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Editorials

A merged future for two exchanges?

A recent recommendation by a Chicago Board of Trade task force that the exchange consider merging with the rival Chicago Mercantile Exchange has produced a loud chorus of derision and doubt.

Traders, former exchange officials and the chairman of the Merc pooh-poohed the idea, which has been floated at various times for more than a decade and has never gotten anywhere.

Short of a serious financial crisis, many sneered, the two exchanges are too different to ever get together. "It'll never happen in our lifetimes," said one trader after another.

But as part of a long-term strategy to keep the exchanges viable and competitive, merger should not be dismissed out of hand. In fact, the Board of Trade deserves credit for reopening and elevating the debate on how to maintain the future strength of the two exchanges, preserve jobs and keep Chicago as the global center of risk management.

It's true that many of the ideas now resurfacing have been quickly shot down in the past, but times have changed. Both exchanges suffered declining trading volume and seat prices last year. They continue to face rising costs and increased competition from foreign exchanges in London, Paris and elsewhere, as well as from customized, off-exchange deals.

In an increasingly hostile business environment, the CBOT task force tried to look ahead and make recommendations on how to cut costs and increase revenues. The single biggest thing that could be done to reduce costs, it said, would be to merge with the Merc.

Such a marriage would create an institution "truly worthy of worldwide competition." The mega-exchange would have slightly higher annual revenues of $336 million and nearly $33 million in lower costs.

Realistically, such a merger may be several years away, but that doesn't mean serious talks on cooperation and cost-cutting shouldn't begin now. In fact, the effort may never produce a full union of the exchanges, but there are beneficial intermediate steps, including combining clearing operations.

Patrick Arbor, Board of Trade chairman, is expected to appoint a committee soon to study the task-force recommendations. This panel should include leaders and innovators from the two exchanges, and it must be chaired by a strong, respected individual. Leo Melamed, chairman emeritus of the Merc and the man credited with shaping the modern futures markets, would be perfect for the job.

It's only prudent to put egos and differences aside and plan now for long-term survival and prosperity.