

Transfer Trades and Exchange for Related Position (EFRP) FAQ

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Associated with MGEX Rules 3.1.7. & 719.00.

Q1: For Transfer trades, what should occur with the open trade equity and/or collateral associated with positions being transferred?

A1: When conducting transfers using prices other than original trade prices, the accompanying open trade equity must also be transferred from one account to the other. It is the responsibility of both the carrying and receiving Clearing Members to ensure all open trade equity is transferred and allocated to the underlying accounts related to the position transfers. Additionally, it is the Clearing Members' responsibilities to ensure that the transferred positions will have appropriate margin at the receiving Clearing Member and that any remaining positions will have appropriate margin at the carrying Clearing Member.

Q2: What are EFRP transactions?

A2: EFRP stands for Exchange for Related Position. An EFRP transaction is an off-exchange execution of an Exchange futures contract corresponding with the simultaneous exchange of a related commodity position such as a physical, risk, or eligible exchange-traded derivative position. EFRP transactions are bilaterally negotiated off-exchange executions. Prices of the EFRPs are mutually agreed upon by the counterparties of the transaction.

Q3: What are the types of EFRP transactions permitted by the Minneapolis Grain Exchange (MGEX)?

A3: Exchange for Physical Transaction ("EFP") - An exchange of futures for, or in connection with, a physical consisting of a cash commodity transaction and a futures transaction. For example, an Exchange Traded Fund ("ETF") may be an acceptable physical component of an EFP, provided the ETF has a reasonable degree of price correlation to the commodity underlying the Exchange contract.

Exchange for Risk Transaction ("EFR") - An exchange of futures for, or in connection with, a risk consisting of a related non-MGEX exchange-traded derivative, an OTC derivative or a swap agreement, and a futures transaction.

Q4: Does the Minneapolis Grain Exchange allow an options contract to be part of an EFRP transaction?

A4: Options contracts listed on MGEX are not eligible to be included as part of an EFRP at the Minneapolis Grain Exchange. However, a non-MGEX exchange-traded options contract may be the related position to an MGEX EFR transaction.

Q5: What MGEX contracts are eligible for an EFR when the risk component consists of a related non-MGEX exchange-traded derivative?

A5: Currently, SPIKES® Futures contracts are eligible to be traded as part of an EFR where the risk component consists of a related non-MGEX exchange-traded derivative.

Q6: In an EFR where SPIKES Futures are exchanged for a risk component consisting of a related non-MGEX exchange-traded derivative, what derivatives are eligible?

A6: The eligible related non-MGEX exchange-traded derivatives must have a high degree of price correlation with the SPIKES Futures contract. Additionally, the risk component must have approximate economic equivalency to the SPIKES Futures exchanged.

Q7: Can the execution of an EFRP transaction be contingent upon the execution of another EFRP or related position transaction?

A7: No, the execution of an EFRP transaction may not be contingent upon the execution of another EFRP 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.

Q8: What are the trading hours for EFRP transactions?

A8: Due to the nature of EFRPs being off-exchange transactions, the agreement to trade the EFRP between the counterparties can be done at any time throughout the day. However, as noted in this document, the EFRP must be reported for clearing during the business day for which it was made. If an EFRP agreement is made outside of the trading hours of the underlying futures contract, the EFRP transaction must be submitted for clearing no later than the next business day.

Q9: Can EFRP transactions be executed after the last day of trading in an expiring contract?

A9: For contracts identified in MGEX Rule 2011.02, an EFRP may be executed and cleared through the sixth (6th) business day following the last trading day of the expiring delivery contract month. For contracts not identified in MGEX Rule 2011.02., the last day EFRP transactions can occur shall be the Last Trading Day of the contract.

Q10: How many parties are involved in an EFRP transaction?

A10: Typically, there are only two parties involved in an EFRP transaction. One party to the EFRP must be the buyer of the Exchange futures contract and the seller of the related physical or risk component; the other party must be the seller of the Exchange futures contract and the buyer of the related physical or risk component.

A third party may, as principal, facilitate the related position component of the EFRP on behalf of its customer provided that the third party can demonstrate that the related position was passed through to their customer who received the Exchange futures contract as part of the EFRP.

