



## Information Circular: United States Natural Gas Fund, L.P.

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**To:** Head Traders, Technical Contacts, Compliance Officers, Heads of ETF Trading, Structured Products Traders

**From:** BX Listing Qualifications Department

**DATE:** January 15, 2009

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Security	Symbol	CUSIP #
United States Natural Gas Fund, L.P.	UNG	912318102

### Background Information on the Fund

As more fully explained in the Registration Statement (No. 333-137871) for the United States Natural Gas Fund, L.P. (the "Fund"), the Fund is designed to track the performance of the price of natural gas delivered at the Henry Hub in Louisiana. Each Unit of the Fund (the "Unit" or "Units") represents a fractional undivided beneficial interest in the net assets of the Fund. The Fund is not registered as an investment company under the Investment Company Act of 1940.

The Fund is a Delaware limited partnership that was formed in September 2006 and operated by Victoria Bay Asset Management, LLC, a single member Delaware limited liability company (the "General Partner"). The General Partner is wholly owned by Wainwright Holdings, Inc. The General Partner is a registered commodity pool operator with the Commodity Futures Trading Commission ("CFTC") and a member of the National Futures Association. Brown Brothers Harriman & Co. (the "Administrator") is the administrator and custodian for the Fund and ALPS Distributors, Inc. (the "Marketing Agent") is the marketing agent for the Units of the Fund. UBS Securities is the clearing broker for the execution and clearing of the futures contracts of the Fund.

The investment objective of the Fund is to have the changes in percentage terms of the unit's net asset value ("NAV") reflect the changes in percentage terms of the price of natural gas delivered at the Henry Hub, Louisiana, as measured by the changes in the price of the futures contract on natural gas traded on the New York Mercantile Exchange (the "Benchmark Futures Contract") that is the near month contract to expire, except when the near month contract is within two weeks of expiration, in which case it will be measured by the futures contract that is the next month contract to expire, less the Fund's expenses. It is not the intent of the Fund to be operated in a fashion such that its NAV will equal, in dollar terms, the dollar price of spot natural gas or any particular futures contract based on natural gas. The Fund invests in interests other than the Benchmark Futures Contract to comply with accountability levels and position limits.

The net assets of the Fund will consist primarily of investments in futures contracts for natural gas, crude oil, heating oil, gasoline, and other petroleum-based fuels that are traded on the New York Mercantile Exchange ("NYMEX"), ICE Futures or other U.S. and foreign exchanges (collectively, "Futures Contracts"). The Fund 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").

The Fund 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 with respect to its investments in Futures Contracts and Other Natural Gas-Related Investments. The primary focus of the General Partner will be the investment in Futures Contracts and the management of its investments in short-term obligations of the United States of two years or less ("Treasuries"), cash and cash equivalents for margining purposes and as collateral.

The General Partner will employ a "neutral" investment strategy intended to track changes in the price of natural gas regardless of whether the price of natural gas goes up or goes down. The Fund's "neutral" investment strategy is designed to permit investors generally to purchase and sell the Fund's Units for the purpose of investing indirectly in natural gas in a cost-effective manner, and/or to permit participants in the natural gas or other industries to hedge the risk of losses in their natural gas-related transactions. Accordingly, depending on the investment objective of an individual investor, the risks generally associated with investing in natural gas and/or the risks involved in hedging may exist. In addition, an investment in the Fund involves the risk that the changes in the price of the Fund's Units will not accurately track the changes in the Benchmark Futures Contract.

As described more fully in the prospectus and the registration statement for the Fund, the Fund issues Units on a continuous basis. The Fund issues and redeems Units only in blocks of 100,000 Units or integral multiples thereof to Authorized Participants. A block of 100,000 Units is called a "Basket" or "Creation Basket." Authorized Participants will pay a \$1,000 fee for each order to create or redeem one or more Creation Baskets. Authorized Purchasers will not be required to sell any specific number or dollar amount of Units. The per-unit price of Units offered in Creation Baskets on any day after the effective date will be the NAV of the Fund calculated shortly after the close of the American Stock Exchange on that day divided by the number of issued and outstanding Units.

