



Via Portal Submission

November 18, 2014  
MGEX Submission No. 14-27

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

**RE: Self-Certification of Hard Red Spring Wheat Calendar Spread Options Pursuant to CFTC Regulation 40.2(a)**

Dear Secretary Kirkpatrick:

Pursuant to Commodity Exchange Act ("CEAct") Section 5c and Commodity Futures Trading Commission ("CFTC") Regulation 40.2(a), the Minneapolis Grain Exchange, Inc. ("MGEX") hereby certifies that the attached regulations relating to the terms and conditions for Hard Red Spring Wheat Calendar Spread Options ("HRSW CSOs") comply with the CEAct and all applicable CFTC Regulations promulgated thereunder. MGEX intends to list HRSW CSOs for trading on the Globex® electronic trade platform within the coming months.

Calendar spread options provide market participants the opportunity to trade calendar spreads in a single transaction, as opposed to buying and selling individual options in separate delivery months. For years, traders have utilized spread trading between different delivery month HRSW futures as an effective hedging and price discovery tool. A number of market participants trading in MGEX HRSW futures and options approached MGEX about adding HRSW CSOs to further assist in managing exposure to volatility in the underlying spread.

MGEX HRSW CSOs will be a cash settled, European-style exercised option. Upon exercise of the HRSW CSO, a market participant will be left with two offsetting positions in specified nearby and deferred contract months, as the case may be. MGEX plans to make available for trading the following HRSW CSO permutations: (1) monthly consecutive spreads, for example March-May; (2) annual monthly spreads, for example September 2015-September 2016; and (3) monthly non-consecutive spreads – March-July, March-September, March-December, May-September, May-December, and May-March. Detailed contract specifications as codified in Chapter 57 of the MGEX Rules and Regulations are attached as Exhibit A.

In addition to self-certifying the provisions of Chapter 57, MGEX also certifies that the attached amendments to MGEX Regulation 2015.00. relating to Settlement Premiums

comply with all applicable provisions of the CEAct and CFTC Regulations. A copy of Regulation 2015.00., as amended, is attached as Exhibit B.

MGEX has reviewed the core principles for designated contract markets (“DCM Core Principles”) in connection with the adoption of Chapter 57 of the MGEX Rules and Regulations and MGEX Regulation 2015.00., and has determined that the attached regulations comply with the following applicable DCM Core Principles:

- *DCM Core Principle 2, Compliance with Rules:* HRSW CSOs will be regulated by the contract specifications found in Chapter 57 of the MGEX Rules and Regulations. In addition, HRSW CSO trading is subject to all applicable MGEX Rules and Regulations prohibiting abusive, fraudulent, or deceptive trade practices, including but not limited to Chapter 7 and Regulation 2007.00. of the MGEX Rules and Regulations. HRSW CSOs will be subject to daily scrutiny and monitoring by the MGEX Department of Audits and Investigations (“A&I”). Pursuant to the MGEX Rules and Regulations, A&I has the power and authority to pursue formal investigations and issue a range of disciplinary measures, ranging from summary fines to notice of charges to the MGEX Disciplinary Committee.
- *DCM Core Principle 3, Contracts Not Readily Subject to Manipulation:* HRSW CSOs are based on MGEX’s flagship HRSW contract, which has a robust market and liquidity. Furthermore, manipulation in contravention of the CEAct and CFTC Regulations is prohibited by the MGEX Rules and Regulations, and subject to continual monitoring by A&I.
- *DCM Core Principle 4, Prevention of Market Disruption:* HRSW CSOs will be monitored by A&I in a manner consistent with all other futures and options traded on MGEX. HRSW CSOs will also be governed by all applicable MGEX Rules and Regulations that relate to preventing market disruption.
- *DCM Core Principle 5, Position Limitations or Accountability:* Position limits for HRSW CSOs are the same as those CFTC Regulations currently in effect for position limits for HRSW. Positions in HRSW CSOs will be aggregated by user with all other positions in HRSW futures and options contracts to ensure compliance with the MGEX Rules and Regulations and CFTC Regulations.
- *DCM Core Principle 7, Availability of General Information:* The specifications of HRSW CSOs, as well as the rules governing their trade and clearing, are detailed in the MGEX Rules and Regulations, which are publicly available. In addition, daily trade information will be published daily on the MGEX website.
- *DCM Core Principle 8, Daily Publication of Trading Information:* Daily trade information for HRSW CSOs will be posted on the MGEX website, and made a part of all regularly issued reports and publications that MGEX issues for its futures and options contracts.
- *DCM Core Principle 9, Execution of Transactions:* HRSW CSOs will be available for trade on the Globex® electronic trading platform during regular trading hours and will meet CFTC execution requirements. The Globex® electronic trading

platform allows for competitive and open execution of transactions by market participants worldwide.

