MINNEAPOLIS GRAIN EXCHANGE, INC.

Disclosure Framework for
Financial Market Infrastructures

Responding Institution: Minneapolis Grain Exchange, Inc.
Jurisdiction: Commodity Futures Trading Commission

The information provided in this disclosure is accurate as of November 30, 2017.

This disclosure can also be found at www.mgex.com/regulation.html.

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I. Executive Summary

The following disclosure constitutes the response of Minneapolis Grain Exchange, Inc. ("MGEX" or the "Exchange"), a Delaware corporation, to the Disclosure Framework for Financial Market Infrastructures ("Disclosure Framework") developed by the Committee on Payments and Market Infrastructures[1] of the Bank for International Settlements and the International Organization of Securities Commissions. This disclosure is current as of November 30, 2017 and will be updated following any material changes to MGEX's systems or environment. All information presented in this disclosure is for informational purposes only and does not constitute a legal declaration. The information presented herein is accurate to the best of our knowledge and belief, but MGEX cannot guarantee its completeness and is not liable for any errors or omissions.

The Disclosure Framework applies to financial market infrastructures ("FMIs"), which are defined to include payment systems, central securities depositories, securities settlement systems, trade repositories, and central counterparties. A central counterparty ("CCP") interposes itself between counterparties to contracts traded in one or more financial markets, becoming the counterparty to each party in a trade and thereby ensuring the future performance of open contracts. As a designated contract market and subpart C derivatives clearing organization, MGEX is an exchange, registered with and subject to the jurisdiction of the Commodity Futures Trading Commission ("CFTC"). In its operations as a derivatives clearing organization, MGEX's Clearing House arranges for the clearing and settlement of futures and options transactions initiated, accepted, and executed on the Exchange. As a result, MGEX functions as a CCP.

The Disclosure Framework contains twenty-four internationally recognized Principles for FMIs ("PFMIs") designed to ensure a more robust infrastructure for global financial markets, twenty-two of which apply to CCPs. As demonstrated in Section IV of this disclosure, the Exchange observes the twenty-two PFMIs applicable to CCPs.

II. General Description of MGEX

History and Organization: Founded as the Minneapolis Chamber of Commerce in 1881, MGEX originally opened as a regional cash marketplace to promote fair trade and to prevent trade abuses in wheat, oats, and corn. As a cash marketplace, it became a centralized grain market for farmers, processors, elevator operators, and others needing to buy and sell grain. By providing a location in which grain buyers and sellers could conduct their business, farmers had easy access to buyers and current market prices, elevator operators could locate farmers and merchants, and investors had a market in which to speculate. In 1947, the Minneapolis Chamber of Commerce became the Minneapolis Grain Exchange, and in 2010, the Exchange changed its corporate structure from a Minnesota not for profit organization to a Delaware for profit, non-stock

[1] Previously known as the Committee on Payment and Settlement Systems.

corporation known as the Minneapolis Grain Exchange, Inc. MGEX has currently issued 402 memberships, which can be sold and transferred. Individuals must meet certain qualifications to become a record holder of a membership, and only qualified persons or entities can become record owners.

Today, MGEX continues its history as a commodity exchange and provides services for buyers and sellers of grains grown in the Upper Midwest and Pacific Northwest. The Exchange also continues to offer the only authorized contract market for Hard Red Spring Wheat futures and options trading. By providing a regulated marketplace and clearing house, MGEX offers producers and consumers transparent price discovery and the ability to manage and limit risk associated with adverse price changes while allowing speculators and traders the opportunity to accept that risk in an attempt to profit from favorable price movements.

Market and Products: MGEX's mission is to provide and oversee a fair and reliable marketplace offering personalized service and efficient transactions. MGEX does not participate in trading nor does it establish prices, but the Exchange does oversee the dissemination of pricing information. Buyers and sellers of futures and options contracts utilize MGEX's marketplace to conduct their risk management activities. The Exchange also hosts a cash market, providing a valuable service for market participants. All MGEX products listed below trade electronically on the CME Globex® platform. MGEX also offers side-by-side trading for Hard Red Spring Wheat options contracts during daytime trading hours.

Products available through MGEX include Hard Red Spring Wheat futures and options, Calendar Spread options for the Hard Red Spring Wheat contract, five financially settled agricultural index-based contracts, and Apple Juice Concentrate futures and options. Hard Red Spring Wheat, one of the highest protein wheats grown, represents the Exchange's flagship contract and has traded continuously since its inception. The five index products are Hard Red Spring Wheat, Hard Red Winter Wheat, Soft Red Winter Wheat, National Corn, and National Soybean.

Services Offered: As stated above, MGEX is a designated contract market and offers a regulated and transparent commodity exchange for the trading of futures and options. In addition to being a marketplace for executing contracts, MGEX provides essential clearing services via its Clearing House, which is a subpart C derivatives clearing organization. The Exchange's Clearing House guarantees the performance of executed futures and options contracts by assuming the position of counterparty to each buyer and seller. MGEX also establishes and monitors minimum financial and operational standards for its Clearing Members. Lastly, the Exchange offers a cash exchange market where trading of wheat, barley, oats, rye, flax, corn and soybeans occurs daily.

Typical Lifecycle of a Futures Transaction: The following provides a high-level summary of the basic lifecycle of a futures transaction traded electronically under normal circumstances:

- To access the electronic trading system (CME Globex®), a customer or its futures commission merchant ("FCM")[2] must first have a trading account with an MGEX Clearing Member;
- Provided that an account has been established and other applicable requirements are met, a customer may place an order to buy or sell commodity futures;
- A Clearing Member initiating, accepting, or executing a transaction must submit such transaction with all required information via the Trade Entry Match System ("TEMS");

[2] An FCM is an individual or organization that (i) solicits or accepts orders to buy or sell futures, options, or swaps and (ii) accepts money or other assets from customers to support such orders.

- Once accepted by the Clearing House, MGEX assumes the position of buyer to the seller and seller to the buyer;
- MGEX increases the open interest (outstanding open commodity contracts in the market for that commodity);
- MGEX marks all open positions to market twice daily, at which time the Clearing House determines the change in market value of all open positions from the prior cycle;
- MGEX notifies Clearing Members of net pay or collect amounts due by account—Clearing Members whose positions lost value must make a timely payment and Clearing Members whose positions gained value receive a payment;
- The settlement of a payment is final and irrevocable at the point that it is effected; and
- The trade is offset, liquidated, or settled by delivery.

During this process, the Exchange performs trade practice, financial, and market surveillance to ensure that market participants are complying with applicable Rules and to foster a just and equitable marketplace. This surveillance is described further within the disclosure.

Key Metrics:

For the calendar year ending December 31, 2016, MGEX's annual volume by product was as follows:

Hard Red Spring Wheat Futures: 2,162,166
Apple Juice Concentrate Futures: 343
National Corn Index Futures and Options: 0
National Soybean Index Futures and Options: 0
Hard Red Winter Wheat Index Futures and Options: 0
Hard Red Spring Wheat Index Futures and Options: 0
Soft Red Winter Wheat Index Futures and Options: 0
Hard Red Spring Wheat Options (open outcry and electronic): 22,429
Apple Juice Concentrate Options: 60
Hard Red Spring Wheat Calendar Spread Options: 100

MGEX did not have any instances where it failed to be operationally reliable for the calendar year ending December 31, 2016. MGEX publishes additional quantitative information on its website at http://www.mgex.com/regulation.html.

III. Summary of Major Changes since Last Update

MGEX has updated this Disclosure Framework to ensure all key considerations under each Principle are clearly addressed as it relates to current practices. Of particular note, the Exchange has adopted a number of new policies and procedures to address the revised system safeguards requirements, including, but not limited to a security incident response plan, penetration and vulnerability testing, and an enterprise technology risk assessment program.

IV. Principle-by-Principle Narrative Disclosure

A narrative response to each Principle and the corresponding key considerations is provided below. Please note that Principles 11 and 24 are not included in this disclosure because they are not applicable to CCPs. Any capitalized terms not otherwise defined within this Disclosure

Framework have the meaning given them in the MGEX Rules available at http://www.mgex.com/regulation.html.

PRINCIPLE 1: LEGAL BASIS
An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

Key Consideration 1: *The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions*.

MGEX, a member owned, for-profit business corporation validly organized and duly authorized under the General Corporation Law of the state of Delaware, operates in a highly regulated environment. The Commodity Exchange Act ("CEA") is the U.S. federal law that forms the basis of this framework by regulating the trading of commodity futures in the United States and establishing the statutory structure under which the CFTC functions. Congress created the CFTC in 1974 and in accordance with the CEA, gave the CFTC extensive power to regulate commodity futures and options markets and the authority to implement regulations that are published in Title 17 of the U.S. Code of Federal Regulations. The CFTC's mission is to protect market users and the public "from fraud, manipulation, and abusive practices" by working to avoid systemic risk related to derivatives, "and to foster open, competitive, and financially sound markets."

In its regulatory oversight role, the CFTC oversees the operation of designated contract markets ("DCMs") and derivatives clearing organizations ("DCOs"), each of which are required to meet legal requirements in order to register with the CFTC. MGEX is both a registered DCM and DCO and is thus subject to the jurisdiction of and oversight by the CFTC. To maintain its registration as a DCM and DCO, MGEX has an ongoing obligation to comply with applicable core principles established in the CEA and CFTC regulations. The CFTC evaluates MGEX's compliance with the CEA and CFTC regulations and conducts risk assessments and surveillance through a variety of methods. For example, the CFTC conducts regular reviews, known as rule enforcement reviews, of each DCM's and DCO's ongoing compliance with governing regulations. During these rule enforcement reviews, the CFTC examines items such as MGEX's audit trails, trade practice and market surveillance programs, disciplinary and dispute resolution programs, recordkeeping, financial resources, risk management program, settlement procedures, and default rules. The CFTC Division of Market Oversight conducts these rule enforcement reviews for all DCMs while the CFTC Division of Clearing and Risk has primary responsibility for performing rule enforcement reviews of DCOs. The CFTC also oversees exchanges by imposing strict reporting obligations, including the requirement that MGEX report daily on each Clearing Member's positions and trading activity and provide quarterly reports detailing certain financial information. Lastly, all MGEX Rules are approved by the Exchange's Board of Directors and must be submitted to the CFTC for certification prior to becoming effective to ensure MGEX's compliance with the CEA and CFTC regulations.

As a self-regulatory organization, MGEX has the duty of establishing and enforcing just and equitable trade practices in its marketplace, as well as protecting the public through adequate financial and market surveillance. The Exchange's Department of Audits and Investigations ("A&I") is primarily responsible for carrying out such duties by ensuring that registrants and market participants are complying with applicable provisions of the CEA, CFTC regulations, and MGEX Rules and procedures. Failure to do so may result in fines, suspension, or being barred from trading, and the CFTC may take further action, including banning a participant from the market. In addition, the Exchange is a member of the Joint Audit Committee and Joint Compliance Committee, cooperative organizations that facilitate the sharing of information and oversight of certain market participants.

Applicability of MGEX Rules and Relevant Jurisdictions: The Exchange and all registrants and market participants are under the jurisdiction of the CFTC and are subject to the CEA and CFTC regulations. Because MGEX is a Delaware corporation and has its principal place of business in the state of Minnesota, certain aspects of the Exchange's activities are also under the jurisdiction of Delaware and Minnesota state law.

Any person or entity that initiates or executes a transaction expressly consents to the jurisdiction of the Exchange and agrees to be bound by and comply with all MGEX Rules in accordance with MGEX Rule 2092.00. A&I enforces such compliance by performing surveillance and taking disciplinary action when needed.

Legal Basis for the Exchange's Activities: The material aspects of MGEX's activities that require a high degree of legal certainty given its nature as a registered DCM and DCO are properly provided for in accordance with the CEA, CFTC regulations, and MGEX Rules. The MGEX Rules that provide the legal certainty for its key DCO activities are subsequently explained.

Novation:

MGEX RULE 701.00. CLEARING HOUSE: SUBSTITUTION OF.

> In every case where Futures and Options Contracts have been accepted for clearing by the Clearing House, the Clearing House shall thereupon be substituted as Buyer to the Seller, and as Seller to the Buyer, and (except as provided in **Rule 805.00.**) shall have all the rights and be subject to all the liabilities under the contracts of the original Clearing Member parties with respect to such contracts.

MGEX Rule 700.00. requires that all futures and options contracts be submitted to the Exchange's Clearing House and that all such contracts are subject to MGEX Rules. The point of novation occurs in MGEX Rule 701.00. when a contract has been accepted for clearing and the Clearing House interposes itself as the buyer to the seller and the seller to the buyer and becomes a legal counterparty with all of the rights and liabilities under the relevant contracts as the original Clearing Member parties. Provided no errors occurred, novation cannot be revoked or modified.

Netting: As required by Part 39 of CFTC regulations and MGEX Rule 2102.00., the Exchange collects initial margin on a gross basis for each Clearing Member's customer account(s) equal to the aggregate of the initial margin that would be required for each individual customer within that account if each individual customer were treated as a Clearing Member. The Exchange does not permit its Clearing Members to net positions of different customers against each other, nor does it do so, in accordance with CFTC regulations. MGEX may collect initial margin for its Clearing Members' house accounts on a net basis. In addition, after a Clearing Member's positions are marked to market, the Exchange nets daily both intra-day and end of day variation margins collected from each Clearing Member by house and customer segregated accounts in accordance with MGEX Rule 2102.00. and CFTC regulations.

Margin Arrangements: Pursuant to MGEX Rule 760.00. and as required by CFTC regulations, Members and nonmember customers of a Clearing Member must deposit and maintain initial and maintenance margins in accordance with specified requirements. The Exchange also collects clearing margin to protect against losses incident to transactions for future delivery. In addition, the Exchange has the ability under Rule 2102.00. to collect variation margins from Clearing Members as needed on an intra-day basis. MGEX sets margin requirements at a level that best protects the interests of market participants and the Exchange, provided that such requirements are always in compliance with the standards set forth in CFTC Regulation 39.13(g)(8), as amended. For additional information on margin, please see Principle 6 of this disclosure.

Settlement finality:

> **MGEX RULE 2117.00. FINALITY OF SETTLEMENT.**
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> Provided there are no accounting and/or clerical errors, payments of funds or transfer of funds to and from MGEX, including but not limited to: intraday and end of day variation, margin payments and security deposits, are final and unconditional when effected and cannot be reversed.

As shown above, all settlements are deemed final and irrevocable pursuant to Rule 2117.00., which specifically states that all payments of funds or transfer of funds to and from MGEX, including intra-day and end of day variation, margin payments, and security deposits, are final and unconditional when effected and cannot be reversed. In addition, MGEX Rules require all Clearing Members to maintain an account at a settlement bank approved by the Exchange for purposes of making daily cash settlements for variation and collateral margin with MGEX. MGEX facilitates the transfer of funds through these settlement banks through the use of the Fedwire Funds Service, which enables participants to execute fund transfers that are immediate, final, and irrevocable. For more information on settlement finality, please refer to Principle 8 of this disclosure.

Default Procedures: Chapter 21 of the MGEX Rules specifies what circumstances constitute default and sets forth procedures for the Exchange to follow in such circumstances. Pursuant to such Rules, if a Clearing Member fails to promptly discharge any obligation to MGEX, the Exchange may apply its security deposits, margins and performance bonds on deposit with MGEX (other than those belonging to a non-defaulting customer), and any of its other available assets to discharge the obligation. In addition, the Exchange may make immediate demand upon any guarantor of the Clearing Member. If a default occurs in a customer account, then MGEX has the right to liquidate and apply toward the default all open positions and customer performance bond deposits in the account of the Defaulting Clearing Member, as well as excess proprietary funds and assets of the Defaulting Clearing Member. Customer funds or margins held in segregated customer accounts cannot be used to discharge a Clearing Member's obligation unless a customer is directly involved in the default.

If the default or insolvency of a Clearing Member causes the Exchange to bear a loss, funds must be applied to the loss in the order of priority set forth in MGEX Rules, with each source of funds to be completely exhausted before the next following source is applied.

Please see Principle 13 of this disclosure for more information on default procedures and relevant MGEX Rules.

Trading Venue: All MGEX products are traded on the CME Globex® platform, which is a global electronic trading system operated by the Chicago Mercantile Exchange Inc. (“CME”). MGEX and CME have entered into a Services Agreement that governs the listing of MGEX products on the Globex® platform and other related matters. MGEX also offers trading by open outcry for Hard Red Spring Wheat (“HRSW”) options contracts. Pursuant to Rule 714.00., all offers to purchase or sell such options by open outcry must be made in the designated area of MGEX’s Exchange Room during the set hours of trading. Members and market participants are prohibited from assembling in any place, public or private, other than in the designated area to form a market for making purchases or sales or offers to purchase or sell options.

Whether traded electronically or by open outcry, all purchases and sales, and all offers to purchase or sell futures and options contracts are subject to the MGEX Rules. In particular, Chapters 7, 20, and 21 set forth general trading and clearing Rules, and Chapter 18 provides Rules applicable specifically to electronic trading. In the event of an emergency (as such term is defined in the MGEX Rulebook), the Exchange may suspend trading or take other necessary actions, including but not limited to, amending the hours of trading, margin requirements, price limits, deadlines, reporting requirements, default procedures, and give-up procedures. In all other non-emergency situations, MGEX Rules, and the corresponding procedures, may only be amended after such changes have been approved by the Board of Directors and the CFTC.

Key Consideration 2: *An FMI should have rules, procedures, and contracts that are clear, understandable, and consistent with relevant laws and regulations.*

All MGEX Rules have been submitted to and approved by the MGEX Board of Directors and the CFTC to ensure that they meet and are consistent with relevant laws and regulations. These Rules may be amended or added to from time to time due to regulatory changes, technical developments, changes in Exchange or market procedures, etc. as required. However, all such amendments and additions must be approved by the Exchange's Board of Directors, and in the case of Bylaw changes, must also be approved of by a majority of membership owners. Any amendment or addition to these Rules and Bylaws must, after approval by the Board and Members, be submitted to the CFTC for certification prior to becoming effective. This process ensures that MGEX Rules are clear, understandable, enforceable, and consistent with the CEA and CFTC regulatory framework. As of the date of this disclosure, no inconsistencies have yet been identified, and MGEX Rules have not been subject to judicial controversy.

Key Considerations 3: *An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.*

As explained above, among other areas, CFTC regulations require DCOs to address netting arrangements, settlement of funds, and default procedures within their legal framework. The Exchange has adopted MGEX Rules to address each of these areas to provide legal certainty. The MGEX Rules and Bylaws provide the legal basis for all of the Exchange's core activities.

All MGEX Rules, and all additions or changes to such Rules, must be approved by the MGEX Board of Directors and the CFTC prior to becoming effective. The Exchange publishes and makes the MGEX Rules readily available to the public on its website: http://www.mgex.com/regulation.html. Furthermore, all MGEX Members are notified via email of any approved amendments to the Rules. The Exchange has made the MGEX Rules, as well as all requested procedures, policies, and manuals, available to the CFTC as the relevant oversight authority.

Key Consideration 4: *An FMI should have rules, procedures, and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed, or subject to stays.*

MGEX is legally incorporated as a Delaware corporation, and as stated in its Certificate of Incorporation, its purpose is to engage in any lawful act or activity. Chapter 1 of Delaware's

General Corporation Law gives every corporation the power to conduct and transact any lawful business, make contracts, and exercise any other incidental powers—state law therefore does not prohibit or hinder any of MGEX's actions as a legal entity. Because the Exchange has registered with the CFTC and is subject to its ongoing oversight, MGEX also has the specific authority to act as a DCO and DCM and exercise its powers as such.

Any person or entity that initiates or executes a transaction expressly consents to the jurisdiction of the Exchange and agrees to be bound by and comply with all MGEX Rules and procedures, as well as any amendments and modifications. By requiring that its Rules go through the approval process described under Key Considerations 2 and 3 and submitting all amendments to the CFTC for certification prior to becoming effective, the Exchange is able to achieve a high degree of certainty that its Rules procedures, and contracts will not be voided or subject to a stay. As of the date of this disclosure, MGEX Rules have not been subject to judicial controversy, and actions taken under the Exchange's Rules procedures, and contracts have not been voided or overturned by an administrative or judicial authority.

Key Consideration 5: *An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflict of laws across jurisdictions.*

MGEX is a Delaware corporation and has its principal place of business in Minnesota. It conducts business only in the United States, where it is under the oversight of the CFTC, and is bound by all relevant U.S. laws and regulations. MGEX operates within the U.S. legal framework and the enforceability of its Rules are established under such framework.

In 2016, the European Securities and Markets Authority ("ESMA") recognized MGEX as a third-country CCP. While registration with ESMA was not a requirement for its business activities, the Exchange believed recognition would be in the best interest of its market participants. Its status as third-country CCP in the European Union does not, however, give rise to any conflict of law risks. Rather, its status is largely predicated on the general supervisory equivalence in the U.S. and the European and Union, and MGEX continues to operate under the U.S. regulatory framework and the CFTC's jurisdiction.

PRINCIPLE 2: GOVERNANCE

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

Key Consideration 1: *An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.*

The Exchange is a non-stock corporation, wholly owned by its Members.[3] Its main objective, which is reflected in its mission, is to provide and oversee a fair, reliable, and efficient marketplace for the products and services offered by the Exchange. MGEX is able to achieve this objective through a variety of methods. First, the Board has established and documented the general framework under which the Exchange operates in the MGEX Rules, which have been submitted to the CFTC, and in the Board Charter and related governance policies. In an effort to ensure such governance arrangements are clear and transparent, the Exchange posts these documents (other than those policies deemed confidential) on its public website at http://www.mgex.com/board.html. As stated in the Board of Directors' Charter, the Exchange places a high priority on the safety and efficiency of MGEX and supports the stability of the broader financial system and other relevant public interest considerations of Clearing Members, customers of Clearing Members, and other relevant stakeholders. To ensure that these priorities are achieved, MGEX, as a self-regulatory organization, enforces its Rules and other applicable requirements to ensure just and equitable trade practices in its marketplace, as well as to protect the public. A&I is primarily responsible for carrying out such duties by ensuring that stakeholders, including its market participants, are complying with applicable requirements through trade practice, market surveillance, and financial surveillance programs and enforcing instances of non-compliance through fines and disciplinary actions. The Regulatory Oversight Committee of the Board of Directors further oversees the fulfillment of MGEX's self-regulatory obligations and advises the Board with respect to such duties when appropriate. In addition, because the Exchange prioritizes the safety and efficiency of its operations, MGEX maintains an Information Technology department and consults with third parties in order to develop, provide, and test system enhancements on an ongoing basis. These improvements reduce the possibility of errors, lower costs, and increase the ease of transacting business with MGEX.

Within the framework established by the Board, the Clearing House is responsible for carrying out certain risk management duties that are approved by the Board and mitigate different types of risk. The Clearing House has also secured various credit facilities and maintains a guarantee fund in case of participant default, both of which increase stability and help manage risk. The Risk Management Committee of the Board of Directors and the Risk Team help ensure that appropriate procedures are established and followed to accomplish this objective. In addition to executing and measuring its achievement of the objectives above, as a for-profit organization, MGEX also takes its financial profitability into consideration. Profitability provides additional financial stability for the products and services offered by MGEX, which is another one of the Exchange's priorities.

Key Consideration 2: *An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants, and, at a more general level, the public.*

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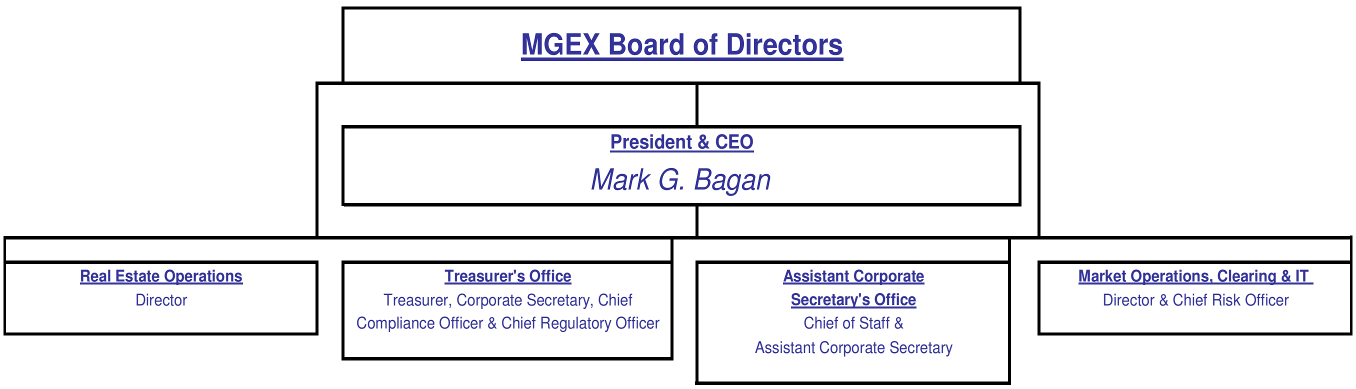
[3] A Member is an individual or entity that has applied for and been admitted to Membership and is recorded as the owner of a Membership, having paid the purchase price for such Membership.

The governance arrangements of the Exchange are documented in its Bylaws, Rules, and Governance Policy, which are available on MGEX's website. Chapter 2, the Bylaws, in particular establish MGEX's governance arrangements, beginning with the composition requirements of the Board and moving on to describe the nomination process and annual election of Board Directors, the meeting of Members, the Board's powers and meetings, identification of all committees and their respective powers and duties, and the appointment of MGEX officers and their duties. For more details and information on responsibilities, please refer to Chapter 2, which is disclosed publicly at http://www.mgex.com/regulation.html under the "MGEX Rules, Regulations and Resolutions" link.

Responsibilities and Accountability: The executive management of the Exchange is comprised of the President and CEO and the four staff members shown in the following executive organizational table:



These officers and executives perform the duties described in the MGEX Bylaws and in the Governance Policy. As depicted in the table, executive management reports to the President & CEO, but they are also responsible for reporting to the Board of Directors and at times, to committees of the Board or Exchange. The Board of Directors may make inquiries of management at any time or express their opinions, concerns, or suggestions. Although the Board has delegated certain powers related to the daily business of the Exchange to MGEX officers, executive management remains accountable to the Board, whose approval is required for major decisions, significant expenditures of funds, and to pass amendments to MGEX Rules. In addition, unless delegated to the President, Board committees may conduct performance evaluations of the Chief Executive Officer, Chief Regulatory Officer, and Chief Risk Officer. The Board, in turn, is accountable to the Members, who are able to exert their power by communicating with Directors and MGEX management, electing Member Directors, and approving Bylaw amendments. Further accountability is achieved by employing outside legal counsel and auditors.

In order to carry out the operations and achieve the objectives of the Exchange described in *Key Consideration 1*, a number of departments exist that report to executive management. The responsibilities of the employees in these departments are summarized in their job descriptions, as are lines of accountability. Executive management monitors employees through performance evaluations and various internal controls that are documented in the Employee Handbook and Employee Disclosure and Trading Prohibitions policy.

In addition to the types of accountability discussed above, the Exchange also takes steps to provide broader accountability to relevant stakeholders, including its owners and market participants. For example, MGEX maintains a website where it publicly posts its Rulebook, this disclosure, market information, news releases, notices, and other announcements, all of which increase transparency, which is a necessary component of accountability. As noted previously, MGEX Bylaw changes require Board and Member approval, and Member meetings may be called upon a request of at least fifty-five Members, providing Members with another avenue to effect change and check the power of the Board or the Exchange. In addition to issuing an annual report that includes financial information, MGEX holds an annual meeting for all Members at which financial and budgetary results, areas of achievement, and general business are discussed, and Members are given an opportunity to ask MGEX officers or the Board Chairman questions. Outside of meetings, any person may inquire of or send comments to the Board or the Exchange, file a complaint, or report a possible violation of MGEX Rules to A&I.

The Exchange Board and committees are composed of Members and individuals with different areas of expertise, including, but not limited to, finance, real estate, risk management, and the derivatives industry. This structural composition ensures that many different backgrounds and viewpoints are brought forth as part of all discussions regarding any potential decisions or changes that may affect MGEX Rules, policies, or procedures, which consequently affect stakeholders. Certain Exchange committees also include non-Board members in order to provide other stakeholders an opportunity to voice their suggestions and concerns. By achieving diversity in background and skill sets through its governing structure, MGEX is able to ensure that its framework supports a transparent, fair, and efficient marketplace. As a result, this brings additional accountability and stability to relevant stakeholders and market participants.

By posting the governance arrangements described in the preceding paragraphs to its website, MGEX is able to widely disclose such arrangements to the general public. The MGEX Rules and Governance Policy, which document the Exchange's governance structure, are available on its website, as is the Certificate of Incorporation, this disclosure, and lists of Board and committee members and executive management. Moreover, A&I's internal compliance manual, which describes the department's responsibilities and procedures for trade practice, financial surveillance, and market surveillance, is updated and submitted annually to the CFTC, as the relevant oversight authority, and other information is provided to the CFTC upon request. The CFTC also periodically reviews these governance arrangements and other information when conducting rule enforcement reviews, and the published results of such reviews are often publicly disclosed on the CFTC's website.

Key Consideration 3: *The roles and responsibilities of an FMI's board of directors should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address, and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly.*

Board Roles and Responsibilities: The roles and responsibilities of MGEX's Board of Directors are clearly specified in the Bylaws as noted under *Key Consideration 2*. Outside counsel explains additional information regarding the Board's functioning and duties at the first meeting of a newly elected Board (such meeting is required by MGEX Bylaw 211.00.). Both current and newly elected Directors are expected to attend this Director orientation. During the meeting, presentations reiterate the roles and responsibilities of the Board set forth in the Bylaws and emphasize the Board's fiduciary duty to the Exchange and its Members. Directors have a duty to discharge their responsibilities in good faith and in a manner reasonably believed to be in the best interests of the Exchange. Director duties, along with an explanation regarding the necessity of confidentiality for Board business, are discussed and expanded upon in materials given to the Board.[4] Outside counsel ends the orientation by addressing other responsibilities of the Directors, including the responsibility to prepare and participate in meetings, represent all Members rather than a constituency, be productive and constructive, bring their expertise and experience to the table, hold management accountable, and support the final decisions of the Board.

Conflicts of Interest: In addition to specifying the responsibilities of the Board of Directors, MGEX Rules prescribe procedures the Board must follow when a potential conflict of interest arises. In general, MGEX Bylaw 275.00. requires Directors and committee members to abstain from deliberating and voting on matters where there is a potential conflict of interest, a determination that A&I is responsible for making and enforcing. Further information regarding conflicts of interest are set forth in the Board of Directors' Code of Ethics and conduct, MGEX Policy and Procedure on Conflicts and Dualities of Interest, and Membership Interest Trading Policy, each of which is available on the MGEX website. The Board of Directors' Code of Ethics and Conduct, which is discussed at Director orientation, provides additional information on conflicts of interest and reinforces a Director's duty to identify a conflict and, if required, remove himself from the conversation and any voting on the matter. The Policy and Procedures on Conflicts and Dualities of Interest further defines a conflict of interest and an MGEX Board Director's corresponding obligations. The policy also contains an acknowledgment form that MGEX Directors must complete annually to disclose any affiliations that may give rise to a potential conflict or duality of interest. In accordance with this policy, each Director is therefore required to attest to the following disclosure requirements at least annually:

A. If he is a named party of interest or if he has a financial interest[5] in a named party of interest;

B. If he is an officer, director, employer, employee, or fellow employee of a named party of interest to a matter to be considered by the Board;

C. If he has a financial interest in a direct or indirect competitor to a named party of interest to a matter to be considered by the Board;

D. If he is an officer, director, employer, or employee of a direct or indirect competitor to a named party of interest to a matter to be considered by the Board;

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[4] Materials distributed to Directors include the Board of Directors' Code of Ethics, the Policy and Procedures on Conflicts and Dualities of Interest, and the Membership Interest Trading Policy.

