



March 30, 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 resulting from the Energy and Environmental Markets Advisory Committee ("EEMAC") meeting held on February 26, 2015, and the Revised Table 11a in connection with the above referenced proposed rule, as published in the February 25, 2015 Federal Register Vol. 80, No. 37. MGEX has previously submitted comment on the CFTC's Notice of Proposed Rulemaking regarding position limits for derivatives (the "Proposed Rule") by letters dated March 28, 2011, February 10, 2014, August 1, 2014, and January 22, 2015.

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 EEMAC meeting and appreciates the substantial attention that the CFTC has devoted to listening to industry participants as it considers an expansive new federal position limits regime.

In general, MGEX supports the concerns raised by the various EEMAC members and presenters, especially with regard to the estimation of deliverable supply and the unsuitability of a one size fits all approach for spot month limits. Like the energy markets, deliverable supply in the agricultural markets is affected by numerous market factors, and MGEX therefore encourages the CFTC to give as much deference as possible to DCMs and allow them the necessary discretion to establish spot month limits. DCMs have been and remain in the best position to monitor deliverable supply and, if necessary, lower spot month limits in order to timely and quickly respond to market realities.

I. Revised Table 11a Demonstrates That Wheat Parity Must Be Maintained.

Revised Table 11a illustrates the destructive effects that elimination of wheat parity will have in the marketplace. As MGEX and other industry groups have repeatedly called for in prior comment letters, it is critical that the CFTC maintain parity among the three U.S. wheat contracts: CBOT Wheat, KCBT Hard Winter Wheat, and MGEX HRSW. Currently, all three U.S. wheat contracts share an identical single month and all months combined limit of 12,000 contracts. The Proposed Rule does away with the parity approach that has worked for decades, and instead sets the single month and all month combined limits for CBOT Wheat at 16,200 and KCBT Hard Winter Wheat at 6,500. Despite increasing market participation in HRSW and HRSW's status as the largest wheat class crop in North America, the Proposed Rule sets a single month and all months combined limit for MGEX HRSW at 3,300—a staggering 72.5% decrease from its current limit of 12,000 contracts.

By doing away with wheat parity, the Proposed Rule has a disproportionate impact on HRSW market participants. A cursory glance at Revised Table 11a reveals that under the Proposed Rule, MGEX HRSW has more large traders approaching the single month and all months combined limits than CBOT Wheat and KCBT Hard Winter Wheat. It would therefore appear counterproductive for the CFTC to impose lower limits for MGEX HRSW than those established for the other wheat markets depicted in Revised Table 11a. Moreover, Revised Table 11a stands in sharp contrast to Table 11, where the number of large traders approaching the Proposed Rule single month and all months combined stayed relatively constant among the three U.S. wheat contracts.

Far and away, the Proposed Rule inhibits growth in MGEX HRSW, which in turn affects the entire wheat derivatives market. The attached Exhibit A is a comparison of the difference in data from Table 11 and Revised Table 11a, broken down by wheat contract. As Exhibit A illustrates, while the unique persons holding large positions in both KCBT Hard Winter Wheat and CBOT Wheat remain relatively constant, the unique persons holding MGEX HRSW increase in every measured category, and by a factor far in excess of any other contract. In terms of cumulative change in value for unique persons holding positions, between Table 11 and Revised Table 11a, CBOT Wheat is at +11, KCBT Hard Winter Wheat is at a mere +6, while MGEX HRSW demonstrates an astonishing **+68**. It is evident that the lack of parity and the extremely low single month and all months combined limits for HRSW in the Proposed Rule single out HRSW market participants.

The disproportionate effect of the Proposed Rule puts commercial end-users and other wheat market participants at a clear disadvantage and will have real economic consequences. Critically, it impedes the legitimate risk management strategies of cross-hedging and spread trading among the three U.S. wheat contracts. It is not reasonable for the CFTC to increase the single month and all months combined limit for CBOT Wheat to 16,200, half the limit for KCBT Hard Winter Wheat, and then decrease the same limit for MGEX HRSW to a mere 3,300, and expect the Proposed Rule to have minimal impact on the market.

