



Via Portal Submission

September 17, 2015
MGEX Submission No. 15-24

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

RE: Request for Approval of Amendments to MGEX Regulations Pursuant to CFTC Regulation 40.5(a).

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act (“CEAct”) and U.S. Commodity Futures Trading Commission (“CFTC”) Regulation 40.5(a), the Minneapolis Grain Exchange, Inc. (“MGEX”) is requesting approval for new MGEX Regulations 2013.03., 2013.04., 2013.05., and 2013.06., as set forth in the attached Exhibit A (collectively, the “New Regulations”). Specifically, MGEX is simply seeking approval to formally codify longstanding CFTC speculative position limits, and reporting and exemption procedures already in place for other MGEX contracts, for its flagship North American Hard Red Spring Wheat (“HRSW”) futures contract. The New Regulations, once approved, will apply to all contract months listed as of the effective date and all subsequent contract months.

I. Background.

MGEX is recognized by the CFTC as a Designated Contract Market (“DCM”). HRSW has long been considered a core referenced futures contract in agricultural commodities by the CFTC, as identified currently under CFTC Regulation 151.2(a)(1)(ix), and thus subject to CFTC speculative position limits, as amended. Under CFTC Regulation 40.4(a), a DCM must submit for CFTC approval under CFTC Regulation 40.5(a) any rule that would materially change a term or condition of HRSW. Position limits and position reporting requirements are considered a term and condition of MGEX’s HRSW futures contract.

Part 151 of the CFTC Regulations outlines a comprehensive position limits regime for HRSW, with Appendix A establishing the spot month limit at 600 contracts, and Regulation 151.4(b)(3) establishing the all-months combined and single month limit at 12,000 contracts. Pursuant to CFTC Regulation 151.11(a) and (b), DCMs listing core referenced futures contracts shall “adopt, enforce, and establish rules and procedures for

monitoring and enforcing” spot month, and all-months combined and single month position limits, so long as they do not exceed the federal threshold set by the CFTC.

MGEX has followed and enforced the applicable CFTC speculative position limits for HRSW futures, and has specifically codified such limits for HRSW options. Due to historical acceptance of the CFTC speculative position limits, the composition of its market and market participants, average open positions, and commercial practice, MGEX has not specifically codified in its Rules and Regulations position limits for HRSW futures. Rather, MGEX has applied and enforced the CFTC speculative position limits.

II. Proposed New Regulations and Rationale.

MGEX is now formally codifying what has been standard practice with regard to position limits for HRSW futures by implementing the New Regulations, which themselves incorporate the CFTC speculative position limits as set forth in Part 151 of the CFTC Regulations. With respect to the exemption and aggregation procedures described in new MGEX Regulations 2013.04. and 2013.05., these procedures are substantively similar to those procedures currently in effect for HRSW options and other non-core referenced futures contracts listed on MGEX.

When considering the potential impact of the New Regulations on MGEX market participants, MGEX believes that adoption of the New Regulations will not represent any change in existing practice. Instead, the New Regulations simply codify longstanding MGEX practice. As such, MGEX anticipates that the New Regulations will not have an effect on current market conditions, market participants, or MGEX. To the best of its knowledge, MGEX does not believe that the CFTC will need to amend any CFTC Regulation or interpret any provision of the CFTC Regulations or CEAct in order to approve the New Regulations.

A. MGEX Regulation 2013.03.

New MGEX Regulation 2013.03. codifies position limits currently in effect for HRSW futures, with an exception for those positions held as a result of a *bona fide* hedge. It also explains MGEX’s compliance and enforcement mechanisms for said position limits.

B. MGEX Regulation 2013.04.

New MGEX Regulation 2013.04. codifies the procedure by which MGEX will grant an exemption from the position limits for HRSW futures. This exemption process utilizes a written request addressed to the MGEX Department of Audits and Investigations.

