



Via Portal Submission

February 15, 2023  
MGEX Submission No. 23-10

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

**RE: Rule Certification Submission Pursuant to Regulation 40.6(a); Amendments to MGEX Rules**

Dear Mr. Kirkpatrick:

Pursuant to Commodity Exchange Act (“CEAct”) Section 5c and Commodity Futures Trading Commission (“CFTC” or “Commission”) Regulation 40.6(a), the Minneapolis Grain Exchange, LLC (“MGEX” or “Exchange”) hereby certifies that the amendments to MGEX Rules 23.9., 23.12.2., and 23.12.4., as set forth in Exhibit A, comply with the CEAct and the Commission regulations promulgated thereunder (the “Proposed Amendments”). MGEX further certifies that the submission and pending changes to the MGEX Rules have been posted on the Exchange website at the following link: <http://www.mgex.com/regulation.html>.

### **Overview of Rule Amendment**

Pursuant to an agreement between the parties, MGEX provides clearing services for derivative contracts traded on Bitnomial Exchange, LLC (“Bitnomial”). Chapter 23 of the MGEX Rules sets forth certain additional Bitnomial Clearing Member and market participant obligations, including those related to delivery requirements. MGEX now proposes amending MGEX Rules 23.9., 23.12.2., and 23.12.4 related to Bitnomial transfer trades as well as delivery requirements as set forth herein.

Amendments to Rule 23.9. are intended to make its language consistent with MGEX Rule 3.1.7. on transfer trades as well as with CFTC Regulation 39.15(d)(1) – (5), which requires a derivatives clearing organization to maintain rules on the transfer of customer positions.

Amendments to Rule 23.12.2. clarify the timeframe concerning when a clearing member may not carry a position held in an account not approved for delivery.

With respect to Rule 23.12.4., the proposed deletion would provide MGEX the flexibility to increase margin rates in the delivery month as needed, but not require that margin be equal to the full notional value of the contract. MGEX will continue to impose margin levels that are equal to or greater than the prevailing margin rates. In addition, MGEX will continue to hold margin for contracts through the completion of delivery.

### **Feedback Considered**

MGEX discussed the Proposed Amendments with its Clearing House Risk Subcommittee and publicly posted the proposal on its website and invited Clearing Members to submit comments. MGEX received no comments from Clearing Members.

### **DCO Core Principles**

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 D – Risk Management:* Core Principle D requires a DCO to ensure it possesses the ability to manage the risks associated with discharging the responsibilities of the DCO through the use of appropriate tools and procedures. MGEX has imposed a framework for managing the risks associated with clearing Bitnomial’s physically delivered bitcoin futures contracts, and the Proposed Amendments impact this framework. MGEX believes the requirements, as revised, remain sufficient, particularly in light of the remaining risk mitigation measures in place. In addition, CFTC Regulation 39.13 requires DCOs to establish margin models. These amendments to Chapter 23 serve to update the Exchange’s risk management tools and procedures, and as such, the amendments are consistent with Core Principle D as well as CFTC Regulations 39.13 and 39.36.
- *DCO Core Principle F – Treatment of Funds:* CFTC Regulation 39.15 requires DCOs to have rules providing for the prompt transfer of all or a portion of a customer’s portfolio of positions, and related funds, from a carrying clearing member to another clearing member, without requiring the close-out and re-booking of the positions prior to the requested transfer, subject to certain conditions. The Proposed Amendments to MGEX Rule 23.12.2. reflect the addition of conditions listed in CFTC Regulation 39.15 and are therefore consistent with the requirements of Core Principle F.
- *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, comprehensive rules and procedures. The amendments enhance transparency and will be incorporated into MGEX’s publicly available Rulebook, thus ensuring that the information available to the public is accurate, clear, and comprehensive.

Pursuant to MGEX Bylaw 3.1., the MGEX Board of Directors (the “Board”) unanimously approved the Proposed Amendments at its meeting held on February 9, 2023. There were no substantive opposing views expressed by the Board, nor is the Exchange aware of any substantive opposing views with respect to this filing. The Proposed Amendments are to be effective when incorporated into the MGEX Rulebook and posted on its website, which will be at least 10 business days following the date of this submission.

