Melamed: *Globex's founder couldn't see his creation through, but he still says electronic trading is the way of the future*

Sandner: *The combative Merc leader helped bring the Chicago Board of Trade into Globex, but the CBOT didn't trust him*

Arbor: *The CBOT chairman couldn't overcome his members' fear that trading on screens would draw business from the pits*

Wilton: *The hard-bargaining Reuters exec says Globex could yet succeed if Asian exchanges sign on. Or will she pull the plug?*

How Chicago Lost the Future

Finance: Electronic trading seemed like a sure winner—until greed and ambition got in the way

BY MARC LEVINSON AND PETER ANNIN

ON A WARM CHICAGO EVENING, the wheeling and dealing continues after the sun goes down. A skeleton crew staffs the 15th-floor trading room of Dean Witter all night, working the phones, buying marks and selling yen, keeping a close eye on computers silently registering new economic data from Australia and the morning gold price from Zurich. But amid the batteries of blinking screens, one terminal is noticeably still. It's a slow night on Globex.

In fact, almost every night is slow for the high-tech network that was supposed to set the futures world on its ear. When Chicago's two giant futures exchanges launched it in June 1992, Globex was going to revolutionize the industry—and keep Chicago, where $10 billion a day changes hands in the futures pits, at the center of the futures universe. Two years later Globex is on life support, dragged down by the mistrust, greed and byzantine political intrigue for which the Chicago Board of Trade and the rival Chicago Mercantile Exchange are renowned. While Chicago wallows in recriminations, upstart exchanges in Europe are using electronics to grab a fatter share of a fast-growing business that, until lately, was an American preserve. "The danger now is that someone else is going to come up with something to take advantage of this situation," says John Damgard, president of the Futures Industry Association. "The losers here will be Chicago."

Computerized trading seemed a sure winner when it was advanced by Leo Melamed, the Mercantile Exchange's longtime power broker, in 1986. Melamed, a consummate diplomat, had transformed the Merc in the 1970s, recognizing that futures—contracts long used to let farmers and traders lock in prices for wheat and pork bellies—could also help corporations and investors reduce their risks from interest-rate and currency fluctuations. Financial futures became a spectacular success, turning the Merc from a backwater to a trendsetter. By the late '80s, Melamed saw that foreigners had eyes on the business. Globex was his answer. Customers would trade Merc contracts on the exchange floor during the day and on Globex after hours. "And it would be located in Chicago . . . and there might even be a lot of money in it," he recalls. "What better could you do?"

Melamed persuaded Reuters, the British news and financial-information service, to develop a system that would let a customer in Tokyo offer to buy the Merc's yen futures contracts, allow sellers in New York and Frankfurt to post bids and then consummate the transaction instantly. Then, armed with vision, charm and the support of big brokers who wanted a single terminal to trade futures everywhere, Melamed persuaded the Chicago Board of Trade to join in. His reasoning was simple. If the two exchanges that controlled 60 percent of all futures trading went with Globex, everybody else would have to be on Globex, too.

But that was Melamed's vision, not the CBOT's. At the Board of Trade's cramped 1930s headquarters, located just four blocks from the Merc's modern twin towers, many longtime members saw Globex as a threat. If customers could buy and sell on screens, the swashbuckling pit traders who move millions with nods and hand signals might lose their livelihoods. Besides, the CBOT had spent $25 million to gear up a competing system, Aurora, just in case Globex was a hit. To overcome the CBOT's resistance, it was offered a 50-50 partnership with the Merc. In 1990 the CBOT agreed to dump Aurora and joined Globex. A year later Jack Sandner, a boxer and veteran Merc leader, took over as Merc chairman.

Fireworks began almost immediately. Reuters figured Globex would need to process one transaction per second. The CBOT insisted that it handle 31, a demand calculated to send the designers back to the drawing board. CBOT computer jocks, hoping to resurrect Aurora, complained that Globex didn't protect against inaccurate trades. Then Sandner, once a protégé of Globex chairman Melamed, announced that the Merc wanted a veto over Globex decisions. The CBOT demanded veto power, too. It was a defining moment.

