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August 7, 2002

Certified Mail and Electronic Mail

Ms. Jean Webb  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

RE: Derivatives Clearing Organizations

Dear Ms. Webb:

The Minneapolis Grain Exchange (“MGEX”) is pleased to offer its views regarding the issues that were discussed at the Commodity Futures Trading Commission’s (“Commission”) Roundtable on Derivatives Clearing Organizations held on August 1, 2002. Additionally, the MGEX appreciated the opportunity to provide a panelist for such important discussions.

### **Background**

The MGEX is a non-profit membership organization whose products are primarily agricultural. The MGEX offers trading of regulated futures and options in a vertically integrated manner whereby the exchange transaction, matching and clearing functions are handled within the same entity. Besides our regulated trading and clearing business, the MGEX offers trading of physical commodities in a less regulated environment where the exchange is neither party to, nor performs any clearing or settlement function for the physical transactions. The MGEX also offers ancillary services to the physical trading marketplace such as weight scale certification and neutral party grain sampling.

## **Commission Oversight of Derivatives Clearing Organizations (“DCOs”)**

The MGEX would support a core principles approach to the Commission’s process for developing rules for DCOs. These core principles should provide the Commission, the exchanges, the clearing members, and the public with confidence in the marketplace but still allow an individual DCO adequate flexibility. One size does not fit all when considering the regulation of DCOs. The MGEX’s clearing organization counts among its clearing members both Futures Commission Merchants (“FCMs”) as well as direct commercial firms (non-FCMs). These members have different commercial reasons for being clearing members and accessing exchange clearing services. Overly prescriptive regulation would create difficulty in allowing for the diversity of clearing member structures we already have in place and could categorically affect access to exchange clearing services. Further, the MGEX would have concerns with broad based prescriptive measures which may have negative implications on smaller DCOs and their respective clearing members.

## **Market Structure and Competition**

The MGEX congratulates the Commission on taking steps to host a forum such as this where parties can present their issues and suggest solutions. The aspect of hosting such a forum may be the most important role the Commission can play that in fact does benefit the general public. The MGEX would support this or other forums, such as the Advisory Committees or a working group, for further discussion of these issues. Furthermore, the MGEX understands that the commercial suggestions offered in this forum should be taken very seriously as valuable input from the various and important constituencies, such as the clearing members, the exchanges and the DCOs. However, beyond that, the MGEX would respectfully caution the Commission about getting directly involved in issues that are purely commercial in nature. Within a regulatory framework that ought to serve the public good, it is the job of industry to figure out how to best organize itself. Competitive pressure has already and will continue to force the industry to experiment with different market structures and different business models to offer public choice that will ultimately determine commercial winners and losers. Public policy makers and regulators should be keenly aware that each new mandate or regulation, however compelling at one moment in time and however benign in appearance, can stifle long term innovation and competition to the point it may be difficult to assess the true public cost of the regulation.

Once again we thank you for the opportunity to comment on the above issues. We look forward to working with the Commission to help advance a framework of regulation that will create an environment that will build on the success of the futures industry.

Regards,



Kent R. Horsager  
President & CEO