[5] "Financial interest" exists if a Director has, directly or indirectly, through business, investment or an immediate family member (child, parent, sibling, spouse, documented domestic partner, grandparent, grandchild or in-law and by anyone else who shares their household): (a) an ownership or investment interest in excess of 5% of any entity with which MGEX has a transaction or contractual arrangement (including joint ventures); (b) a compensation arrangement with MGEX or with any entity or individual with which MGEX has a transaction or arrangement, in which the compensation is in excess of $100,000 in any year; or (c) a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which MGEX is negotiating a transaction or arrangement which would meet the thresholds of (a) or (b).

E. If he is associated through a “broker association” as defined in CFTC Regulation 156.1, as amended, with a named party of interest to a matter to be considered by the Board;

F. If he has other significant, ongoing business relationships with a named party of interest, not including relationships limited to executing futures or options transactions opposite of each other or to clearing futures or option transactions through the same clearing member.

G. If he serves in any capacity with or on behalf of any party, regardless of intent, in which the Director believes that the requested service is to assist the party in obtaining a contract with MGEX.

H. If he serves on any other corporate boards and/or committees.

I. If he is a member, or his employer is a member, or has financial interest in any other derivatives or financial entity, including but not limited to exchanges, broker dealers, futures clearing merchants.

Lastly, the Membership Interest Trading Policy applies to MGEX Directors, officers, and employees and generally provides that if such person has material, non-public information relating to the Exchange, he or she may not buy or sell membership interests or puts, calls, or options on the membership interests or engage in any other action to take advantage of, or pass on to others, that information.

If the Board, A&I, or the President has reason to believe that a Board or committee member has failed to disclose an actual or potential conflict or duality of interest, it will inform the individual and afford him or her an opportunity to explain the alleged failure to disclose. If the Board determines that the person in fact failed to properly disclose such information, it will take appropriate disciplinary and corrective action. Sanctions may range from a reprimand to removal of the Director.

Since the MGEX Rules are posted on its website and the Exchange’s conflict of interest policy is included within such, the policy is available to the general public. Management and the legal department are constantly reviewing the MGEX Rules, so the conflict of interest policy is also continually reviewed. Other policies, including those distributed at Director orientation, are generally reviewed on an annual basis unless immediate amendments and updates are required.

Review of Board: In accordance with the Performance Review of Board of Directors Policy, the Chief Compliance Officer, who attends every Board meeting, is responsible for conducting a review of the Board of Director’s performance as a whole, as well as a review of each individual Director, on an annual basis following the last Board meeting of the fiscal year or at any time that it appears the Board or a Director may not be fulfilling its duties. The Chief Compliance Officer bases his or her review of the Board and individual Directors on the following:

A. Adhering to MGEX governance structure;

B. Acting in the best interest of the Exchange;

C. Abiding by the Duty of Care and Duty of Loyalty;

D. Abiding by the Charter and Governance Guidelines of the Board;

E. Abiding by the MGEX Board of Directors Code of Ethics and Conduct;

F. Abiding by all MGEX policies and procedures on conflicts and dualities of interest;

G. Abiding by the Membership Interest Trading Policy;

H. Attending Board meetings, either by person or phone pursuant to MGEX Rule 211.01.;

I. Attending committee meetings (if the Director has been appointed to a committee).

The findings of the Chief Compliance Officer following a review are filed with the executive office of the Exchange for the President's consideration and given to the Nominations Committee for review prior to the committee's nomination of candidates pursuant to MGEX Bylaw 201.01. If the Chief Compliance Officer determines that a Director failed to adequately carry out his or her duties, the Director may be reprimanded or removed from the Board, provided that the Exchange officers approve of such removal, or in the event that such Director is up for election, the Nominations Committee may remove such Director from the list of candidates.

Key Consideration 4: *The board should contain suitable members with the appropriate skills and incentives to fulfill its multiple roles. This typically requires the inclusion of non-executive board member(s).*

The Exchange believes that it is in its and all stakeholders' best interest to retain the most qualified Directors as possible since doing so will ultimately aid in the achievement of MGEX's long-term objectives. In order to ensure that the Board of Directors is composed of individuals with a broad range of skills and experience, A&I first identifies any individuals who are ineligible to be nominated due to a disciplinary offense within the past three years and the Nominations Committee then assesses potential candidates who are qualified to serve pursuant to MGEX Rules and the Nominations Committee and Board Policy for Assessing Board of Director Candidates. This policy requires the Nominations Committee and the Board to assess potential candidates based on whether the candidate has relevant skills and experience. Approved Board candidates are subsequently allowed to introduce themselves to Members through letters and phone calls, which gives Members an opportunity to learn about a candidate's background and areas of expertise and elect Directors with appropriate skills and knowledge that will best represent the Exchange and contribute to achieving MGEX's objectives. In an effort to attract and retain the best talent, the Exchange offers stipends to all Directors. Reflecting its long-term financial objectives, MGEX increased this stipend in 2017 as profitability increased in an effort to continue to attract and retain the best possible Board candidates. The Exchange also pays for travel expenses to encourage participation by qualified individuals outside of the Minneapolis area.

Another way the Exchange attains a broader range of skills and candidates is by including four Public Directors on its Board in accordance with MGEX Bylaws. By definition, each of these Directors is required to be independent, meaning the individual cannot have a material relationship with MGEX (i.e., a relationship that reasonably could affect the independent judgment or decision making of the Director). A Director is considered to have a material relationship with the Exchange if any of the following circumstances exist or have existed in the past year:

A. The Director is an officer or employee of the Exchange;

B. The Director is a Member of the Exchange, or an officer or director of a Member;

C. The Director, or a firm with which the Director is affiliated, receives more than $100,000 in combined annual payments from the Exchange, or from a Member or any person or entity affiliated with a Member of the Exchange; or

D. Any of the relationships above apply to the Director's immediate family (spouse, parents, children, and siblings).

MGEX provides a list of all current Member and Public Directors on its website at http://www.mgex.com/board.html.

Key Consideration 5: *The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI.*

In addition to helping the Exchange achieve its long-term objectives stated in *Key Consideration 1*, the roles and responsibilities of MGEX officers, including the President and CEO, Secretary, Treasurer, Chief Regulatory Officer, Chief Compliance Officer, and Chief Risk Officer, are set forth in MGEX Bylaws 217.00., 218.00., 219.00., 271.00., 272.00., and 273.00.. Additional director and management roles and responsibilities are specified in the Governance Policy and reflected in personal annual objectives, which may be set by the Board, the President, executive management, and supervisors and reflected in the goals of individual employees in various MGEX departments.

Reviews assessing an individual's performance with respect to his or her responsibilities are performed annually for all officers and executive management. The Personnel and Compensation Committee conducts the performance review for the President, and the President does so for executive management. Each member of executive management is responsible for evaluating the performance of all employees reporting to him or her.

MGEX ensures that its management has the appropriate experience, skills, and integrity by requiring these attributes when hiring. In particular, and as noted in MGEX's internal hiring policy, the Exchange seeks out individuals with a background in areas such as compliance and regulatory work, risk management, accounting, finance, and other relevant areas of experience specific to the position requirements. MGEX's current management, for example, has a variety of skills and experience, including degrees in areas of accounting, law, economics, and organizational management. Most executives have also worked at the Exchange for more many years in different capacities and participate in industry groups such as Futures Industry Association, National Futures Association, Joint Compliance Committee, Joint Audit Committee, Commodity Markets Council, the Unified Clearing Group, and CCP12.

In the event that MGEX should need to remove a member of its management, it has the ability to do so. In accordance with the MGEX Employee Handbook, all MGEX employees are employees-at-will, meaning the Exchange may terminate the employment relationship at any time, without prior notice and for any reason. The President therefore has the discretion to remove any employee from management or from his or her employment at the Exchange. The Board of Directors has the power to remove the President and to appoint new officers.

Key Consideration 6: *The board should establish a clear, documented risk-management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crisis and emergencies. Governance arrangements should ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board.*

The Board has established the risk management framework of the Exchange in the MGEX Rules, which are approved by the CFTC. In particular, Chapters 20 and 21 and applicable Resolutions contain the Exchange's policies with respect to risk management and set forth the roles and responsibilities of all involved parties. Additionally, while MGEX's risk management framework is documented in the Rulebook, the Risk Team, which includes the President, Chief Risk Officer, Clearing House management, and employees from financial surveillance, A&I, and legal, has been delegated the power of executing and monitoring all requirements and addressing any situations that arise. The Risk Team also has the authority and independence to make decisions in emergency circumstances, though the Board retains ultimate responsibility for the risk management framework. Together, the Rulebook and internal risk management policies and procedures create a comprehensive plan for risk management and set forth procedures for members of the Risk Team to follow.

MGEX may amend its Rules, which comprise the risk management framework, from time to time due to changes in the market or the Exchange or because of technical developments. Moreover, the Risk Team, along with the Exchange's legal department, is constantly reviewing proposed and final CFTC regulations for any other necessary amendments or additions to the risk management framework. However, any proposed new or amended Rules must be approved by the Board and the CFTC. The President, Chief Risk Officer, Chief Compliance Officer, Chief Regulatory Officer, or a legal representative may report any such proposed changes to the framework to the Risk Management Committee or the Board, as appropriate. In addition, the Risk Management Committee has the ability to review and question all risk policies and procedures at any time. The Board, Risk Management Committee, and Risk Team collectively oversee the risk framework of the Exchange, and because of their differing governance and composition structures, each group brings a different viewpoint to bear on any decisions or changes made. By affording each an opportunity to independently assess the effectiveness of such framework, MGEX ensures that issues are considered from different viewpoints.

The risk management framework established by the Board includes the use of various risk management models. One model utilized for such purposes is a margin methodology model that is explained in more detail in Principles 4 and 6. The margin methodology model and all corresponding models are assessed and validated on an ongoing basis by an independent consultant that is not involved in the actual development or implementation of any risk management models. This consultant evaluates the models to verify that they are conceptually sound and validates the processes and benchmarks used.

Key Consideration 7: *The board should ensure that the FMI's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.*

As discussed in *Key Consideration 1*, MGEX's main objective is to provide and oversee a fair, reliable, and efficient marketplace—a mission that also supports the interests of stakeholders and market participants. In addition, pursuant to the Board Charter, the Board is responsible for ensuring that MGEX's design, rules, overall strategy, and major decisions appropriately reflect the legitimate interests of Clearing Members, customers of Clearing Members, and other relevant stakeholders. Because of this objective, MGEX Rules, overall strategies, and major decisions must all align with this overarching mission and thus reflect the interests of other participants and stakeholders. As noted previously, any amendments or additions to MGEX Bylaws require the approval of the Board and a majority of Members prior to being submitted to the CFTC, allowing Members to directly participate in governance change decisions. In addition, the diversity of Directors on the Board, including Public Directors, ensures that different viewpoints are represented when making decisions. Stakeholders with diverse backgrounds within and outside of the derivatives industry also directly participate in committees of the Exchange, including the Cash Markets Committee, Hard Red Spring Wheat Committee, Disciplinary Committee, and the Hearing Committee. Lastly, direct or indirect participants may contact MGEX staff or Directors to voice their opinion or give feedback, and Directors may communicate with Exchange staff at any time.

In order to manage potential conflicts of interests between market participants and the views of the Exchange, the Board adopted MGEX Bylaw 275.00., which states that members of committees of the Exchange must abstain from deliberating and voting on matters when there is a potential personal or financial conflict of interest. Additional conflict of interest provisions applicable to the Disciplinary and Hearing Committees are set forth in MGEX Bylaws 264.01. and 265.01., which generally provide that no person is able to serve as a member of either committee if the person, or entity with which the person is affiliated, has a financial, personal or prejudicial interest or concern in the matter under consideration.

In accordance with PFMI Explanatory Note 3.2.18, major Board decisions are disclosed to relevant stakeholders and the public, provided that such disclosure would not endanger candid Board debate or commercial confidentiality. Before the disclosure of a major decision could be restricted, MGEX would evaluate a number of factors in accordance with the Board of Directors Disclosure Policy. Disclosures are generally made through MGEX news releases and announcements, and more regularly through Rulebook amendment notices and other email notices. For example, when the Board decided to close open outcry futures trading and the current trading floor and move the trading of HRSW options to a new location, MGEX notified clearing members, market participants, and other interested parties through news releases, notices, and postings. To allow sufficient time for relevant stakeholders to prepare for the change, notice was disseminated well in advance of the move, and the Board and Exchange employees explained and discussed the impending change with interested parties to help ease the transition for those affected by the change. Another example of a major decision of the Board was the launch of a futures and options contract for Apple Juice Concentrate ("AJC"). The Exchange circulated notices regarding the launch, generally in the form of public news releases, early in the process and also sought to educate the public and market participants through industry conferences, events, educational webinars, and informational meetings. In conjunction with the AJC industry and market participants, the Board, various committees, and MGEX management also developed AJC futures contract specifications. In addition, the Exchange created an AJC Delivery Manual that sets forth the requirements and processes for making and taking delivery of AJC. The Exchange publicly posted these requirements and more information on its website.

PRINCIPLE 3: FRAMEWORK FOR THE COMPREHENSIVE MANAGEMENT OF RISKS
An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.

Key Consideration 1: *An FMI should have risk-management policies, procedures, and systems that enable it to identify, measure, monitor, and manage the range of risks that arise in or are borne by the FMI. Risk-management frameworks should be subject to periodic review.*

The MGEX Board of Directors has developed a sound risk-management framework for identifying, measuring, monitoring, and managing risks that arise in or are borne by the Exchange, including credit, legal, liquidity, and operational risks. The Board established this framework within MGEX Rules, which are certified by the CFTC. In particular, Chapters 20 and 21 of the MGEX Rulebook primarily contain the Exchange's policies with respect to risk management and set forth the roles and responsibilities of all involved parties.

The Exchange manages credit risk through a variety of methods, such as marking open positions to market twice daily and requiring Clearing Members to make security deposits and pledge margin based upon open positions held at MGEX. Other policies and procedures utilized by the Exchange in monitoring and mitigating daily credit risks include real-time risk monitoring and financial surveillance programs. Furthermore, as explained in detail in Principle 4, credit risk arising from the potential default or insolvency of a Clearing Member is also monitored via extreme but plausible market movements through daily stress testing of Clearing Member portfolios. In addition, credit risk stemming from the potential default or insolvency of a settlement bank is monitored and managed by requiring MGEX's approval for all settlement banks, conducting financial reviews of the banks, and using the Fedwire Funds Service to limit MGEX's exposure time and ensure timely and accurate transfers of funds.

The legal department of the Exchange monitors and manages legal risks by constantly reviewing proposed and new regulations and participating in industry groups to ensure that MGEX is complying with all applicable laws and requirements. In addition, as described in Principle 1, MGEX ensures that its activities have a well-founded legal basis.

Liquidity risk, as described in Principle 7, arises because of the possibility of MGEX's participants or other entities failing to meet their payment obligations when due. The Exchange manages this risk by holding sufficient liquid resources to meet its payment obligations in the event of a default of the participant and its affiliates that would generate the largest aggregate payment obligations in extreme but plausible market conditions and as further explained in Principle 7.

As set forth in Principle 17, operational risk can arise from deficiencies in information or internal systems or from external events, such as operational failures or breakdowns. MGEX has developed a number of controls and policies to mitigate such risks, including business continuity plans and redundant connections. These items are described within Principle 17.

Although the Risk Team is responsible for executing and monitoring all risk management requirements and addressing situations that may arise, various Board committees, the Board, and executive management are ultimately responsible for managing the Exchange's risks. As a result of managing these risks, committees, the Board, and executive management are aware of all risks and exposures borne by MGEX and there is no segmentation.

The Risk Team and other members of management work together to develop and maintain risk management policies, procedures, and systems. Such policies and procedures are approved by the Board, and if codified in the Rulebook, are also submitted to the CFTC. The Exchange tests new policies, procedures, and systems, and further assesses their effectiveness, by evaluating their sufficiency based upon historical changes. For example, MGEX conducts rigorous backtesting of its margin setting methodology to ensure that margins have been set at an appropriate level by comparing each margin level with the respective daily price movement for each contract or calendar spread. The Risk Team also performs a margin sensitivity analysis in which it reviews margin accuracy. The Risk Team continually reviews all policies, procedures, and systems for possible improvements and makes adjustments based upon relevant changes in the market environment.

Key Consideration 2: *An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI.*

The Exchange provides its market participants and their customers with information relevant to managing and containing their risks through the MGEX Rulebook, policies and procedures, news releases, and market contract specifications, all of which are publicly available on the Exchange's website, and by setting margin and security deposit requirements quantitatively. MGEX also incentivizes participants to manage and contain the risks they pose to the Exchange by taking disciplinary actions, including imposing financial penalties, against participants that fail to meet the established deadlines, reporting requirements, or otherwise comply with the requirements set forth in the MGEX Rulebook.

The Exchange designs its policies and systems to allow participants to effectively manage and contain their risks. For example, MGEX issues daily files that set forth the established margin requirements and other risk parameters, and it requires Clearing Members to use CME Globex Credit Controls, which are pre-trade risk management controls that force Clearing Members to set exposure limits for pre-trade electronic order and trade activity.

Key consideration 3: *An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers, and service providers) as a result of interdependencies and develop appropriate risk-management tools to address these risks.*

MGEX has identified several risks resulting from interdependencies with other entities that the Exchange mitigates by employing various risk management tools. First, because MGEX contracts trade electronically on CME Globex®, the Exchange depends upon CME's operation of the electronic trading platform. To address the risks that it bears as a result of this interdependency, MGEX and CME have developed standardized policies and procedures that govern the relationship between the two entities. Second, since the transfer of funds occurs through settlement banks, MGEX has identified the potential insolvency of a settlement bank as a risk. The Exchange manages this risk by maintaining relationships with multiple banks, requiring Clearing Members to use banks approved by MGEX, and monitoring banks on an ongoing basis through financial reviews that evaluate, among other items, a bank's capital resources and liquidity. Lastly, to mitigate any risks arising from relying on its internet service provider, the Exchange maintains multiple direct connections to CME and has redundant service providers. MGEX frequently reviews the above risks and measures the effectiveness of risk management tools through various tests that are designed to ensure their sufficiency.

Key consideration 4: *An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare* *appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning.*

As described in Principles 4, 7, 15, and 17, MGEX has identified a number of scenarios that could potentially prevent the Exchange from providing its critical operations if not managed properly. For example, the default or insolvency of a Clearing Member would expose MGEX to credit risk that could potentially prevent it from providing its operations and services. However, the Exchange manages this risk by, among additional items noted within this disclosure or on the MGEX website, marking open positions to market twice daily, requiring Clearing Members to pledge margin and security deposits, maintaining a Guaranty Fund, and conducting daily stress tests and other risk management procedures. MGEX has similarly developed and implemented tools and methods to mitigate other risks that could potentially prevent the Exchange from providing its critical operations—each of these risks and the manner in which MGEX manages them are explained in other Principles within this disclosure.

In addition, as explained further within Principles 4, 7, 15, and 17, the Exchange has also implemented the necessary Rules, along with a viable plan, to ensure a recovery or orderly wind down of operations. Such recovery and wind-down plan includes a thorough assessment of the effectiveness of its tools and procedures in a recovery or wind-down situation. The plan also requires that if MGEX enters into recovery or wind-down, the Exchange would provide relevant authorities with all necessary information for purposes of resolution planning, as mandated by CFTC regulations.

PRINCIPLE 4: CREDIT RISK

An FMI should effectively measure, monitor, and manage its credit exposure to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two largest participants and their affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions. All other CCPs should maintain, at a minimum, total financial resources sufficient to cover the default of the one participant and its affiliates that would potentially cause the largest aggregate credit exposures to the CCP in extreme but plausible market conditions.

Key Consideration 1: *An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.*

In its role as a CCP, MGEX is exposed to credit risk stemming from the potential inability of Clearing Members to meet their financial obligations. The MGEX Board of Directors has instituted a framework for managing its credit risk within its Rules, which are approved by the CFTC. More specifically, the Exchange's framework mitigates its exposure through margin requirements, variation, security deposits, and other processes that are described in detail in this Principle.

Since MGEX facilitates the transfer of funds between settlement banks, MGEX has also identified the potential insolvency of a settlement bank as a credit risk. However, the Exchange's framework helps mitigate this exposure by requiring Clearing Members to use banks approved by MGEX pursuant to its Rules. Within this framework, the Exchange has developed policies and procedures for reviewing and approving of settlement banks, as explained further below and in Principle 9.

MGEX reviews this framework for managing risk whenever necessary or appropriate based on changes in market conditions or practices, open positions, products offered, the delivery process, advancements in risk management or financial surveillance, etc. or as a result of new or revised CFTC requirements or best practices from another legal or governing body. Moreover, since MGEX Rules are constantly being reviewed, management may propose changes or additions to the framework in an effort to more effectively mitigate credit risk. Similarly, the Board of Directors or a committee also may recommend changes or raise the possibility of adding to or changing the framework.

Key Consideration 2: *An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk-management tools to control these risks.*

As a DCO, MGEX serves as a counterparty to every cleared transaction, and credit risk is thus inherent in its operations. In particular, the Exchange has identified two primary sources of credit risk, which are the potential default or insolvency of a Clearing Member or the insolvency of a settlement bank. MGEX developed its risk management framework, as approved by the Exchange's Board of Directors and the CFTC, to identify and mitigate these sources of credit risk. MGEX uses a variety of methods to manage its risk resulting from the potential default or insolvency of a Clearing Member or insolvency of a settlement bank.

One of the primary methods that MGEX uses to measure and manage daily credit exposures from Clearing Members is to mark open positions to market twice daily. For any variation cycle, the Clearing House determines the change in market value of all open positions from the prior cycle and communicates and reports these financial results to its Clearing Members. MGEX requires a timely payment from Clearing Members whose positions lost value for any variation cycle, enforced by a schedule of deadlines and fines, and correspondingly makes payments to Clearing Members whose positions gained value. By conducting a morning variation cycle, MGEX captures price fluctuations around 10:30 a.m., which reduces the risk posed to the Clearing House for end-of-day settlements. MGEX conducts the second variation cycle at the end of the trading day based upon contract settlement prices. Although the Exchange's standard procedure is to mark open positions to market at least twice daily, the Clearing House has the capability to mark-to-market more frequently should conditions warrant. Marking open positions to market twice daily, as well as at any other time that conditions dictate, serves to control credit risk by allowing MGEX to frequently remove accumulated debt obligations among market participants. Furthermore, MGEX has the ability to recalculate real-time exposures, thereby allowing for real time monitoring of such exposures.

In addition to conducting two variation cycles, MGEX further mitigates its credit risk by requiring its Clearing Members to pledge margin based on open positions held at MGEX in each contract. As noted in the MGEX Rules, the Exchange establishes minimum initial and maintenance margin levels for all cleared products. MGEX reviews these minimum margin levels on a daily basis to ensure their adequacy and may adjust such levels if appropriate after issuing a notice to the marketplace. While reviewing a broad set of general market fundamentals each day, MGEX computes and adjusts margin requirements based upon expected volatility derived from historical price movements, national spot index values, implied volatilities, volume and open interest levels, and price fluctuations in other similar markets (i.e., CME Soft Red and Hard Red Winter Wheat contracts). For a more detailed description of the Exchange's methodology for calculating margin requirements, refer to *Key Consideration 4*.

MGEX employs a number of tools to control and mitigate its sources of credit risk stemming from Clearing Members. As explained further in *Key Consideration 4*, the Exchange uses risk-based margin methodologies and models to estimate volatilities and determine appropriate margin requirements expected to cover exposures and reduce credit risk posed by market fluctuations. While MGEX conducts these analyses on an overall market level, MGEX may also increase margin requirements for an individual market participant whose positions are unduly insecure or hazardous in accordance with MGEX Rule 2102.00. In addition to margin, MGEX requires all Clearing Members to make security deposits to mitigate the credit risk to MGEX in the event of a Clearing Member's default or insolvency. The Exchange determines security deposit requirements based upon current and historical open positions, daily performance bond requirements, concentration of positions held, daily volume, financial statement reviews, the number of MGEX membership(s) held, the number of required regulatory filings, and any other relevant metrics on a rolling quarter. Reviews of these security deposits are performed at least twice per month to confirm that the amount held is appropriate given the risk factors identified.

In addition to the tools above, MGEX also uses other tools for managing credit risk. One of these tools is CME Globex Credit Controls, which force Clearing Members to set exposure limits for pre-trade electronic order and trade activity transacted on CME Globex®. Clearing Members can choose a set of real-time actions to follow if these specified limits are exceeded, including e-mail notifications, order blocking, and order cancellation. The Exchange also reviews Clearing Members' risk monitoring via this tool, as well as risk management systems, policies, and procedures. Stress testing, another tool employed by MGEX, measures the Exchange's ability to cover a Clearing Member's potential obligations that may arise from the default or insolvency of the Clearing Member or its customers and thus helps control credit risk. For more information on stress testing, see *Key Considerations 5* and *6*. The Exchange further controls credit risk by using the Fedwire Funds Service, which is a gross settlement system that enables participants to initiate fund transfers that are immediate, final, and irrevocable once processed. The finality of settlement is also clearly stated in MGEX Rules, which provide that the settlement of a payment is final and irrevocable at the point that it is affected. Price limits and positions limits are another method MGEX employs to reduce credit exposure in the event of a volatile market. These limits, established in MGEX Rules, are based on CFTC requirements and control the risks associated with each of the contracts traded by capping the price movements on a daily basis and the number of positions a market participant may hold in a month or a contract.

The tools described above all stem from the Exchange's risk management framework established by the Board in MGEX Rules. Such Rules include, but are not limited to, those dealing with margin and variation (Rules 760.00. and 2102.00.), security deposits (Rule 2104.00.), deadlines (Resolution 2101.00.C.), price limits (Rules 2012.00., 5407.00., 5507.00., and 5709.00.), and position limits (2013.00., 2013.01., 5411.00., 5516.00., 5718.00.

Risk-Management of Settlement Banks: In addition to the tools used to measure and control credit risk arising from Clearing Members, MGEX employs certain tools and procedures to control exposures resulting from the potential insolvency of a settlement bank. First, settlement banks must be approved by the Exchange pursuant to Rule 2118.00., which provides that Clearing Members must maintain an account at an MGEX approved settlement bank.

Second, MGEX monitors approved settlement banks on an ongoing basis by performing financial reviews that evaluate, among other items, a bank's capital resources and liquidity. Evaluations of all settlement banks also include reviewing each bank's audited financial statement and published credit ratings, as well as assessing the results from stress tests performed by the bank and by the Federal Reserve. In addition, the Fedwire Funds Service helps control credit exposures from settlement banks by limiting MGEX's exposure time and ensuring timely and accurate transfers of funds.

MGEX measures the effectiveness of the tools discussed in the above paragraphs through the methodologies described in *Key Considerations 4*, *5*, and *6*.

Key Consideration 3: *A payment system or SSS should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see Principle 5 on collateral). In the case of a DNS payment system or DNS SSS in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing, and settlement processes, such an FMI should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.*

Key Consideration 3 is not applicable to the Exchange because MGEX is not a payment system or SSS.

Key Consideration 4: *A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see Principle 5 on collateral and Principle 6 on margin). In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple* *jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions. In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.*

MGEX maintains robust systems and risk management techniques designed to ensure that the Exchange maintains sufficient financial resources to cover its current and potential future exposures to each Clearing Member with a high degree of confidence. As a part of its risk management framework, MGEX requires that a performance bond, or margin, be collected as a good-faith deposit as a guarantee of financial performance for open positions. Margin levels, as determined by MGEX, are established to cover 99% of the expected price movement for a given product within a given historical period, providing further qualitative and quantitative considerations based on market risk.

To calculate performance bond requirements, MGEX utilizes the Standard Portfolio Analysis of Risk ("SPAN") methodology developed by the CME. SPAN bases performance bond requirements on the overall risk of the portfolios, using parameters determined by MGEX. MGEX publishes these risk parameters, giving end users the ability to replicate margin computations.

To estimate parameters and inputs of its margin model, MGEX performs backtesting and its sensitivity analysis. As explained in Principle 6, the Exchange uses its sensitivity analysis to determine potential future margin shortcomings under existing margin methodologies and coverage under extreme but plausible scenarios. Backtesting ensures that margins for MGEX products have been set at an appropriate level. Additionally, MGEX reviews daily fluctuations as they compare to the established margin requirement over the same period of time. Under the current methodology, the Exchange considers any new and unexpected market moves when estimating future volatility as they become a part of the relevant historical data used to determine current volatilities.

As noted above, a key input of SPAN is individual contract margin requirements, which MGEX determines through its margin setting methodologies. The Exchange generally computes commodity specific coverage levels based upon historical price movements, national spot index values, implied volatilities, volume and open interest levels, and other wheat market price fluctuations, while also reviewing a broad set of general market fundamentals each day. MGEX uses statistical modeling methods and other non-price based relationships to estimate future volatility and makes any margin adjustments based on these anticipated volatilities. The Exchange considers various time periods to cover 99 percent of expected price changes for a given product within a given historical period, providing further quantitative and qualitative considerations based on market risk.

SPAN simulates the effects of changing market conditions and uses tailored options pricing models to determine a portfolio's overall risk. It treats all products uniformly while recognizing the unique features of options. MGEX constructs scenarios of price and volatility changes to simulate what the entire portfolio might reasonably lose over a specified time horizon. The Exchange then uses the worst case loss in the preceding scenario as the SPAN requirement. Since MGEX requires that options purchased must be paid in full, the value of those options is added as portfolio equity. Conversely, the value of options sold is added to the SPAN requirement. The resulting summation becomes the final performance bond requirement for the portfolio.

SPAN evaluates overall portfolio risk at both the clearing and customer level by calculating the worst possible loss that a portfolio could reasonably incur over a specified time period (typically one trading day). This calculation is done by computing the gains and losses that the portfolio would incur under different market conditions. SPAN methodology is based on a set of numeric values that indicate how a contract will gain or lose value under various conditions. Each condition is referred to as a risk scenario, and the numeric value for each risk scenario represents the gain or loss that a particular contract will experience for a particular combination of price change, volatility change, and decrease in time to expiration. MGEX has configured various parameters within SPAN, customized to the products that are cleared by MGEX. The futures scan range equates to the current outright futures margin requirement set by the Exchange that is calculated and reviewed on a daily basis. The volatility scan range is the maximum change reasonably likely to occur for the volatility of each option's underlying price; the Exchange calculates and reviews volatility routinely and more often during periods of high volatility. Additionally, MGEX has established a short option minimum, which is the assigned minimum value for deep out-of-the-money short option positions charged to a portfolio.

In addition to the performance bonds MGEX requires, the Exchange maintains additional Clearing Member and MGEX funded default resources. Clearing Members pledge additional financial resources through the use of required security deposits, providing additional safety and increased liquidity to cover their current and potential future exposures in the event of a Clearing Member's default or insolvency. In addition, pursuant to MGEX Rule 2100.02., a Clearing Member must own at least one MGEX membership that it pledges to the Exchange. These pledged assets are similarly available to be used to satisfy a Clearing Member's unsatisfied obligation to MGEX. Because the Exchange provides a market for and clears agricultural-based products, none of its activities are considered to have a more-complex risk profile, nor is MGEX systemically important in multiple jurisdictions.

Through Clearing Member pledged margin and security deposits, as well as MGEX designated default funds, the Exchange is able to cover its current and potential futures exposures with a high degree of confidence. All collateral is composed of U.S. dollars and short-term U.S. Treasury Bills. As described in Principle 5, the Exchange does not currently accept any other types of collateral, and MGEX takes a haircut to mitigate the risk associated with the slight fluctuations in non-cash collateral. Given the nature of these financial resources, they are readily accessible and extremely liquid.

In addition to margin and security deposits, the Exchange maintains other financial resources to cover a wide range of potential stress scenarios, including the default of the Clearing Member that would cause the largest aggregate credit exposure to MGEX in extreme but plausible market conditions. First, the Clearing House maintains a guaranty fund composed of U.S. Dollars that could be used in the event of a default or insolvency. Second, MGEX's working capital, a portion of which has been earmarked by the Board for such purposes, could be drawn upon as an additional financial resource beyond pledges and the guaranty fund. Third, as noted above, each Clearing Member must own at least one MGEX membership that may be sold in accordance with Rule 2100.02., the proceeds of which constitute an additional financial resource. Fourth, the Exchange has secured a committed line of credit that is readily available and could provide further liquidity if needed, as discussed in Principle 7.

