

Via Electronic Portal November 6, 2014

 MGEX Submission No. 14-23

Mr. Christopher Kirkpatrick

Secretary of the Commission

Commodity Futures Trading Commission

Three Lafayette Centre

1155 21st Street NW

Washington, DC 20581

**RE: Request for Approval of Amendments to MGEX Regulations Pursuant to CFTC Regulation 40.5(a)**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Exchange Act (“CEAct”) Section 5c(c) and Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.5(a), the Minneapolis Grain Exchange, Inc. (“MGEX” or “Exchange”) is requesting approval for the Rulebook amendments attached in Exhibit A to MGEX Regulations 2012.00. and 5407.00., effective Monday, December 22, 2014 for trade date Tuesday, December 23, 2014. Specifically, MGEX is seeking approval to amend the method by which daily price limits expand for hard red spring wheat (“HRSW”) and Apple Juice Concentrate (“AJC”) futures contracts. The requested approval will apply to all contract months listed as of the effective date and all subsequent contract months.

**Background**

The Commission allows designated contract markets to adopt price limits in Appendices B and C to Part 38, and the Exchange previously adopted daily price limits for all futures and options contracts, including HRSW, AJC, national corn index, national soybean index, and the wheat indices. As recommended in Appendix C to Part 38, MGEX believes these price limit levels allow the Exchange to reduce price movements in a trading day that may not be reflective of true market conditions, but are not overly restrictive and provide a “cooling-off” period and extra time to collect margins. MGEX has adjusted price limits when market conditions justified such changes, most recently in 2008 when wheat cash markets experienced extreme price increases that necessitated an increase to the daily price limit for HRSW futures and wheat index contracts. Given that the cash price movements underlying the HRSW futures contracts were increasing at extraordinary rates beyond the HRSW futures price limits, MGEX also allowed for the possibility of a continuing, expanding price limit at that time. More specifically, if two or more wheat futures contract months within a crop year closed at limit bid or offer, then the daily price limit for all contract months would increase by 50 percent the next business day. The price limit would continue to increase by an additional 50 percent each subsequent day that two or more contract months within a crop year closed at limit bid or offer, and daily price limits would only revert back to the original limit of $0.60 after no wheat futures contract month closed at limit bid or offer for three consecutive business days.

At the time the Exchange implemented the current price limits, MGEX believed that the price limit expansion mechanism described above was necessary given the market conditions at the time. Short position holders were encountering difficulties in closing out of their positions because of the continued rise of cash grain prices, and the increase was needed to assist in the orderly liquidation of positions. In addition, the price limits were hindering price discovery and risk mitigation, and position holders were put at risk, thereby impeding the purpose of a futures market.

**Proposed Amendments and Rationale**

The Exchange aims to amend MGEX Regulations 2012.00. and 5407.00., so that while price limits on wheat and AJC futures contracts will continue to increase by 50 percent if two or more contract months close at the limit bid or limit offer, as they currently do, the price limits will not thereafter continue to expand. The current regular price limits on such futures will not be altered, nor do the amendments change the way spot month price limits are treated. MGEX believes these amendments are in the best interest of the Exchange and its market participants because the changes reduce uncertainty and reflect industry standards.

In considering this amendment and its potential impact on market participants and the broader market, the Exchange analyzed daily settlement price data for the past five years. During that period, at no time did the price limits expand beyond the initial 50 percent increase. The proposed amendments are consequently not overly restrictive and will not inhibit market fluctuations in a detrimental way or interfere with true price discovery. In addition, since the daily price limits can still expand under the proposal, market participants will continue to be able to react to cash market moves and conditions, allowing for price convergence. Thus, the amendments will not adversely affect market participants, MGEX, or the broader market.

**Public Feedback and Opposing Views**

The Exchange requested public feedback regarding the proposed amendments by posting notification on its website homepage, as well as emailing a memorandum to MGEX Members. The notification and request for comments or feedback remained on MGEX’s website from September 22, 2014 to October 23, 2014. During that period, the Exchange received no comments in opposition to the proposal. Management also described the proposed amendments to the MGEX Board of Directors at the October 28, 2014 Board meeting. The Board offered its unanimous support of the proposal and no Director expressed any opposition to the amendments. The Exchange is not aware of any other substantive opposing views with respect to the proposed amendments.

