

MONEY & INVESTING

MONDAY, FEBRUARY 10, 1997

Titan Returns
To Shake Up
CME's Board

COMMODITIES

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The powerful founding father of Chicago's financial-futures pits has returned to the table.

Six years after stepping down from formal power at the Chicago Mercantile Exchange, former CME Chairman Leo Melamed last month took back a spot on the executive committee in a newly created position as permanent adviser.

Although he won't have voting powers in his new role on the board, the 64-year-old originator of the exchange's international monetary division says he will be a major force in reshaping the direction of the CME, where trading volume has slipped recently. "My return will cause some evident change," Mr. Melamed promises.

The appointment has left many at the nation's second-largest futures and options exchange wondering privately and publicly whether Mr. Melamed will attempt to wrest command from dominant CME Chairman Jack Sandner, who has held the exchange's top elected position for 13 of the last 17 years.

Although Mr. Melamed states that he wants to unify, not divide the board,

"certain board members lean toward Leo, others lean toward Jack, and a lot more are in the middle," says Leslie Rosenthal, managing partner of Rosenthal-Collins Group, a member clearing firm at the CME. If either leader wants his initiatives passed, he will "have to play to the great middle," he adds.

Already, Mr. Melamed has played a dynamic role, successfully endorsing candidates for executive-committee offices and outside public directors and helping pass new trading specifications for the exchange's largest contract, the Eurodollar future. He has also pledged to push for more-cooperative relations with the CME's cross-town rival, the Chicago Board of Trade.



Leo Melamed

Other issues could prove more difficult and contentious, however. The push for new products, technology and budget cuts could lead to disagreements between the CME's two leading figures, who recently reconciled after a well-publicized falling out. After retiring from his special-counsel position at the CME in 1991 and becoming chairman emeritus, Mr. Melamed says he was shut out of major policy decisions, a perceived slight that contributed to the previous discord with Mr. Sandner.

Although avoiding direct criticism of Mr. Sandner, Mr. Melamed says the exchange has moved too slowly on technological upgrades. "We're still working off systems devised 10 years ago," he says. Further, according to the ex-chairman, the exchange is spending too much on political events such as its parties last summer for the Democratic national convention in Chicago.

While the CME's expenditures grew 19% between 1993 and 1995, revenue grew at a faster rate, exchange officials note. And Mr. Sandner says spending outside the CME's two towers in downtown Chicago is completely justified. "We are a centerpiece and a linchpin of the city," Mr. Sandner says. "When you're that visible, you have to deliver to the community."

Mr. Melamed, a native of Poland who escaped to the U.S. with his family during World War II, started trading at the CME in the 1950s, when the premier contracts were in eggs and onions. Today, he still monitors the financial-futures markets as chairman and CEO of Sakura Dellsler Inc., a global futures firm.

Last week, after holding several meetings and then dining at Chicago's Drake Hotel, Mr. Melamed and Mr. Sandner acted as comfortably with each other as they had during the 1980s, observers said. In that era, the two CME leaders toured the world together, promoting exchange initiatives like its reciprocal-trading agreements with the Singapore International Monetary Exchange and the CME's introduction of futures based on the Standard & Poor's 500-stock index.

"I've been pleasantly surprised" that there hasn't been any evidence of ongoing personal problems since Mr. Melamed returned to the board, Mr. Rosenthal says.

But other observers contend that relations could turn more confrontational. Indeed, says Bill Shepard, one of the CME's 24 elected directors, "Leo's forceful personality can offset Jack's force of being the chairman. It's going to be interesting to see who prevails."

The potential battle of ideas comes at a critical time for frustrated CME members. Total volume in 1996 fell for a second straight year to 198 million trades, down 12% since the record year in 1994. Trading in foreign-currency and interest-rate futures has been hurt by a decline in volatility and increasing over-the-counter competition from banks.

"Other exchanges are doing much better than we are, and the membership is mad," Mr. Shepard says. "For 20 years, the attitude around Chicago among traders was that they'd rather be at the [Chicago] Merc because they felt we were going somewhere. But we lost that momentum."

Prices of seats on the exchange are also plummeting. After hitting a record high of \$925,000 in 1994, seat prices have fallen 43% to \$525,000. Late last year, the value of a CME seat was surpassed by one on the New York Mercantile Exchange, which does less than 40% of the CME's annual volume.

On the floor itself, tension between local independent traders and powerful groups of broker associations has hurt liquidity and volume, according to some traders. Many independent traders say the "one-stop shopping" provided by broker associations diminished competitiveness in the trading pits.

That continuing battle helped spur the creation of a rival slate of director candidates last year, endorsed by a group called the Equity Owners Association. Given little chance to win at first, six of the candidates running on the EOA slate prevailed.

Many of them had help from Mr. Melamed. "I certainly embraced what they thought," Mr. Melamed says. Adds new director William G. Salatch Jr.: "[Mr. Melamed's] backing and influence was quite substantial in the campaign."

Last fall, mostly through phone calls and other conversations with select groups of the CME's 2,700 members, Mr. Melamed quietly announced he would return to active participation if members voted for the board candidates he supported. Such a vote would provide Mr. Melamed the votes and support he would want on the board. "I said to some members that I would [come to the board] at a point in time when my advice would be meaningful," said Mr. Melamed. He adds that his return "was more of a draft than a decision."

Mr. Sandner, a 55-year-old former amateur boxer who grew up on Chicago's gritty South Side and graduated from the University of Notre Dame's law school, also won election this year. Mr. Sandner, described by members as untiring and diligent, says last month's result "was just another election. Now you just keep working your fanny off."

Mr. Melamed had a much different interpretation of the election. "It was an unprecedented sea change . . . that was based on frustration and loss of momentum at the exchange," he says. The election results further showed that members "clearly trust me. That was the point of their message," Mr. Melamed says.