January 22, 2015

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

VIA ONLINE SUBMISSION

Re: Position Limits for Derivatives, RIN 3038-AD99

Dear Secretary Kirkpatrick:

The Minneapolis Grain Exchange, Inc. ("MGEX") would like to thank the Commodity Futures Trading Commission ("CFTC") for the opportunity to respond to the CFTC's request for public comment on the above referenced matter published in the December 4, 2014 Federal Register Vol. 79, No. 233. MGEX has previously submitted comment on the CFTC's proposal regarding position limits for derivatives (the "Proposed Rule") by letters dated March 28, 2011, February 10, 2014, and August 1, 2014.

MGEX is both a Subpart C Derivatives Clearing Organization ("DCO") and a Designated Contract Market ("DCM"), and has been the primary marketplace for North American Hard Red Spring Wheat ("HRSW") since its inception in 1881. Via webcast, MGEX observed the Agricultural Advisory Committee held on December 9, 2014, and appreciates the time and deliberation that the CFTC has devoted to identifying a workable framework for position limits for derivatives and their attendant issues.

I. Wheat Parity.

It is of critical importance to MGEX and market participants that the CFTC maintain position limit parity among the three major domestic wheat contracts: HRSW, Chicago Board of Trade Soft Red Winter Wheat ("SRW"), and Kansas City Board of Trade Hard Red Winter Wheat ("HRW"). While all three domestic wheat contracts have current spot month limits set at 600 contracts, and non-spot month and combined limits set at 12,000 contracts, the Proposed Rule deviates from this parity approach, and sets initial spot month limits at 600 contracts, and non-spot month and combined limits at 16,200 for SRW, 6,500 for HRW, and a mere 3,300 for HRSW.

MGEX, other DCMs, and the CFTC have followed a parity approach for the three domestic wheat contracts for nearly eight decades. While the maximum position limit may have changed, maintaining parity among the three contracts has not. This parity approach has greatly benefitted market participants by (1) creating, maintaining, and

130 Grain Exchange Building 400 South 4th Street Minneapolis, MN 55415-1413
anyquist@mgex.com 800.827.4746 612.321.7128 Fax: 612.339.1155 *equal opportunity employer*

allowing for active and legitimate risk management practices such as cross-hedging and spread trading among different wheat varieties in response to domestic or global economic factors; (2) reducing price volatility by maintaining an equal playing field; and (3) creating predictability in the domestic wheat markets.

The CFTC has not provided any compelling justification for differentiating the non-spot month and combined positions limits for the three domestic wheat contracts. Rather, diverting from wheat parity is likely to inject significant instability into the marketplace, as market participants will be unable to utilize time-tested risk management practices equally across the three contracts. For example, wheat traders using an inter-market spread strategy would need to limit their trading to the contract with the lowest limits (under the CFTC's Proposed Rule, MGEX HRSW), thereby harming other the wheat contracts and interfering with legitimate risk management activity and price discovery.

Not only does the Proposed Rule eliminate wheat parity, it also reduces the non-spot month and combined position limit for HRSW a staggering **72.5%** from the current limit of 12,000 contracts. This is not reasonable given that HRSW has the largest crop of any North American wheat variety, and MGEX itself has just concluded the highest trade volume year in its 134 year history. Therefore, MGEX recommends that the CFTC set a non-spot month and combined position limit of no less than 12,000 for all three wheat contracts.

Should the CFTC leave wheat parity by the wayside, it necessarily will have ignored the legitimate risk management procedures of farmers and other commercial end users that have successfully utilized the wheat futures markets for decades. In the absence of compelling evidence and arguments to the contrary, parity serves the marketplace well. At a minimum, regardless of the quantitative limits set, the CFTC should respect and maintain position limit parity among the three domestic wheat contracts.

II. Deliverable Supply in the Spot Month.

Under the Proposed Rule, the CFTC proposes to establish spot month position limits for core referenced futures contracts based upon 25% of the estimated deliverable supply. While 25% may be a reasonable threshold, it is based on historical practice rather than contemporary analysis, and it should only be used as a guideline, rather than formally adopted as a hard rule. Deliverable supply is subject to numerous environmental and economic factors, and is inherently not susceptible to formulaic calculation on a yearly basis.

As a result, to the extent possible, the CFTC should propose guidelines in lieu of hard rules on deliverable supply in the spot month. As emphasized at the Agricultural Advisory Committee meeting, DCMs are in the best position to monitor the deliverable supply for their respective marketplaces, and in turn set the appropriate position limits. In addition, DCMs are in the best position to evaluate secondary characteristics of the market that inform the adequacy of deliverable supply, such as convergence. Therefore, MGEX urges the CFTC to defer as much as possible to the DCMs in evaluating deliverable

supply and the appropriate corresponding position limits, and avoid a formulaic approach that may not reflect changing market realities.

III. Deliverable Supply in the Non-Spot/Combined Months.

While MGEX urges the CFTC to adopt parity among the three major wheat contracts for non-spot month and combined position limits, in the event it does not, it should base such limits on current market information. As the Proposed Rule currently stands, non-spot month and combined position limits for all regulated commodities are based on outdated market information, and are rigidly adjusted at best, on a yearly basis. Regardless of the commodity, markets change rapidly, and exchanges and market participants should not be constrained by outdated information.

IV. Bona Fide Hedge Exemptions.

MGEX encourages the CFTC to judiciously consider those comments submitted by commercial end users with regard to the definition of, and exemptions for, bona fide hedges. The literal language of the Dodd Frank Act, as well as Congressional history, makes clear that current hedging practices, including anticipatory hedging, used in the agricultural markets are legitimate forms of hedging. As the CFTC works to both regulate the derivatives market and protect the legitimate financial aims of commercial end users, it should encourage use of the derivatives markets to manage business risk, and not impose additional hurdles to the use of legitimate hedges.

As such, MGEX cautions the CFTC against adopting a bright line test for bona fide hedge exemptions. While a bright line approach may initially appear to provide clarity on what may constitute a bona fide hedge, it inevitably will be subject to the same clarifications and questions from commercial end users to define the “bright line” that characterizes the current open approach to bona fide hedge exemptions. Consequently, a bright line approach is not likely to provide further clarity or efficiency for market participants or the CFTC. Instead, the CFTC should adopt a flexible approach to defining bona fide hedges that affords commercial end users broad latitude to hedge business risk using derivatives instruments.

Thank you again for the opportunity to comment, and please feel free to contact MGEX with any further questions.

Sincerely,

Aaron C. Nyquist
Assistant Corporate Counsel