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For futures sector, talk of era's end

By William B. Crawford Jr.
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BOCA RATON, Fla.—With the departure of Leo Melamed, the Chicago Mercantile Exchange will embark on an experiment in democracy that may not deliver as much as the strong leader did, the president of the Futures Industry Association warned Tuesday.

"When Leo is not on the scene anymore, if the exchanges act like truly democratic organizations and parrot the wishes of the largest single political bloc, it's going to be different," John Damgard said in Boca Raton, where the Futures Industry Association is holding its annual conference this week. "Leo knew when it was necessary to look beyond what was in the best interests of the floor and look at what was in the best interests, long-run, of the markets."

Melamed, undisputed leader of the futures industry as well as the Merc, announced Monday that at year's end he intends to step down as special counsel and chairman of the exchange's executive committee. At the end of 1989, he declined to run again for chairman of the National Futures Association, the industry's main self-regulatory organization.

Leaders of the industry meeting in Boca Raton were caught by surprise by Melamed's announcement but agreed that his departure would have little impact on key joint ventures now under development by the Merc and the Chicago Board of Trade. But Melamed's news sidetracked discussions from industry politics, such as the possibility of new federal taxes and an unfriendly regulatory environment.

In Chicago, one self-described Melamed opponent viewed the news as the long-awaited opportunity for a new generation of Merc leaders.

"I don't think you'll see a Leo-type person popping up for a while, just like there wasn't after Mayor [Richard J.] Daley died," said Douglas Bragan, who trades currency futures at the Merc. "I don't think the Merc membership wants somebody to have that much power. I think that's healthy. There's a lot of talent at the Merc. The talent isn't always in one man. Leo is not indispensable, and if he thinks he is, he's really shortchanging the membership."

Bragan said he expects the Merc to adopt a leadership structure similar to those of the nation's other futures exchanges, in which the chairman, a member elected by peers, is the center of power. At the Merc, that man now is John Geldermann.

"As people see they can get ideas across, you'll have people running for the board," Bragan predicted. "I think you'll see a very interesting election next January for the board and chairmanship. There's no reason to have appointed people running this thing. We want our elected governors to have the power."

The titles special counsel and chairman of the executive committee were created for Melamed, and he was appointed by the board of governors.

But Geldermann, who was out of Chicago when Melamed made his announcement, said it was too early to say what shape political succession at the exchange would take.

He also said it was premature to discuss the fate of the special counsel position Melamed has occupied for some time.

Karsten Mahlmann, who recently was elected to a rare fourth term as head of the Board of Trade, conceded that Melamed's 23-year political involvement would be missed. But Mahlmann said a key joint venture with the Merc, a $5 million pilot project to develop an electronic hand-held trading device, would not be affected.

"I think Leo Melamed has been a tremendous force at the Chicago Mercantile Exchange and has been a powerful mover within the entire industry," Mahlmann said.

The Oct. 19, 1987, stock market collapse and subsequent whipsawing of all financial markets prompted David Ruder, then chairman of the Securities and Exchange Commission, and others to charge that so-called hybrid futures contracts, such as the Standard & Poor's 500 stock-index contract at the Merc, contributed to the market volatility.

In that debate, Ruder and his successor, Richard C. Breeden, have called for changes in the way the futures markets are regulated.

Melamed has been credited with playing a major role in persuading Congress that the futures markets were not the ultimate cause of the 1987 crash. He's been arguing that point to keep the SEC from winning jurisdiction over the hybrid contracts, now regulated by the CFTC.

Industry leaders, during their meeting in Florida, are expected to once again seek to counter contentions that the SEC is better equipped than the CFTC to regulate such contracts.

Undoubtedly on the minds of the 1,100 convention participants is the fact that Congress still must enact legislation reauthorizing the CFTC as the futures industry regulator.

Congress is now into its second year without enacting the reauthorization legislation, principally because of lengthy hearings triggered by reports last winter that the FBI had conducted a 3-year undercover investigation of floor practices at the Chicago exchanges. The Senate bill has been held up over the issue of whether the SEC or CFTC should regulate stock-index futures.

Also high on the agenda at the convention will be an assault on the 11-cent transaction fee the Bush administration would impose on commodities and options transactions. The administration predicts the tax would generate $41.4 million in revenues for the CFTC, covering a substantial portion of the agency's operating costs.

Sallie Gaines contributed to this story from Chicago.