MGEX evaluates the sufficiency of all of its financial resources on a daily basis through stress testing, which is described under *Key Consideration 5*, and at any other time deemed prudent to ensure that the Exchange could cover a default by the Clearing Member creating the largest aggregate credit exposure.

The framework established by the Board, which includes Rules governing items such as margin, variation, security deposits, and default funding, as well as CFTC requirements regulating areas including stress testing and minimum liquidity resources, set in place governance arrangements relating to the Exchange's total financial resources. Additional information concerning the policies and procedures described in the preceding paragraphs are noted on the MGEX website for the public's use through summaries and in this disclosure. The Exchange developed such policies and procedures based on its products, CFTC regulatory requirements, best practices, and other relevant information. The rationale supporting MGEX's holdings of total financial resources is further discussed in *Key Considerations 5* and *6*, and for more information on governance arrangements, please refer to Principe 2.

Key consideration 5: *A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions. A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly. A full validation of a CCP's risk-management model should be performed at least annually.*

As an important part of MGEX's financial safeguards, MGEX conducts daily stress testing of its Clearing Member accounts. These stress tests aim to evaluate the impact of each Clearing Member's portfolios from a variety of extreme but plausible market scenarios. The MGEX Risk Team evaluates hypothetical exposures created from these exercises to ensure that the available financial resources are sufficient to cover the exposure of the Clearing Member that poses the largest net liquidity obligation. This assessment allows MGEX to evaluate a worst case scenario and ensure that sufficient financial resources are available to cover its largest potential default in extreme but plausible market conditions.

These scenarios ensure compliance with heightened risk management standards created by the CFTC and are completed and reviewed on a daily basis by the MGEX Risk Team. Furthermore, when deemed necessary, portions of these results may be shared with the Risk Management Committee or the Board of Directors to ensure the MGEX risk management framework is being maintained and is robust enough to cover such scenarios. The reporting of stress test results to the Risk Management Committee or the Board is summarized in a way that allows MGEX to balance effective governance arrangements and risk management with confidentiality considerations.

Members of the Risk Team conduct stress tests and review the results on a daily basis. By evaluating the exposures calculated under various stressed metrics, MGEX is able to determine the adequacy of total financial resources available. In the event that stress results are approaching current thresholds, MGEX takes immediate corrective action to adjust the resources accordingly, which may include increases in margin, security deposits, the Clearing House guaranty fund, or other funding sources. Various summary analyses may be shared with other executive management members, the Risk Management Committee, or the Board.

The Risk Team assesses the effectiveness and appropriateness of the stress test assumptions and parameters on a daily basis by determining whether financial resources are sufficient to cover potential exposures based on appropriate stress testing. Stress testing is designed to account for numerous conditions across extreme but plausible scenarios, and the robustness of the model captures and accounts for shifts in market volatility. By monitoring the various parameters and assumptions of the stress testing models, including historical data from relevant peak history, the Risk Team adapts the model to fit a range of conditions over different time horizons.

An independent consultant validates the risk management model, and its underlying assumptions, on an annual basis. In an effort to provide a safe marketplace, MGEX utilizes the latest programs and advanced modeling techniques generally accepted by the futures industry.

Key consideration 6: *In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.*

As described under the Key Considerations above, MGEX considers a multitude of scenarios when conducting stress testing of financial resources to identify exposures under extreme but plausible market conditions. To address risks related to position and price volatility, MGEX uses peak price volatilities. Other scenarios take into account various conditions and factors.

Key consideration 7: *An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner.*

The Exchange has established explicit rules and procedures that fully address potential credit losses resulting from a participant default, including how uncovered credit losses would be allocated, in its Rules and recovery and wind-down plan, which is approved by the Risk Management Committee. The recovery and wind-down plan and MGEX Rules also address how financial resources would be replenished.

Allocation of Credit Losses: In recognition that the default of a single or multiple Clearing Members or the failure of a settlement bank could result in a credit loss, MGEX Rules contain procedures that address potential credit losses to the Exchange following the default or defaults of participants, including how uncovered credit losses would be allocated. Specifically, the default of one or more participants would result in the activation of the Exchange's standard default procedures, which are set forth in Chapter 21 of the MGEX Rulebook. Pursuant to MGEX Rules, security deposits of other non-defaulting Clearing Members would only be applied after exhausting the excess funds (including any partial payment amounts or settlement variation gains), security deposits, margins and performance bonds, and other assets of the defaulting Clearing Member; payments made by a guarantor of the defaulting Clearing Member; and assets of the Clearing House reserve fund.

In the event that all of these resources prove inadequate and MGEX has exhausted the default “waterfall” set forth in MGEX Rules, the Exchange could utilize the recovery procedures described in its recovery and wind-down plan to allocate the uncovered credit loss. The tools available to MGEX in recovery and wind-down are set forth in Chapter 21 of the MGEX Rules to make the process transparent to Clearing Members. For example, MGEX has the power to levy an assessment against Clearing Members (excluding any insolvent or defaulting Clearing Members) and may also levy an assessment against all Members. In addition, the Exchange officers have the power to sell additional original memberships, though the amount of outstanding memberships may not exceed 600. Lastly, if despite these measures MGEX is still unable to cover its obligations or has insufficient funds to satisfy its losses, the Clearing House may conduct a haircut settlement cycle. During a haircut settlement cycle, if the net portfolio gains of non-defaulting Clearing Members for both proprietary and customer positions in MGEX contracts (“Clearing Member Collects”) exceed all available funds, including payments made by Clearing Members due to net portfolio losses, then the Clearing House will haircut the amount of Clearing Member Collects on a pro rata basis based on the amount of available funds received relative to the Clearing Member Collects and pay such Clearing Member Collects.

Replenishment of Financial Resources: Following a stress event, Rule 2113.00. requires a Clearing Member to immediately replenish any deficiency in financial resources resulting from MGEX applying all or part of such security deposits to meet the Exchange’s obligations.

PRINCIPLE 5: COLLATERAL

An FMI that requires collateral to manage its or its participants' credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.

Key consideration 1: *An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity, and market risks.*

In accordance with Rule 2102.00., which was approved by the MGEX Board of Directors and the CFTC, MGEX currently accepts collateral in the form of cash and short-term U.S. Treasury Bills. At present, no currency other than the U.S. Dollar (USD) is allowed, and Treasury Bills must generally mature within twelve months. The list of acceptable collateral is periodically reviewed by the MGEX Risk Team to ensure that the Exchange accepts assets with low volatility and high liquidity. The Exchange also evaluates how easily the market value for the asset is determined and does not accept collateral that may provide wrong-way risk to the Exchange. The Board of Directors must first approve any changes to the types of collateral accepted and reflect such changes within MGEX Rules. No exceptions currently exist for which MGEX would allow Clearing Members to pledge other types of collateral.

Key consideration 2: *An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.*

MGEX has established prudent valuation and haircut practices commensurate to the assets that it accepts as collateral. As the market value of non-cash collateral fluctuates, MGEX evaluates and determines an appropriate haircut for this collateral. Due to the stable nature and quality of U.S. cash and short-term Treasury Bills, the Exchange marks its collateral to market on a monthly basis.

MGEX periodically reviews the sufficiency of its established haircuts. During this review, the Exchange considers various periods of historical stressed market conditions. Additionally, the Exchange reviews published credit ratings for the non-cash collateral that it accepts in determining applicable haircuts.

Key consideration 3: *In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.*

Due to the types of non-cash collateral that the Exchange accepts, procyclical adjustments are currently not a major concern to MGEX. Since MGEX only accepts two types of collateral, cash and Treasury Bills, the need for any procyclical adjustments greatly diminish. Specifically, as stated in the above paragraphs, the Exchange only accepts short-term Treasury Bills, and as a result, the established haircut provides a conservative safe-guard against a deterioration of market value during potential stressed market conditions.

Key Consideration 4: *An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.*

MGEX avoids holding assets that could significantly impair its ability to liquidate such collateral quickly without adverse price effects. The U.S. Treasury market is recognized globally for its reliable liquidity, even during times of stress. Treasury Bills are extremely marketable and liquid assets. MGEX consequently does not currently impose any concentration limits on pledged collateral due to the high quality and liquidity of the assets it accepts as collateral.

Key Consideration 5: *An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.*

MGEX does not currently accept any forms of cross-border collateral, and the risks related to foreign collateral are therefore inapplicable to the Exchange.

Key Consideration 6: *An FMI should use a collateral management system that is well-designed and operationally flexible.*

MGEX's collateral management system features several different components. First, the Clearing House maintains various systems responsible for the calculation of required margin and variation, the management of collateral posted, and other relevant information for each Clearing Member by customer and house account.

A second primary feature of MGEX's overall collateral management system is the safekeeping of Treasury Bills. Specifically, Clearing Members deposit Treasuries used as collateral into MGEX owned accounts, meaning the Exchange has the power to liquidate the Treasury Bills if needed.

Conversely, pledged cash is accounted for and managed differently within MGEX's collateral management system than non-cash collateral. Clearing Members must wire the cash via Fedwire services directly to the Exchange where the funds are held in segregated accounts in accordance with CFTC and MGEX requirements. MGEX always has real-time access to cash balances and performs reconciliations to verify that all pledged activity ties between its collateral management system, internal MGEX accounting system, and the bank's accounts twice each day. MGEX's settlement banks also send MGEX monthly statements, which the Exchange uses to perform additional monthly reconciliations.

MGEX maintains a robust collateral management system designed to calculate margin requirements, variation calls, and produce and disseminate various reports in an accurate and timely manner. These systems are adequate for its collateral management processes and remain in compliance with CFTC regulations, MGEX Rules, and other applicable requirements. If changes should be required, however, the Exchange would work with its Clearing Members and settlement banks to effect such changes in the ongoing monitoring and management of collateral. Otherwise, the Clearing House has developed a timely and accurate system to determine margin required and variation requirements on a daily basis for any positions taken by market participants. MGEX staffs the collateral management system daily, and all members of the Clearing House, as well as individuals from the legal department and the Treasurer's office, are trained to perform the daily duties in order to ensure smooth operations at all times.

PRINCIPLE 6: MARGIN

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Key Consideration 1: *A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves.*

MGEX's margin methodology is a focused piece of the Exchange's overall risk management framework, as approved by the MGEX Board of Directors. This framework, as outlined within MGEX Rules, has been approved by the CFTC. The specific processes for determining effective margin rates charged by MGEX are documented within internal policies and procedures with a general overview located at http://www.mgex.com/margins.html.

Rule 760.00. authorizes MGEX to collect margin from Clearing Members for the purpose of protecting the Exchange against potential losses and reducing the credit exposure borne by MGEX. The Exchange calculates these requirements at the portfolio level for each Clearing Member by Regular (House) and Segregated (Customer) designations. Utilizing the SPAN margining methodology, MGEX calculates Clearing Member required margin on a daily basis, based on the open positions the Clearing Member maintains in each portfolio.

SPAN is a sophisticated methodology that calculates performance bond requirements, or margin, by analyzing the "what-ifs" of virtually any market scenario. MGEX utilizes a number of different market scenarios when calculating margin requirements. Each scenario represents a contract's hypothetical gain/loss under a specific set of market conditions from a set point in time to a specific point in time in the future. Every scenario is comprised of a different market simulation moving the underlying price up or down and/or moving volatility up or down.

MGEX publishes the results of these scenarios within its SPAN parameter file, which is made available to the public. This file is updated daily and contains the latest contract settlements, required margin levels, and risk scenario arrays, which is available to market participants for use in their individual risk management efforts. Additionally, MGEX publishes its current margin levels on its website at http://www.mgex.com/margins.html. The MGEX SPAN parameter file can be found at ftp://ftp.cmegroup.com/pub/span/data/mge/.

Margin levels for each contract vary from one another due to their unique trading and underlying contract characteristics. MGEX may establish and adjust margin levels based on a variety of factors, however, the analysis of statistically expected future price movements based on relevant historical changes in price is at the core of the margin setting model. Margin levels for futures and options on futures are established to cover at least 99 percent of expected price changes for a given product within a given historical period. In addition to using the statistical modeling methods previously described, MGEX considers other non-price based relationships to estimate future volatility. For example, the Risk Team uses information such as the United States Department of Agriculture ("USDA") crop reports, planting and harvesting data, yield reports, weather conditions, disease concerns, stocks of grain, overall market supply and demand, and other relevant information to gauge future market volatility and formulate appropriate margin levels. Clearing Member portfolio margin requirements are calculated by the Clearing House on a daily basis. MGEX utilizes the Customer Gross Margin methodology as required by the CFTC for all customer segregated portfolios. MGEX's margin methodology aids in providing a reliable market place. Due to ever changing market factors and conditions, the MGEX Risk Team continually monitors and evaluates the adequacy of established margin levels. As a part of this analysis, MGEX performs rigorous backtesting and a margin sensitivity analysis to ensure that the Exchange's margin requirements match the risks associated with each contract traded.

A failure in a Clearing Member's responsibility for payment, whether due to financial or operational issues, is addressed in MGEX Rules, which have been approved by the CFTC and MGEX Board of Directors. Any shortage or failure of payment constitutes a default and triggers MGEX's default management Rules.

As established in its Rules, MGEX mitigates its potential credit exposure arising from a lack of payment by a Clearing Member through the use of security deposits. These Clearing Member security deposits are available to the Clearing House for such an event and would be used to satisfy any uncollected credit exposure. Additionally, MGEX maintains a committed line of credit and may draw on the line for liquidity needs resulting from such exposures. MGEX liquidity resources are discussed in more detail in Principle 7.

To reduce the operational and timing risks associated with margin collections and payments, MGEX has established deadlines for receipt of payment, which have been codified in the MGEX Rulebook and are enforceable through a schedule of summary fines issued for late payments. Repeated violations will be escalated to the Disciplinary Committee for further fines and/or actions as required above those that are called for under MGEX summary fines.

Key Consideration 2: *A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.*

MGEX relies upon relevant historical price data within its margin setting methodologies. Margin models are updated with accurate price information derived directly from Exchange settlement and data systems and do not rely upon third party data providers for any data on MGEX traded contracts. Consequently, this data is directly-sourced, immediately available, and accurate. Additionally, relying on MGEX systems for price data prevents the Exchange from using estimated prices in any of its models.

Key Consideration 3: *A CCP should adopt initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more-granular levels, such as at the subportfolio level or by product, the requirement must be met for the corresponding distributions of future exposure. The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limit the need for destabilising, procyclical changes.*

In accordance with the MGEX risk management framework, established in the MGEX Rulebook, MGEX requires that market participants deposit and maintain initial and maintenance margin as protection against losses. MGEX has established margin models, which have been developed to identify and maintain appropriate margin requirements. In an effort to maintain appropriate and meaningful margin requirements, MGEX evaluates its margin levels on a daily basis. Specifically, MGEX's margin levels are set using a methodology that is designed to meet an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. Due to relevant market variables not addressed within the statistical models, other outside assessments may be made from time to time as deemed necessary to determine appropriate performance bond levels.

On a daily basis, MGEX measures the volatility of each contract and spreadable relationship by calculating various statistical confidence intervals, constructing confidence levels at 99% and higher, based on relevant historical time horizons. Applying varying time horizons to the confidence interval models allows for the identification of volatility trends over time. Each confidence interval is calculated on an individual contract basis, with a focus on the first two to three nearby contract months listed. The analysis also includes a weighted average confidence interval, weighted by current open interest. In each case, the calculated confidence interval represents a statistical likelihood that a contract's daily fluctuation would be at or below the calculated confidence level value on a given day, based on relevant historical data. This analysis is used as a consistent benchmark in evaluating margin levels.

Additionally, while performing its analysis for the HRSW futures and other wheat index future contracts, the MGEX Risk Team gathers and compiles futures price information on CBOT and KCBT Wheat contracts, which have historically shown a strong correlation to MGEX markets. The MGEX Risk Team analyzes daily fluctuations of these contracts using similar statistical models previously described. Each of these calculated values aid in providing a high level overview of market volatility across the wheat futures complex and at times may aid in predicting future volatility that has yet to appear in MGEX products. Furthermore, on a daily basis, MGEX reviews implied volatilities for MGEX products as well as CBOT and KCBT wheat products. Statistical confidence intervals are calculated and are monitored for significant deviations from the established margin benchmark. These implied volatility valuations are reviewed by the MGEX Risk Team in an effort to aid in predicting future increases or decreases in market volatility, but are not used as overriding factors in determining the appropriateness of a margin increase or decrease.

The use of statistical confidence intervals are an important method employed to measure volatility, however, the results of such tests are limited to observed historical data used within the model. Consequently, MGEX considers other non-price based relationships to estimate future volatility. For example, the Risk Team uses information such as USDA crop reports, planting and harvesting data, yield reports, weather conditions, disease concerns, stocks of grain, overall market supply and demand, and other relevant information to gauge future market volatility and formulate appropriate margin levels. Many of the key parameters of the margin model, including the confidence interval and time horizon utilized in the interval testing have been identified through the margin backtesting process that it conducts (see *Key Consideration 6*). MGEX utilizes a variety of historical time horizons and confidence levels when analyzing its margin levels. These varying time horizons provide the MGEX Risk Team the opportunity to identify potential trends in volatility changes. The varying time horizons and confidence levels, which are used within its margin methodology, have been established through MGEX's backtesting process, which allows the evaluation of theoretical time horizons and confidence levels with historical price fluctuation

As a part of MGEX's mission, the Exchange works to provide a fair and reliable marketplace. As such, in the event that MGEX would be required to liquidate a defaulting Clearing Member's positions, MGEX would employ a liquidation strategy that would aim to liquidate the positions in a way that would be least disruptive to the market. As a result, MGEX may attempt to employ various hedging techniques to limit the exposure of non-liquidated positions. MGEX has not identified any procyclicality related to the products that are listed by the Exchange. Although prices of MGEX products may be affected by various economic factors, MGEX captures these changes when measuring changes in volatility trends. Based on MGEX's current product listing, no wrong-way risk exists. All products are based on underlying agricultural commodities, independent of compounding risks that may be associated with various financial products.

Key Consideration 4: *A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.*

As an important part of MGEX's risk mitigating techniques, the Exchange utilizes a mark-to-market process designed to periodically remove accumulated debt obligations among market participants. As a general standard, MGEX marks-to-market all Clearing Member positions at least twice a day, once during its intra-day variation cycle and once at its end-of-day settlement cycle. During each of these time periods, MGEX determines the change in market value of all open futures positions; MGEX calculates accumulated variation based on the most recent and relevant market data. Immediate payment is required from Clearing Members whose positions have lost value since the previous variation cycle. Subsequently, MGEX makes payments to those Clearing Members whose positions have gained value. Additionally, option premiums (cost of the option) are also collected from the buyer by MGEX on that day that the option traded.

MGEX closely monitors the uncollected exposure from changes in market price and has implemented a deadline schedule to ensure prompt payment from its Clearing Members. Since MGEX's variation cycles are a significant tool used to minimize market exposure, timely payment is essential. MGEX Resolution 2101.00.C., included in the Rulebook, identifies payment deadlines for both the intraday and end-of-day variation cycles.

While MGEX routinely conducts intraday variation calls, initial margin calls (as defined by the CFTC) are conducted once a day. However, MGEX has the authority, per MGEX Rule 2102.00., and operational capacity to make initial margin calls more frequently, and will make calls for additional initial margin outside of its normal processes as necessary.

Key Consideration 5: *In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorized to offer cross-margining, they must have appropriate safeguards and harmonized overall risk-management systems.*

MGEX lists a variety of correlated products for trade. As a result, the Exchange offers spread credits to portfolios that carry positions in various product combinations that are found to be highly correlated with one another. These credits are available at both the customer and clearing level at a rate determined by the Exchange. These spread credits are identified within the MGEX SPAN parameter file, which is created and utilized by MGEX for the purpose of calculating margin requirements. While product combinations for which MGEX has allowed margin offsets have a long history of past correlation, MGEX routinely tests the relationship between these products to ensure the appropriateness of the defined spread credit.

Additionally, MGEX offers spread credits between MGEX products and select highly correlated products cleared by other clearing houses. Correlation between products where MGEX has allowed offsets is routinely determined to ensure the appropriateness of the spread credit. MGEX identifies its potential future exposure at the product level, and subsequently at the portfolio level through its margin analysis and subsequent SPAN analysis of its portfolios previously described in *Key Considerations 1* and *3*. Margin offsets are defined as spread credits and are applied to the portfolio through the use of SPAN margining. MGEX does not participate in any cross-margining arrangements with any other CCPs.

Key Consideration 6: *A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more-frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most-volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.*

MGEX conducts rigorous backtesting of the margin setting methodology that it employs. On a daily basis, MGEX evaluates the sufficiency of the margin levels in effect by comparing each margin level, both outright and spread margins for all MGEX traded contracts, with the respective daily price movement for each contract or calendar spread. MGEX does not have any cross-margining relationships with other CCPs, and as such, MGEX's backtesting data consists of MGEX products.

Per CFTC regulation, MGEX's margin model requires that the actual coverage of the initial margin requirements produced by MGEX's margin models, along with the projected measures of the model's performance, meet a confidence level of at least 99 percent, based on data from an appropriate historical timeframe. As such, MGEX performs its backtesting process to ensure that it remains in compliance with CFTC rules.

MGEX also conducts a sensitivity analysis on its margin model. On a daily basis, MGEX recalculates its commodity specific margin rates by adjusting the actual price changes used within MGEX margin models to reflect the current potential market move based on statistical confidence intervals using price data from relevant peak history or a single day market limit move. MGEX's margin models primarily use confidence intervals with various historic time horizons of up to one year to capture and develop extreme but plausible market moves, as well as relevant historical peak volatilities. Specifically, MGEX margin models and the margin levels charged are reviewed on a daily basis by the Risk Team. By supplementing these hypothetical moves to its margin models, MGEX is able to determine the effect such moves may have on the actual commodity specific margin levels calculated within the margin models.

MGEX utilizes the construction of statistical confidence intervals within its margin setting model. As such, MGEX recognizes that these statistical models rely on historical data in order to project future outcomes. As a result, unexpected market volatility may not be fully captured by the historical data used within the model.

MGEX reviews its margin models on a daily basis through its backtesting process and engages a third party to review the model and its assumptions at least annually. As discussed within Principle 2, changes to the risk management framework are incorporated through changes to the MGEX Rulebook, with Board and CFTC approval.

MGEX discloses its backtesting results within this disclosure. Margin performance is also disclosed with the CFTC.

Key Consideration 7: *A CCP should regularly review and validate its margin system.*

Through its backtesting procedures, MGEX is constantly reviewing the effectiveness of its margin process to ensure that the Exchange maintains robust and relevant systems to mitigate credit exposure from market fluctuations. This review method is publicly disclosed within *Key Consideration 6* of Principle 6. Additionally, MGEX engages an independent consultant to review and validate MGEX's margin methodology. This review is conducted to further verify the appropriateness of MGEX's margin process.

MGEX's Risk Framework, which is established by the Board, allows the Risk Team to make revisions and adjustments to its margin methodology as needed. However, MGEX discloses the results of the independent analysis to its Risk Management Committee or Board of Directors upon completion.

Principle 7: LIQUIDITY RISK

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.

Key consideration 1: *An FMI should have a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.*

MGEX's risk management framework is designed to manage the liquidity risks posed by various entities to MGEX. Liquidity risks posed by Clearing Members are addressed through the collection of margin and the posting of security deposits. On a daily basis, MGEX calculates performance bond requirements for all of its Clearing Member portfolios and requires that Clearing Members post funds to the Clearing House to cover its margin requirement. Additionally, Clearing Members are required to post security deposits as additional funds for the safe operation of the Clearing House. In the event that a Clearing Member becomes illiquid and cannot meet its obligations (i.e., variation margin, additional initial margin requirements, etc.), these resources are available to MGEX to use in satisfying its obligations to other market participants.

MGEX also manages its liquidity risks from its various settlement banks, custodian banks, and liquidity providers. In order to transact business with MGEX or to pledge collateral, as appropriate, to satisfy its obligations to MGEX, each Clearing Member must utilize an MGEX approved settlement/custodian bank. MGEX has developed criteria that settlement and custodian banks must meet to be utilized by MGEX and its Clearing Members as a settlement/custodian bank. Reviews of these banks are conducted at least yearly and include a financial review of the financial institution's audited financial statements. Additionally, MGEX conducts similar financial reviews for financial institutions involved with providing liquidity through lines of credit.

As required by CFTC Regulations, MGEX must maintain sufficient liquid resources that, at a minimum, will enable MGEX to meet its intraday, same-day, and multiday obligations to perform settlements with a high degree of confidence under a wide range of stress scenarios that should include, but not be limited to, a default by the clearing member creating the largest aggregate liquidity obligation for the DCO in extreme but plausible market conditions. As such, MGEX conducts stress testing to determine the size of its liquidity needs.

MGEX conducts all business in U.S. denominated currency, as evidenced by MGEX contract specifications (such specifications are available at http://www.mgex.com/contract_specs.html and http://www.mgex.com/AgIndexContractSpecifications.html), as well as effects all settlements in U.S. denominated currency. Consequently, all liquidity resources are maintained in U.S. denominations.

MGEX evaluates the inter-linkages between its Clearing Members and the various roles that they may play at or for MGEX. Currently, MGEX has noted linkages resulting from Clearing Members that are also MGEX-approved settlement banks. However, the entities are subject to Clearing Member and settlement bank reviews, which are conducted to provide a basis for each entity's financial stability.

Key consideration 2: *An FMI should have effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.*

MGEX maintains systems to track and monitor the flow of funds conducted through its intraday and end of day settlement system. This data is used by MGEX's A&I department to conduct various daily financial analyses. Additionally, the Exchange utilizes various reconciliation processes to identify and track cash flow and fund balances, which are used when constructing various liquidity stress tests.

Key consideration 3: *A payment system or SSS, including one employing a DNS mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.*

Not applicable to CCPs.

Key consideration 4: *A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions.*

MGEX holds sufficient liquid resources to meet its payment obligations in the event of a default of the participant and its affiliates that would generate the largest aggregate payment obligations in extreme but plausible market conditions. The use of a "cover one" risk scenario is consistent with both PFMI standards as well as CFTC regulations since MGEX's activities do not have more complex risk profiles and the Exchange has not been designated as a CCP systemically important in multiple jurisdictions.

MGEX conducts its stress testing on a daily basis and as a result, the required resources that must be maintained constantly fluctuates. More information on the liquid resources maintained by MGEX can be found in the MGEX Public Quantitative Disclosure, which is available on its website. MGEX conducts all business in US denominated currency and as such, assets held as collateral are U.S. based.

Key consideration 5: *For the purpose of meeting its minimum liquid resource requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum* *requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.*

As noted in *Key Consideration 4*, MGEX conducts all business in U.S. denominated currency. Consequently, MGEX maintains all of its liquid resources in U.S. denomination. The combined total liquid resources (security deposits, MGEX Guaranty Fund, MGEX working capital, committed line of credit and applicable Clearing Member performance bonds) sufficiently cover the minimum liquidity resource requirement to effect settlement of payment obligations on time.

MGEX does not have access to credit at the Federal Reserve and thus relies on the funding sources previously disclosed.

Key consideration 6: *An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, then these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as a part of its liquidity plan.*

Due to the limited asset types that MGEX accepts as collateral, all MGEX default resources are identified as qualified liquid resources, rather than supplemental liquid resources.

Key Consideration 7: *An FMI should obtain a high degree of confidence, through rigorous due diligence, that each prover of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider.*

MGEX maintains enough liquid resources to effect its payment obligations in the case of a default by the largest participant and its affiliates that would generate the largest aggregate payment obligations in extreme but plausible market conditions and does not require the use of available lines of credit to meet its liquidity needs. However, MGEX has established and committed lines of credit with Wells Fargo Bank, NA. MGEX has entered into formal agreements with its liquidity provider to provide committed lines of credit to the Exchange. As part of its settlement bank review, MGEX evaluates the capacity of its liquidity provider to perform on its commitment.

Based on the size of MGEX's committed line of credit and the size of its liquidity provider, MGEX is confident its access to liquidity is reliable. However, to help ensure the timeliness and reliability of its procedures for accessing liquid resources at MGEX's liquidity provider, the Exchange routinely tests its access on a quarterly basis. Each test involves the drawing on line by MGEX and verifying timely receipt of funds.

Key consideration 8: *An FMI with access to central bank accounts, payment services, or securities services should use these services, where practical, to enhance its management of liquidity risk.*

MGEX does not have legal access to central bank accounts and as such, cannot implement services that the utilization of central bank services may provide.

Key consideration 9: *An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision makers at the FMI and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked FMIs), and where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.*

MGEX conducts stress tests on a daily basis to determine the required liquid resources that must be maintained per CFTC Regulations. These stress tests are performed and reviewed by members of the MGEX Risk Team. The MGEX Risk Team, upon evaluation of the stress test results and the sufficiency of liquid resources, determines whether or not an adjustment to the size of the Exchange's liquidity pool is necessary.

As required by CFTC Regulation 39.33, MGEX conducts stress tests using a variety of scenarios. These scenarios utilize relevant peak historic price volatilities, multiple defaults over various time horizons, simultaneous pressures in funding, and asset markets and a variety of forward-looking stress scenarios in extreme but plausible market conditions.

MGEX utilizes a real-time gross payment system (FedWire Funds Service) and as a result, mitigates its liquidity risk by requiring prompt and immediate payment by its Clearing Members for variation and initial margin payments.

MGEX's stress test scenarios are designed to capture the nature and size of the liquidity needs from a default by the Clearing Member that creates the largest aggregate liquidity obligation for the DCO in extreme but plausible market conditions. MGEX reviews its stress testing analysis for effectiveness and appropriateness on a daily basis. As part of this analysis, MGEX performs a type of reverse stress testing. MGEX evaluates each Clearing Member's positions by relevant portfolio to determine a fluctuation value at which MGEX's prefunded financial resources would be exhausted. This analysis is then used to determine whether or not the liquidity stress testing parameters and assumptions used are appropriate in light of current and evolving market conditions.

CFTC Regulation § 39.36(e) requires that MGEX perform, on an annual basis, a full validation of its financial risk management model and its liquidity risk management model. In conformity to this regulation, MGEX has engaged a third-party expert to validate its financial risk management model and its liquidity risk management model on an annual basis.

The results of these daily stress tests provide support for the rationale for the amount and form of its total liquid resources. MGEX adheres to minimum liquidity standards and as such, MGEX maintains sufficient liquid resources to cover these minimums. Summaries of stress tests are provided to the Risk Management Committee, a committee of the Board, which provides adequate governance over the sufficiency of its total liquid resources.

Key consideration 10: *An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.*

Per the deadline schedule established in MGEX Resolution 2101.00.C., MGEX will continue to effect its payment obligations on time following any individual or combined default among its participants, provided there are no liquidity shortfalls as a result of the default. However, in recognition that the default of a single or multiple Clearing Members or the failure of a settlement bank could result in an uncovered liquidity shortfall, MGEX has the authority to take certain actions to address such liquidity shortfall in accordance with its Rulebook and recovery and wind-down plan. For example, the Exchange has a committed line of credit that would be available during a liquidity crisis, and the MGEX Risk Team may borrow or draw on such funds as necessary. In addition, MGEX Rules allow the Clearing House to obtain additional liquidity to meet its payment obligations through various means, including substituting cash deposited by Clearing Members in a guaranty fund or as a performance bond for U.S. Treasuries deposited by another Clearing Member that has caused a liquidity shortfall. Moreover, the Clearing House may notify any Clearing Member that is a U.S. Government Securities Broker-Dealer or has a U.S. Government Securities Broker-Dealer affiliate to replace its non-cash performance bond assets with cash within 60 minutes from the time of notification. The Risk Team also may elect to have the Exchange require each Clearing Member that is a U.S. Government Securities Broker-Dealer or has U.S. Government Securities Broker-Dealer affiliate to enter into (or arrange for such affiliate to enter into) a master repurchase agreement with MGEX. In the event that a liquidity shortfall remains even after utilizing the methods described above and in the Rules, the Exchange has the power to levy an assessment against Clearing Members (excluding any insolvent or defaulting Clearing Members) and may also levy a special assessment against all Members, subject to the maximum obligation caps set forth in the Rules.

