



Via Portal Submission

November 24, 2021
MGEX Submission No. 21-70

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

RE: Listing New Product for Trading by Certification Pursuant to CFTC Regulation 40.2

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act (“CEAct”) and Commodity Futures Trading Commission (“CFTC”) Regulation 40.2(a), the Minneapolis Grain Exchange, LLC (“MGEX” or the “Exchange”) hereby certifies that the following attached Rules containing the terms and conditions and governing the trading of futures on the SIG Index Licensing, LLC (“SIL”) U.S. Capital Gains Tax Rate Index (the “Index”), as well as the product itself (“TAX Futures Contract”), comply with the CEAct and the CFTC regulations promulgated thereunder. MGEX further certifies that notice of pending product certification with the CFTC and a copy of this submission (other than those exhibits for which confidential treatment has been requested) have been posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

Attached as exhibits to this submission are the following:

1. New Chapter 90 Rules, which the MGEX Board of Directors unanimously approved the adoption of on September 30, 2021 pursuant to the authority set forth in Bylaw 3.1. (see Exhibit A). These product Rules include all Rules related to the terms and conditions of the TAX Futures Contract. There were no substantive opposing view expressed by the Board, nor is MGEX aware of any substantive opposing views with respect to this filing.
2. A concise explanation and analysis of the TAX Futures Contract and its compliance with applicable core principles and CFTC regulations (see Exhibit B).
3. Information about the product and its development, a detailed cash market description, an analysis of the economic need and justification for the TAX Futures Contract, and other information demonstrating that the TAX Futures Contract is not readily susceptible to manipulation, as required by Appendix C to Part 38 of CFTC regulations (see Exhibit C).
4. Legal analysis regarding the classification of the TAX Futures Contract to address certain questions raised by the Commission (see Exhibit D).

MGEX is requesting confidential treatment of Exhibits C and D in accordance with Regulations 40.8 and 145.9. An additional redacted version of this submission is included as required by Regulation 40.8(c)(3).

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In an effort to receive public and market participant feedback regarding the contract, the Exchange published the proposed product Rules and contract specifications on its website on October 26, 2021 and issued a memo to Clearing Members seeking feedback. As of the time of this submission, no material concerns have been received.

MGEX intends to list the TAX Futures Contract for trading on the CME Globex® platform commencing on the December 6, 2021 trade date. Should the Exchange change this date, it will post notice on its website of the new launch date when known.

If there are any questions regarding this submission, please contact me at (612) 321-7128 or psparby@mgex.com. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter D. Sparby". The signature is written in a cursive, flowing style.

Peter D. Sparby
Corporate Counsel

Enclosures

EXHIBIT A

The Exchange is amending its Rules by adding the following chapter to the MGEX Rules.

CHAPTER 90 CAPITAL GAINS TAX FUTURES

- 90.1. Authority
- 90.2. Scope Of Chapter
- 90.3. Capital Gains Tax Rate Index: Definition
- 90.4. Contract Trading Unit
- 90.5. Minimum Price Increment
- 90.6. Trading Months
- 90.7. Trading Days And Hours
- 90.8. Last Trading Date
- 90.9. Final Settlement Date
- 90.10. Cash Settlement
- 90.11. Official Closing Period
- 90.12. Daily Settlement Price
- 90.13. Trading Halts
- 90.14. Offsets And Transfer Trades
- 90.15. Block Trades
- 90.16. Position Accountability
- 90.17. Aggregation Of Positions
- 90.18. Reportable Positions And Trading Volume
- 90.19. Contract Modifications
- 90.20. Emergencies

U.S. CAPITAL GAINS TAX RATE INDEX FUTURES CONTRACTS RISK
DISCLOSURE AND DISCLAIMER (see end of Chapter)

CHAPTER 90 CAPITAL GAINS TAX FUTURES

90.1. AUTHORITY.

Trading in Capital Gains Tax Futures (base symbol 'CGT') may be conducted under such terms and conditions as the Board of Directors and/or the Exchange will determine, subject to the Commodity Exchange Act, as amended, and CFTC regulations promulgated thereunder.

