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Merc, CBOT rich with history

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Leo Melamed, who led the Chicago Mercantile Exchange for decades, said its acquisition of the Chicago Board of Trade announced today would "preserve" Chicago's stature as a global center for managing financial risk.

And fellow Merc leader Jack Sandner noted, "They used to call us the hog butchers to the world. We are now the risk managers of the world."

Chicago Mercantile Exchange Holdings Inc. said it will acquire CBOT Holdings Inc. for $8 billion in stock and cash.

Chicago's futures exchanges have personified business in Chicago for generations. The hoarse, sweaty traders standing shoulder-to-shoulder in their colorful jackets, muscling the market through its paces, have become the city's most enduring commercial image.

Bankers, money managers and speculators come to the Chicago markets to bet on how the price of everything from interest rates to ethanol will change in the future. With a tiny down payment, they can control vast quantities of whatever they choose to trade.

Some market players use that leverage to reduce their business risks, while others take on all the risk they can in the hope of parlaying it into rapid-fire profits. Billions of dollars flow through the exchanges every trading day.

Both the Merc and Board of Trade got their start in corn, soybeans, butter, eggs and other agricultural commodities, and even today their rough-and-tumble trading pits set benchmark prices for the nation's farm country.

During the 1970s and '80s, the exchanges applied their same trading formula to financial contracts for bonds, foreign currencies and stock indexes, with considerable success.

Only recently have Chicago's market makers fully embraced electronic trading, and much of Wall Street's enthusiasm for their business prospects is based on computers expanding the reach to more customers around the world.

Today's deal came about only after the Board of Trade and Merc shifted their governance from membership-run organizations to publicly traded corporations.

For decades, the two homegrown businesses, so alike in many ways, were kept apart by mutual jealousies and suspicions.

In 1980, then-Board of Trade Chairman Les Rosenthal attempted to engineer a merger with the Merc's Melamed, only to see the idea flounder because of the "we-they culture," Rosenthal recalled. "Who was top dog? Whose building would be out front? It was all silly stuff, but you couldn't get over that. The barrier has always been the culture of the two places."

The Board of Trade, formed in 1848, was for most of its history older, larger, better established and reputedly stodgier, while the upstart Merc was scrappier and savvier about technology.

In the 1980s and '90s, worries that electronic trading would undermine the moneymaking potential of the floor traders who controlled the exchanges stymied progress toward a merger.

While the U.S. stock market flourished, and competition expanded overseas and through over-the-counter markets, the Chicago exchanges restricted access to their products by refusing to combine their efforts and embrace computerization.

"Both exchanges were driven by hubris, egos and historical legacies," said Patrick Arbor, a Board of Trade chairman during that period. "Customers wanted electronic markets."

Competition from overseas brought the exchanges together, Melamed said, and with the movement to public ownership, "Recently, the culture changed completely."

The stock-market's enthusiasm for Merc and Board of Trade shares made all the difference in bringing about the merger, said Rosenthal, since the numbers involved were so big. "The Merc has a very valuable coin of the realm in their share price. The Board of Trade put a price on it, and the Merc said, 'Sold!' "