For example, a commercial end-user seeking to hedge its risk who spreads 3,500 CBOT Wheat contracts opposite MGEX HRSW would reach only 22% of the single month and all months combined limit for CBOT Wheat, but would exceed the MGEX HRSW limit. The solutions for such a hedger would be (1) limit their spread trading to 3,300 contracts among all wheat contracts; (2) apply for bona fide hedge exemptions; or (3) cease using the futures markets for risk management purposes. These solutions are inefficient and undesirable. While it may be possible for a cross-hedger or spread trader to apply for a bona fide hedge exemption for positions in excess of the limits, that serves only to introduce more uncertainty and expense for end-users.

By maintaining wheat parity, the CFTC can help minimize or eliminate the disparities currently reflected in Revised Table 11a. Therefore, MGEX urges the CFTC to consider the needs of those market participants using wheat futures as a legitimate hedging tool, and to maintain the proven success of wheat parity at whatever final quantitative limit is established.

II. A Formulaic Approach to Calculating Limits Is Inadequate.

In past comment letters, MGEX has cautioned that the use of outdated information regarding open interest and formulaic analysis to calculate single month and all months combined position limits may lead to limits that do not reflect current market realities. Calculating position limits based on the previous years' data may also serve to inhibit growth in rapidly changing and expanding derivatives markets.

Revised Table 11a illustrates the undesirable implications of such outdated information. As indicated in the previous section, the CFTC's own data reflects increasing market participation in the MGEX HRSW contract, and reflects the undue burden of the proposed single month and all months combined limits on market participants trading HRSW. While the CFTC has not provided a compelling justification to reduce the single month and all months combined limit for HRSW from 12,000 contracts to a mere 3,300, it presumably was based on the CFTC's analysis of then existing market realities. More current market realities, such as those shown in Revised Table 11a, show that prior data is not an accurate tool for gauging future growth potential. Indeed, in the years since the Proposed Rule was drafted, interest in MGEX HRSW has exploded, with trading volume increasing at an exponential rate. In fact, February 2015 represented the second highest monthly volume for HRSW in MGEX's thirteen decades of operation.

In the end, the data is bearing what MGEX feared and commented on in its letter dated February 10, 2014 – that a formulaic approach, combined with outdated data, will contribute to limiting growth in HRSW at a time when participation is increasing. MGEX therefore urges the CFTC to base single month and all months combined limits on current market information, and to untether itself from rigid adjustments based solely on time.

III. Bona Fide Hedge Exemptions.

MGEX urges the CFTC to consider those comments submitted by commercial end-users and market participants at the EEMAC meeting, as well as the Agricultural Advisory Committee meeting held in December 2014, with regard to what activities should be characterized as bona fide hedges. It is evident that the definition of what constitutes a bona fide hedge is of paramount importance to the everyday market participants that rely on the futures markets to hedge commercial risk, whether that risk is based on price, time, anticipated future production, or otherwise. The Congressional mandate to the CFTC in establishing broader federal position limits was to curb excessive speculation, and not inhibit legitimate risk management activities.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Aaron Nyquist". The signature is fluid and cursive, with the first name "Aaron" and the last name "Nyquist" clearly distinguishable.

Aaron C. Nyquist
Assistant Corporate Counsel

EXHIBIT A

Contract	Table 11 – Single Month, 60th Percentile	Table 11a – Single Month, 60th Percentile	Change
CBOT Wheat	22	35	+13
KCBT	36	32	-4
MGEX	17	33	+16
Contract	Table 11 – Single Month, 80th Percentile	Table 11a – Single Month, 80th Percentile	Change
CBOT Wheat	14	12	-2
KCBT	13	16	+3
MGEX	11	20	+9
Contract	Table 11 – Single Month, 100th Percentile	Table 11a – Single Month, 100th Percentile	Change
CBOT Wheat	9	8	-1
KCBT	9	12	+3
MGEX	9	15	+6
Contract	Table 11 – All Months, 60th Percentile	Table 11a – All Months, 60th Percentile	Change
CBOT Wheat	32	33	+1
KCBT	40	39	-1
MGEX	24	36	+12
Contract	Table 11 – All Months, 80th Percentile	Table 11a – All Months, 80th Percentile	Change
CBOT Wheat	16	17	+1
KCBT	21	27	+6
MGEX	15	29	+14
Contract	Table 11 – All Months, 100th Percentile	Table 11a – All Months, 100th Percentile	Change
CBOT Wheat	12	11	-1
KCBT	13	12	-1
MGEX	9	21	+11
CONTRACT			CUMULATIVE CHANGE
CBOT Wheat			+11
KCBT			+6
MGEX			+68