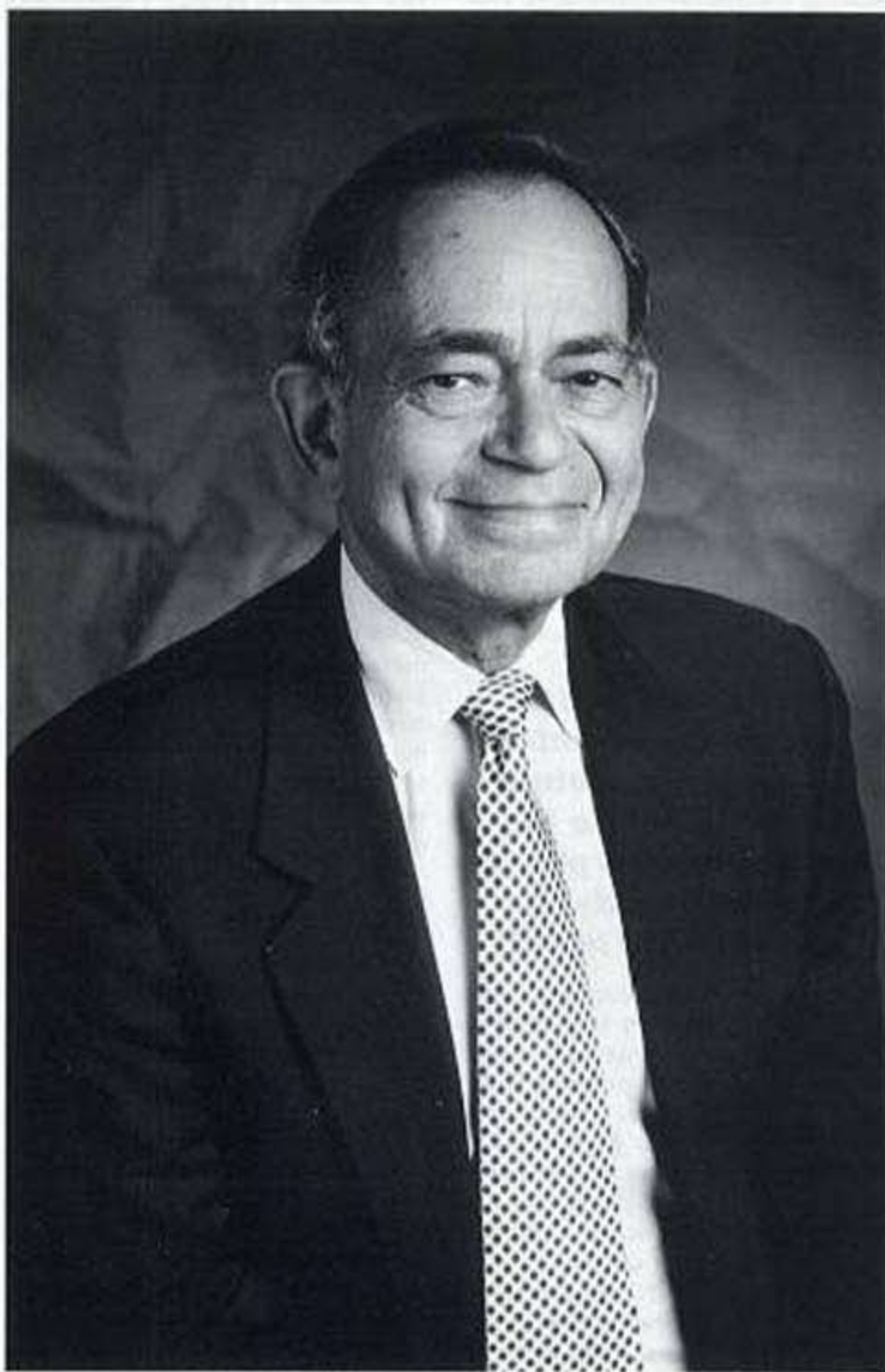


CLEARING & SETTLEMENT

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Profile



Leo Melamed is a man about whom much has been written, and he adds to this by writing his own books and a novel. Next March his memoirs will be published, and C&S gives a preview of what to expect

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Leo Melamed carries with him a strong sense of history, and surrounds not only himself but all those at Sakura Dellsler with pictures of himself photographed beside industry and political figures. When asked if this is taking an ego trip, demonstrating showmanship or something else, he fires back "Probably all of the above...." He pauses then explains "It's not just pictures of me, it's of many events, I'm in love with history, and these pictures are the history of my life. My parents were teachers, and a lot of them is left in their son, an essence of their life as part of a continuum." That personal history is a lot to do with the futures industry.

Melamed was born in Bialystock in Poland, but fled with his family at the age of seven from the Nazi invasion, taking a trans-Siberian route on to Japan and finally to the United States. His parents were Yiddish schoolteachers. He says "I don't want to fill you in on too much of this, because I'm in the process of writing my memoirs which will be published next year."

