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## Merc puts system 'under microscope'

By Sallie Gaines

Leo Melamed, chief counsel of the Chicago Mercantile Exchange, conceded Wednesday that the futures trading system may permit abuses and falls short of serving a modern marketplace.

"The question isn't that it [dishonest trading] doesn't occur," said Melamed, perhaps the most powerful figure at the exchange. "It does occur. The question is what do you do when it occurs? Do you stone-wall?"

The Merc has asked nine people "above reproach," including four exchange insiders, to investigate the trading system, Melamed said.

"Everything that is common with floor practices will be under a microscope," Melamed said in his first public comments since The Tribune reported last week that the FBI and U.S. attorney's office had been investigating the Merc and the Chicago Board of Trade for more than two years.

Federal authorities gathered evidence by putting undercover agents in the trading pits. Executives at the Merc and Board of Trade say they did not know about the investigation until it was reported last week.

Melamed said he doesn't believe he or the Merc is a target of the federal investigation.

"It goes without saying that, as officials of this exchange, this has been a shocking number of days," said Melamed, 58. He is the only official of either exchange to talk to the press since last week's disclosures. "Clearly, we view this as a serious thing."

He refused to discuss the federal investigation but said the Merc's board of governors decided to launch its own study of trading systems. The U.S. attorney's office in Chicago wrote to Merc officials last Friday, asking that they suspend their investigation, but the exchange refused.

"The Justice Department has no quarrel with me," Melamed said. "While we didn't know what they were doing, that doesn't mean we are on the opposite side of the intent. We're going to use this opportunity. Here is an environment in which we can make this a model exchange."

"All this pain and no results? No way," he said. "We have to prove to the world that we can be an honest place where a public order will not be subject to dishonest hands. If there is an opportunity under the present trading regime for a trader to take advantage, that's got to be history. There shouldn't be an opportunity for anybody."

Melamed's announcement



Leo Melamed

caused some consternation at the Board of Trade, which has refused to comment on the investigation beyond saying it will cooperate with authorities. The CBOT confirmed that it, like the Merc, received a subpoena for records dating from 1983.

"It would be irresponsible to comment on unverified press reports until we are officially notified of the facts underlying the investigations," the CBOT said in a statement issued this week over the signature of Chairman Karsten Mahlmann and President Thomas R. Donovan.

While convinced that the majority of traders are honest, "That's not the issue," Melamed said. "We're not going to hide behind that. We've got to change the rules so even that few can't do anything dishonest with a public order. By God, if we don't know how to do it, then who the hell does know?"

Melamed said efficiency concerns him as much as cheating, because the futures business has outgrown trading practices. The volume of orders handled on futures exchanges has mushroomed in the last 10 years, as has the number of traders working in given pits, he said. At the same time, the number of contracts traded has grown, and the profile of the customer has changed.

But trading practices in the pits haven't changed, he said.

John T. Geldermann, the Merc's newly elected chairman, will head the nine-member panel. Melamed and Susan M. Phillips, former chairwoman of the Commodity Futures Trading Commission, will be vice chairmen.

Other members include John A. Wing, president and chief executive officer of Chicago Corp; former Sen. Thomas F. Eagleton (D., Mo.); Donald Butler, former president of the National Cattlemen's Association; Louis I. Margolis, managing director of Salomon Brothers Inc.; John F. Sandner, senior policy adviser and former chairman of the Merc; and William J. Brodsky, the Merc's president.

Melamed said he wants a report within 90 days, possibly as soon as the end of March. He would not be specific about which practices he believes make it possible for traders to cheat.