The Exchange also maintains procedures to replenish any liquidity resources employed during a stress event. MGEX has established Rules that require, should it become necessary, a Clearing Member to immediately make good on any deficiencies in security deposits by established deadlines for the current end of day cycle. As a result, security deposits used to cover liquidity shortfalls will be restored on the same day as a stress event.

PRINCIPLE 8: SETTLEMENT FINALITY

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.

Key Consideration 1: *An FMI's rules and procedures should clearly define the point at which settlement is final.*

In accordance with MGEX Rule 2117.00., as approved by the Exchange's Board of Directors and the CFTC, the settlement of a payment is final and irrevocable at the point that it is effected. MGEX uses the Fedwire Funds Service for all cash transactions, and this settlement system enables participants to execute fund transfers that are immediate, final, and irrevocable once processed. For any transactions involving U.S. Treasury Bills, settlement finality is effected at the point that the necessary Pledge Agreement is received. The MGEX Rulebook, which is publicly disclosed on the Exchange's website, defines and documents settlement finality.

Within the legal framework established by the Board and approved by the CFTC, MGEX Rules further provide that if a Clearing Member fails to promptly discharge any obligation to the Exchange, including settlement payments or transfers, MGEX may apply such Clearing Member's collateral or other assets to discharge the obligation. In order to ensure timely payments, MGEX adopted a schedule of deadlines that require settlement and margin payments to be made by 9:00 a.m. and intra-day variation payments by 11:30 a.m. These deadlines, which are set forth in Resolution 2101.00.C. of the Exchange's publicly available Rulebook, are enforced through summary fines that may be imposed on late payments or other disciplinary action. These summary fines are also publicly disclosed on the MGEX website.

MGEX uses its Rulebook to ensure that settlement finality will be achieved in all relevant jurisdictions with a high degree of legal certainty. Because the Exchange has registered with the CFTC and is subject to its ongoing oversight, MGEX has the specific authority to act as a DCO and DCM and exercise its powers as such. Such powers include implementing Rules that, after approval by the Board of Directors, are submitted to and approved by the CFTC to ensure that they meet and are consistent with relevant laws and regulations. As discussed above, MGEX Rules describe settlement finality and provide that any person or entity that initiates or executes a transaction consents to the jurisdiction of the Exchange and agrees to be bound by and comply with all MGEX Rules and procedures. By requiring that all Rules be approved by the CFTC and making all market participants subject to the jurisdiction of the Exchange, MGEX is able to demonstrate with a high degree of legal certainty that settlement finality will be achieved in all relevant jurisdictions through the enforceability of its Rulebook.

No linkages exist between MGEX and any other entity, so settlement finality at the Exchange is not affected by any links.

Key consideration 2: *An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. An LVPS or SSS should consider adopting RTGS or multiple-batch processing during the settlement day.*

In accordance with its Rules, MGEX's final settlement process is complete on the value date. The Exchange ensures that final settlement occurs no later than the intended value date through the framework established by the Board in the MGEX Rulebook, including the specific deadlines and fines noted under *Key Consideration 1*. In addition, the Exchange's default procedures set forth in Chapter 21 of the Rulebook are triggered if a settlement obligation is not promptly discharged.

Pursuant to the MGEX Rulebook, deferrals of final settlement to a later business day are not acceptable, and to date, no such deferrals have ever occurred.

MGEX marks positions to market twice a day, once at intra-day and again for final settlements. For real time settlement during the intra-day period, open futures positions are marked to market. Once calculated, transfer instructions for pays and collects are communicated via email. The Clearing House then initiates wire transfers for the variation amounts from Clearing Members, monitors incoming payment obligations, and contacts firms if necessary to ensure the receipt of funds by the 11:30 a.m. deadline. MGEX determines final settlement amounts in a similar fashion, but calculates variation and margin requirements for both futures and options. Funds for final settlement and margin payment are due by 9:00 a.m. the following business day. MGEX does not use multiple-batch processing methods for settlement.

Key consideration 3: *An FMI should clearly define the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.*

MGEX Rules define the point at which unsettled payments, transfer instructions, or other obligations may not be revoked by making payments and transfers final and unconditional once effected. Since such payments are final and unconditional, they may not be unilaterally revoked. In addition, given the manner in which transactions are made through the Fedwire Funds Service, transfers cannot be revoked once processed regardless of the circumstances. Should the Clearing House determine that an error occurred in a funds transfer, it will initiate another wire transfer to correct such error. MGEX does not make any revocation exceptions or extensions.

All settlement and revocation information described in the paragraphs above is set forth in the MGEX Rulebook, which is disclosed to the general public on the Exchange’s website.

PRINCIPLE 9: MONEY SETTLEMENTS
An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Key Consideration 1: *An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks*

MGEX conducts money settlements using commercial bank money denominated in U.S. Dollars. MGEX does not conduct settlements in any other currencies. The Exchange does not use central bank money because as a Subpart C DCO, it does not have access to Federal Reserve Banks or their services.

Key Consideration 2: *If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk.*

As noted under *Key Consideration 1*, the Exchange conducts its money settlements using commercial bank money as it is an asset with little credit or liquidity risk. To monitor and mitigate possible credit and liquidity risks associated with using commercial banks for settlement purposes, MGEX has established risk management policies and procedures. As discussed in Principle 4, settlement banks must be approved by the Exchange. This approval process involves evaluating specific criteria, including the size of the bank (assets must meet a minimum threshold), the results of Federal Reserve stress tests, and the investment grade credit status of the bank. In order to receive approval, the bank must also be a member of the Federal Reserve, be regulated by an appropriate governmental agency, and have the capability to send and receive wire transfers during set hours and provide real-time payment processing for fund transfers.

Key Consideration 3: *If an FMI settles in commercial bank money, it should monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks.*

After a bank is approved under the process described in *Key Consideration 2*, MGEX continues to monitor, manage, and limit its credit and liquidity risks arising from commercial settlement banks by performing annual reviews of such banks. These reviews assess, among other items, a bank's capital resources and liquidity, compliance with applicable regulations, credit rating, and stress test results. The MGEX Risk Team also analyzes any material changes that may have occurred since the last review to ensure the financial soundness and the operational efficiency of the bank. This approval process and the ongoing risk management procedures ensure that the commercial banks used are well capitalized and have access to liquidity, thus minimizing the risk they pose to the Exchange.

MGEX further limits its credit exposures and liquidity pressures by diversifying such risks through the use of multiple commercial banks. Clearing Member funds, for example, are maintained at a different bank than MGEX funds. Moreover, the Exchange maintains the funds it holds at large commercial banks where its assets comprise only a fraction of a percent of the bank's total liquidity, thereby further alleviating any liquidity risk.

Key Consideration 4: *If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.*

The Exchange does not conduct money settlements on its own books.

Key Consideration 5: *An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks.*

All settlement transfers are deemed final and irrevocable pursuant to MGEX Rule 2117.00., which specifically states that all payments of funds or transfer of funds to and from MGEX are final and unconditional when effected and cannot be reversed. In addition, MGEX utilizes the Fedwire Funds Service, which enables participants to execute fund transfers that are immediate, final, and irrevocable. Funds are transferred twice each day, at intra-day and end of day settlements, in accordance with MGEX Rules and Resolutions.

PRINCIPLE 10: PHYSICAL DELIVERIES

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.

Key Consideration 1: *An FMI's rules should clearly state its obligations with respect to the delivery process of physical instruments or commodities.*

The Exchange offers and clears trades associated with commodity futures and options contracts. Those contracts are HRSW futures and options, HRSW Calendar Spread options, AJC futures and options, and five agricultural index-based futures and options, including HRSW, Hard Red Winter Wheat, Soft Red Winter Wheat, National Corn, and National Soybean. The five agricultural index contracts are financially settled in U.S. Dollars while the HRSW and AJC contracts may be settled through physical delivery in accordance with terms and conditions and contract specifications outlined in the MGEX Rulebook. In other words, market participants have the opportunity to make or take delivery of the specified commodity as a means of offsetting outstanding long or short open futures contracts during the delivery month. During the delivery month, position holders can be matched and transfer ownership of the HRSW or AJC in accordance with all applicable Rules.

MGEX defines its obligations and responsibilities with respect to delivery in its Rules, which are approved by the Board of Directors and the CFTC and disclosed to the public on the Exchange's website. Such Rules are publicly available on MGEX's website, but to summarize, if a seller gives a Delivery Notice to the Clearing House, then the Clearing House is responsible for passing such notice to the buyer. The buyer is determined by finding the oldest long futures position holder based upon Exchange records and MGEX staff assigning delivery of the underlying commodity to these long position holders. Once matched, MGEX issues a Report of Deliveries notifying both parties as well as the general public that a physical delivery will be occurring. The Clearing House calculates the amount to be paid for the commodity being delivered by taking into account the number of bushels or gallons delivered, the contract price for such commodity for the day on which delivery is being made, the premium or discount (if any) for the grade delivered, and the amount of storage and insurance charges. After the buyer pays the seller, the seller releases the warehouse receipts to the buyer. Upon taking possession of the warehouse receipt(s), the buyer becomes the rightful owner to the product in store and assumes responsibility for all storage and insurance charges from that point forward. Physical delivery is made by submitting these warehouse receipts to a Regular elevator or warehouse, at which point the elevator or warehouse must deliver the product identified and described on the warehouse receipt under the terms and conditions specified within the MGEX Rulebook.

The Exchange ensures that its participants understand their obligations and the procedures for effecting physical delivery through its publicly available Rulebook. In addition, MGEX posts delivery manuals, reports, notices, lists of Regular facilities, and other information on its website where it is easily accessible to the public. Collectively, these Rules, procedures, and information allow MGEX to communicate participants' obligations in a clear and transparent fashion, thereby ensuring that such participants understand their responsibilities.

The procedures and requirements noted herein are stated in MGEX Rules and contract specifications are located on the Exchange's website at: http://www.mgex.com/contract_specs.html.

Key consideration 2: *An FMI should identify, monitor, and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.*

The Exchange recognizes that certain risks are associated with the storage and delivery of physical products, including the risk of theft, loss, or the deterioration of assets. MGEX has implemented Rules, which have been certified by the CFTC, as well as various procedures and controls to monitor and manage risks and costs associated with storage and delivery. The Exchange manages these risks by, among other procedures, establishing policies that ensure MGEX's record of physical assets reflects the actual holdings, provide specifications for acceptable commodities, state rules for warehouse operations and minimum financial and insurance requirements, and govern the timing of delivery. In addition, the USDA is responsible for the inspection and audit of the facilities involved with physical delivery and also oversees general cash market activities on any of the above products. As a result, MGEX relies upon the USDA for its regulatory oversight and supervision requirements in addition to MGEX requirements as it relates to performing physical delivery.

In order to monitor various aspects of delivery, Regular warehouses and elevators must submit Stocks of Grain and AJC Stocks reports on a weekly basis. These reports state the facility's inventory of a deliverable product and are posted on MGEX's public website. A&I compares stocks reports to open positions reports and through this process, analyzes the availability of deliverable grade HRSW and AJC in relation to open positions to ensure fair and equitable trade practices occur in the corresponding futures contract. Furthermore, MGEX's regulatory department monitors price relationships between these futures contracts and other similar futures products in an effort to ensure markets are not being manipulated in any way. This review includes monitoring convergence, which is the ability over time for cash and futures prices to move and come together at the expiration of the futures contract, to ensure the contracts involved with physical delivery are behaving as sound risk management tools for market participants and are free from manipulation. Moreover, as a contract month approaches its delivery and expiration period, A&I will begin performing heightened surveillance involving the futures contract by closely monitoring price movements, open interest, and position holders. During this time, A&I determines which accounts are holding positions in the delivery month and then contacts Clearing Members that hold positions on behalf of customers to ascertain their customer's intentions for the upcoming delivery period. A&I may also contact the customers directly if needed, particularly as the last day of trading approaches. Doing so aids in knowing the identity of the market participants for a contract month going through delivery and allows A&I direct access to the customers involved. By understanding a customer's intentions and obligations, A&I can better ensure a smooth delivery process free of manipulation.

Other MGEX Rules and procedures require that elevators and warehouses be properly equipped for convenient and expeditious receiving, handling, and shipping of bulk commodities to be approved for and maintain their status as a Regular facility. Furthermore, Regular facilities must meet minimum financial requirements, which they demonstrate by submitting audited financial statements each year to MGEX, and inform the Exchange of any adverse change in status or financial conditions. In addition to imposing financial requirements on Regular facilities, MGEX requires elevators and warehouses to maintain insurance in their own name for the account of warehouse receipt holders for the full market value of the commodity represented by warehouse receipts delivered on futures contracts. This coverage is needed until the time the commodity is actually loaded out of the warehouse and thus helps control risks associated with the storage of HRSW or AJC. Finally, all facilities Regular for delivery in HRSW must be licensed by the USDA and for AJC must be licensed by the appropriate legal authorities to conduct the business of storing and delivering AJC product.

Any changes to the delivery process as described above would first be vetted by the Hard Red Spring Wheat Committee, which is composed of Board Members, Members of the Exchange, and market participants. Any topics concerning contract terms and conditions or contract specifications may be discussed and voted on by the Hard Red Spring Wheat Committee. The Hard Red Spring Wheat Committee may review, for example, storage rates, acceptable vomitoxin levels, delivery locations, and convergence. After the committee meeting, if there is a formal change and corresponding recommendation to be made to the full Board or Directors, the item will be added as a discussion topic for the next Board meeting, and if a change is made to any of the above mentioned items, the Board must approve of such change. Following Board approval, it will be submitted to the CFTC for final approval. Once MGEX receives final approval, the changes or additions to the Rulebook are posted and announced to the public.

Matching of Participants: MGEX matches participants for delivery and receipt as described in the following paragraphs. The Board established this framework in accordance with USDA requirements, and clearly expresses this process to participants.

The Exchange utilizes a random process for matching participants to ensure the process does not favor either the deliverer or the taker of any warehouse receipts during the delivery process. Specifically, each side of the market—the short (deliverer) and the long (taker)—have separate queues which are established by the Clearing House prior to making assignments. Each distinct phase of this process is explained in greater detail below.

Short Queue (Deliverer): All of a single business day's delivery intentions (receipts) received by the deadline by the Clearing House are randomly queued by delivering warehouse. This is referred to as the short queue.

Long Queue (Taker): The oldest long is determined and assigned receipts from the above short queue until all open positions for the oldest long are filled or receipts in the short queue are exhausted. Should there be additional receipts remaining in the short queue after this step, the process continues to the next oldest long and so on, until all receipts from the above short queue are exhausted.

Multiple Takers: If during this process, there are two or more takers who share the same oldest long date, then each individual taker is randomly chosen and queued in order (first, second, third, etc.), and a long queue is established. Receipts are assigned from the short queue until the first taker's total open positions are filled completely, prior to moving to the next taker in the long queue. This process continues until all receipts are exhausted or until all position holders who share the same oldest long date from the long queue have no remaining open positions. Should receipts still remain, the Clearing House selects the next oldest long date and repeats the above process (including the development of a new long queue, if necessary), until all receipts have been assigned.

By ensuring randomness in the establishment of each side of the market prior to making a single assignment, MGEX believes the delivery process guarantees neither the long nor short is favored in the process at any time.

The MGEX Rules that govern the regularity and delivery process, along with the USDA requirements, help ensure that participants have the necessary systems and resources in place to be able to fulfill their delivery obligations. As discussed above, in order to be approved as "Regular," a facility must be properly equipped for receiving, handling, and shipping of bulk commodities and be capable of loading-out by rail and barge. Other MGEX Rules address whether a facility has met the minimum load-out requirements and who is responsible for any additional costs or damages. In addition, A&I closely monitors open interest and available deliverable supplies, as well as deliveries made, as part of its surveillance program. When a delivery period approaches, A&I uses several reports to monitor the market for signs of imbalance, disorder, and/or manipulation. A&I also focuses on large concentrations of positions and failures to liquidate or roll over positions in an expiring contract as the first notice day nears and contacts Clearing Members and customers as noted above.

PRINCIPLE 12: EXCHANGE-OF-VALUE SETTLEMENT SYSTEMS
If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

Key consideration 1: *An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs.*

No transactions made on the Exchange may be settled through the linking of two obligations, and Principle 12 is thus not applicable to MGEX.

PRINCIPLE 13: PARTICIPANT-DEFAULT RULES AND PROCEDURES

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Key consideration 1: *An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.*

The Board of Directors of the Exchange has established a framework governing participant defaults in the MGEX Rules, which have been approved by the CFTC. Such Rules, along with relevant definitions and procedures, allow the Exchange to take timely action and meet its obligations in the event of a Clearing Member default. They also address the rights of MGEX following a Clearing Member default. A Clearing Member Default is defined in Chapter 1 as the failure of a Clearing Member to meet any of its obligations to or the requirements of the Exchange. Chapter 1 also sets forth definitions for Clearing Member Insolvency and Good Standing. MGEX's default procedures are included in Chapter 21; such procedures both allow MGEX to take necessary action to contain losses and liquidity pressures and make Clearing Members aware of their obligations.

In general, when a Clearing Member is in default they are also deemed insolvent, and vice versa[6] pursuant to the MGEX Rulebook. In addition to Clearing Member default and insolvency provisions, the Exchange may utilize its financial emergency powers should it identify or anticipate a Clearing Member financial default situation. Specifically, MGEX Rules give the Exchange the authority to use discretion in taking action to protect MGEX, its Members, and its market participants when it believes one of its Clearing Members may be facing a financial emergency. Such action could include suspending or restricting a Clearing Member's clearing privileges, requesting additional capital, or taking any other actions the Exchange deems prudent to protect its interests and the interests of third parties. Because financial emergencies encompass a range of possibilities, MGEX can invoke this power for various financial situations, allowing the Exchange to take protective actions sooner so as to avoid repercussions that a full default situation may present. This authority is also reflected in Rule 2120.00., which allows MGEX to develop and implement risk control policies for customer and proprietary transactions and take actions to manage risk posed by a Clearing Member, including imposing enhanced capital and/or margin requirements, prohibiting an increase or requiring a reduction of positions, and liquidating or transferring positions.

The Rules above address what actions MGEX may take when a default situation occurs or to aid in protecting stakeholders of the Exchange. Rulel 2106.00., in particular, states that if a default occurs, the Exchange may, in its discretion, apply a Clearing Member's available assets to discharge its outstanding obligations, make immediate demand upon any guarantor of the Clearing Member, and transfer all customer positions and associated collateral to alternate Clearing Members. Pursuant to its Rules, MGEX may rely upon customer gross margin files to ascertain the amount of a customer's pledged margin, and all transfers must be made in accordance with MGEX Rule 718.00. In addition to these discretionary actions, the clearing privileges of any defaulting Clearing Member are automatically suspended pending resolution of the default and related matters. While the default situation is ongoing, the Exchange is under no obligation to forward any variation pays or settlement funds to the defaulting Clearing Member.

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[6] For purposes of this analysis, references to a Clearing Member default situation also encompass Clearing Member insolvency situations.

To further aid the Exchange when addressing a Clearing Member default, MGEX maintains an internal Default Management Plan ("DMP") that serves as a reference guide. The DMP delineates the roles and responsibilities of the MGEX Board of Directors, Risk Management Committee, Chief Risk Officer, MGEX Risk Team, MGEX legal department, other DCOs and exchanges, and federal regulators at various stages of a default.

MGEX's Rules set forth the priority order in which funds from various sources would be applied to discharge a defaulting Clearing Member's outstanding obligations. In short, any excess funds of the defaulting Clearing Member (including any partial payment amounts or settlement variation gains) and the Clearing Member's own assets held by the Exchange would be exhausted first, followed by the Exchange's own reserve fund, and only lastly accessing non-defaulting Clearing Members' funds. Furthermore, the Exchange has the authority to issue assessments against Clearing Members. Unless a default occurs in a customer account, MGEX would not use customer funds or margins to discharge the defaulting Clearing Member's obligation. Moreover, pursuant to Rule 2112.00., MGEX may levy a special assessment on all MGEX memberships or sell additional memberships to raise funds.

Should a default exceed MGEX's available financial resources, the Exchange has developed a recovery and wind-down plan that sets forth the procedures it would follow to address such uncovered credit loss or liquidity shortfall. For more information, please refer to the discussion in Principles 4 and 7.

Following the resolution of a Clearing Member default and the application of various funds to do so, MGEX has the right to recover any funds that were deemed a loss to the Exchange. Pursuant to its Rules, the defaulting Clearing Member shall replenish its security deposits and otherwise remain liable for any loss suffered by the Exchange.

Key consideration 2: *An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.*

As discussed above, MGEX Rules and the DMP delineate the roles and responsibilities of various parties for addressing a default. There are several key players that would play important roles in the events following a default. Internally, the key players include the MGEX Risk Team and legal department, President, Chief Risk Officer, Chief Compliance Officer, Risk Management Committee, Board of Directors, and other employees of the Clearing House. There are also several external key players that would be involved, such as CME and National Futures Association in their roles as DSRO, other DCOs, regulators, and the bankruptcy court appointed trustees. The DMP provides the Exchange with guidance as to the timing of various actions including the involvement of said outside parties, notice to market participants, and notice to the CFTC as the federal regulator. MGEX has the ability to directly communicate with relevant stakeholders either by phone, email, or electronic posting. In terms of notification to market participants, the Exchange can post information directly to its public website and disseminate directed memos and advisory notices to its Members, Clearing Members, and other interested parties. Notice to the CFTC would be given in accordance with applicable requirements, which generally involves electronic notice followed by additional communication. In a situation where a defaulting Clearing Member is also a member of other DCOs, the CFTC would likely be part of any group meetings or conference calls.

The MGEX Rules, which establish the participant-default framework, are constantly reviewed and updated as necessary or appropriate. All such changes must be approved by the Board of

Directors and the CFTC before becoming effective. Internal policies and procedures are similarly reviewed and updated as needed.

Key consideration 3: *An FMI should publicly disclose key aspects of its default rules and procedures.*

MGEX publishes its entire Rulebook, which contains the default Rules, on its public website. The Exchange also posts memos, announcements, and notices that have been provided to Members, Clearing Members, market participants, and other outside parties on the website, as well as news releases. In addition, the website provides an archive of MGEX news releases so the public can retain access to both old and new information and data.

The MGEX Rulebook provides both notice to the public and the necessary guidance to the Risk Team and other internal contacts when determining what circumstances require action and what form of action is permitted and appropriate. To discharge an obligation, any excess funds or available margin involved with the defaulting positions would be utilized followed by the security deposits of the defaulting Clearing Member. If the defaulting Clearing Member had a parental guaranty in place, the Exchange would also contact and make demand upon the Guarantor for any house positions. Any other held funds or assets of the defaulting Clearing Member would then be used to address any remaining obligations, such as memberships owned. If there still remained an obligation, the Exchange would utilize monies from its own reserve fund and capital funds. Should those funds be exhausted and obligations still remain, security deposits of non-defaulting Clearing Members would be utilized as a last resort. MGEX will not apply any collateral held in segregated customer accounts to any payment obligations arising from a default in a Clearing Member's proprietary account. Finally, should a default exceed MGEX's available financial resources, the Exchange has developed a recovery and wind-down plan that sets forth the procedures it would follow to address such uncovered credit loss or liquidity shortfall. The key aspects of this plan—the actions the Exchange may take during recovery and wind-down that involve Clearing Members—are set forth in MGEX's Rulebook, which is publicly disclosed.

While assessing the outstanding obligations owed to MGEX on the part of the defaulting Clearing Member, the Exchange would also be working to address the defaulting Clearing Members' customer positions and associated collateral. MGEX does not have a direct relationship with the customers of a Clearing Member and would thus act to transfer all customer positions and associated collateral to alternate Clearing Members. However, if a customer account is in default, then the Exchange has the right to liquidate and apply toward the default all open positions and customer performance bond deposits in the segregated customer account of the defaulting Clearing Member. Pursuant to CFTC requirements and MGEX Rules, all funds deposited with the Exchange on behalf of customers of a Clearing Member are held in a separate account labeled as customer segregated.

Key consideration 4: *An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close-out procedures. Such testing and review should be conducted at least annually or following material changes to the rules and procedures to ensure that they are practical and effective.*

On an annual basis, MGEX conducts a default drill in coordination with CME. Clearing Members and market participants (when appropriate) participate in these drills. The Exchange uses the drills to test certain aspects of MGEX's default procedures, such as the auction process, thereby allowing Clearing Members and market participants the opportunity to become familiar with the procedures and test their ability to evaluate and bid on a hypothetical portfolio. The portfolio, as designed by MGEX, is representative of actual risks.

In addition to default drills, MGEX also engages in regular testing of its line of credit by imposing a hypothetical default scenario which necessitates a drawdown of the line of credit for short-term financing. The Exchange performs such tests quarterly to ensure prompt receipt of the funds.

PRINCIPLE 14: SEGREGATION AND PORTABILITY

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions.

Key Consideration 1: *A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective.*

As discussed in Principle 13, in the event of a Clearing Member's default or insolvency, customer funds or margins may not be used to discharge a default in a Clearing Member's proprietary account. MGEX Rules further require that funds deposited with the Exchange on behalf of a Clearing Member's customers be held in accounts identifiable as customer segregated in accordance with the CEA and CFTC Regulation 1.20, as amended. Pursuant to MGEX Rule 718.00., the Exchange allows the transfer of a customer's positions and related collateral from one Clearing Member's account to another Clearing Member provided that the receiving Clearing Member consented to the transfer. MGEX also has the authority to transfer customer positions and associated collateral from a defaulting Clearing Member's account to alternate Clearing Members. In this case, absent additional information, the Exchange would rely upon customer gross margin files to determine the amount of a customer's pledged margin associated with open positions to be transferred pursuant to Rule 2114.00.:

> **MGEX RULE 2114.00. USE OF CUSTOMER GROSS MARGIN FILES.**
>
> Unless otherwise expressly agreed to by the Exchange, in the event of a Clearing Member or customer default, insolvency, or other financial emergency, the Exchange shall use and rely upon the customer gross margin files reported daily by Clearing Members to determine the amount of a customer's pledged margin, associated with open positions, held at the Clearing House. The Exchange shall not be held liable to any party for its reliance upon and use of the customer gross margin files reported to MGEX.

In addition to the Rules described above, MGEX also protects customers from the default(s) of participants or a fellow customer by imposing minimum financial requirements and enforcing the same through financial surveillance. MGEX Rules require FCMs, Guaranteed Introducing Brokers, and Members with clearing and/or trading privileges to meet minimum financial and reporting requirements that are set forth in CFTC regulations. A&I and members of the Risk Team review financial information and statements of these FCMs, Guaranteed Introducing Brokers, and Members to ensure that they are meeting the minimum requirements. MGEX also relies on each FCM's designated self-regulatory organization as a valuable source of information as it relates to financial and risk surveillance of FCMs and Clearing Members. While MGEX performs many of its own reviews, MGEX also incorporates information obtained via connections and conversations with each FCM or Clearing Member's DSRO.

MGEX is able to ensure that its arrangements to protect and transfer the positions and collateral of a participant's customers are legally enforceable by including relevant requirements in its Rulebook, which is submitted to the CFTC. In addition, the Exchange is required to have such arrangements in place by law (CFTC regulations). Lastly, such arrangements are practiced by the futures industry as a whole. Although MGEX is recognized in the European Union as a third-country CCP, as discussed in Principle 1, it remains under the jurisdiction of the CFTC and U.S. laws govern segregation and portability requirements.

Key Consideration 2: *A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts.*

In compliance with CFTC regulations, MGEX holds customer funds in an omnibus account within the Exchange owned accounts for cash and in safekeeping accounts for collateral pledged as securities. In all cases, customer accounts are segregated from a firm's house account, and MGEX maintains records that are provided to Clearing Members which show their margin cash and security contributions. In addition, MGEX Rules allow the Exchange to use and rely upon the customer gross margin files reported daily by Clearing Members to determine the amount of a customer's pledged margin, associated with open positions, held at the Clearing House. MGEX chose to hold collateral in an omnibus account because it is an effective practice for all parties involved by efficiently allowing for the transfer of funds and has been a standard practice within the derivatives industry for many years as it relates to futures and options. MGEX does not list or clear swap contracts as of the date of this disclosure.

MGEX holds collateral for initial margin that supports customers' positions. To ascertain each customer's interest if needed, the Exchange can rely upon a Clearing Member's records/files that it is required to submit to MGEX, as described in the paragraphs above. By requiring Clearing Members to submit these reports and enforcing noncompliance through fines, the Exchange is able to ensure that it has access to required information. MGEX collects customer margin on a gross basis and pursuant to its Rules cannot use customer funds or margin to discharge a Clearing Member's obligations unless the customer is directly involved in the default.

Key consideration 3: *A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.*

The CFTC and MGEX maintain rules that govern the portability of customer positions and collateral. In the event of a Clearing Member default, the Exchange has the authority to immediately transfer to alternate Clearing Members all customer positions and associated collateral. MGEX would use customer gross margin files to determine the amount of a customer's pledged margin, associated with open positions, when transferring positions. Prior to making the transfer, the Exchange would need to receive the customer's instruction or approval and the accepting Clearing Member would also need to consent to the transfer (see Rule MGEX Rule 718.00.).

Key Consideration 4: *A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.*

MGEX discloses all aspects of its segregation and portability arrangements in its Rulebook and this disclosure, both of which are publicly available on the MGEX website. Such disclosure includes Rule 2106.00., which states that customer funds or margins may not be used to discharge a default in a Clearing Member's proprietary account. This protection applies regardless of the type of account used to hold a customer's collateral. Unless a requirement other than those imposed by MGEX and the CFTC applies, there are no constraints that could impair the Exchange's ability to segregate or port the positions and collateral of a participant's customers, provided that such customer is not in default and the accepting Clearing Member consents to the transfer.

PRINCIPLE 15: GENERAL BUSINESS RISK

An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

Key Consideration 1: *An FMI should have robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.*

MGEX has Rules, policies, and procedures to fully vet all new business or strategy decisions that could involve adverse changes to the Exchange's balance sheet prior to the execution of such items. In all cases, executive management and the Board of Directors discusses various "what if" scenarios and analyzes pro forma financial statements in order to consider the worst case expenses the Exchange may face as part of any new business strategy. Furthermore, should any new initiatives involve large expenditures on the part of MGEX that may impact MGEX financial results and require legal contracts, all such agreements are reviewed and approved by the Board prior to being implemented in accordance with Bylaw 210.01.G. MGEX closely monitors financial performance to ensure continued operations in all cases.

Further, in its administration and operation of the Exchange as a business enterprise, MGEX faces certain general business risks, and the Board of Directors has consequently established a framework for managing such risks. In order to identify business risks within this framework, the Exchange assesses what circumstances could impair MGEX's financial position. Specifically, management analyzes potential internal and external sources or factors that could disrupt the Exchange's ability to achieve its objectives or negatively impact cash flow and capital. Management also evaluates any other events that could trigger unexpected or excessively large expenses, as well as common risks associated with conducting business in the industry.

After identifying key risks, the Exchange assesses the probability of a risk's occurrence and its potential impact on MGEX. Management performs various analyses to evaluate how a specific scenario would affect MGEX's revenue and expenses or how a risk in one area could impact other existing business activities. The Exchange then evaluates possible preventative measures or controls that allow MGEX to avoid or reduce the risk or, if the Exchange must accept such risk, tools to manage or lessen the financial impact (typically insurance). In all matters, MGEX aims to be proactive rather than reactive in monitoring and managing its business risks.

Although MGEX identifies risks and mitigation options on an ongoing process as changes in its business environment occur, the Exchange has identified several business risks, each of which MGEX monitors and manages on a continuous basis including, but not limited to, the following:

Destruction of Property and Business Interruption: The Exchange owns three historic buildings in the city of Minneapolis; MGEX's main offices are located there and the remaining space is leased to outside tenants. MGEX also maintains office space at an out of state location where it maintains backup equipment and systems for purposes of complying with business continuity and disaster recovery requirements. Like all property, there is a risk that these buildings and/or the contents of the buildings could be partially or totally destroyed, which would result in large expenditures, a loss of income, and a potentially negative cash flow. MGEX has accepted that this risk is inherent in its operations and manages it through insurance and having redundancy for its operations located out of state. The Exchange maintains property insurance that covers the Minneapolis building, including the structure itself, the boiler, machinery, equipment (i.e., networks and servers necessary for the functioning of trading and clearing operations), as well as the assets located at the backup location.

