



Via Portal Submission

June 27, 2019
MGEX Submission No. 19-16

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 the amendments to MGEX Rules 703.00., 718.01., 900.01., 2100.00., Resolution 210.01.F., and the addition of new MGEX Rule 718.02. as set forth in the attached Exhibit A, comply with the CEAct and the CFTC Regulations promulgated thereunder (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 purpose for the amendments to MGEX Rules 703.00., 718.01., 900.01., 2100.00., Resolution 210.01.F., and the addition of new MGEX Rule 718.02. is as follows:

- Rule 703.00. (Clearing House: Offsets) – This Rule is proposed to be removed, with the appropriate contents moving to Rules 718.01. and 2100.00. The content is also being revised to align with how offsets are processed and reported at MGEX.
- Rule 718.01. (Offsets And Transfer Trades) – This Rule is proposed to be amended to clarify the offset process and include more specific language regarding the “Prohibition Period.” As mentioned above, this Rule is also being amended to incorporate appropriate content of Rule 703.00.
- Rule 718.02. (Concurrent Long And Short Positions) – This Rule is proposed to be added to identify the concepts of “concurrent long and short positions” as well as “hold-open positions” within MGEX Rules. Additionally, the Rule delineates how such positions should or should not be reported to the Clearing House.

- Rule 900.01. (Withdrawal Or Revocation Of Regularity) – This Rule is proposed to be amended to add clarifying language of the timeline for early regularity withdrawals.
- Rule 2100.00. (Requirements For Clearing) – This Rule is proposed to be amended to clarify the Clearing House’s duty and process for clearing offsetting transactions. This amendment would move Clearing House information from the trade practice Chapter to the Clearing House Chapter of the MGEX Rules.
- Resolution 210.01.F. – The Resolution is proposed to be amended to add “withdrawals” language to allow Exchange officers to approve regularity withdrawal in addition to current powers of initial approvals and renewals.

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 Proposed Amendments will provide MGEX Rules with provide greater clarity, align better with current processes, and appropriately identify certain concepts within the Rules.
- *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 Proposed Amendments will provide greater clarity, align better with current processes, and appropriately identify certain concepts within the Rules. As a result, the Proposed Amendments should help ensure protection of the market and market participants.
- *DCM Core Principle 13, Disciplinary Procedures:* The Proposed Amendments will enhance the ability of MGEX to enforce its Rules through greater clarity, better alignment with current processes, and appropriate identification of certain concepts within the Rules.

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 June 25, 2019, 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~~.

~~703.00. CLEARING HOUSE: OFFSETS.~~

~~In case a Clearing Member buys and sells the same commodity for the same delivery, the Clearing House shall offset such contracts to the extent of their equality and the Clearing Member shall be deemed a Buyer from the Clearing House to the extent that his purchases exceed his sales, or a Seller to the Clearing House to the extent that his sales exceed his purchases.~~

718.01. OFFSETS AND TRANSFER TRADES.

Offsets and/or position change data must be reported to the Clearing House each day by the established deadlines and in a manner that meets the provisions of MGEX Resolution 2101.00.C. Positions that have been offset at the Exchange may not subsequently be re-opened at the Exchange.

Except by same day trade activity, existing ~~futures~~ Futures positions in a delivery month may not be offset during the period beginning two (2) business days prior to the delivery month and continuing through the end of the delivery month ("Prohibition Period"). Clearing Members will be responsible for compliance with this requirement by their omnibus accounts. This prohibition also applies to transfer trades where no change in ownership is involved when the date of execution or exercise of the position being transferred is not the same as the transfer date. Such positions are required to be offset by trading. If such positions are carried on the books of different Clearing Members, the receiving Clearing Member is responsible for compliance with this Rule.

At its sole discretion, the Department of Audits and Investigations may permit an offset during the Prohibition Period via netting, transfer, or position adjustment. Such adjustments are permissible to correct a bona fide clerical or operational error for an amount less than five percent (5.0%) of the published open interest reported the same morning for which the offset will be reported by the Clearing Member's morning position reporting deadline. Moreover, such adjustments are only permissible if the Department of Audits and Investigations reasonably believes the offset will not adversely impact the market. Such permission does not prohibit ~~A&I~~ the Department of Audits and Investigations from investigating or taking disciplinary action for any alleged violation of the Rulebook.

718.02. CONCURRENT LONG AND SHORT POSITIONS.

Concurrent long and short positions are long and short positions traded in the same Futures for the same delivery month, or Options contract with the same strike price for the same expiration date.