The NAV is calculated by taking the current market value of the Fund's total assets and subtracting any liabilities. Under the Fund's current operational procedures, the Administrator calculates the NAV of the Fund's Units as of the earlier of 4:00 p.m. Eastern Time (ET) or the close of the New York Stock Exchange each day. The American Stock Exchange (Amex) currently calculates an approximate net asset value every 15 seconds throughout each day the Fund's Units are traded on the AMEX for as long as the NYMEX's main pricing mechanism is open.

The Fund will provide information to its unitholders to the extent required by applicable SEC, CFTC, and Amex requirements. An issuer, such as the Fund, of exchange-traded securities may not always readily know the identities of the investors who own those securities. The Fund will post the same information that

would otherwise be provided in the Fund's reports to limited partners, including its monthly account statements, which will include, without limitation, the Fund's NAV, on the Fund's website at [www.unitedstatesnaturalgasfund.com](http://www.unitedstatesnaturalgasfund.com).

The Fund's expense ratio, in the absence of any extraordinary expenses and liabilities, is expected to be 0.63% of the net assets of the Fund.

Individual certificates will not be issued for the Units. Instead, Units will be represented by one or more global certificates, which will be deposited by the Administrator with the Depository Trust Company (DTC) and registered in the name of Cede & Co., as nominee for DTC.

The registration statement for the Fund describes the various fees and expenses for the Units. For a complete description of the Fund, please refer to the Fund's website.

### **Indicative Fund Value**

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

The IFV will be calculated by using the prior day's closing NAV per Unit of the Fund as a base and updating that value throughout the trading day to reflect changes in the most recently reported trade price for the active Futures Contract on the NYMEX. The prices reported for the active Futures Contract month will be adjusted based on the prior day's spread differential between settlement values for that contract and the spot month contract. In the event that the spot month contract is also the active contract, the last sale price for the active contract will not be adjusted. The IFV per Unit basis disseminated during Amex's trading hours should not be viewed as an actual real time update of the NAV, because NAV is calculated only once at the end of each trading day. The normal trading hours of the NYMEX are 10:00 a.m. ET to 2:30 p.m. ET. This means that there will be a gap in time at the beginning and the end of each day during which the Fund's Units will be traded on the Amex, but real-time NYMEX trading prices for futures contracts traded on such Exchange will not be available. As a result, during those gaps there will be no update to the IFV.

### **Creation and Redemption of Units**

The Fund issues and redeems Units on a continuous basis only in Baskets of 100,000 Units or multiples thereof, by or through Authorized Participants. Basket-sized Aggregations are issued in exchange for the corresponding Deposit Amount determined on each business day by the Administrator. The Deposit Amount necessary for the creation of a Basket will change from day to day. On each day that 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. Authorized Participants that wish to redeem a Basket will receive Treasuries and cash in exchange for each Basket surrendered in an amount equal to the NAV per Basket (the "Redemption Amount"). These items are described in the Fund's prospectus and registration statement.

Authorized Participants that wish to purchase a Basket must transfer the Deposit Amount plus a transaction fee of \$1,000 to the Fund in exchange for a Basket. No Units will be issued unless and until the Administrator has informed the Marketing Agent that it has allocated to the Fund's account the required funds necessary for the Deposit Amount plus transaction fee. Authorized Participants who wish to redeem a Basket will receive the Redemption Amount in exchange for each Basket surrendered less the transaction fee of \$1,000. The Redemption Amount will be delivered to the Authorized Participant upon confirmation that the Fund's DTC Account has received the Basket.

The total deposit required to create each basket ("Creation Basket Deposit") will be an amount of Treasuries and/or cash that is in the same proportion to the total assets of the Fund (net of estimated accrued but unpaid fees, expenses and other liabilities) on the date the order to purchase is accepted as the number of Units to be created under the purchase order is in proportion to the total number of Units outstanding on the date the order is received. The General Partner determines, directly in its sole discretion or in consultation with the Administrator, the requirements for Treasuries and the amount of cash, including the maximum permitted remaining maturity of a Treasury and proportions of Treasury and cash that may be included in deposits to create Baskets. The Marketing Agent will publish such requirements at the beginning of each business day. The amount of cash deposit required will be the difference between the aggregate market value of the Treasuries required to be included in a Creation Basket Deposit as of 4:00 p.m. ET on the date the order to purchase is properly received and the total required deposit.

