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Post-Crash Damage Control at the Merc

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NAME: Leo Melamed

AGE: 55

POSITION: Chairman, Merc executive committee

CAREER PATH: After law school, started at the Merc as a clerk in the early 1960s. Became a trader, and joined the exchange's board in 1967. Named to current post in 1977.

CHALLENGE: To protect the Merc's lucrative but controversial index-futures business

Leo Melamed has gone broke three times in his career, so he's no stranger to adversity.

But the chairman of the Chicago Mercantile Exchange's executive committee is likely to be popping more than his usual share of Maalox tablets these days. As investigators both in Washington and on Wall Street look into causes of the Oct. 19 crash, Mr. Melamed is lobbying hard to defend the Merc against charges that one of its biggest businesses—stock-index futures trading—was the primary culprit.

The post-crash atmosphere, Mr. Melamed laments, "seems like a bit of a witch hunt against program trading in particular, and index futures in general."

A former trader in cattle futures, Mr. Melamed worries that an era of mostly self-regulation by the highly leveraged stock-index markets could be ending. The president of one Chicago futures firm is more blunt. "This is a life-or-death situation for the Merc," he says.

"Leo has the energy and the ability to go out and make the industry's case," said John Damgard, president of the Futures Industry Association trade group in Washington, who thinks Mr. Melamed will be able to blunt most attacks aimed at the futures industry.

The Merc now controls fully 75% of the stock-index trading market. Volume in these five-year-old shadow instruments has soared—it's more than $3.087 trillion so far this year, nearly double the volume in the underlying stocks.

As the most powerful Merc official, the volatile, diminutive Mr. Melamed is the Chicago counterpart to New York Stock Exchange Chairman John Phelan Jr. Mr. Phelan came away from Black Monday with a telegram from President Reagan praising the Big Board for its actions during the one-day 508.00-point plunge. Mr. Melamed got no such accolade. Shortly after the crash, Mr. Phelan implied that stock-index futures trading was partly at fault, opening up a New York-Chicago rift and underscoring Mr. Melamed's predicament.

Yet Mr. Melamed's campaign to lessen the heaviest pressure for a regulatory crackdown since the Depression could be a lonely one. Public opinion seems to weigh heavily against stock-index futures in general, and program trading in particular. One ramification: A Big Board investigation, headed by former Attorney General Nicholas Katzenbach, may soon recommend steps to rein in futures trading, perhaps including permanent price limits to curb market volatility, industry officials say. (The Merc imposed its own voluntary limits shortly after the crash.) Mr. Katzenbach isn't commenting.

Mr. Melamed indicates that he will be willing to bend somewhat if it means saving one of his most profitable businesses. In the past, he has usually managed to deflect threats of government interference in Chicago's freewheeling futures pits. In fact, he has repeatedly embraced new trading rules aimed at quelling criticism from regulators and big New York brokers, and he may now acquiesce to minor changes in the wake of Black Monday to stave off a revamping of the industry. Tighter regulation, he feels, could sharply curb or even kill the booming stock-index market, which accounts for more than one-quarter of the Merc's volume.

The index markets make possible program trading—the simultaneous computer-assisted activity in stocks and stock indexes that has accounted for as much as 30% of the volume in Big Board stock trading in recent months. Some traders credit program trading with adding billions of dollars in capital to the stock market.

Mr. Melamed and others believe that program trading in futures indexes is being unfairly singled out. "I believe markets. I believe they send a message," that fundamental problems in the economy are to blame for the crash, Mr. Melamed says. Adds Jack Lehman, senior executive vice president of Shearson Lehman Brothers Inc. and chairman of the Futures Industry Association: "People like to blame futures for deeper problems in the economy."

Meanwhile, as Mr. Melamed and other Merc officials roam legislative halls calling in political chits in Washington, the investigations are cranking up. President Reagan has appointed Nicholas F. Brady, head of Dillon, Read & Co., to head a commission to study the role of futures markets in the collapse. Last week, hearings on the issue began before the House Commerce Committee's finance subcommittee and the Senate Banking Committee's securities subcommittee.

Complicating Mr. Melamed's task is what one congressional staffer calls "a big image problem—a lot of people think evil stuff is going on there in Chicago."

Mr. Melamed joined the Merc in the 1960s as a clerk. The only child of Polish immigrants who fled Europe in 1939, he went broke trading three times and bailed himself out practicing personal-injury law before joining the Merc board in 1967.

Strong Grip on the Merc

As its chief strategist for 18 years, Mr. Melamed has maintained a hammerlock on Merc affairs, transforming the exchange from a roughhouse of tobacco-chewing cattlemen into an internationally known financial institution. Through it all Mr. Melamed, who isn't paid for his administrative duties, has remained a compulsive trader who keeps an eye glued to one of six price-quote screens in his office.

He has carefully befriended officials at the Commodity Futures Trading Commission, a small agency born in the mid-1970s at the dawn of deregulation. "Leo and I have always been able to tell each other what we have on our minds," says Kalo Hineman, acting chairman of the CFTC and a cattle rancher. "He's one of those guys who comes through loud and clear."

The message, without fail, is aimed at deflecting regulatory interference. In a whirlwind lobbying effort last week, Mr. Melamed, Merc Chairman John Sandner and President William Brodsky huddled with several legislators who will have a hand in deciding the fate of stock-index futures. "He feels that the stockbrokers are looking for a scapegoat," says one ally, Rep. Edward Madigan of Illinois, the ranking Republican on the House Agriculture Committee. "I told him I wouldn't let anybody shift the blame (for Black Monday) unfairly."

Still, taken aback by the attack on stock-index markets, even many of Mr. Melamed's longtime allies on behalf of program trading have fallen silent. "I can't get permission for anybody to talk publicly about the benefits of program trading," laments a stock-index futures trader at a big Wall Street securities firm.