



Via Electronic Portal

November 11, 2014
MGEX Submission No. 14-26

Mr. Christopher 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 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 definition, Rules, and 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>.

Amendments in Connection with Recovery and Wind-down Plans

Pursuant to CFTC Regulation 39.39, as a subpart C derivatives clearing organization, MGEX must maintain plans for the recovery and orderly wind-down of its operations necessitated by uncovered credit losses and liquidity shortfalls or by general business and operational risks. To implement these plans, MGEX amended Regulations 2105.00., 2105.01., 2112.03., and 2112.04. in order to allow MGEX to meet the financial and liquidity resource requirements necessary under CFTC Regulations to implement the recovery and wind-down plans. In addition, the Exchange made general housekeeping updates to several Rules and Regulations (Rules 301.00. and 360.00. and Regulations 2112.00., 2112.01., and 2112.02.) to update references and the numbering of such Rules and Regulations and added a definition to provide further clarification.

The Exchange has reviewed the core principles for derivatives clearing organizations ("DCO Core Principles") and has determined that the attached amendments comply with and may impact the following DCO Core Principles:

- *Core Principle A – Compliance:* Core Principle A requires a derivatives clearing organization to comply with the DCO Core Principles and any other requirements that the Commission imposes by rule or regulation. Implementation of the attached amendments is necessary for MGEX to ensure its compliance with CFTC Regulation 39.39.
- *Core Principle B – Financial Resources:* The amendments are designed to comply with Commission Regulation 39.39, which requires subpart C derivatives clearing organizations to maintain sufficient liquid financial resources to implement its recovery and wind-down plans. The proposed amendments enhance MGEX's existing risk management framework by providing additional methods by which the Exchange can ensure the sufficiency of its financial resources.
- *Core Principle G – Default Procedures:* The amendments address the actions the Exchange will take following an uncovered credit loss or liquidity shortfall and thus augment MGEX's default procedures.

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 10th 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". The signature is written in black ink and is positioned above the typed name and title.

Lindsay R. Hopkins
Clearing House Counsel

Exhibit A

RECOVERY AND WIND-DOWN PLAN: The Regulations and plans adopted by the Exchange to set forth the procedures MGEX would follow to maintain the Exchange's viability as a going concern or to effect the permanent cessation, sale, or transfer of its operations and services following an uncovered credit loss, liquidity shortfall, or other capital inadequacy as required by CFTC Regulation 39.39.

301.00. MEMBERSHIP: ADMISSION TO.

If the terms and conditions set forth below have been complied with, the Board of Directors may approve an application for Membership:

- A. An application for Membership must have been made;
- B. The application must be reviewed by the Exchange. The Exchange may, at its discretion, require any applicant to produce additional documentation and/or meet in person prior to any action by the Board of Directors;
- C. A Request to Transfer and Record the Ownership of a Membership form must have been posted on the Official Bulletin Board for ten (10) consecutive days prior to such action;
- D. If an objection to the approval of such applicant to Membership has been duly filed by a Member of MGEX, it must have been heard by the Board of Directors and dismissed;
- E. All the requirements of MGEX Rules and Regulations for the transfer of a Membership to the applicant must have been complied with or the applicant must have obtained an original Membership under the provisions of **Rule 360.00.** or Regulation 2112.04.
- F. An application fee shall be collected by the Exchange at the time of the application. This fee, in an amount to be determined by the Exchange, shall not be refunded in the event that the applicant fails, for any reason, to become a Member.
- G. If the applicant does not own a Membership at the time its application is approved nor have a Delegation Agreement in place, the applicant shall have sixty (60) days to obtain a Membership.

360.00. ORIGINAL MEMBERSHIPS: GENERAL ISSUANCE OF.

The number of MGEX Memberships may be increased and the Exchange has the right to sell Original Memberships at a price to be determined by the Board of Directors. The person to whom such Membership is to be issued must comply with all the terms and conditions of MGEX Rules and Regulations concerning admission to Membership and recording the ownership of a Membership. The number of outstanding Memberships shall not exceed six hundred (600) unless an increase is approved by a vote of the Ownership.

2105.00. 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 (but not those belonging to a non-defaulting customer), and any of its other assets available to the Exchange shall be applied by the Exchange to discharge the obligation. Further, the Exchange may make immediate demand upon any Guarantor of the Clearing Member. ~~Such Guarantor shall promptly pay 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). However, if a customer account is in default on payment obligations or shortfall in required collateral to the Defaulting Clearing Member, then the Exchange shall apply identifiable segregated customer collateral belonging to the defaulting customer to any payment obligations or losses arising from the Clearing Member Default.

Customer funds or margins shall not be used to discharge the Clearing Member's obligation unless the customer is directly involved in a default. The Clearing Member shall immediately make up any deficiencies in its security deposit resulting from such application 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 2105.01.), the Exchange, President, Treasurer 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.

The Exchange, Board, and any 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 Exchange may establish such procedures as necessary which prescribe in detail how the protections under Regulation 2105.00. 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.

2105.01. LOSSES BORNE BY MGEX.

Should MGEX bear a loss resulting from the actions or a Default of a Clearing Member, including but not limited to the insufficiency of the security deposit, margins, bonds, guarantees or other assets of a Clearing Member to fully meet its obligations to MGEX, the Insolvency of a Clearing

Member, the insolvency of a depository, or larceny, embezzlement, or for any other cause, such loss shall be met and made good promptly by the use and application of funds from the following sources, in the order of priority hereafter listed, with each source of funds to be completely exhausted, to the extent practical, before the next following source is applied. While such application of funds shall be mandatory, the detailed implementation of Regulation 2105.01. shall be the responsibility of the Exchange.

