MEMO

TO: MGEX Market Participants

FROM: Adam Wysopal, Associate Corporate Counsel

SUBJECT: Electronic Warehouse Receipts

DATE: April 21, 2017

Introduction

This memo has been prepared to provide the Minneapolis Grain Exchange, Inc. ("MGEX") market participants with information regarding MGEX’s plan to require that delivery of Hard Red Spring Wheat ("HRSW") Futures Contracts be made exclusively with electronic warehouse receipts. As background, the Hard Red Spring Wheat Committee ("HRSW Committee") asked MGEX Management to explore requiring that electronic warehouse receipts be used instead of paper warehouse receipts. MGEX Management, with the guidance from the HRSW Committee, researched the topic and developed the plan included in this memo.

There are three sections to this memo. The first section contains the proposed MGEX Resolution that would act as the mechanism to require that electronic warehouse receipts be used. The second section contains some questions and answers about the transition to and use of electronic warehouse receipts. The third section contains information for the conference call.

Questions regarding the contents of this memo may be directed to awysopal@mgex.com prior to the conference call.

1. MGEX Resolution

Resolution XXXX.00. ELECTRONIC WAREHOUSE RECEIPTS

Effective with the September 2017 contract month, delivery of any Hard Red Spring Wheat Futures Contract shall be made by the delivery of a USDA approved negotiable electronic warehouse receipt issued by a MGEX approved regular facility.

Any holder of any paper warehouse receipt may take one of the following actions with respect to such paper warehouse receipt:

1) Convert such paper warehouse receipt to an electronic warehouse receipt and pay any outstanding storage cost;
2) Carry such paper warehouse receipt indefinitely;
3) Cancel such paper warehouse receipt for load-out purposes; or
4) Transfer the paper receipt to another entity
Further, effective with the September 2017 contract month, any reference to “warehouse receipt” in any MGEX Rule pertaining to the delivery of a Hard Red Spring Wheat Futures Contract means “electronic warehouse receipt”.

Unless otherwise instructed by the Exchange, electronic warehouse receipts are to be issued via and transferred exclusively using e-Grain, Inc. (also known as the eGrain System).

The Exchange may from time to time determine or modify the electronic fields that are required to be completed when creating or issuing an electronic warehouse receipt.

In addition, any Regular Facility that receives a request to convert a paper warehouse receipt to an electronic warehouse through December 26, 2017 shall promptly fulfill the request, and shall not charge any fee to the requesting party.

2. Questions and Answers

1) What happens to the codes/serial numbers on the paper receipts that are converted to electronic warehouse receipts?

An electronic warehouse receipt that is issued to replace an existing paper warehouse receipt will receive a new, unique number. Identifiers are not transferred from the paper warehouse receipt to the electronic warehouse receipt. That said, there is a “Comments” field on the electronic warehouse receipt form. When converting a paper warehouse receipt to an electronic warehouse receipt, the issuer could enter the old code/serial number in the “Comments” field.

2) During the transition/conversion period, will MGEX track all outstanding paper receipts so that MGEX knows which ones are converted?

MGEX does not possess detailed information about the current ownership or location of paper receipts. Therefore, MGEX will not be tracking paper receipts during the transition/conversion period. That said, each approved regular elevator must report the number of any cancelled and outstanding receipts to MGEX. This data is published each business day on the MGEX website.

3) If a holder carried a paper receipt for a long period of time and then wants to deliver, would the taker potentially get stuck with a paper receipt?

If a holder wants to deliver for the September 2017 contract month or any other delivery period thereafter, then the holder would first have to convert the paper receipt to an electronic one. This is the intent of the Resolution. As part of the transition to electronic warehouse receipts, it will be the responsibility of entities to assess the risk of delivery and make appropriate preparations.
4) How will accrued storage costs be handled?

*Effective with the September 2017 contract month, a holder of a paper warehouse receipt that desires to make delivery will need to convert the receipt to an electronic one, at which point they will be required to pay up all accrued storage costs. The holder, however, may choose to hold the paper warehouse receipt indefinitely, in which case they would not have to pay up accrued storage until load out. Alternatively, they could always sell the paper warehouse receipt to another person in the cash market.*

5) Who will pay to convert paper warehouse receipts to electronic warehouse receipts?

*The warehouse/regular facility will pay a direct cost to eGrain to create an electronic warehouse receipt. Under eGrain’s standard fee structure, a warehouse/regular facility would pay $2.00 to create each electronic warehouse receipt. Under the proposed MGEX Resolution, a warehouse/regular facility is not to charge any fee to convert a paper receipt to an electronic warehouse receipt through the December 26, 2017. After the transition period, however, a warehouse/regular facility may charge a fee.*

6) Will there be any changes to the method and manner of reporting delivery intention as a result of moving to electronic warehouse receipts?