An Authorized Purchaser who places a purchase order is responsible for transferring to the Fund's account with the Custodian the required amount of Treasuries and cash by 3:00 p.m. ET on the third business day following the purchase order date. Upon receipt of the deposit amount, the Administrator will direct DTC to credit the number of baskets ordered to the Authorized Purchaser's DTC account on the third business day following the purchase order date.

The Fund's prospectus and registration statement describe additional procedures and requirements that apply to the creation and redemptions of Units. BX members interested in becoming an Authorized Participant, or obtaining a list of Authorized Participants, can contact the Marketing Agent at [www.alpsinc.com](http://www.alpsinc.com) for more information.

## **Futures Contracts**

Futures Contracts are agreements between two parties. One party agrees to buy natural gas from the other party at a later date at a price and quantity agreed upon when the contract is made. Futures Contracts are traded on futures exchanges. For example, natural gas futures contracts traded on the NYMEX trade in units of 10,000 million British Thermal Units. The price of natural gas futures contracts traded on the NYMEX are priced by floor brokers and other exchange members both through an "open outcry" of offers to purchase or sell the contracts and through an electronic, screen-based system that determines the price by matching electronically offers to purchase and sell.

The Fund's investment objective is for the changes in percentage terms of the Units' NAV to reflect the changes in percentage terms of the Benchmark Futures Contract, less the Fund's expenses. The Fund expects to invest primarily in Futures Contracts.

The Fund seeks to have its aggregate NAV approximate at all times the aggregate face amount of the Futures Contracts and Other Natural Gas-Related Investments it holds.

## **Other Investments**

Other than investing in Futures Contracts and Other Natural Gas-Related Investments, the Fund will only invest in assets to support these investments in Natural Gas Interests. At any given time, a significant majority of the Fund's investments will be in Treasuries that serve as segregated assets supporting the Fund's positions in Futures Contracts and Other Natural Gas-Related Investments. For example, the purchase of a Futures Contract with a stated value of \$10 million would not require the Fund to pay \$10 million upon entering into the contract; rather, only a margin deposit, generally of 5% to 10% of the stated value of the Futures Contract, would be required. To secure its Futures Contract obligations, the Fund would deposit the required margin with the futures commission merchant and hold, through its Custodian, Treasuries, cash and cash equivalents in an amount equal to the balance of the current market value of the contract, which at the contract's inception would be \$10 million minus the amount of the margin deposit, or \$9.5 million (assuming a 5% margin).

As a result of the foregoing, the Fund expects that 5% to 10% of its assets will be held as margin in segregated accounts with a futures commission merchant. In addition to the Treasuries it posts with the futures commission merchant for the Futures Contracts it owns, the Fund will hold through the Custodian, Treasuries, cash and cash equivalents that can be posted as margin or as collateral to support its over-the-counter contracts. The Fund intends to earn interest income from the Treasuries, cash and cash equivalents that it will purchase, and on the cash it holds through the Custodian. It anticipates that the earned interest income will increase the NAV and limited partners' capital contribution accounts. The Fund plans to reinvest the earned interest income, hold it in cash, or use it to pay its expenses. If the Fund reinvests the earned interest income, it will make investments that are consistent with its investment objectives.

## **Investment Risks**

BX members are referred to the Fund's prospectus and registration statement for a more detailed description of risks associated with an investment in the Units of the Fund. Some of the risks involved in an investment in the Fund include:

- Unlike mutual funds, commodity pools or other investment pools that actively manage their investments in an attempt to realize income and gains from their investing activities and distribute such income and gains to their investors, the Fund generally does not expect to distribute cash to limited partners or other unitholders. You should not invest in the Fund if you will need cash distributions from the Fund to pay taxes on your share of income and gains of the Fund, if any, or for any other reason.
- There is the risk that the changes in the price of the Fund's Units on the AMEX will not closely track the changes in the price of natural gas.

