The Andersons, Inc.
480 W. Dussel Dr. • Maumee, Ohio 43537 • 419/893/5050

Mr. Christopher Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st Street NW
Washington, DC 20581

Re: Amendment to Rule 151.5
Federal Register Release: 79 FR 71973

Dear Mr. Kirkpatrick,

The Andersons, Inc. ("Andersons") is a diversified company rooted in agriculture and conducting business across North America in the sectors of grain, ethanol, plant nutrient, railcar repair and leasing, turf and cob products, and consumer retailing. Our business has found success in the use of the commodity markets to manage our risk.

We would like to take this time to voice our concern about the proposed amendment to CFTC Rule 151.5, most specifically with regard to what constitutes a bona fide hedge. For years the Commission has taken a broad view when interpreting the Commodity Exchange Act. This proposal is a change from that broad interpretation employed in the past. While the simplest examples of hedging can be very easy to understand, managing risk in our businesses is more complex than simply buying commodities and selling futures.

We buy grain from producers every day. The risks of such purchases include absolute price risk, spread risk, basis risk, and execution risk (including freight and potentially foreign exchange rates). Our ability to hedge appropriately allows us to work on a narrow margin, which in turn provides better prices to producers and consumers.

There are many different ways in which grain handling firms like Andersons use the commodity markets to manage risk; far more than could be outlined here. The proposed amendment to Rule 151.5 would mean common hedging strategies are no longer recognized as bona fide hedges. Two critical examples of this are:

- Setting a calendar spread to manage risk in order to insure return on investment in storage space.
- Pre hedging anticipated cash grain purchases when the commodity market is closed, such as on the weekend.

Setting a calendar spread: Grain handling firms who store grain will often look for opportunity to pre-set calendar spreads in the commodity market, even prior to buying the underlying commodity. If the spread represents a reasonable return the firm will buy the front month and sell the back, which locks in the return, or carry. As the firm buys the underlying commodity the firms sells the front futures month. The result is ownership of grain with a storage return already established.

This example would not qualify as a bona fide hedge under the proposed amendment. At the time these positions were established, the firm did not have a cash grain forward contract nor did it own that grain inventory.

This is not rampant speculation. For example, Andersons takes a measured approach with regard to these spreads, considering factors like historical volume and storage capacity. Pre-setting calendar spreads allows a company such as ours more time horizon to recover a portion of the ongoing operation costs of our grain elevators such as servicing debt and paying employees, which occur every day whether our elevator investment is earning a return or not. Failure to manage these costs would likely lower the price we pay to our producer customers.

Eliminating the validity of this strategy as a hedge could potentially impact a firm's desire to invest in physical assets. Additionally a lack of ability to lock in carry in advance could create more volatility in the cash markets, leading to disruptions in the conversion of physical and futures prices.

Pre hedging anticipated cash grain purchases: The Andersons, like other grain handling firms, will pre hedge to minimize risks for grain that is bought when the market is closed, such as over a weekend during harvest. It is common for our firm and others to review the amount of grain that comes to our elevator in a given day and use that to estimate how much will be sold to us over the scale. While the futures markets are closed on the weekend, the grain elevator will be open and we will post a price at which we will buy grain. This price takes into account the closing price on Friday for that commodity. We manage our risk by selling futures at the close of trading on Friday before we receive the grain.

These weekend purchases can be predicted with a high degree of confidence and therefore our pre-hedge is usually quite accurate. If this transaction no longer qualified as a bona fide hedge, we would have to re-evaluate this practice. Solutions may include not offering pricing opportunities to producers until the market reopens, or we may offer a lower price to producers to protect against a lower price when the market reopens. Either strategy negatively impacts the producer's ability to lock in prices.

The two previous examples are a limited illustration of the types of risk reducing strategies we employ that would not be viewed as bona fide hedges by the proposed amendment. We would be happy to discuss any of these strategies in more detail if requested. Further, we urge the Commission to maintain an open dialogue with industry groups like the National Grain and Feed Association and Commodity Markets Council, who do an excellent job representing the entire industry. We are a member in each.

Additionally, the Commission has discussed the topic of aggregation based on affiliation or ownership. We believe that the Commission should focus solely on aggregation when a parent entity has control of day to day hedging and trading strategies of the child entity. In the instance of a firm who is acting on its own behalf without the control of a parent company we believe no aggregation should occur.

In conclusion, one unintended consequence of the proposed amendment could impact the supply and demand balance of many commodities. Hedgers and speculators trade in the futures markets, this action results in a price for commodities that is based on all available knowledge of supply and demand. These prices send signals to producers as to which commodities they should produce. This signal from the market and reaction from the producer has largely allowed the agricultural commodity markets to produce a variety of crops with little disruption to supply.

If the proposed amendments are adopted, it is possible that grain handling firms may explore opportunities for hedges in cash markets or other off-exchange markets that could be more cost effective or subject to less scrutiny. If this happens then it is likely the futures market will provide a

less accurate signal as to which commodities need to be produced, potentially disrupting the future balance of supply and demand.

Given what has been discussed here we strongly encourage the Commission to revise the proposed language to return to a broad interpretation of a bona fide hedge.

We sincerely thank you for your consideration of these matters.

The Andersons, Inc.

Dennis J. Addis
President, Grain Group