

Exchanges trying to work through Globex squabble

By William B. Crawford Jr.

Leo Melamed, the Chicago Mercantile Exchange's longtime political dynamo, made an unusual appearance Thursday at the Chicago Board of Trade, where CBOT leaders praised him for his work on Globex, the revolutionary trading system scheduled to become operational in June.

Melamed, who more than any other individual has been identified with the fortunes of Globex, put in his appearance at the request of CBOT leaders as he and Merc Chairman John F. Sandner sought to smooth over a dispute that some industry insiders fear could hurt Globex's prospects.

"What I am saying," said a longtime CBOT futures trader, "is that this thing between Sandner and Melamed has been kind of boiling for a couple of months. Now, we have the straw that breaks the camel's back and Globex could become so weakened by so many wounds that it may never get up off the ground."

Globex is under development by the CBOT, the Merc and Reuters PLC, the British information conglomerate that is supplying the hardware and software for the system, believed to cost about \$100 million.

It is scheduled to become operational June 25, when it will list for trading a handful of the most successful Merc and CBOT products.

Another veteran Merc insider, describing recent reports about divisiveness over who will direct the new system, said, "Such squabbling is helping no one. Reuters has a lot at stake here—millions of dollars in development costs—and what we need now is cooperation, not infighting, which could cost Globex its credibility."

Also Thursday, Sandner and CBOT Chairman William F. O'Connor wrote separate letters praising Melamed for his dedication to Globex and reiterating their confidence in his ability to help make the global system, which has been delayed repeatedly, a success.

"The CBOT and the CME agreed that Leo would serve as the first chairman of the Globex governing body and be entrusted with a tie-breaking vote in the event that the exchanges deadlocked on important issues," Sandner wrote in a letter that was sent to the Merc's approximately 2,500 members.

"There could be no higher expression of our mutual trust and respect for Leo," Sandner wrote.

Also Thursday, some of the futures industry's most powerful brokers, known as futures commission merchants, rallied around Melamed in the flare-up between him and Sandner. None would speak for the record, but many hinted privately that they would consider pulling out of Globex altogether if Melamed stepped down as chairman of the joint-venture Globex governing board.

"Let me put it this way," said the chief executive of one of the largest futures brokerages in the country. "I am not going to serve on a board overseeing Globex when Leo is not present along with me."

Until last winter, governing authority for Globex was vested in a joint-venture committee that was chaired by Melamed and consisted of equal numbers of representatives from the Merc and the CBOT. Two individuals from the

Futures Industry Association, an organization representing more than 100 of the country's most powerful futures commission merchants, also were on the board.

In February those governing powers were transferred to the respective exchanges, transforming the Melamed committee into a strictly advisory body. Many observers believed the transfer of authority had the solid backing of Sandner, a Melamed protégé who often has chafed at the attention focused on Melamed, who is considered by many to be the father of financial futures.

Not long after Melamed became chairman of the advisory panel

two years ago, his request for a \$500,000 annual salary was rejected, in part because Globex was still under development and had yet to prove itself, but also because many of Sandner's allies on the Merc board believed the request was exorbitant. Several Merc board members, who asked not to be identified, repeated their objections Thursday to paying Melamed such a high salary.

In his letter to Melamed Thursday, O'Connor, who was effusive in his praise, urged an emergency meeting of the joint-venture board to discuss a salary for Melamed.

"Indeed, we cannot confidently envision Globex as the pre-eminent international trading system for futures without your involvement," O'Connor wrote.

"Throughout the two-year process of negotiations between the joint venture and Reuters and between the two partnerships which compose the joint venture, you have flawlessly performed the role of referee and arbitrator, diplomat and mastermind. Without your involvement, we are convinced that there would be no Reuters agreement or joint venture today," he wrote.

A high-ranking CBOT member who was present at Wednesday's meeting with Melamed noted, "Melamed is the cement that holds this entire thing together. All have confidence in him because he is fair and he deserves the position and a salary to go with it."

The official said the CBOT is prepared to pay Melamed \$200,000 annually out of its coffers after Globex is up and running.

Globex chief still in charge despite ruckus

By Greg Burns

Financial Markets Writer

A squabble over Globex has apparently ended with its chairman, Leo Melamed, in a position to continue guiding the electronic trading system.

In letters distributed Thursday, the chairmen of the Chicago Mercantile Exchange and Chicago Board of Trade express support for Melamed's leadership of Globex.

The CBOT goes further, saying it would reconsider its participation in Globex if Melamed stepped down as chairman, and promising to re-open the "long-delayed issue of compensation" for his presently unpaid post. Globex, an electronic trading system set to debut June 25, is backed by the Board of Trade, Merc and Reuters Holdings PLC.

The row began last month after the exchanges agreed to split authority over Globex decisions between their two boards, reducing a committee Melamed heads from a voting to an advisory role. That move angered trading firm interests on the committee, and appeared to undermine Melamed's status, too.

The trading firms were placated in part when Merc

governors voted to accept a member onto their board chosen by the Futures Industry Association, a group run by the firms.

The drive to keep Melamed in place culminated in the letters Thursday, which denounced a published report suggesting the Globex mastermind had been stripped of all authority. That report had angered Melamed's supporters, who perceived it as an outgrowth of rivalry between the former Merc chairman and its present one, Jack Sandner.

Melamed, for his part, said Thursday he's "inclined" to remain Globex chairman beyond the system's introduction next month, though his decision isn't final. His position in the Globex hierarchy is "unchanged" by the loss of his committee's voting rights, he said, and he remains a "unifying force" in the industry. Melamed retains the tie-breaking vote if the exchanges deadlock on a Globex issue.

As for salary, Melamed said, "I'm going to leave it to others to decide." Sources said he can expect to earn slightly less than the \$250,000 paid to Sandner for heading the Merc.