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MINNEAPOLIS GRAIN EXCHANGE

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August 1, 2000

Certified Mail

Ms. Jean A. Webb
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, D.C. 20581

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OFFICE OF THE SECRETARIAT

RE: A New Regulatory Framework for Multilateral Transaction Execution Facilities,
Intermediaries and Clearing Organizations

Dear Ms. Webb:

The Minneapolis Grain Exchange ("MGE" or "Exchange") would like to take this opportunity to respond to the Commodity Futures Trading Commission's ("CFTC" or "Commission") request for comments on the above referenced matter published in the June 22, 2000 Federal Register.

The MGE is pleased that the Commission has recognized that rapidly changing technologies, evolving market realities and global economic competition require a new regulatory framework. A "reinvention" of the regulatory process is necessary in this new trading environment. Therefore, in general, the MGE is supportive of the Commission's proposed rules. The MGE applauds the effort put forth by the Commission to streamline the regulatory process. While the proposal provides for three separate regulatory tiers, the MGE concludes it will, at least initially, receive limited benefits since our current product line of commodities offered for trading are primarily agriculture based. The MGE will have limited opportunities to avail itself of the flexibility to choose another regulatory tier other than that of a Recognized Futures Exchange ("RFE"). The current proposal will likely encourage platform and product innovation in other market places across the other regulatory tiers due to the proposed regulatory changes. Thus, arbitrarily depriving the agricultural industry of the benefits of the progress and evolution in trading and risk management tools being developed. In this light, the MGE has a few specific points of concern.

The MGE believes that it is in the best interest of the agricultural community and the commodities industry to permit the enumerated agricultural commodities listed in Section

1a(3) of the Commodity Exchange Act ("CEAct") to be traded on a Derivatives Transaction Facility ("DTF"). The Exchange believes that the four primary objectives of the CEAct: ensuring market and price integrity; protecting the market against price manipulation; protecting the financial integrity of the market; and protecting customers from abusive trading and sales practices can be adequately met for all commodities enumerated in Section 1a(3) of the CEAct by a DTF.

Since current designated contract markets that trade ag commodities are familiar with and have executed the regulatory requirements placed upon them, and have had years of market surveillance experience, they should be acknowledged and rewarded not by retaining, in effect, the current regulatory structure but by allowing these exchanges the flexibility to operate as a DTF. The MGE believes that if an exchange is a designated contract market in at least one non-dormant contract, it should have in place the ability and familiarity with surveillance standards necessary to more than meet the CEAct's four goals. As part of its obligation to continually meet the CEAct's four goals, an RFE or DTF would heighten its surveillance standards of any contract, regardless of whether the commodity is being traded under an RFE or a DTF market, if the RFE or DTF became aware of the need to do so. Therefore, the MGE believes the enumerated commodities should be permitted to be traded by institutional and non-institutional traders on a DTF if that DTF has proven experience as a designated contract market or also operates as an RFE in at least one other non-dormant contract.

However, the MGE would not be in favor of any proposal to permit only commercial or institutional traders to trade the enumerated agricultural commodities on a DTF. Restricting non-institutional traders of these commodities to an RFE while permitting institutions to trade on a DTF would create two unequal playing fields and two potential pricing mechanisms. The end result is that a DTF will likely have lower execution costs, drawing commercial and institutional traders from an RFE trading the same or similar commodity. Eventually, those using the RFE will be only non-institutional traders who will have to pay higher execution costs on a potentially illiquid market.

The same argument can be made for all non-agricultural commodities not exempted from CFTC regulation. An exchange will have limited incentive to develop a contract and list it for trading under an RFE market if it can be traded under a DTF market, or if only commercial or sophisticated traders can trade the commodity under a DTF market. Since both an RFE and DTF can hold themselves out as regulated by the CFTC, there is essentially no clearly distinguishable or easily understood difference to the public.

Furthermore, an exempt Multilateral Transaction Facility ("MTEF") could draw the bulk of all trading of an eligible contract from an RFE or DTF because of its potential to charge lower transaction fees since it will not have to pay the same regulatory costs that an RFE

or DTF will pay. The danger, again, is that there may be multiple pricing mechanisms whereby the MTEF would be the primary price setter and those trading on an RFE or DTF will have to follow, if those markets even have access to the prices traded on an MTEF. Since the public could be harmed by those having access to both markets who could conduct arbitrage, the potential for manipulation rises. Therefore, an RFE or DTF will have to seriously consider whether it is practical to trade exempt commodities on its market.