*No. The delivery process as reported to the Clearing House will not change. Long position reporting will remain unchanged as well. Rather, an electronic warehouse receipt is merely a tool for transferring ownership.*

7) Is it possible for a market participant to register with eGrain and request that a regular facility issue an electronic warehouse receipt?

*Yes. A market participant could be registered with eGrain and submit a request to a regular facility that they issue an electronic warehouse receipt. Once the electronic warehouse receipt is issued, the holder may maintain it in the eGrain system indefinitely. If the holder intends to make delivery, however, they would need to transfer it to their FCM or Clearing Member prior to or contemporaneously with making delivery intentions to the MGEX Clearing House.*

8) Once an electronic warehouse receipt is issued, could a market participant transfer it in eGrain without involving their FCM or Clearing Member?

*Yes. A market participant could transfer the electronic warehouse receipt to another firm via the eGrain system so long as the taker is also registered with eGrain (or has a relationship with an entity that is registered with eGrain). The FCM or Clearing Member must be involved if there is intent to make delivery, however.*

9) Once an electronic warehouse receipt is issued, could a market participant cancel it without involving their FCM or Clearing Member?

*Only an issuer of an electronic warehouse receipt is able to cancel it within the eGrain system. A market participant could request via eGrain that the issuing entity cancel the electronic warehouse receipt.*
10) Can paper receipts continue to be issued?

Yes, paper receipts can be issued even though electronic warehouse receipts are being required for delivery.

11) Is it possible for a market participant to sell an electronic warehouse receipt in the cash market?

Yes. A market participant can transfer an electronic warehouse receipt to another entity so long as the taker is registered with eGrain. Alternatively, the taker could have a relationship with another entity that is registered in eGrain. Further, eGrain provides free access to producers, so if the taker is a producer there should not be any problem with them accessing eGrain. It is also possible to suspend an electronic warehouse receipt and have the regular facility then create a paper version.

12) When is transfer of ownership officially recorded within the eGrain system?

When a holder or FCM or Clearing Member initiates a transfer in the eGrain system, the electronic warehouse receipt is digitally time-stamped nearly instantaneously. There is no independent verification that eGrain performs. It is up to the holder to ensure all necessary conditions have been satisfied (e.g., that payment has been received) before making the transfer in the eGrain system.

13) How will load-out requests function with electronic warehouse receipts compared to paper receipts?

For the most part, it will be the same. The receipt must be transferred prior to/contemporaneously with load out instructions, per MGEX Rules. The difference is that the electronic warehouse receipt will be digitally time-stamped upon transfer. As such, it will be very transparent as to who was first in time.

14) What is the cost to use eGrain?

As of April 5, 2017, below are the fees that eGrain charges to utilize the eGrain system (please contact eGrain directly to confirm pricing).

**Futures Commission Merchants, Pool Marketers**

There is a $150.00 annual subscription fee.

**Banks / Lending Institutions and Processors**

- Banks and other lenders using electronic warehouse receipts for collateral purposes, along with processors and millers are charged an annual subscription fee of $350.00.
- Banks / lending institutions will be charged $5.00 per transfer when EWRs are released back to warehouses. These charges will be calculated and billed quarterly.
Grain and Rice Warehouses
Annual fees are based on a company’s total licensed capacity in bushels. This fee structure includes all grain and rice warehouses.

<table>
<thead>
<tr>
<th>Licensed Capacity</th>
<th>Annual Fee</th>
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<tbody>
<tr>
<td>0 – 9 million</td>
<td>$600.00</td>
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<tr>
<td>9.1 - 15 million</td>
<td>$1,000.00</td>
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<tr>
<td>15.1 – 30 million</td>
<td>$1,500.00</td>
</tr>
<tr>
<td>30.1 – 60 million</td>
<td>$2,000.00</td>
</tr>
<tr>
<td>60 million plus</td>
<td>$5,000.00</td>
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EWR Pricing for Warehouses (Option 1)
- EWRs are priced individually at $2.00 per EWR and paid for in advance.
- EWRs shall be purchased by issuer in increments of 100.
- Issuer may use EWRs for any of their warehouse locations in which the state or USDA accepts EWRs
- EWRs not used during the year purchased are not lost and may be used in subsequent years.
- Unused EWRs at the end of a subscription year will carry over to the following year and be available for future use.
- There are no reimbursements for unused EWRs when an account becomes inactive.

Grain and Rice Warehouses with Minimal Warehouse Receipt Use
- This tariff is for grain and rice warehouses that do not issue many warehouse receipts in a given year. The annual fee for companies that fall into this category is $300.00 per year.
- The registration and profile approval process is the same as for large EWR issuers.
- This pricing option is only available to warehouses that have a licensed capacity under 9 million bushels.

EWR Pricing for Option 2
EWRs are priced individually at $10.00 per EWR and must be ordered in increments of 5 (five).
3. **Conference Call Information**

Date and Time: May 2, 2017, 11:00 a.m.

Number: (866) 755-7677 or (763) 231-7677

Participant PIN: 956705