90.2. SCOPE OF CHAPTER.

This Chapter is limited in its application to Futures trading on the Capital Gains Tax Rate Index ("TAX Futures Contract"). Electronic trading, clearing, daily settlement, delivery of cash settlement, and any other matters not specifically covered in this Chapter will be governed by the MGEX Rules, or otherwise delegated to the Exchange to establish policies and procedures that implement the MGEX Rules. In the event the provisions of this Chapter conflict with any other MGEX Rules, those listed within this Chapter and as applicable to the TAX Futures Contract supersede such MGEX Rules outside of this Chapter.

90.3. CAPITAL GAINS TAX RATE INDEX: DEFINITION.

The Capital Gains Tax Rate Index (the "Tax Index") tracks the highest capital gains tax rate imposed by the United States federal government on capital gains of individuals, as published in Section 1(h)(1)(D) of the Internal Revenue Code of 1986 (as amended and as it may be further amended from time to time, and any successor statutes thereto). The Tax Index value is calculated by multiplying the capital gains tax rate percent specified above, by 100. The Tax Index is calculated and distributed each Business Day at 8:00 a.m. Central Time.

90.4. CONTRACT TRADING UNIT.

The unit of trading will be the value of the TAX Futures Contract multiplied by one hundred U.S. dollars (\$100).

90.5. MINIMUM PRICE INCREMENT.

Except as provided in this Rule, the minimum price increment in the TAX Futures Contract will be 0.10 index points, which has a value of \$10. All prices are quoted in U.S. dollars.

For spread trades, the individual legs and net prices in the TAX Futures Contract may be in increments of 0.10 index points, which has a value of \$10.

90.6. TRADING MONTHS.

The months available for trading in TAX Futures Contracts and the number of months available for trade at one time will be determined by the Exchange.

90.7. TRADING DAYS AND HOURS.

A trading day is a Business Day on which trading of TAX Futures Contracts is permitted. Trading days are determined by the Exchange. The Hours of Trading for TAX Futures Contracts will constitute a single trading session for a Business Day.

Unless otherwise specified by the Exchange in relation to Exchange holidays, the Hours of Trading for TAX Futures will be 8:30 a.m. – 3:00 p.m. Monday – Friday Central Time.

90.8. LAST TRADING DAY.

The last trading day for the TAX Futures Contract ends at 3:00 p.m. Central Time on the trading day immediately before the final settlement date, generally the Thursday preceding the third Friday of a calendar month. Should the last trading day be a holiday, the last trading day will be moved one day prior to Wednesday.

90.9. FINAL SETTLEMENT DATE.

The final settlement date for the TAX Futures Contract is the third Friday of a calendar month. Should the third Friday of the month be a holiday, the final settlement date will be moved one day prior to Thursday, and the last trading day will be moved to Wednesday.

90.10. CASH SETTLEMENT.

TAX Futures Contracts will be cash settled to the final settlement date's Tax Index value, and delivery of the cash settled amount will occur on the Business Day immediately following the final settlement date. The final settlement price of the TAX Futures Contract will be rounded to the nearest \$.01. If the settlement price is not available or the normal settlement procedure cannot be utilized due to a trading disruption or other unusual circumstance, the settlement price will be determined in accordance with Exchange procedures.

The Exchange makes no warranty, express or implied, as to the results of the final Tax Index settlement price. Information included in, or used in the calculation of, such index is obtained from sources believed to be reliable, but the Exchange makes no guarantee as to its accuracy or completeness and will have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the index or its calculation, or arising out of any errors or delays in calculating or disseminating such index.

90.11. OFFICIAL CLOSING PERIOD.

The official closing period of the TAX Futures Contract will be from 2:59:00 p.m. to 2:59:59 p.m. Central Time.

90.12. DAILY SETTLEMENT PRICE.

The Exchange will calculate the daily settlement price for each TAX Futures Contract in the following manner for each Business Day. The settlement price will be consistent with the minimum fluctuations of the contract.

