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## CME old guard threatens leadership

**Jim Kharouf**

A power struggle is brewing at Chicago Mercantile Exchange (CME), pitting the current leadership against exchange legends in a once-familiar Chicago exchange political drama.

Sources close to the executive boards of CME told *FO Week* that Leo Melamed, chairman emeritus and senior policy advisor and Jack

Sandner, special policy advisor, are pushing to oust chairman Scott Gordon and president and chief executive James McNulty. Melamed and Sandner are reportedly upset with the way McNulty and Gordon have been running the exchange. And Melamed and Sandner, who helped lead CME to prominence, are angered that their input has been dismissed or ignored by the current leadership.

"McNulty is the new guy on the block and doesn't listen to the powers that be," said one source who declined to be named. "I think it's wrapped up in ego and power. And all of a sudden, the guys who were crying into their beer about their troubles three years ago, are now riding the top of the wave and they want to go back to the old ways."

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page 1 "They [Melamed and Sandner] are both dissatisfied more with McNulty than Gordon," the source told *FO Week*. "But in order to get at McNulty, they have to get at the chairman and need the cooperation of the chairman to get to the president."

Attempts to contact both sides were unsuccessful by press time. A spokesman for CME said that the exchange does not comment on rumours or internal politics.

But sources close to the matter said Terrence Duffy, CME vice chairman, has been lobbying for the chairman's post and has the support of both Melamed and Sandner. Duffy and Gordon are expected to run for the chairman's seat during the first board meeting after the annual meeting on 17 April. At the annual meeting, ten directors will be elected via proxy by the shareholders and the total board

will be reduced to 19. The board was decreased to 30 directors from 39 at the 2001 annual meeting as part of a plan to streamline the executive leadership of the exchange. The board members then elect a chairman at the first meeting following the annual meeting.

Gordon was elected chairman in 1998 and has given McNulty enormous support. However, if Duffy is elected next month as chairman, it is believed he will be less cooperative with McNulty and could attempt to rally the board to replace him.

### A profitable future?

McNulty was hired in February 2000 to transform the exchange into a for-profit company and eventually take the company public. Many credit McNulty and Gordon with transforming CME from a bloated bureaucracy that was struggling financially into a

profitable exchange that has grown into the largest in the US in terms of volume and the second largest futures exchange in the world behind Eurex. McNulty also was hired to change the culture so CME would become more business-like and avoid distracting, political feuds like this.

There are two years remaining on McNulty's contract and removing him from his post would be very costly for CME, sources said.

### Time for a change?

If such a change in leadership takes place, it would come at a critical time for CME. The exchange is prepped for an initial public offering (IPO), most likely this year. With a power struggle at the helm or a question regarding leadership, it could severely damage the IPO's prospects. One source said it would be foolish to replace McNulty now.

"You dance with the girl

you brought to the party," one source said. "We brought McNulty in for four years. We're going into a pre-IPO period. I don't think you can fire the CEO and expect to float an IPO. The investment banks would drop us like a hot potato and I wouldn't blame them."

Some believe that McNulty and Gordon have devoted too much money and too many resources to the Globex system at the expense of the floor. Today, the electronic trading accounts for 22% of CME's total volume and it is growing quickly.

"I think the membership, as a whole, have been happy with the way things have gone," another source said. "But it's also a criticism from the old floor trading members. They see McNulty - because of the way he's managed the exchange - as the man who is eventually going to do away with the pit and go electronic. This is a last stand to protect open outcry trading."