



Via Portal Submission

November 4, 2019
MGEX Submission No. 19-30

Mr. Christopher 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 Regulation 40.6(a); Amendments to MGEX's Risk Management Manual

Dear Mr. Kirkpatrick:

Pursuant to Commodity Exchange Act ("CEAct") Section 5c(c) and Commodity Futures Trading Commission ("CFTC" or "Commission") Regulation 40.6(a), the Minneapolis Grain Exchange, Inc. ("MGEX" or "Exchange") hereby submits a self-certification of amendments (the "Amendments") to MGEX's Risk Management Manual. The Exchange intends to implement the Amendments on November 18, 2019.

Overview of Amendments

MGEX is required to meet certain conditions as part of its registration with the European Securities Market Authority ("ESMA"). Since being recognized by ESMA in 2016, MGEX has only cleared agricultural derivatives contracts, affording it an agricultural product exemption from meeting specific conditions. However, the Exchange intends to clear a commodity derivatives contract that is not based on an underlying agricultural product, thus necessitating changes to its Rulebook and Risk Management Manual. The Amendments to MGEX's Risk Management Manual, including changes to stress testing scenarios, measures to mitigate procyclicality, and to the minimum liquidation period of Clearing Member's proprietary positions, are related to the application of the new rules and are necessary to ensure continued compliance with ESMA. MGEX has respectfully requested confidential treatment for the Amendments to MGEX's Risk Management Manual, which are being submitted concurrently with this submission.

DCO Core Principles

In connection with updating the Risk Management Manual, the Exchange has reviewed the core principles for derivatives clearing organizations ("DCO Core Principles") and has

determined that the amendments comply with the requirements of such principles. During the review, MGEX identified the following DCO Core Principles as potentially being impacted:

- *DCO Core Principle B – Financial Resources:* In anticipation of clearing a new non-agricultural derivatives contract pursuant to ESMA, MGEX is required to maintain financial resources sufficient to enable it to meet its financial obligations to its Clearing Members notwithstanding a default by the two Clearing Members creating the largest combined loss to MGEX in extreme but plausible market conditions. Up until now, MGEX has been a “cover 1” DCO under CFTC Regulation 39.33(c)(1). As a result of its recognition by ESMA, the Risk Management Manual, and specifically the stress testing of financial resources section therein, has been updated to determine the amount of pre-funded financial resources necessary to meet its “cover 2” requirement. This change will also be reflected in MGEX’s quarterly financial resources filings with the Commission.
- *DCO Core Principle D – Risk Management:* CFTC Regulation 39.13 requires DCOs to possess certain risk management tools and procedures, including establishing risk-based initial margin requirements and minimum liquidation periods. With respect to non-agricultural products, MGEX has updated its Risk Management Manual to ensure at least a two-day liquidation period in calculating and collecting Clearing Member’s proprietary positions. Although MGEX’s margin methodology will remain substantially the same, MGEX will calculate and collect margin for Clearing Member proprietary accounts utilizing a two-day liquidation period for non-agricultural based products that are not exempt by ESMA. If margin level increases are necessary, the Clearing House will adjust margin levels accordingly in compliance with its Rules and internal policies.

Additionally, the Exchange has added to its Risk Management Manual measures to mitigate procyclicality. After implementation, the Clearing House will utilize selected anti-procyclicality measures to ensure MGEX remains in compliance with the requirements set forth in the New Rules.

Neither of the above changes to the Risk Management Manual apply to positions in agricultural commodity derivative contracts as excluded by ESMA. As such, the anticipated impact to the Exchange or market participants with respect to agricultural-based products, including Hard Red Spring Wheat futures and options, will be minimal to none.

MGEX hereby certifies that the Amendments to the Risk Management Manual comply with the CEAct and the Commission regulations promulgated thereunder. There were no substantive opposing views to the Amendments, nor is the Exchange aware of any substantive opposing views with respect to this filing.

If there are any questions regarding this submission, please contact me at (612) 321-7144 or mleisen@mgex.com. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Matthew Leisen". The signature is written in a cursive style with a prominent initial "M" and a long, sweeping underline.

Matthew D. Leisen
Associate Counsel, MGEX Clearing