

Globex's Leo Melamed

THE FUTURE OF ELECTRONIC TRADING

The new global market requires round-the-clock service

Leo Melamed is a tireless champion of electronic trading. He was the force behind—and chairman of—Globex, the 24-hour electronic trading system jointly created by the Chicago Mercantile Exchange (CME), the Chicago Board of Trade (CBOT, where he was IS director), and Reuters Plc. Originally announced in September 1987, Globex finally went on line last year. Melamed retired last month from Globex, but he remains very active in the business; besides being chairman emeritus of the CME, he is chairman of Dellsher Investment Co. Inc., a futures commission merchant. He spoke with senior editor Linda Wilson last week about the future of the electronic market.

How would you describe your vision for Globex? For example, how many contracts and how many different exchanges do you think will be involved?

Well, that's the 24-carat question. I wouldn't want to speculate on volume, because right from the beginning I've never offered numbers. It's very difficult to get a handle on the numbers.

But as for where Globex is going, I have no doubt that a system of this sort—whether it's called Globex or something else—is inevitable. There will be a system, or systems, like it for futures and options, for cash markets, and, in time, even for securities. That's the electronic world I foresee in the coming decade.

That doesn't mean we're going to do away with open outcry [traders' practice of shouting out buy and sell orders] or regular business hours.

'You can't ignore the technological advances occurring around us,' says Melamed

What I'm saying is that there will be a means for world markets to do business on a 24-hour basis, and you can't do that except with computers, which is precisely what Globex represents.

Who will be on it?

Every major market in the world is going to be on it. No user in his right mind wants two, four, or even five different systems sitting on his or her desk. It simply doesn't make sense. That spells one international system, regardless of what you use during the day.

So far, all the evidence has confirmed that vision. In the beginning, people said, "You'll never get the Board of Trade and the Merc together on one system. They're competitors, they fight with each other." The truth is, though, that the logic of the idea was stronger than any competitive negativism or historical discomfort with each other. I think that

same logic will be a magnet for other exchanges.

Given that premise, how do you see systems such as Access [the proprietary after-hours system to be launched this month by the New York Mercantile Exchange] fitting into the overall global environment?

I don't see any of that as an impediment to the long-range vision. For the immediate future, Nymex has chosen—for a variety of reasons—to have its own system. That system is going to be fine for energy contracts, but ultimately it will be logical to try to integrate Access into a larger international system.

So even if the systems are small and proprietary, they'll still all link into one around-the-clock trading system?

That's conceivable. I don't expect anything in the next six months or even a year—you asked me about the long run, and I'm giving you a vision of what I think is going to happen during the next decade.

And what effect will this have on the future of open outcry?

Right now, what you have is the energy of the open outcry, which is the driving force of the success of the futures market. The engine for liquidity has been open outcry. Why would anybody want to do anything to injure it? It's also the engine that drives Globex. It can exist that way for a long time, maybe forever. But whatever the case, let evolution and the markets dictate how one will live with the other.

Do you see hand-held trading systems such as Audit [a joint project between the CBOT and the CME] as another technology that will evolve around the world? Will it help prevent fraud and other kinds of abuse?

I don't think it was ever intended simply to prevent fraud and abuse. The reason the exchanges are moving in that direction is that you can't ignore the technological advances occurring around us. Hand-



held devices are an attempt to make our markets more efficient. They will speed up the process of clearing trades and allow for the discovery of errors quickly.

As a consequence of that efficiency, the technology will also give us a better audit trail to prevent abuses. But if that was the only advantage, I wouldn't be very high on it, because I think our market does a pretty good job monitoring and regulating itself.

Do you think the markets will eventually move to on-line clearing?

Absolutely. It's moving forward to that—it needs it. We can't handle the kinds of volumes we're handling without moving toward on-line clearing. As our volumes increase, without on-line clearing, you'll have people working three shifts in every brokerage. It's got to be the goal of every major exchange.

A cooperative venture was recent-

ly announced between the CME and Nymex to cooperate on the development of trading and clearing systems. Do you see this leading to national, or even international, standards at some point?

Absolutely. We live in a global environment, and a global marketplace demands standards so that every participant, whether that person is based in New York or Chicago or Paris, has the same standard of use and capability.

In which other areas do you envision technology playing an important role?

Each locale will have its own electronic system. Chile is a very good example. It already has an electronic system that is good for Chile. In other words, it works for the market

there. I believe that every center of trade will want to have its own electronic trading capability.

The important point will be not only building those local networks but plugging them into an international system.

Do you see standards evolving in all of those functions?

I do. Remember, there is a whole area of enormous growth in unregulated environments, such as over-the-counter derivatives, and they're not cleared the way we clear our markets. They don't have the standards we have, and ultimately they're going to need the same kinds of standards. And Globex can create, in an experimental fashion, a screen for trading some of those derivative products.