No control: Keeping the Merc and the CBOT together would have challenged the leadership skills of Moses. Patrick Arbor, the mild-mannered grain trader who was elected CBOT chairman in 1992, presides over a board that even insiders describe as fractious. "Jack *controls* the board at the Merc, while Pat only *reports* to the board at the Board of Trade," says one leading trader. Arbor, 58, claims to be a strong backer of Globex. His board, dominated by grain traders, does not share that enthusiasm, and many directors have a visceral dislike of the Merc's Sandner. "Jack Sandner is a volatile, emotional, shoot-from-the-hip, shoot-from-the-mouth kind of person," says one.

In June 1992, Globex finally went on line. Almost no one noticed. Only a few thousand contracts were traded each night, compared with the 1.3 million that change hands daily in Chicago's pits. The New York Mercantile Exchange, which trades petroleum futures, stayed out because the Merc and the CBOT refused to share in decision making; it started its own electronic system instead. Melamed, weary of the endless haggling between the Merc and the CBOT, stepped aside. Says a CBOT leader, "Once Leo left, we didn't have the person who could keep us together."

By last summer, with Globex gushing red ink—industry sources estimate Reuters's losses at $100 million—the collaboration turned nasty. When Reuters proposed to switch Globex on as soon as the Chicago pits close at 3:15, the CBOT refused. When the Merc suggested lower fees to build business, the CBOT said no. The CBOT declared that listing its wheat, corn and soybean contracts on Globex was impossible because grains are priced in fractions of a cent while Globex uses decimals; although schoolchildren can convert fractions to decimals, Arbor admits, his members would not. Reuters executive Rosalyn Wilton offers another explanation: the grain traders feared business would flee the pits, and they had the clout to pull the plug on Globex. "It would have made [opposition] even worse," she says.

For its part, the CBOT made no secret of its unhappiness with a profitless venture that was costing it $1.5 million a year. Its board voted to undertake Project A, a separate electronic system. When Arbor publicly knocked Globex and promised that Project A would be "more user friendly," Sandner accused him of trying "to poison [the Merc's] relationship with Reuters." Merc officials, says one director, concluded that "The Board of Trade only joined Globex to sabotage it." Finally, Sandner proposed a new contract with terms the CBOT was sure to reject. It did. Two months ago the CBOT walked away, but not without a final jab at Sandner. "A lot of people at the Board of Trade feel he pushed us out," says David J. Fisher, an independent CBOT trader. "He's very competitive and wants to be king of the hill."

No peace: That bitter divorce did not end the drama. Melamed, still the Merc's best-known figure, made one more attempt to save his creation. He would write an article for the Chicago Tribune calling on CBOT members to press their leaders to rejoin Globex, then meet with the boards of both exchanges to bring them back together. But the Merc's board was not interested in reconciliation. A meeting between Melamed and Sandner turned into a shouting match. At the board meeting that followed, several members suggested revoking Melamed's title of chairman emeritus, granted to recognize his labors in building up the Merc. The article, and peace effort, were dropped.

Globex isn't quite dead yet. In March 1993, Paris's Matif exchange put its French government bond futures on Globex. Although London's main futures exchange declined to join this May, the smaller German exchange wants in. But the future looks dim. Only 350 screens are in service. Trading volume, sources say, is roughly one third the level required to make Globex profitable. Round-the-clock trading of Merc futures hasn't happened; most Globex business involves Matif contracts traded among Paris brokers. In a bitter irony, a system designed to promote Chicago is mainly generating commissions in France.

Business in the futures pits is still growing. But other exchanges are moving ahead with electronic links that will help them draw business, and Chicago's share of worldwide trading is falling precipitously. The industry's internecine warfare is much to blame. In the computer age, a cutthroat, every-man-for-himself culture may no longer be Chicago's greatest asset. ■