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The Merc fights for self-regulation

Leo Melamed, architect of Chicago's financial futures market, is an outspoken champion of self-regulation, and it's easy to see why. With Melamed as its chief policymaker, the Chicago Mercantile Exchange has been a consistent industry leader in new products and services while remaining largely free of heavy government interference.

But Melamed knows that self-regulation is a right that can disappear rapidly if an institution doesn't act responsibly. Faced with increasing global competition and a government investigation of industry trading practices, he's fighting hard to preserve that right.

A committee of Merc leaders and industry experts, formed shortly after the federal investigation of the Merc and the Chicago Board of Trade was disclosed by The Tribune in mid-January, has proposed tougher trading rules and penalties. If adopted by the Merc's board of governors and the federal Commodities Futures Trading Commission, they would fundamentally change the way Chicago's futures markets operate. They would eliminate many opportunities for fraud and abuse and deter cheating by imposing harsh fines.

One far-reaching proposal calls for banning most traders from doing business for themselves at the same time they are handling orders for customers. This "dual trading" would be allowed only in a small number of lightly traded commodities. The committee also wants to restrict broker associations or rings, add surveillance staff, appoint non-exchange members to disciplinary committees and suspend a member for six months after a major rules violation. A second offense would result in lifetime expulsion from the exchange.

Merc officials claim some of these changes were in the works before the federal probe was revealed, but the package is clearly a response. It's also a genuine effort to restore public confidence in one of Chicago's most important financial markets by limiting both the possibilities and perception of abuses.

Critics may argue that the Merc is doing too little, too late. But the exchange constantly must balance its duty to keep its own house in order with its need to provide liquid and efficient markets.

Congress should realize that the futures industry has prospered under self-regulation. Even under the cloud of the FBI sting, Merc volume is up 34 percent this year and membership values are at record amounts. If the investigation reveals abuses not covered by these rule changes, further adjustments can be made.

Meantime, lawmakers should not add burdensome regulations that will drive up the cost of trading futures in America and force a successful U.S. industry to yield to foreign competition.