- There is no assurance that the General Partner will successfully implement the Fund's investment strategy. If the General Partner permits the Fund to become leveraged, you could lose all or substantially all of your investment in the Fund.
- The price relationship between the near month contract to expire and the next month contract to expire that compose the Benchmark Futures Contract will vary and may impact both the total return over time of the Fund's NAV, as well as the degree to which its total return tracks other natural gas price indices' total returns.
- Investors may choose to use the Fund as a means of investing indirectly in natural gas and there are risks involved in such investments. The risks and hazards that are inherent in the natural gas industry may cause the price of natural gas to widely fluctuate. The exploration for, and production of, natural gas is an uncertain process with many risks. The cost of drilling, completing and operating wells for natural gas is often uncertain, and a number of factors can delay or prevent drilling operations or production.
- Investors, including those who participate in the natural gas industry, may choose to use the Fund as a vehicle to hedge against the risk of loss and there are risks involved in hedging activities. While hedging can provide protection against an adverse movement in market prices, it can also preclude an investor's opportunity to benefit from a favorable market movement.
- The Fund expects to invest primarily in Futures Contracts that are traded in the United States. However, a portion of the Fund's trades may take place in markets and on exchanges outside the United States. Some non-U.S. markets present risks because they are not subject to the same degree of regulation as their U.S. counterparts. In some of these non-U.S. markets, the performance on a contract is the responsibility of the counterparty and is not backed by an exchange or clearing corporation and therefore exposes the Fund to credit risk. Trading in non-U.S. markets also leaves the Fund susceptible to fluctuations in the value of the local currency against the U.S. dollar.
- The Fund may also invest in Other Natural Gas-Related Investments, many of which are negotiated contracts that are not as liquid as Futures Contracts and expose the Fund to credit risk that its counterparty may not be able to satisfy its obligations to the Fund.
- The Fund will pay fees and expenses that are incurred regardless of whether it is profitable.
- Investors will have no rights to participate in the management of the Fund and will have to rely on the duties and judgment of the General Partner to manage The Fund.
- The structure and operation of the Fund may involve conflicts of interest. For example, a conflict may arise because the General Partner and its principal and affiliates may trade for themselves. In addition, the General Partner has sole current authority to manage the investments and operations, which may

create a conflict with the unitholders' best interests. The General Partner may also have a conflict to the extent that its trading decisions may be influenced by the effect they would have on United States Oil Fund, L.P., the other commodity pool that it manages, or any other commodity pool the General Partner may form in the future.

- The Fund is new and has no operating history. Therefore, you do not have the benefit of reviewing the past performance of the Fund as a basis for you to evaluate an investment in the Fund.

## **Exchange Rules Applicable to Trading in the Shares**

Trading in the Units on BX is on a UTP basis and is subject to BX equity trading rules. In particular, market makers in the Units of the Trust should note that they are subject to BX Rule 4630. Under that rule:

**Information Barriers** — Market Makers must establish adequate information barriers when engaging in inter-departmental communications and should refer to the NASD/NYSE Joint Memo on Chinese Wall Policies and Procedures in NASD Notice to Members 91-45 for guidance on the minimum elements of adequate information barriers. For purposes of the Units only, "inter-departmental" communications include communications to other departments within the same firm or the firm's affiliates that involve trading in an underlying commodity, related commodity futures, options on commodity futures, forward contracts or swaps, or any other related commodity derivatives. Market Makers are also responsible for establishing adequate written supervisory procedures regarding these and other commodity-related securities in which they make markets.

**Market Maker Accounts** — Market Makers will be required to file and keep current a list identifying all accounts for trading in an underlying commodity, related commodity futures, options on commodity futures, forward contracts or swaps, or any other related commodity derivatives, that the Market Maker may have or over which it may exercise investment discretion. No Market Maker shall trade in an account that has not been reported as required by Rule 4630.

