

Business

Chicago Tribune Friday, November 11, 1988

Melamed backs automation

But he says Merc's Globex isn't threat to open outcry

By R.C. Longworth
Chicago Tribune

LONDON—Leo Melamed, chairman of the Chicago Mercantile Exchange's executive committee, denied Thursday that the Merc's proposed automated global transaction system will doom its hallowed "open-outcry" trading.

But Melamed, in a speech to the London Financial Symposium sponsored by the Merc, acknowledged that "open outcry," in which traders deal face-to-face in pits, is limited in the modern global marketplace.

Globex, the worldwide automated system that the Merc is developing with Reuters Holdings, "is not designed to replace the present transaction process but, rather, to enhance and secure it," Melamed said.

Straightforward electronic links with foreign exchanges are not an adequate tool in the era of "one continuous marketplace," he said, nor are extended trading hours, as pioneered by the Chicago Board

of Trade. The CBOT has asked the Commodity Futures Trading Commission not to approve Globex.

Melamed, who developed the Merc's financial futures market, said he was skeptical that a nighttime open-outcry market would work.

He said he doubted it could encompass all 16 nonbusiness trading hours, could develop enough liquidity for a range of complex financial instruments, could respond to needs of traders from all financial centers or would be copied by exchanges in other countries.

"Is there not something inherently amiss if, in this day and age, there is no attempt made at unifying the global transaction process?" Melamed asked. "And if such an attempt is made, can it ignore technological applicability? I dare say no.

"We believe Globex combines elements of electronic linkage with those of extended trading and integrates them with the open-outcry system," he said. "It represents a

giant step toward unification of the separate world's financial centers."

Melamed noted criticism that Globex would "hasten the end of open outcry." He said that the Merc "has a continuing commitment to the preservation of this transaction process." But he added:

"To blindly assume that open outcry is the perfect system for all time is to be lulled into a false sense of security and forgo any opportunities to strengthen or advance our way of doing business. Such a policy is both foolish and dangerous and could lead to disaster.

"The world of futures is a dynamic and continuously evolving one," he said. "Innovation and change are at the very heart of our success."

Melamed noted two other limits on the open-outcry system. The first is that it is mostly an American phenomenon, not widely used outside the U.S. The other is the growth of "upstairs trading" by traders who shun the pit in favor of a desk, making their orders by phone to traders on the floor.