While non-institutional traders may represent a small percentage of certain commodities being traded by designated contracts markets, they nonetheless still trade through futures commission merchants ("FCMs"). Even though many of these FCMs have adjusted net capital ("ANC") that is less than \$20 million, they are still extremely valuable and contribute greatly to an effective futures market. The MGE believes these FCMs can be valuable to a DTF as well. Therefore, the proposed \$20 million ANC requirement should be eliminated or reduced since the minimum requirement does not automatically improve the financial integrity of a DTF market. Furthermore, there are much more effective ways to measure financial integrity in a marketplace than ANC which seems arbitrary and inefficient.

The MGE appreciates the potential offered to the industry that the switch the Commission is proposing from prescriptive rules to performance-based rules or flexible "core principles." The Exchange has often found that past Commission policies have required the MGE to implement rules that, while they may apply to some exchanges, are clearly not applicable to the MGE, e.g., broker association rules. The Exchange hopes that the "core principles" for RFEs will not include a one-size-fits-all approach, but rather considers each RFE independently.

Additionally, the Exchange was pleased to see RFEs would continue to be able to launch new contracts for trading by certification. This is a process that the MGE successfully utilized within the past three months to list our Cottonseed contract. However, the MGE is very concerned about the proposed process for changing the contract terms and conditions of enumerated agricultural commodities. The proposed rules, and as is currently the situation, require agricultural commodity rule changes to be submitted for review and approval. The MGE respectfully requests that the Commission alter the proposed rules to permit rule changes to terms and conditions on agricultural commodities by certification. Permitting certification for rule changes on terms and conditions of agricultural commodities would aid the MGE in responding to market users and the conditions they face. The Exchange views the 45 day review and approval for changes to agricultural commodity terms and conditions as lengthy and unnecessary, given that the rule changes have undergone months of discussion at the committee, board and membership level at the Exchange. The Exchange has a vested interest in proposing rule changes on agricultural commodities that will suit the majority of our contract users. It seems illogical that an RFE can launch a new contract overnight by utilizing the certification process, yet it can take 45 days or longer to receive approval for a change to

a single term or condition on an existing agricultural contract. Additionally, the Exchange has no interest in documenting, identifying and publishing in its rulebook each rule change that was or was not submitted for approval to the Commission. The Exchange sees no practical benefit to inform the public that a word or two in a previously certified rule was approved by the CFTC. Furthermore, legal certainty of exchange certified rules is necessary. Identifying rules or parts of rules that have or have not been submitted to the CFTC for approval opens the door for liability lawsuits based on the failure to get CFTC approval. Consequently, the MGE requests that RFEs be permitted to alter rules affecting terms and conditions on agricultural commodities by certification, avoiding the 45 day review and approval. In the alternative, as previously mentioned, agricultural products could be permitted to be traded on DTFs.

The MGE noted that the proposal requires products trading in a physical environment under an RFE, DTF or MTEF market to be traded in locations separate from the products being traded under the other markets. The Exchange hopes the CFTC will utilize a very practical approach when interpreting this requirement so that a product traded on an RFE market can be traded in a floor pit that is next to a product being traded on a DTF market. Additionally, the proposal requires MTEFs to be legally separate from an RFE and a DTF. The Exchange does not believe this rule provides tangible benefits. Since the proposal appears to allow arrangements or facilities between or among parties to the contracts to net the payment obligations resulting from the agreements, legally separate identities are blurred.

Furthermore, the Exchange does not believe it is necessary for the Commission to retain authority under Regulation 1.41 to stay the effectiveness of a certified rule pending Commission proceedings. If such authority is established, the threshold must be extremely high. The effectiveness of a rule change adopted by an RFE or DTF should not be stayed unless there is sufficient evidence that material harm will be suffered by market participants. If sufficient evidence is lacking, suspension of a rule should not be effective until a hearing has been completed and a decision rendered to suspend the rule. The benefit of the doubt should always be in favor of the market that adopted the rule. Suspension by the CFTC of an adopted rule should be rare because the potential ramifications of a suspension could be detrimental to a contract, as well as to the RFE or DTF.

The MGE also welcomes the Commission's decision to delete Part 180 - Arbitration or other Dispute Resolution Procedures. Replacing the detailed, prescriptive CFTC rules with a "fair and equitable" core principle will give the MGE the ability to improve and speed up the dispute resolution process, as well as make it more convenient for customers to use.

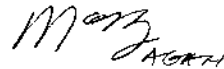
Ms. Jean A. Webb

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In summary, the Exchange respectfully requests that enumerated agricultural commodities be permitted to be traded on a DTF by institutional and non-institutional traders. Furthermore, the Exchange requests the \$20 million ANC requirement be eliminated, and that changes to terms and conditions of agricultural commodities be permitted to be implemented by certification. The Exchange believes these changes are beneficial for the industry and consistent with the policy decisions to "reinvent" the regulatory process.

If there are any questions regarding these comments, please contact me at (612) 321-7166. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark G. Bagan' with a stylized flourish at the end.

Mark G. Bagan
Vice President,
Market Regulation

MGB:pp