He does let us know how he got into the business, saying "It was an accident. I was looking for law clerking jobs while I was at law school, and I saw a job advertised at Merrill Lynch Pierce Fenner & Smith as a runner at the CME. I returned to school to graduate and practice law for a while, but I was smitten by the trading bug." Jumping forward a few years, he says "I used my legal talents plus any inherent talents I had and ran for the board of directors of the Exchange and took over the Exchange."

Melamed is widely acknowledged as the founder of the concept of financial futures, and drew much on the leading intellectual figure in his life, Milton Friedman. He says of the origins of the market "I saw the foreign exchange market as one in which you couldn't participate, there was no market for speculators, and that struck me as unfair. I came to the

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Profile

HISTORY MAN

final realisation that a market in financial futures might be workable. I went to Milton Friedman to see if he agreed with me, after all, who was I to have such a grandiose idea? I had not been steeped in the foreign exchange business, I knew a bit about trading, but I had no credentials. Milton Friedman thought it was a fantastic idea. I was delighted with his reaction, and asked him to write a feasibility paper to use as a vehicle."

Foreign currency futures were introduced in 1972 with the launch of the International Monetary Market (IMM), and under his 25 year leadership the CME was transformed from a secondary domestic agricultural exchange to its premier role as a futures exchange. In 1984, Melamed spearheaded the concept of international linkages between exchanges with the Mutual Offset System (MOS) between the CME and the Singapore exchange, SIMEX. This concept was further extended with the introduction of GLOBEX, the first electronic futures after-hours trading system, developed with Reuters. Melamed served as the first chairman of GLOBEX from its inception until 1993.

Melamed not only presided over the booming Merc, but also encouraged and helped the founding of LIFFE and subsequent exchanges with the IMM being the model for others to follow, and explains "When I helped with LIFFE, what I didn't know was that this was the beginning of my children, and the number of exchanges has since mushroomed. There are now far too many and I don't think all of them will be successful."

In 1982, he led the futures industry effort before the US Congress in creating the National Futures Association (NFA), the self-regulatory body for the industry. He served as chairman of the NFA from its inception until 1989, and he continues to serve as its permanent special advisor. He also acts as advisor to the Commodity Futures Trading Commission (CFTC)

and advises governments worldwide.

However, given his role in creating the markets, and in helping to sort out Hilary Clinton's trading activities, was he annoyed by the unpopular attention the industry now receives? "No industry has yet been free of fraud, cheating or trouble. We will get Utopia one day. The cases of Iguchi and Nicholas Leeson doesn't surprise me in the least. Management ought to know there is potential for trouble and it is up to management to protect itself. These problems have been around since time immemorial."

The development of Globex, often politically sensitive, was part of a sea-change for Melamed and his generation, and he describes the radical shift in thought he had to undergo. "In 1978 I wrote an article for a law review that the only kind of trading that could succeed was the floor and open outcry. At that time Bill Gates, I don't know, was he still in high school? The only windows we knew were the ones we looked out of, and there was no PC, not even Politically Correct."

"You have to review reality, and reality changed. That was before we knew damn well the world had become globalised, that there are no longer separate geographical centres of trade, there are no time zone limitations, that firms can pass the book. You have to take note of that reality. The trader now has the technical ability to trade at a screen." He adds "Liquidity was in the pit, it was the engine of liquidity, but to suggest that you couldn't automate that, well eventually I admitted to myself that the Merc had to prepare for the future, to build a hedge for electronic trading."

Melamed concludes "Globex has not been the overwhelming success one would want it to have been, but that hasn't changed my mind, and if you can't see this change then you're blind. It's a trap we see, the information super highway, we're on it and will continue to be so. This is where I see the markets of the future, though I

wouldn't shut the lights on any floor."

Currently, Melamed is chairman and CEO of Sakura Dellsher, a global futures organisation created in 1993 between Sakura Bank and Dellsher Investment Company, a Futures Commission Merchant (FCM). He remains chairman emeritus of the CME, and explains why he left his job at the Merc. "One Wednesday afternoon I was attending a CME board meeting, and it was about 7.30 in the evening when I had this religious happening, like visions of angels, that if I didn't do anything about it I would die in one of these Merc meetings. I couldn't let that happen, life is finite and I'm in my fifties but I've never travelled for fun, just another hotel room, ballroom or inside a car. It was a realisation, not quite the dramatic vision I've described, but it culminated in the thought that I would die droning on about some subject or other."

Given all the political figures he has met, Melamed had thought on four occasions in his life of entering politics, the closest being when Mayor Daly asked him to run for congress in 1973. "I decided against it, this business was more exciting and much more interesting. Politics takes away your ability to be totally principled, and you need to pander to an electorate."

Alluding to his science fiction novel and a couple of books on the markets, Melamed says "You know what the two greatest inventions in life are? The first is Kleenex, you can do so many things with Kleenex, and the second is the word processor, it's liberated the writer, improved the quality of writing."

As noted above, Melamed owes much of his inspiration to Milton Friedman, and he reads from a recent speech to express his view of the future "I believe that a producer located anywhere in the world can use resources located anywhere in the world to produce a product anywhere in the world to be sold anywhere in the world."