Via Portal Submission April 29, 2016

MGEX Submission No. 16-11

Mr. Christopher J. Kirkpatrick

Secretary of the Commission

Commodity Futures Trading Commission

Three Lafayette Centre

1155 21st 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 MGEX Rules 900.00., 2029.00., 2086.00., 2087.00., and 2030.00., 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 changes to the MGEX Bylaws and Rules have been posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

# AMENDMENTS TO MGEX RULES

MGEX continually evaluates its Rules to ensure compliance with CFTC regulations as well as general principles of law. The Proposed Amendments (MGEX Rules 900.00., 2029.00., 2086.00., 2087.00.) and new MGEX Rule 2030.00. clarify and revise financial requirements and the method of financial reporting for various participants in MGEX’s futures and cash trading markets, including entities having regularity. New MGEX Rule 2030.00. was drafted specifically to apply to cash market participants, who previously were subject to the same MGEX Rule as Clearing Members.

# COMPLIANCE WITH CORE PRINCIPLES.

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

* *DCM Core Principle 2, Compliance with Rules*: The Proposed Amendments and new Rule will provide greater clarity to the MGEX Rules, and therefore permit MGEX to more efficiently monitor and enforce the applicable rules.
* *DCM Core Principle 1*1, *Financial Integrity of Transactions:* The Proposed Amendments and new Rule strengthens the financial integrity of transactions by elevating the level of financial requirements that must be maintained.
* *DCM Core Principle 12, Protection of Markets and Market Participants:* The Proposed Amendments and new Rule will further enhance MGEX’s ability to protect the market and market participants by ensuring that certain market participants maintain sufficient financial resources.
* *DCM Core Principle 13, Disciplinary Procedures*: The Proposed Amendments and new Rule will clarify and enhance the ability of MGEX to enforce its Rules relating to the maintenance of reporting of financial requirements.

Pursuant to the authority set forth in MGEX Bylaw 210.01., the MGEX Board of Directors unanimously approved the Proposed Amendments and new Rule at its meeting held on April 26, 2016. 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.

These amendments are intended to become effective ten (10) days from the date of this submission. If there are any questions regarding this submission, please contact me at (612) 321-7141. Thank you for your attention to this matter.

Regards,



Adam Wysopal

Associate Corporate Counsel

Enclosure

**EXHIBIT A**

Persons operating grain elevators who desire to have such elevator made or remain Regular for delivery of grain under the MGEX Rules must file an application or renewal form as prescribed by the Exchange. (See **Form 9-00.00.**) Renewal for Regularity must be filed prior to June 1 of each year for a one (1) year term beginning the following August 1. Application for Regularity may be made at any time during a current term for the balance of that term. However, if an applicant is initially approved during the months of May, June or July, their initial Regularity term will include the following one (1) year term. Initial Regularity and increases in capacity during the term will become effective on the last business day in the month in which the Exchange approves such application.

The Exchange may approve renewal of Regularity and may revoke Regularity for just cause at any time. Denial or revocation of Regularity by the Exchange may be appealed to the Board of Directors, and any decision of the Board of Directors will be final.

Hard Red Spring Wheat: Application for Regularity may be made by persons operating licensed grain elevators located within the limits of the Minneapolis-St. Paul, Duluth or Red Wing, Minnesota switching districts, or Superior, Wisconsin switching district for Hard Red Spring Wheat.

A. Such elevator must be properly equipped for the convenient and expeditious receiving, handling and shipping of such bulk commodities as are customarily accepted for public storage. Each elevator must be able to load-out by rail and barge and must be connected by railroad tracks with one or more railway lines. In the case of an interior off-water elevator, such firm must be able to make the grain available in a barge pursuant to **Rules 804.00.** and **804.01.**

B. The entity operating such elevator must be in good financial standing and must meet the minimum financial requirements set forth by the Exchange (see **Rule 2029.00.**) and file the following periodic documentation:

1. **Audited Financial Statement** - Each entity wishing to become Regular for Hard Red Spring Wheat Futures Delivery must annually submit to the Exchange an Audited Financial Statement prepared by an independent certified public accountant in accordance with generally accepted accounting principles.

2. **Due Date** - Audited Financial Statements must be filed no later than ninety (90) days after the entity’s fiscal year end, except in those cases where an entity has applied to the Exchange and has received approval for an extension.

3. **Interim Unaudited Financial Statement** - Each entity must submit to the Exchange unaudited mid-fiscal year financial statement. This statement must be filed no later than forty-five (45) days after the mid-year point of the entity’s fiscal year, except in those cases where an entity has applied to the Exchange and has received approval for an extension.

C. All Regular entities must submit to the Exchange a tariff, listing in detail the rates for handling and storage of grain. Regular entities must also submit to the Exchange at least sixty (60) days in advance, any changes in insurance and storage fees; provided, however, that such changes do not conflict with **Rule 811.00.** and other limitations set forth in section B. Tariffs on file with the Exchange will be available for public inspection.

D. All Regular entities are responsible for immediately informing the Exchange of any adverse changes in status and financial conditions. (See **Rules 2029.00.** and **2088.00.**) Failure to notify the Exchange will be deemed a violation of the MGEX Rules.

**2029.00. MINIMUM FINANCIAL REQUIREMENTS FOR REGULARITY.**

An elevator, merchandiser or warehouse that is Regular for delivery of Hard Red Spring Wheat must maintain certain minimum financial requirements set by the Exchange. The Exchange has established the following working capital and net worth financial requirements for Regularity:

|  |  |  |  |
| --- | --- | --- | --- |
| **Contract** | **Regular Entity** | **Working Capital** | **Net Worth** |
| Hard Red Spring Wheat | Elevator | $2,000,000.00 | The greater of $5,000,000.00 or the equivalent of $1 per bushel of approved storage capacity |

Further, any combination of the elevator, merchandiser, warehouse or parent, or an employee, partner or officer of an elevator, merchandiser, warehouse or parent, must be a Record Owner of a minimum of two (2) Memberships.

For contracts not stated above, the Exchange will establish minimum financial requirements as necessary for Regular entities.

The Exchange may consider and approve, at its discretion, an Applicant for Regularity that is unable to meet the applicable minimum financial requirements above. As financial conditions warrant, the Exchange may, at any time, require an Applicant for Regularity or an approved elevator, merchandiser or warehouse 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.

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

**2030.00. MINIMUM FINANCIAL AND REPORTING REQUIREMENTS FOR ENTITIES WITH CASH TRADING PRIVILEGES.**

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

|  |  |
| --- | --- |
| **Working Capital** | **Net Worth** |
| $1,000,000.00 | $2,000,000.00 |

The Exchange may consider and approve, at its discretion, entities 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 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.

1. **Annual Financial Statements.** Regardless of whether the entity is required to file with the CFTC, all entities 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.
2. **Interim Unaudited Financial Statements.** Regardless of whether the entity is required to file with the CFTC, all entities 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 with cash trading privileges.

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

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

**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.

1. 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.

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.

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

**2087.00. 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.

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