

CHAPTER 23
MEDIA DERIVATIVES CLEARING REGULATIONS

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DRAFT REGULATIONS

CHAPTER 23 MEDIA DERIVATIVES CLEARING REGULATIONS

2300.00. CLEARING MEMBERS.

This Chapter is applicable to approved Clearing Members submitting Media Derivatives Exchange (“MDEX”) traded contracts to the Minneapolis Grain Exchange (“MGEX” or “Exchange”) Clearing House for clearing. The Clearing House has no obligation to accept MDEX contracts for clearing unless the Clearing Member complies with all MGEX requirements for becoming a Clearing Member of the MGEX and remains in good standing. Clearing Members must also comply with the requirements of MDEX. In addition to meeting MGEX and MDEX Clearing Member requirements, both MGEX and MDEX must grant approval to clear MDEX contracts.

All Clearing Members submitting MDEX traded contracts to the Clearing House are presumed to be subject to the Commodity Exchange Act and the regulations promulgated thereunder, and any other applicable jurisdiction’s laws, rules or regulations.

2301.00. PRIORITY OF RULES AND REGULATIONS.

To the extent that the provisions in this Chapter conflict with Rules, Regulations, Resolutions and Interpretations in other sections of this Rulebook, this Chapter supersedes such Rules, Regulations, Resolutions and Interpretations.

MGEX Rules, Regulations, Resolutions, Interpretations, customs and usages pertaining to the clearing of MDEX contracts shall be presumed to have precedence over MDEX rules unless expressly and specifically stated, but in all other respects the rules of MDEX applicable to MDEX contracts shall take precedence.

2302.00. METHOD OF CLEARING.

Upon submission of MDEX traded contracts to and acceptance by the Clearing House for clearing and settlement, the Clearing House shall assume the position of Buyer to the Seller and Seller to the Buyer to all such MDEX contracts cleared. In case a Clearing Member buys and sells the same MDEX contract (matching in terms of underlying event, expiration and, as applicable, strike value), the Clearing House shall offset such contracts to the extent of their equality and the Clearing Member shall be deemed a Buyer from the Clearing House to the extent that its purchases exceed its sales, or a Seller to the Clearing House to the extent that its sales exceed its purchases.

All transactions involving MDEX contracts for which the MGEX is the Clearing House shall be submitted at times determined by the Clearing House (see [Res. 2101.00.C.](#)). Further, such transactions shall be in a format approved by the Clearing House and shall contain the information requested by the Clearing House, including but not limited to the following information as may be applicable:

- A. Date of transaction
- B. Clearing Member name
- C. Type of account (Regular or Segregated)
- D. Customer type indicator (CTI) as defined below:

- CTI 1. Transactions initiated and executed by an individual member for his own account, for an account he controls, or for an account in which he has ownership or financial interest.
 - CTI 2. Transactions executed for the proprietary account of a Clearing Member.
 - CTI 3. Transactions where an individual member or nonmember executes for the personal account of another individual member, for an account the other member controls or for an account in which the other individual member has ownership or financial interest.
 - CTI 4. Any transaction not meeting the definition of CTI 1, 2 or 3.
- E. Quantity, product or contract, event, contract month, price or premium, whether the transaction involved a put or a call, strike price, and buy or sell.
 - F. Both the buying and selling User ID's, and the opposite Clearing Member's symbol.
 - G. Transaction time to the minute and second.
 - H. Indicators for the following types of transactions: (G) give-up; (T) transfer.
 - I. Account Identification. (For initial set-up and new accounts, provide a listing of account name, type, and position.)
 - J. Any other information required by the Clearing House.

The Clearing House shall clear all submitted MDEX transactions that meet the above conditions, and have been received by the Clearing House. All submitted transactions shall be presumed to have been properly matched. The MGEX shall not be responsible for determining the legitimacy of the matched and submitted transactions.

