

RISK

Commodities, interest rates, equities, derivatives, credit

Since retiring as chairman of the Chicago Mercantile Exchange in March 1991, LEO MELAMED hasn't been resting on his laurels. He's been focusing his energies on Globex - where he's chairman - and his own futures clearing firm, Dellsner Investment Company, which he plans to merge with Sakura Bank as soon as the Federal Reserve Board gives its approval.

Globex in particular has kept him on his toes. With a price tag of \$100 million, some have questioned the exchange's belated launch and future potential, but Melamed isn't discouraged. "We chose to begin with the horse-and-buggy version of Globex," he says. "Right now, only 100 of the 220 screens we have are being used real-time - most of them in the US. So after about 1am nobody is there to trade. But you can't really assess this system after only a few months. We simply wanted to prove its capacity early on."

Melamed says any real judgement on Globex can only be made after three years. During that time, he envisages important enhancements to the system. A credit filter will be added to limit potential abuses by customers trading beyond their means, and to boost larger customers' confidence in Globex. Additional utility mechanisms (such as the automatic updating of option price series) will give market-makers more mobility and confidence. And if a geographical region goes down, it will be up and running in a manner of minutes, rather than the hours it now takes. This will greatly reduce the system's downtime.

Melamed adds: "When all these things come on stream, together with Matif [Marché à terme international de France] too, and maybe Liffe [the London International Financial Futures and Options Exchange] and Comex [the Commodity Exchange], then we can fully assess how it's doing."

Despite Melamed's optimism, Japan remains a big question mark. But he doesn't question the motives of Japanese regulators: "I am quite confident they will give us the same authority that other countries have given us. The Japanese are not anti-Globex. They simply don't want it to violate their laws. This will involve preventing

certain sectors of their market from using the system. The answer to that is being able to programme a blackout feature into the system to prevent that from happening. I feel very strongly that Japan will come around."

Melamed's top priority is persuading other exchanges to join Globex, and he sees no reason why the system can't com-

pete head-on with the OTC market. "That is the direction the world will take," he says. "Counterparty risk causes all sorts of limitations, but with a central clearing mechanism we don't have those limitations. The desirability of creditworthiness is

such a magnet that it has to drive OTC products and other products onto the system. The only reason that won't happen is if we run into capacity problems."

Despite this claim, Melamed is cautious when asked whether the exchanges can compete for OTC end-users. "The ultimate customer of these OTC risk management products is a generalist and usually doesn't know all the components of a sophisticated trade. Our customers will continue to be the dealers. I don't think that will change."

In the futures and options markets, Melamed sees two new areas of opportunity

for the exchanges - pollution rights and real estate futures. Other product launches will simply focus on expanding sectors of existing markets such as stock index products.

"All the majors have already been invented," says Melamed. "But the Chicago Board of Trade is right on with its idea for a contract on pollution rights. As always,

the key will be whether they can create the right specifications for the product. The real estate market, in contrast, is more homogenous - to the extent that retail, commercial and regional indexes are possible. We've had such a price break in that sector that ev-

eryone is aware of its potential benefits, so that might produce a market."

On the regulatory front, Melamed sees a single US regulator evolving for all derivative products. "It was to our advantage that a regulator [the Commodity Futures Trading Commission] wanted us to succeed and understood the difference between securities and futures. No-one else understood concepts like mark to market," he explains. "Now we can hold our own, even with a single agency. You need a new superagency that understands both [the OTC and the listed] markets and can set up a level playing field." ☉

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Photo: Liza Wynn

Leo Melamed was chairman of the Chicago Mercantile Exchange (CME) between 1969 and 1992 and is recognised as the inventor of financial futures. He pioneered the concept of international links between markets in 1984 by connecting the CME and the Singapore International Monetary Exchange, and in 1987 set up Globex

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