- *DCM Core Principle 10, Trade Information:* Trade information for HRSW CSOs will be collected and maintained consistent with other futures and options contracts traded on MGEX. Included in the collected audit trail is all necessary information for A&I to monitor for market abuse.
- *DCM Core Principle 11, Financial Integrity of Transactions:* All contracts traded on MGEX, including the forthcoming HRSW CSOs, are cleared by the MGEX Clearing House, which is a Subpart C derivatives clearing organization with the CFTC, subject to all applicable CFTC Regulations.
- *DCM Core Principle 12, Protection of Markets and Market Participants:* The MGEX Rules and Regulations prohibit market participants from abusive practices, including abuses committed by a party's agent. These provisions are equally applicable to all futures and options contracts, including HRSW CSOs.
- *DCM Core Principle 13, Disciplinary Procedures:* Chapter 12 of the MGEX Rules and Regulations contain disciplinary regulations that permit MGEX to discipline members or market participants that violate any applicable rules. Trading in HRSW CSOs are subject to the disciplinary processes of Chapter 12, and A&I has the authority to exercise its enforcement power to the extent rule violations are detected.
- *DCM Core Principle 14, Dispute Resolution:* Any disputes pertaining to HRSW CSOs by members or other market participants are subject to arbitration under Chapters 4 or 5 of the MGEX Rules and Regulations.

The MGEX Board of Directors unanimously approved to adopt Chapter 57 and amended Regulation 2015.00. at its October 28, 2014 Board meeting. There were no substantive opposing views expressed by the Board of Directors, nor is the Exchange aware of any other substantive opposing views with respect to this filing.

MGEX certifies that notice of pending product certification with the CFTC and a copy of this submission have been posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

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

Sincerely,



Aaron C. Nyquist  
Assistant Corporate Counsel

Enclosure

## EXHIBIT A

**CHAPTER 57**  
**HARD RED SPRING WHEAT CALENDAR SPREAD OPTIONS REGULATIONS**

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## **5700.00. AUTHORITY.**

Trading in Hard Red Spring Wheat (“HRSW”) Calendar Spread options may be conducted under such terms and conditions as the Board of Directors shall determine by Rule, Regulation or Resolution, subject to the Commodity Exchange Act, as amended, and Commodity Futures Trading Commission (“CFTC”) regulations promulgated thereunder.

## **5701.00. SCOPE OF CHAPTER.**

This Chapter is limited in application to trading in put and call options on HRSW Calendar Spreads. The procedures for trading, clearing and settlement and any other matters not specifically covered herein shall be governed by the MGEX Rules and Regulations, or delegated to the Exchange to establish policies and procedures that implement the MGEX Rules and Regulations.

## **5702.00. PUT OPTIONS ON THE HRSW CALENDAR SPREADS.**

The buyer of one (1) HRSW Calendar Spread put option may exercise such option only upon option expiration, subject to **Regulation 5715.00.**, to assume a short position in one (1) HRSW futures contract of a nearby specified contract month, and a long position in one (1) HRSW futures contract of a deferred specified contract month, at a strike price set at the time the option was purchased.

The seller of one (1) HRSW Calendar Spread put option incurs the obligation of assuming a long position in one (1) HRSW futures contract of a nearby specified contract month, and a short position in one (1) HRSW futures contract of a deferred specified contract month at a combination of prices such that the calendar spread equals the strike price set at the time the option was sold, upon exercise by a put option buyer.

## **5703.00. CALL OPTIONS ON THE HRSW CALENDAR SPREADS.**

The buyer of one (1) HRSW Calendar Spread call option may exercise such option only upon option expiration, subject to **Regulation 5715.00.**, to assume a long position in one (1) HRSW futures contract of a nearby specified contract month, and a short position in one (1) HRSW futures contract of a deferred specified contract month at a strike price set at the time the option was purchased.

The seller of one (1) HRSW Calendar Spread call option incurs the obligation of assuming a short position in one (1) HRSW futures contract of a nearby specified contract month and a long position in one (1) HRSW futures contract of a deferred specified contract month at a combination of prices such that the calendar spread equals the strike price set at the time the option was sold, upon exercise by a call option buyer.