2303.00. FEES AND FINES - AMOUNTS AND COLLECTIONS.

Clearing Members are subject to fees and fines determined by the Clearing House. The schedule of deadlines is subject to change at any time by the Clearing House. The amount due for errors or any other fees charged or collected by the Clearing House shall be billed on a monthly basis unless otherwise specified by the Exchange. (See [Res. 2101.00.C.](#))

2304.00. CLEARING FEES.

Clearing fees for MDEX contracts, and the manner of payment thereof, shall be determined by the Clearing House. However, the clearing fee shall not exceed \$0.40 per transaction cleared. (See [Res. 2304.00.](#))

2305.00. CLEARING MEMBER MARGINS.

The Clearing House shall set margin requirements for MDEX contracts at a level that it believes protects the interests of Buyers and Sellers and the Exchange. The Clearing House shall accept, as margin, cash or United States Treasury securities. Cash margin requirements shall be submitted by wire transfer of funds or other acceptable method approved by the Clearing House. Cash and United States Treasury securities shall be submitted at times determined and posted by the Clearing House.

United States Treasury securities shall be maintained in multiples of \$5,000. The Clearing House shall value securities as it deems appropriate. The President or his designee may, at their discretion, require of any Member a margin upon any or all of such Member's open trades which are deemed unduly insecure or hazardous in such amount as deemed advisable. Calls for such margin shall be paid within one business day or earlier if so requested. Further, the Clearing House shall collect daily intra-day variations from Clearing Members apart from, and in addition to, any margin or daily settlement variation payments and collects.

Margin requirements are subject to change at any time but shall at all times be those requirements most recently adopted (see [Res. 2305.00.](#)).

Clearing Members called for margins under this Regulation shall pay by the deadline announced by the Clearing House. An extension of time for such payments can only be granted by the President or his designee. In such cases the extension of time so granted shall be noted on the written call, and copy of said call shall be kept in the files of the Clearing House.

Should a Clearing Member fail to deposit balances for additional margin as required in this Regulation, or should the President or his designee deem the transaction of any Member unduly insecure or hazardous, the Clearing House may direct that the Member close out all or a portion of his trades, or that the Member transfer all or a portion of his trades to the books of another Clearing Member, as the situation may require. If such requests are not complied with within one (1) hour, the Clearing House may, with the consent of the President or his designee, originate orders to transfer or close out all or a portion of the Member's trades, as the situation may require. Any such action shall be taken with due consideration to the positions of customers.

All differences between the contract price reported and accepted and the price at which the property may be bought or sold as a consequence of a Member's failure to fulfill his obligations as set forth in this Regulation shall constitute the rule and measure of damages against the Member so failing, and the differences shall be calculated, adjusted and settled within the time and in the manner and form determined by the Clearing House and the Rules and Regulations of the Exchange.

Any financial obligations owed by a Clearing Member to the Clearing House, which remain outstanding after all the Member's trades have been closed out, may be satisfied through the Member's security deposit with the Clearing House or such other assets, collateral or guarantees as necessary to satisfy the financial obligations.

This Regulation is intended to be read in conjunction with and applied consistent with Regulation 2102.00.

2306.00. PROTECTION OF CLEARING HOUSE: DEFAULT BY A CLEARING MEMBER.

If a Clearing Member fails promptly to discharge any obligation to the Clearing House, its security

deposits, its margins and performance bonds on deposit with the Clearing House (but not those belonging to a non-defaulting customer), and any of its other assets available to the Exchange shall be applied by the Clearing House to discharge the obligation. Further, the Clearing House 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. 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 Clearing House shall be under no obligation to forward any variation pays or settlement funds while the Clearing Member is in default.

In addition to application of the available assets of the defaulting Clearing Member, the Clearing House, President, Treasurer or other designee may take any other actions that it determines necessary to protect the Clearing House or other Clearing Members. Such actions include, but are not limited to, actions authorized elsewhere within the Rulebook, 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.

Except as expressly provided in Chapter 23 (including by cross-reference) or this Rulebook, the Clearing House, Exchange, MDEX, and their respective Boards, and employees 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 Exchange Rules, Regulations or procedures, or actions allowed by law.

The Exchange or Clearing House may establish such procedures as necessary which prescribe in detail how the protections under Regulation 2306.00. and Chapter 23 will operate. Such procedures shall constitute part of this Rulebook. Furthermore, any documented information appropriate to assist the Clearing Members will be disseminated.

This Regulation and the procedures established under this Regulation shall be read in conjunction with and applied consistent with Regulation 2105.00. and the procedures established under that Regulation.

2307.00. LOSSES BORNE BY CLEARING HOUSE.

Should the Clearing House bear a loss resulting from the actions or a default by a Clearing Member, the procedures and requirements of **Regulations 2105.01. through 2105.03.** shall apply but with the following amendment to **Regulation 2105.01.:**

Should the defaulting Clearing Member have MDEX contracts as part of their position makeup, the MGEX will access only those MDEX pledged funds necessary to cover the default amount attributable to MDEX contracts. Such funds will be accessed prior to the MGEX Clearing Reserve Fund and other non-defaulting Clearing Member security deposits.

