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CHICAGO EXCHANGE APPOINTS A PANEL TO PRESS REFORMS

NEW TRADING RULES SEEN

Commodity Experts Hail the Move, Saying It May Lead to a 'Stronger Market'

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Special to The New York Times

CHICAGO, Jan. 25 — A top official with the Chicago Mercantile Exchange said today that the huge commodity exchange had appointed a special panel to recommend some of the most extensive changes in the 115-year history of trading on the exchange.

The panel's creation comes after last week's disclosure that the Government has been conducting a wide-ranging investigation of possible fraud by commodity futures traders on the Mercantile Exchange and the Chicago Board of Trade.

The proposals that are likely to be considered include changing trading practices that some people say are at the heart of the current investigation. The changes are expected to include strengthening enforcement procedures and the first significant introduction of technology in the exchange's daytime trading system, known as the open outcry system.

Proposals Expected in March

Leo Melamed, the chairman of the executive committee for the Mercantile Exchange, said the task force would have four members from the futures industry and five from outside the industry and would present its proposals by March. The Mercantile Exchange would then submit the proposals to Government regulators for approval.

"In the final analysis, it doesn't matter if this investigation will produce any guilty verdicts," Mr. Melamed said. "The Justice Department has afforded us the opportunity to take a look at and to structurally change the system, so that in the next decade, no one will ever consider the possibility that anyone can find the opportunity to violate the rules."

Changes in Dual Trading

While there had been speculation that the investigation might lead the exchanges to abandon the open outcry system, Mr. Melamed said the system would be the basis for extensively modifications.

The most controversial expected change, people who work with the Mer-



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Leo Melamed, chairman of the Mercantile's executive committee, sees radical changes ahead for the exchange.

cantile Exchange board said, would be adoption of a rule that would prevent people who work in the trading pits from acting as a broker for another account while trading for their own as well.

This system, known as dual trading, has been criticized for years as being rife with possibilities for conflicts of interest. Some commodities lawyers speculate that it may have had a large role in the fraud that the Government believes occurred.

Officials from the Board of Trade declined to comment on whether they would undertake a similar review. Mr. Melamed said, however, that he had been in contact with them and that officials from both exchanges were of "a like mindframe."

Experts in commodity futures praised the decision by the Mercantile Exchange.

"This is a major step forward and it means that there could be a lot of good that could come from what appeared to be a very bad situation," said Thomas A. Russo, an expert in commodities law and a partner at the law firm of Cadwalader, Wickersham & Taft. "We could well have a stronger market if we learn from the problems that have been exposed. And it's a good indication that self-regulation by the exchanges can work."

Indeed, a prime motive for the move may well have been concern that a scandal would bring in a wave of new regulation from Washington.

Undercover Agents

The Mercantile Exchange and the Board of Trade have been under intense pressure since the investigation became publicly known last week. As part of the inquiry, a number of undercover agents for the Federal Bureau of Investigation posed as traders for almost two years, secretly recording hundreds of hours of conversations with traders at the exchanges in an effort to get evidence of fraud in commodity trading.

Four undercover agents disclosed their identities to traders last week as 50 to 100 subpoenas were being handed out. Traders said today that they knew the identity of one other undercover agent. And at least one more agent could be working at the exchanges, people involved in the case said. In addition, a number of telephone clerks and floor clerks have quit reporting for work in the last week, leading to rumors that they also were part of the undercover operation.

The Mercantile Exchange announced that the head of the panel will be John T. Gelderman, chairman of the Mercantile Exchange. Mr. Melamed and Susan M. Phillips, former chairman of the Commodity Futures Trading Commission, will serve as vice chairmen. The other members will include Thomas F. Eagleton, the former Democratic Senator from Missouri; Donald Butler, the former president of the National Cattlemen's Association; Louis I. Margolis, a managing director of Salomon Brothers Inc.; and John A. Wing, president and chief executive of the Chicago Corporation.

Other Mercantile Exchange officials who will serve on the board include John F. Sandner, the past chairman and now senior policy adviser to the board, and William J. Brodsky, the president and chief executive of the exchange.

A Consequence of Growth

In the interview, Mr. Melamed said that any changes put into effect would be a result of the growth at the Mercantile Exchange, which is the world's largest market for trading futures contracts on financial instruments.

"Our markets have changed in a very substantive way over the last decade," Mr. Melamed said. "But the trading rules and practices of our exchange have basically remained the same as they have for the last 100 years. This represents a watershed time to analyze and to be honest about how we want our markets to work."

Mr. Melamed said the matters the panel will review probably would include the use of technology in the trading pits to deliver orders to brokers, increased surveillance, and changing the basic guidelines that members of the exchange must follow.

"There will be nothing barred in terms of giving us the trading practice environment that cannot be conducive to a broker or a trader violating a customer's trust ever again," he said.

Further Changes

One person who works with the exchange's board said any change in the dual trading system would probably involve a new rule stating the traders in the pits could either act as brokers for their own account or as brokers for others, but not both.

Mr. Melamed said the review would not consider whether to abandon the open outcry system. Under the open outcry system, which is used only on commodity exchanges, traders shout out their buy and sell orders for contracts. The method is intended to allow the traders in the pits to know prevailing prices of the contracts, allowing them to make decisions on what to buy and sell.

Mr. Melamed said that he expected it would be difficult to persuade all the members of the exchange to support the proposals immediately, but over time he expected they would be won over.

"It will not be easy," he said. "There will be pockets of resistance. We've got establishment and we've got history here, and that means fighting a lot of status quo."

At the Board of Trade traders were saying today that they believed that a runner formerly employed by Dean Witter Reynolds was an F.B.I. agent. They identified the runner as Ron Hanson.

Identifying Agents

The traders' comments corroborated a report in The Wall Street Journal, also based on traders' comments, that Mr. Hanson had been employed by the F.B.I. Five people, including Mr. Hanson, have now been identified by traders as undercover agents who tried to gather information about illegal trading. Several traders have said they believed that other Federal agents had been on the floor.

In New York, a Dean Witter spokesman declined to comment.

People in the commodity industry said Mr. Hanson joined Dean Witter on Oct. 24 and left about two weeks ago. These people said that Mr. Hanson worked part time at a variety of minor jobs, and that Dean Witter was not aware that he may have been an agent.

From the end of August until some time in October, Mr. Hanson was a runner for Lind-Waldock & Company, a discount futures brokerage. Barry J. Lind, the company's president, said Mr. Hanson listed as a reference Michael D. McLoughlin, who has been identified as a Federal agent. Mr. Hanson worked in the Treasury-bond futures pit part time for a salary of about \$300 a month, Mr. Lind said.