- A. The settlement price for the lead month will be determined by the volume-weighted average of outright trades and applicable bids and offers made in the closing period on the Electronic Trading System. For purposes of this Rule, the lead month will be determined by the Exchange and is generally the most active month. The lead month will change at the time when the daily volume and open interest in the contract month following the current lead month is greater than the daily volume and open interest in the lead month for two (2) consecutive Business Days. If there is no volume-weighted average of the outright, then the last trade price is compared to the current bid/ask. If the last trade price is outside of the bid/ask spread, then the contract settles to the nearest bid/ask price. If the last trade price is within the bid/ask spread or if a bid/ask is not available, then the contract settles to the last trade price. If there is no last trade price available, then the prior settlement is compared to the current bid/ask. If the prior settlement is outside of the bid/ask spread, then the contract settles to the nearest bid/ask price. If the prior settlement is within the bid/ask spread or if a bid/ask is not available, then the contract settles to the prior settlement price.
- B. All non-lead months are deferred contract months and settle based upon the volume-weighted average of calendar spread transactions made in the

closing period on the Electronic Trading System. If there are no relevant calendar spreads, bids and offers in those calendar spreads will be used in conjunction with settlements from any months where a settlement price has been determined to form an implied market in the contract to be settled. These implied markets, along with the outright bid/ask market for the contract, will be used to derive the best possible bid and best possible ask, and the contract will settle at the midpoint of the bid/ask spread.

- C. Notwithstanding the above, if such settlement price is not consistent with the settlements in other months or with market information, or if the settlement was inaccurately determined, a new settlement price may be established at a level consistent with such other settlement prices or market information and a written record setting forth the basis for any modification of such settlement price will be prepared.
- D. The Exchange may in its sole discretion modify the settlement price prior to the start of the day's final clearing process if the settlement price arose from data entry errors made by or on behalf of the Exchange, and modification of the settlement price is necessary to prevent market distortion. A written record will be prepared setting forth the basis for any modification. In addition, the Exchange reserves the right to change which contract month is the lead month when, in its discretion, doing so is in the best interest of the marketplace. If any such change to the lead month is made pursuant to this Rule, the Exchange shall provide notification to the public via the MGEX website or other means it deems effective.

90.13. TRADING HALTS.

If a decline in the S&P 500 Index triggers a market wide circuit breaker, a TAX Futures Contract trading halt will occur.

90.14. OFFSETS AND TRANSFER TRADES.

Positions reported as 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 TAX Futures positions in an expiring TAX Futures Contract month may not be offset during the period beginning two (2) Business Days prior to the first Business Day of the expiring month and continuing through the end of the settlement date of the expiring TAX Futures Contract ("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 the Department of Audits and Investigations from investigating or taking disciplinary action for any alleged violation of the Rulebook.

90.15. BLOCK TRADES

For purposes of this Rule, Block Trades are defined as large transactions that are privately negotiated off the Exchange's Electronic Trading System and can only be entered into by Eligible Contract Participants, as defined in Section 1a(18) of the Commodity Exchange Act.

Block Trades are permitted to be executed in the TAX Futures Contract, provided they are in accordance with the following provisions:

- A. A Block Trade must be for a quantity that is at or in excess of the applicable minimum threshold. Orders for different accounts may not be aggregated in order to achieve the minimum transaction size. The Block Trade minimum threshold in the TAX Futures Contract is 500 contracts.
- B. A Party shall not execute any order as a Block Trade for a customer unless such customer has specified that the order be executed as a Block Trade.
- C. The Block Trade is executed competitively at a price that is fair and reasonable with consideration to the prevailing market price of the TAX Futures Contract. The minimum price increment for a Block Trade in the TAX Futures Contract is 0.10 index points.
- D. Block Trades will not trigger conditional orders or otherwise affect orders in the underlying TAX Futures Contract traded on the Electronic Trading System.
- E. Clearing Members must ensure that each side of the Block Trade is reported to the Exchange within fifteen (15) minutes (but in no case later than 3:15 p.m. Central Time) and in the manner specified by the Exchange.

The reporting of each side of the Block Trade must include the: contract, contract month, price, quantity of the transaction including quantities for each leg, buy/sell side, CTI and Regular (House) or Segregated (Customer) indicators, account number, the respective Clearing Members, the time of execution, and any other information required in accordance with MGEX Rules.

- F. Each counterparty to a Block Trade must have a separate and independent bona-fide legal or business purpose for entering into the Block Trade.
- G. Parties involved in the solicitation or negotiation of a Block Trade may not disclose the details of such communication to any other party for any purpose other than to facilitate the execution of the Block Trade.

90.16. POSITION ACCOUNTABILITY.

The position accountability levels for TAX Futures Contracts is ownership or control at any time of more than 50,000 contracts net long or net short in all TAX Futures Contracts combined.

