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Voice of the people

Mercantile Exchange polices itself

CHICAGO—Immediately after it became apparent that a federal investigation was being conducted of trading activities on the floors of the Chicago Board of Trade and the Chicago Mercantile Exchange, the board of governors of our exchange declared its cooperation with the U.S. attorney and announced a policy of affirmative action. Generally speaking, the board concluded that rather than await the outcome of the federal investigation, it would use this opportunity to examine its rules and trading practices. In the board's view, it did not matter whether the investigation uncovered a single transgression or a multitude of transgressions. After decades of growth and expansion, a comprehensive rule review was warranted.

Accordingly, the board of governors on Jan. 25 established a special committee of experts familiar with our industry to review trading practices. It was empowered to recommend revisions and improvements to strengthen and enhance trading procedures and practices, and was asked to complete its work within 60 to 90 days.

The special committee will examine every significant trading practice and all enforcement procedures. In addition, it plans to solicit expert testimony, from customers, futures commission merchants, floor traders and brokers, prominent and knowledgeable attorneys, and others to provide a thorough basis for recommendations.

It is imperative at this juncture to make it absolutely clear that the exchange, as an institution, is not the focus of the investigation. This should have been clear from the outset, but relentless media coverage has created an environment of confusion and misinformation.

Our board of governors is outraged at the torrent of false, irrelevant and unfounded media reports. The unbridled race by some to print and broadcast the most sensational and outlandish scrap of information has resulted in a denigration of all traders, regardless of guilt or innocence. As a consequence, the damage already inflicted on the futures industry may outweigh the good that may yet be achieved by the ultimate exposure of wrongdoing by some exchange members.

Indeed, before a single indictment has been issued—before anyone has been brought to trial, let alone been found guilty—this media frenzy has

unjustly cast doubt on all futures business, the Commodity Futures Trading Commission and the self-regulatory process. It has resulted in a delay of the commission's reauthorization and instigated at least one congressional probe. Most important, it has viciously, unconscionably trampled upon and smeared the integrity of two Chicago institutions, neither of which is the focus of the probe, and their officials and members.

We urge all responsible members of the media to re-examine their standards of fairness, accuracy and propriety, and maintain them in a manner consistent with the obligations of a free press in a free society. When the press demands an ever-higher standard of ethics for those in business and politics, it ought to be willing to set an example.

We believe the investigation will affirm that the compliance procedures and disciplinary standards of the Chicago Mercantile Exchange were well-conceived, soundly and fairly administered, and effective. During the last 12 months, we opened 145 trade practice investigations, prosecuted 179 members and obtained convictions of 103. These resulted in total fines of \$1,747,250, suspensions totaling 4,798 days, and 4 expulsions.

While the FBI's investigation may find some individuals who had not previously been charged by us, or were not the subjects of active investigations, we believe that this is primarily a consequence of the availability to the FBI of electronic surveillance techniques that would have constituted felonies if employed by the exchange.

We already have taken a strong public stand to support the ongoing grand jury investigation and vowed not to await the outcome before taking action to strengthen our marketplace. However, we will not permit the deeds of a few wrongdoers and a sensation-seeking media to undo the tremendous accomplishments of this institution or force us to initiate unwarranted actions. Nor will we allow this adversity to impede the forward momentum we have maintained over the last two decades, or deter us from implementing our innovative and global strategic plans for the future.

Leo Melamed

Chairman, Executive Committee

John T. Geldermann

Chairman of the board
Chicago Mercantile Exchange