



Via Portal Submission

December 21, 2018  
MGEX Submission No. 18-36

Mr. Christopher J. Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street NW  
Washington, DC 20581

**RE: Rule Certification Submission Pursuant to CFTC Regulation 40.6(a); Update to MGEX Rules**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act (“CEAct”) and Commodity Futures Trading Commission (“CFTC”) Regulation 40.6(a), the Minneapolis Grain Exchange, Inc. (“MGEX”) hereby certifies that the amendments to MGEX Rules 2.2.4. (formerly 2030.00.), 2.2.5. (formerly 2086.00.), 2.2.6. (formerly 2087.00.), 2.2.7. (formerly 2089.00.), 1800.00., 1801.00., 1804.00., 1805.00., 1807.00., 1817.00., 1818.00., and the definition of “Person” as set forth in the attached Exhibit A, comply with the CEAct and the CFTC Regulations promulgated thereunder (collectively, the “Proposed Amendments”). MGEX further certifies that the submission and pending deletion of MGEX Rules have been posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

**I. AMENDMENTS TO MGEX RULES**

MGEX continually evaluates its Rulebook to ensure compliance with CFTC regulations as well as general principles of law. The amendments to MGEX Rules 2.2.4. (formerly 2030.00.), 2.2.5. (formerly 2086.00.), 2.2.6. (formerly 2087.00.), 2.2.7. (formerly 2089.00.), and the definition of “Person” (the “First Proposed Amendments”) are part of a larger, gradually ongoing initiative to better organize the overall MGEX Rulebook. This includes methodically reorganizing rules in a more logical order and adding or amending rules where necessary to ensure transparency and improve efficiency for all users of the Rulebook. In addition, through this process, MGEX will conduct a review of certain rules to update language, style, and structure, as appropriate.

The First Proposed Amendments include continued implementation of the new numbering system that provides each rule with a chapter, section, and rule number. This new system allows for improved organization, usability, and flexibility of the Rulebook over time. The

new system will be implemented in conjunction with this ongoing process, with the objective of minimizing disruption and maintaining usability.

The amendments to MGEX Rules 1800.00., 1801.00., 1804.00., 1805.00., 1807.00., 1817.00., and 1818.00. (the “Second Proposed Amendments”) are to clarify, where appropriate, that the Rules apply to Market Participants, in addition to Members and Clearing Members. The amendments use the defined term of “Market Participant”, which is located in Chapter 1 of the MGEX Rulebook. The intent language in MGEX Rule 1805.00. was updated to be consistent with language in MGEX Rule 1806.00.

## **II. COMPLIANCE WITH CORE PRINCIPLES**

MGEX has reviewed the Core Principles for designated contract markets (“DCM Core Principles”) and identified that the Proposed Amendments and Addition may impact the following DCM Core Principles:

- *DCM Core Principle 2, Compliance with Rules:* The First Proposed Amendments will enhance MGEX’s ability to more efficiently establish certain foundational rules earlier in the MGEX Rulebook. The Second Proposed Amendments provide additional clarity to rule applicability and enforcement.
- *DCM Core Principle 7, Availability of General Information:* The Proposed Amendments have been disseminated on the MGEX website. The Proposed Amendments will be available in the MGEX Rulebook, which is accessible online.
- *DCM Core Principle 12, Protection of Markets and Market Participants:* The First Proposed Amendments will incorporate these foundational rules earlier in the MGEX Rulebook. Such organizational structuring may provide greater clarity to help ensure protection of the market and market participants. The Second Proposed Amendments provide additional clarity to rule applicability and enforcement. This greater clarity should help ensure protection of the market and market participants.
- *DCM Core Principle 13, Disciplinary Procedures:* The First Proposed Amendments will enhance the ability of MGEX to enforce its rules through greater clarity of language addressing these foundational topics. The Second Proposed Amendments will enhance the ability of MGEX to enforce its rules through greater clarity addressing rule applicability and enforcement.