**Core Principles**

The Exchange 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*: Trading in the HRSW and AJC futures contracts is subject to the MGEX Rules and Regulations, which include trade practice rules and prohibitions against fraudulent trading and abusive or manipulative practices. In addition, the MGEX Department of Audits and Investigations performs market and trade practice monitoring and surveillance for the products, and has the authority to exercise its investigatory and enforcement powers when potential rule violations are identified. Changing the way in which price limits may expand will not affect the Exchange’s capacity to ensure and enforce compliance with its rules and conduct market and trade practice surveillance as required under the CEAct and CFTC regulations.
* *DCM Core Principle 4, Prevention of Market Disruption*: Appropriate price limits establish boundaries that allow the market to reflect and adjust to shocks and major price moves without becoming too intrusive or disruptive to trading. The proposed amendments will continue to help prevent market disruption while also allowing the price limits to expand should large moves in the underlying cash price occur. The expansion mechanism allows the market to serve the functions of price discovery and convergence while reducing uncertainty, thereby providing a more efficient market for all participants.
* *DCM Core Principle 7, Availability of General Information*: MGEX will ensure that information regarding price limits, a term and condition of its HRSW and AJC futures contracts, is readily available to the public and is accurate and clear. Information regarding price limits, including the price limit expansion methodology, is published in the MGEX Rulebook, which is available on the Exchange’s public website. In addition, MGEX will publish the amendments on its website and send an email regarding the same to all of its Members.
* *DCM Core Principle 9, Execution of Transactions*: price limits allow the futures price discovery process to function satisfactorily while providing certain protections during periods of high volatility. The proposed amendments will further this goal without hindering price moves within the market and convergence.
* *DCM Core Principle 12, Protection of Markets and Market Particip*ants: appropriate price limits establish boundaries that allow the market to reflect and adjust to price movements without being too intrusive and protecting market participants from excessive price fluctuations or abusive practices. Since the proposed amendments are tailored to the needs of the market, they allow for relevant price moves and will not affect MGEX’s ability to promote fair and equitable trading.

With the approval of the President and Chairperson of the MGEX Board of Directors and in accordance with the limited authority delegated by the Board to Exchange officers in MGEX Resolution 210.01.F., the Exchange officers unanimously approved the attached amendment of Regulations 2012.00. and 5407.00.

Pursuant to Section 5c(c) of the CEAct and CFTC Regulation 40.5(a), the Exchange hereby certifies that amendment of the attached Regulations of the MGEX Rules and Regulations complies with the CEAct and the Commission regulations promulgated thereunder. MGEX further certifies that the submission and pending changes to the MGEX Rules and Regulations have been concurrently posted on the Exchange website at the following link: <http://www.mgex.com/regulation.html>.

If there are any questions regarding this submission, please contact me at (612) 321-7143. Thank you for your attention to this matter.

Sincerely,



Lindsay R. Hopkins

Clearing House Counsel

Enclosures

cc: Thomas J. Bloom

**EXHIBIT A**

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

## 2012.00. TRADING LIMITS.

Trading is prohibited during any day in Futures Contracts of commodities traded on this Exchange at a price outside the limit above or the limit below either the settlement price for such commodity on the previous business day or the price of the first trade during the first day of trading in a Futures Contract.

A. Wheat $0.60 per bushel

 Should two or more wheat Futures Contract months within a crop year close at limit bid or limit offer, the daily price limits for all contract months shall increase by 50 percent the next business day. Daily price limits shall revert back to $0.60 the business day after which no wheat Futures Contract month closes at the expanded limit bid or limit offer.

B. National Corn Index $0.40

1. National Soybean Index $0.80
2. Wheat Indices $0.60

Notwithstanding the foregoing provisions, there shall be no price limits on the spot Hard Red Spring Wheat Futures Contract month commencing the first business day after expiration of non-serial options on the spot month.

Further, there shall be no price limits on Index Futures and Options Contracts commencing two business days preceding the first business day of the expiring contract month.

## 5407.00. DAILY PRICE LIMITS.

Daily price limits shall be set by the Exchange. The daily price limits shall be one dollar ($1.00) per gallon. Trading is prohibited during any business day at a price outside the limit above or the limit below either the settlement price of AJC futures on the previous business day, or the first trade executed for an unopened contract month.

Should two or more of the first four AJC futures contract months close at limit bid or limit offer, the daily price limits for all contracts months shall increase by fifty percent the next business day. Daily price limits for all contract months shall revert back to $1.00 the business day after which no contract month closes at the expanded limit bid or limit offer.

However, there shall be no price limits on the delivery AJC futures contract month commencing the first business day after expiration of non-serial options on the delivery month.