



**MINNEAPOLIS GRAIN EXCHANGE**

Via Electronic Mail

March 20, 2008

Mr. David Stawick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street NW  
Washington, D.C. 20581

**SUBJECT: Rule Certification**

Dear Mr. Stawick:

Pursuant to Commodity Exchange Act ("CEAct") Section 5c(c)(1) and Commodity Futures Trading Commission ("Commission") Regulation 40.6(a), the Minneapolis Grain Exchange ("MGEX") hereby certifies that the attached amended Regulations to Chapter 21 of the Rulebook comply with the CEAct and the regulations promulgated thereunder. Additions have been underlined while deletions have been marked through.

The purpose for amending the Regulations is to clarify and improve Clearing House default and other operational procedures.

Pursuant to the authority of MGEX Rule 210.01., the Board of Directors unanimously approved amending the Regulations. The MGEX plans to implement the changes the next business day after receipt of this submission to the Commission.

If there are any questions regarding this submission, please contact me at (612) 321-7169. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in cursive script that reads "Layne G. Carlson".

Layne G. Carlson  
Corporate Secretary

Enclosure

cc: Thomas J. Bloom  
Anne Reuter

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## 2100.00. METHOD OF CLEARING.

All transactions for Futures or Options in any commodity traded on the Minneapolis Grain Exchange shall be submitted to the Clearing House to be cleared. Upon acceptance by the Clearing House of such transactions, the Clearing House assumes the position of Buyer to the Seller and Seller to the Buyer in respect to such transactions, and the last settling price shall be considered as the contract price.

It shall be the duty of each Member with clearing privileges making a transaction for Futures or Options in any commodity under the Rules and Regulations of the Exchange to submit each such transaction using "TEMS" to the Clearing House office. Transactions should be submitted at times determined by the Clearing House Committee (see **Res. 2101.00.C.**). The transactions shall be in a format approved by the Clearing House, and shall contain, at a minimum, the following information:

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- 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, commodity, contract month, price or premium, whether the transaction involved a put or a call, strike price, buy or sell.
- F. Both the buying and selling Member's numbers and the opposite Clearing Member's symbol.
- G. Transaction time to the minute.

- H. Indicators for the following types of transactions: (C) cash exchange; (T) office transfer; (S) spread; (D) delivery; (R) risk exchange.
- I. Account Identification. (For initial set-up and new accounts, provide a listing of account name, type, and position. This information will be available to the President and designated Clearing House/Compliance personnel only.)
- J. Any other information required by the Clearing House,

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The Clearing House shall match the trades as submitted and shall list for each Clearing Member its cleared trades and unmatched trades. A recapitulation statement shall be produced, showing updated contract positions and settling all matched trades to the official Exchange settling prices. After completion of the clearing process, the Clearing House shall notify each Clearing Member as to the net pay or collect amounts due by account (Regular and/or Segregated). Such amounts shall be submitted by wire transfer of funds or other acceptable method. Amounts due to the Clearing House shall be submitted at times determined by the Clearing House Committee (see **Res. 2101.00.C.**). All clearing statements shall be disseminated by the Clearing House to each Clearing Member's designated contact.

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If the report of a trade by a Member does not correspond to the report of the other party to the trade, the Clearing House shall reject the trade and notify both Clearing Members showing the discrepancy of the reports. The Clearing Members must thereafter submit corrections to the Clearing House at times determined by the Clearing House Committee (see **Res. 2101.00.C.**).

It shall be the primary responsibility of the Clearing Member to see that all trades are resolved. Each Clearing Member shall designate a person or persons to be available and responsible for reconciling the Clearing Member's unmatched trades. Failure to have a qualified representative available shall constitute negligence in the determination of responsibility for any unmatched trades.

**2101.00. FEES AND FINES - AMOUNTS AND COLLECTIONS.**

The Clearing House shall notify all Members with clearing privileges in writing, by special memorandum or otherwise, of the schedule of fines or fees to be collected by the Clearing House. The schedule of deadlines is subject to change at any time by the Clearing House Committee. The schedule of deadlines shall at all times be those requirements most recently adopted. 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.