C. MGEX Regulation 2013.05.

New MGEX Regulation 2013.05. codifies the procedure by which MGEX will aggregate positions held by Market Participants in multiple accounts under direct or indirect control, or pursuant to express or implied agreement.

D. MGEX Regulation 2013.06.

New MGEX Regulation 2013.06. codifies the reportable position limit for HRSW futures, which is consistent with CFTC requirements.

III. Public Feedback and Opposing Views.

MGEX requested public feedback regarding the New Regulations by posting notification on its website homepage. The notification and request for comments or feedback remained on MGEX's website from August 12, 2015 to September 11, 2015. During that period, MGEX received no comments in opposition to the proposal. MGEX Management also described the New Regulations to the MGEX Board of Directors at its regularly scheduled meeting held on June 23, 2015. No Director expressed any opposition to the New Regulations. MGEX is not aware of any other substantive opposing views with respect to the New Regulations.

IV. Compliance With Core Principles.

MGEX has reviewed the core principles for designated contract markets ("DCM Core Principles") and identified that the New Regulations impact the following DCM Core Principles:

- *DCM Core Principle 2, Compliance with Rules:* The New Regulations codify longstanding MGEX practice relating to position limits for HRSW futures, and will serve to clarify the terms by which HRSW futures are traded. The New Regulations also serve to prohibit abusive trade practices by codifying MGEX practice relating to position limits.
- *DCM Core Principle 3, Contracts Not Readily Subject to Manipulation:* The New Regulations serve to codify MGEX practice on position limits, which acts as a check to market manipulation.
- *DCM Core Principle 5, Position Limitations or Accountability:* The New Regulations codify longstanding MGEX practice relating to position limits for HRSW futures, and provide a comprehensive system of position limits at a level not higher than that set by the CFTC.
- *DCM Core Principle 7, Availability of General Information:* The New Regulations will be publicly available in the MGEX Rules and Regulations. In addition, the New Regulations have been disseminated on the MGEX website.
- *DCM Core Principle 12, Protection of Markets and Market Participants:* The New Regulations serve to protect markets and market participants from abusive practices by codifying longstanding MGEX practice relating to position limits for HRSW futures.

Pursuant to the authority set forth in MGEX Rule 210.01., the MGEX Board of Directors unanimously approved new MGEX Regulations 2013.03., 2013.04., 2013.05., and 2013.06. at its regularly scheduled meeting held on June 23, 2015. The New Regulations are intended to be effective as of Monday, November 2, 2015, for trade date Tuesday, November 3, 2015.

Pursuant to Section 5c(c) of the CEAct and CFTC Regulation 40.5(a), MGEX hereby certifies that new MGEX Regulations 2013.03., 2013.04., 2013.05., and 2013.06. comply with the CEAct and CFTC Regulations promulgated in accordance with the CEAct. MGEX further certifies that this submission and the pending New Regulations to the MGEX Rules and Regulations have been concurrently posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

If you have any questions regarding this submission, please do not hesitate to contact me at (612) 321-7128. Thank you very much for your attention to this matter.

Best regards,

A handwritten signature in blue ink that reads "Aaron Nyquist". The signature is fluid and cursive, with the first name "Aaron" and last name "Nyquist" clearly legible.

Aaron C. Nyquist
Assistant Corporate Counsel

Enclosure

EXHIBIT A

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

2013.03. POSITION LIMITS FOR HARD RED SPRING WHEAT FUTURES.

A. Applicability. Regulations 2013.03., 2013.04., 2013.05, and 2013.06. will govern position limits for HRSW futures, notwithstanding any other provisions of the MGEX Rules and Regulations that relate to position limits for HRSW options.

B. Limits. Position limits for HRSW futures will be determined by the Exchange, but will not be greater than the position limits for HRSW pursuant to Part 150 of the Regulations of the CFTC. The position limits will not apply to *bona fide* hedging transactions or positions, as determined by the Exchange or CFTC Regulations.

