

FUTURES TRADING

THE MERC: STORMY SEAS AHEAD, AND THE CAPTAIN IS DISEMBARKING

Leo Melamed is retiring without a strong successor

In a quiet corner of the Chicago Mercantile Exchange, a handful of stalwarts still gathers each Friday to trade futures on butter. A few old-timers bet how many minutes trading will last. Two paces away, hundreds of fresh-faced brokers jam the Eurodollar futures pit, flailing arms as if on fire, bidding on tiny ticks in European interest rates. They flail away all day long.

The bridge between old and new at the Merc is one man: Leo Melamed, chairman of the Merc's executive committee. After seizing power 23 years ago, he transformed the former Chicago Butter & Egg Exchange into a global institution. But the 57-year-old Melamed announced on Mar. 5 that he plans to retire at yearend. Without him, the Merc will be leaderless as it faces a host of uncertainties (table): new foreign competition, renewed regulatory vigor, and a reputation badly tarnished by last year's federal sting of floor traders. Melamed's retirement even may jeopardize his most ambitious goal: the Globex computerized trading system, a grand design to link the world's financial marts.

LITMUS TEST. Faced with such prospects, associates in the futures industry verge on the funeral in discussing life without Leo. "There will be a period of grieving," intones John F. Sandner, who with Melamed's appointment served two three-year terms as Merc chairman. Others rue the loss of Melamed's fiery rhetoric and polished lobbying on Capitol Hill. Says Robert K. Wilmouth, president of the National Futures Assn., the self-regulatory body on which Melamed served as chairman: "To find somebody with his political instincts, it's difficult. I don't think we have anybody."

The oft-postponed Globex system, which will require deft political handling both in the U.S. and abroad, may be the litmus test by which to judge the Merc minus Melamed. Japanese regulators see Globex as a Trojan horse threatening their reach for a bigger share of international trading. Moreover, the Merc's Globex partner, Reuters Holdings PLC, hasn't ironed out all the technical bugs.

Perhaps most worrisome, though, Globex' potential customers—brokerage firms—have demanded that the Merc get together with the Chicago Board of Trade, which has been developing its own global trading system, Aurora. The firms want a Globex-like system, it's

just that they don't need two of them. Brokers reckon that the new marketplace's liquidity will run deeper if trading isn't divvied up. Trouble is, the CME-CBOT joint-venture talks are proving nettlesome. "The Globex-Aurora link is going to face very difficult sledding," predicts Leslie Rosenthal, a former CBOT chairman. "Without Leo, you don't have a guy strong enough to stick with a decision or form a compromise."

So it is with many issues facing the Merc: Without Leo, there's nobody with

the will or the popular backing to take charge. Scandal is the No. 1 barrier for several potential successors. Former Chairman Sandner, who says he doesn't want the job anyway, hired an ex-employee of the fraud-ridden First Commodity Corp. of Boston to map retail sales strategy at his firm. Later, six former FCCB brokers working for Sandner were charged by the Commodities Futures Trading Commission with abusive sales tactics. Brian Monieson, another former chairman, now awaits a ruling by the CFTC on charges that he looked away while close friends he employed allegedly ripped off customers. Monieson says he has scaled back his Merc involvement because of the CFTC proceeding. Two with unsullied reputations, current Chairman John T. Geldermann and Merc President William J. Brodsky, both lack Melamed's dynamism. Notes Jerold Salzman, a lawyer for the Merc:



THE MERC'S CHALLENGES

COMPUTERIZED TRADING Japanese regulators are wary of the Merc's new Globex computerized trading system.

REGULATORY TURF The SEC wants to seize oversight of stock-index futures trading from the CFTC.

TRADING SCANDAL Reforms are needed to ensure ethical conduct. Traders who cheat customers must be punished.

NEW PRODUCTS Eurodollar trading is up, but S&P futures volume is half pre-crash levels. New products are needed.

LEADERSHIP VACUUM There's no new guard, and the old guard without Melamed is leaderless.

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"Bill Brodsky will fill a substantial part of the void, but Leo's not replaceable by any one individual."

In his last nine months, Melamed hopes to sell the Japanese on Globex and to fight the Securities & Exchange Commission's effort to gain regulatory control of stock-index futures. He says there's no "good time" to retire. But he adds that he won't be dissuaded as he was in the past by events such as the 1987 stock market crash and last year's scandal, when on-floor trading by undercover Federal Bureau of Investigation agents led to indictments of 45 Chicago traders. "I'm leaving on my terms at a moment in time when truly this institution is at its top or near its top," Melamed says. The trouble with markets that reach their top, though, is that usually there's just one way to go.

By David Greising in Chicago