## **5704.00. CONTRACT TRADING UNIT.**

One (1) HRSW Calendar Spread Option reflects one (1) HRSW futures contract of a specified nearby contract month, and one (1) opposing HRSW futures contract of a specified deferred contract month on the Exchange.

The calendar spread is calculated in cents/bushel as:

Nearby HRSW futures price in cents/bushel – deferred HRSW futures price in cents/bushel = calendar spread cents/bushel.

#### **5705.00. MINIMUM PRICE FLUCTUATION.**

The minimum price fluctuation for HRSW Calendar Spread options shall be one-eighth cent (\$0.00125) or six dollars twenty-five cents (\$6.25) per contract. All prices shall be quoted in U.S. dollars. Notwithstanding the foregoing, a position may be initiated or liquidated in HRSW Calendar Spread options at premiums ranging from \$1.00 to \$6.00, in \$1.00 increments per option contract.

#### **5706.00. TRADING HOURS.**

The Hours of Trading for HRSW Calendar Spread options shall be Sunday to Friday: from seven o'clock (7:00) p.m. to one-thirty o'clock (1:30) p.m. A pause in trading occurs from seven forty-five o'clock (7:45) a.m. to eight-thirty o'clock (8:30) a.m. All times shall be Central Time.

#### **5707.00. OFFICIAL CLOSING PERIOD.**

The official closing period shall be from 1:29:00 p.m. to 1:29:59 p.m. Central Time.

#### **5708.00. CONTRACT MONTHS AND STRIKING PRICES.**

Trading shall be conducted for put and call options on futures calendar spreads consisting of the nearby futures month and the next available futures month with strike prices in integral multiples of one cent (\$0.01) per bushel per HRSW Calendar Spread option. Trading shall be conducted for put and call options on futures calendar spreads consisting of the nearby futures month and a futures month beyond the next available futures month with strike prices in integral multiples of five cents (\$0.05) per bushel per HRSW Calendar Spread option. Contract months for trade shall be determined by the Exchange but shall never consist of a month which is not available for trade for HRSW futures (see Regulation 2010.00).

At the commencement of trading for such option contracts, the following strike prices shall be listed: one (1) with a strike price closest to the previous day's HRSW Calendar Spread price settlement; the next ten (10) consecutive higher and the next ten (10) consecutive lower strike prices closest to the previous day's HRSW Calendar Spread price settlement. If the previous day's settlement price is midway between two (2) strike prices, the closest price shall be the larger of the two (2). When a sale in the underlying HRSW Calendar Spread occurs at a price greater than or equal to the tenth largest strike price, a new strike price one (1) increment higher than the existing strike prices will be added. When a sale in the underlying HRSW Calendar Spread occurs at a price less than or equal to the tenth smallest strike price, a new strike price one (1) increment lower than the existing strike prices will be added. When a new strike price is added for an option contract month, the same strike price will be added to all option contract months for which that strike price is not already listed. All new strike prices will be added prior to the opening of trading on the following business day.

All strikes will be listed prior to the opening of trading on the following business day. Upon demand and at the discretion of the Exchange, new out-of-current-range strike prices at

regularly defined intervals may be added for trading on as soon as possible basis. The Exchange may modify the procedures for the introduction of months and strikes listed as it deems appropriate in order to respond to market conditions.

#### **5709.00. DAILY PRICE LIMITS.**

Trading is prohibited in a HRSW Calendar Spread option at a premium that is greater than the trading limit for the HRSW futures contract above and below the previous day's settlement premium for that option. On the first day of trading, limits shall be set from the premium of the first trade.

#### **5710.00. LAST TRADING DAY.**

Subject to the provisions of **Regulations 5706.00. and 5708.00.**, no trades in HRSW Calendar Spread options expiring in the current month shall be made after the close of trading of the trading session on the day identical to the expiration of options corresponding to HRSW futures. Therefore, expiration will occur on the last Friday which precedes by at least two (2) business days, the last business day of the month preceding that earliest expiring corresponding option month. If such Friday is not a business day, the last day of trading shall be the business day prior to such Friday. For example, the March-May HRSW Calendar Spread (March HRSW minus May HRSW) will expire on the last Friday which precedes by at least two (2) business days the last business day of February; the December-July HRSW Calendar Spread (December HRSW minus July HRSW) will expire on the last Friday which precedes by at least two (2) business days the last business day of November.