Pursuant to the authority set forth in MGEX Bylaw 210.01., the MGEX Board of Directors unanimously approved the Proposed Amendments at its meeting held on December 18, 2018. There were no substantive opposing views expressed by the Board of Directors, nor is MGEX aware of any substantive opposing views with respect to this filing.

The Proposed Amendments are intended to become effective ten (10) business days from the date of this submission. If there are any questions regarding this submission, please contact me at (612) 321-7128. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in blue ink, appearing to read "Peter D. Sparby". The signature is fluid and cursive, with a long horizontal stroke at the end.

Peter D. Sparby  
Associate Corporate Counsel

Enclosure

## Exhibit A

The following MGEX Rules are to be amended. Additions are underlined while deletions are ~~marked through~~.

### ~~2030.00~~2.2.4. MINIMUM FINANCIAL REQUIREMENTS FOR ENTITIES WITH CASH TRADING PRIVILEGES.

- A. **Financial Requirements.** ~~All entities~~Any Person with cash trading privileges must meet the minimum financial requirements set forth by the Exchange, which are set as follows:

<b>Working Capital</b>	<b>Net Worth</b>
\$1,000,000.00	\$2,000,000.00

The Exchange may consider and approve, at its discretion, ~~entities~~Persons with cash trading privileges that are unable to meet the applicable minimum financial requirements above. As financial conditions warrant, the Exchange may, at any time, require ~~an entity~~a Person with cash trading privileges to provide irrevocable letters of credit, guarantees, pledges of memberships, and/or other forms of security that the Exchange determines to be acceptable. Failure to meet any minimum financial requirements or comply with the Exchange's request for additional financial security will be deemed a failure to meet the minimum financial standing requirement.

- B. **Annual Financial Statements.** Regardless of whether the ~~entity~~Person is required to file with the CFTC, all ~~entities~~Persons with cash trading privileges must file with the Exchange, within ninety (90) days of the close of their fiscal year, an audited financial statement that includes at a minimum, a balance sheet and income statement with footnotes. Such annual financial statement must be accompanied by an opinion of an independent Certified Public Accountant. The Exchange may in its discretion require such additional reports as it deems appropriate or necessary.
- C. **Interim Unaudited Financial Statements.** Regardless of whether the ~~entity~~Person is required to file with the CFTC, ~~all entities~~any Person with cash trading privileges must file with the Exchange quarterly unaudited financial statements that include at a minimum, a balance sheet and income statement, forty-five (45) days of the date of such quarterly statement.
- D. **Extension of Time to File.** Upon written request in advance and for good cause shown, the Exchange may in its sole discretion grant an extension of the time for the filing of any reports or statements required by this Rule.

All costs associated with the requirements of this Rule will be borne solely by the ~~entity~~Person with cash trading privileges.

If ~~an entity~~a Person qualifies for more than one type of status (Clearing Member, FCM, Regular for delivery or holding cash trading privileges), then the ~~entity~~Person must meet the highest capital and net worth requirements, and the earliest reporting requirements of

their various registration status. Additionally, the entity Person must own the highest number of MGEX memberships required of their various registration status.

~~2086.00~~2.2.5. **MINIMUM FINANCIAL AND REPORTING REQUIREMENTS FOR FUTURES COMMISSION MERCHANTS.**

- A. **Financial and Reporting Requirements.** All FCMs that have customers trading MGEX Futures and Options contracts must meet the minimum financial and reporting requirements set forth in CFTC Regulations 1.10, 1.12, 1.16, 1.17, and 1.18, as now in effect or hereafter amended. All such FCMs must file with the Exchange the reports required under such CFTC Regulations, including the reports enumerated below, by approving the Exchange as a receiver of such reports on the WinJammer™ Online Filing System. The Exchange may in its discretion require FCMs to file additional reports as it deems appropriate or necessary.
1. All FCMs must file daily segregated, secured 30.7 and cleared swaps segregation statements, as applicable, in a manner designated by the Exchange. These statements must be signed by the firm's Chief Executive Officer, Chief Financial Officer, or other representative as allowed by the Exchange.
  2. All FCMs must file bi-monthly Segregation Investment Detail Reports as required by the Exchange and CFTC Regulation 1.32.
  3. All FCMs must provide immediate notice to the Exchange of all disbursements of customer segregated, secured 30.7, and cleared swaps segregation funds that are not made for the benefit of customers of the respective customer origin, and that exceed 25% of the excess segregated, secured 30.7, and cleared swaps segregation funds, as applicable. Any such disbursements by the FCM must also be pre-approved, in writing, by a principal of the FCM.
  4. At least one report in each fiscal year must be accompanied by an opinion of an independent Certified Public Accountant.
- B. **Extension of Time to File.** Upon written request in advance and for good cause shown, the Exchange may in its sole discretion grant an extension of the time for the filing of any reports or statements required by this Rule.