In recognition that the destruction of its buildings could result in the suspension or disruption of MGEX's business operations and lost revenue from leased spaces, MGEX's insurance policy also provides coverage for any lost business income. In addition, this protection would likewise cover lost income in the event that the CME Globex® electronic trading platform was partially or completely shut down. For more information regarding how MGEX mitigates its operational risks stemming from a potential power outage or other component failures at the Exchange or at CME, please see Principle 17.

Reputational Risk: MGEX's reputation as a stable and reliable trading environment makes it an attractive venue for market participants to do business. If something adversely affected MGEX's reputation, some market participants could choose not to enter the market or transact business through the Exchange. Reputational risk can arise for different reasons. For instance, as part of its regulatory oversight role, the CFTC periodically performs rule enforcement reviews during which it analyzes MGEX's overall compliance capabilities with respect to certain programs or activities. After completing this in-depth review, the CFTC frequently publishes a detailed review, which is publicly available and often summarized in industry articles or news releases. As a result, if MGEX had any inadequacies or areas in need of improvement, they would become widely known to market participants, competitors, and others in the industry. If not managed, a poor rule enforcement review could therefore damage MGEX's reputation. Similarly, repeated instances of undetected fraudulent activities or lax enforcement of its Rules could also make market participants more hesitant to transact business with the Exchange.

MGEX monitors and manages its reputational risk by constantly analyzing new regulatory requirements, implementing relevant recommendations by the CFTC, and maintaining rigorous surveillance programs. By keeping abreast with new regulations and implementing changes when appropriate, MGEX mitigates its risk of being found non-compliant by the CFTC. Likewise, thorough trade and market surveillance programs minimize the possibility of fraudulent activities going undetected, and an effective disciplinary program and significant sanctions deter recidivism. Lastly, MGEX constantly monitors how local or national publications portray the Exchange in industry or business articles, so that it can address any unfavorable representations.

Finally, prior to engaging in new business activities, MGEX always considers the reputational risk of MGEX in association with any new business partner. MGEX thoroughly reviews from multiple perspectives prior to engaging in any new business venture how the associated business partner may be viewed by all stakeholders, regulators, market participants and the derivatives industry as a whole.

Competition Risk: Because the Exchange operates in a competitive industry, an effective response to competition is critical to its success. MGEX monitors and manages this risk in a few different ways. First, the Exchange monitors open interest in MGEX's markets as well as other exchanges in order to track trends and changes in market share. Second, MGEX integrates new technology and may make functionality or other changes if such changes are in the best interest of the Exchange. Such changes and advancements help ensure that MGEX does not lose any advantages to other exchanges as they evolve. Third, the Exchange maintains a marketing department that promotes MGEX products and periodically has incentive programs to encourage increased trade volume. Finally, in order to retain and attract the most qualified employees possible, the Exchange offers competitive salary and benefits.

Poor Execution of Business Strategy: Poor execution of a business strategy hinders a company's ability to achieve its goals, and the Exchange therefore recognizes that it must effectively implement business strategies to be successful. The risk of poorly executing a strategy can arise in a variety of situations, such as the launch of a new product or a change in marketing focus. MGEX manages and monitors this risk through preventative measures and thorough assessments. Before implementing a new strategy, MGEX works to understand how the desired changes will impact the Exchange by projecting expected revenue and expenses, as well as determining how to cover any additional capital requirements or technological needs. MGEX also identifies any limitations, analyzes potential obstacles and plans to address such obstacles, and communicates the strategy to all involved employees. In addition, since poor execution of business strategies may stem from poor management or work performance, annual evaluations of all employees also help mitigate this risk. Lastly, MGEX maintains a liability insurance policy that would provide coverage in the event that a Member sued the Exchange on the grounds of a bad business decision made by a Board director or an Exchange employee.

Other Liabilities: Unexpected liabilities resulting from situations including personal injuries occurring on the Exchange's premises, internal or external theft, multimedia liability, breach of network security or privacy, or data extortion could result in unexpected and large expenditures. Because the Exchange recognizes that despite preventative measures these risks are still present, MGEX has obtained insurance that covers its liability in these and additional circumstances.

Key consideration 2: *An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.*

MGEX holds liquid net assets that would allow it to continue operations and services as a going concern if it incurs general business losses. Such assets are funded by equity (mainly cash in U.S. Dollars) and are sufficient to support at least six to twelve months of current operating expenses, which could be used to implement and achieve MGEX's recovery and wind-down plan. As required by CFTC regulations, MGEX maintains liquid assets to cover 6 and 12 months' worth of expenses and sufficient unencumbered liquid financial assets to implement its recovery and wind-down plan. At the current time, the Exchange considers six to twelve months to be an appropriate time period to execute its recovery and orderly wind-down plan based upon MGEX's business risks and because it is the estimated length of time required to fully recover or wind-down MGEX's operations and services, including selling the building and assets. As a result, MGEX is meeting CFTC requirements as far as maintaining liquid resources for such period.

In order to calculate the amount of net liquid assets required, the Exchange examines historical income and expense information to estimate future revenue and expenses and analyzes how such revenue and operating expenses could change under adverse business scenarios or a large one-time loss. It also takes into consideration the types of actions included in its recovery and wind-down plan. MGEX conducts this analysis on a quarterly basis, as well as at any time a material change to MGEX's business model or external changes occurs.

Key consideration 3: *An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan. At a minimum, an*

FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

The Exchange has developed and maintains a plan to achieve a recovery or orderly wind-down of operations, and as described under *Key Consideration 2*, MGEX holds sufficient liquid assets to implement this plan over six to twelve months. As required by CFTC regulations, these assets are separate than those that would be used should the Exchange initiate its recovery or wind-down plan due to a participant default (see Principles 4, 7, and 13 for more information).

Key consideration 4: *Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.*

The Exchange's net assets used to cover business risks are composed primarily of cash in U.S. Dollars held in financial institutions approved by the Board. The Exchange evaluates its net assets at least once every fiscal quarter under various scenarios, including the adequacy of the assets in adverse market conditions, to ensure that it can meet its current and projected operating expenses and reports its total financial resources to the CFTC. MGEX also maintains a committed line of credit, which serves as an additional source of liquidity and can easily be converted into cash at a low cost if required by market conditions. This line can only be used for general business purposes and is held in addition to any other lines that can be used only for default purposes.

Key consideration 5: *An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.*

Under the capital plan developed by the Exchange, MGEX has the ability to raise additional equity in several different ways in the event that its equity falls close to or below the amount required. First, the Board of Directors has the power to levy a regular or special assessment[7] on all MGEX memberships in accordance with Bylaws 221.00. and 221.01. Second, MGEX may sell and issue additional memberships at a price determined by the Board pursuant to Bylaw 360.00. Third, the Board, which controls the property of the Exchange, may sell the buildings and real estate owned by MGEX.

[7] Regular assessments may be imposed for purposes of operating expenses; special assessments may be levied for any purpose related to the Exchange, provided that such assessments are first approved by a majority of MGEX record owners.

PRINCIPLE 16: CUSTODY AND INVESTMENT RISKS
An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.

***Key Consideration 1**: An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect these assets.*

MGEX utilizes a variety of settlement banks to facilitate its settlement process, as well as its cash and collateral management requirements. In an effort to mitigate the credit risks posed to MGEX by the settlement banks it uses, the MGEX Risk Team conducts reviews of its settlement banks on at least a yearly basis. Additionally, by requiring that each approved settlement bank utilizes the Fedwire Funds Services for transacting wires to and from MGEX and Clearing Member accounts, MGEX is able to ensure all transactions are final and cannot be reversed without a separate wire transaction. The entire review process, along with applicable MGEX Rules previously described in this disclosure, limit the credit risk to MGEX arising from approved settlement banks.

Based on criteria developed by MGEX, a review of a settlement bank includes analyses of a number of items, including finances and operational capacities. The Exchange also evaluates the following non-exclusive list of criteria when performing a review of a settlement bank:

Settlement Bank / Depository / Liquidity Provider Operational Criteria	Comments
The settlement bank must be a, *Large U.S. Commercial Bank or investment bank* and have consolidated assets of $200 million or more. http://www.federalreserve.gov/releases/lbr/current/default.htm	
In determining settlement bank approval, MGEX will consider results from recent Federal Reserve Stress Tests, if available.	
Bank should meet investment grade credit status by either Moody's or Standard and Poors rating service.	
Bank should be a member bank of the Federal Reserve.	
Bank must be able to send and receive wire transfers during the hours of 7:00AM and 4:30PM CT.	
Bank must be able to provide real-time payment processing (no overnight batch processing) for all fund transfers between MGEX and clearing member accounts	.
Bank must provide account holders with a list of contacts available for immediate assistance (during normal business hours).	
Settlement bank must be regulated by an appropriate governmental agency	
Settlement Bank / Depository / Liquidity Provider Financial Criteria	

If publicly available, the MGEX Financial Surveillance team will review the financial statements for financial condition.	
If available, the independent auditor conducting the audit of financial statements may not have noted any material control deficiencies.	
If available, the independent auditor conducting the audit of the financial statements may not have issued a going concern opinion.	
Determine if the firm is in compliance of minimum capital ratios required to be maintained pursuant to regulations issued by the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (see Exhibit E for capital ratio requirement regulations).	
Determine if any important line item balances have changed significantly (30%) since the previous statement and, if so, consider contacting the firm to ascertain why.	

Key Consideration 2: *An FMI should have prompt access to its assets and the assets provided by participants, when required.*

Pursuant to the provisions of the CEA and CFTC regulations, MGEX is required to maintain segregated accounts for the exclusive benefit of its customers. In fulfilling this requirement, the Exchange has executed custody agreements, which create a contractual relationship that explains the rights and responsibilities of each party to the agreement. MGEX also maintains accounts for transacting business with the Clearing House and Clearing Members, and these accounts are held in the name of the Exchange. Bank documentation supports the usage of these accounts and ownership of funds in the accounts. In addition, Clearing Members deposit Treasuries used to meet margin requirements into MGEX owned accounts, thereby allowing MGEX the ability to promptly access and liquidate the securities if needed.

The collateral acceptable for meeting MGEX margin requirements are those that the Exchange considers to present the least exposure to credit, liquidity, and market risks. MGEX recognizes only those assets that are readily available to market participants and can be readily converted to cash at a predictable value and timeframe in order to minimize risk during times of market stress.

Key Consideration 3: *An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each.*

MGEX conducts an annual review of its custodian banks and all settlement banks used by the Exchange in the manner described above. This review allows MGEX to verify that the use of any custodian will not expose the Exchange to major concentrations of risk by reviewing the size of assets held in relationship to the amount of collateral being held by the custodian for MGEX purposes.

Key Consideration 4: *An FMI's investment strategy should be consistent with its overall risk-management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.*

CFTC Regulation 1.25 sets out the instruments and transactions in which MGEX is permitted to invest customer funds. Later amendments adopted by the CFTC further restrict the types of permissible investments under Regulation 1.25 with the overall objective of preserving principal and maintaining liquidity. The Exchange's Clearing House Investment Policy specifies which investments are acceptable, in accordance with Regulation 1.25. All proposed investment policies undergo an internal review and approval process to ensure the policy is consistent with the overall risk management strategy of the Exchange. The Risk team, and ultimately the Board of Directors, will make the final determination on a recommended investment strategy. MGEX discloses, at the request of the CFTC, all investment strategies. At the time of this disclosure, MGEX is not investing funds and therefore this *Key Consideration 4* is not applicable to MGEX.

CFTC Regulations only allow for investment in high quality, low risk investment vehicles while limiting the concentration in such investment options. If MGEX elects to invest funds at a later date, it would choose only those investments that meet CFTC requirements both in terms of the type of investment as well as concentration limits.

PRINCIPLE 17: OPERATIONAL RISK

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfillment of the FMI's obligations, including in the event of a wide-scale or major disruption.

Key Consideration 1: *An FMI should establish a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.*

In recognition that the Exchange faces certain operational risks, the Board of Directors has established a framework for addressing such risks. In order to identify risks within this framework, MGEX assesses what internal or external sources could result in the reduction or breakdown of services provided by the Exchange. Specifically, management analyzes potential deficiencies in internal or informational systems or disruptions from external events by discussing various "what if" scenarios in order to evaluate worst case scenarios. Sources identified include natural disasters, the failure of an external service provider (e.g., CME or an internet service provider), inadequate controls to manage risks, and inadequate screening or training of personnel.

The Exchange monitors and manages operational risks through various methods and procedures, which are documented within internal policies. For example, MGEX is able to manage its risk arising from a natural disaster or any kind of other local disaster by maintaining a business continuity and disaster recovery ("BCDR") plan. This plan includes a secondary location that meets the geographical distance requirements imposed by the CFTC, thereby allowing MGEX to continue its operations. MGEX also tests aspects of this plan at least annually to ensure its effectiveness.

To monitor and control risk stemming from its relationship with CME, MGEX and CME have developed communication and testing processes, and MGEX further mitigates its operational risks arising from a potential power outage or other component failure at CME through its insurance policy. Specifically, the Exchange's policy covers lost income in the event that the CME Globex® electronic trading platform is partially or completely shut down. Redundant connections further help the Exchange manage risks from operational failures. MGEX ensures the adequacy of its risk management controls through extensive testing, employing new technology, and staying abreast of other industry developments.

In order to ensure that its employees are well-qualified and capable of efficiently operating the Exchange's systems, MGEX follows human resources procedures when hiring, training, and retaining personnel. More specifically, the Exchange seeks to hire individuals with relevant education and work backgrounds and individuals go through a training process upon the commencement of employment. Annual performance reviews are conducted for all employees in order to address any deficiencies or other problems. Lastly, MGEX maintains fraud prevention policies, which limit who has access to banking arrangements and MGEX Clearing and general banking accounts, as well as who can execute non-material legal agreements not requiring the Board's approval. These policies also require the reporting of invoices over a certain amount to the Board and restrict access to certain other systems or locations to prevent theft or fraud.

MGEX's operational risk management framework also includes change-management processes to mitigate risks arising from changes to operations, policies, procedures, and controls. More specifically, this framework requires changes to go through a process of discussion, approval, and testing prior to implementation.

Key Consideration 2: *An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk-management framework. Systems, operational policies, procedures, and controls should be reviewed, audited, and tested periodically and after significant changes.*

The Board has delegated overall responsibility for operational risk, including BCDR plans, insurance, leases involving office space within MGEX buildings, and various other operational risks to the President & CEO along with executive management. As a check and balance to these items, the Board may request that executive management give presentations identifying certain operational risks and the ways in which they have been mitigated. In addition, the Board reviews and approves all material contracts that may pose a risk to MGEX. Furthermore, the Board reviews invoices that exceed $10,000, substantial outstanding debt owed to the Exchange beyond 90 days, and the prior month's financial results. At each Board meeting, management provides updates to the Board regarding outstanding issues that may affect the Exchange both in the short-term and long-term, and the Board offers management direction on how best to proceed. The Treasurer also gives an update at each Board meeting regarding the overall financial performance of the Exchange, drawing attention to monthly profitability, specific line items that may be over or under budget, and overall performance. In addition, on an annual basis, an outside auditor employed by MGEX via the Board provides an overview of financial results and reports on MGEX internal controls. As of the date of this disclosure, no material concerns have been noted by the Treasurer, the outside auditor, or other MGEX departments.

On an annual basis MGEX participates in the industry wide Futures Industry Association's BCDR testing and performs additional internal drills simultaneously. For details concerning the testing that is performed, please see https://bcp.fia.org/. In preparing and participating in the annual industry test, MGEX routinely monitors connections and attempts to improve technology to ensure robustness in its operations. Specifically, MGEX has primary and secondary systems located in Minneapolis while also ensuring complete redundancy of all Clearing related systems and processes at a secondary facility that can be operationally ready within two hours of a disruption, as explained further in *Key Consideration 6*.

As part of the annual industry wide test, MGEX assumes that all primary and secondary systems are not available in Minneapolis and exclusively utilizes its BCDR location and systems for completion of the test. Additionally, the Exchange issues correspondence to all MGEX Clearing Members that trade MGEX markets to ensure that they are able and ready to fully participate in such tests or face potential disciplinary action for a lack of participation. In performing the tests, all Clearing Members must engage MGEX by entering orders into Globex®, accessing MGEX clearing systems for trade matching and allocation from the BCDR location, and enter and match ex-pit trades through this system as proof of their ability to conduct business with the MGEX Clearing House should there be a disruption at MGEX's main site. In addition to ensuring access to Globex® redundant systems and MGEX clearing systems, the Exchange also checks to make certain that all Clearing Members have been able to retrieve the test data entered and matched from the BCDR site into their systems as part of the test. To do so, MGEX confirms that each Clearing Member has logged into all BCDR systems, the required test data has been entered into these systems, and the final trade and clearing reports have been retrieved from the BCDR location. Failure to follow these steps and processes would necessitate follow up to ensure connectivity as well as potential disciplinary action by the Clearing House and/or A&I. Finally, following the test, MGEX conducts an internal post mortem of Exchange operations and corrects or improves any noted deficiencies. Once completed, MGEX updates its internal policies and procedures as necessary.

MGEX employs an outside audit team that examines the Exchange's internal control processes and procedures on an annual basis and reports its findings to the Board. The Exchange's finance, legal, and Clearing House departments will at times meet with the outside auditor to provide documents, policies, or procedures in an effort to provide the outside audit team assurance as to the stability of MGEX internal controls, polices, and procedures. This audit occurs on an annual basis with an audited financial statement and notes presented to the Exchange. As its final step, the outside auditor will report all of its findings to the MGEX Board during the October Board meeting. As of the date of this disclosure, no material findings by the outside audit team have been noted in the last year.

Key Consideration 3: *An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.*

MGEX has developed key operating objectives, which are described within this disclosure, that the Exchange works to maintain on a daily and annual basis. One of the main objectives is to ensure 100% reliability in terms of daily operations and specifically, the MGEX Clearing House. As of the date of this disclosure, MGEX has not had an operational issue which resulted in a loss of up time. On an annual basis MGEX sets departmental objectives designed to further various operational goals including the reliability requirement. At the end of each fiscal year, MGEX executive management evaluates the extent to which departments achieved a goal or objective. The President & CEO then reviews these department evaluations, as do certain Board members involved with compensation. Incomplete goals may be repeated for the following year or replaced with other potentially more important objectives. Once goals are determined for the coming year through a collaborative process within each department, other department heads evaluate the goals for appropriateness and make adjustments if beneficial. All final goals are evaluated by the President & CEO annually. Once finalized and approved by the President and CEO, goals are given to MGEX employees so that they fully understand the Exchange's objectives and work toward meeting those goals.

Key Consideration 4: *An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.*

MGEX has tested its clearing related servers and associated systems to allow for matching of trades at a rate of one million trades per second. Clearing systems have been tested to be able to clear over ten million trades in a single session without fail. In comparison, MGEX's annual trade volume is less than 3 million transactions per year. Accordingly, MGEX has the operational capacity to account for an extreme increase in daily trade volume. However, if an instance developed where MGEX volumes increased substantially, MGEX systems have been designed to allow for the addition of servers and equipment that would allow MGEX to continue to operate without experiencing a delay or issue as it relates to stressed market conditions causing dramatic increases in volume. Due to the design of MGEX systems, hardware or software can be easily adjusted to add the necessary capacity to avoid a market disruption long before any occurrence would cause a problem with MGEX operations.

Key Consideration 5: *An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats.*

MGEX physically secures its offices and buildings through locks and secure access points. Other than the public areas of MGEX's buildings, all space and offices are secured to limit the possibility of unauthorized entry. The Exchange also employs security personnel during non-business hours in order to promote a safe and secure environment. In addition, MGEX maintains a camera system which is viewable by building personnel throughout the day and evenings.

As it relates to data and infrastructure, MGEX maintains a closed environment to the outside world by not allowing direct access to any system considered essential. Specifically, the MGEX IT Department is responsible for ensuring all servers and personal computers are updated with security patches and anti-virus software. Furthermore, interaction with the Clearing House from MGEX Clearing Members and outside sources are username and password protected and assigned by the IT Department. These forward facing systems are simply available for data entry purposes for trade data by MGEX Clearing Members. Each day the front end systems are cleared of all data and downloaded into MGEX systems which are accessible only to MGEX employees by secure usernames and passwords. In addition, MGEX maintains a BCDR location in the event of a physical disruption in the main offices of MGEX. This location is out of state and maintained via secure VPN and point to point connections between CME and MGEX. Therefore, internet traffic is again limited in how MGEX conducts business on a daily basis. In addition to the assignment of usernames and passwords, the IT Department is responsible for documenting internal system architecture and policies and procedures for MGEX. MGEX believes its systems and design for physical and data security, along with the testing of these systems, are in line with national and industry standards and in some case beyond industry standards in terms of who and how mission critical systems are accessed.

Key Consideration 6: *An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements.*

As noted above, MGEX maintains a BCDR location designed to be operational within a two-hour recovery time period following a disruption, as required by CFTC regulations. Given MGEX market times, this period would allow MGEX to complete its daily processing, including settlement, by the end of the day of such disruption. All procedures required to effect such a scenario are codified within internal policies. The Exchange's BCDR site is geographically disperse from its primary location, and MGEX also has personnel that live and work outside of the relevant area. Through this geographic and personnel dispersion, the Exchange is able to ensure that it is capable of meeting the two-hour recovery time objective after an operational interruption or wide-scale disruption.

Within its BCDR design and plan, MGEX receives all matched trades from Globex® via dedicated lines from CME to the MGEX disaster recovery location. In addition, MGEX utilizes a system whereby any edits to trade data or allocations of matched trades that have occurred in MGEX production servers are automatically replicated to its offsite BCDR location. However, as part of the BCDR initiation process, MGEX would announce via its website, email, or emergency contacts how MGEX would initiate a recovery to its BCDR location. Key personnel at MGEX carry cell phones and have the ability to override traditional cell phone carriers via government lines meant to be used in case of emergencies. MGEX has therefore taken every step possible at the current time to be able to communicate with key stakeholders internally at MGEX and externally with emergency contacts at Clearing Members and relevant local and federal agencies. In addition, as part of its recovery plans, MGEX would ask for the assistance of its Clearing Members to view all matched trade data in MGEX systems and ensure all data has been accounted for. Should data be missing, MGEX can have CME retransmit matched trade data for display in its front end systems for Clearing Member reconciliation purposes. Any allocations or ex-pit type activity which may have been dropped could also be reconciled by Clearing Members and entered into MGEX BCDR systems once operational. After verifications have occurred, MGEX could then continue with final clearing processes.

Key Consideration 7: *An FMI should identify, monitor, and manage the risks that key participants, other FMIs, and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor, and manage the risks its operations might pose to other FMIs.*

MGEX has identified risks associated with its Clearing Members, CME (as its match engine provider), its settlement banks, and internet providers. MGEX has taken the following steps in order to attempt to mitigate these risks.

Clearing Members: MGEX maintains a strong and effective risk management framework to effectively handle the default or insolvency of one of its Clearing Members. Please refer to other sections of this disclosure for specifics concerning this framework. The Exchange conducts annual required testing for all Clearing Members to ensure Clearing Members can connect and continue operations should MGEX need to move to its BCDR location.

CME match engine provider: CME maintains multiple primary and secondary data centers used in order to operate its match engine. MGEX maintains connectivity to these data centers at both its primary site located in Minneapolis as well its BCDR location. For more information concerning the CME and Globex®, please refer to www.cmegroup.com.

Settlement Banks: MGEX maintains an online banking system for transacting business with its Clearing Members through its primary settlement banks. Should the online banking system not be available or fail, MGEX has the ability to directly contact the wire room and enact wire transfers to and from MGEX Clearing Members via phone. Dedicated personnel at MGEX have been granted access to be able to work with the wire room to effect intraday and end of day wire transfers. In addition, by maintaining a relationship with more than one settlement bank, MGEX is able to help mitigate this risk.

Internet providers: MGEX maintains a relationship with various internet providers and has a primary and secondary internet provider that can be utilized in case of primary internet disruption. MGEX tests the failover of such providers at least annually.

In addition to the above policies and as mentioned previously, MGEX also maintains a fully redundant BCDR location that utilizes separate internet, phone, and power suppliers from that of the Exchange's primary place of business. The only outsourcing of critical services MGEX has employed is that of the CME for electronic trading purposes. As a registered DCO and SIDCO with the CFTC and various government agencies, CME is required to have the same recovery time as that of MGEX.

In order to mitigate exposures to other FMIs, MGEX maintains a BCDR location that has been designed to continue MGEX operations in case of a wide spread power outage located in and around Minnesota. MGEX coordinates its BCDR activities and abilities with CME. Operational policies and procedures have been implemented for the purpose of communicating in a situation that would affect the ability to trade MGEX products. Further, MGEX has coordinated with CME to ensure connectivity exists between MGEX primary and BCDR locations with CME primary and BCDR locations. For example, on a daily basis all trade data executed on Globex® is automatically routed to both MGEX primary and BCDR locations so that if an event occurred that disrupted either organizations primary sites, business could continue to be conducted with little to no interruption given that trade data has already been issued from these locations to MGEX BCDR locations.

PRINCIPLE 18: ACCESS AND PARTICIPATION REQUIREMENTS
An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

Key Consideration 1: *An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements*.

Non-Members, Members, FCMs, and Clearing Members must meet various legal, operational, and financial requirements, which are tailored by their needs and level of participation in the Exchange. MGEX applies similar standards to all membership applicants, whether individuals, corporations, or some other organizational structure. By applying these similar standards universally, the Exchange guarantees a fair and open membership application process and, in turn, fair and open access to its markets and services. The criteria and requirements for membership in MGEX and access to its markets are generally provided for in MGEX Rules or on its website. Exchange traded futures and options are listed by MGEX and cleared through the Exchange's Clearing House. Any party active in MGEX markets is under the jurisdiction of the Exchange and thus must be in compliance with the applicable MGEX Rules. In addition to requirements stated in the MGEX Rulebook, each level of participation may have additional requirements it must meet that are established by various industry organizations, such as the National Futures Association or the CFTC and are described in the paragraphs that follow.

Non-Member: While formal membership is not a pre-requisite for participation in the MGEX marketplace, a Non-Member market participant must, at a minimum, form a relationship with an FCM in order to trade MGEX products that will eventually clear through the MGEX Clearing House. The access requirements for a Non-Member include the following:

Legal. Pursuant to MGEX Rule 2092.00., Non-Member market participants trading MGEX markets are bound by and must comply with the MGEX Rules in relation to such transactions. If a Non-Member violates any of the Rules, it is required to cooperate and participate in any investigatory and disciplinary processes as a result of the violation.

In addition, pursuant to MGEX Rule 2009.00., Non-Member market participants are required to keep full, complete, and systematic records of their activity and retain them for a minimum of five years. Pursuant to MGEX Bylaw 283.00., the MGEX's Department of Audits and Investigations has the authority to examine books and records kept by any direct or indirect market participant.

Operational. All MGEX products trade on the CME Globex® Electronic Trading Platform. In order for any market participant to access Globex®, the market participant must first form a relationship with an FCM who has connectivity to Globex® and either the FCM, firm, or the market participant in question must have a relationship with a MGEX Clearing Member who, along with the Exchange, approves access to the match engine. As part of the application process, the market participant will have to sign a customer agreement stating that they will set up an account with the FCM or Clearing Member, fund that account accordingly, and comply with margin requirements and other associated requirements necessary to trade a futures or options contract. The market participant also goes through an informative process on risk and executes a risk disclosure with the FCM. The FCM will then provide the front-end IT capabilities, or the market participant can contract with a third party vendor to supply the front-end IT capabilities, provided the Clearing Member and Exchange have approved access. Upon certification by CME Globex®, the market participant will receive a session or user identification that will accompany their futures trades for identification purposes within MGEX audit trail records. The FCM will provide the session identification to the clearing firm with which the FCM has an account. As the FCM is responsible for monitoring their customer market participants, the Clearing Member side of the FCM or the MGEX Clearing Member approving access for the market participant or firm is responsible for handling the risk parameters of the market participant by setting the risk controls and financial requirements. See the financial section below for further details.

In order to trade MGEX option products through open outcry in the Exchange Room of MGEX, a Non-Member market participant is required to place their trades through a floor broker or floor trader (see the Member section for more details on floor broker and floor traders).

MGEX Rules govern the operational access requirements of market participants. Such applicable Rules include the following:

MGEX RULE 1801.00. ACCESS AND CLEARING MEMBER GUARANTEE.

All Members and nonmembers must sign a customer account agreement and establish an account with an Exchange Clearing Member before they are provided access and commence trading on the Electronic Trading System. However, Members or nonmembers who exclusively trade through an omnibus account at an Exchange Clearing Member will not be required to sign a customer account agreement with the Exchange Clearing Member. A Clearing Member guarantees and assumes financial responsibility for all orders it places and receives, and all contracts it clears through the Electronic Trading System. Further, Clearing Members shall promptly pay all fees and charges invoiced for the Electronic Trading System.

Additionally, pursuant to MGEX Rule 1802.00., Non-Member market participants are responsible for setting up their own internet access.

MGEX RULE 1802.00. INTERNET SERVICES.

Members and Market Participants are responsible for procuring their own Internet access providers. The Exchange does not warrant any order entry, quote or order execution speed.

MGEX RULE 1804.00. MISUSE OF ELECTRONIC TRADING SYSTEM.

Misuse of the Electronic Trading System is strictly prohibited. It shall be deemed an act detrimental to the interest and welfare of the Exchange to willfully or negligently engage in unauthorized use of the Electronic Trading System, to assist any person in obtaining unauthorized access to the Electronic Trading System, to trade on the Electronic Trading System without an agreement and an established account with a Clearing Member, to alter the equipment associated with the system, to interfere with the operation of the system, to intercept or interfere with information provided thereby, or in any way to use the system in a manner contrary to MGEX Rules and Regulations.

Members and Market Participants may not distribute, sell or retransmit information displayed on the Electronic Trading System to any third party.

MGEX RULE 1812.00. DISCIPLINARY PROCEDURES.

All suspensions, expulsions and other restrictions imposed upon a Member or Clearing Member by the Exchange pursuant to disciplinary procedures contained in MGEX Rules and Regulations shall restrict with equal force and effect access to the usage of the Electronic Trading System by such Member or Clearing Member.

Members and Market Participants shall promptly respond, provide documentation, and cooperate in all inquiries by the Exchange. Failure to do so shall subject the person or entity to disciplinary procedures, including immediate termination of access to the Electronic Trading System.

MGEX RULE 1813.00. TERMINATION OF ACCESS.

The Exchange shall have the right to summarily terminate access to the Electronic Trading System.

Financial. The financial requirements for a Non-Member market participant include the ability to open an account with an FCM, fund that account, and ensure that adequate funds are deposited with the FCM, as well as to continue to meet margin calls from the FCM or their positions may be liquidated. Every market participant, including Non-Members must post initial margin at the initiation of a futures transaction as well as maintenance margin during the period a futures contract remains open. The Clearing Member is responsible for setting requirements as to the deposit and maintenance of the margin. MGEX sets the minimum margin amounts and reserves the right to increase or decrease initial and maintenance margins amounts as market as market conditions require. Relevant Rules include, but are not limited to, the following:

MGEX RULE 760.00. MARGINS.

A. EXCHANGE MARGINS: This term shall mean United States Funds, negotiable securities or other property deposited with or to the sole credit of an agent or of a Clearing Member as protection against losses incident to a transaction for future delivery.

1. INITIAL MARGIN: This term shall mean a margin (as defined herein) deposited at the initiation of a Futures transaction.

2. MAINTENANCE MARGIN: This term shall mean a margin (as defined herein) maintained during the period a Futures Contract remains open.

Members and nonmember customers of a Clearing Member shall deposit and maintain initial and maintenance margins according to the Clearing Member's requirements. Initial margins as established by the Exchange, shall be charged at a minimum. The Exchange may increase or decrease initial and maintenance margins as market conditions require.

