



Via Electronic Portal

July 8, 2015  
MGEX Submission No. 15-17

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

**RE: Rule Certification Submission Pursuant to Regulation 40.6(a); Updates to MGEX Rulebook**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Exchange Act (“CEAct”) Section 5c and Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), the Minneapolis Grain Exchange, Inc. (“MGEX” or “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 posted on the Exchange website at the following link: <http://www.mgex.com/regulation.html>.

The Exchange amended MGEX Regulation 2106.00. in order to (i) specify that any allocations of positions to a Clearing Member following a default must be proportional to the size of the participating or accepting Clearing Member’s positions, and (ii) allow for the appointment of a qualified third party to act for a Clearing Member in certain circumstances. Both of these changes are being made to enhance transparency and compliance with CFTC Regulation 39.16. In addition, MGEX made several housekeeping amendments to MGEX Regulations 2106.01. and 2108.00. to capitalize defined terms and further clarify the obligations of an Insolvent Clearing Member and the authority of MGEX in an auction.

The Exchange has reviewed the core principles for derivatives clearing organizations (“DCO Core Principles”) and has determined that the attached amendments comply with the requirements of the following DCO Core Principles:

- *DCO Core Principle G – Default Rules and Procedures:* The amendments address the actions the Exchange will take and allow following a default, including those

related to allocations and outsourcing to third parties, and thus augment MGEX's default rules and procedures.

- *DCO Core Principle L – Public Information:* Core Principle L requires DCOs to provide market participants with sufficient information to enable them to identify and evaluate accurately the risks and costs associated with using the services of the DCO and to have clear and comprehensive rules and procedures, including those related to defaults. The amendments enhance transparency with respect to MGEX's default procedures and will be incorporated into MGEX's publicly available Rulebook, thereby further ensuring that the information available to the public is accurate, clear, and comprehensive.
- *DCO Core Principle R – Legal Risk:* Core Principle R requires DCOs to operate pursuant to a well-founded, transparent, and enforceable framework that describes the steps a DCO would take to address a default of a Clearing Member. As explained above, the amendments further address the actions the Exchange will take and allow following a default of a Clearing Member, thereby enhancing the overall transparency of MGEX's legal framework.

Pursuant to the authority set forth in MGEX Rule 210.01., the MGEX Board of Directors unanimously approved the attached amendments to the MGEX Rulebook. There were no substantive opposing views expressed by the Board of Directors, nor is the Exchange aware of any substantive opposing views with respect to this filing.

The attached amendments are to be effective immediately after the 10<sup>th</sup> business day following the date of this submission. If there are any questions regarding this submission, please contact me at (612) 321-7143. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in cursive script that reads "Lindsay Hopkins".

Lindsay R. Hopkins  
Clearing House Counsel

## EXHIBIT A

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

### **2106.00. PROTECTION OF CLEARING HOUSE: DEFAULT BY A CLEARING MEMBER.**

If a Clearing Member fails promptly to discharge any obligation to MGEX, its security deposits, its margins and performance bonds on deposit with MGEX, and any of its other assets available to the Exchange shall be applied by the Exchange to discharge the obligation, provided that MGEX will not apply any collateral held in segregated customer accounts to any payment obligations arising from a default in a Clearing Member's proprietary account. Further, the Exchange may make immediate demand upon any guarantor of the Clearing Member. Upon demand and without waiting for application of all available assets of the Clearing Member or a formal accounting, such guarantor shall pay the Exchange by the time and date set by MGEX. Upon a Clearing Member Default, the Exchange may act immediately to attempt to transfer to alternate Clearing Members all customer positions and associated collateral (collateral held by the Exchange on behalf of the Defaulting Clearing Member for its customer).

If a default occurs in a segregated customer account, then the Exchange has the right to liquidate and apply toward the default all open positions and customer performance bond deposits in the account of the Defaulting Clearing Member. Accordingly, positions and collateral deposited by customers not causing the default are at risk if there is a default in their Clearing Member's segregated customer account.

The Clearing Member shall immediately make up any deficiencies in its security deposit resulting from the application of such funds prior to the close of business on the next banking day. The Exchange shall be under no obligation to forward any variation pays or settlement funds to a Defaulting Clearing Member.