A third party cannot act as a straw-man or otherwise take paper title or possession of the futures position component.

Q11: May affiliated accounts execute EFRPs with each other?

A11: The opposing accounts to an EFRP transactions must be:

- Independently controlled accounts with different beneficial ownership;
- Independently controlled accounts of separate legal entities with common beneficial ownership;
- Independently controlled accounts of the same legal entity, provided that the account controllers operate in separate business units.

Accounts with the same beneficial ownership include accounts owned by the same person or entity, a parent and its wholly owned subsidiaries, or accounts of subsidiaries that are both wholly owned by the same parent. Common beneficial ownership is more inclusive and includes different accounts with common beneficial ownership that is less than 100%. Counterparties with common beneficial ownership who execute an EFRP transaction must be able to demonstrate the independent control of the accounts, and that the transaction had economic implication for each counterparty.

Q12: How are EFRP transactions reported for clearing at the Minneapolis Grain Exchange?

A12: Each MGEX Clearing Member carrying the account shall be responsible for submitting the EFRP transaction via the MGEX Clearing System. For information related to clearing transactions or the MGEX Clearing System, please contact the MGEX Clearing House at (612) 321-7146 or at clearing@mgex.com.

EFRP transactions must be submitted the same business day the agreement is made and by the reporting deadlines established within MGEX Rules and Regulations.

Q13: What are the responsibilities of Clearing Members in connection with EFRPs executed or cleared on behalf of a customer?

A13: Clearing Members that execute or clear EFRPs on behalf of customers are responsible for reporting the transaction into the MGEX Clearing System. Additionally, the Clearing Members carrying an underlying account that is part of an EFRP shall be responsible for obtaining the relevant EFRP records from its customer and submit such documentation to the Department of Audits and Investigations upon Exchange request. If a Clearing Member has knowledge of a customer's inability to conduct bona fide EFRP transactions and fails to take reasonable action prior to clearing, the Clearing Member may be found to have violated the principal EFRP Rule(s) and/or its duty to supervise.

Q14: What are the recordkeeping requirements for EFRPs at the Minneapolis Grain Exchange, LLC?

A14: Parties to an EFRP must maintain all records relevant to the Exchange futures contract and related physical or risk position, including records required to be kept pursuant to CFTC Regulation 1.35. Records may be requested by the Department of Audits and Investigations to verify the EFRP was bona fide in nature including, but not limited to contracts, confirmations, invoices, warehouse receipts, documents of title, a master swap agreement and any supplements thereto, or any other document that demonstrates the existence and/or nature of the over-the-counter or derivative transaction. Swap documents should contain all terms of the transaction, such as quantity, method of pricing, and counterparties to the EFRP transaction.

The quantity of the Exchange futures contract(s) must be approximately economically equivalent to the quantity of the physical or risk component. Futures account statements should reflect confirmations of the EFRPs with the applicable trade and price data. In an EFR where the futures are exchanged for a non-MGEX exchange-traded derivative, parties must be able to provide documentation supporting the approximate economic equivalency.

In addition, each party must maintain the following information for each transaction:

- All component legs of the transaction
- The number of contracts traded and whether the relevant contract leg of the transaction is a buy or sell
- The price of execution or premium
- The time of execution to the nearest minute (i.e., the time at which the parties agreed to the EFRP)

- The arrangement time, if any (i.e., the time at which the parties agreed to enter into the transaction at a later time)
- The counterparty's Clearing Member ID and the account number of the market participant executing the transaction
- Documentation demonstrating the transaction is an EFRP
- Origin code
- Customer Type indicator code
- The account number of the market participant for which the EFRP was executed
- 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)
- Any other information that may be required

If the EFRP involves a non-MGEX exchange-traded derivative or product, participants in the EFRP should remain aware of applicable rules and regulations on that exchange.

Questions regarding this FAQ may be directed to the Department of Audits and Investigations at (612) 321-7101 or at compliance@mgex.com.

The information contained in this document is for general purposes only and is not tailored to any specific situations of a recipient of this document. Market participants are encouraged to verify any requirements of other exchanges when transacting EFRPs where the related position is a non-MGEX exchange traded derivative. The information contained herein is subject to and is superseded by official MGEX Rules, which can be found at www.mgex.com.

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