Concurrent long and short positions may be held by a Clearing Member, or non-member FCM, at the discretion of a customer or on behalf of an omnibus account. It is the duty of the FCM carrying the account(s) holding concurrent long and short positions to ascertain

whether such positions are intended for offset or to be held open prior to final submission of position data by the reporting Clearing Member.

Accounts that have had concurrent long and short positions continually reported to the Exchange, may offset such positions at a date later than the original trade date; however, offsets must meet all the provisions of Rule 718.01.

For the purpose of this Rule, hold-open positions are positions offset at the Exchange, but for the convenience of the customer have been held open on the FCM's internal bookkeeping records. Therefore, after being offset at the Exchange, hold-open positions cannot be reported as open interest nor re-established at the Exchange at a later date. An FCM's internal booking records must clearly indicate all hold-open positions. Since hold-open positions only remain open on the FCM's internal records and are not true Exchange positions, no margin is required.

The Exchange does not prohibit the internal bookkeeping of hold-open positions by its Clearing Members. However, the Clearing Member must accurately report to the Exchange, as required by MGEX Rules, all reportable positions, large trader positions, long positions eligible for delivery, and open interest.

900.01. WITHDRAWAL OR REVOCATION OF REGULARITY.

A Regular elevator may withdraw from regularity by providing the Exchange six (6) months prior written notice, unless a shorter notification period is authorized at the sole discretion of the Exchange.

If the designation of a Regular elevator is withdrawn or revoked, the Exchange shall determine the period of time, if any, during which the receipts issued by such elevator shall thereafter be deliverable in satisfaction of futures contracts under the MGEX Rules ~~and Regulations~~. The Exchange shall post such withdrawal or revocation on the Official Bulletin Board and notify all members and receipt holders of record.

In the event of ~~revocation, expiration or withdrawal~~ withdrawal, revocation, or expiration of Regularity, or in the event of sale or abandonment of the properties where Regularity is not reissued, holder(s) of outstanding warehouse receipts shall be given thirty (30) days to take load-out of the commodity from the facility. If a holder of an outstanding warehouse receipt chooses not to take load-out during this period, the facility must provide him with warehouse receipts at another Regular elevator, with adjustments for contract differentials. Alternatively, if such warehouse receipt is unavailable, the facility must provide the holder with an equivalent quantity and quality of grain designated in the warehouse receipts at a mutually acceptable location.

2100.00. REQUIREMENTS FOR CLEARING.

All Futures or Options transactions shall be submitted to the Clearing House to be cleared. The Clearing House shall, through the process of novation, be substituted as, and assume the position of, seller to the buyer and buyer to the seller of the relevant number of Exchange or marketplace contracts upon the successful matching of trade data submitted to the

Exchange by the Clearing Members on the long and short sides of a trade. Upon such substitution, each Clearing Member shall be deemed to have bought the contracts from or sold the contracts to the Clearing House, as the case may be, and the Clearing House shall have all the rights and be subject to all the liabilities of such Member with respect to such transaction. Transactions can only be offset against one another through position/trade reporting by a Clearing Member to the Clearing House. ~~All Futures or Options transactions shall be submitted to the Clearing House to be cleared. Upon acceptance by the Clearing House of such transactions, the Exchange assumes the position of Buyer to the Seller and Seller to the Buyer in respect to such transactions, and the last settling price shall be considered as the contract price.~~

It shall be the duty of each Clearing Member initiating, accepting or executing a transaction for Futures or Options under MGEX Rules ~~and Regulations~~ to submit each such transaction using "TEMS" to the Clearing House. Transactions shall be submitted at times determined by the Exchange (see [Res. 2101.00.C.](#)). The transactions shall be in a format approved by the Exchange and shall contain, at a minimum, the following information:

- A. Date of transaction.
- B. Clearing Member code (two-digit alpha as assigned by the Exchange).
- C. Type of account or origin (Regular (R) or Segregated (S)).
- D. Customer type indicator (CTI) as defined below:
 - CTI 1. Transactions initiated and executed by an individual member for his/her own account, for an account he/she controls, or for an account in which he/she has ownership or financial interest.
 - CTI 2. Transactions executed for the proprietary account of a Clearing Member.
 - CTI 3. Transactions where an individual member or nonmember executes for the personal account of another individual member, for an account the other member controls or for an account in which the other individual member has ownership or financial interest.
 - CTI 4. Any transaction not meeting the definition of CTI 1, 2 or 3.
- E. Quantity, commodity, contract month or expiration month, price or premium, whether the transaction involved a put or a call, strike price, buy or sell.

