



## MEMO

**TO:** Market Participants

**FROM:** MGEX Department of Audits and Investigations

**SUBJECT:** Hard Red Spring Wheat Position Limits Changes

**DATE:** April 16, 2021

Pending the relevant Commodity Futures Trading Commission (“CFTC” or “Commission”) regulatory 45-day review period, the Minneapolis Grain Exchange, LLC (“MGEX” or the “Exchange”) will increase the speculative spot month position limits of the Hard Red Spring Wheat (“HRSW”) Contract. Specifically, the spot month limit will increase to 1,200 on a futures-equivalent basis from the current limit of 600 contracts. The change will only affect the spot month limit, not single month or all months combined limits.

MGEX Rules 2013.03., 2013.04., 2013.05., and 1402.00. will be amended to reflect those position limits changes and implemented as soon as practical after approval with the increase in spot month limits effective with the September 2021 contract month. Additionally, the procedure by which the Exchange will grant exemptions from position limits will be codified in a Position Limit Exemption Request Form which Market Participants will be required to file with the Exchange. You can view these changes on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

If there are any questions, please contact the Department of Audits and Investigations at 612-321-7101 or [compliance@mgex.com](mailto:compliance@mgex.com).

The following provisions of the MGEX Rules will be amended pending approval or certification from the CFTC. Additions are underlined while deletions are ~~marked through~~.

### **2013.03. POSITION LIMITS FOR HARD RED SPRING WHEAT ~~FUTURES~~.**

- A. **Applicability.** MGEX Rules 2013.03., 2013.04., 2013.05, and 1402.00~~2013.06~~ will govern position limits for HRSW ~~futures, notwithstanding any other provisions of MGEX Rules 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 CFTC Regulations. ~~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~~may hold or control in excess of ~~six one thousand two-hundred (600~~1,200) HRSW ~~contracts~~contracts~~futures~~ net long or short in the ~~settlement spot month~~; twelve thousand (12,000) HRSW ~~contracts~~contracts~~futures~~ net long or short in any single month; or twelve thousand (12,000) HRSW ~~contracts~~contracts~~futures~~ net long or

short in all contract months combined on a net futures-equivalent basis.

For the purposes of this Rule, the spot month is defined as beginning at the close of the trade day preceding first notice day.

- 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, holding, controlling, or carrying a position for another Market Participant in excess of the limits set forth in this Rule to liquidate or reduce its position to comply with this Rule. ~~For any Market Participants exceeding federal position limits for futures-equivalent positions as a result of either 1) an Options assignment; or 2) movement in that day's closing price of HRSW Futures that increases the Options positions using delta equivalent values,~~ ~~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, holding, 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~~ must be made available to the Exchange upon request. The Market Participant owning, holding, 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. EXEMPTIONS FROM POSITION LIMITS FOR HARD RED SPRING WHEAT FUTURES.**

A Market Participant intending to exceed position limits for HRSW, including to exceed a position established pursuant to a previously approved exemption, must file, in good faith, a complete and accurate Position Limit Exemption Request Form, available through the Exchange, for exemption and receive approval from the Department of Audits and Investigations prior to exceeding such limits. ~~To be eligible for an exemption from position limits for HRSW futures under this Rule, an applicant must submit a written request to the Department of Audits and Investigations. Such request must include the following: In order to obtain an exemption from position limits, a Market Participant must provide the following:~~

- A. a description of the exemption sought, including whether the exemption is for size and nature of the proposed transactions; ~~bona fide hedging transactions or positions as defined in CFTC Regulation 150.1, and whether the exemption is for enumerated or non-enumerated hedging transactions or positions, or spread transactions as described in CFTC Regulation 150.3;~~
- B. a complete and accurate explanation of the underlying exposure and strategy related to the exemption request; ~~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~~ HRSW 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 Rule through another ~~applicant~~ Market Participant, 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;~~

- D. a statement that the ~~applicant~~ Market Participant will immediately supply the Exchange with any material changes to the information submitted pursuant ~~hereto~~ to this Rule;

- E. a statement that the Market Participant will comply with all Exchange rules, and the conditions or limitations imposed by the Department of Audits and Investigations with respect to the exemption;

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

- F.G. a statement documenting policies and procedures currently implemented to monitor and ensure compliance with MGEX Rules related to position limits and exempted levels.

The Department of Audits and Investigations may approve, deny, condition, or limit any exemption request based on factors deemed to be relevant in accordance with sound commercial practices, including, but not limited to, the Market Participant's business needs and financial status, as well as whether the positions can be established and liquidated in an orderly manner given characteristics of the market for which the exemption is sought.

The Department of Audits and Investigations will notify the Market Participant the exemption has been granted on all or specified portion of such transaction or position, and any limitations placed on the exemption, within five (5) business days of receiving a written request for exemption. An exemption will remain in effect until (i) the Market Participant on whose behalf the request is made requests a withdrawal; (ii) the Exchange revokes, modifies, or places further limitations on the exemption; (iii) the exemption expires; or (iv) the CFTC determines otherwise.

