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Merc's board election a test of Melamed's strength, clout

Hot issues are weak seat prices, electronic trading

By MICHAEL FRITZ

When Chicago Mercantile Exchange members vote Thursday to elect 12 directors, the outcome will be less about which individuals are chosen than a referendum on the continuing role of Chairman Emeritus and Senior Policy Adviser Leo Melamed.

While Mr. Melamed, 65, is not running for any office, many of the candidates he is backing are being opposed by others allied with his rival, Merc Chairman John "Jack" Sandner, who is stepping down under a term-limit rule.

In addition, a member faction opposes Mr. Melamed's efforts to inject new technology into the exchange's open-outcry trading system, most recently in the controversial launch last fall of an elec-

tronically traded S&P index contract aimed at individual speculators.

The election of four Sandner-backed candidates would indicate growing discontent with Mr. Melamed's tenure, Merc traders say.

"It's probably the most important election we've faced in the last 10 years," says Anthony McCormick, a Merc director and senior vice-president at Chicago's Rand Financial Services.

Mr. Melamed, whom many consider the personification of Chicago's futures industry, regained his Merc leadership role last year. Having retired in 1991, he found his influence waning after Mr. Sandner stopped consulting him on Merc policy. Last January, he was made senior policy adviser, in addition to the chairman emeritus title he'd been granted at retirement.

Though Mr. Melamed never regained the near-dictatorial power he enjoyed as chairman in the 1970s, he remains a driving force behind the development of Merc



Leo's battle cry: Chairman Emeritus Leo Melamed says his agenda is to "get the exchange back to the top."

strategies and policies. However, supporters and critics say Mr. Melamed's popularity has diminished because of his inability to quickly fix serious Merc problems, including:

- Weakening seat values. Although Merc trading volume rose a robust 13.4% last year to 200.7 million contracts, full membership seats are trading at \$465,000, or 11.4% less than last year's de-

pressed levels.

- Declining stature. The mart has lost its position as the world's second-busiest futures exchange to the 15-year-old London Inter-

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national Financial Futures and Options Exchange.

- Internal strife. Broker groups and others who want to preserve the Merc's open-outcry trading system as is are butting heads with progressives who want to marry computer technology with open outcry to compete with the growing range of electronic trading systems operated by banks, securities firms and other exchanges.

Melamed foes mobilize

Such nagging problems have mobilized anti-Melamed forces to protect incumbent directors sympathetic to their views. In Thursday's election, members will elect 12 of the board's 24 voting members, and next week, the new board will name a chairman and other officers from among its ranks.

"The future destiny of the institution is at stake," says Mr. Melamed. "I don't have any other mission than to get the exchange back to the top of the heap again. A handful of people simply fear technology and prefer the status quo."

The backlash against Mr. Melamed is a significant change from last January's stunning political comeback when 11 of the 12 candidates Mr. Melamed endorsed won board posts.

To be sure, the sharpest criticism comes from broker group leaders such as Steven Mendes. He and other brokers fear that electronic order routing and other technological innovations delivering orders directly into the trading pits eventually could make them obsolete.

Mr. Mendes, a eurodollar broker, last month called on Mr. Melamed to abandon his appointed advisory post and stand for election.

Last week, Phillip Karafotas, who was ousted from the board in last year's elections, distributed a letter blaming Mr. Melamed and members of the Equity Owners' Assn.—a Merc group that has embraced expense cuts and new technology initiatives—for the fall in exchange seat prices. The letter also accuses them of gutting and demoralizing the mart's professional staff and turning their backs on open-outcry trading.

Mr. Melamed's influence could erode if eurodollar broker Patrick Mulchrone, a former second vice-chairman and a Sandner ally who lost his board seat last January, regains a seat. And the re-election of incumbents Timothy Brennan, Robert Prosi and Gregory Alcorn—also Sandner allies—would tip the political scale away from Mr. Melamed.

Sandner lobbies for post

Whether Mr. Sandner will be rewarded with an appointed exchange post is uncertain. He is lobbying for a position similar to Mr. Melamed's senior policy adviser appointment, which includes a \$200,000 annual stipend.

Mr. Melamed, meanwhile, is backing incumbent directors M. Scott Gordon, Thomas Kloet and David Silverman.

Insiders say that another test of Mr. Melamed's influence would come next week in the chairmanship contest, where the chairman emeritus would back longtime friend Mr. Gordon (who ran Mr. Melamed's currency trading business in the 1980s), assuming he is re-elected to the board on Thursday.