All costs associated with the requirements of this Rule will be borne solely by the FCM.

If ~~an entity~~a Person qualifies for more than one type of status (Clearing Member, FCM, Regular for delivery or holding cash trading privileges), ~~then the~~ entity Person must meet the highest capital and net worth requirements, and the earliest reporting requirements of their various registration status. Additionally, the ~~entity~~Person must own the highest number of MGEX memberships required of their various registration status.

~~2087.00~~2.2.6. **MINIMUM FINANCIAL AND REPORTING REQUIREMENTS FOR CLEARING MEMBERS.**

- A. **Financial and Reporting Requirements.** All Clearing Members must meet the minimum financial and reporting requirements set forth in CFTC Regulations 1.10 and 1.17, as now in effect or hereafter amended.
- B. **Financial Statements for FCM Clearing Members.** All FCM Clearing Members must meet the requirements set forth in MGEX Rule ~~2086.00~~2.2.5.
- C. **Financial Statements for Non-FCM Clearing Members.** Non-FCM Clearing Members must file monthly financial statements that include at a minimum, a balance sheet and income statement, with the Exchange within seventeen (17) business days of the date of such statement. Within sixty (60) days of the close of its fiscal year, Non-FCM Clearing Members subject to this Rule must file a certified financial statement accompanied by an opinion of an independent Certified Public Accountant.
- D. **Extension of Time to File.** Upon written request in advance and for good cause shown, the Exchange may in its sole discretion grant an extension of the time for the filing of any reports or statements required by this Rule.

All costs associated with the requirements of this Rule will be borne solely by the Clearing Member.

If ~~an entity~~ Person qualifies for more than one type of status (Clearing Member, FCM, Regular for delivery or holding cash trading privileges), then the ~~entity~~ Person must meet the highest capital and net worth requirements, and the earliest reporting requirements of their various registration status. Additionally, the ~~entity~~ Person must own the highest number of MGEX memberships required of their various registration status.

#### ~~2089.00.ELECTION~~2.2.7. NOTIFICATION OF FISCAL YEAR.

Any ~~Members with clearing and/or cash trading privileges, FCMs with customers trading MGEX Futures and Options contracts or any other entity~~ Person required by the Exchange to provide financial information must immediately notify the Exchange ~~immediately~~ of any change into its fiscal year ~~end~~.

Such notification ~~of a change in its fiscal year~~ must be made in writing ~~by submitting a letter and submitted to the Exchange~~ explaining the any change and the reasons therefore. ~~FCMs and Guaranteed IBs~~ If applicable, the Person requesting making such a change in its fiscal year must also submit written evidence that its designated self-regulatory organization has approved the ~~change in its fiscal year~~ same.

Any change in ~~the~~ fiscal year ~~of a Person required by the Exchange pursuant to provide financial information will~~ this Rule does not relieve ~~such Person from its any~~ obligation to file ~~such~~ timely certified and interim financial statements ~~as deemed appropriate~~ necessary by MGEX Rules or the Exchange.