PROVIDED, that the margins on spreading and hedging transactions shall be the requirements of the Exchange as a minimum, except where a customer specifies that a spread involves an MGEX approved inter-exchange spread. Then the initial margin on the MGEX side of the spread shall be at a minimum established by the Exchange.

The specific amounts of the initial, maintenance, and spread margins are to be transmitted to the membership by special memorandum.

B. CLEARING MARGINS: This term shall mean United States Funds or securities approved by the Exchange deposited with or to the sole credit of the Exchange as protection against losses incident to a Transaction for Future Delivery (See **Regulation 2102.00.**)

MGEX RULE 2102.00. MARGINS.

The Exchange shall set margin requirements at a level that it believes protects the interests of Buyers and Sellers and the Exchange. The Exchange shall accept, as margin, cash or United States Treasury securities. Cash margin requirements shall be submitted by wire transfer of funds or other acceptable method approved by the Exchange. Cash and United States Treasury securities shall be submitted at times determined and posted by the Exchange. United States Treasury securities shall be maintained in multiples of $5,000. The Exchange shall value securities as it deems appropriate. The President or his designee may, at their discretion, require of any Member or market participant a margin upon any or all of such Member or market participant's open trades which are deemed unduly insecure or hazardous in such amount as deemed advisable. Calls for such margin shall be paid by the Clearing Member within one business day or earlier if so requested. Further, the Exchange shall collect daily intra-day variations from Clearing Members apart from, and in addition to, any margin or daily settlement variation payments and collects.

Margin requirements are subject to change at any time but shall at all times be those requirements most recently adopted, publicly posted, and in compliance with the requirements of CFTC Regulation 39.13(g)(8), as amended.

Clearing Members called for margins under this Regulation shall pay by the deadline announced by the Exchange. An extension of time for such payments can only be granted by the President or his designee. In such cases the extension of time so granted shall be noted on the written call, and copy of said call shall be kept in the files of the Exchange.

Should a Clearing Member fail to deposit balances for additional margin as required in this Regulation, or should the President or his designee deem the transaction of any Member or market participant unduly insecure or hazardous, the Exchange may direct that the Member or market participant close out all or a portion of the trades, or that the Member or market participant transfer all or a portion of the trades to the books of another Clearing Member, as the situation may require. If such requests are not complied with within one (1) hour, the Exchange may, with the consent of the President or his designee, originate orders to transfer or close out all or a portion of the Member or market participant's trades, as the situation may require. Any such action shall be taken with due consideration to the positions of customers.

All differences between the contract price reported and accepted and the price at which the property may be bought or sold as a consequence of a Member or market participant's failure to fulfill the obligations as set forth in this Regulation shall constitute the rule and measure of damages against the Member or market participant so failing, and the differences shall be calculated, adjusted and settled within the time and in the manner and form determined by the Exchange.

Any financial obligations owed by a Clearing Member to the Exchange, which remain outstanding after all the Member or market participant's trades have been closed out, may be satisfied through the Member or market participant's security deposit with the Clearing

House or such other assets, collateral or guarantees as necessary to satisfy the financial obligations.

Member: MGEX Membership has numerous benefits, including but not limited to, reduced Exchange fees, voting rights, access to the Exchange Room, and the opportunity to become a Clearing Member of MGEX.

Legal. MGEX membership is generally governed by MGEX Bylaws and Rules and more specifically, Chapter 3 of the Rulebook. The Bylaws governing the ability of an individual or entity to become a Member of MGEX are posted on MGEX's website at http://www.mgex.com/membership.html and are set forth below.

MGEX BYLAW 300.00. MEMBERSHIP: INDIVIDUALS ELIGIBLE.

Any adult whose character, credit and reputation for fair dealing are such as to satisfy the Board of Directors shall be eligible to become Record Holder of a Membership, and to entrust with the privileges and responsibilities thereof.

MGEX BYLAW 301.00. MEMBERSHIP: ADMISSION TO.

If the terms and conditions set forth below have been complied with, the Board of Directors may approve an application for Membership:

A. An application for Membership must have been made;

B. The application must be reviewed by the Exchange. The Exchange may, at its discretion, require any applicant to produce additional documentation and/or meet in person prior to any action by the Board of Directors;

C. A Request to Transfer and Record the Ownership of a Membership form must have been posted on the Official Bulletin Board for ten (10) consecutive days prior to such action;

D. If an objection to the approval of such applicant to Membership has been duly filed by a Member of MGEX, it must have been heard by the Board of Directors and dismissed;

E. All the requirements of the Bylaws and MGEX Rules for the transfer of a Membership to the applicant must have been complied with or the applicant must have obtained an original Membership under the provisions of **Bylaw 360.00.** or **Regulation 2112.00.**

F. An application fee shall be collected by the Exchange at the time of the application. This fee, in an amount to be determined by the Exchange, shall not be refunded in the event that the applicant fails, for any reason, to become a Member.

G. If the applicant does not own a Membership at the time its application is approved nor have a Delegation Agreement in place, the applicant shall have sixty (60) days to obtain a Membership.

MGEX BYLAW 302.00. MEMBERSHIP: APPLICATION FOR.

Application for Membership shall be in writing and shall contain an agreement by the applicant that in consideration of being admitted to Membership the applicant will be bound by MGEX Rules and Regulations and all amendments and additions thereto, and that such agreement shall be binding on the applicant and its heirs, executors, administrators, successors, and assigns. Said application shall be in such form, and accompanied by such information and statements, as the Exchange shall prescribe. Such application shall be signed by the applicant.

MGEX BYLAW 365.00. VIOLATION OF AGREEMENTS: FRAUDULENT REPRESENTATION OR CONCEALMENT.

The making of any fraudulent representation or concealment in the Application for Membership form, a Request to Transfer and Record the Ownership of a Membership form, the Application for Cash Trading Privileges form, the Application for Clearing Privileges form, or in any information given or statements made in connection with any such applications or requests shall be deemed a violation of MGEX Rules and Regulations.

Any violation by any Member or Person, or any agreement made by such Member or on behalf of such Person, in connection with the Application for Membership form, a Request to Transfer and Record the Ownership of a Membership form, the Application for Cash Trading Privileges form, or the Application for Clearing Privileges form shall be deemed a violation of MGEX Rules and Regulations.

MGEX BYLAW 370.00. LIMIT ON OWNERSHIP OF MEMBERSHIPS.

No Record Owner or related person of any Record Owner, as defined below, may own directly, indirectly, or through an affiliate (i.e., a Person that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with such Record Owner), more than thirty-five percent (35%) of outstanding Memberships at any one time. The term "related person" used to indicate a relationship with any Record Owner means:

A. Any partner, director, officer, or other employee of such Record Owner;

B. Any corporation or organization (other than the corporation or a majority-owned subsidiary of the corporation) of which such Record Owner is an officer or partner, or is directly or indirectly, the beneficial owner of ten percent (10%) or more of any class of equity securities;

C. Any trust or other estate in which such Record Owner has a beneficial interest of ten percent (10%) or more or as to which such Record Owner serves as trustee or in a similar fiduciary capacity;

D. Any immediate family member (i.e., a spouse, children, stepchildren, parents, and siblings) of such Record Owner, or any immediate family member of such Record Owner's spouse, in each case, who has the same home as such Record Owner;

E. Any immediate family member of the persons set forth in paragraph (A) of this Bylaw, or any immediate family member of such person's spouse, in each case, who has the same home as such person;

F. Any employee of the Exchange, or any entity in which an employee of the Exchange has a financial interest.

In order to become a Member of MGEX, the market participant or entity must complete and follow through with the Membership procedures posted on the MGEX website at http://www.mgex.com/app_procedures.html. Such procedures include completing the membership application and forms, purchasing a membership interest in MGEX, and paying the application fee. The information requested on the application includes personal information, residential and business history, membership history, disciplinary history, financial information, and acknowledging the conditions of membership. An application must be accompanied by a fee of $1,200. Additionally, the applicant is required to fill out a "Disclosure and Authorization" form giving the Exchange the right to complete a background check on the applicant. Once the fully completed application is submitted, the Exchange conducts a formal review and analysis to determine whether to approve, deny, or request additional information from the applicant.

For risk mitigation and to avoid a monopolization of MGEX's membership pool, the Exchange imposes a limitation on how many memberships one individual or entity can own. MGEX Bylaw 370.00. (provided above) states that no one Record Owner, or associate of such Record Owner can own, directly or indirectly, more than thirty-five percent of outstanding memberships at any one time.

Individual Members who wish to trade options by open outcry, and all members who are also FCMs (see the section on FCMs below for further detail), must properly register with the National Futures Association ("NFA") either as a floor trader or a floor broker or FCM. A floor trader is a person who purchases or sells any futures contracts or options on futures on any contract market or swaps on a contract market or swap execution facility for such person's own account. A floor broker is an individual who purchases or sells any futures contracts or options on futures on any contract market for any other person. In order to register as either a floor trader or floor broker, the individual must complete NFA's online form, complete a fingerprint card, provide proof of trading privileges with a contract market, and pay the application fee. Additionally, NFA registered floor brokers and floor traders who become members of MGEX must attend MGEX Member Orientation, receive a broker number assigned by MGEX, and fulfill ethics training requirements. FCM registration requirements and obligations are contained within CFTC and NFA requirements.

MGEX RULE 2055.03. REGISTRATION OF FLOOR BROKERS/FLOOR TRADERS.

A. Any Member who executes trades in the pit for an account other than his own must be registered as a floor broker with NFA.

B. Any Member who trades in the pit for his own account must be registered with NFA as a floor broker or floor trader.

C. All Members registered with NFA are responsible for completing acceptable ethics training programs and maintaining evidence of completion in accordance with the Commodity Exchange Act and any regulations and statements promulgated thereunder.

Financial. In order to trade MGEX markets, individual Members have the same requirements as a Non-Member as they are required to open an account with an FCM, deposit funds in that account, and meet margin calls from the FCM. Members must also post initial margin at the initiation of a futures transaction as well as maintenance margin during the period a futures contract remains open. The Clearing Member is responsible for setting requirements at or above MGEX posted minimums as to the deposit and maintenance of the margin. MGEX sets the minimum margin amounts and reserves the right to increase or decrease initial and maintenance margins as market conditions require.

For every trade, Members must pay an Exchange fee and Clearing Fee, but with their membership status, they will receive reduced Exchange fees.

If the Member is an FCM, such Member FCM must also comply with the minimum financial requirements as established by the CFTC. The Exchange has the discretion to adopt financial requirements as appropriate beyond those required by the CFTC (see MGEX Rule 2085.00.). Member FCMs must also meet the minimum financial reporting requirements as set forth in CFTC Regulations and MGEX Rule 2086.00. For more details, see the FCM section below.

Delegate Member: Delegate Members are individuals who are leasing limited membership rights and privileges from a Member but have the right to trade their own accounts.

Legal. Pursuant to MGEX Bylaw 372.00., an individual is able to lease a membership if he or she agrees to comply with the conditions set forth in Bylaw 372.00., which states that the individual leasing the membership must apply for membership, pay a Delegate fee, and agree to be bound by MGEX Rules. The benefits to being a Delegate Member include having the right to trade one's own accounts, receive the benefit of reduced Exchange fees, and access the Exchange Room. However, a Delegate Member does not have full membership rights including the right to vote, serve on the MGEX Board of Directors, or act as a broker.

Operational. Delegate Members have the same access requirements to Globex® as do Non-Member and Member market participants. The only difference is the Exchange fees that are charged to the market participant's account. Delegate Members pay reduced Exchange fees in comparison to a Non-Member but, due to their limited membership, Delegate Members pay a higher fee than a Member.

Financial. When leasing a membership, Delegate Members must deposit an amount of money, as determined by the Exchange, as well as pay a monthly fee determined by the Member leasing the membership. The deposit is refundable and is only used as a guarantee on performance while the individual is leasing a membership. In addition to paying Exchange and clearing fees on their account(s), Delegate members must trade a minimum amount of MGEX contracts per month to avoid being charged an additional small access fee. All fees are disclosed within the applicable forms required to be considered for delegate membership.

FCM: An FCM is an individual or organization that solicits or accepts orders to buy or sell futures contracts, options on futures, or swaps, and accepts money or other assets from customers to support such orders and open positions.

Legal. Generally speaking, the CEA is the applicable federal law and requires that all FCMs register as such to conduct business with the public. In practice, this requirement means all FCMs must register with and be members of NFA in order to conduct futures and options business with the public. Such registration involves, among other things, filing completed membership and FCM registration forms, filing forms for its principals and associated persons, and paying membership dues and application fees.[8]

In addition to complying with these industry requirements, FCMs who are Members or Clearing Members of the Exchange must also comply with the membership requirements of the Exchange, including but not limited to, successfully completing the Membership application process and maintaining compliance with the MGEX Rules as detailed above.

Operational. As stated previously, all MGEX products trade on Globex®. In order for an FCM to access Globex®, it would either establish its own connectivity directly with CME or gain connectivity through an existing Clearing Member. Either way, an MGEX Clearing Member must approve the FCM for access to MGEX markets. The majority of FCMs who are Members of MGEX are also MGEX Clearing Members. However, if the FCM is not a Clearing Member, such FCM would be required to sign a customer agreement and establish an account with an Exchange Clearing Member before they could be provided access and allowed to trade on Globex®. The FCM would then be able to provide its customers with the front-end IT capabilities required for trading with a Clearing Member's permission. FCMs are responsible for providing an oversight and monitoring function for their customers.

Financial. FCMs must comply with applicable industry financial requirements, applicable CFTC or other regulations that set forth particular financial requirements, and if registered as a member with MGEX, with applicable MGEX Rules, as detailed below:

> **MGEX RULE 2085.00. FINANCIAL AND REPORTING REQUIREMENTS.**
>
> Financial requirements for Members may be established by the Exchange, provided that requirements for FCMs and IBs must, at a minimum, be established at levels equivalent to those required by CFTC regulations. The Exchange, at its discretion, may adopt financial requirements for such FCMs and IBs more stringent than those of the CFTC if it deems such requirements appropriate.
>
> **MGEX RULE 2086.00. MINIMUM FINANCIAL REQUIREMENTS FOR FUTURES COMMISSION MERCHANTS AND GUARANTEED INTRODUCING BROKERS.**
>
> A. **Financial and Reporting Requirements.** All FCMs that have customers trading MGEX Futures and Options contracts must meet the minimum financial and reporting requirements set forth in CFTC Regulations 1.10, 1.12, 1.16, 1.17, and 1.18, as now in effect or hereafter amended. All such FCMs must file with the Exchange the reports required under such CFTC Regulations, including the reports enumerated below, by approving the Exchange as a receiver of such reports on the WinJammer™ Online Filing System. The Exchange may in its discretion require FCMs to file additional reports as it deems appropriate or necessary.
>
> 1. All FCMs must file daily segregated, secured 30.7 and cleared swaps segregation statements, as applicable, in a manner designated by the Exchange. These statements must be signed by the firm's Chief Executive

[8] For more information, see the National Futures Association website at www.nfa.futures.org.

Officer, Chief Financial Officer, or other representative as allowed by the Exchange.

2. All FCMs must file bi-monthly Segregation Investment Detail Reports as required by the Exchange.

3. All FCMs must provide immediate notice to the Exchange of all disbursements of customer segregated, secured 30.7, and cleared swaps segregation funds that are not made for the benefit of customers of the respective customer origin, and that exceed 25% of the excess segregated, secured 30.7, and cleared swaps segregation funds, as applicable. Any such disbursements by the FCM must also be pre-approved, in writing, by a principal of the FCM.

4. At least one report in each fiscal year must be accompanied by an opinion of an independent Certified Public Accountant.

B. **Extension of Time to File.** Upon written request in advance and for good cause shown, the Exchange may in its sole discretion grant an extension of the time for the filing of any reports or statements required by this Rule.

All costs associated with the requirements of this Rule will be borne solely by the FCM.

If an entity qualifies for more than one type of status (Clearing Member, FCM, Regular for delivery or holding cash trading privileges), then the entity must meet the highest capital and net worth requirements, and the earliest reporting requirements of their various registration status. Additionally, the entity must own the highest number of MGEX memberships required of their various registration status.

MGEX RULE 2087.00. MINIMUM FINANCIAL REQUIREMENTS FOR MEMBERS WITH CLEARING AND/OR CASH TRADING PRIVILEGES.

A. **Financial and Reporting Requirements.** All Clearing Members must meet the minimum financial and reporting requirements set forth in CFTC Regulations 1.10 and 1.17, as now in effect or hereafter amended.

B. **Financial Statements for FCM Clearing Members.** All FCM Clearing Members must meet the requirements set forth in MGEX Rule 2086.00.

C. **Financial Statements for Non-FCM Clearing Members.** Non-FCM Clearing Members must file monthly financial statements that include at a minimum, a balance sheet and income statement, with the Exchange within seventeen (17) business days of the date of such statement. Within sixty (60) days of the close of its fiscal year, Non-FCM Clearing Members subject to this Rule must file a certified financial statement accompanied by an opinion of an independent Certified Public Accountant.

D. **Extension of Time to File.** Upon written request in advance and for good cause shown, the Exchange may in its sole discretion grant an extension of the time for the filing of any reports or statements required by this Rule.

All costs associated with the requirements of this Rule will be borne solely by the Clearing Member.

If an entity qualifies for more than one type of status (Clearing Member, FCM, Regular for delivery or holding cash trading privileges), then the entity must meet the highest capital and net worth requirements, and the earliest reporting requirements of their various registration status. Additionally, the entity must own the highest number of MGEX memberships required of their various registration status.

MGEX RULE 2088.00. REDUCTION OF CAPITAL.

Any Members with clearing and/or cash trading privileges, FCMs with customers trading MGEX Futures and Options contracts or any other entity required by the Exchange to provide financial information must immediately notify the Exchange of any material reduction of its adjusted net capital, working capital and/or its net worth, including the incurring of a contingent liability that would materially affect adjusted net capital, working capital and/or net worth should such liability become fixed. Such notice must be in writing and signed by an authorized representative. Failure to so notify the Exchange shall be considered an act detrimental to the interest and welfare of the Corporation.

For the purposes of this Regulation, a reduction amounting to twenty percent (20%) or more from the adjusted net capital of an FCM or Guaranteed IB reported as of the last date for which a financial statement or answer to a financial questionnaire was filed under these Regulations shall be deemed material. Likewise, for Members with clearing and/or cash trading privileges, a reduction amounting to twenty percent (20%) or more from the working capital and/or net worth reported as of the last date for which a financial statement or answer to a financial questionnaire was filed under these Regulations shall be deemed material. Working capital, for the purpose of this Regulation, shall be defined as total current assets minus total current liabilities. In defining net worth for the purposes of this Regulation, owner's equity, whether shareholder's equity, partnership equity or other equity capital, shall be considered as well as equities and deficits in proprietary accounts which are properly included in determining net worth. Adjusted net capital is defined in accordance with CFTC Regulation 1.17.

Any entity declared Regular for delivery on any Exchange contract must comply with this Regulation. Information submitted must be signed by an authorized representative.

MGEX RULE 2089.00. ELECTION OF FISCAL YEAR.

Any Members with clearing and/or cash trading privileges, FCMs with customers trading MGEX Futures and Options contracts or any other entity required by the Exchange to provide financial information must notify the Exchange immediately of any change in its fiscal year end.

Such notification of a change in its fiscal year must be made in writing by submitting a letter explaining the change and the reasons therefore. FCMs and Guaranteed IBs requesting such a change must also submit written evidence that its designated self-regulatory organization has approved the change in its fiscal year.

A change in the fiscal year of a Person required by the Exchange to provide financial information will not relieve such Person from its obligation to file such timely certified and interim financial statements as deemed appropriate by the Exchange.

MGEX RULE 2024.00. EXCHANGE REGULATORY FEE.

Pursuant to the provisions of **Rule 210.01.**, the Board of Directors has adopted this Regulation:

An Exchange regulatory fee shall be paid by every Clearing Member or FCM. The Exchange regulatory fee shall be fixed from time to time by the Board of Directors. (See **Resolution 2024.00.**)

The Board of Directors may waive all or part of the fee based upon the clearing or Futures and Options trading activities of such Clearing Member or entity, or such other standard as may be adopted.

Clearing Member: Clearing Members have the right to clear their own trades and FCM Clearing Members have the right to clear their customer's trades through the MGEX Clearing House. Clearing Members protect buyers and sellers from financial loss by assuring performance on each traded contract. Although many different customers trade within the MGEX marketplace, all trades are ultimately cleared by the MGEX Clearing House and MGEX Clearing Members have financial responsibilities for ensuring performance of such cleared trades on behalf of their customers.

Legal. MGEX membership is generally governed by the MGEX Bylaws and Rules and more specifically, Chapter 3 of the Rulebook. The Bylaws governing the ability of an individual or entity to become a Member of MGEX are as stated in the Member section above. In the event an individual or entity also wishes to gain clearing privileges, they would need to complete an additional layer of the application process—the application for clearing privileges while meeting the requirements of becoming and remaining a MGEX Clearing Member.

Operational. A Clearing Member must have been granted clearing privileges by the Exchange in order to clear MGEX products. Clearing Members are able to gain direct connectivity to Globex® and can then, within specific parameters, provide connectivity to other market participants. In addition, a Clearing Member must abide by all applicable MGEX Rules.

MGEX RULE 2100.02. CLEARING PRIVILEGES.

In order to clear trades at MGEX, a Clearing Member must be granted clearing privileges by the Exchange. The Exchange may revoke said clearing privileges for cause at any time.

Clearing privileges may be granted and retained only if and when the terms and conditions set forth below have been met:

A. A Clearing Member must have completed and remain in compliance with the terms contained in the Application for Clearing Privileges and the Clearing Agreement.

B. A Clearing Member must be in good financial standing and meet the minimum financial requirements as may be determined by the Exchange.

C. A Clearing Member must have the personnel, and computer hardware and software to effectively communicate with MGEX and otherwise conduct the business of clearing in an efficient manner.

D. A Clearing Member must be the Record Owner of one (1) or more Memberships which shall be pledged to MGEX. A pledged Membership shall mean the Exchange will have first claim to the proceeds of any sale of such Membership. This pledge shall have priority over any other claim or lien filed pursuant to Chapter 3 of the MGEX Rules and Regulations. At least one (1) Record Holder of such Memberships must be authorized by the Clearing Member to act or execute contracts on behalf of, and otherwise represent the interests of the Clearing Member. Furthermore, such Memberships shall not be included as part of the required security deposit with the Clearing House and shall not be used as value to meet the Clearing Member's margin requirements.

E. If another Person(s) (individually or collectively known as the parent) owns or controls, directly or indirectly, twenty percent (20%) or more of a Clearing Member, the parent must guarantee the obligations of the Clearing Member's non-segregated accounts including those accounts held or controlled by the parent, whether or not such parent is a Member of MGEX. The Exchange shall determine whether a guarantee is adequate. This requirement may be waived at the discretion of the Exchange.

MGEX RULE 2120.00. CLEARING MEMBER RISK MANAGEMENT.

All Clearing Members must maintain current written risk management policies and procedures, and ensure they are able to perform proper risk management and operational functions at all times. Upon request of the Exchange or the Commodity Futures Trading Commission (CFTC), the written risk management policies and procedures and other related information and documentation must be promptly made available for review.

The Exchange shall have authority to develop and implement risk control policies for customer and proprietary transactions. Further, the Exchange shall have authority to take such action, including but not limited to: imposing enhanced capital requirements, imposing enhanced margin requirements, prohibiting an increase or requiring a reduction in positions, and liquidating or transferring positions when, in the sole discretion of the Exchange, such action is necessary to effectively manage risk posed to the Exchange by a Clearing Member.

Financial. Clearing Members play a valuable role in the clearing process. Clearing Members are held to strict financial standards which are closely monitored. Clearing Members assume full financial and performance responsibility to the MGEX Clearing House for all transactions executed through them and cleared by the MGEX Clearing House. Clearing Members are responsible and accountable for every position they carry, whether it is for the account of a Member, Non-Member, or its own proprietary account. In addition to the Membership financial requirements detailed above, the following are applicable MGEX Rules in regards to additional Clearing Member financial requirements.

MGEX RULE 2101.01. CLEARING FEE.

Pursuant to the provisions of **Rule 231.00.** the Exchange has adopted this Regulation:

A. The Exchange shall set clearing fees from time to time and shall make such fees publicly available. The Exchange may elect to waive or modify fees.

B. Payment of the Clearing Fee will be due on receipt of invoice at the end of each month for the transactions (whether purchases, sales or deliveries) executed on the Exchange during that month. Payment is to be submitted to the Treasurer of the Corporation.

MGEX RULE 2106.01. CLEARING MEMBER INSOLVENCY.

If a Clearing Member becomes insolvent, the Clearing Member must immediately notify the Exchange of such insolvency. The insolvency shall be announced by the Exchange and thereupon such Clearing Member shall be deemed automatically Suspended, unless otherwise permitted by the Exchange to continue limited operation for the purpose of transferring or liquidating positions, or otherwise mitigating losses. If a Clearing Member becomes insolvent or for other reasons is Suspended, the officers, owners or partners who are Members of the Exchange may also be Suspended by the Exchange.

When a Clearing Member is Suspended for insolvency, the Exchange may exercise any or all of its rights under MGEX Rules and Regulations.

MGEX RULE 2116.00. CLEARING MEMBER FINANCIAL EMERGENCY.

If at any time the Exchange, in its sole discretion, determines that there is a substantial question as to whether a financial emergency exists or may exist with respect to any Clearing Member, or that the Clearing Member is no longer in Good Standing, the Exchange may suspend or take any other action to protect the best interests of the marketplace, Clearing Members or the Exchange.

The Exchange shall have no liability regarding its use of the discretionary power described herein; neither shall the Exchange be liable for actions taken pursuant to MGEX Rules and Regulations, procedures, or actions allowed by law.

Key Consideration 2: *An FMIs participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMIs specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavor to set requirements that have the least-restrictive impact on access that circumstances permit.*

Non-Member: Non-Member market participants together form a large portion of the trading activity on MGEX markets. Even though MGEX Clearing Members are tasked with the responsibility of maintaining and implementing the risk controls, MGEX sets the framework for Clearing Members to work within as well as ensures that MGEX has the authority to step in when necessary.

Legal. In order to mitigate general risk, all Non-Member market participants must complete the appropriate application process (as discussed above) with the FCM they open an account with including a customer agreement which addresses risk disclosures among other items.

Additionally, the Non-Member market participant is bound by all of the financial responsibility that accompanies such an account.

Operational. Throughout the application and authorization process to access Globex® as explained above, each step deliberately addresses the mitigation of operational risk. Each layer of access to Globex®—FCM, Clearing Member, and MGEX—implements their own risk analyses and requirements. Additionally, CME must certify the connection and authorize the market participant's access before they can commence trading.

Additionally, pursuant to MGEX Rule 2120.00., MGEX requires all MGEX Clearing Members to maintain risk management polices and procedures, and ensure that they are able to perform such risk management and operational functions at all times. MGEX also reserves the right to review these procedures and the implementation of such as well as the authority to implement their own risk policies for customer transactions if necessary.

Financial. To mitigate financial risk, Non-Member market participants are required to set up and fund an account before they are allowed to trade on MGEX markets. As mentioned above, every market participant, including Non-Members must post initial margin at the initiation of a futures transaction as well as maintenance margin during the period a futures contract remains open. The Clearing Member is responsible for setting requirements as to the deposit and maintenance of the margin. MGEX sets the margin amounts and reserves the right to increase or decrease initial and maintenance margins as market conditions require. The reason for these financial requirements is to ensure that there is adequate funding to cover the market participant's trading, as well as setting the trading limits of the market participant so that they don't trade beyond what they can fund.

Once the funds are deposited with the FCM and eventually deposited with MGEX, such funds are required to be held in an account identifiable as "customer segregated" in accordance to CFTC regulations and MGEX Rule 2119.00. This requirement addresses the risk of comingling customer money. In an event such as a Clearing Member's bankruptcy, this requirement ensures that the market participant's money will still be in their account.

MGEX RULE 2119.00. PROTECTION OF CUSTOMER FUNDS.

All funds deposited with the Exchange on behalf of customers of a Clearing Member shall be held in an account identifiable as "customer segregated" in accordance with the Commodity Exchange Act and CFTC Regulation 1.20, as amended. All investment use of such funds shall comply with the investment standards of the Commodity Exchange Act and CFTC Regulation 1.25, as amended, including, but not limited to, concentration limits and permitted investments.

Member: *Legal*. In order to mitigate general risk and to allow Members of the Exchange access to trade, MGEX requires that such individual or entity complete the MGEX Membership Application. See MGEX Bylaws 301.00. and 302.00. and the description under *Key Consideration 1*.

For additional risk mitigation and to avoid a monopolization of MGEX's membership pool, the Exchange imposes a limitation on how many memberships one individual or entity can own. MGEX Bylaw 370.00. provided above sets forth that no one Record Owner, or associate of such Record Owner can own, directly or indirectly, more than thirty-five percent of outstanding memberships at any one time.

Operational. The same risk assessments are conducted with Member market participants as Non-Member market participants as described above. Individual market participants who wish to trade options by open outcry, and all members who are also FCMs, must properly register with the National Futures Association. Please see the Member Operational section above for more details.

Financial. To mitigate financial risk, Member market participants are held to the same access requirements as Non-Member market participants as discussed above.

Additionally, in order to become a Member of MGEX, Members are required to purchase a membership interest in MGEX which requires the Member to make a substantial investment in their ability to trade. Lastly, if the Member is an FCM, there are additional reporting and financial requirements as mandated by the CFTC and MGEX. See the FCM Financial section for more details.

Delegate Member: *Legal*. In order to mitigate general risk, Delegate Members are required to complete the Membership application process which includes a background check on the individual. Additionally, Delegate Members are required to enter into a lease agreement with a MGEX Member pursuant to MGEX Bylaw 372.00.

Operational. The same risk analysis is completed when authorizing a Delegate Member to access Globex® as a Member and Non-Member market participant. Additionally, in order to trade through open outcry in the Exchange Pit, a Delegate Member must go through the same process to become a floor trader or floor broker as a Member.

Financial. Pursuant to MGEX Bylaws, Delegate Members are required to deposit with the Exchange an amount of money to be determined by the Exchange. The deposit will be refunded at the end of the lease. MGEX requires a deposit as a safety net in the instance that there are outstanding debts due to MGEX or lease payments due to the Member.

FCM: *Legal*. In addition to the risk management requirements laid out in the MGEX Rules, FCMs must also comply with applicable federal laws, namely CFTC regulations. The CFTC promulgated risk management regulations which require, among other things, that FCMs that are also clearing members: establish credit and market risk-based limits based on position size, order size, margin requirements, or similar factors; use automated means to screen orders for compliance with the risk-based limits; monitor for adherence to the risk-based limits intra-day and overnight; conduct stress tests of all positions in the proprietary account and all positions in any customer account that could pose material risk to the FCM at least once per week; evaluate their ability to meet initial margin requirements at least once per week; evaluate their ability to meet variation margin requirements in cash at least once per week; evaluate their ability to liquidate positions they clear in an orderly manner, and estimate the cost of the liquidation at least once per month; and test all lines of credit at least once per quarter. While the regulations allow flexibility in the development of an FCM's procedures to achieve these risk management standards, the FCMs (who are also Clearing Members) nonetheless must comply with these specific standards to maintain their status.

Before FCMs may open a commodity futures account for a retail customer, the customer must receive a written disclosure statement and send back to the FCM a signed and dated acknowledgment that the customer has received and understood the statement. The statement informs the customer of some of the risks inherent in futures trading and asks the customer to consider carefully whether it is in a financial position to take such risks. There are comparable disclosure requirements before opening a commodity options account.

Operational. An FCM may not effect a transaction for a customer unless the customer specifically authorized the transaction by specifying the precise commodity interest and the exact amount of the commodity interest to be purchased or sold or authorized the FCM in writing to effect transactions for the account without the customer's specific authorization. An FCM always has discretion as to time and price when entering an order.

