December 11, 2013

Ms. Melissa D. Jurgens
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Via Electronic Mail

SUBJECT: RIN 3038-AD52

Dear Ms. Jurgens:

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 September 12, 2013 Federal Register Vol. 78, No. 177.

MGEX is both a Designated Contract Market ("DCM") and Derivatives Clearing Organization ("DCO"). As a DCM and DCO, MGEX utilizes a variety of pre-trade and post-trade risk controls. As such, MGEX does have an imbedded stake in the outcome if the above mentioned concept release is approved and used to draft future Commission regulations. MGEX is particularly apprehensive of the implications from a standardized "one size, fits all" approach to risk controls as it applies to the Exchange and the industry as a whole. Even though this concern applies to the entire concept release, MGEX has provided specific comments below regarding a few keys areas.

Trading Pauses

What triggers are more or less effective in mitigating the effects of market disruption, and are there additional triggers for which pauses should be implemented?

MGEX believes the Commission is correct in its assessment that there are a wide range of pause methodologies currently in effect at exchanges, including MGEX, who utilizes a variety of triggers as provided by CME Globex®, including stop-logic functionality and interval price limits. MGEX chooses and supports risk controls that are relevant and pertinent to our market place. Flexibility is important to address those situations and risks that need to be mitigated. As such, MGEX believes that it would not be wise to institute standardized pause methodologies. The one area where MGEX does see value is having some specificity in how price movement is looked at, but anything beyond that should be assessed on a case by case basis involving live market surveillance. As a dual DCO and

130 Grain Exchange Building 400 South 4th Street Minneapolis, MN 55415-1413
adonley@mgex.com 800.827.4746 612.321.7188 Fax: 612.339.1155 *equal opportunity employer*

DCM, MGEX is responsible for monitoring trading on the Exchange for any volatile price movements or any other aggressive or disruptive behavior that will significantly affect the market. MGEX believes it is most effective to utilize live market surveillance as it would be impossible to anticipate and set up automated controls to guard against all potential volatile behavior in order for an automated system to be an effective risk control. This seems to promote overkill on the most innocent of trading activity. Additionally, any halt in the market will in some way disrupt the market and create its own waterfall of market risks. Consequently, MGEX believes that automated triggers would likely create more risk of unnecessary market disruption than prevent disruptions.

What factors should the Commission or exchanges take into account when considering how to specify pauses or what thresholds should be used?

As previously mentioned, MGEX only sees value in some kind of specificity with regard to price movement and limits. MGEX believes that there should be a requirement to set price limits, but that it should be up to the exchanges to determine what those limits should be. Anything beyond that should be assessed on a case by case basis.

How should the reopening of a market after a trading pause be effected?

MGEX's objective is to act in the best interests of the market; therefore, MGEX believes market participants should be made aware any time a halt occurs and given the opportunity to adjust their resting and new orders before the reopening of the market. This would involve effective communication by posting notice via the website and email to the Clearing House and Membership distribution lists of what occurred and notice of when the market is estimated to open or a time when it will reopen. If a pause is only a matter of seconds or minutes, such notice may not be possible. Consequently, each situation may be different.

Credit Risk Limits

What positions should be included in credit risk limit calculations in order to ensure that they are useful as a tool for limiting the activity of a malfunctioning ATS? Is it adequate for such a screen to include only those positions entered into by a particular ATS or should it include all the firm's positions?

Even though MGEX is opposed to rulemakings that would impose prescriptive rules for credit risk limits, MGEX believes that a combination of positions and orders should be allowed to be included in credit risk limit calculations in order to provide an adequate and effective assessment of risk and limit amounts. However, MGEX's opinion is that since Futures Commission Merchants ("FCMs") know their customers the best, they are in the best position to determine the types of assessments, factors, and calculations need to be included so as to set limits.

Should pre-trade credit screens require a full recalculation of margin based on the effect of the order?

MGEX believes that a full recalculation of margin before each order is allowed to be executed would cause the market to slow down and, therefore, cause more harm than good to market participants. MGEX believes that conducting a full calculation of margin during the pre-trade screening process whether on a daily basis or some other frequency before any orders are entered into the trading system for that trading session is sufficient to establishing credit limits.

Where in the lifecycle of an order should the credit limits be applied and what entity should be responsible for conducting such checks?

MGEX believes that credit limits shouldn't be applied until after the order is executed, and that FCMs should be responsible for conducting such checks. As mentioned above, MGEX believes that FCMs have the most up to date knowledge of their customers' positions. Therefore, they are in the best position to set their customer's credit limits as well as have systems in place to monitor credit controls. MGEX is in the best position to act more as a regulator to make sure that FCMs have the tools to employ such credit risk limits.

If credit checks are conducted post-trade, what should be done when a trade causes a firm to exceed a limit?

