



Via Portal Submission

November 1, 2017
MGEX Submission No. 17-31

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

RE: Rule Certification Submission Pursuant to CFTC Regulation 40.6(a); Update to MGEX Rules

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act (“CEAct”) and Commodity Futures Trading Commission (“CFTC”) Regulation 40.6(a), the Minneapolis Grain Exchange, Inc. (“MGEX”) hereby certifies that MGEX Rules 718.00., 718.01., and 719.00., as set forth in the attached Exhibit A, comply with the CEAct and the CFTC Regulations promulgated thereunder (the “Proposed Amendments”). MGEX further certifies that the submission and pending changes to the MGEX Bylaws and Rules have been posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

I. AMENDMENTS TO MGEX RULES

MGEX continually evaluates its Rules to ensure compliance with CFTC regulations as well as general principles of law. The Proposed Amendments provide additional clarity regarding transfers and Exchange for Related Positions (“EFRPs”). The Proposed Amendments include definitions of the two permitted types of EFRPs: (1) an Exchange for Physical Transaction and (2) an Exchange for Risk Transaction. In addition, they clarify the requirements for transfers and EFRPs, including the information or documentation that must be provided as well as reporting deadlines.

II. COMPLIANCE WITH CORE PRINCIPLES.

MGEX has reviewed the Core Principles for designated contract markets (“DCM Core Principles”) and identified that the Proposed Amendments may impact the following DCM Core Principles:

- *DCM Core Principle 2, Compliance with Rules:* The Proposed Amendments will provide greater clarity to MGEX Rules, and therefore permit MGEX to more efficiently monitor and enforce them.

- *DCM Core Principle 4, Prevention of Market Disruption:* The Proposed Amendments do not materially impact Core Principle 4; however, MGEX may be able to better detect and prevent market disruption as a result of the Proposed Amendments.
- *DCM Core Principle 7, Availability of General Information:* The Proposed Changes will be publicly available in the MGEX Rulebook. In addition, the Proposed Changes have been disseminated on the MGEX website.
- *DCM Core Principle 9, Execution of Transactions:* The Proposed Amendments directly impact Core Principle 9 by clarifying the information or documentation that must be provided to MGEX as well as reporting deadlines for EFRPs.
- *DCM Core Principle 10, Trade Information:* The proposed Amendments do not materially impact Core Principle 10; however, they nominally relate to obligations regarding the collection and maintenance of trade data.
- *DCM Core Principle 12, Protection of Markets and Market Participants:* The Proposed Amendments impact Core Principle 12. By having more clarity about EFRPs, MGEX believes it will be collecting better information on an accelerated timeline, which will enhance its ability to protect the market and market participants.

Pursuant to the authority set forth in MGEX Bylaw 210.01., the MGEX Board of Directors unanimously approved the Proposed Amendments at its meeting held on October 24, 2017. There were no substantive opposing views expressed by the Board of Directors, nor is MGEX aware of any substantive opposing views with respect to this filing.

These amendments are intended to become effective ten (10) business days from the date of this submission. If there are any questions regarding this submission, please contact me at (612) 321-7141. Thank you for your attention to this matter.

Best regards,



Adam Wysopal
Associate Corporate Counsel

Enclosure

Exhibit A

718.00. "TRANSFER" OR "OFFICE" TRADES: DEFINITIONS.

"Transfer" trades and "Office" trades shall be limited to the following transactions:

- A. Transactions made for the purpose of (1) transferring open ~~Futures~~futures or ~~Options-Contracts~~options contracts from one account to another on the books of the same Clearing Member where no change in ownership is involved; or (2) transferring open ~~Futures~~futures or ~~Options-Contracts~~options contracts from an account on the books of one Clearing Member to another Clearing Member where no change of ownership is involved; PROVIDED, however, that no such transfer shall be made after receipt from the Exchange of a delivery Notice on such contracts if such transfer is for the apparent purpose of avoiding delivery on such contract;

Notwithstanding the requirements of 718.00.A., the Department of Audits and Investigations, in its sole discretion, may approve a transfer that results in a change of beneficial ownership when such transfer is made as a result of a merger, asset purchase, consolidation or similar non-recurring transaction between two (2) or more Persons.

- B. Transactions consisting of the exchange or transfer of ~~Futures-Contracts~~futures contracts in connection with cash commodity transactions or transactions consisting of the exchange of ~~Futures~~futures for cash commodities.
- C. Transactions consisting of the exchange or transfer of ~~Futures-Contracts~~futures contracts in connection with risk transactions or transactions consisting of the exchange of ~~Futures~~futures for risks.

Except for situations involving insolvency or default (see generally Chapter 21), futures contracts may be transferred using either the original trade price or the most recent settlement price. Options contracts may be transferred using either the original trade price or a trade price of zero. All transfers in physically delivered futures contracts must be recorded and carried on the books of the receiving Clearing Member at the original trade dates. All other contracts may be recorded and carried at either the original trade date or the transfer date.