An FCM must furnish its customers with monthly statements that show, among other things, all transactions occurring in the month, all charges and credits to the account, and the account balance. In addition to monthly statements, an FCM must provide the customer, within the next business day, confirmation of each transaction made for the customer and a statement showing the net gain or loss from any offsetting positions.

Per CFTC regulations, all FCMs must keep a permanent record pertaining to their customers, including each customer's name, address, and occupation; and full, complete, and systematic records, together with all pertinent data and memoranda, of all transactions. Immediately upon receipt, FCMs must prepare a written record of a customer's order, including the date and time of receipt and the date and time it is transmitted for execution. In addition, a floor broker executing the trade must prepare a written record including the date and time of execution. A financial ledger for each customer must be maintained that includes a record of all transactions, credits, debits, etc. A record or journal must be maintained that shows all transactions made on each business day by the FCM. All records must be retained for five years and may be maintained in electronic form, but regardless of the form in which records are kept, they must be open to inspection by the CFTC, NFA, and the Department of Justice.

Financial. As discussed above, the CEA requires all FCMs to register as such, unless they qualify for an exemption. NFA and the Exchange are self-regulatory organizations that are required to enforce CFTC-approved minimum financial and reporting requirements for their members.

FCMs must satisfy minimum financial requirements for minimum net capital, customer funds, disclosure and other requirements for customers, and financial and other filings. For example, FCMs must maintain a specific minimum amount of adjusted net capital at all times. Should an FCM become undercapitalized at any time, it must provide immediate notice to the CFTC and must also notify its designated self-regulatory organization. MGEX monitors and conducts reviews as required to ensure compliance with these and other MGEX Rules.

In regards to customer funds, all customer funds for trading on the Exchange must be kept segregated from the FCM's own funds. This includes cash deposits and any securities or other property deposited by such customers to margin or guarantee futures trading. Segregated accounts must be titled for the benefit of the FCM's customers. Acknowledgements must be provided that would preclude a bank or Clearing House from recognizing a right of offset against the account for the FCM's debts. Customer funds in segregation have a bankruptcy preference in the event of FCM insolvency.

Member FCMs must comply with all MGEX Rules, including the financial and reporting requirements as detailed above. Non-Member FCMs and Member FCMs alike must comply with CFTC requirements, which provide that FCMs must file monthly unaudited financial reports with the Commission and their designated self-regulatory organizations. FCMs must also file certified annual financial reports. These reports include financial statements and CFTC-specific schedules, and also must include an independent auditor's opinion that covers the statements and schedules.

Clearing Member: *Legal*. As explained in detail above under FCM Legal, Clearing Members must also comply with applicable federal laws, namely CFTC regulations.

In addition to the CFTC regulations for Clearing Member risk management, the Exchange also requires Clearing Members to meet and maintain compliance with its risk management rules. Further, under CFTC Regulations each MGEX Clearing Member must be reviewed periodically as part of a formal risk review process of said Clearing Members' risk management techniques and policies and procedures. Accordingly, to avoid overlap between DCOs and Clearing Members, CME has elected to perform risk reviews on FCMs who are Clearing Members. As part of this process, MGEX participates in a pre-conference call to discuss the FCM in question prior to the review being initiated. As part of this call, concerns can be expressed to CME with respect to accounts, personnel, policies or procedures, or any other concern MGEX may have that it wished to be reviewed. Following the review, MGEX participates in a post-review conference call where specifics are addressed and concerns (if any) are noted. Should concerns be noted, CME will issue results to the firm and if necessary the firm will need to take action to make the appropriate corrections. MGEX takes part in each call and provides CME with information to verify. MGEX will then also review the final reports that are issued and note any corrective action required and if it was implemented.

Operational. As part of CFTC, NFA, and MGEX requirements, all MGEX Clearing Members must be able to file necessary reports and complete all required communications with the MGEX Clearing House. These requirements are verified through the application process which requires new Clearing Members to demonstrate compliance with all requirements, including DCO requirements, in terms of communications and risk. This requirement is contained within the MGEX Rulebook.

Financial. The financial safeguards the Exchange has in place in terms of its Clearing Member requirements are set forth in the application for Clearing Privileges discussed above. These financial requirements are designed to effectively manage risk associated with the clearing activities the Clearing Member performs. These requirements are in place to protect not only the Exchange, but the customers of the Clearing Member, market participants in general, and the Clearing Member themselves.

The Exchange, pursuant to CFTC Regulations and guidance, has an established Risk Management Committee and Chief Risk Officer, each of which has specific risk related duties at the Exchange.

MGES BYLAW 258.00. RISK MANAGEMENT COMMITTEE.

There shall be established a Committee of the Board of Directors to be known as the Risk Management Committee. The Committee shall have the duties and powers as described and required under Core Principle D of 17 CFR Part 39, as amended.

MGEX BYLAW 273.00. CHIEF RISK OFFICER.

The Exchange shall designate the individual to serve as the Chief Risk Officer who shall implement the risk management framework of the Exchange, make recommendations regarding the Exchange's risk management functions, and execute any other duties or responsibilities required by CFTC Regulation 17 CFR Part 39, as amended.

Non-Member: As previously mentioned, pursuant to MGEX Rules, Non-Member market participants trading MGEX markets are bound by and must comply with MGEX Rules in relation to such transactions. If a Non-Member violates any of the Rules they are required to cooperate and participate in any investigatory and disciplinary processes as a result of the violation.

In addition, MGEX Rules require Non-Member market participants to keep full, complete, and systematic records of their activity and retain them for a minimum of five years. A&I also has the authority to examine books and records kept by any direct or indirect market participant.

Member: In addition to successfully completing the MGEX membership application process as discussed above, Members must also comply with applicable CFTC regulations and MGEX Rules. A&I monitors Members for their compliance with such Rules including financial and reporting requirements, audit trail documentation, trade practice surveillance, and market surveillance. If A&I finds that a Member has not complied with any of the Rules, the Member is subject to a summary fine or further disciplinary action such as referred to the Disciplinary Committee.

Additionally, Member FCMs and floor traders and brokers are all required to register with NFA. See the Member FCM and Floor Broker and Floor Trader sections for more details.

Delegate Member: In addition to the Delegate Member application process, Delegate Members must also comply with the MGEX Rules and are also monitored and reviewed by A&I for compliance with such Rules. Delegate Members are also subject to the same disciplinary actions.

FCM: See above for CFTC requirements for FCMs.

Clearing Member: See above for CFTC and MGEX requirements for Clearing Members.

As described previously, there are three levels of memberships in the Exchange: Delegates, full Members (FCM and individuals), and Clearing Members. There is also a program called the MGEX Liquidity Provider Permit ("LPP") program. The LPP program and the Delegate program are unique and carry with them their own set of requirements. Additionally, there are also requirements for Floor Brokers who trade on behalf of a third party. Specifically, the following requirements.

Delegate Members. Pursuant to MGEX Bylaws and Rules, a Record Owner may lease the rights and privileges of his or her membership to an individual as long as they comply with certain conditions, including applying for membership, paying a Delegate fee, and agreeing to be bound by the MGEX Rules. Delegate Members have the right to trade their own accounts, receive reduced exchange fees, and access the Exchange Room. However, because they are just leasing a membership, Delegate Members may not act as a broker or serve on the MGEX Board of Directors. The rationale behind this arrangement is to allow an individual to trade the MGEX contracts without having to make the investment in a membership seat.

Liquidity Provider Permit Program. Another type of activity with modified access requirements is the LPP program. Eligible parties include proprietary trading groups and individuals trading their personal account. The rationale behind the LPP program is to give reduced exchange fees for traders who trade at least 5,000 MGEX contracts each month. In order to participate in the LPP program, the individual must have an account with an MGEX Clearing Member and submit an MGEX Liquidity Provider Permit application. Additionally, the individual must be an MGEX Record Owner or Record Holder in good standing to qualify for the Member rate or registered as an MGEX Delegate Member in good standing to qualify for the Delegate rate. The benefit of participating in the Exchange as an LPP participant is to receive lower Exchange fees on contracts executed.

Floor Broker. Pursuant to MGEX Rules, any Member who executes trades in the pit for an account other than his own must be registered as a floor broker with NFA. See *Key Consideration 1* for more details.

For market participants in general and FCMs in particular, the Exchange imposes the minimum requirements as promulgated by the relevant federal regulators and industry organizations, such as the CFTC and NFA.

In order to actively trade as an individual market participant, one must, at a minimum, fund a trading account with an FCM. As the level of participation increases to, for example, the level of an FCM which trades on behalf of customers, additional registration and financial requirements apply. As stated earlier, these requirements are generally promulgated by the CFTC and NFA. The Exchange requires that its market participants, at a minimum, comply with applicable federal regulations or industry requirements. When a market participant, including an FCM, contemplates a membership relationship within the Exchange, additional requirements apply as discussed below.

The requirements set forth by the Exchange for its members are minimum requirements as established by federal regulations or industry organizations. Applicable financial requirements have been set by the Exchange with risk management considerations in mind, while being conscious that said requirements do not unfairly or unreasonably restrict membership in the Exchange or participation in the MGEX marketplace.

The Exchange monitors market participants on an ongoing basis. This monitoring is effected through daily market surveillance, trade practice investigations, audit trail investigations, and financial surveillance.

Non-Member: As described above, the minimum requirement for participation in the markets as an individual Non-Member market participant is to properly fund a trading account with an FCM. Market participants should be aware of industry requirements and any applicable regulations.

Member: MGEX membership is open to all interested parties that can successfully complete the application process and maintain compliance with MGEX, federal regulators', and industry organizations' applicable requirements. A&I monitors Members for their compliance with such Rules including financial and reporting requirements, audit trail documentation, trade practice surveillance, and market surveillance. If A&I finds that a Member has not complied with any of the Rules, the Member is subject to a summary fine or further disciplinary action, such as being referred to the Disciplinary Committee. Additionally, Member FCMs and floor traders and brokers are all required to register with NFA.

Delegate Member: The MGEX Delegate program is designed to allow a party to trade MGEX contracts and gain some of the benefits of an MGEX membership, without the requirement that the party make the investment in a full membership. Pursuant to MGEX Bylaws, a Record Owner may lease the rights and privileges of his or her membership to an individual as long as they comply with the conditions set forth in applicable Bylaws and Rules, including applying for membership, paying a Delegate fee, and agreeing to be bound by the MGEX Rules.

FCM: As described in *Key Considerations 1* and *2*, an FCM is an individual or organization that solicits or accepts orders to buy or sell futures contracts, options on futures, or swaps, and accepts money or other assets from customers to support such orders. The minimum requirements for FCMs are established by NFA and the CFTC. When an FCM wishes to gain membership status within the Exchange, MGEX Rules also apply as discussed in more detail above.

Clearing Member: Requirements for Clearing Members are as set forth in *Key Consideration 1* herein. The participation criteria for Membership, Delegate Membership, LPP program, and Clearing Privileges are posted on the MGEX website for the general public to view. The MGEX Bylaws and Rules, which document the Exchange's overall framework for participation and restrictions to such participation, is also posted on the MGEX website for the general public to access. In addition, the CFTC periodically reviews the participation criteria and restrictions when conducting rule enforcement reviews, and the published results of such reviews are publicly posted on the CFTC's website for general public access.

Key Consideration 3: *An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.*

Non-Member: Even though MGEX requires Clearing Members to develop and implement risk management policies and procedures, Clearing Members are generally tasked with the responsibility of developing and maintaining the risk controls for Non-Member market participants. However, MGEX reviews market activity for all market participants including non-members, to ensure they are following applicable MGEX Rules in the same way it does for Members.

Member: Clearing Members are also responsible for setting risk management policies and procedures for Member market participants. MGEX monitors its Members' compliance with membership requirements as well as other market participants' compliance with various legal and regulatory requirements. A&I is tasked with specific financial, trade practice, audit trail and reporting deadline surveillance, and conducts investigations and, when necessary, recommends disciplinary action and imposes summary fines to enforce compliance with said requirements. More specifically, A&I monitors and reviews all of the Members' required submissions to ensure that such submissions are timely and accurate. If a Member misses a deadline or submits incomplete or inaccurate information, the Exchange, via A&I, has the authority to impose fines or refer the matter for further disciplinary action.

Delegate Member: Delegate Members are monitored in the same fashion as Members above.

Clearing Member: The Exchange requires Clearing Members to guarantee the financial performance of all transactions executed through them and registered with the Exchange, including client positions. The Exchange also expects Clearing Members to undertake suitable credit monitoring and risk management of their clients.

The Exchange conducts direct monitoring of its Clearing Members on a regular basis. Please review Principles 4, 5, 6, and 7 in particular for specifics regarding risk management and oversight. MGEX routinely monitors Clearing Members and holds Clearing Members responsible for any activity placed or conducted through a Clearing Member as part of its oversight responsibilities as a self regulatory organization. Specifically, the Exchange maintains the A&I department, which is directly responsible for ensuring compliance with all MGEX Rules, including access. Also, NFA and the CFTC play a role in ensuring these procedures are followed under their requirements as well.

Short of suspending a market participant from trading, there are actions the Exchange may take that are less severe but also serve to protect the Exchange and its market participants.

Non-Member/Member/Delegate Member: If MGEX identifies additional risk in regards to the trading of any market participant, MGEX has the authority pursuant to its Rules to take action by developing and imposing additional risk controls. These additional risk controls could be that the market participant is required to post additional margin or limiting the buying power of the market participant.

Clearing Member: A Clearing Member could be placed on the Clearing Member Risk Watch list. This watch list serves as an internal guide to the MGEX Risk Team and A&I when conducting their monitoring and surveillance duties and effectively places some Clearing Members on heightened surveillance due to internal assessment that such is necessary. The Exchange could also impose higher margin requirements, request additional capital or additional funds to be held as security deposit, or take any other actions the Exchange deems prudent to protect its interests and the interests of its Members and market participants.

The MGEX Rules define "Suspended" or "Under Suspension" as the withdrawal during some period of time of all of the rights, benefits, and privileges conferred by Membership (except rights of ownership, if any), including but not limited to, the right to enter the Exchange Room during the Hours of Trading, the right to vote, the right to sell any Memberships, and trading privileges, if any.

Non-Member: Pursuant to MGEX Rule 2092.00., all market participants trading on MGEX markets are subject to the MGEX Rules, including disciplinary actions. If a market participant breaches the participation requirements, A&I may open an investigation if the breach is the cause of a violation of the MGEX Rules. If A&I determines that a violation exists, A&I will issue a summary fine when appropriate or refer the investigation to the Disciplinary Committee. If the Disciplinary Committee agrees that a violation exists, they will issue a Notice of Charges and appropriate penalty to the offending party, giving the offending party the right to a hearing in front of the Hearing Committee. If imposed, such penalty could be the suspension of the market participant from trading on MGEX markets.

Member: The Exchange has the authority to suspend or otherwise restrict a Member's access to MGEX markets when it feels necessary to protect the interests of the Exchange and its other market participants. When a participant fails to meet MGEX requirements, that participant would no longer be in Good Standing.[9] Losing this status could occur for various reasons, and is determined in the sole discretion of the Exchange. This allows the Exchange the flexibility to take timely action to protect its interests, financial and otherwise, and the interests of third parties and market participants.

[9] Good Standing is defined by MGEX as "Having unrestricted ability to engage in business activities and in compliance with all obligations to and requirements of MGEX, and not under suspension."

Members are bound by the same disciplinary procedures as Non-Member market participants. MGEX Rules that govern termination of access to the Electronic Trading Platform include Rules 1812.00. and 1813.00. discussed above.

Delegate Member: Delegate Members are bound by the same disciplinary procedures as Non-Member and Member market participants. Additionally, unless renegotiated, upon expiration or default of a delegate agreement, the Delegate Member's leased membership rights will terminate and they will no longer have access to MGEX markets.

Clearing Member: MGEX Rules provide that when the Exchange, in its discretion, determines that a Clearing Member is facing a questionable financial situation or that a financial emergency exists with respect to that Clearing Member, the Exchange can take immediate protective actions. Another example is in the event of a Clearing Member Default—MGEX has the authority to take a number of steps in this instance, which are described in detail in Principle 13.

MGEX Rules contain the procedures for suspension and orderly exit of a participant. Such Rules are posted on the MGEX website. In addition, in the event a Member or Clearing Member is suspended or excused, the actions taken by the Exchange would include notification to the public. Typically, such notification would be made via announcement on the MGEX website, but could also involve direct communications such as phone calls, conferences or meetings, and news releases aimed at informing the public and market participants of the event and any recommendations. Additionally, all disciplinary action taken by the Exchange including the suspension of a market participant is posted on the NFA Basic website.

PRINCIPLE 19: TIERED PARTICIPATION ARRANGEMENTS

An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.

Key Consideration 1: *An FMI should ensure that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the FMI arising from such tiered participation arrangements.*

As a DCM and DCO, MGEX's business is based on the trading activity of its market participants including Clearing Members, FCMs, and individual market participants who are transacting business on MGEX markets. Therefore, in terms of risk generated by market participants, the primary risk to MGEX is determined by the amount of positions a particular market participant has and not based on the type of relationship the market participant has with MGEX. There are benefits to being a Member of the Exchange such as reduced exchange fees (member rates), voting rights, and an investment with the potential of a return on such investment. However, regardless of the market participant's membership status, all market participants are required to meet the same standard requirements to trade on MGEX markets.

Legal Risk. Legally, all market participants in MGEX markets are under the jurisdiction of the CFTC and are subject to the CEA and CFTC regulations. Pursuant to MGEX Rule 2092.00., any person or entity that initiates or executes a transaction expressly consents to the jurisdiction of the Exchange and agrees to be bound by and comply with all MGEX Rules. A&I, which is primarily responsible for ensuring that market participants are complying with such requirements, monitors all market participants through trade, market, and financial surveillance. A&I does not necessarily monitor on the basis of the type of relationship the market participant has with MGEX, but rather, on the basis of trade activity and open positions a market participant may have with an MGEX Clearing Member. Additionally, all market participants, including FCMs and Clearing Members, are subject to disciplinary action for failure to comply with the regulatory requirements. In performing its surveillance responsibilities, A&I will always monitor as to the nature of the relationship an individual or entity has with MGEX, but that in itself does not determine the nature or type of disciplinary action A&I may issue since all market participants are held to the same standards under MGEX requirements when it comes to MGEX Rules.

Financial Risk. As for financial risk, every market participant is required to set up an account with an FCM and fund that account in order to trade on MGEX markets—either via electronic or open outcry methods. In order to manage credit and liquidity risk, both Member and Non-Member market participants must deposit and maintain initial and maintenance margins with their FCMs or MGEX Clearing Members in accordance with the specified minimum requirements set forth in MGEX Rules. On a daily basis, the Exchange marks each open position to market twice (at a minimum) and collects from those market participants via their MGEX Clearing Members for losing positions and pays to those Clearing Members who have winning positions. In addition, MGEX collects clearing margin on a daily basis for all open positions based on gross customer positions and net house positions from its Clearing Members. MGEX sets margin requirements at a level that best protects the interests of market participants and the Exchange, provided that such requirements are always in compliance with the standards set forth in CFTC Regulation 39.13(g)(8), as amended. Additionally, pursuant to MGEX Rules, both Member FCMs and Non-Member FCMs are required to comply with reporting and financial requirements and are monitored by the A&I department.

In the event of a default of a direct participant such as a Clearing Member, MGEX protects its market participants, both direct and indirect, by ensuring that all funds deposited with the

Exchange on behalf of a Clearing Member are properly segregated from other customer accounts and identified as “customer segregated” in accordance with MGEX Rules and applicable CFTC regulations. This is to ensure that a customer’s collateral is not used to discharge obligations arising from a default in a Clearing Member’s proprietary account. In order to protect the credit exposure of the Exchange in the event of a Clearing Member default, the Exchange may act immediately to attempt to transfer all customer positions and associated collateral to alternate Clearing Members. Other actions the Exchange may take pursuant to its Rules include suspension of clearing privileges, pursuit of legal action, retention of variation pays, and request for additional security deposit and/or performance bonds.

Operational Risk. In the event a Clearing Member is insolvent, the Clearing Member shall be immediately suspended from trading unless otherwise permitted by the Exchange to continue limited operation for the purpose of transferring or liquidating positions. The Exchange will follow the same procedures as explained above.

As for an operational disruption, the Exchange will follow the same protocol as if it was a default. The Exchange will ensure that all open positions held by both direct and indirect market participants are properly handled without financial loss. Additionally, MGEX Rules require that all Clearing Members maintain current written risk management policies and procedures, and ensure they are able to perform proper risk management and operational functions at all times. MGEX has the authority to review these policies and procedures.

MGEX Involvement. As mentioned above, A&I is primarily responsible for ensuring that all market participants, both direct and indirect, are complying with all legal, financial, and operational requirements, as well as monitoring MGEX markets for potential risk through trade practice and market surveillance. A&I conducts equal surveillance of both direct and indirect participants, but they enhance their surveillance of market participants with a large number of positions. Because there is a direct correlation between the amount of positions being held by a market participant and the amount of risk, participants with more positions will receive more attention from A&I.

As a self-regulatory organization, MGEX has the obligation to conduct financial surveillance to ensure that FCMs who are Members of MGEX are in compliance with applicable financial reporting requirements as well as to monitor their financial health. In addition, MGEX performs surveillance over FCMs who simply have positions in MGEX markets in an effort to ensure they will be able to meet their obligations to their customers and not pose additional undue risk to those individuals under CFTC and MGEX requirements. Certain duties and obligations have been delegated to a designated self-regulatory organization that conducts audits and monitors the financial health of the FCMs, however, A&I still conducts daily financial surveillance of all FCMs, including both Member FCMs and Non-Member FCMs who are holding positions in MGEX markets.

In order to influence FCMs and Clearing Members and their relationship with indirect participants, pursuant to MGEX Rules, the Exchange has the authority to develop and implement risk control policies for customer and proprietary transactions. MGEX also has the authority to review the Clearing Members’ risk management policies and procedures to ensure compliance with applicable CFTC and MGEX requirements. Ultimately, pursuant to MGEX Resolution 210.01.F., MGEX has the authority to suspend and curtail trading of any market participant, both direct and indirect, if it appears that an emergency exists.

MGEX RESOLUTION 210.01.F.

Pursuant to the provisions of **Rule 210.01. F.**, the Board of Directors has adopted this Resolution.

Limited authority of the Board of Directors to amend MGEX Regulations, Resolutions, and Interpretations and to take emergency action is hereby delegated to Exchange officers. Such authority includes, suspending or curtailing trading, amending Hours of Trading, imposing margin requirements, declaration of holidays, amending reportable position limits, price limits and intraday market restrictions, managing settlement procedures, open or closing periods, fees, forms, notices, deadlines, dress and decorum policies, minimum financial requirements, notification and reporting requirements, striking prices, cash market reporting, recordkeeping requirements, honorary memberships, default procedures, give-up procedures, transferring customer contracts and margins, definition of emergencies, declarations of Force Majeure and action taken as a result of such declarations. The Exchange shall also have the authority to take such market action as may be directed by the CFTC. The President and Chairperson of the Board of Directors may determine whether a Regulation, Resolution or Interpretation can be amended by Exchange officers. Such amendments shall be forwarded promptly to the Board of Directors.

Further, limited authority of the Board of Directors is hereby delegated to Exchange officers to exercise certain other powers including amending transfer procedures, approving membership requests, transfers, applications and cancellations, approving applications and renewals for Regularity, approving applications for Cash Trading Privileges and/or clearing privileges, establishing minimum filing and financial requirements, establishing and amending summary fine schedules, approving standing committee appointments, granting admission to the Exchange Room, and amending the matching algorithm for the electronic trading system. Such approvals and changes shall be forwarded promptly to the Board of Directors.

Limited authority of the Board of Directors is hereby delegated to MGEX risk management personnel, which shall include such employees and/or officers as the Exchange, in its discretion, shall determine (collectively, the “MGEX Risk Team”), to independently exercise certain risk management powers and to be responsible and accountable for making risk decisions, including in crises and emergencies. The Board of Directors further assigns the MGEX Risk Team the responsibility for implementing the (i) default rules and procedures required by CFTC Regulations 39.16 and 39.35, (ii) system safeguard rules and procedures required by CFTC Regulations 39.18 and 39.34, and (iii) recovery and wind-down plans required by CFTC Regulation 39.39.

As previously mentioned, MGEX calculates risk based upon the amount of trade activity of a certain market participant and does not calculate risk based on whether or not the market participant is direct or indirect. Therefore, through market, trade, and financial surveillance, A&I is able to gather basic information about all market participants. Through the use of the automated surveillance system, A&I is able to review and analyze trade data on a daily basis. By using a program called CME Group FirmSoft, A&I is also able to view working orders, order depth, price movement, market activity, etc., on a near real time daily basis. Additionally, pursuant to MGEX Rules, Clearing Members and all FCMs are required to comply with financial and reporting requirements. A&I is able to gather customer information from such reporting. For example, Clearing Members submit daily pay/collect data including customer financial information.

Additionally, pursuant to MGEX Rule 2062.02., MGEX requires that all Clearing Members maintain a complete audit trail including the ability to track a customer order from the time of receipt through fill, allocation, or other disposition. Such information must include order and trade data. A&I conducts annual reviews to ensure that such audit trail is maintained. Furthermore, pursuant to MGEX Rule 2009.00., all market participants initiating transactions on the Exchange must keep full, complete, and systematic records of their activity, and such records must be maintained for a minimum of five years. A&I has the authority to request any and all records from any market participant regardless of whether or not they are an indirect or direct participant.

Key Consideration 2: *An FMI should identify material dependencies between direct and indirect participants that might affect the FMI.*

As previously mentioned, MGEX does not differentiate between direct and indirect participants for the sake of potential risk. However, MGEX has identified material dependencies between market participants and FCMs and Clearing Members. As mentioned, all market participants are required to set up an account with an FCM and fund that account in order to transact business on MGEX markets—therefore, the market participants depend on the FCM for access to such markets. Knowing this, MGEX monitors the financial and operational health of all FCMS with customer accounts. In addition to financial information gathered through A&I's financial surveillance, all FCMs with customers trading MGEX futures and options contracts must immediately notify the Exchange of any material reduction in its net capital, working capital and/or its net worth, including the incurring of a contingent liability that would materially affect adjusted net capital, working capital and/or net worth should such liability become fixed. Also, in the event a Clearing Member is insolvent, the Clearing Member shall be immediately suspended from trading unless otherwise permitted by the Exchange to continue limited operation for the purpose of transferring or liquidating positions.

Additionally, in accordance with MGEX Rules, if at any time the Exchange determines that there is a substantial question as to whether a financial or other type of emergency exists or may exist with respect to any Clearing Member, FCM, or market participant, the Exchange may take actions necessary to protect the best interest of the Exchange and the market place. This includes, but is not limited to, the authority to suspend or curtail trading, increase margin requirements, transfer customer contracts and margins, and activate default procedures.

As explained in Key Consideration 1, in the event of a default of a direct participant such as a Clearing Member, MGEX protects its market participants, both direct and indirect, by ensuring that all funds deposited with the Exchange on behalf of a Clearing Member are properly segregated from other customer accounts and identified as "customer segregated" in accordance with MGEX Rules and applicable CFTC regulations. In addition, to protect the credit exposure of the Exchange in the event of a Clearing Member default, MGEX may take any or all of the actions previously described and set forth in MGEX Rules.

Key Consideration 3: *An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions.*

As previously discussed, MGEX has identified risk based on the amount of trade activity of a particular market participant. The more positions a market participant has, the more attention and surveillance they will receive.

MGEX requires that large concentrations of open positions are given careful and thorough daily monitoring. A&I, in conjunction with the MGEX Clearing House, reviews the various generated reports in order to detect potential problems or concentration of positions with any one Clearing Member. If A&I detects potential problems or concentration of positions, they can recommend that the Exchange require that additional funding be placed with the Exchange either through margin or security deposits. In addition, A&I, as well as the MGEX Clearing House, can recommend other action including requesting additional information on trading strategy, intentions, or funding arrangements either from the Clearing Member or the market participant directly. A&I also has the ability to recommend fines and/or suspensions for more serious trading abuses or failure to maintain proper policies and procedures as required by the CFTC and MGEX Rules.

In addition to the above and what has been discussed elsewhere within this disclosure, A&I reviews all open contract months, including deferred months, for any significant change in open interest held by Clearing Members. A&I reviews trades, transfers, intentions, deliveries, Exchange for Physicals ("EFP"), Exchange for Risk ("EFR"), and ending positions long and short on a gross and net basis (customer and house) for each Clearing Member in each contract month.

Each day, the CFTC provides large trader reports ("LTRs") to MGEX. The LTR lists MGEX accounts that reached the reporting levels for MGEX futures and/or options contracts. The LTR contains the account identification, expiration date, amount of futures and/or option positions (long or short, puts or calls), designation of commercial or noncommercial, the strike price, the account code and the reporting firm alpha name. A&I reviews the reports on a daily basis to identify accounts that are approaching single month, or all month, speculative position limits. Additionally, A&I investigates any significant changes or concentrated positions as deemed necessary. If any account or owner approaches the position limits, A&I will monitor daily activity to ensure it does not exceed the position limits during the trade day or at day-end.

Additionally, A&I carefully monitors the availability of deliverable grade grain in relation to open interest and concentrations of positions during delivery periods. A&I contacts market participants directly during delivery periods in an effort to ensure the Exchange understands the intentions of its market participants and a smooth delivery process occurs to avoid risk being posed to the Exchange, Clearing Members, and market participants.

Key Consideration 4: *An FMI should regularly review its risks arising from tiered participation requirements and should take mitigating action when appropriate.*

As previously mentioned, from a risk or surveillance perspective, MGEX does not necessarily have tiered participation risks. Rather, risks are generated mainly from trading and the generation of open positions for those products MGEX clears and oversight is thus performed on all market participants. However, the Exchange does routinely review its application procedures, its surveillance programs, and/or risk programs in an effort to ensure a level of protection for all participants whether they can be considered a direct or an indirect participant. For example, A&I policies and procedures are documented in their internal compliance manual as well as the MGEX Rules. The manual is officially reviewed and updated once a year, but with ongoing regulatory changes, it is reviewed and updated on an as needed basis and is supplied to the CFTC annually or as part of any regulatory review process. The Clearing House has various manuals involving operational procedures and risk management policies and procedures that are reviewed and updated on an as needed basis due to changes in market conditions, best practices or regulatory changes. Many other policies and procedures are documented in the MGEX Rules. Such Rules are reviewed and updated as needed to codify the above mentioned practices. All amendments to MGEX Rules are voted upon by the Board of Directors and supplied to the CFTC.

There are a number of factors that A&I looks for in their surveillance of market participants initiating or executing a transaction on MGEX markets, as explained below.

Market Surveillance. A&I conducts daily market surveillance including reviewing a variety of Exchange, CME Group, and CFTC generated reports. A&I reviews the generated reports in order to detect potential problems or concentration of positions with any one Clearing Member. If A&I detects potential problems or concentration of positions, they can recommend that the Exchange require that additional funding be placed in the market participant's account or accounts to ensure that there is enough money to cover the positions. A&I can also monitor to ensure that the Clearing Member has enough pledged funds to cover the positions.

As mentioned above, A&I reviews situations where a firm has seventy-five percent (75%) or more of the open market share in an expiring contract to determine if manipulation is likely or evident. On a daily basis, A&I reviews all open contract months, including deferred months, for any significant change in open interest held by Clearing Members. A&I reviews trades, transfers, intentions, deliveries, EFP, EFR, and ending positions long and short on a gross basis (by customer and house) for each Clearing Member in each contract month.

Additionally, A&I conducts daily reviews of the LTR sent by the CFTC. The LTR lists MGEX accounts that reached the reporting levels for futures and/or options. The LTR contains the account identification, expiration date, amount of futures and/or option positions (long or short, puts or calls), designation of commercial or noncommercial, the strike price, the account code and the reporting firm alpha name. A&I reviews the reports on a daily basis to identify accounts that are approaching single month, or all month, speculative position limits. Additionally, A&I investigates any significant changes or concentrated positions as deemed necessary. If any account or owner approaches the position limits, A&I will monitor daily activity to ensure it does not exceed the position limits during the trade day or at day-end. Further, as previously mentioned, A&I carefully monitors the availability of deliverable grade grain in relation to open interest and concentrations of positions as mentioned above.

