

Futures Markets Play Key Role In U.S. Economy, Melamed Says

By Paul Cox, *Investor's Daily*

WASHINGTON — U.S. futures and options markets are a national "resource, little understood or appreciated and sometimes maligned," said Leo Melamed, special counsel to the Chicago Mercantile Exchange.

At a recent press conference here, Melamed said U.S. futures and options markets are assets to the national economy that allow risk shifting, give clues to future price levels and aid capital formation.

U.S. futures trading traditionally involved mainly agricultural products, but now the most active markets are in financial futures such as government securities, Eurodollars and foreign currencies.

On a more basic level, Melamed said, U.S. futures exchanges provide hundreds of jobs, from floor brokers to lawyers and "even bartenders." Futures markets also bring \$4 billion in overnight margin deposits into U.S. banks, he said.

On The Defensive

But the futures industry is now on the defensive following news of major criminal and civil investigations in Chicago and New York into alleged trading abuses. Congress is following up on the issue, looking at whether significant changes in futures trading regulation are needed.

Melamed and three of his futures industry colleagues will testify today before the Senate Agriculture Committee. This panel and one in the House are investigating futures trading practices

with an eye towards changes in the regulatory mandate of the Commodity Futures Trading Commission.

Today's Senate hearing is expected to focus on trading practices and some proposals for change that have come from futures exchanges.

The CME has put forth a reform package that includes significant limits on so-called "dual trading," a practice in which exchange members can trade both for their own accounts and to fill customer orders. Dual trading provides the opportunity for a member to trade for his own account in advance of filling a customer order that may move market prices. Some analysts say dual trading allows some traders to conduct questionable trading practices.

However, dual trading is a long-established practice at futures exchanges and members of the Chicago Board of Trade recently refused to agree to any significant limits on the practices. The CBT claims dual trading enhances market liquidity and broker performance.

CBT Chairman Karsten "Cash" Mahlmann is scheduled to testify at the Senate hearing today, along with Z. Lou Guttman from the New York Mercantile Exchange and Robert Fink from the Commodity Exchange Inc.

The futures industry is viewed as quite influential in Congress, especially in the agriculture committees that hold legislative jurisdiction over futures trading matters.

Melamed, an avid trader, gave his remarks while periodically glancing at a hand-held remote quotations device

beaming him up-to-the-minute futures prices from Chicago.

He warned that if Congress overreacts and overtightens regulation of futures trading, much of the business will flow to overseas exchanges.

"The world has caught on to what we have created and succeeded with," Melamed added.

Academic research has shown that futures markets benefit the U.S. economy in many ways, he said. He cited futures contracts on Treasury bills and bonds, which allow risk-shifting and hedging by primary government securities dealers and leads to the government paying lower interest rates on its mammoth borrowing.

Large futures firms could transact business in any market around the world, Melamed said, but the U.S. will benefit if the most active markets remain in the U.S.

"Any market that is successful is a magnet for other activity," Melamed said.

Address Perceived Weaknesses

To help make sure successful futures markets remain in the U.S., Melamed said, the CME is willing to work with Congress and the regulators to address perceived weaknesses in trading systems. He cited CME members' willingness to go ahead with restrictions on dual trading and an after-hours electronic trading system.

"I think the membership is going to act responsibly," Melamed said.

He expressed hope that he will be able to convince other factions of the futures industry, mainly the CBT, to go along with needed reforms.

"We're going to meet and talk," Melamed said.