- A Security deposits of the Defaulting Clearing Member.
- B. Margins and performance bonds of the Defaulting Clearing Member on deposit with MGEX, payments made by a guarantor of the Defaulting Clearing Member, and any other assets of the Defaulting Clearing Member.
- C. Such assets of the MGEX Clearing House Reserve Fund.
- D. Security deposits of non-defaulting Clearing Members shall be applied toward meeting a loss in direct proportion to the total security deposit requirement of each Clearing Member.
- E. Such surplus funds of the Exchange as may be in excess of funds necessary for normal business operations. No such surplus shall be assumed until approved by the Executive Committee or the Board.

~~F. The balance of the loss to MGEX remaining after application of the above funds shall be assessed against Clearing Members (excluding any Insolvent or Defaulting Clearing Member) in direct proportion to the Clearing Members' total security deposit requirement, except no Clearing Member shall be assessed in excess of 200 percent of such Clearing Member's total security deposit requirement.~~

~~G. A special assessment determined by the Board of Directors to be levied against Clearing Members.~~

~~Any assessment made pursuant to this Regulation shall be paid by wire or other acceptable method by each Clearing Member the same business day after notice of any such assessment has been delivered to each Clearing Member, provided wire transfer is open and operational. If wire transfer is not open, payment is due within one (1) hour the next business day after wire is open and operational.~~

~~A Clearing Member may withdraw from Membership by giving written notice to the Exchange; however, such Member shall continue to be liable for any assessments made pursuant to this rule to cover any default occurring prior to resignation.~~

The Exchange may borrow such funds or draw such funds as necessary against any line of credit at any time for such purposes under this Regulation to cover any obligations or losses of the Exchange. Any borrowing of funds shall not relieve any Clearing Member from their obligations under this Regulation, application of their security deposits or from any assessments.

The Exchange may obtain and maintain any default insurance. Such insurance shall inure to and shall be for the sole benefit of the Exchange. Proceeds from any default insurance and the right to any proceeds shall be paid to and belong solely to the Exchange.

211205.006. LIQUIDITY EVENT.

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

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. 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 Regulation 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. For any substitution of U.S. Treasuries for cash in a guaranty fund, the Clearing House will replace the cash within 29 business days of the date of the substitution.
- 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 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. For any substitution of U.S. Treasuries for cash as performance bond, the Clearing House will replace the cash within 29 business days of the date of the substitution.
- C. Payment in Kind for Settlement Variation Obligations.** The Clearing House may satisfy settlement variation obligations to any Clearing Member that is a primary dealer or has a primary dealer affiliate with U.S. Treasuries held as collateral by the Clearing House 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). To the extent that the Clearing House pays its settlement variation obligations in U.S. Treasuries, if the receiving Clearing Member notifies the Clearing House the same day of the settlement that it will return the securities to the Clearing House on the next business day, then the Clearing House will pay cash equal to the original value of the Clearing House's settlement variation obligation on the next business day.

- D. Payment in Kind 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 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.

211205.017. REPURCHASE AGREEMENT.

Each Clearing Member that is a primary dealer or has a primary dealer affiliate shall enter into (or arrange for such affiliate to enter into) a master repurchase agreement with MGEX on terms substantially similar to those set forth by the Clearing House.

211205.028. FEDERAL RESERVE ACCESS.

Each Clearing Member will inform the Clearing House whether it, or one of its Affiliated Entities, has access to the Federal Reserve discount window and will notify the Clearing House if such access has been suspended, revoked, removed, terminated, or otherwise limited in any way as soon as practicable.

2112.03. ASSESSMENTS DURING RECOVERY AND WIND-DOWN PLAN.

In the event the Exchange initiates its Recovery and Wind-down Plan due to an uncovered credit loss or liquidity shortfall, MGEX may levy an assessment against Clearing Members in direct proportion to the Clearing Members' total security deposit requirement, provided that no Clearing Member shall be assessed in excess of five (5) times such Clearing Member's total security deposit requirement. Each Clearing Member shall pay any assessment made pursuant to this Regulation by wire or other method acceptable to MGEX on the same business day as notice of the assessment has been delivered to Clearing Members. If a Clearing Member elects to pay such assessment by wire and the wire transfer service is not open or operational, payment is due within one (1) hour on the next business day that wire is open and operational.

Although a Clearing Member may withdraw from Membership by giving written notice to the Exchange, such Member shall continue to be liable for any assessments made pursuant to MGEX Rules and Regulations prior to resignation.

In addition, notwithstanding the provisions of Rule 221.01., in the event the Exchange initiates its Recovery and Wind-Down Plan, MGEX may levy a special assessment against each and every Membership in the Corporation and may fix the dates upon which such assessments, in whole or in parts thereof, shall become due and payable.

2112.04. ORIGINAL MEMBERSHIPS: ISSUANCE DURING RECOVERY AND WIND-DOWN PLAN.

Notwithstanding the provisions of Rule 360.00., the Exchange officers shall have the right to sell Original Memberships in the event that MGEX initiates its Recovery and Wind-down Plan. The sale price shall be determined by the Exchange officers and shall be within the current bid and offer range for memberships, provided that the officers consider such price to be reasonable. The

person to whom such Membership is to be issued must comply with all the terms and conditions of MGEX Rules and Regulations concerning admission to Membership and recording the ownership of a Membership. Pursuant to Rule 360.00., the number of outstanding Memberships shall not exceed six hundred (600) unless an increase is approved by a vote of the Record Owners.