



Via Portal Submission

February 10, 2023
MGEX Submission No. 23-4

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); Amendments to MGEX Rules Chapter 21

Dear Mr. Kirkpatrick:

Pursuant to Commodity Exchange Act (“CEAct”) Section 5c(c) and Commodity Futures Trading Commission (“CFTC”) Regulation 40.6(a), the Minneapolis Grain Exchange, LLC (“MGEX” or “Exchange”) hereby submits this self-certification of amendments to MGEX Rules 2109.5., 2110.00., and 2113.00. related to Clearing Member security deposit replenishments and assessments (the “Amendments”). The Exchange intends to implement the amendments ten business days following the filing of this submission. All capitalized terms used but not defined herein have the meaning assigned to them in the MGEX Rules.

Overview of Amendments

Chapter 21 of MGEX’s Rules provide financial safeguards and describe the assessment authority of the Exchange. MGEX is proposing the following Rule amendments to better clarify non-defaulting Clearing Member’s security deposit replenishment obligations in the event of a default of one or more Clearing Members and to slightly lower total potential assessments. Overall, the purpose of these amendments is to provide Clearing Members Rules and assurances that a non-defaulting Clearing Member’s potential assessment and security deposit replenishment exposure is capped during a default event. These amendments also lower the maximum assessment amounts that non-defaulting Clearing Members are subject to during a single or multiple default event.

Feedback Considered

In the development of these amendments, the Exchange considered views expressed by stakeholders on the desire for greater clarity regarding the maximum security deposit replenishment liability of Clearing Members during a single or multiple default event. The Exchange evaluated opinions expressed directly to it from Clearing Members via email, phone calls, and in-person conversations and meetings.

DCO Core Principles

In connection with updating these MGEX Rules, the Exchange has reviewed the core principles for derivatives clearing organizations (“DCO Core Principles”) and has determined that the amendments comply with the requirements of such principles. During the review, MGEX identified the following DCO Core Principles as potentially being impacted:

- *DCO Core Principle G – Default Rules and Procedures:* Core Principle G requires DCOs to maintain clear rules and procedures to allow for efficient, fair, and safe default management. The Amendments address and add clarity to and slightly lower the total assessment and replenishment obligations of non-defaulting Clearing Members during a single or multiple Clearing Member default in compliance with this core principle and CFTC Regulation 39.35.
- *DCO Core Principle L – Public Information:* Core Principle L requires DCOs to provide market participants with sufficient information to enable them to identify and evaluate accurately the risks and costs associated with using the services of the DCO and to have clear and comprehensive rules and procedures. The Amendments enhance transparency with respect to the procedures MGEX will follow in various circumstances and will be incorporated into MGEX’s publicly available Rulebook, thereby further ensuring that the information available to the public is accurate, clear, and comprehensive. These Amendments add clarity and will allow Clearing Members to better measure the potential impact to them if a default occurs.
- *DCO Core Principle R – Legal Risk:* Core Principle R requires DCOs to operate pursuant to a well-founded, transparent, and enforceable framework that describes the steps a DCO would take to address a default of a Clearing Member and other significant aspects of a DCO’s risk management procedures. The Amendments

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further address the actions the Exchange will take and allow following a default of a Clearing Member, thereby enhancing the overall transparency of MGEX's legal framework.

Pursuant to MGEX Bylaw 3.1., the MGEX Board of Directors unanimously approved the attached Amendments to the MGEX Rules. There were no substantive opposing views expressed by the Board of Directors, nor is the Exchange aware of any substantive opposing views expressed regarding the Amendments or this filing. MGEX further certifies that, concurrent with this filing, a copy of the submission was posted on the Exchange website at the following link: <http://www.mgex.com/regulation.html>. If there are any questions regarding this submission, please contact me at (612) 321-7144 or mleisen@mgex.com. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink that reads "Matt Leisen". The signature is written in a cursive, flowing style.

Matt Leisen
Corporate Counsel, MGEX Clearing

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EXHIBIT A

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

2109.05. COLLATERAL TO BE RESTORED.

In the event it shall become necessary to apply all or part of a Clearing Member's security deposits or margins and performance bonds to meet obligations of MGEX pursuant to MGEX Rules, the Clearing Member shall immediately ~~make good~~ replenish any such deficiency in security deposits to the previously required level as well as any deficiency in ~~or~~ margins and performance bonds to the required level, by wire or other acceptable method, within two (2) hours of notice of any deficiency being delivered to Clearing Members. If a Clearing Member replenishes such contributions ~~pays such assessment~~ by wire and the wire transfer service is not open or operational at the time notice is sent, payment is due within one (1) hour on the next business day that the wire transfer service is open and operational. In the event of the insolvency or default of a depository or settlement bank, Clearing Members shall comply with any further instructions provided by MGEX regarding the restoration of such collateral.

