

Business

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Leo Melamed, right



Tribune photos by Chuck Berman

Merc's Take 2

Despite fierce past disputes, leaders Leo Melamed and Jack Sandner are minimizing differences in order to shape the exchange's future.

By George Gunset

TRIBUNE STAFF WRITER

Two Chicagoans shared a late dinner last Tuesday at the International Club of the Drake Hotel.

For most people, it was hardly worth notice that Jack Sandner, dining on fish, and Leo Melamed, who decided on a salad, continued to discuss business following a five-hour meeting of the Chicago Mercantile Exchange's executive committee.

But for those who follow the comings and goings and shifts of power in Chicago's vital financial district, the scene was remarkable, both familiar and unique. Melamed, 64, and Sandner, 55, who once had a mentor and protégé relationship, were back together to run the world-class futures exchange following several years of acrimony.

"It was just like old times," said Sandner, the Merc's longtime chairman. "Leo and I used to go to dinner after these meetings fairly regularly. It was like we hadn't missed a beat."

But the relationship hasn't been close since Melamed, cited by many as the father of financial futures, stepped down from his official post as exchange special counsel in 1991.

Shut out of what he thought would be

an advisory role as chairman emeritus, Melamed returned to power as permanent adviser to the board and executive committee earlier this month after several allies of Sandner were ousted by membership vote in the annual election of directors.

While Sandner was easily re-elected to a two-year term as a director, no one overwhelming reason could be cited for the loss by other incumbents. (Directors elect the officers; Sandner has one year remaining on a two-year term as chairman.)

Members were frustrated because trading volume dropped more than 2 percent in 1996 from 1995 and was down 8 percent from the record 1994, but Sandner points out that interest rates have been relatively calm since then and certainly will pick up when inevitable volatility returns. Seat prices also are down sharply from a record \$925,000 in 1994, but Sandner says demand has been satisfied from foreign buyers at very high levels. (Seat prices dipped to a low of \$306,000 in 1995, but edged up recently to \$525,000.) And there was something of a "them" versus "us" confrontation between independent local traders and broker organizations.

Many of these members looked to Melamed as an alternate source of lead-

ership.

"I did not come in or accept this role once again to be a divisive influence," Melamed said. "That's the last thing I want. My pitch is to unify the interests of the exchange and all its factions."

Thus, willingly or not, the two men most linked to the Merc's fate for the last 30 years once again share the spotlight and the power. Decisions are expected to flow quickly in areas such as technology, overseas links, exchange governance, outside directors and budget matters.

Other issues will take longer, and Melamed noted that there is "no magic wand, no silver bullet."

Sandner and Melamed expect the exchange pace will quicken in short order.

■ **Budget:** Melamed says new treasurer Thomas Kloet (a member, officer and director elected by the board) will conduct a minute review looking for savings. Sandner said review is a continuous process and that priorities change. "Technology is a primary centerpiece initiative for 1997," he said.

■ **Technology:** According to Sandner, the Merc will decide by Feb. 18 whether to join the electronic trading system developed by the Paris Bourse (stock

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exchange), which already has attracted the French futures exchange, Matif. The system would replace the Merc's aging Globex system, operated with Reuters Holdings PLC, which Matif has said it will pull out of when the contract ends in April 1998. At the same time, in what Sandner called a software swap, the two French exchanges would buy into a common clearing system—called Clearing 21—being developed by the Merc and the New York Mercantile Exchange.

■ **Chicago Board of Trade:** Melamed is clear that he wants no confrontational relationship with the Merc's great rival in the futures business. Sandner said he expects to sit down to dinner with Patrick Arbor, CBOT chairman, this week to discuss common clearing proposals, and hopes to come to some understanding quickly.

■ **Brokers associations:** These groups, which control much of the public customer order flow into the trading pits, are always controversial and eyed warily by independent traders. Melamed said the issue "has to be aired, reviewed. There has to be a comprehensive, in-depth analysis."

■ **Outside directors:** Five posts are vacant. Melamed said new expertise is needed particularly in the areas of vital importance to the Merc: short-term interest rates, currencies and equities. Sandner agreed and said he and Melamed agreed to a list of new appointments.

Chicago author Bob Tarmarkin, who wrote an official history of the Merc and aided Melamed with a memoir published last year, was asked if he could give a title for the new chapter written this month. "Mending Fences," he replied.

Melamed suggested, "Six Days in January."

Sandner's contribution was "E Pluribus Unum."

The differences between Sandner and Melamed lie in their similarities. And their stories, yes, could be written only in America.

Both have imagination, energy, pride and ego in abundance. As longtime leaders, they also accumulated critics and detractors of alleged authoritarian management style, business practices and lavish exchange spending.