#### **5711.00. PAYMENT OF OPTION PREMIUM.**

The option premium must be paid in full by each Clearing Member to the Exchange.

#### **5712.00. MARGIN REQUIREMENTS.**

Margin requirements shall be established in accordance with **Rule 760.00.** and **Regulation 2102.00.**

#### **5713.00. OFFSETS AND TRANSFER TRADES.**

Except by same day trade activity, existing options positions in a settlement month may not be offset during the period beginning two (2) business days prior to the settlement month and continuing through the end of the settlement month. Clearing Members will be responsible for compliance with the 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 Regulation.

#### **5714.00. CONTRACT MODIFICATION.**

Specifications shall be fixed as of the first day of trading of a contract. A change in any Federal Law, regulation, ruling, directive or order that conflicts with these Regulations will



become effective upon notice by the Exchange.

The Board of Directors or the Exchange, to maintain the viability of HRSW Calendar Spread Options, is granted the authority to change such contract specifications as it deems appropriate or necessary for any unopened contract month.

#### **5715.00. OPTION EXERCISES.**

The buyer of a HRSW Calendar Spread option may exercise the option only on the business day such option expires. In the money options that have not been liquidated or exercised on the last day of trading shall be automatically exercised in the absence of contrary instructions delivered to the Exchange by 4:00 p.m. Central Time, or by such other time designated by the Exchange, on the last day of trading by the Clearing Member representing the option buyer.

The HRSW Calendar Spread is calculated using final settlement values for the underlying contracts on the business day the option expires in the following formula: (settlement price of specified nearby HRSW futures) – (settlement price of specified deferred HRSW futures). An option is in-the-money if the settlement price of the underlying calendar spread is greater in the case of a call, or less in the case of a put, than the exercise price of the option.

#### **5716.00. AUTOMATIC EXERCISE.**

Notwithstanding the provisions of **Regulation 5715.00.**, the Exchange shall automatically exercise all in-the-money HRSW Calendar Spread options unless notice to cancel automatic exercise is given to the Exchange at such time as determined by the Exchange (see **Res. 2101.00.C.**) on the last day of trading. Additionally, notice to cancel automatic exercise may be accepted by the Exchange (in its sole discretion) after the deadline but prior to final expiration processing:

- A. to correct errors or mistakes made in good faith;
- B. to take appropriate action as the result of unreconciled MGEX option transactions;
- C. in exceptional cases involving a customer's inability to communicate to the Clearing Member exercise instructions or the Clearing Member's inability to receive such instructions prior to such time as determined by the Exchange (see **Res. 2101.00.C.**) on the last day of trading.

#### **5717.00. ASSIGNMENT.**

The Exchange shall assign the exercise of a HRSW Calendar Spread option through a process of random selection or other approved method to a Clearing Member carrying a short position in the same option series. A Clearing Member to which an exercise notice is assigned shall be notified of the assignment as soon as practicable after such notice is assigned by the Clearing House. Both buying and selling Clearing Members shall have the obligation to inform their respective customer of the assignment promptly.

Upon the exercise of a HRSW Calendar Spread option the Exchange assigns prices to

the legs of the HRSW Calendar Spread in the following manner:

- A. assigned nearby HRSW futures price equals the HRSW futures settlement price on the day of exercise;
- B. assigned deferred HRSW futures price equals the nearby HRSW futures settlement price on the day of exercise minus the strike value of the option.

All such futures positions shall be marked to market in accordance with Exchange procedures on the trading day of acceptance by the Exchange.

#### **5718.00. POSITION LIMITS.**

- A. **Limits.** Position limits for HRSW Calendar Spread Options shall be those limits currently in effect for HRSW pursuant to Part 150 of the Regulations of the CFTC.
- B. **Compliance.** The Exchange may direct any Member, Market Participant, or Person owning, controlling or carrying a position for a person in excess of the limits set forth in this Rule to liquidate or otherwise reduce the position to achieve conformity with this Rule. However, for any option position that exceeds position limits for passive reasons such as a market move or exercise assignment, the person shall be allowed one (1) business day to liquidate the excess position without being considered in violation of the limits. If at the close of trading, an option position exceeds position limits when evaluated using the previous day's delta factors, but does not exceed the limits when evaluated using the delta factors for that day's close of trading, then the position shall not constitute a position limit violation.
- C. **Enforcement.** The carrying Member, Market Participant, or Person shall maintain books and records in the United States, available to the Exchange, upon request, which disclose the identity of and positions held by any person carried by such Member, Market Participant, or Person.