Financial Surveillance. A&I conducts financial surveillance of all MGEX FCMs and Clearing Members. A&I reviews their submitted financials for any discrepancies or changes in the financial health of the firms. Specifically, A&I reviews figures from financial statements and historical trends for any material changes. Among other information, A&I evaluates the firms' pay/collect data, analyzes financial statements, monitors the receipt of financial statements as well as the timeliness and adequacy of such submissions, and reviews other audit reports of MGEX Clearing Members and FCMs. If A&I finds any discrepancies or potential issues, they will document such findings and conduct a further review. A&I and a member of the Risk Team are responsible for this review, follow up, and escalation.

If A&I determines that a Clearing Member or FCM appears to be in financial danger, or presents a financial risk to the Exchange or other Clearing Members and FCMs, A&I will inform the Chief Regulatory Officer of the Exchange as well as the Risk Team immediately, and the matter will be addressed by the appropriate Exchange committee or Board.

Trade Surveillance. A&I also conducts daily trade activity surveillance to prevent and identify any market manipulation by all market participants, including customers. A&I reviews working orders, order depth, price movement, market activity, etc. in near real time. A&I will look for trading violations as documented in MGEX Rules such as accommodation trading or wash trades, cross trading, prearranged prices, fictitious bids, spoofing, trading ahead of customer orders, etc. A&I investigates any suspicious activity and documents their findings.

Risk Management. The risk management framework is contained within MGEX Rules and has been approved by the Board. This framework is available on the MGEX website. In addition to the framework there are various policies and procedures that have been implemented by the Exchange that are designed to supplement and enforce the framework and enhance the items mentioned within the framework. Many of the policies and procedures concerning margin, security deposits, stress testing, settlement bank reviews, and other risk mitigating type activities have been discussed within this disclosure and/or are contained on the MGEX website.

PRINCIPLE 20: FMI LINKS
An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.

Key consideration 1: *Before entering into a link arrangement and on an ongoing basis once the link is established, an FMI should identify, monitor, and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other principles in this report.*

MGEX maintains a contractual and operational arrangement with CME, another FMI, to list and host MGEX contracts on the CME Globex® platform, which is an electronic trading system. The Exchange monitors, manages, and mitigates potential operational, communication, and other risks arising from its link to CME through its Rules, which are approved by the MGEX Board of Directors and the CFTC, and other agreements. Chapter 18 of the Exchange's Rulebook governs MGEX contracts that are traded electronically and mitigates certain associated risks. Rule 1816.00., for example, limits MGEX's liability for losses or damages arising out of the use of the electronic trading system while Rule 1817.00. allows the Exchange to immediately adopt, cancel, or modify electronic trading procedures if necessary or in the best interest of MGEX. All contracts traded electronically, as well as the Members and market participants entering into such transactions, are fully subject to these and other applicable MGEX Rules. In addition, Members and market participants must abide by the CEA and CFTC regulations.

CME Market Operation services, provided by the CME Global Command Center ("GCC"), provides operational support for the electronic trading system infrastructure. The GCC is responsible for real-time monitoring and market operations support for all electronic trading on engines supported by CME and markets on the CME network infrastructure. The GCC also has the authority to adjust trade prices or cancel trades when such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the electronic trading system or by system defects as necessary and approved by MGEX. Furthermore, the CME Technology Operations Command Center is responsible for the recovery and production escalation within the electronic trading system. These monitoring services mitigate risk by ensuring the successful day-to-day operation of MGEX markets on CME Globex®. CME and MGEX have outlined additional practices essential to their respective daily operations in the Operational Services Guidelines ("OSG"), which help mitigate the risk of miscommunication. The OSG describes ongoing procedures and communications between CME and MGEX for the provision of production support and other services and outlines the way in which certain changes, including those to rules, products, or functionality, should be communicated and enacted by both parties.

CME has also implemented a robust Business Continuity Program to mitigate risks in the event of a disaster recovery scenario. In addition to this program, MGEX and CME both participate in annual, industry wide disaster recovery exercises. The electronic trading system platform, network, and systems have built-in redundancies for back-up failover. MGEX and CME maintain point to point connectivity between production, backup, and disaster recovery scenarios with multiple redundant paths and equipment to ensure that a safe and secure environment is always present and available for all MGEX market participants.

MGEX's established arrangements with CME are analyzed to ensure that such arrangements do not conflict with the Exchange's observance of other principles in this disclosure. The goal of such arrangements is to provide sound business practices, and the link infrastructure is constantly managed and monitored by both MGEX and CME to determine performance standards and benchmarks and to proactively mitigate system and operational risks. The Exchange has developed operational manuals and trained staff on the policies and procedures to follow in order to achieve these goals.

Key consideration 2: *A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link.*

The established link between MGEX and CME falls under the jurisdiction of the CFTC as the relevant oversight authority. The legal framework supporting this link includes the procedures described above, as well as an established legal agreement between CME and MGEX. Furthermore, CME's match engine (Globex®) has been formally approved by the CFTC. Because the CFTC has approved this match engine and all Rules associated with the trading of MGEX products, the Exchange is able to ensure that its link with CME has a well-founded legal basis and that its design is protected in all relevant jurisdictions. Moreover, since any changes or additions to the Rulebook must also be submitted to and approved by the CFTC, MGEX maintains such protections on an ongoing basis.

Key consideration 3: *Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits.*

The Exchange is not a CSD and therefore does not have any established CSD links.

Key consideration 4: *Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final.*

The Exchange is not a CSD and therefore does not have any established CSD links; provisional transfers of securities between linked CSDs are consequently not possible.

Key consideration 5: *An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants.*

The Exchange is not a CSD and therefore does not have any established CSD links.

Key consideration 6: *An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.*

The Exchange is not a CSD and therefore does not have any established CSD links.

Key consideration 7: *Before entering into a link with another CCP, a CCP should identify and manage the potential spill-over effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess, and manage the risks of the collective link arrangement.*

MGEX functions as the single CCP for its transactions and does not have any peer-to-peer or participant CCP link arrangements. At present, the Exchange also has no cross-margining agreements or cross-border links in place.

Key consideration 8: *Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfill its obligations to its own participants at any time.*

The Exchange does not have any CCP link arrangements and thus has no current or potential future exposures related to a linked CCP or specifically, to contributing to default funds or sharing uncovered losses.

Key consideration 9: *A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources.*
Key element:

MGEX is not considered a trade repository.

PRINCIPLE 21: EFFICIENCY AND EFFECTIVENESS
An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.

Key Consideration 1: *An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.*

As mentioned earlier, MGEX is both a registered DCM and DCO with the CFTC. As such, MGEX maintains its own Clearing House and is a self regulatory organization. MGEX also has a hosting agreement with CME which allows MGEX products to be available for trade on the CME Globex® platform. MGEX has designed its market infrastructure and Clearing operations in order for all Clearing Members and market participants to have a practical means to directly access services and market data. Furthermore, the market infrastructure is designed so that firms have a standardized access system with minimal or no added costs, as well as minimal or no barriers to entry from a technology and training perspective.

In order for the Exchange to ensure that it is taking into account the needs of its participants and serving the market effectively, MGEX has created and adopted robust communication procedures and standards. The technology used by MGEX is common to the commodities trading industry and is well-supported and designed to function efficiently and reliably with market participants through those procedures and standards. Procedures have been developed to serve market participants in an industry-standard manner. The efficiency of those standards and procedures is based on their scalability of transactions as well as their flexibility across computing platforms. MGEX products are generally agricultural futures and options contracts, but the Clearing technology is designed to clear any type of standardized futures or options product. MGEX systems can scale to as many different futures and options products as needed while handling many millions of times the current level of processing and volume of trading.

The Exchange utilizes performance benchmarks when designing customer features and functionality into the internal market infrastructure. MGEX constantly strives to improve operational efficiency across the entire infrastructure. Improving efficiency and meeting customer requirements involves adopting the flexible technologies and procedures from the communications and links that gather market information and provide system access to Members, such as providing real-time market information and post-trade reporting. MGEX staff communicates daily with Members and market participants to ensure that clearing and settlement systems are performing properly and that participants are, and are capable of, meeting the timelines set forth in MGEX Rules.

Key Consideration 2: *An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.*

The Exchange has defined operational goals related to the effectiveness of its market infrastructure operations and its role as a central counterparty. In addition, ensuring effective goals and objectives within the market infrastructure improves the efficiency, transparency, and risk mitigation of financial systems. On an annual basis, MGEX reviews the past year's goals and progress made toward achieving such goals while addressing new goals and objectives for all Exchange departments. These goals generally focus on revenue, expenses, and the development and implementation of new hardware or software designed to increase various operational efficiencies geared towards MGEX customers, including market participants, FCMs, and Clearing Members. Further, MGEX constantly reviews and sets new goals as it relates to the Exchange's overall framework for surveillance and risk management.

As an example, MGEX has established the following operational goals and objectives for short and long term growth and efficiency:

- Utilize an effective execution and matching platform to ensure orders are filled and provide efficient trade routing to Exchange clearing systems.
- Provide CCP clearing services for all products and protect against default along with effective margining requirements with 100% up time.
- Maintain strong risk management programs.
- Ensure a fair and equitable trading environment and take disciplinary action as required to ensure such an environment is constant.
- Adapt and improve technologies as required in order to provide efficient and clear communications for all MGEX customers, including market participants, FCMs, and Clearing Members.

The Exchange measures and reviews the above goals and objectives to ensure that all processes and operations are operating efficiently and progress is being made on various projects that have been identified under each goal.

Key Consideration 3: *An FMI should have established mechanisms for the regular review of its efficiency and effectiveness.*

MGEX communicates daily with Clearing Members and market participants. During the course of any given business or trading day the communication with market participants regarding the efficiency and effectiveness of MGEX services and procedures are taken under consideration immediately. The Exchange evaluates the benefits of changes, additions, or deletions to MGEX services and procedures with regard to individual and multiple market participants along with possible effects on MGEX business efficiency and effectiveness while remaining cognizant of the above objectives.

MGEX has also established a team of operations personnel, legal staff, technology developers, and software and hardware consultants who are available to monitor and manage the market infrastructure. Through the daily monitoring of market activity, the Exchange is able to continuously review the various rules, regulations, procedures, and technologies required to meet the needs of MGEX and to provide efficient and effective services. Multiple exchange environments are used to develop, test, and install new services in a safe and effective manner. Market participants are included in the development of parameters for changes, tests, and installation procedures in order to ensure the effectiveness of additional or modified MGEX services. In addition, MGEX participates in periodic industry wide disaster recovery and business continuity testing to validate system effectiveness.

PRINCIPLE 22: COMMUNICATION PROCEDURES AND STANDARDS
An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.

Key consideration 1: *An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards.*

In order to operate efficiently, MGEX communicates daily with market participants, Clearing Members, CME, settlement banks, and the CFTC. In doing so, the Exchange uses multiple internationally accepted communication procedures and standards in English, including but not limited to telephone, fax, electronic mail, data standards, file transfer programs, and internet messaging protocols. Although MGEX does not engage in cross-border operations, when communicating internationally, it uses these same procedures and standards, as explained in greater detail in the following paragraphs.

IBM WebSphere MQ ("MQ"): The Exchange utilizes MQ to deliver trade records between CME and MGEX. MQ provides assured one-time delivery of messages across a wide variety of platforms. The product emphasizes reliability and robustness of message traffic and ensures that messages are not lost if MQ is appropriately configured. MQ is generalized and MGEX can use it as a robust substitute for many forms of intercommunication.

File Transfer Protocol ("FTP") and Secure File Transfer Protocol ("SFTP"): MGEX uses both types of transfer protocols to deliver files related to trade record and reconciliation data. FTP is a standard network protocol used to transfer files from one host to another host over a transmission control protocol-based network, such as the Internet. SFTP is functionally similar to FTP, but it encrypts commands and data when transferring files to prevent sensitive information from being transmitted openly over the network.

FIX protocol: FIX is an industry standard electronic protocol for the real-time exchange of information. MGEX utilizes FIX for file transfers and communications between it and the CFTC or other exchanges.

Electronic Mail ("Email"): To communicate to one or more recipients and/or market participants across the Internet or other computer networks, the Exchange utilizes email messaging. The Internet email message format is defined by the Internet Engineering Task Force and the Internet Society, the principal technical development and standards-setting bodies for the Internet.

Portable Document Format ("PDF"): MGEX formats files as PDFs to communicate Exchange data. The PDF file format represents documents in a manner independent of application software, hardware, and operating systems. The International Organization for Standardization publishes PDF standards.

Remote desktop software: The Exchange uses remote desktop software and connectivity to allow Clearing Members to access MGEX environments independent of the need for specialized computer hardware. The term "remote desktop" refers to a software or operating system feature that allows a personal computer's desktop environment to be run remotely on one system while being displayed on a separate device.

The procedures and standards described above are tested and verified to ensure that files and communications are transferred and received in accordance with relevant specifications. In addition to transfers through these procedures and standards, other files may be exchanged as required. Should additional or different standards ever be necessary, MGEX would work with others in the industry to accommodate and implement such standards or systems.

PRINCIPLE 23: DISCLOSURE OF RULES, KEY PROCEDURES, AND MARKET DATA
An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed

Key Consideration 1: *An FMI should adopt clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures should also be publicly disclosed.*

MGEX compiles its Rules, Bylaws, Resolutions, Interpretations, and Definitions into its Rulebook. The MGEX Rulebook is updated regularly and publicly available on the MGEX website.[10] MGEX maintains a complete and comprehensive Rulebook that addresses all aspects of participation in the Exchange, including but not limited to, corporate governance, membership, disciplinary procedures, futures and options trading, electronic trading, warehouses, deliveries, Clearing House activities, risk management, and index contract specifics. Through regular reviews by the A&I Department, MGEX is able to monitor compliance with its Rulebook on an ongoing basis.

As explained below, MGEX has a detailed process it follows when making amendments to its Rulebook. This process involves a thorough internal review of draft amendments, including, at a minimum, reviews and approvals by Exchange management, the CEO, and the Board of Directors. This thorough review process ensures that before amendments to the Rulebook become effective, they have been discussed and analyzed from multiple perspectives. In turn, these analyses work to ensure that the MGEX Rulebook remains clear and comprehensive. As previously stated, all Bylaw changes must also be approved by Exchange Members and submitted to the CFTC.

Pursuant to MGEX Resolution 210.01.F. (provided below), the Board of Directors has delegated authority to Exchange officers to take emergency actions. MGEX Rules 2090.00., 2090.01., 2091.00. and 2116.00. set forth procedures the Exchange will follow in emergencies prompted by physical, Member, market participant, weather related, or Clearing Member financial emergencies. As stated above, these procedures are publicly available as they are published in the MGEX Rulebook. Should situations arise that are outside the scope of the above circumstances, the Exchange President and CEO will inform the Board and recommend actions to executive management to be carried out.

> **MGEX RESOLUTION 210.01.F.**
>
> Pursuant to the provisions of **Rule 210.01. F.**, the Board of Directors has adopted this Resolution.
>
> Limited authority of the Board of Directors to amend MGEX Regulations, Resolutions, and Interpretations and to take emergency action is hereby delegated to Exchange officers. Such authority includes, suspending or curtailing trading, amending Hours of Trading, imposing margin requirements, declaration of holidays, amending reportable position limits, price limits and intraday market restrictions, managing settlement procedures, open or closing periods, fees, forms, notices, deadlines, dress and decorum policies, minimum financial requirements, notification and reporting requirements, striking

[10] See www.mgex.com/regulation.

prices, cash market reporting, recordkeeping requirements, honorary memberships, default procedures, give-up procedures, transferring customer contracts and margins, definition of emergencies, declarations of Force Majeure and action taken as a result of such declarations. The Exchange shall also have the authority to take such market action as may be directed by the CFTC. The President and Chairperson of the Board of Directors may determine whether a Regulation, Resolution or Interpretation can be amended by Exchange officers. Such amendments shall be forwarded promptly to the Board of Directors.

Further, limited authority of the Board of Directors is hereby delegated to Exchange officers to exercise certain other powers including amending transfer procedures, approving membership requests, transfers, applications and cancellations, approving applications and renewals for Regularity, approving applications for Cash Trading Privileges and/or clearing privileges, establishing minimum filing and financial requirements, establishing and amending summary fine schedules, approving standing committee appointments, granting admission to the Exchange Room, and amending the matching algorithm for the electronic trading system. Such approvals and changes shall be forwarded promptly to the Board of Directors.

Limited authority of the Board of Directors is hereby delegated to MGEX risk management personnel, which shall include such employees and/or officers as the Exchange, in its discretion, shall determine (collectively, the "MGEX Risk Team"), to independently exercise certain risk management powers and to be responsible and accountable for making risk decisions, including in crises and emergencies. The Board of Directors further assigns the MGEX Risk Team the responsibility for implementing the (i) default rules and procedures required by CFTC Regulations 39.16 and 39.35, (ii) system safeguard rules and procedures required by CFTC Regulations 39.18 and 39.34, and (iii) recovery and wind-down plans required by CFTC Regulation 39.39.

MGEX RULE 2090.00. PHYSICAL EMERGENCIES.

Pursuant to the provisions of **Rules 210.01.** and **210.02.**, the Board of Directors has adopted this Regulation.

The Exchange shall have the power upon recognizing a problem to serve notice to Market Participants that trading will be suspended immediately.

A problem may be the result of the following:

A. fire or other casualty,
B. bomb threat,
C. power failure,
D. communications breakdown,
E. computer malfunction, or
F. other - technical difficulties.

In no event shall a suspension of trading continue for more than five (5) calendar days.

MGEX RULE 2090.01. MEMBER OR MARKET PARTICIPANT EMERGENCIES.

If at any time the Exchange, in its sole discretion, determines that there is a substantial question as to whether a financial or other type of emergency exists or may exist with respect to any Member or Market Participant, the Exchange may take any actions necessary to protect the best interests of the Exchange and the marketplace.

The Exchange shall have no liability regarding its use of the discretionary power described herein; neither shall the Exchange be liable for actions taken pursuant to MGEX Rules and Regulations, procedures, or actions allowed by law.

MGEX RULE 2091.00. INCLEMENT WEATHER OR TRANSPORTATION BREAKDOWN.

Pursuant to the provisions of **Rules 210.01.** and **210.02.**, the Board of Directors has adopted this Regulation.

In the event that the functions of the Exchange are, or are threatened to be severely and adversely affected by inclement weather or transportation breakdown, the Executive Committee of the Board of Directors can make the decision to:

A. not open the market(s).
B. delay the opening of the market(s); or
C. close the market(s).

In no event shall a suspension of trading continue for more than five (5) calendar days.

MGEX RULE 2116.00. CLEARING MEMBER FINANCIAL EMERGENCY.

If at any time the Exchange, in its sole discretion, determines that there is a substantial question as to whether a financial emergency exists or may exist with respect to any Clearing Member, or that the Clearing Member is no longer in Good Standing, the Exchange may suspend or take any other action to protect the best interests of the marketplace, Clearing Members or the Exchange.

The Exchange shall have no liability regarding its use of the discretionary power described herein; neither shall the Exchange be liable for actions taken pursuant to MGEX Rules and Regulations, procedures, or actions allowed by law.

There are three layers of approval that apply when MGEX contemplates amending its Rulebook: the Board of Directors, Member, and CFTC approval. The level(s) of approval required depend upon the amendment. First, amendments to MGEX Rules, Resolutions, and Interpretations can be made by Exchange officers, subject to Board approval (see Resolution 210.01.F. above). Second, amendments to MGEX Bylaws require, following Board approval of the proposed amendments, an affirmative vote of at least a majority of the Record Owners in good standing. All such changes must also be submitted to the CFTC as required under CFTC regulations.

MGEX BYLAW 205.01. ADOPTION OR AMENDMENT OF BYLAWS: PROCEDURE.

Except for changes made pursuant to **Bylaw 242.00.**, any Bylaw may be adopted or amended only by an affirmative vote of at least a majority of Record Owners in good standing either present in person or represented by proxy at any meeting of the Record Owners, provided that the following terms and conditions have been met prior to such meeting:

A. The Board of Directors must propose the Bylaw or amendment by: (1) approving the proposed Bylaw or amendment by majority vote; (2) directing its submission for adoption at a Record Owner meeting; and (3) directing that the Chairperson to call a Record Owner meeting to consider adopting the proposed Bylaw or amendment.

B. Notice of a Record Owner meeting must be disseminated to each Authorized Voter and director of the Exchange. Notice must state the place, date, hour, and purpose of the meeting, and includes: (1) a copy of the proposed Bylaw or amendment; (2) any recommendation or comment from the Board of Directors; and (3) a proxy form and return envelope allowing the Authorized Voter to vote either for or against each proposed Bylaw or amendment.

Lastly, the CFTC requires that all DCMs and DCOs file a certification with the CFTC that the new rule or rule amendment complies with the CEA and the CFTC's regulations or request CFTC approval of such rules and amendments. As such, every Rule amendment MGEX makes must be submitted to the CFTC pursuant to the applicable CFTC regulation. Filing such certifications with the CFTC also provide the public with another forum of public disclosure as the certification submissions are posted on the CFTC's website. As of the date of this disclosure, no inconsistencies have yet been identified, and MGEX Rules have not been the subject of any judicial controversy and actions taken under the Exchange's Rules, procedures, and contracts have not been voided or overturned by an administrative or judicial authority.

As stated above, MGEX posts its entire Rulebook on its website. Additionally, when there are amendments to the Rulebook or new policies or procedures contemplated, the Exchange will notify its Members, market participants, the CFTC, and the general public through various means including, but not limited to, exercise of membership voting rights via ballot proxies, Rulebook updates, CFTC notification or certification submissions, news releases, and directed memos, all of which are also available for reference on the MGEX website.

Key Consideration 2: *An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participant's rights and obligations, so that participants can assess the risks they would incur by participating in the FMI.*

MGEX maintains a contractual and operational arrangement with CME to list and host MGEX contracts on Globex®. The Exchange monitors, manages, and mitigates potential operational, communication, and other risks arising from its link to Globex® through prearranged and agreed to operating procedures and guidelines and its Rules, which are approved by and available to the MGEX Board of Directors, MGEX Members, and the CFTC. Specifically, Chapter 18 of the Rulebook governs MGEX contracts that are traded electronically and addresses certain associated risks. The Board has also approved a binding legal agreement for the above between CME and MGEX. In addition, specific policies and/or procedures such as matching algorithms, access requirements, contract specifications, and error trade polices are located on the MGEX website as examples of information that is made available to market participants. In addition, MGEX specific manuals regarding the administration of various departments of the Exchange have been codified and while such manuals may not be specifically available via the website, they are provided to the CFTC as part of various rule enforcement reviews to ensure compliance with all necessary requirements.

As discussed above, the Exchange monitors Globex® through enforcement of the applicable MGEX Rules. MGEX Rule 1816.00. for example, limits the liability of the Exchange for losses or damages arising out of the use of the electronic trading system, while Rule 1817.00. allows the Exchange to immediately adopt, cancel, or modify electronic trading procedures if necessary or in the best interest of MGEX. All contracts traded electronically, as well as the Members and any market participants entering into such transactions, are fully subject to these and other applicable MGEX Rules.

Furthermore, because Globex® is hosted by CME, CME Market Operation services, provided by the CME GCC, provides operational support for the electronic trading system infrastructure. The GCC is responsible for real-time monitoring and market operations support for all electronic trading on engines supported by CME and markets on the CME network infrastructure. The GCC also has the authority to adjust trade prices or cancel trades when such action is necessary to mitigate market disrupting events caused by the improper or erroneous use of the electronic trading system or by system defects as necessary and approved by MGEX. Furthermore, the CME Technology Operations Command Center is responsible for the recovery and production escalation within the electronic trading system. Applicable procedures or decisions made in regards to the operation of the electronic trading system are disclosed by CME and MGEX via standard email list servers, specific memos, press releases, or information contained on MGEX's website.

In order to actively trade as an individual market participant, one must, at a minimum, fund a trading account with an FCM. As the level of participation increases to the level of an FCM which trades on behalf of customers, additional registration and financial requirements apply. As stated earlier, these requirements are generally promulgated by the CFTC and NFA. The Exchange requires that its market participants, at a minimum, comply with applicable federal regulations or industry requirements. When a market participant contemplates a membership relationship within the Exchange, additional requirements apply as discussed in more detail in Principle 18.

The requirements set forth by the Exchange for its Members are minimum requirements as established by federal regulations or industry organizations. Applicable financial requirements have been set by the Exchange with risk management considerations in mind, while recognizing that said requirements do not unfairly or unreasonably restrict membership in the Exchange or participation in the MGEX marketplace. The participation criteria are posted on the MGEX website for the general public to view. The MGEX Rules, which document the Exchange's overall framework of requirements for participation, and risks or restrictions connected with such participation, is also posted on the MGEX website for the general public to access. In addition, the CFTC periodically reviews the participation criteria and restrictions when conducting rule enforcement reviews, and the published results of such reviews are publicly posted on the CFTC's website for general public access. By these means, the Exchange conveys to its participants their rights, obligations, and risks associated with participation in the MGEX marketplace.

Key Consideration 3: *An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of MGEX' rules and procedures and the risks they face from participating in MGEX.*

In addition to the information the Exchange provides to its market participants described in *Key Consideration 2*, MGEX also provides various procedures and manuals for market participants' reference and training, depending upon their particular needs. For instance, a market participant seeking information about the delivery process would find useful information in the MGEX delivery manuals. The Exchange staff is accessible to discuss any questions with market participants to ensure proper use and understanding of applicable processes. Another example of Exchange-provided education involves incorporation of a Clearing Member. Clearing Members work closely with the MGEX Clearing House and would have access to the clearing operations documents, and Clearing staff would engage with the Member to train and ensure proper connectivity, use, and understanding of the applicable systems. Lastly, the MGEX website contains various industry webinars and a frequently asked questions page designed to act as another educational resource for market participants.

In order to assess the effectiveness of the education available to its market participants and to ensure compliance with the Rulebook and federal regulations or industry requirements, the Exchange engages in regular ongoing compliance monitoring. A&I is tasked with specific financial, trade practice, audit trail, and reporting deadline surveillance. It also conducts investigations and, when necessary, recommends disciplinary action and imposes summary fines to enforce compliance with said requirements. More specifically, A&I monitors and reviews all of the Members' required submissions to ensure that such submissions are timely and accurate. In addition, MGEX has been involved with various markets for over 130 years. MGEX believes this history and the continued ability to service the needs of MGEX market participants over this time shows ample evidence of MGEX's ability to adapt, change, and implement new processes and procedures and rules that in turn are passed to market participants for their knowledge and understanding. Without proper understanding or oversight, MGEX may lose its reputation as a safe and secure entity in which to transact business and as a result cease trading derivatives products to those who look for appropriate risk management tools for managing their daily risks associated with their business. From that standpoint, MGEX believes this public disclosure document also supplements that knowledge which is already understood when it comes to transacting business with the Exchange.

In cases where such actions are not material, MGEX will be proactive with its education techniques by attempting to help the market participant more clearly understand his or her obligations. This can be done through simply contacting the market participant and informing them of their obligations or scheduling and completing training sessions with Exchange personnel. Each of these methods is considered to be helpful for non-material misunderstandings or issues. In addition, as previously mentioned, MGEX ensures jurisdiction over all market participants via the MGEX Rulebook and clearly states that it is to the responsibility of each market participant to fully understand and comprehend all Rules. Therefore, in matters that affect MGEX or other market participants more directly, A&I performs daily reviews and checks for instances of noncompliance. For example, if a Member misses a deadline or submits incomplete or inaccurate information, the Exchange, via A&I, has the authority to impose fines or refer the matter for further disciplinary action. Should an instance of noncompliance rise to the level of Clearing Member default, the Exchange would follow necessary remediation management procedures as outlined in internal procedures and applicable Rules as discussed in more detail in Principle 13 and the MGEX Rulebook.

Key Consideration 4: *An FMI should publicly disclose its fees at the level of individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes.*

As with much of the information discussed in this disclosure thus far, the various fees MGEX requires for services are publicly available on the MGEX website. As noted in *Key Consideration 1*, MGEX Resolution 210.01.F. provides authority to Exchange officers to set fees. Action taken by Exchange officers pursuant to this authority must be forwarded promptly to the Board of Directors.

The Exchange requires applicants for Membership to pay an application fee. The information on this fee is provided in the Membership application documentation also available on the website. The posted Exchange and Clearing fees are based in Rule, specifically set by Resolution, and provide the rates applicable to Members, delegate members[11], and non-members. The posted Exchange and Clearing fees are further organized by the number of contracts traded per month. This format clearly reveals the fee incentives for membership as member rates are reduced when compared to non-member rates. Additionally, rates are discounted when trades are transacted beyond set threshold levels. Conversely, but also to promote trading, delegates must pay a monthly fee only if they fail to transact a minimum amount of trades.

EFR and EFP transactions have set fees pursuant to MGEX Resolution 719.00. The specific fees charged as to these services are available at http://www.mgex.com/trading_fees.html.

As stated above, Exchange and Clearing fees are provided for by MGEX Rule and typically set by Resolution or action taken by Exchange Officers. When the fee adjustment requires a Rulebook change, the Exchange follows the Rulebook amendment process described above and files the necessary public notice or certification with the CFTC. Further, the Exchange typically issues directed memos, public announcements, and news releases when either changing fees, or introducing new programs with related fees, such as the Liquidity Provider Permit program or the market maker program.[12] These notices are provided to members, market participants, and/or the public with as much advance notice as the particular circumstance may permit.

MGEX describes its service fees, or Exchange and Clearing fees, on its website. Because the fee schedules are organized by relationship with the Exchange—Member, delegate, non-member, and number of contracts traded—they allow for direct comparison to exchange and clearing fees at other DCMs and DCOs by market participants.

All parties desiring access through Globex® as described in *Key Consideration 2* will be provided with information on the applicable technology systems and related methods of communication. In addition, should a market participant wish to become a Member or Clearing Member, specific fee and requirements for such are fully disclosed prior to such an occurrence. At no time should there be an instance where a market participant is unaware of a hidden fee or charge for conducting business with MGEX.

Key Consideration 5: *An FMI should complete regularly and disclose publicly responses to the CPSS-IOSCO disclosure framework for financial market infrastructures. An FMI also should, at a minimum, disclose basic data on transaction volumes and values.*

This disclosure represents MGEX's third published response to the CPMI-IOSCO Disclosure Framework and evidences that the Exchange is dedicated to regularly updating its responses as required. The Exchange has policies in place to regularly update this disclosure upon the

[11] See Principle 18 for a discussion of various MGEX membership options, including the Delegate program.
[12] See response to Principle 18 for more information on the LPP or market maker programs.

implementation of any material changes, and at a minimum, every two years. All price, volume, and other relevant information may be found at www.mgex.com.

MGEX makes information available regarding daily volume and open interest. This information can be found daily on the MGEX website, and details the total volume, open interest, EFPs, EFRs, transfers, give-ups, and the number of each that were transacted electronically. These figures are organized by contract and contract month. Additionally, MGEX makes the details surrounding its guaranty fund public, as well as various market data, financial statements, and the Exchange's annual corporate report.

Aside from the quantitative information MGEX discloses on a daily, monthly, or annual basis, all relevant qualitative data is disclosed and made publicly available through the completion, publication, and update of this disclosure. Specific memos or news releases may contain quantitative information as well when deemed appropriate. These items are also posted to the MGEX website.

MGEX relies on its website as its primary public forum in which Members, non-members, market participants and the general public can access relevant information. As provided in response to Principle 1 of this disclosure, MGEX is a Delaware corporation and has its principal place of business in Minnesota. It conducts business only in the United States, where it is under the oversight of the CFTC and is bound by all relevant U.S. laws and regulations. As such, MGEX presently makes its information available in English. Nonetheless, should MGEX be held to another jurisdiction's standards in the future, the Exchange would make reasonable adjustments to its disclosure or notice practices to accommodate participants in that foreign jurisdiction.

V. Annex of Additional Publicly Available Resources

All publicly available resources issued by the Exchange are available on its website at http://www.mgex.com/index.cfm