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The Andersons, Inc.
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COMMENT

Jean A. Webb
Secretary Commodity Futures Trading Commission
Three Lafayette Centre, 21st St. N.W.
Washington, D.C. 20581

Dear Ms. Webb and members of the CFTC:

Several weeks ago the Chicago Board of Trade proposed changes to the daily price limits on several agricultural futures and options contracts. While The Andersons welcomes advancements in the technical arena and are certainly willing to assist advancement at the CBOT, we feel compelled to speak out against the pending expansion to price limitations. Our list of objections are relatively short, but apply to 2 areas within the agriculture industry, the producer segment and the business segment. After reviewing some of our concerns, we think you will find it in the best interest of the CBOT, the producer segment and the industry in general to delay expansions to current price limitations until sufficient computer programming changes can take place that would adequately accommodate today's limit structure. Technical advancements in their truest form should be intended to improve existing conditions and methodologies rather than contributing to increased financial risk. Our concerns are listed below:

Producer Segment

- Education - For several years we have devoted numerous hours teaching our customers how to utilize risk management tools provided by the CBOT. Many of our customers are just now getting comfortable with these tools. Increasing the daily price limitations will only generate uncertainty and doubt for the producer segment. More time and resources will have to be allocated to reeducating this segment on the underlying proposal.
- Volatility: Although we don't anticipate this change would increase the frequency of limit moves, we do feel the change could increase volatility and the underlying risk for the producer segment. This is exactly what they need to avoid. Passage of the new limit proposal may simply encourage customers of the CBOT to develop alternative hedging methods.
- Liquidity: During periods of highly sensitive weather markets, producers may find it difficult or virtually impossible to offset their price risk. Under the proposed plan, futures and options would both cease trading if a single contract trades at the limit. Such an environment could force the country elevator to stop purchasing agricultural products or be forced to fade their bid in an effort to reduce price risk. If these efforts prove to be unsuccessful, they may be forced to develop alternative hedging methods.

Business or Commercial Segment

- Hedging efficiency: One of the major concerns mentioned above in the producer segment is commercial hedging efficiency. With the proposed trading limit expansion, there could be times where an elevator will be forced to develop alternative hedging methods or seek alternative markets to hedge their risk. If no alternative hedging method can be identified, we may be forced to fade the daily price move in an effort to reduce the underlying risk. For example, under the proposed expansion we could see a cease-trading situation where CN futures were up 20 cents and CZ futures were up 10 cents. As a result of the limit move in old crop corn futures, new crop futures will cease trading in the Eurex session. If the country elevator manager wants to continue buying new crop corn from the producer segment, he will be forced to "estimate" a new crop price and hope they'll be able to hedge the purchase when futures resume trading.

- Side-by-side Eurex and Open Outcry: It's apparent in CBOT correspondence that the Eurex system will eventually run side-by-side with the open outcry system. There is no current proposal in place today that details the how the expanded limits will be handed in this environment. For instance, will both systems cease trading in a limit move, or will the open outcry system continue to operate? Will spreads be handled differently?
- Synthetic trading: In today's structure, a hedger has the ability to offset his price risk through spreads, alternative active trading months or a synthetic trade. Under the new proposed structure, the CBOT customer loses this capability.
- Option Volatility: A reasonable assumption could be made regarding higher option volatility in the expanded trading limit environment. Higher volatility translates into higher premium values for option traders and in turn higher costs to the option buyer. Higher cost will likely discourage the long hedger or producer segment from utilizing option purchases in his overall risk management strategy.
- Margin Requirements: Added volatility because of the higher limits will increase margin requirements. The added financial strain resulting from increased daily margin requirements may be a difficult hurdle for smaller customers of the CBOT. Higher costs as a result of increased margin requirements will be felt across the industry regardless the size of the participating firm.
- Spreads: In today's structure, a limit move doesn't necessarily affect the ability to execute spreads. Under the proposed plan, spreads will cease along with all other futures trading. This is a problem.

The above statements lead us to believe it would be in the best interest of the CBOT and industry participants to delay taking drastic measures simply to launch the Eurex trading platform. We strongly feel both the producer segment and the commercial industry will be exposed to higher daily market volatility, larger financial risk and an inefficient hedging exchange. Again, we welcome developments in the electronic arena, but not at the cost of the present proven exchange.

The Andersons would like to thank you for reviewing our list of concerns. If the CBOT or the CFTC would seek further clarification on these points or would like additional commentary on this issue, please feel free to contact us. If possible, we'd appreciate your response prior to making a decision on expanding today's price limit structure.

Sincerely,

Craig Parr
Hedger
The Andersons Inc.