#### ~~1800.00.APPLICABILITY OF RULES AND REGULATIONS.~~

The Rules contained in this Chapter govern those Exchange contracts which are traded through the Electronic Trading System. To the extent that the provisions in this Chapter conflict with ~~Rules and Regulations~~ in other sections of this Rulebook, this Chapter

supersedes such Rules ~~and Regulations~~ and governs the manner in which contracts are traded through the Electronic Trading System. Otherwise, contracts traded on the Electronic Trading System, as well as Members and Market Participants, are fully subject to applicable MGEX Rules ~~and Regulations~~ unless specifically and expressly excluded therefrom. Members and Market Participants must also abide by the Commodity Exchange Act, as amended, and the regulations promulgated thereunder, and any other applicable jurisdiction's laws, rules or regulations.

#### **1801.00.ACCESS AND CLEARING MEMBER GUARANTEE.**

All Members and/or Market Participants ~~nonmembers~~ must sign a customer account agreement and establish an account with an Exchange Clearing Member before they are provided access and commence trading on the Electronic Trading System. However, a ~~Members~~ or ~~nonmembers~~ Market Participant who exclusively trades through an omnibus account at an Exchange Clearing Member will not be required to sign a customer account agreement with the Exchange Clearing Member. A Clearing Member guarantees and assumes financial responsibility for all orders it places and receives, and all contracts it clears through the Electronic Trading System. Further, Clearing Members shall promptly pay all fees and charges invoiced for the Electronic Trading System.

#### **1804.00.MISUSE OF ELECTRONIC TRADING SYSTEM.**

Misuse of the Electronic Trading System is strictly prohibited. It shall be deemed an act detrimental to the interest and welfare of the Exchange to willfully or negligently engage in unauthorized use of the Electronic Trading System, to assist any person in obtaining unauthorized access to the Electronic Trading System, to trade on the Electronic Trading System without an agreement and an established account with a Clearing Member, to alter the equipment associated with the system, to interfere with the operation of the system, to intercept or interfere with information provided thereby, or in any way to use the system in a manner contrary to MGEX Rules ~~and Regulations~~.

Members and Market Participants ~~may not~~ are prohibited from distributing, selling, or retransmitting information displayed on the Electronic Trading System to any third party.

#### **1805.00.TRADING AGAINST CUSTOMERS' ORDERS PROHIBITED.**

A Member, Market Participant, or Clearing Member shall not ~~knowingly~~ cause to be entered, or enter into, a transaction in which the Member, Market Participant, or Clearing Member knows or reasonably should know that the Member, Market Participant, or Clearing Member will assume the opposite side of any order entered on behalf of a customer unless the Member, Market Participant, or Clearing Member first enters the customer order into the Electronic Trading System and then subjects such order to sufficient market exposure before entering an opposite order.

#### **1807.00.PRIORITY OF ENTRY.**

Orders received by a Member, Market Participant, or Clearing Member shall be entered into the Electronic Trading System in the order received. Orders that cannot be immediately entered into the system must be reduced to writing or another form of permanent record, and entered when the orders become executable in the sequence in which the orders were received. All customer orders must be entered before a Member, Market Participant, or

Clearing Member may enter orders for accounts in which the Member, Market Participant, or Clearing Member has a personal, financial or proprietary interest.

#### **1817.00.ELECTRONIC TRADING SYSTEM PROCEDURES.**

The Exchange may immediately adopt, cancel or modify procedures of the Electronic Trading System, including but not limited to, access, order entry, open, execution, confirmation, closing, clearing, reporting, notification and recordkeeping procedures determined to be necessary so as to comply with the Commodity Exchange Act, Commission Regulations, Exchange Rules, ~~Regulations~~, Resolutions and surveillance obligations, or other controlling or governing authority; or determined to be in the best interest of the Exchange, Membership, users or public; or required as a result of changes by the Electronic Trading System provider, or Internet access providers or servers.

#### **1818.00.ELECTRONIC TRADING SYSTEM RULESREGULATIONS.**

The Board of Directors shall have the authority and power to approve and implement ~~Regulations~~ Rules not inconsistent with this Chapter.

**PERSON:** Individuals, associations, partnerships, corporations, and trusts, as defined in CFTC Regulation 1.3(u), as amended, including limited liability companies, sole proprietorships, or other legal entities.