



MEMO

TO: MGEX Clearing Members

FROM: MGEX Clearing House

DATE: June 22, 2021

SUBJECT: Proposed Rule Changes

MGEX intends on adding and amending certain Rule provisions on two topics relevant to Clearing Members. First, MGEX proposes to set forth the requirements that would apply in the event of a Clearing Member withdrawing from membership, including when a withdrawing firm may be assessed following another Clearing Member's default. Second, MGEX plans to add new Rule 2100.05., which specifies that the Clearing House holds a first priority lien on all collateral deposited with MGEX by Clearing Members.

MGEX is issuing this memo to notify all Clearing Members that the proposed Rule changes are now available on the MGEX website. If you are interested in reviewing such, please refer to the "Proposed Chapter 21 Rule Amendments" document, which is located under the "Rules & Regulations" section of the "Resources" tab on the main MGEX website at www.mgex.com.

MGEX welcomes any comments or concerns Clearing Members may have on the proposals. Please direct any comments to Lindsay Hopkins at lhopkins@mgex.com or 612-321-7143 by July 23, 2021.

2100.04. WITHDRAWAL OF CLEARING MEMBERS.

A Clearing Member that intends or desires to withdraw from clearing membership must first provide written notice indicating such intent to the Clearing House (the "Withdrawal Notice"). A Withdrawal Notice must be submitted by an individual who is duly authorized to act on behalf of the organization, and if the Clearing Member is approved by MGEX to clear for more than one exchange, the notice must indicate from which clearing membership(s) it is withdrawing. After a Clearing Member has delivered its Withdrawal Notice (including during any Cooling Off Period), it is subject to the following requirements and obligations:

- A. The Clearing Member must close out or transfer all open positions (Regular and/or Segregated accounts) to existing Clearing Members.
- B. The only transactions that may be submitted for clearing are those transactions used to transfer, terminate, liquidate, or otherwise reduce open positions and close out of contracts cleared by MGEX contracts.
- C. The Clearing Member must satisfy and perform in full all obligations, financial and otherwise, to the Exchange and Clearing House.
- D. Any open investigations, disciplinary matters, or other regulatory issues must be closed.
- E. Any obligations to other Clearing Members and/or customers must be paid for or otherwise provided for.

A Clearing Member's withdrawal will be effective only after a Clearing Member has fully satisfied all of the above conditions and the Exchange has approved such withdrawal in writing (the "Withdrawal Date"). Following the Withdrawal Date, the Exchange will return the withdrawing Clearing Member's security deposit, as well as any other deposits or assets required by or available to the Clearing House, within sixty (60) days.

Any Withdrawal Notice issued by a Clearing Member will be considered irrevocable and clearing privileges may only be reinstated by completing a new Application for Clearing Privileges and Clearing Member Agreement and satisfying all of the requirements set forth in **Rule 2100.02**.

2110.00. CLEARING MEMBERS: ASSESSMENTS.

Losses (as defined in **Rule 2109.03**.) shall first be satisfied by applying the funds in the order of priority listed in **Rule 2109.03**. The balance of any Losses remaining after the application of such funds shall be assessed against all Clearing Members (excluding any Insolvent or Defaulting Clearing Members). Each Clearing Member (excluding any Insolvent or Defaulting Clearing Member) shall be subject to an assessment in direct proportion to the Clearing Members' total security deposit requirement up to an amount that does not exceed (i) a total of three (3) times such Clearing Member's total security deposit requirement at the time of the default with respect to Losses that are attributed to the default of a single Clearing Member and (ii) a total of six (6) times such Clearing Member's total security deposit requirement at the time of the default with respect to Losses that are attributed to the default of multiple Clearing Members during a Cooling Off Period (as defined in **Rule 2113.00**. below). Non-defaulting Clearing Members shall take no actions, including but not limited to, attempting to obtain a court order that would interfere with the ability of the Clearing House to collect and apply such assessments.

Each Clearing Member shall pay any assessment made pursuant to this Rule by wire or other method acceptable to MGEX within two (2) hours of the notice of the assessment being delivered to Clearing Members. If a Clearing Member pays such assessment by wire and the wire transfer service is not open or operational at the time notice is sent, payment is due within one (1) hour on the next business day that the wire transfer service is open and operational. Any Clearing Member that does not satisfy an assessment shall be in default, and any Loss that occurs as a result of such default shall itself be assessed by MGEX to non-defaulting Clearing Members. In the event that the amount of assessments received exceeds the amount of the Loss, the Clearing House will return such excess funds as soon as practicable.

If a non-defaulting Clearing Member has made payments of all assessed amounts, ~~and~~ has replenished any deficiency in its security deposits or margin and performance bonds in accordance with [Rule 2109.05.](#), and has satisfied all other conditions of withdrawal set forth in Rule 2100.04. it may withdraw as a Clearing Member ~~by giving written notice to and receiving approval from the Exchange.~~ A withdrawing Clearing Member will be subject to assessments, and its security deposits may be utilized, for all defaults and any Losses occurring before and during the Cooling Off Period in which such Clearing Member submitted its Withdrawal Notice and/or continues to have open positions, as well as any Losses stemming from such default(s) regardless of when the Loss is realized by MGEX. For the avoidance of doubt, even after a Clearing Member has submitted its Withdrawal Notice and liquidated or transferred all of its open customer and house positions, it will continue to be subject to assessments, and its security deposits may be utilized, for all Losses from additional default(s) that occur during the Cooling Off Period after submission of a Withdrawal Notice and the liquidation or transfer of all open positions. However, the withdrawing Clearing Member will not be subject to future assessments that are assessed to cover Losses for defaults that occur after the Cooling Off Period during which the Clearing Member provided its Withdrawal Notice and liquidated or transferred all of its open customer and house positions has concluded. In addition, the Exchange will not apply such Clearing Member's replenished security deposit to Losses for defaults that occur after the conclusion of the Cooling Off Period during which the Clearing Member provided its Withdrawal Notice and liquidated or transferred all of its open customer and house positions. For purposes of this Rule, MGEX will consider the liquidation or transfer of all open positions by a Clearing Member effective after completion of the Business Day's settlement cycle during which all positions were closed.

2100.05. LIEN ON COLLATERAL.

Each Clearing Member hereby grants to the Clearing House a first priority and unencumbered security interest and lien against any property, cash, securities, or collateral deposited with the Clearing House in connection with the financial obligations of such Clearing Member. Clearing Members shall execute any documents required by MGEX to create and enforce such liens.