Even though MGEX believes that the Commission should not be overly prescriptive, if a firm exceeds their limit, the account could be frozen, limited to liquidating orders, or their credit could be reassessed to determine whether to expand or reduce their credit limit. FCMs deal directly with their customers and are in the best position to make this assessment. Where practical, exchanges and DCOs should be responsible for providing resources and tools to help facilitate an FCM's monitoring capabilities, but it should be up to the FCM to deal directly with their customers to resolve the issue.

<u>Standardization of real-time order, trade and position reports</u>

Should all exchanges and DCOs provide real-time order and trade reports to each MP, and the clearing firm serving that client for that particular trade? What order and trade reports are currently offered by DCMs and DCOs?

MGEX believes that exchanges and DCOs should not be forced to provide real-time reports in addition to what is already provided to market participants. As a dual DCM and DCO, MGEX currently utilizes a match engine that already provides real-time market messaging, receipts and fill information on orders to market participants. All other exchanges and DCOs should be offering the same match engine capabilities. MGEX also provides near-real time feed as to what is in the Clearing House to the clearing members thereby allowing the clearing members to use current information. Additionally, MGEX provides a summary of intraday variation and an overall recap of the clearing member's activity on a daily basis.

Is the report included as part of the exchange or clearing service? Is an extra fee paid?

MGEX currently does not charge for the clearing services described above and hopes to avoid any new regulatory requirements that may cause MGEX to impose a fee.

If each order and trade report were to be standardized, please provide a detailed list of the appropriate content of the report, and how long after order receipt, order execution, or clearing the report should be delivered from the trading platform to the clearing member or other market participant?

MGEX does not believe that order and trade reports should be standardized and implores the Commission not to be prescriptive in its rulemaking as so many markets and products are unique and have different types of information needs. If market participants require additional information, they could work with their exchange or DCO.

Trade Cancellation or Adjustment Policies

Is a measure that would obligate exchanges to make error trade decisions (i.e. decisions to cancel a trade or to adjust its price) w/in a specified amount of time after an error trade is reported feasible? If so, what amount of time would be sufficient for exchanges but would be sufficiently limited to help reduce risk for counterparties to error trades?

MGEX believes that it would be detrimental to the markets to have a standard policy for all of the exchanges given the vast differences among the exchanges and their markets. MGEX believes that any rulemaking in regards to trade cancellation and adjustment polices should be based on best practices and not be overly standardized or prescriptive. Given the vast variety of scenarios that may occur, the decision should be based on a case by case basis and consider the best interests of the market and market participants. MGEX believe that exchanges should have a clear error trade policy in place, including a requirement that traders notify the exchange of error trades within a specified number of minutes and a requirement that the exchange immediately notify market participants of possible adjusted or busted trades. However, MGEX believes it should be up to each exchange to develop a policy that is best in terms of addressing and mitigating risk in their markets.

Should exchanges develop detailed, pre-determined criteria regarding when they can adjust or cancel a trade, or should exchanges be able to exercise discretion regarding when they can adjust or cancel a trade? What circumstances make pre-determined criteria more effective or necessary than the ability to exercise discretion, and vice versa?

MGEX strongly believes that exchanges should be able to exercise discretion regarding when they can adjust or cancel a trade. It is MGEX's opinion that general guidance should be provided to market participants, but that it would be impossible to list every instance when and how the exchange would take action. There are some situations such as flash crashes that may need additional time or situations where it may be appropriate to adjust trade prices versus cancelling a trade in order to make some trades whole. Therefore, MGEX believes that every situation should be assessed on a case by case basis.

Should error trade policies be consistent across exchanges, either in whole or in part? If so, how would harmonization of error trade policies mitigate risks for MPs, or contribute to more orderly trading?

As previously mentioned, MGEX does not believe that error trade policies should be consistent across exchanges. Doing so would take away each exchange's ability to effectively and efficiently mitigate risk and losses in the event that an error trade is made. However, MGEX does believe that all exchanges should have a requirement that market participants notify the exchange of an error trade within a pre-determined amount of time as determined by the exchange, as well as a requirement that the exchange notify market participants of possible adjusted or busted trades. However, it should be up to each exchange to determine the specifics of such requirements.

MGEX thanks the Commission for the opportunity to comment on the concept release. If there are any questions regarding these comments, please contact me at (612) 321-7188 or adonley@mgex.com. Thank you for your attention to this matter.

Regards,

Amber R. Donley
Associate Corporate Counsel

cc: Mark G. Bagan, President & CEO, MGEX
James D. Facente, Director, Market Operations, Clearing & IT, MGEX
Layne G. Carlson, Corporate Secretary, MGEX
Jesse Marie B. Green, Assistant Corporate Secretary, MGEX