



Via Portal Submission

July 14, 2020
MGEX Submission No. 20-26

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 the amendments to MGEX Rule 83.16. 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 has been posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

I. AMENDMENTS TO MGEX RULES

MGEX Rule 83.16. sets forth the elements and requirements of an Exchange of Contract for Related Position (“ECRP”) transaction for a SPIKES product. In order to slightly broaden what related positions may qualify for an ECRP transaction, MGEX has made the amendments below. As amended, while related positions are no longer limited only to SPIKES options and SPY options, the buyer and seller must mutually agree to the transaction and there must still be a high degree of price correlation to the underlying contract. No other requirements are being changed.

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 7, Availability of General Information:* The Proposed Amendments have been disseminated on the MGEX website. The Proposed Amendments will be available in the MGEX Rulebook, which is accessible online.

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 July 14, 2020. 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.

The Proposed 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) 321-7128. Thank you for your attention to this matter.

Sincerely,



Peter D. Sparby
Associate Corporate Counsel

Enclosure

Exhibit A

The following MGEX Rules are to be added. Additions are underlined while deletions are ~~marked through~~.

83.16. EXCHANGE OF CONTRACT FOR RELATED ~~ED~~ION POSITION.

- A. If and to the extent permitted by the Rules, a bona_fide Exchange of Contract for Related Position (“ECRP”) may be entered into off of the Exchange with respect to a contract at a price mutually agreed upon by the parties to such transaction. Any SPIKES futures legs of an ECRP transaction must be priced in increments of 0.01 index points. Each ECRP must contain the following three essential elements:
- i. a transaction in a contract that is listed on the Exchange and a transaction in a related position or an option on the related position (known as the “Related Position”);
 - ii. an exchange of contract for the Related Position that involves an actual transfer of ownership, which must include (1) an ability to perform the ECRP and (2) a transfer of title of the Contract and Related Position upon consummation of the exchange; and
 - iii. separate parties, such that the accounts involved on each side of the ECRP have different beneficial ownership or are under separate control, provided that separate profit centers of a Futures Commission Merchant operating under separate control are deemed to be separate parties for purposes of this Rule.
- B. For purposes of this Rule, the term “Related Position” will include, but not be limited to, a security, derivative, or any commodity as such term is defined under the Commodity Exchange Act ~~SPIKES options and SPY options~~, or a group or basket of any of the foregoing. The Related Position being exchanged may not be a contract traded on or subject to the Rules of the Exchange, but the Related Position must have a high degree of price correlation to the underlying of the contract transaction so that the contract transaction would serve as an appropriate hedge for the Related Position.
- C. In every ECRP transaction, one party must be the buyer of (or the holder of the long market exposure associated with) the Related Position and the seller of the corresponding contract and the other party must be the seller of (or the holder of the short market exposure associated with) the Related Position and the buyer of the corresponding contract. Further, the quantity of the Related Position traded in an ECRP must correlate to the quantity represented by the contract portion of the transaction.
- D. The execution of an ECRP transaction may not be contingent upon the execution of another ECRP or related position transaction between the parties where the transactions result in the offset of the related position without the incurrance of market risk that is material in the context of the related position transactions.

- E. The timing of an ECRP transaction must satisfy the following requirements:
- i. The agreement to an ECRP transaction may only occur during the Hours of Trading for the contract that comprises the contract leg of the transaction, when that contract is not halted or suspended (“Permissible Agreement Period”). For such purposes, an agreement to an ECRP transaction includes, without limitation, agreement to the quantity and actual price or premium of the Contract leg of the transaction. ECRP transactions are not permitted during extended trading hours;
 - ii. An ECRP transaction must be fully reported to the Exchange without delay and by no later than thirty minutes after the transaction is agreed upon (“Reporting Deadline”). The Reporting Deadline is measured from the time the transaction is agreed upon to the time that the full report of the transaction is received by the Exchange.
 - iii. All ECRP transactions will be submitted for clearing on the Business Day during which the transaction is fully reported to the Exchange.

Accordingly, in order to satisfy the requirements of this paragraph E, the time periods in which an ECRP transaction may occur are limited to those time periods in which: (i) the transaction is agreed to within a Permissible Agreement Period; and (ii) the transaction is able to be fully reported to the Exchange within a Permissible Reporting Period by no later than the Reporting Deadline.

- F. Each party to an ECRP transaction will comply with all applicable MGEX Rules and must be registered with the Exchange as an Authorized Participant (an “Authorized Participant”). All Authorized Participants will be assigned an Authorized Participant ID. Authorized Participants that execute ECRP transactions on behalf of other Authorized Participants are responsible for ensuring that such other Authorized Participants that engage in such transactions in contracts traded on the Exchange are fully informed regarding Exchange requirements relating to ECRP transactions. To the extent required by applicable law, an Authorized Participant must be registered or otherwise permitted by the appropriate regulatory body or bodies to act in the capacity of an Authorized Participant and to conduct related activities.
- G. Each Authorized Participant is required to maintain the information set forth in this Section G or have an agreement with a Broker (who is an Authorized Participant or Authorized Reporter) that will maintain such information. Each Authorized Participant or Broker will record the following details with respect to the contract leg of the ECRP on its order ticket: (i) all component legs of the transaction; (ii) the number of contracts traded and whether the relevant contract leg of the transaction is a buy or sell; (iii) the price of execution or premium; (iv) the time of execution to the nearest minute (i.e., the time at which the parties agreed to the ECRP); (v) the arrangement time, if any (i.e.,