Regardless of any amendment of Regulation 2105.01., MDEX pledged funds will only be applied as provided above to cover Clearing House loss from default by a Clearing Member.

2308.00. DAILY AND CONTRACT SETTLEMENTS.

MDEX shall be responsible to provide official daily and contract settlement prices for all MDEX contracts. The MGEX shall not be liable for the settlement prices received. The deadline for providing settlements shall be determined by the Clearing House. (See **Res. 2101.00.C.**)

2309.00. CASH SETTLEMENT.

All MDEX positions open at expiration of a contract shall be cash settled. MDEX shall be responsible for the determination and submission of the cash settlement prices provided to the Clearing House. The MGEX shall not be liable for determination of the cash settlements for MDEX contracts.

2310.00. TRANSFER TRADES.

Transfer trades involving MDEX contracts or positions shall be governed by MDEX Rule 427.

2311.00. GIVE-UP TRADES.

All give-up trades involving MDEX contracts received by the carrying Clearing Member by three-thirty o'clock (3:30) p.m. must be accepted and transferred to the account of the carrying Clearing Member on the same business day. If the executing Clearing Member does not provide said information by three-thirty o'clock (3:30) p.m., then the executing Clearing Member will retain the position until the following business day. All give-up transfer trades are due at the Clearing House at such time as determined by the Clearing House. Submission times and fines for not accepting a give-up trade are set forth in [Resolution 2101.00.C](#).

2312.00. RECORDS OF TRANSACTIONS EFFECTED THROUGH THE CLEARING HOUSE.

Clearing Members shall retain all documents and any other original records pertaining to MDEX contracts cleared through the Clearing House for five (5) years. MDEX shall be responsible to maintain their own records.

2313.00. PHYSICAL EMERGENCIES.

If the MDEX trading platform or Clearing House experiences a full or partial breakdown in any area, the MGEX may, without prior notice, immediately modify or suspend clearing operations and procedures involving MDEX contracts until the problem has been corrected.

2314.00. CLEARING HOUSE LIMITATION OF LIABILITY.

Except in instances where there has been a finding of willful or wanton misconduct or as expressly provided in this Chapter 23 (including by cross-reference) or in any related Resolution or Interpretation, in which case the party found to have engaged in such conduct cannot avail itself of the protections in this Regulation, neither the MGEX, the Clearing House, Members, Clearing Members, other persons acting as agents nor any of their officers, directors or employees, shall be liable for any losses, damages or costs, including direct, indirect, special, incidental or consequential damages, and lost profits, regardless of whether any of them had been advised or otherwise made aware of the possibility of such damages, arising out of the services provided by the MGEX as it pertains to the clearing of MDEX contracts or as it pertains to the use or performance of the MDEX platform, any component(s) thereof, or any fault, failure, malfunction or other alleged defect in the MDEX product or MDEX platform. The Clearing House shall not be liable for any connectivity or communication fault, delay, or breakdown, including but not limited to, any failure to delay in transmission, disruption of common carrier lines, loss of power, acts or failures to act of any third party, natural disasters or any and all other causes. The Exchange does not guarantee continuous, uninterrupted or secure access to the Clearing House.

Each market participant assumes all risks of trading on the MDEX platform, and waives any right to assert any claim against the MGEX that access or information was not provided by the MGEX or that

access or information provided by the MGEX was improper, inaccurate or inadequate. Further, such market participant shall not use the MGEX to contest the validity or enforceability of any trade executed on the MDEX platform.

There are no express or implied warranties or representations provided by the MGEX, the Clearing House, MGEX Members, Clearing Members, other persons acting as agents or any of their officers, directors or employees, relating to the MDEX platform, including but not limited to, warranties of merchantability and warranties of fitness for a particular purpose or use.

2315.00. CLEARING HOUSE PROCEDURES.

The Clearing House may immediately adopt, cancel or modify procedures, including but not limited to, reporting, submission times, deadlines, settlement process, settlement times, clearing runs, margin and variation payments means and methods, give up procedures, product listing procedures and coding, confirmations, closing, and recordkeeping. The MGEX shall incorporate into its Rulebook as appropriate, by Regulation, Resolution or Interpretation, such clearing procedures, including those noted above determined necessary for effective clearing. Clearing House notification of procedures or any changes thereto pertaining to clearing of MDEX contracts will generally be in the same or similar format as other forms of communication.

