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Leo Melamed's Pending Departure Leaves The Merc Without A Titan

CHICAGO (Reuter) — The pending resignation of Leo Melamed, longtime spokesman and defender of futures markets, leaves the Chicago Mercantile Exchange and the entire industry on the threshold of a new global era without its best-known leader.

"When you have a titan step down or even throttle back it's hard to find anyone to fill those shoes," said Gary Ginter, executive vice president of Chicago Research & Trading Group Ltd.

Melamed announced Monday that he would relinquish his duties as executive committee chairman and special counsel to the Mercantile Exchange at the end of the year.

Industry leaders were stunned by the news of his decision to leave his daily role to focus more closely on personal interests.

Some leaders expressed concern at the exchange's failure to nurture a successor, but said they were confident in Merc President William Brodsky's ability to assume many of Melamed's responsibilities.

"He's experienced and has worked as Leo's right-hand man for a number of years," Ginter said. "He certainly would have my vote."

But the exchange still faces several challenges and could encounter difficulty without Melamed to guide it through changes and controversy.

"His giving up the reins of power is going to be a great setback for those who want to keep the commodities industry separate from the securities industry," said New York commodities lawyer Thomas Russo.

But he leaves the exchange in "good shape" as it enters a new age of electronic trading, said Barry Lind, head of brokerage firm Lind-Waldock.

While other futures markets fought to preserve the time-honored tradition of auction-style markets, Melamed worked to convince them that trading all night on computer screens was the only sure-fire way to meet global competition head-on.

He has delayed his departure until after the targeted midyear launch of Globex, the after-hours electronic trading system developed jointly by the exchange and Reuters Holdings PLC.

In announcing his resignation, Melamed said reaching an agreement that would allow Japanese participation in the system is his No. 1 priority during the remainder of his term.

"If anyone can do it, Leo can do it," said Lind.

But some wondered whether innovation would continue at the current brisk pace without Melamed's leadership.

Most credit Melamed with transforming the exchange from a slumbering agricultural market into the world's second-largest futures exchange. Trading volume continues to set new records.

Melamed's biggest impact on the industry came when President Nixon abandoned the gold standard in early 1970s and allowed the dollar to fluctuate freely against foreign currencies.

Melamed sought advice from economist Milton Friedman and ultimately came up with the first financial futures product, allowing investors to hedge against exchange rate changes.

"I had no idea at all about how you go about setting up such things," Friedman said in an interview. "Leo has to be given the major share of credit for first recognizing the need for such a market."

The collapse of fixed exchange rates caused unprecedented uncertainty, helping the market to flourish. Without a gold-anchored monetary system, the task of predicting interest rates became increasingly difficult, prompting the exchanges to list interest rate futures a few years later.

"Leo was the Henry Ford of our industry," said Z. Lou Guttman, chairman of the New York Mercantile Exchange. "He gave us the assembly line on which we were able to build."

The New York exchange modeled its now-successful oil futures on Melamed's concept of financial futures, Guttman said. "We used his thoughts and ideas to

adapt it to the crude market," Guttman said. "It's going to be milleniums before anyone is going to fill his role."

Widely known as the industry's ideas man, Melamed also carved out a role as its spokesman because of his ability to explain the economic purpose of the futures markets, often delivering testimony to Congress on behalf of the industry.

He defended traders after futures markets were blamed for exacerbating the stock market collapse in 1987.

More recently, he has faced a new challenge in a federal sting operation that resulted in indictments of at least 26 Merc traders. Federal investigators contend that traders cheated customers by skimming profits and orchestrating fraudulent trades.

But Melamed's vigorous efforts have helped to avert legislative action to control the futures industry.

Without Melamed, the industry must search for a new leader who commands the same level of respect from Washington lawmakers.

"Lawmakers listen to Leo," said the New York Merc's Guttman.

A man with a penchant for picking up his cellular phone at mid-sentence during a lunch conversation to check the market on a choppy trading today, Melamed has ruffled some feathers with his sometimes abrasive style.

Just two years ago, exchange directors voted to pay Melamed an annual salary of \$500,000, raising the ire of some members.

One currency trader circulated a petition seeking to force Melamed to face an election for his post on the board of directors. Melamed was appointed to his current posts.

But both Melamed and his supporters deny that they pressured him to step down or that he was afraid of losing an election. Lind estimated that 90% of the exchange floor would likely vote for Melamed if it came to that.