Melamed, as a small boy, barely escaped with his family from Nazi persecution after the Germans overran Poland. Growing up in Chicago in the 1940s, he would discover futures trading by accident when he took a part-time job at a brokerage firm.

Fond of literary quotations, the generally serious Melamed is the one-time boy wonder of the Merc who has turned into something like its eminence grise. Working in shirtsleeves, his conversation is interrupted by phone calls as he barks orders to his traders from expansive offices high in the north tower of the Merc Building, which occupies the block on Wacker Drive between Madison and Monroe streets.

He still is chairman and chief executive of Sakura Delsler Inc., a fair-sized commodities firm, but sold controlling interest to a Japanese banking group in 1992 for \$11 million.

The twin-towered building, built in the early 1980s and bordered by the Chicago River and Wacker

Drive and Monroe and Madison streets, is considered by many a monument to Melamed. It houses two Merc trading floors and is home to 2,725 members and 970 staff members. On any given day, the floor population ranges from 5,000 to 5,500. While the exchange still trades such commodities as live cattle futures and pork bellies, financial futures long since have become the Merc's mainstay.

Here some 30 percent of the nation's futures change hands every year, second only to the Chicago Board of Trade's 35 percent.

To the uninitiated, the scene of screaming traders in colorful jackets yelling bids and offers for short-term interest futures like Eurodollars or the Standard & Poor's 500 stock index represents only chaos. But, in economic parlance, risk is being transferred to speculators and prices are being discovered.

Sandner, a former Golden Gloves boxer, overcame a hard-scrabble boyhood on Chicago's South Side to graduate from Notre Dame law school and become a millionaire futures trader and exchange insider. He is chairman and chief executive of RB&H Financial Services L.P., a clearing member firm of the Merc with roots in cattle trading.

The lean, always well-tailored Sandner, is easily spotted in a crowd on the trading floor by a shock of now-graying sandy hair. (A full beard sported in his early days, "when I wanted to look older," has long since disappeared.)

Sometimes described as feisty, Sandner can be intense and overwhelming in conversation. But he also has a politician's gift of stopping what he is doing to greet passing members, giving them a word or two of encouragement or promising to check on an inquiry.

A friend said Sandner "is at his best when he comes off the canvas. He is a fighter and he won't quit."

Both Sandner and Melamed were trained in the law, but made their mark as brush traders in the rough and tumble agriculture pits of the Merc. Melamed and a group of young Turks seized control of the sleepy butter and egg market in the 1960s, and marched it into pioneering currency futures in the early 1970s. That was followed by the mainstay short-term interest rate and stock-index futures.

Sandner moved up the ladder by taking any committee post he was asked to fill and doing the job. Elected chairman first in 1980, he has served in the top post 13 out of the last 17 years.

Melamed had been chairman for four years, and for almost two decades, until 1991, was special counsel, a title that belied his power.

"In the crises of the stock market crash of 1987 and the FBI investigation of 1989, it was Leo who called the shots," said a former insider at the Merc. "He has good instincts in a crisis and most people at the exchange gave him high marks."

By 1991, the source said, Melamed "thought Jack was gaining too much power" and had chosen another candidate to be chairman, but Sandner lined up support and was elected to the post again. Thus began the years of cold war between the two. Both now downplay the period.

"Any rancor belongs in the past," Melamed said.

Sandner said he was in the dark about differences between the two.

"I don't know what it was, but I'm willing to say I made a mistake," he said. "I don't feel like I have an adversarial opponent in this process. My feeling toward Leo is one of warmth and intellectual respect. I know his commitment to the institution is as strong as mine."

Melamed sees his new role as using his "experience, intellect and ability to provide advice to the board, and to some degree, a certain amount of leadership."

"Hopefully, in those areas and ideas where my advice is worthwhile, the board will listen. And, I believe, so will Jack, because he certainly is interested in doing well with the exchange, his heart is for the benefit of the exchange."

Sandner was philosophical about the new board that brought Melamed back. "Change presents positives and challenges. What's happened in the last three or four weeks has been the remnants of campaign rhetoric which has short shelf life. Then you get back to the business of the institution."

Still, he allowed that "this particular election had a much higher level of campaign insult. I never responded to any of that and will not. At the end of the day, there will be very little disagreement on any of the issues."

Melamed's assessment of the election was that members felt the exchange's momentum had slowed in the last three or four years.

"I think the membership felt that whereas a decade ago the Merc was the unquestioned leader of the [futures] industry, there was some doubt now," he said.

His view was that priorities were out of line, adding that the exchange had shown too much concern about political events such as last year's Democratic National Convention in Chicago.