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Title: Merc's Melamed defends self-regulation  
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WASHINGTON With the cloud of a federal investigation still hanging over Chicago's futures exchanges, Chicago Mercantile Exchange special counsel Leo Melamed on Wednesday defended the practice of exchanges primarily regulating themselves.

Melamed conceded that the century-old "open outcry" system is showing "a tug of war between its effectiveness and its problems." But he predicted that the outcome of any probe will show that futures trading "has the same unfortunate percentage of wrongdoers you'll find in any industry."

Melamed, who also is chairman of the Merc's executive committee, said he hopes that Congress won't pass new rules that drive trading away from U.S. exchanges and will look favorably on steps that the Merc is taking to change its own rules, as recently recommended by a special study group made up of Merc members and outsiders.

"The recommended changes are serious and comprehensive," Melamed said, and should "give Congress the view that this industry can self-regulate."

Melamed made his comments during a talk with reporters at the National Press Club here. Merc officials, including Chief Operating Officer William Brodsky and Chairman John Geldermann, were in town for a reception the Merc hosted Tuesday night for members of Congress.

Some Merc members have complained that the changes in trading practices are too hasty a reaction to the FBI investigation disclosed in mid-January, while other Merc members complain that the reforms don't go far enough.

While exchange officials, congressmen and others wait for the first charges to be filed in the federal investigation, Melamed said, the probe has stalled regulatory approval of new futures contracts by the Commodity Futures Trading Commission.

On a separate issue - the worry of two years ago that futures trading caused or worsened the stock market crash in October, 1987 - Melamed declared vindication.

Two culprits blamed at the time were program trading, computer-driven systems to trade futures and stocks in large amounts, and margins, the good-faith deposit to begin trading.

After a lull, the volume of program trading is growing again. And the Merc has lowered the margin for trading in its stock index futures contract after raising that amount in the aftermath of the crash.

Melamed said that "77 studies" on the crash that examined the role of program trading and of margin levels "discredited" them as contributing to the price plunge.

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