2110.00. CLEARING MEMBERS: ASSESSMENTS.

Losses (as defined in **Rule 2109.03.**) shall first be satisfied by applying the funds in the order of priority listed in **Rule 2109.03.** The balance of any Losses remaining, in any tranche, after the application of such funds shall be assessed against Clearing Members (excluding any Insolvent or Defaulting Clearing Members) in direct proportion to the Clearing Members' total security deposit requirement for that tranche. Should the Loss in one tranche exceed the assessments to Clearing Members in the tranche producing the Loss, the remaining Loss will be assessed to Clearing Members from any remaining tranche. Each Clearing Member (excluding any Insolvent or Defaulting Clearing Member) shall be subject to a ~~maximum~~ maximum assessment amount of up to an amount that does not exceed (i) a total of ~~three~~ two and a half (2.5) times such Clearing Member's total security deposit requirement at the time of the default with respect to Losses that are attributed to the default of a single Clearing Member and (ii) a total of ~~six~~ five and a half (5.5) times such Clearing Member's total security deposit requirement at the time of the default with respect to Losses that are attributed to the default of multiple Clearing Members during a Cooling Off Period (as defined in **Rule 2113.00.** below). A Clearing Member that has provided the maximum assessment amount in respect of a Cooling Off Period pursuant to this Rule shall not be liable for any further assessment contributions in respect of any default(s) occurring or declared during such Cooling Off Period. A Clearing Member that has replenished its security deposit pursuant to Rule 2109.05. up to a maximum of one (1) times such Clearing Member's total security deposit requirement at the time of the default (maximum replenishment amount) shall not be liable for any further security deposit replenishments during the Cooling Off Period, regardless of how many additional defaults take place in such Cooling Off Period. Non-defaulting

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Clearing Members shall take no actions, including but not limited to, attempting to obtain a court order that would interfere with the ability of the Clearing House to collect and apply such assessments.

Each Clearing Member shall pay any assessment made pursuant to this Rule by wire or other method acceptable to MGEX within two (2) hours of the notice of the assessment being delivered to Clearing Members. If a Clearing Member pays such assessment by wire and the wire transfer service is not open or operational at the time notice is sent, payment is due within one (1) hour on the next business day that the wire transfer service is open and operational. Any Clearing Member that does not satisfy an assessment shall be in default, and any Loss that occurs as a result of such default shall itself be assessed by MGEX to non-defaulting Clearing Members. In the event that the amount of assessments received exceeds the amount of the Loss, the Clearing House will return such excess funds as soon as practicable.

If a non-defaulting Clearing Member has made payments of all assessed amounts, has replenished any deficiency in its security deposits or margin and performance bonds in accordance with [Rule 2109.05.](#), and has satisfied all other conditions of withdrawal set forth in [Rule 2100.04.](#), it may withdraw as a Clearing Member. A withdrawing Clearing Member will be subject to assessments, and its security deposits may be utilized, for all defaults and any Losses occurring before and during the Cooling Off Period in which such Clearing Member submitted its Withdrawal Notice and/or continues to have open positions, as well as any Losses stemming from such default(s) regardless of when the Loss is realized by MGEX. For the avoidance of doubt, even after a Clearing Member has submitted its Withdrawal Notice and liquidated or transferred all of its open customer and house positions, it will continue to be subject to assessments, and its security deposits may be utilized, for all Losses from additional default(s) that occur during the Cooling Off Period after submission of a Withdrawal Notice and the liquidation or transfer of all open positions. However, the withdrawing Clearing Member will not be subject to future assessments that are assessed to cover Losses for defaults that occur after the Cooling Off Period during which the Clearing Member provided its Withdrawal Notice and liquidated or transferred all of its open customer and house positions has concluded even if the Exchange has yet not provided written approval of such withdrawal. In addition, the Exchange will not apply such Clearing Member's replenished security deposit to Losses for defaults that occur after the conclusion of the Cooling Off Period during which the Clearing Member provided its Withdrawal Notice and liquidated or transferred all of its open customer and house positions even if the Exchange has yet not provided written approval of such withdrawal. For purposes of this Rule, MGEX will consider the liquidation or transfer of all open positions by a Clearing Member effective after completion of the Business Day's settlement cycle during which all positions were closed.

2113.00. COOLING OFF PERIOD AND MULTIPLE DEFAULTS.

The provisions set forth in this Chapter apply with respect to each default by a Clearing Member. If more than one Clearing Member Default occurs at a time or in close sequence, including a default that occurs by reason of a Clearing Member's failure to satisfy an assessment demand, the Clearing House shall manage the defaults separately. Upon any default, during the Cooling

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Off Period, non-defaulted Clearing Members shall be subject to a maximum assessment amount and maximum replenishment amount~~obligation to pay assessments~~ as set forth in **Rule 2110.00**. These maximum s assessment amounts and maximum replenishment amounts shall apply from the date of the original default until the later of (i) the fifth Business Day thereafter and (ii) if another Clearing Member defaults during the five (5) Business Days following the initial or any subsequent default, the fifth Business Day following the last such default (such period, the “Cooling Off Period”), regardless of the number of defaults that occur during such Cooling Off Period.

The aggregate maximum contribution that may be required pursuant to **Rule 2110.00** for the Cooling Off Period shall be based upon each Clearing Member’s total security deposit requirement in effect at the commencement of the Cooling Off Period. The maximum does not limit Clearing Members’ obligations to ~~restore~~replenish their security deposit contributions or restore margins and performance bonds as set forth in **Rule 2109.05**. Following a Cooling Off Period, the Clearing House shall notify each Clearing Member of its security deposit obligation and its assessment exposure.

Nothing in this Rule shall limit MGEX’s right to call for margin from any Clearing Member. In addition to any margin otherwise required by MGEX under the Rules, if during the Cooling Off Period a Clearing Member has provided contributions up to the maximum assessment amount or maximum replenishment amount, then such Clearing Member shall transfer to MGEX additional initial margin in an amount determined by the Exchange for such Clearing Member based on the amount of additional initial margin needed for MGEX to maintain compliance with applicable minimum regulatory financial resources requirements during the remainder of the Cooling Off Period.

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