

# Chicago Merc Rushes to Protect Expansion Amid U.S. Inquiry

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CHICAGO—The Chicago Mercantile Exchange is moving swiftly to shore up international expansion plans in the face of a sweeping federal probe of futures markets.

Within hours after the probe came to light late last week, exchange officials began meeting with key Capitol Hill supporters in Washington. They apparently want to bolster support for the exchange in the face of a likely barrage of public and congressional criticism in coming months. And Wednesday, the exchange said, it formed a panel to recommend broad changes aimed at cleaning up any abuses in exchange trading practices.

At stake is the Chicago Merc's potential share of futures trading business from what is expected to be the single largest source of global futures industry growth in the 1990s: Japan. Because the two-year federal investigation focuses in part on the Chicago Merc's raucous Japanese yen futures trading pit, it couldn't have come to light at a worse time for the exchange.

The Chicago Merc is in the midst of a globe-trotting marketing blitz aimed at wooing Japanese and other international customers to sign up for Globex, a computerized after-hours futures market likely to debut late this year. The exchange also is actively courting Japanese banks and brokers to buy seats and trade more actively in its pits.

If the federal investigation of fraud implicates leading member firms, or casts doubt on the exchange's oversight ability, the Chicago Merc's expansion plans could grind to a halt, member firm officials say. "Our prestige is riding on this one," says an exchange governor, who asked not to be identified.

Leo Melamed, the exchange's executive committee chairman, predicted that in three years, as many as one-third of the Chicago Merc's trades will originate with



Leo Melamed

Japanese institutions. A futures contract is an agreement to buy or sell a specific amount of a commodity or financial instrument at a set price within a given time.

Japanese and other foreign institutions are taking a wait-and-see attitude toward the federal inquiry, which also covers trading pits at the Chicago Board of Trade.

Some Japanese bank officials in Tokyo say they view the sell-off in Merc and Board of Trade seat prices following reports of the probe as a buying opportunity. "Maybe seats will get even cheaper when the cases go to trial," quipped a Saltama Bank official in Tokyo.

No traders on either exchange have been indicted as a result of the inquiry.

Globex received an initial vote of confidence from the New York Mercantile Exchange, as members approved a plan to negotiate a contract with Globex in a 392-to-122 vote. Globex faces another hurdle next week, when the Commodity Futures Trading Commission is expected to vote on approving the electronic exchange.

The exchange, which donates heavily to the re-election campaigns of congressional leaders, is known for its clout on Capitol Hill. That was apparent last week as Merc officials met informally with House Speaker James Wright, as well as Dan Rostenkowski, the Illinois Democrat who heads the Ways and Means Committee, exchange officials said. During parties celebrating the inauguration of President Bush, they also met informally with the chairmen of the House and Senate Agriculture committees.

Mr. Melamed said that the exchange panel formed to study toughening trading rules is free to recommend whatever changes it thinks are required. Some Chicago Merc member firm officials were angered that Mr. Melamed appeared to be admitting guilt on the part of dozens of traders on his exchange before they had even been indicted. Others said that the panel, which is stacked with exchange insiders, wouldn't be tough enough on alleged trading abuses.

But others said that the stance taken by Mr. Melamed put the best possible face on what could be a very bad situation for the exchange. "When the chips are down, we still turn to Leo," said the head of one exchange clearing member firm.