If there are any questions regarding this submission, please contact me at (612) 321-7176 or [jkrause@mgex.com](mailto:jkrause@mgex.com). Thank you for your attention to this matter.

Sincerely,



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Associate Counsel, MGEX Clearing

Enclosure

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## EXHIBIT A

The following MGEX Bylaws and Rules are to be amended. Additions are underlined while deletions are ~~marked through~~.

### 23.9. TRANSFER TRADES AND OFFSETS.

Transfer trades involving contracts or positions traded on Bitnomial Exchange will be governed in accordance with the rules of Bitnomial Exchange. All transfers in physically delivered Futures Contracts must be recorded and carried on the books of the receiving Clearing Member at the original trade dates. All other contracts may be recorded and carried at either the original trade date or the transfer date.

“Transfer” trades involving the transfer of a customer’s positions and related collateral from an account on the books of one Clearing Member to another Clearing Member shall not require the close-out and re-booking of the positions prior to the requested transfer; PROVIDED, the following conditions are met: (1) The customer validly instructed the carrying Clearing Member to make the transfer; ~~and~~ (2) the customer is not currently in default to the carrying Clearing Member; (3) the receiving Clearing Member has consented to the transfer; (4) the transferred positions will have appropriate margin at the receiving Clearing Member; and (5) any remaining positions in the customer’s account at the carrying Clearing Member will have appropriate margin.

MGEX Rules 3.1.7. and 3.1.8. shall govern transfer trades and offsets and the associated reporting requirements.

### 23.12.2. ACCOUNTS ELIGIBLE FOR DELIVERY.

Only accounts approved for delivery shall be eligible for delivery and allowed to maintain open positions in an expiring Bitnomial Exchange Contract during the three (3) trading days leading up to Delivery Day.

Any positions held in an account not approved for delivery must be liquidated by the end of the last trading session prior to the final three (3) trading days (including Last Trading Day) of a contract. Trading in an account not approved for delivery is prohibited during this period. The Clearing House or Bitnomial Exchange will not be liable for any loss associated with such liquidation. In addition, a Clearing Member that is carrying any position not held in an account approved for delivery at any time during the final three (3) trading days of a contract~~delivery month~~ will be subject to Exchange disciplinary action, including, but not limited to, fines or referring the matter to the Disciplinary Committee.

### 23.12.4. DELIVERY PROCEDURES AND REPORTING.

Unless stated otherwise, the Clearing House will electronically issue notices and reports to relevant Clearing Members.

Delivery of a Bitnomial Exchange Contract is based upon open positions after contract expiration. The delivery process, as set forth below, consists of the following requirements and deadlines (all references to days are Business Days and times are noted in Central time):

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<b>T-5</b>	<b>5 Days Prior to Last Trading Day</b>		<del>All end of day positions (long and short) must be margined at full notional value in USD with the MGEX Clearing House.</del>
		<b>5:10 p.m.</b>	Clearing Members file Bitnomial delivery files and all other requested information at the end of each day with the Clearing House.
<b>T-2</b>	<b>2 Days Prior to Last Trading Day (start of Delivery Period)</b>	<b>5:00 p.m.</b>	Settlement Facility opens to delivering Market Participants.
<b>T</b>	<b>Last Trading Day of Contract</b>	<b>9:30 a.m.</b>	Clearing Members are responsible for ensuring all Market Participants making delivery deliver underlying asset through Settlement Facility.
		<b>5:10 p.m.</b>	Clearing Members file Bitnomial delivery files with the Clearing House, which will serve as a binding Delivery Notice to MGEX.
		<b>8:45 p.m.</b>	Clearing House issues final Delivery Report and corresponding payment information.
<b>T+1</b>	<b>Delivery Day</b>	<b>11:30 a.m.</b>	All payments for delivery are due to the delivering Clearing Member.
		<b>12:30 p.m.</b>	Clearing Member notification to Bitnomial Exchange and Clearing House regarding receipt of final payment is due.
		<b>By 7:00 p.m.</b>	Delivery process and movement of corresponding Digital Assets is completed.
<b>T+2</b>	<b>Release of Margin</b>	<b>By 9:00 a.m.</b>	Provided that notification of delivery has been received by the applicable Delivery Day deadlines, MGEX will release margins.

Any discrepancies or material reporting errors may result in MGEX disciplinary action.

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