



July 5, 2016

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: Notice of Proposed Order and Request for Comment on a Proposal To Exempt, Pursuant to the Authority in Section 4(c) of the Commodity Exchange Act, the Federal Reserve Banks From Section 4d and 22 of the Commodity Exchange Act

Dear Secretary Kirkpatrick:

The Minneapolis Grain Exchange, Inc. (“MGEX”), a designated contract market and Subpart C derivatives clearing organization, would like to thank the Commodity Futures Trading Commission (“Commission” or “CFTC”) for the opportunity to respond to the Commission’s request for public comment on the above referenced matter published in the June 2, 2016 Federal Register Vol. 81, No. 106. MGEX shares the Commission’s goal of further strengthening the protection of customer funds and the U.S. financial markets as the safeguarding of money, securities, and other property deposited by customers is a fundamental component of the regulatory and oversight framework of the futures and swaps markets. However, for the reasons explained in this letter, MGEX believes that additional consideration should be given to the potential impact of providing special access for SIDCOs to Federal Reserve Banks and the unintended consequences that may result therefrom.

First, MGEX believes that limiting access to Federal Reserve services and accounts to SIDCOs creates a competitive disadvantage to those DCOs that have not been designated as systemically important. As the Commission recognized in its notice of proposed order, Federal Reserve Banks play a unique role in the U.S. banking and payment system. Specifically, “a SIDCO would face much lower credit and liquidity risk with a deposit at a Federal Reserve Bank than it would with a deposit at a commercial bank.”¹ As such, DCOs that have not been designated as systemically important would not have the same access to these credit and liquidity risk reducing

¹ See CFTC Notice of proposed order in Federal Register Vol. 81, No. 106 (page 35342).

opportunities afforded to SIDCOs. This disparity could create a DCO ranking among market participants, the public, and regulators where SIDCOs may be perceived as “safer” than other DCOs because of their access to Federal Reserve Bank services and accounts, thereby giving them an unfair competitive advantage. This advantage may be problematic for Subpart C DCOs who are generally held to the same heightened liquidity and risk management standards as SIDCOs. In other words, Subpart C DCOs must meet the same standards as SIDCOs without the same advantage of being able to access the Federal Reserve System, which the Commission recognizes “would provide SIDCOs with the lowest possible credit risk in the event of a market disruption” and would allow them “to be better equipped to handle a liquidity event.”²

Second, providing both SIDCOs and Subpart C DCOs with access to Federal Reserve Banks would further the Commission’s goal of enhancing the protection of customer funds at minimal additional cost. MGEX believes that since deposits at the Federal Reserve Bank have the lowest credit risk,³ it is in the best interest of market participants and the market as a whole that SIDCOs and Subpart C DCOs be permitted to maintain customer accounts with a Federal Reserve Bank. Allowing both to access Federal Reserve Bank accounts and services would likely result in a larger amount of customer funds held in deposit accounts at a Federal Reserve Bank. Consequently, more customer funds would be protected since they would not be exposed to the risks associated with a commercial bank insolvency as the Commission noted within its notice of proposed order. In addition, offering Subpart C DCOs the opportunity to access the Federal Reserve System would be consistent with the standards set forth in the Principles for Financial Market Infrastructures, which explicitly acknowledge the benefits and protections afforded by central banks with respect to credit and liquidity risks.

In light of these considerations, MGEX urges the Commission to provide the same proposed exemptions to Federal Reserve Banks for those that establish and maintain deposit accounts for either a SIDCO or Subpart C DCO. MGEX believes that a broadening of this exemption would only decrease any potential liability, to the Federal Reserve Banks and U.S. taxpayers, under Sections 4d and 22 of the CEA and allow for further customer protection should the Federal Reserve be authorized to provide services and accounts to Subpart C DCOs in the future. Additionally, the Commission should permit both types of DCOs to maintain customer accounts with a Federal Reserve Bank pursuant to the standard of liability set forth in the Federal Reserve Bank Governing Documents.

MGEX recognizes that due to the restrictive wording of Title VIII of the Dodd-Frank Act, which allows an authorized Federal Reserve Bank to establish accounts for a “designated financial market utility,” the Commission cannot simply grant Subpart C DCOs permission to have accounts at a Federal Reserve Bank with this proposed order. However, MGEX encourages the Commission to use alternative language in the order, so as not to be SIDCO-specific. In the event that Federal Reserve Banks are subsequently permitted to maintain accounts for Subpart C DCOs, the infrastructure and language would therefore already be in place for Subpart C DCOs to open such accounts.

² See CFTC Notice of proposed order in Federal Register Vol. 81, No. 106 (page 35344).

³ See CFTC Notice of proposed order in Federal Register Vol. 81, No. 106 (page 35341).

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

Sincerely,

A handwritten signature in blue ink that reads "Jacob Fedje". The signature is written in a cursive, flowing style.

Jacob Fedje
Associate Director, Risk Management

cc: Mark G. Bagan, MGEX
James D. Facente, MGEX
Layne G. Carlson, MGEX
Lindsay Hopkins, MGEX