the time at which the parties agreed to enter into the transaction at a later time); (vi) the counterparty's Authorized Participant ID and Authorized Participant ID of the individual executing the transaction; (vii) that the transaction is an ECRP; (viii) origin code; (ix) Customer Type indicator code; (x) the account number of the Authorized Participant for which the ECRP was executed; (xi) the identity, quantity and price or premium of the Related Position(s) (including the expiration, strike price, type of option (put or call) and delta in the case of an option); and (xii) any other information that may be required. Every Authorized Participant handling, executing, clearing or carrying ECRP transactions or positions will identify and mark as such by appropriate symbol or designation all ECRP transactions or positions and all orders, records and memoranda pertaining thereto. Records will also include, without limitation, documentation relating to the Related Position portion of the ECRP transaction, including those documents customarily generated in accordance with Related Position market practices that demonstrate the existence and nature of the Related Position portion of the transaction. Upon request by the Exchange and within the time frame designated by the Exchange, any such Authorized Participant or Broker will produce satisfactory evidence that an ECRP transaction meets the requirements set forth in this Rule.

A Clearing Member or an Authorized Reporter of a carrying FCM that authorizes an Authorized Participant accepts responsibility for all such ECRP transactions executed on behalf of the Authorized Participant.

- H. Each Authorized Participant executing an ECRP transaction must have at least one designated individual that is pre-authorized by MGEX to report ECRP transactions in accordance with paragraph I below on their behalf (the "Authorized Reporter") in accordance with the requirements and deadlines set forth in this Rule. To the extent required by applicable law, an Authorized Reporter or Authorized Participant involved with the execution of an ECRP transaction must be registered or otherwise permitted by the appropriate regulatory body or bodies to act in the capacity of an Authorized Reporter or Authorized Participant and to conduct related activities. Only an Authorized Reporter will be allowed to report an ECRP transaction on behalf of an Authorized Participant.

Any Authorized Reporter that is an Authorized Participant must have an Authorized Participant ID. When applicable, an Authorized Reporter who accepts an ECRP transaction for their Authorized Participant must report the ECRP transaction and all required information to the Exchange and the Authorized Reporter at the Clearing Member or their carrying FCM. Authorized Reporters at carrying FCMs that are not MGEX Clearing Members must report the ECRP transaction and all required information to the Authorized Reporter at the MGEX Clearing Member. An Authorized Reporter that is the initiator of a notification of an ECRP transaction may not cancel or revise the notification after it has been entered into the MGEX clearing system while it awaits acceptance by the Authorized Reporter for the contra side of the transaction.

A Clearing Member or an Authorized Reporter of a carrying FCM that authorizes an Authorized Reporter to report ECRP transactions accepts responsibility for all such transactions reported to the Exchange by that Authorized Reporter on behalf of the Authorized Participant. Any designation of an Authorized Reporter or revocation of a previous designation of an Authorized Reporter, including any termination of the guarantee provided for in the preceding sentence, must be made in a form and manner prescribed by the Exchange and will become effective as soon as the Exchange is able to process the designation or revocation. Both the parties to and Authorized Reporters for an ECRP transaction are obligated to comply with the requirements set forth in this Rule, and any of these parties or Authorized Reporters may be held responsible by the Exchange for noncompliance with those requirements.

- I. Authorized Reporters shall report the following to the Exchange: (i) all component legs of the transaction (ii) the contract identifier (or product and contract expiration for a future or product, expiration, strike price and type of option (put or call) in the case of an option), price (or premium for an option) and quantity of the relevant contract leg of the transaction and whether the relevant contract leg is buy or sell; (iii) the time of execution to the nearest minute (i.e., at the time at which the parties agreed to the transaction); (iv) the arrangement time, if any (i.e., the time at which the parties agreed to enter into the transaction at a later time); (v) Authorized Participant ID of Authorized Participant executing the transaction; (vi) counterparty's Authorized Participant ID; (vii) account of the Authorized Participant; (viii) origin code; (ix) Customer Type Indicator code; (x) the identity, quantity and price or premium of the Related Position (including the expiration, strike price, type of option (put or call) and delta in the case of an option); and (xi) any other information required by the Exchange. An ECRP transaction may not be changed or canceled after it has been fully reported to the Exchange.
- J. Each Clearing Member carrying a customer account for which an ECRP transaction is executed will be responsible for obtaining and submitting to the Exchange in a timely and complete manner the records of its customers regarding the ECRP transaction.
- K. For timing purposes in connection with measuring adherence to Permissible Reporting Periods and the Reporting Deadline, an ECRP transaction will be deemed to have been fully reported to the Exchange when both sides of the transaction have been matched within the MGEX clearing system.
- L. The Exchange may modify a Permissible Agreement Period, Reporting Deadline, Permissible Reporting Period, and/or permissible manner of notification to the Exchange of an ECRP transaction in the event of unusual circumstances. The acceptance by the Exchange of the submission of an ECRP transaction does not constitute a determination by the Exchange that the transaction was effected or reported in conformity with the requirements of this Rule. An ECRP transaction that is accepted and not busted or rejected by the MIA System will be processed and given effect, but will be subject to appropriate disciplinary action in accordance with the MGEX Rules if it was

not effected or reported in conformity with the requirements of this Rule.

- M. Any ECRP transaction in violation of the requirements of this Rule will constitute conduct which is inconsistent with just and equitable principles of trade.
- N. ECRP transactions will not trigger conditional orders or otherwise affect orders in the underlying SPK Futures Contract traded on the Electronic Trading System.
- O. MGEX will not, under any circumstances, be responsible or liable for any losses, damages, or other costs arising out of any error, omission, or inaccuracy that may occur in an ECRP transaction.