2316.00. AUTHORITY FOR RULEBOOK APPROVAL AND IMPLEMENTATION.

The Board of Directors or its designee shall have the authority and power to approve and implement Regulations, Resolutions, Interpretations, policies and procedures not inconsistent with this Chapter or Rulebook.

CHAPTER 72 RESOLUTIONS

RESOLUTION 2101.00.C. (This is a current resolution with amendments pertaining to MDEX.)

The Minneapolis Grain Exchange Clearing House Committee or its designee has adopted the following schedule of deadlines for reporting trading session activity to the Clearing House:

8:00 a.m.	Form 200's
9:00 a.m.	Settlement and margin payment Offset requests
11:15 a.m.	Weekly account position updates Daily Delivery/Exercise account updates
2:15 p.m.	Last submission of trades
3:00 p.m.	Give-up transfer trades Unmatched trade fixes Last submission of MDEX trades
3:30 p.m.	Long position lists for delivery Delivery Notices

Exercise Notices
 Auto-Exercise Cancellation Notices
 Spring Wheat Options Form 200's on expiration day
 MDEX give-up or transfer trades

Verbal Notification to the Clearing House is necessary if reports are going to be later than 3:30 p.m. Deadline for receipt of notices is 4:00 p.m.

4:00 p.m. Daily and contract settlements from MDEX

Evening trading activity will clear as part of the next business day's activity.

Submissions that are late will be charged with fines as follows: the first ten (10) minutes late will incur a charge of \$10; succeeding ten (10) minute periods will add additional \$25 charges each. (For example, eleven (11) minutes late will be \$35; twenty-five (25) minutes late will be \$60).

Trades must be entered in "TEMS" within forty-five (45) minutes of the conclusion of each half (½) hour trading bracket.

Any unresolved unmatched trades may be suspended pending possible resolution the following business day as an "as of" trade. "As of" trades can be carried no longer than one business day.

The Minneapolis Grain Exchange Clearing House Committee has adopted a fine of \$100 for Form 200 errors in excess of two per month.

Spring Wheat Options Form 200's for the last trading day will incur the following fines:

Form 200's not received by 5:00 p.m. expiration day	\$1,000
Errors not corrected by 6:00 p.m. expiration day	\$1,000
Errors not corrected by 8:00 a.m. next business day an additional	\$1,000

All give-up trades properly received in accordance with [Regulation 2106.00](#) by the carrying Clearing Member by 2:15 p.m. and not accepted by the carrying Clearing Member by 3:00 p.m. and all give-up trades properly received in accordance with [Regulation 2312.00](#) by the carrying Clearing Member by 3:30 p.m. and not accepted by the carrying Clearing Member by 3:30 p.m. shall result in the following fines:

First offense	\$1,000
Second offense	\$2,000
Third offense	as determined by Business Conduct Committee

Approved XXXXX, 2009, effective XXXXX, 2009.

RESOLUTION 2304.00. (This is a new resolution in its entirety.)

The Minneapolis Grain Exchange Board of Directors or its designee has adopted the following schedule of Clearing service fees to be paid to the Corporation for each Media Derivatives contract bought, sold, transferred, cash settled, or assigned.

Binary Options and Collared Futures

Per contract side \$0.20

The maximum Clearing service fees for Media Derivatives contracts shall be \$0.20 per contract side.

Approved XXXXX, 2009, effective XXXXX, 2009.

RESOLUTION 2305.00. (This is a new resolution in its entirety.)

The Minneapolis Grain Exchange Board of Directors or its designee has adopted the following margins as the minimum amounts that are proper and adequate for Media Derivatives contracts.

A. Margins on Binaries

 Seller posts 100% of notional value.

B. Margins on Opening Weekend Collared Futures

 Buyer and Seller each post 50% of notional value.

C. Margins on Four Week Revenue Collared Futures

 Buyer and Seller each post 50% of notional value through opening box office weekend. After opening box office weekend, Buyer and Seller margins will be the lesser of 50% of notional value or maximum potential loss.

Approved XXXXX, 2009, effective XXXXX, 2009.