90.17. AGGREGATION OF POSITIONS.

In determining whether any Market Participant has exceeded the position accountability levels, all positions in accounts for which such Market Participant, by power of attorney or otherwise directly or indirectly holds positions or controls trading or holds a ten percent (10%) or great ownership or equity interest will be included with the positions held by such Market Participant. Such limits upon positions accountability levels will apply to positions held by two (2) or more Market Participants acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single Market Participant. The Exchange will follow the CFTC definition of aggregation and the procedures for aggregating positions as described in CFTC regulations as applicable.

90.18. REPORTABLE POSITION AND TRADING VOLUME.

- A. Pursuant to CFTC Regulation 15.03 and Part 17, any open position level in the TAX Futures Contract at the close of trading on any trading day equal to, or in excess of, 25 contracts on either side of the market is required to be reported to the CFTC. All such positions will be reported in a manner and form as designated by the CFTC or the Exchange.
- B. Pursuant to CFTC Regulation 15.04 and Part 17, a volume threshold account that has trading volume in the TAX Futures Contract during a single trading day equal to, or in excess of, 50 contracts is required to be reported

to the CFTC. All such positions must be reported in a manner and form as designated by the CFTC or the Exchange.

90.19. CONTRACT MODIFICATIONS.

Specifications are fixed for the duration of the contract month upon the first trade in that contract month. However, a change in any Federal law, regulation, ruling, directive, or order that conflicts with these Rules or specifications will become effective upon notice by the Exchange. Additionally, the Board of Directors and/or the Exchange are granted the authority to change contract specifications as it deems appropriate or necessary, or to conform to any other applicable law, rule, or regulation that conflicts with these Rules or specifications, for any unopened contract month, as well as to change contract specifications for any contract month with open interest upon approval by the CFTC.

To maintain the purpose and viability of the TAX Futures Contract, the Board of Directors and/or the Exchange are granted the authority to change the MGEX Rules not directly affecting contract specifications at any time and implement such change as may be determined.

90.20. EMERGENCIES.

In the event of an emergency, as determined by the Exchange, the Board of Directors will have the authority and power to follow the procedures described in MGEX [Bylaw 2.4](#). The Board of Directors may delegate such powers as it deems necessary to the Executive Committee, Exchange Officer(s), or other Exchange employees.

An emergency may include, but is not limited to, events of Force Majeure, interference, interruptions, breakage of communication, accident, or any event or occurrence that is causing or may cause disruption in the marketplace.

Additionally, in the event of an emergency, the Board of Directors or its delegate(s) will have the authority and power to utilize such sources, means, or methods that it determines to be in the best interest of the Exchange and the market.

The decision of the Board of Directors, Executive Committee, Exchange Officer(s), or other Exchange employees as delegated, will be final and binding upon all parties. The Exchange will not be liable to any party because of actions and decisions taken in good faith.

U.S. CAPITAL GAINS TAX RATE INDEX FUTURES CONTRACTS RISK DISCLOSURE AND DISCLAIMER

The risk of loss in trading commodity futures contracts can be substantial. You should carefully consider the risks of trading commodity futures contracts generally and the unique risks of trading U.S. Capital Gains Tax Rate Index futures contracts (“TAX Futures Contracts”) in particular before entering into any trade. There are unknown tax implications and tax treatments associated with trading these contracts. No federal guidance has been issued as to whether this product will qualify for treatment as a hedging transaction. Furthermore, no federal law or guidance exists on the deductibility of the costs incurred in trading TAX Futures Contracts, whether for speculative or hedging purposes. Likewise, the tax treatment related to TAX Futures Contracts for realizing, recognizing or offsetting gains or losses, whether capital or ordinary, is not known. Any of the above risks may result in adverse consequences, including non-deductibility of expenses or losses, and non-favorable tax treatment of gains or losses. EACH MARKET PARTICIPANT WHO CHOOSES TO TRADE TAX FUTURES CONTRACTS DOES SO AT THEIR OWN RISK, AND IS RESPONSIBLE FOR ANY TAX CONSEQUENCES AND REPORTING OF THEIR TRADE ACTIVITY UNDER RELEVANT GOVERNMENT AUTHORITIES AND JURISDICTIONS. THEREFORE, IT IS HIGHLY RECOMMENDED THAT EACH MARKET PARTICIPANT CONSULT THEIR PROFESSIONAL TAX ACCOUNTANT OR ATTORNEY BEFORE TRADING TAX FUTURES CONTRACTS.

