



MEMORANDUM

TO: MGEX Members and Market Participants

FROM: Aaron C. Nyquist, Assistant Corporate Counsel

DATE: August 12, 2015

SUBJECT: Proposed New Regulations Regarding Position Limits for HRSW Futures

MGEX intends to implement new Regulations 2013.03., 2013.04., 2013.05., and 2013.06., which will codify position limits for the Hard Red Spring Wheat (“HRSW”) futures contract, and the procedure by which MGEX will grant a hedge exemption for HRSW futures. The proposed Regulations reflect the current federal position limits for HRSW, and longstanding MGEX practice. They are also consistent with MGEX Rules and Regulations relating to position limits and exemption procedures for other MGEX contracts. MGEX has concluded that the proposed Regulations are in the best interest of all market participants and align with industry standards.

Details of the proposed Regulations are below. MGEX welcomes any comments or feedback on these Regulations. Comments may be submitted up until September 11, 2015 to Aaron Nyquist at anyquist@mgex.com.

The following MGEX Regulations are proposed to be implemented.

2013.03. POSITION LIMITS FOR HARD RED SPRING WHEAT FUTURES.

A. **Applicability.** Regulations 2013.03., 2013.04., 2013.05, and 2013.06. will govern position limits for HRSW futures, notwithstanding any other provisions of the MGEX Rules and Regulations that relate to position limits for HRSW options.

B. **Limits.** Position limits for HRSW futures will be determined by the Exchange, but will not be greater than the position limits for HRSW pursuant to Part 150 of the Regulations of the CFTC. The position limits will not apply to *bona fide* hedging transactions or positions, as determined by the Exchange or CFTC Regulations.

No Market Participant will own or control in excess of six hundred (600) HRSW futures net long or short in the settlement month; twelve thousand

(12,000) HRSW futures net long or short in any single month; or twelve thousand (12,000) HRSW futures net long or short in all contract months combined.

- C. **Compliance.** No Market Participant may exceed the limits at any time during the trade day. Other than *bona fide* hedging positions, positions in excess of the limits will be presumed to be a violation. The Exchange may direct any Market Participant owning, controlling or carrying a position for another Market Participant in excess of the limits set forth in this Regulation to liquidate or reduce its position to comply with this Regulation. For any futures position that exceeds position limits for passive reasons such as a market move or exercise assignment, the Market Participant will be allowed one (1) business day following the date of the transaction that leads to excess positions to liquidate the excess position without being considered in violation of the limits.
- D. **Enforcement.** The Market Participant owning, controlling or carrying a position (as well as the account holder, FCM, or Clearing Member as the case may be) shall maintain adequate books and records that disclose the identity of and positions held by any Market Participant. Such books and records shall be made available to the Exchange upon request. The Market Participant owning, controlling or carrying a position (as well as the account holder, FCM and Clearing Member) may be held accountable for any violation of the limits. The Department of Audits and Investigations may take enforcement action against any or all of the parties, whether or not each had actual knowledge of the position or a violation.

2013.04. EXEMPTION FROM POSITION LIMITS FOR HARD RED SPRING WHEAT FUTURES.

To be eligible for an exemption from position limits for HRSW futures under this Regulation, an applicant must submit a written request to the Department of Audits and Investigations. Such request must include the following:

- A. a description of the size and nature of the proposed transactions;
- B. information which demonstrates that the proposed transactions are *bona fide* hedging transactions;
- C. a statement indicating whether the Market Participant on whose behalf the request is made (i) maintains positions in the futures contract for which the exemption is sought with any other account holder or owner, and/or (ii) has made a previous or contemporaneous request pursuant to the Regulation through another applicant, and if so, the relationship of the information set forth in such requests;
- D. a statement that the proposed transactions will be *bona fide* hedges;
- E. a statement that the applicant will immediately supply the Exchange with any material changes to the information submitted pursuant hereto;

F. such further information as the Exchange may request, including the daily, weekly or periodic filing of any documents or reports.

The Department of Audits and Investigations shall notify the applicant whether the exemption has been granted, and any limitations placed thereon, within five (5) business days of receiving a written request for exemption. An exemption will remain in effect until (i) the applicant or Market Participant on whose behalf the request is made requests a withdrawal; or (ii) the Exchange revokes, modifies, or places further limitations thereon. At any time, the Exchange may limit *bona fide* hedging positions and deny or limit any request for exemption from position limits which the Exchange determines in its sole discretion are either not in accord with sound commercial practices or exceed the established or permitted amount which may liquidated in an orderly fashion.

The Exchange will use the CFTC definition of a *bona fide* hedging position as described in CFTC Part 151 (specifically 151.5, or elsewhere as applicable) as a guide when applied to the HRSW futures contract, but will not be limited by it.

2013.05. AGGREGATION OF POSITIONS FOR HARD RED SPRING WHEAT FUTURES.

In determining whether any Market Participant has exceeded the position limits for HRSW futures, all positions in accounts for which such Market Participant by power of attorney or otherwise directly or indirectly holds positions or controls trading will be included with the positions held by such Market Participant. Such limits upon positions will apply to positions held by two (2) or more Market Participants acting pursuant to an expressed or implied agreement or understanding, the same as if the positions were held by a single Market Participant. The Exchange will follow the CFTC definition of aggregation and the procedures for aggregating positions as described in CFTC Part 151 (specifically 151.7 or elsewhere as applicable).

2013.06. REPORTABLE POSITIONS FOR HARD RED SPRING WHEAT FUTURES.

The reportable position level will be a position of one hundred and fifty (150) or more HRSW futures on this Exchange, long or short, in any one (1) month. All such positions must be reported in a manner and form as designated by the CFTC or the Exchange.