No Market Participant will own or control in excess of six hundred (600) HRSW futures net long or short in the settlement month; twelve thousand (12,000) HRSW futures net long or short in any single month; or twelve thousand (12,000) HRSW futures net long or short in all contract months combined.

C. Compliance. No Market Participant may exceed the limits at any time during the trade day. Other than *bona fide* hedging positions, positions in excess of the limits will be presumed to be a violation. The Exchange may direct any Market Participant owning, controlling or carrying a position for another Market Participant in excess of the limits set forth in this Regulation to liquidate or reduce its position to comply with this Regulation. For any futures position that exceeds position limits for passive reasons such as a market move or exercise assignment, the Market Participant will be allowed one (1) business day following the date of the transaction that leads to excess positions to liquidate the excess position without being considered in violation of the limits.

D. Enforcement. The Market Participant owning, controlling or carrying a position (as well as the account holder, FCM, or Clearing Member as the case may be) shall maintain adequate books and records that disclose the identity of and positions held by any Market Participant. Such books and records shall be made available to the Exchange upon request. The Market Participant owning, controlling or carrying a position (as well as the account holder, FCM and Clearing Member) may be held accountable for any violation of the limits. The Department of Audits and Investigations may take enforcement action against any or all of the parties, whether or not each had actual knowledge of the position or a violation.

2013.04. EXEMPTION FROM POSITION LIMITS FOR HARD RED SPRING WHEAT FUTURES.

To be eligible for an exemption from position limits for HRSW futures under this Regulation, an applicant must submit a written request to the Department of Audits and Investigations. Such

request must include the following:

- A. a description of the size and nature of the proposed transactions;
- B. information which demonstrates that the proposed transactions are *bona fide* hedging transactions;
- C. a statement indicating whether the Market Participant on whose behalf the request is made (i) maintains positions in the futures contract for which the exemption is sought with any other account holder or owner, and/or (ii) has made a previous or contemporaneous request pursuant to the Regulation through another applicant, and if so, the relationship of the information set forth in such requests;
- D. a statement that the proposed transactions will be *bona fide* hedges;
- E. a statement that the applicant will immediately supply the Exchange with any material changes to the information submitted pursuant hereto;
- F. such further information as the Exchange may request, including the daily, weekly or periodic filing of any documents or reports.

The Department of Audits and Investigations shall notify the applicant whether the exemption has been granted, and any limitations placed thereon, within five (5) business days of receiving a written request for exemption. An exemption will remain in effect until (i) the applicant or Market Participant on whose behalf the request is made requests a withdrawal; or (ii) the Exchange revokes, modifies, or places further limitations thereon. At any time, the Exchange may limit *bona fide* hedging positions and deny or limit any request for exemption from position limits which the Exchange determines in its sole discretion are either not in accord with sound commercial practices or exceed the established or permitted amount which may liquidated in an orderly fashion.

The Exchange will use the CFTC definition of a *bona fide* hedging position as described in CFTC Part 151 (specifically 151.5, or elsewhere as applicable) as a guide when applied to the HRSW futures contract, but will not be limited by it.

2013.05. AGGREGATION OF POSITIONS FOR HARD RED SPRING WHEAT FUTURES.

In determining whether any Market Participant has exceeded the position limits for HRSW futures, all positions in accounts for which such Market Participant by power of attorney or otherwise directly or indirectly holds positions or controls trading will be included with the positions held by such Market Participant. Such limits upon positions will apply to positions held by two (2) or more Market Participants acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single Market Participant. The Exchange will follow the CFTC definition of aggregation and the procedures for aggregating positions as described in CFTC Part 151 (specifically 151.7 or elsewhere as applicable).

2013.06. REPORTABLE POSITIONS FOR HARD RED SPRING WHEAT FUTURES.

The reportable position level will be a position of one hundred and fifty (150) or more HRSW futures on this Exchange, long or short, in any one (1) month. All such positions must be reported

| in a manner and form as designated by the CFTC or the Exchange.