

Business

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Merc ballot not last word on power at the exchange

No matter who is chairman, Leo Melamed may hold sway

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On the surface, the coming race for the top job at the Chicago Mercantile Exchange appears to be a free-for-all.

Longtime Chairman Jack Sandner, on his way out because of term limits, leaves behind no obvious successor.

Mild-mannered Vice Chairman Scott Gordon is the logical front-runner for the chairmanship, but a half-dozen other directors could ace him out.

Meanwhile, incumbent board members seeking re-election in a Jan. 15 vote face a divided membership troubled by rock-bottom seat prices and faded product lines. As usual, no one's running unopposed.

Yet even as the Merc lurches toward its date with democracy, one figure appears secure: Leo Melamed.

The real top job at the Merc could prove to be Melamed's appointed post as chairman emeritus and senior policy adviser. Behind the scenes, the next chairman is likely to defer to him on important matters.

"He will have to defer to Leo," said University of Chicago economist Merton Miller, a Merc director. "When it comes to ideas for advancing the industry, you've got to listen to Leo."

Melamed has big ambitions: He wants the Merc to introduce a batch of new currency contracts, renovate its equity-index trading pits and unify trade-clearing with the Chicago Board of Trade.

Most important, he wants the Merc to move gracefully toward electronic trading, which he's convinced will someday replace its traditional open-outcry method of shouting, waving and scribbling. "If you don't take the first steps, then you wake up in 10 years and you've lost your franchise," he warned.

But even as he maps the Merc's future, Melamed remains a controversial figure.

Many of Sandner's supporters consider Melamed out-of-touch with floor traders, complaining about his unelected status and \$200,000 exchange salary.

Some younger members long to break the Merc's tradition of banana republic-style strongmen. "You just wish there was somebody who everybody could follow," said one 30-ish member. "New blood is required."

The 65-year-old Melamed is no newcomer. Beginning in the early 1970s he led the exchange through its transformation from tiny butter-and-egg bourse to financial-market upstart.

In recent years, Melamed's influence waned as his protégé-turned-rival Sandner took over decision-making. "I was made to feel not wanted," Melamed said. "It was, 'We can do without Leo.'"

Coincidence or not, the Merc stagnated without him. Money-making opportunities in key Eurodollar and currency pits declined. Membership seat values plunged by more than 50 percent from a 1994 peak.

Tensions grew between brokers filling customer orders and the more-numerous independent locals who trade only their own accounts.

Sandner took heat for his love of the spotlight, and his association with unpopular broker groups. Some restive members blamed him for everything from excessive Merc charitable donations to a poorly conceived over-the-counter trading initiative.

For his part, the 56-year-old Sandner said declining seat prices are no reflection of his leadership. "It had nothing to do with it," he said. "The prices of seats go up and down based on the cycle of business."

Nevertheless, Melamed rode a wave of discontent back to power last year, when he backed a slate of challengers who unseated several incumbent

directors allied with Sandner.

Though the new board cut 130 staff jobs and reduced member fees, seat prices have barely budged. Still, board meetings previously dominated by Sandner have become more open. Melamed said, an accusation Sandner's allies dispute.

"The chairman was so powerful and so verbose that very few ideas and criticisms came from around the table," Melamed said. "My function is to allow other thoughts, ideas and criticisms."

At the same time, Melamed's thoughts, ideas and criticisms can conflict even with those of his supporters.

For one, he's outspoken about electronic trading eventually taking over for traditional open-outcry.

"That to me is clearly the way the world is going," Melamed said. "It's easier, it's less costly, it's more efficient and it could work. Either you go with the change, or you're going to be history."

Melamed wants the Merc to introduce more technology in stages, as it did this summer when it launched an electronic version of its Standard & Poor's 500 futures contract. The Melamed-backed "E-mini" broke tradition by trading on a screen during daytime hours, side-by-side with the open-outcry S&P 500 market.

"Little by little, at every opportunity, you have to give your members a chance to use this technology," Melamed said.

Technology will play a big role in a coming effort to jumpstart the Merc's currency and Eurodollar markets as well, he said.

One goal is making accurate cash-market price quotes available to floor traders—perhaps displaying the figures on wall boards. That would diminish the advantages off-exchange cash-market traders now enjoy over their exchange-bound counterparts.

He's also pushing a plan to introduce new contracts on many obscure currencies. Melamed envisions a futures version of an interbank dealing room, with the exchange's clearing system guaranteeing trades. Much of it could be launched on a screen, Melamed said.

In addition, the Merc needs to reconfigure important parts of its trading floor, rebuilding the Eurodollar pit to enhance trading in its longer-duration con-

tracts, and completely overhauling its aging stock-index pits. As with several of Melamed's initiatives, Merc committees already are drawing up plans.

Though he supports recent efforts to combine the Merc's trade-clearing organization with the Chicago Board of Trade's, Melamed stops short of advocating a merger.

While Sandner raised hackles at the exchange this summer by proclaiming the Merc would be "doomed" if it failed to merge with the Board of Trade, Melamed disagreed: "I don't think we're doomed without it."

Any merger entails a big downside: Reduced competition would take away the incentive for product innovations such as the "E-mini," which the Board of Trade inspired by launching futures on the Dow Jones industrial average.

And what of Sandner? Though he loses his chairman title and its six-figure annual salary, he has a year remaining on his term as a director. His supporters believe he should get more—an appointed, paid post like Melamed's as a "legislative liaison" responsible for lobbying, or as another senior policy adviser.

"We need to find a way to keep that guy in the loop and tap into his experience," said Merc Director Tony McCormick, president of Harris Futures Corp.

Neither Sandner nor Melamed would commit on the prospect of a new appointment, though Sandner vows to stay involved. "I probably own more seats than any other individual, [so] I'm not going anywhere," he said. "I will fill any role anyone desires me to fill."

However it's resolved, some members say they're weary of the rivalry between the pair. "We need to not get caught up in who's the boss and whose ego needs to be stroked," said McCormick. "It's like tying a big anchor around your throat and jumping in the water."



Photo for the Tribune by Peter Barozzi

Leo Melamed, chairman emeritus of the Chicago Mercantile Exchange, says the exchange must modernize to survive.