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Leo Melamed, a longtime power at the Chicago Mercantile Exchange, asserted Monday that a majority on its board will back initiatives that challenge the policies of Merc Chairman Jack Sandner, his onetime protege.

Melamed said the board will launch an unprecedented review of administrative expenses, traditionally a closely guarded secret at the futures exchange. "I think clearly that all of that deserves to be reviewed," he said. The exchange's newly elected board also will study the influence of broker associations, Melamed said. As trading volumes and seat prices have declined at the Merc, some members have charged that the associations are shutting out independent brokers, in effect creating cartels on what is touted as a bastion of free markets, the trading floors.

The Merc's trading costs, which are higher than those of its in-town rival, the Chicago Board of Trade, also have come under criticism. The Equity Owners' Association, a group of independent brokers, has in the past assailed the Merc's \$1 million in grants to the Lyric Opera of Chicago, where Sandner is a board member.

Sandner's critics have accused him of being too close to the broker associations. The issue figured in the Merc's Jan. 16 board election, which saw six newcomers win seats at the expense of candidates identified with the chairman.

"I certainly heard the message of the floor in its last vote," said Melamed, who was appointed a nonvoting adviser to the new board last week. He said he would work to "give voice to some others who feel they have not had the full ability to participate" in decisions.

Sandner, in the final year of his two-year chairmanship, said he welcomes Melamed's participation and would cooperate with a budgetary review. But such reviews have been "a continual process since he retired in 1991," Sandner said.

Les Rosenthal, principal of Rosenthal Collins Group Inc. and a close observer of both men, said Melamed is mounting a serious challenge to Sandner. "What you've got are two strong leaders who've been on the outs for years."

Melamed said the board newcomers would join holdovers in forming a solid bloc favoring change. He wouldn't quantify his support, but other sources said at least 13 of the Merc's 24 member-elected directors are backing Melamed, including new Treasurer Thomas Kloet, chief operating officer of Credit Agricole Futures Inc.

Through a Merc spokesman, Kloet declined to discuss the expense review.

Although he has the title of chairman emeritus at the Merc, Melamed has exercised his influence behind the scenes. Chairman of Sakura Dellsher Inc., Melamed since the 1970s has led the Merc into new products, transforming it from a butter-and-eggs exchange to a leading financial marketplace.

Along the way, sources said, his friendship with Sandner has soured. Melamed refused to criticize Sandner directly, but his comments reflect dissatisfaction. He said the Merc has been slow to embrace new products and technology and that some of the exchange's spending reflects "misplaced priorities."

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