. ET), the Exchange may continue trading in the Units only if the original listing market traded such Units until the close of its regular trading session without halt.<sup>30</sup> If the Benchmark Futures Contract or Indicative Partnership Value continues not to be calculated or disseminated as of the next business day's Opening Session, the Exchange will not commence trading in the Units in such Opening Session.<sup>31</sup>

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<sup>30</sup> See supra note 15 and accompanying text.

<sup>31</sup> The Exchange may resume trading in the Units only if the calculation and dissemination of the Benchmark Futures Contract or Indicative Partnership Value resumes, or trading in the Units resumes in the original listing market. See NYSE Arca Equities Rule 7.34(a)(4)(C)(2).

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's surveillance procedures are adequate to address any concerns associated with the trading of the Units on a UTP basis.
- (2) The Exchange would inform its members in an Information Bulletin of the special characteristics and risks associated with trading the Units, including risks inherent with trading the Units during the Opening and Late Trading Sessions when the updated Indicative Partnership Value is not calculated and disseminated and suitability recommendation requirements.
- (3) The Exchange would require its members to deliver a prospectus or product description to investors purchasing Units prior to or concurrently with a transaction in such Units and will note this prospectus delivery requirement in the Information Bulletin.

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 above, the Commission previously approved the original listing and trading of the Units on Amex and the trading of Partnership Units issued by the United States Oil Fund, LP, which are similar to the Partnership Units issued by the Partnership, pursuant to UTP on the Exchange. The Commission presently is not aware of any regulatory issue that should cause it to revisit those findings or would preclude the trading of the Units on the Exchange pursuant to UTP. Accelerating approval of this

proposal should benefit investors by creating, without undue delay, additional competition in the market for such Units.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>32</sup> that the proposed rule change (SR-NYSEArca-2007-45) be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>33</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>32</sup> 15 U.S.C. 78s(b)(2).

<sup>33</sup> 17 CFR 200.30-3(a)(12).