#### **5719.00. EXEMPTIONS FROM POSITION LIMITS.**

To be eligible for an exemption from position limits under this Regulation, an applicant must submit a written request to the Department of Audits and Investigations. Such request shall include the following:

- A. a description of the size and nature of the proposed transactions;
- B. information which will demonstrate that the proposed transactions are bona fide hedging transactions;
- C. a statement indicating whether the person on whose behalf the request is made (i) maintains positions in the futures contract for which the exemption is sought with any other account holder or owner, and/or (ii) has made a previous or contemporaneous request pursuant to the Regulation through another applicant, and if so, the relationship of the information set forth in such requests;

- D. a statement that the intended transactions will be *bona fide* hedges;
- E. a statement that the applicant will immediately supply the Exchange with any material changes to the information submitted pursuant hereto; and
- F. such further information as the Exchange may request.

Within five (5) business days of the submission of the information set forth above, the Department of Audits and Investigations shall notify the applicant whether the exemption has been granted and the limitations placed thereon. An exemption will remain in full force and effect until (i) the applicant or person on whose behalf the request is made requests a withdrawal; or (ii) the Exchange revokes, modifies or places further limitations thereon. At any time, MGEX may limit *bona fide* hedging positions, and deny or limit any request for exemption from position limits which MGEX determines in its sole discretion are not in accord with sound commercial practices or exceed the established or permitted amount which may be liquidated in an orderly fashion.

When applied to HRSW Calendar Spread options, MGEX will use as a guide, but not be limited by, the CFTC definition of a *bona fide* hedging position, as described in Commission Part 151, specifically 151.5, or elsewhere, as applicable.

#### **5720.00. AGGREGATION OF POSITIONS.**

In determining whether any person has exceeded the position limits, all positions in accounts for which such person by power of attorney or otherwise directly or indirectly holds positions or controls trading shall be included with the positions held by such person. Such limits upon positions shall apply to positions held by two (2) or more persons acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single person. MGEX will follow the CFTC definition of aggregation and the procedures for aggregating positions as described in CFTC Part 151, specifically 151.7, or elsewhere, as applicable.

#### **5721.00. REPORTABLE POSITIONS.**

A position of twenty-five (25) or more HRSW Calendar Spread options on this Exchange, long or short, in any one (1) month shall be a reportable position level. All such positions shall be reported in a manner and form as designated by the CFTC or the Exchange.

## EXHIBIT B

## 2015.00. SETTLEMENT PREMIUMS.

Pursuant to the provisions of Rule 210.01., the Board of Directors has adopted this Regulation.

### A. Open Outcry/MGEXpress® Contracts.

Promptly after the close of trading in each Options Contract, the Exchange shall compute settlement premiums as follows. The settlement premium shall be price consistent with the minimum fluctuations of the Contract.

1. Exchange staff shall review all trades executed during the closing period, and subsequent higher bids and lower offers that were in existence at the close of the market, to determine the closing premium or range for each Open Outcry Contract. The Exchange shall then determine the settlement premiums by using a theoretical pricing model.
2. If the Exchange believes, based on its review of the market and market conditions that the settlement premium established above is not representative of market conditions, or if the settlement premium was inaccurately determined, then Exchange staff may establish a settlement premium based on the settlement price of the underlying Futures Contract and the previously prevailing differentials:
  - a. among the premiums for the listed striking prices for the option month;
  - b. among the premiums for the different option months listed for trading; and
  - c. between the premium for the relevant striking price and the price of the underlying Futures Contract.
3. In the case of HRSW Calendar Spread options, the Exchange may use current trade, bid, and offer information, along with correlation between underlying futures months or a theoretical option pricing model in determining daily settlement prices for the listed Calendar Spreads.

~~Where a settlement premium is established in accordance with this section by the Exchange, a written record shall be prepared setting forth the basis for the establishment of such settlement premium.~~

### B. Reservation.

The Exchange reserves the right to modify the settlement premium prior to the start of the day's final clearing process if the settlement premium arose from data entry errors made by or on behalf of the Exchange, and

modification of the settlement premium is necessary to prevent market distortion. A written record shall be prepared setting forth the basis for any modification.