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If the offense becomes frequent, the President or his designee may call for additional permanent margins or take such other action as is deemed necessary.

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Any Member making an error in his daily statement to the Clearing House may be fined for each error made (see **Res. 2101.00.C.**).

**2102.00. CLEARING MEMBER MARGINS.**

The Clearing House Committee shall set margin requirements at a level that it believes protects the interests of Buyers and Sellers and the Exchange. The Clearing House shall accept, as

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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. 2102.00.C.).

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.

## 2105.00. 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

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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.

The Exchange, Clearing House, Board and Exchange 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 2105.00. and Chapter 21 will operate. Such procedures shall constitute part of this Rulebook. Furthermore, any documented information appropriate to assist the Clearing Members will be disseminated.

#### **2105.01. LOSSES BORNE BY CLEARING HOUSE.**

Should the Clearing House bear a loss resulting from the actions or a default by a Clearing Member, including the insufficiency of the security deposit, margins, bonds, guarantees or other assets of a Clearing Member to fully meet its obligations to the Clearing House, 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 and Clearing House,

- A. Such assets of the MGEX Clearing House Reserve Fund.
- B. Security deposits of Clearing Members shall be applied toward meeting said loss in direct proportion to the total security deposit requirement of each Clearing Member.
- ~~C.~~ 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 Finance Committee, Executive Committee or the Board,
- ~~D.~~ The balance of the Clearing House loss 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

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**Deleted:** C. . A share of the excess working capital of the Exchange over and above funds necessary to operate the Exchange. This share is defined as fifty percent (50%) of the working capital (current assets less current liabilities) of the prior audited August 31 financial statement of the Minneapolis Grain Exchange.¶

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requirement, except no Clearing Member shall be assessed in excess of 200 percent of such Clearing Member's total security deposit requirement.

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

Any assessment made pursuant to this Rule 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 Clearing House, 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 Clearing House. 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 benefit of the Exchange or Clearing House. Proceeds from any default insurance and the right to any proceeds shall be paid to and belong to the Exchange.

#### **2105.02. RIGHTS OF EXCHANGE FOR RECOVERY OF LOSS.**

If the security deposits, margins, performance bonds, guarantees and other assets of a Clearing Member (excluding customer funds and margins unless directly involved in a liability) are insufficient to satisfy all of its obligations to the Clearing House, including all Claims, against the Clearing House by reason of its substitution for that Clearing Member pursuant to **Rule 701.00**, the Clearing House shall nonetheless pay all such claims, which shall be deemed a loss to it and which shall be a liability of the defaulting Clearing Member to the Exchange, which the Exchange may collect from the assets of such Clearing Member available to it or by process of law.

If a loss for which Clearing Members or their security deposits have been assessed is afterward recovered by the Exchange or the Clearing House in whole or in part, the net amount of such recovery shall be credited to such persons or firms (whether or not they are Clearing Members at the time of recovery) in proportion to the amount of the assessment.

#### **2105.03. SECURITY DEPOSITS TO BE RESTORED.**

In the event it shall become necessary as provided above to apply all or part of the security deposits to meet obligations to the Clearing House (other than a Clearing Member's own obligation resulting from the substitution of the Clearing House on its trades), the Clearing

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1. . Fifty percent (50%) of such remainder shall be assessed in proportion to each Clearing Member's share of the total number of contracts cleared during the six (6) month period preceding the day the loss was declared by the Clearing House.¶  
¶  
2. . Fifty percent (50%) of such remainder shall be assessed in proportion to each Clearing Member's share of the total open commitment as of the close of the tenth (10) business day preceding the day the loss was declared by the Clearing House.

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Member shall immediately make good any such deficiency in security deposits prior to the close of business the next business day.

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Clearing House Committee