- F. Both the buying and selling Market Participant's identifier (trader ID/Member mnemonic for electronic trades, Broker ID for open outcry trades) and the opposite Clearing Member's symbol.
- G. Transaction time to the minute.
- H. Indicators for the following types of transactions: (C) cash exchange; (T) office transfer*; (S) spread; (D) delivery; (E) exercise; (R) risk exchange.

*For office transfers, open and close information for the position (open (O), close (C)) must be submitted.
- I. Account number and identification. (For initial set-up and new accounts, provide a listing of account name, type, and position. This information will be available to the President and designated MGEX personnel only.)
- J. Any other information required by the Clearing House.

The Clearing House shall match the trades as submitted and shall list for each Clearing Member its cleared trades and unmatched trades. A recapitulation statement shall be produced, showing updated contract positions and settling all matched trades to the official MGEX settling prices. After completion of the clearing process, the Exchange shall notify each Clearing Member as to the net pay or collect amounts due by account (Regular and/or Segregated). Such amounts shall be submitted by wire transfer of funds or other acceptable method. Amounts due to the Exchange shall be submitted at times determined by the Exchange (see [Res. 2101.00.C.](#)). All clearing statements shall be disseminated by the Exchange to each Clearing Member's designated contact.

If the report of a trade by a Market Participant does not correspond to the report of the other party to the trade, the Clearing House shall reject the trade and notify both Clearing Members showing the discrepancy of the reports. The Clearing Members must thereafter submit corrections to the Clearing House at times determined by the Exchange (see [Res. 2101.00.C.](#)).

It shall be the primary responsibility of the Clearing Member to see that all trades are resolved. Each Clearing Member shall designate a person or persons to be available and responsible for reconciling the Clearing Member's unmatched trades. Failure to have a qualified representative available shall constitute negligence in the determination of responsibility for any unmatched trades.

If a Clearing Member, or one of its ~~affiliated~~ Affiliated entities Entities, has access to the Federal Reserve discount window, it shall notify the Clearing House if such access has been suspended, revoked, removed, terminated, or otherwise limited in any way as soon as practicable.

RESOLUTION 210.01.F.

Pursuant to the provisions of **Rule 210.01. F.**, the Board of Directors has adopted this Resolution.

Limited authority of the Board of Directors to amend MGEX ~~Regulations, Resolutions, and Interpretations~~ Rules and to take emergency action is hereby delegated to Exchange officers. Such authority includes, suspending or curtailing trading, amending Hours of Trading, imposing margin requirements, declaration of holidays, amending reportable position limits, price limits and intraday market restrictions, managing settlement procedures, open or closing periods, fees, forms, notices, deadlines, dress and decorum policies, minimum financial requirements, notification and reporting requirements, striking prices, cash market reporting, recordkeeping requirements, honorary memberships, default procedures, give-up procedures, transferring customer contracts and margins, definition of emergencies, declarations of Force Majeure and action taken as a result of such declarations. The Exchange shall also have the authority to take such market action as may be directed by the CFTC. The President and Chairperson of the Board of Directors may determine whether a ~~Regulation, Resolution or Interpretation~~ Rule can be amended by Exchange officers. Such amendments ~~shall~~ must be forwarded promptly to the Board of Directors.

Further, limited authority of the Board of Directors is hereby delegated to Exchange officers to exercise certain other powers including amending transfer procedures, approving membership requests, transfers, applications and cancellations, approving applications, ~~and~~ renewals, or withdrawals for Regularity, approving applications for Cash Trading Privileges and/or clearing privileges, establishing minimum filing and financial requirements, establishing and amending summary fine schedules, approving standing committee appointments, granting admission to the Exchange Room, and amending the matching algorithm for the electronic trading system. Such approvals and changes ~~shall~~ must be forwarded promptly to the Board of Directors.

Limited authority of the Board of Directors is hereby delegated to MGEX risk management personnel, which ~~shall~~ includes such employees and/or officers as the Exchange, in its discretion, shall determine (collectively, the "MGEX Risk Team"), to independently exercise certain risk management powers and to be responsible and accountable for making risk decisions, including in crises and emergencies. The Board of Directors further assigns the MGEX Risk Team the responsibility for implementing the (i) default rules and procedures required by CFTC Regulations 39.16 and 39.35, (ii) system safeguard rules and procedures required by CFTC Regulations 39.18 and 39.34, and (iii) recovery and wind-down plans required by CFTC Regulation 39.39.