In addition to application of the available assets of the Defaulting Clearing Member (the priority of which is further described in Regulation 2106.02.), the Exchange, President, Treasurer, Chief Risk Officer, or other designee may take any other actions that it determines necessary to protect MGEX or other Clearing Members. Such actions include, but are not limited to, actions authorized elsewhere within the MGEX Rules and Regulations, the suspension of clearing privileges until revoked or reinstated by the Board or its designee, pursuit of legal action, retention of variation pays, and request for additional security deposit and/or performance bonds. The detailed implementation of the process of finalizing losses with respect to a Clearing Member Default, including the liquidation, allocation, auction or sale of positions or assets of the Defaulting Clearing Member shall be conducted by the Exchange in its sole discretion. Any allocation of positions from a Defaulting Clearing Member to other non-Defaulting Clearing Members shall be proportional to the size of the participating or accepting Clearing Member's positions.

The Exchange, Board, and any qualified third party, including another Clearing Member, authorized by the Exchange to act in the place of the Defaulting Clearing Member shall have no liability arising from a failure by a Clearing Member to discharge its liabilities; neither shall they be liable for actions taken pursuant to MGEX Rules and Regulations, procedures, or actions allowed by law. The appointment of a qualified third party does not absolve a Defaulting Clearing Member of any of its obligations, and the actions of such qualified third party will be binding upon the Defaulting Clearing Member. Neither the Exchange, nor any of its officers, directors, or employees, shall be liable for any losses, damages, or costs, including direct, indirect, incidental, and consequential damages, arising out of the performance or decisions of the qualified third party or Defaulting Clearing Member.

The Exchange may establish such procedures as necessary which prescribe in detail how the protections under Regulation 2106.00. and Chapter 21 will operate. Such procedures shall constitute part of MGEX Rules and Regulations. ~~Furthermore, any documented information appropriate to assist the Clearing Members will be disseminated.~~

#### **2106.01. CLEARING MEMBER INSOLVENCY.**

If a Clearing Member becomes insolvent, the Insolvent Clearing Member, as such term is defined in Chapter 1, must immediately notify the Exchange of such insolvency. The Insolvency of a Clearing Member shall be announced by the Exchange and thereupon such Clearing Member shall be deemed automatically Suspended, unless otherwise permitted by the Exchange to continue limited operation for the purpose of transferring or liquidating positions, or otherwise mitigating losses. If a Clearing Member becomes insolvent or for other reasons is Suspended, the officers, owners or partners who are Members of the Exchange may also be Suspended by the Exchange.

When an Insolvent Clearing Member is Suspended ~~for insolvency,~~ the Exchange may exercise any or all of its rights under MGEX Rules and Regulations.

#### **2108.00. DETAILS OF IMPLEMENTATION.**

While adherence to the provisions of the above MGEX Regulations is mandatory, the detailed implementation of the process of finalizing Losses with respect to a default, including the liquidation, auction, or sale of positions or assets of the Defaulting Clearing Member, shall be conducted by the Clearing House or the MGEX Risk Team.

In order to ensure that the process for liquidating open contracts results in competitive pricing, to the extent feasible under market conditions at the time of liquidation, liquidation of open contracts held for a house account or customer account of a Defaulting Clearing Member may occur by one or more of the following methods: (i) book entry that offsets open contracts on the books of the Defaulting Clearing Member; (ii) liquidation in the open market; and/or (iii) one or more private auctions amongst qualified market participants invited by the Clearing House to submit confidential bids. The Clearing House shall have

discretion to select the best bid submitted for any portfolio in an auction, based on the totality of the circumstances, and no bid shall be binding upon MGEX unless accepted by it.

In the event that identical customer contracts are liquidated in the open market on the same date but cannot be liquidated at the same price, unless the Clearing House determines that it would be inappropriate, a weighted average of the liquidation prices for such contracts shall be used in determining the value of the liquidated contracts for each such customer. In the event that open contracts of multiple customers are liquidated in a bulk auction, the net proceeds of such auction shall be allocated on a pro rata basis amongst the affected customers based upon their applicable performance bond requirements for the clearing cycle immediately prior to the default.