A Market Participant who establishes a *bona fide* hedging position in excess of position limits due to demonstrated sudden and unforeseen increases in its *bona fide* hedging needs and files the required application with the Department of Audits and Investigations will not be in violation of this rule provided the filing occurs within five (5) business days after assuming the position and the application includes an explanation of the circumstances warranting the sudden or unforeseen increases in *bona fide* hedging needs. If the positions in excess of the limits are not exemption-eligible, the Market Participant and Clearing Member will be in violation of speculative limits for the period of time in which the excess positions remained open and must reduce their positions at or below the positions limits within one (1) business day of being informed that the positions are not eligible for an exemption. ~~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.~~

Any Market Participant who avails themselves of an exemption must keep and maintain complete books and records concerning the details of the exemption, including information required to be kept by CFTC Regulation 150.3(d). A Market Participant who has received written authorization from the Department of Audits and Investigations to exceed position limits must file, at least annually, an updated application no later than one year following the approval date of the most recent application. A Market Participant must renew an application if there are any material changes to the information provided on the application. Failure to file an updated application will result in expiration of the exemption.  
~~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.~~

Nothing in this Rule will in any way limit (i) the authority of the Exchange to take emergency action; or (ii) the authority of the Department of Audits and Investigations to review at any time the positions held or controlled by any Market Participant and to direct that such position be reduced to the position limits in Rule 2013.03.B. The Exchange will also use CFTC Part 150 as a guide when assessing the exemption request but will not be limited by it.  
~~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 or holds a ten percent (10%) or greater ownership or equity interest 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. Market Participants may be eligible for an exemption from aggregation under CFTC Regulation 150.4(b). Any Market Participant seeking an exemption must follow procedures listed in CFTC Regulation 150.4(c). Market Participants must notify the Department of Audits and Investigations of all CFTC approvals.

The Exchange will follow the CFTC definition of aggregation, ~~and~~ the procedures for aggregating positions, and exemptions from aggregation as described in CFTC Part 150, including CFTC Regulations 150.4(a), 150.4(b), and 150.4(c), or elsewhere as applicable.

#### **1402.00. OPTIONS TRADING – HARD RED SPRING WHEAT.**

- A. **Hours of Trading.** The Hours of Trading ~~Spring Wheat Options~~ Options shall will be determined by the Board of Directors in accordance with MGEX Rule 2011.00.

- B. **Months Traded In.** Trading may be conducted in ~~Options~~Spring-Wheat options in the same months that are listed for trading in the ~~Spring-Wheat~~-Futures Contract (see MGEX Rule 715.00.). Additionally, trading may be conducted in ~~Spring-Wheat~~Options in months that are not listed for trading in the ~~Spring-Wheat~~-Futures Contract. For Options that are traded in months which ~~Spring-Wheat~~-Futures are not traded, the underlying ~~F~~contract is the subsequent ~~F~~contract month that is nearest to the expiration of the Option. The Board of Directors shall determine the months available for trading, and may, at its discretion, restrict trading in any month should market conditions so warrant.
- C. **Last Trading Day.** The last trading day will be the Friday which precedes by at least two (2) business days, the last business day of the month preceding the Option month. If such Friday is not a business day, the last trading day ~~shall~~will be the business day prior to such Friday ~~(see Res. 1402.00. C.)~~.
- D. **Option Expiration.** The contractual rights and obligations arising from the Option ~~C~~contract expire on the last day of trading.
- E. **Option Premium Price Basis.** The premium for ~~Spring-Wheat futures~~Options ~~shall~~will be in multiples of one-eighth of one cent (1/8) per bushel of a five thousand (5,000) bushel ~~Spring-Wheat~~F~~contract~~ or six dollars and twenty-five cents (\$6.25) per contract. However, in the case of a cabinet trade, when both sides are closing transactions, the Option premium for open outcry may range from one dollar (\$1.00) to six dollars (\$6.00) in one dollar (\$1.00) increments per Option ~~C~~contract, and the Option premium for electronic trading is one dollar (\$1.00) per Option Contract.
- F. **Position Limits.** Position ~~Limits~~ for HRSW for Spring-Wheat futures options shall be those limits currently in effect pursuant to Part 150 of the CFTC Regulations. ~~will be determined by the Exchange but will not be greater than the position limits for HRSW pursuant to Part 150 of CFTC Regulations. See MGEX Rule 2013.03.~~
- G. **Reportable Positions.** A position of twenty-five (25) or more put or call Options on this Exchange, long or short, in any one (1) month of the first two (2) nearby delivery months or a position of one hundred (100) or more put or call Options, long or short, in any one (1) month of the remaining delivery months ~~shall~~will be reportable position level for wheat options on this Exchange. All such positions ~~shall~~must be reported in a manner and form as designated by the Exchange and pursuant to ~~Exchange~~MGEX Rule 1505.00.
- H. **Daily Price Limits.** Trading is prohibited in ~~a~~Spring-Wheat futuresOptions at a premium of more than the trading limit for the ~~Spring-Wheat~~F~~contract~~ above and below the previous day's settlement premium for that Option. On the first (1st) day of trading, limits ~~shall~~will be set from the lowest premium of the opening range.