MGEX

January 18, 2011

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

Via Electronic Mail

SUBJECT: RIN 3038-AD99

Dear Mr. Secretary:

The Minneapolis Grain Exchange, Inc. ("MGEX" or "Exchange") would like to thank the Commodity Futures Trading Commission ("CFTC" or "Commission") for this opportunity to respond to the Commission's request for comment on the above referenced matter published in the December 2, 2010 Federal Register Vol. 75, No. 231.

MGEX is both a Designated Contract Market and Derivatives Clearing Organization ("DCO"). While MGEX does not currently clear swaps, we would like the option to remain available to us. Therefore, we are interested in this advanced notice of proposed rulemaking under the Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

Models

MGEX recommends the CFTC allow the use of the "baseline model" as described in the Federal Register for the clearing and margining of both futures and swaps. As the Commission notes, the current approach to futures is the baseline model. Therefore, DCOs which already clear futures would not need to alter their approach if the baseline model is permitted whereas the using other models will necessitate adopting changes requiring additional recordkeeping and different risk assessments. The trickledown effect of changing models will likely require the Exchange to create new rules addressing defaults, procedures for calculating intra day variations, new banking agreements and separate bank accounts.

Instead of mandating use of a specific model, MGEX believes that the CFTC could permit several acceptable models from which a DCO could choose. DCOs could be allowed to set up other margining/default systems and let the marketplace choose what method is most competent and best addresses risk. Over time, the most efficient model will dominate the marketplace. However, at a minimum, MGEX requests that the

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baseline model be an acceptable option – be it the only option or one of several options. The baseline model has proven to operate well for the futures market and MGEX has no reason to believe that it will not operate as well for the swaps market. There does not appear to be a benefit from mandating a new or separate model for swaps from the baseline system that has proven its effectiveness for derivatives contracts for years. Considering the inherent uncertainty already created by the vastly changing regulation for trading and clearing swaps it is reasonable to allow clearing organizations to use a model that they are familiar with. There will already be new risk assessments and operational modifications needed as swaps move onto a trading platform and are cleared. However, modifications to an existing and proven margining and default model will make the transition easier. By changing to a different model, unforeseen risks might appear and, while some benefits might appear as well, it should be up to the DCO and marketplace how to measure that risk/reward calculation.

In addition, any significant change from the baseline model could interfere with marketplace and capital efficiency as DCOs may be required to increase security deposits from clearing members. Depending on the model used, surveillance and risk reviews could significantly change. Currently, most, if not all, DCOs group all the funds from a clearing member to cover all the positions of that clearing member. However, another model may force the DCO to segregate the funds and positions by individual customer instead of clearing member. Therefore, depending on the exact methodology employed, DCOs may be forced to ask for more capital from clearing members or market participants via additional security deposits or margin.

Furthermore, underlying acknowledgement agreements between the exchanges and the banks as well as the agreements between the banks, clearing members and FCMs with their customers will likely need to be redrafted if there is a separate margining model. The cost for the redrafting is difficult to ascertain due to the variation in numbers of customers and how much will be duplicative. However, it is certain that additional costs would be needlessly incurred if the DCO were forced to adopt a new model.

Conclusion

MGEX believes that the current baseline model offers the best method for margining both futures and swaps by efficiently allocating financial capital, fairly sharing a DCO's default risk, as well as calculating risk. The Commission could allow other models and if they prove more efficient, the market will adopt the newer, more efficient model on their own without a mandate from the CFTC.

The Exchange thanks the Commission for the opportunity to comment on the advanced notice of proposed rulemaking. If there are any questions regarding these comments, please contact me at (612) 321-7169 or lcarlson@mgex.com. Thank you for your attention to this matter.

Regards,

Layne G. Carlson
Corporate Secretary

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