All records and memoranda pertaining to "Transfer" and "Office" trades shall be marked or identified by appropriate symbols or designations. All "Office" trades, where such trades remain on the books of one and the same Clearing Member and where no change in ownership is involved, may or may not be cleared at the discretion of the Clearing Member. All "Transfer" trades, which involve two Clearing Members in which no change of ownership is involved, shall be included and identified in daily reports to the Exchange. "Transfer" trades involving the transfer of a customer's positions and related collateral from an account on the books of one Clearing Member to another Clearing Member shall not require the close-out and re-booking of the positions prior to the requested transfer; PROVIDED, the following conditions are met: (1) The customer instructed the carrying Clearing Member to make the transfer, and (2) the receiving Clearing Member has consented to the transfer.

718.01. OFFSETS AND TRANSFER TRADES.

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

At its sole discretion, the Department of Audits and Investigations may permit an offset via netting, transfer, or position adjustment. Such adjustments are permissible to correct a bona fide clerical or operational error for an amount less than five percent (5.0%) of the published open interest reported the same morning for which the offset will be reported by the Clearing Member's morning position reporting deadline. Moreover, such adjustments are only permissible if the Department of Audits and Investigations reasonably believes the offset will not adversely impact the market. Such permission does not prohibit A&I from investigating or taking disciplinary action for any alleged violation of the Rulebook.

719.00. EXCHANGE OF FUTURES FOR, OR IN CONNECTION WITH, PHYSICAL AND RISK TRANSACTIONS.~~FOR RELATED POSITION.~~

~~A.~~ An Exchange for Related Position ("EFRP") transaction involves a privately-negotiated off-exchange execution involving two separate, but related transactions, consisting of an Exchange for futures and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of physical (cash product, by-product, or related product) or in connection with a risk (an over-the counter (OTC) derivative or a swap agreement) component that corresponds to the asset underlying the Exchange futures contract.

The following types of EFRP transactions are permitted to be executed in accordance with the requirements of this rule:

~~_____~~ Exchange for Physical Transaction ("~~An EFP~~") - An exchange of futures for, or in connection with, a physical ("~~EFP~~") consisting ~~s~~ of a cash commodity transaction and a futures transaction.

~~B.~~ Exchange for Risk Transaction ("~~EFR~~")

~~-~~
An exchange of futures for, or in connection with, a risk (~~an over-the counter (OTC) derivative or a swap agreement~~) ("~~EFR~~") consisting of an OTC derivative or a swap agreement and a futures transaction. ~~s of two separate, but related, transactions; a risk transaction and a futures transaction. At the time such transaction is effected, the buyer and the seller of the futures transaction must be the seller and the buyer of the risk transaction. The risk component shall involve the commodity underlying the futures contract (or any derivative, by-product or related product of such commodity). The quantity or economic value covered by the risk transaction must be approximately equivalent to or bear a relationship to the quantity or economic value covered by the futures contracts. The risk component of an EFR transaction must comply with Part 35 of Commission Regulations and the Commodity Exchange Act, as amended.~~

EFRP transactions are subject to the requirements below.

A. The opposing accounts to EFRP transactions must be (a) independently controlled accounts with different beneficial ownership; (b) independently controlled accounts of separate legal entities with common beneficial ownership; or (c) independently controlled accounts of the same legal entity, provided that the account controllers operate in separate business units.

B. The quantity or economic value covered by the physical or risk transaction must be approximately equivalent to or bear a relationship to the quantity or economic value covered by the futures contract(s). At the time such transaction is effected, the buyer and seller of the futures transaction must be the seller and buyer of the physical or risk transaction. The risk component of an EFR transaction must comply with Part

35 of Commission Regulations and the Commodity Exchange Act, as amended.

- C. Each buyer and seller must satisfy the Department of Audits and Investigations, at its request, that the transaction is a bona fide ~~EFP or EFR~~EFRP transaction.- Upon request of the Department of Audits and Investigations, all documentary evidence relating to the ~~EFP or EFR~~EFRP, including, but not limited to, contracts, confirmations, invoices, warehouse receipts, documents of title, a master swap agreement and any supplements thereto, or any other document that demonstrates the existence and nature of the over-the-counter or derivative transaction shall be obtained by the Clearing Members from the buyer or seller and submitted to the Department of Audits and Investigations. Clearing Members are responsible for exercising due diligence as to the bona fide nature of EFRPs submitted on behalf of their customers.
- D. An ~~EFP or EFR~~EFRP may be made at such prices as are mutually agreed upon by the two parties to the transaction.- If the price of an EFP cannot be mutually agreed upon by the date of shipment, the cash commodity buyer has the option to set the price within that day's trading range.
- E. ~~An EFP or EFR executed during the Hours of Trading of the underlying futures contract must be submitted the same day for clearing. An EFP or EFR~~EFRP transactions should be submitted to the Exchange as soon as possible on the same day during the hours of trading, following final agreement to contract terms by the parties involved in the trade. An EFRP executed after the close of trading of the underlying futures contract must be submitted for clearing no later than the next business day.
- F. A third party may facilitate, as the principal, the related position component of an EFRP on behalf of a customer so long as the third party is able to demonstrate that the related position was passed through to the customer who received the futures contract as part of the EFRP.
- G. The futures contracts that may be exchanged for a physical or a risk transaction, and the last day and time for executing an ~~EFP or EFR~~EFRP shall be determined by the Board of Directors.-

(See **Resolution 719.00.**)