



Via Portal Submission

October 27, 2017  
MGEX Submission No. 17-30

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 Rules**

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 MGEX Rules 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 Rule 2105.00. to provide additional clarity regarding the amount of cash that a Clearing Member would receive should MGEX need to exercise its powers under this Rule and substitute cash with U.S. Treasuries. Specifically, the amendment provides that a Clearing Member will receive back the original amount of cash deposited regardless of the amount of cash received by the Clearing House after liquidating U.S. Treasuries. MGEX also removed certain actions it could take and made several housekeeping amendments.

In addition, the Exchange amended MGEX Rule 2106.00. to (i) explicitly state that MGEX can apply excess proprietary funds and assets of a Defaulting Clearing Member following a default in a segregated customer account, as mandated by CFTC Regulation 39.16, and (ii) remove a provision regarding the allocation of positions in a default scenario because the Exchange does not impose any obligation on its Clearing Members to accept allocations. Both of these changes stem from discussions MGEX had with the Division of Clearing and Risk following a Rulebook Audit conducted earlier this year. Further housekeeping amendments were made in this Rule as well.

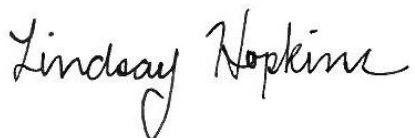
All of the attached amendments are being made to enhance transparency and compliance with CFTC regulations. The Exchange has reviewed the core principles for derivatives clearing organizations (“DCO Core Principles”) and has determined that the amendments comply with the requirements of the following 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 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. The amendments enhance transparency with respect to the procedures MGEX would follow in a Liquidity Event and/or default 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 and other significant aspects of a DCO’s risk management procedures. As explained above, the amendments further address the actions the Exchange will take and allow following a Liquidity Event and/or a default of a Clearing Member, thereby enhancing the overall transparency of MGEX’s legal framework.

Pursuant to MGEX Bylaw 204.01., 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~~.

### 2105.00. LIQUIDITY EVENT.

In order to satisfy CFTC Regulations and prudential liquidity standards, the Exchange has established this Rule~~egulation~~.

In the event the Clearing House requires liquidity to enable it to promptly meet all of its payment obligations to Clearing Members for same day settlement, the Clearing House will first attempt to obtain liquidity through the asset sale of pledged collateral, followed by the application of any uncommitted funding arrangements, and then through the use of its committed lines of credit and any committed repurchase agreements. In the event the Clearing House is unable to obtain sufficient funds and liquidity to promptly meet same day settlement and payment through such means, the Clearing House may declare the occurrence of a Liquidity Event. In such an event, the Clearing House has the authority in its sole discretion to take the following actions, in the order listed, to secure same day liquidity:

- A. Substitution of Guaranty Fund Cash.** The Clearing House may substitute the cash deposited by one or more Clearing Members in a guaranty fund with U.S. Treasuries deposited as performance bond by the Clearing Member(s) that is(are) the initiating cause of the Liquidity Event. The amount of cash substituted shall be equivalent to U.S. Treasuries at a haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party source). Any U.S. Treasuries transferred pursuant to this Rule~~egulation~~ shall be applied as a guaranty fund deposit on behalf of any such Clearing Member whose cash was substituted and will be allocated pro rata among any Clearing Members with cash deposits who are not the initiating cause of the Liquidity Event. The substitution of U.S. Treasuries for the Clearing Member's guaranty fund deposit will be limited to the size of the Clearing Member's guaranty fund deposit at the time of the Liquidity Event. For any substitution of U.S. Treasuries for cash in a guaranty fund, the impacted Clearing Member may, within 24 hours of substitution, request that the Clearing House replace the cash within 29 business days of the date of the substitution. Any Clearing Member requesting cash replacement will receive the original amount of cash deposited and accessed by the Clearing House, regardless of the value of~~exact value in~~ cash received by the Clearing House upon liquidation of the U.S. Treasuries.
- B. Substitution of Performance Bond Cash:** The Clearing House may substitute the cash deposited by one or more Clearing Members as performance bond with U.S. Treasuries held as collateral by the Clearing

House. The amount of cash substituted shall be equivalent to the U.S. Treasuries at a haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party source). Any U.S. Treasuries transferred pursuant to this ~~Rule~~regulation shall be applied as a performance bond deposit on behalf of any such Clearing Member whose cash was substituted and will be allocated pro rata among any Clearing Members with cash deposits. The substitution of U.S. Treasuries for the Clearing Member's performance bond held by the Exchange will be limited to the size of the Clearing Member's performance bond at the time of the Liquidity Event. For any substitution of U.S. Treasuries for cash as performance bond, the impacted Clearing Member may, within 24 hours of substitution, request that the Clearing House replace the cash within 29 business days of the date of the substitution. Any Clearing Member requesting cash replacement will receive the original amount of cash deposited and accessed by the Clearing House, regardless of the value of ~~exact value in~~ cash received by the Clearing House upon liquidation of the U.S. Treasuries.

In order to ensure the Clearing House can obtain sufficient cash from the above paragraphs, the Clearing House may notify any Clearing Member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate to replace its non-cash performance bond assets with cash within 60 minutes from the time of notification. To the extent that a Clearing Member(s) fails to provide cash within 60 minutes or the request occurs after 3:00 p.m. Central Time, the Clearing House may debit cash from that Clearing Member's settlement bank account in the amount of the clearing member's non-cash performance bond assets.

~~**C. U.S. Treasury Sale to Meet Settlement Variation Obligations.** The Clearing House may offset its settlement variation obligations to any Clearing Member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate, up to the amount of such Clearing Member's guaranty fund contribution, by selling U.S. Treasuries valued based on the prior day's closing prices with a haircutted value in exchange for U.S. dollar cash from the Clearing Member. The U.S. Dollar cash received by the Exchange from the Clearing Member shall be in the form of the variation margin obligation owed by MGEX, and the Exchange shall deliver the purchased U.S. Treasury securities to the U.S. Government Securities Broker-Dealer.~~

**DC. Transfer or Disbursement of Collateral as Compensation for Portfolio Auction, Sale, or Transfer.** In lieu of satisfying a payment owed from any auction, sale, or transfer of an insolvent, defaulted, or suspended Clearing Member's or customer's portfolio in cash to an auction winner, purchaser, or transferee, the Clearing House may satisfy such payment owed to such

persons by transferring Federal Reserve discount window eligible securities with a haircutted market value (determined by the Clearing House as of the prior day's close of business utilizing a recognized third party source) equal to the amount of such obligation.

## **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. Following a default in a segregated customer account, MGEX can apply any excess proprietary funds and assets of the Defaulting Clearing Member.

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 Rule~~egulation~~ 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, committees, officers and employees, 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 Board, committees, 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 the MGEX Rules ~~Regulation 2106.00. and Chapter 21~~ will operate. Such procedures shall constitute part of the MGEX Rules ~~and Regulations~~.