



**FAQ Associated with MGEX Rules 718.00. & 719.00.
Transfer Trades and Exchange for Related Position ("EFRP")**

Q1: What to do with the open trade equity and/or collateral associated with positions being transferred?

A1: When conducting transfers using prices other than original trade prices, the accompanying open trade equity must also be transferred from one account to the other. It is the responsibility of both the carrying and receiving Clearing Members to ensure all open trade equity is transferred and allocated to the underlying accounts related to the position transfers. Additionally, it is the Clearing Members' responsibilities to ensure that the transferred positions will have appropriate margin at the receiving Clearing Member and that any remaining positions will have appropriate margin at the carrying Clearing Member.

Q2: What are EFRP transactions?

A2: EFRP stands for Exchange for Related Position. An EFRP transaction is an off-exchange execution of an Exchange futures contract corresponding with the simultaneous exchange of a non-futures but related commodity position such as a physical or risk position. EFRP transactions are bilaterally negotiated off-exchange executions. Prices of the EFRPs are mutually agreed upon by the counterparties of the transaction.

Q3: What are the types of EFRP transactions permitted by the Minneapolis Grain Exchange, Inc.?

A3: Exchange for Physical Transaction ("EFP") - An exchange of futures for, or in connection with, a physical consists of a cash commodity transaction and a futures transaction.
Exchange for Risk Transaction ("EFR") - An exchange of futures for, or in connection with, a risk consists of an OTC derivative or a swap agreement and a futures transaction.

Q4: Does the Minneapolis Grain Exchange, Inc. allow an options contract to be part of an EFRP transaction?

A4: No, options contracts are not permissible to be included as part of an EFRP at the Minneapolis Grain Exchange, Inc.

Q5: Can EFRP transactions be executed after the last day of trading in an expiring contract?

A5: Yes, EFRP transactions in specified Exchange futures contracts may be executed for a defined period after the last trading day in an expiring contract. Pursuant to MGEX Rule 2011.02, an EFRP for the identified contracts may be executed and cleared through the sixth (6th) business day following the last trading day of the expiring delivery contract month.

Q6: What are the recordkeeping requirements for EFRPs at the Minneapolis Grain Exchange, Inc.?

A6: Parties to an EFRP must maintain all records relevant to the Exchange futures contract and related physical or risk position, including records required to be kept pursuant to CFTC Regulation 1.35. Records may be requested by the Department of Audits and Investigations to verify the EFRP was bona fide in nature including, but are not limited to contracts, confirmations, invoices, warehouse receipts, documents of title, a master swap agreement and any supplements thereto, or any other document that demonstrates the existence and nature of the over-the-counter or derivative transaction. Swap documents should contain all of terms of the transaction, such as quantity, method of pricing, and counterparties to the EFRP transaction.

The quantity of the Exchange futures contract(s) must be approximately economically equivalent to the quantity of the physical or risk component. Futures account statements should reflect confirmations of the EFRPs with the applicable trade and price data.

Q7: How are EFRP transactions reported for clearing at the Minneapolis Grain Exchange, Inc.?

A7: Each MGEX Clearing Member carrying the account shall be responsible for submitting the EFRP transaction via the MGEX Trade Entry Matching System (“TEMS”). For information related to clearing transactions or TEMS, please contact the MGEX Clearing House at (612) 321-7146. EFRP transactions must be submitted to MGEX through TEMS as soon as possible following a mutual agreement to the terms of the trade by the counterparties. This must take place the same business day the agreement is made by the reporting deadlines established within MGEX Rules and Regulations.

Q8: May affiliated accounts execute EFRPs with each other?

A8: The opposing accounts to an EFRP transactions must be:

- a) independently controlled accounts with different beneficial ownership;
- b) independently controlled accounts of separate legal entities with common beneficial ownership; or
- c) independently controlled accounts of the same legal entity, provided that the account controllers operate in separate business units.

Accounts with the same beneficial ownership include accounts owned by the same person or entity, a parent and its wholly owned subsidiaries, or accounts of subsidiaries that are both wholly owned by the same parent. Common beneficial ownership is more inclusive and includes different accounts with common beneficial ownership that is less than 100%. EFRP transactions between counterparties with common beneficial ownership must be able to demonstrate the independent control of the accounts, and that the transaction had economic implication for each counterparty.

Q9: What are the trading hours for EFRP transactions?

A9: Due to the nature of EFRPs being off-exchange transactions, the agreement to trade the EFRP between the counterparties can be done at any time throughout the day. However, as noted above, the EFRP must be reported for clearing during the business day for which it was made. If an EFRP agreement is made outside of the trading hours of the underlying futures contract, the EFRP transaction must be submitted for clearing no later than the next business day.

Q10: How many parties are involved in an EFRP transaction?

A10: Typically, there are only two parties involved in an EFRP transaction. One party to the EFRP must be the buyer of the Exchange futures contract and the seller of the related physical or risk component; the other party must be the seller of the Exchange futures contract and the buyer of the related physical or risk component.

A third party may facilitate, as principal, the related position component of the EFRP on behalf of its customer provided that the third party can demonstrate that the related position was passed through to their customer who received the Exchange futures contract as part of the EFRP.

A third party cannot act as a straw-man or otherwise take paper title or possession of the futures position component.

Q11: What are the responsibilities of Clearing Members in connection with EFRPs executed or cleared on behalf of a customer?

A11: Clearing Members that execute or clear EFRPs on behalf of customers are responsible for reporting the transaction in TEMS. Additionally, the Clearing Members carrying an underlying account that is part of an EFRP shall be responsible for obtaining the relevant EFRP records from its customer and submit such documentation to the Department of Audits and Investigations upon Exchange request. If a Clearing Member has knowledge of a customer's inability to conduct bona fide EFRP transactions and fails to take reasonable action prior to clearing, the Clearing Member may be found to have violated the principal EFRP Rule(s) and/or its duty to supervise.

Questions regarding this FAQ may be directed to the Department of Audits and Investigations at (612) 321-7101 or at compliance@mgex.com.

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