**Books and Records** — Market Makers will be required to make available to BX Regulation such books, records or other information pertaining to transactions in the underlying commodity, related commodity futures, options on commodity futures, forward contracts or swaps, or any other related commodity derivatives, as may be requested by BX Regulation.

**Material Non-Public Information** — In connection with trading the Units or the underlying commodity, related commodity futures, options on commodity futures, forward contracts or swaps, or any other related commodity derivatives, Market Makers will not be permitted to use any material non-public information received from any person associated with the Market Maker or employee of such person regarding trading by such person or employee in the underlying commodity, related commodity futures, options on commodity futures, forward contracts or swaps, or any other related commodity derivatives.

Market Makers currently trading these Units must complete the Market Maker Disclosure Report for Commodity-Related Securities form and establish written supervisory procedures for trading these Units.

## **Trading Hours**

The indicative fund value is disseminated to data vendors every 15 seconds. The Units will trade on BX between 8:00 a.m. and 7:00 p.m. ET. For trading during BX's Pre-Market and Post-Market Sessions, market participants should note that additional risks may exist with respect to trading the Funds during these sessions, when the underlying index's values may not be disseminated.

## **Suitability**

Trading in the Units on BX will be subject to the provisions of BX Rule 2310. Members recommending transactions in the Units to customers should make a determination that the recommendation is suitable for the customer. In addition, members must possess sufficient information to satisfy the "know your customer" obligation that is embedded in the BX Conduct Rules.

Members also should review NASD NASD Notice to Members 03-71 for guidance on trading these products. The Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

## **Trading Halts**

BX will halt trading in the Units in accordance with BX Rule 4120. The grounds for a halt under BX Rule 4120 include a halt by the primary market because dissemination of the Indicative Fund Value of the Units and/or the underlying value of Futures Contracts has ceased, or a halt for other regulatory reasons. In addition, BX will stop trading the Units if the primary market de-lists the Units.

## **Delivery of a Prospectus**

BX members should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Fund.

Prospectuses may be obtained through the Fund's website. The prospectus for the Fund does not contain all of the information set forth in the Fund's registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). For further information about the Fund, please refer to the registration statement.

In the event that the Fund relies upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, BX Rule 4420(j)(2) requires that BX members provide to all purchasers of Units a written description of the terms and characteristics of such securities, in a form prepared by the Trust for



the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, BX members shall include such a written description with any sales material relating to the Units that is provided to customers or the public. Any other written materials provided by a BX member to customers or the public making specific reference to the Units as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of the Units of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Units of the Fund. In addition, upon request you may obtain from your broker a prospectus for Units of the Fund."

A BX member carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Units for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to BX member under this rule.

Upon request of a customer, BX members also shall provide a copy of the Prospectus.

### **Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the "Act") regarding trading in the above mentioned exchange-traded fund.

### **Regulation M Exemptions**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of Units of the above-mentioned Fund to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Units of the above-mentioned Fund (i) to purchase securities for the purpose of purchasing Creation Basket Aggregations of Fund Unit and to (ii) tender securities for redemption in Creation Basket Aggregations. Further, the SEC has clarified that the tender of Units to the Fund for redemption does not constitute a bid for or purchase of any of the Funds' securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Units in Baskets during the continuous offering of Units.

### **Section 11(d)(1); SEC Rules 11d1-1 and 11d1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not Authorized Participants (and, therefore, do not create Creation Basket Aggregations) that engage in both proprietary and customer transactions in Units of the Fund in the secondary market, and for broker-dealer Authorized Participants that engage in creations of Creation Basket Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the Units of the Fund to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830(I)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Units of the Funds, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on Units that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

### **SEC Rule 15c1-5 and 15c1-6**

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund Shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**This Information Circular is not a statutory prospectus. BX members should consult the Fund's prospectus and/or the Fund's website for relevant information.**

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Inquiries regarding this Information Circular should be directed to:

- [Will Slattery](#), BX Listing Qualifications, at 301.978.8088
- [BX Market Sales](#) at 800.846.0477