EXHIBIT B

Brief Overview of the Product

MGEX proposes to list and trade futures on the SIG Index Licensing, LLC (“SIL”) U.S. Capital Gains Tax Rate Index (the “Index”), which is an index that calculates and measures the capital gains tax rate imposed for each taxable year by the United States federal government on capital gains of individuals, as published in Section 1(h)(1)(D) of the Internal Revenue Code of 1986 (as amended and as it may be further amended from time to time, and any successor statutes thereto).

Futures on the Index (“TAX Futures Contract”) will be cash-settled. Like all of the Exchange’s current products, the TAX Futures Contract will trade on the CME Globex® trading platform and be cleared by the MGEX Clearing House. Additionally, MGEX will monitor and conduct regulatory oversight, surveillance, and enforcement as it does now for all MGEX contracts.

A thorough description of the Index and the TAX Futures Contract, as well as its design, are included in Exhibit C.

Concise Explanation and Analysis of the Product’s Compliance with DCM Core Principles

MGEX believes the TAX Futures Contract meets the requirements of the CEAct and the CFTC regulations promulgated thereunder. Among other terms and conditions, MGEX Rules govern and provide for position accountability levels, reportable positions, minimum price increments, trading months and hours, daily price limits, and a transparent settlement process.

The Exchange has reviewed the core principles for designated contract markets (“DCM Core Principles”) and has determined that the product Rules comply with the requirements of such principles. Applicable DCM Core Principles include:

- *Core Principle 2 – Compliance with Rules.* MGEX is submitting Chapter 90 which sets forth contract terms and conditions and governs the trading of the TAX Futures Contract. This chapter, as well as current MGEX Rules, will serve to prohibit various forms of abusive trading practices or misconduct. The MGEX Department of Audits and Investigations will have full authority and the ability to monitor the market and investigate and enforce the MGEX Rules.
- *Core Principle 3 – Contracts not Readily Subject to Manipulation.* The TAX Futures Contract is not readily susceptible to manipulation, as discussed at length in Exhibit C.

- *Core Principle 4 – Prevention of Market Disruption.* MGEX has the capacity and ability to monitor and prevent manipulation, price distortion, and disruptions of the cash-settlement process through market and trade practice surveillance and enforcement practices and procedures. MGEX can create and maintain comprehensive and accurate trade reconstructions.
- *Core Principle 5 – Position Limitations or Accountability.* While the Exchange does not believe the TAX Futures Contract is readily susceptible to manipulation, MGEX has nonetheless adopted position accountability levels. These position accountability levels are codified in Rule 90.16.
- *Core Principle 7 – Availability of General Information & Core Principle 8 – Daily Publication of Trading Information.* The TAX Futures Contract terms and conditions, as well as trade volume and price information, will be disseminated to the public and posted on the MGEX website pursuant to DCM Core Principles 7 and 8.
- *Core Principle 9 – Execution of Transactions.* As noted earlier, the TAX Futures Contract will be listed on the CME Globex® platform, and MGEX will clear all transactions.
- *Core Principle 10 – Trade Information.* In accordance with Exchange procedures, MGEX will record and save all trade information as part of an audit trail which will be fully accessible to the Department of Audits and Investigations for surveillance and enforcement purposes.
- *Core Principle 11 – Financial Integrity of Transactions.* MGEX will continue to comply with monitoring the financial integrity of clearing members and futures commission merchants, as well as ensuring the protection of customer funds.
- *Core Principle 12 – Protection of Markets and Market Participants.* Current MGEX Rules contain general and specific prohibitions against the abuse of the markets and market participants that will also apply to the trading of the TAX Futures Contract. MGEX can enforce its Rules and take disciplinary action against those harming the market or market participants.

As a result, MGEX believes the TAX Futures Contract and the proposed Rules are consistent with the CEAct and CFTC regulations, including DCM Core Principles. In addition, when relevant, all Exchange Rules that currently apply to market participants and the trading of other MGEX contracts will also apply to the trading of the TAX Futures Contract. The full MGEX Rulebook is available at <https://www.mgex.com/documents/20211111-Rulebook.pdf>.