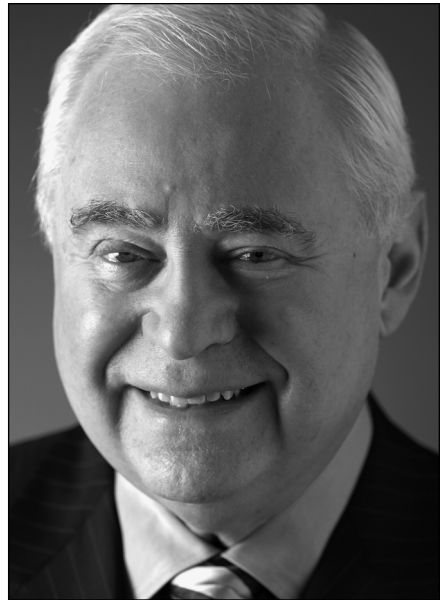




CHAPTER 16

Unequaled Leadership Leslie Rosenthal

Since 1951, when he started as a runner on the Chicago Board of Trade trading floor, Leslie Rosenthal has been directly involved in virtually every aspect of the futures and options industry. After graduating from Roosevelt University in 1955 with a degree in history, he served two years in the U.S. Army. In 1958, he became a member of the CBOT. Mr. Rosenthal worked for many retail brokerage firms, including Harris Upham and Lamson Brothers, as a floor manager and market analyst. By 1963, he was a pit broker in the wheat pit filling orders for such firms as Bache and Hayden, Stone.



In 1970, Mr. Rosenthal formed Rosenthal & Company and became its managing partner. It was in 1972 and 1973 that he began his remarkable climb to the top leadership positions in the futures industry. No single individual has yet to equal his record, set in 1978, of being elected simultaneously as:

Member, Board of Directors—CBOT
Member, Board of Governors—Chicago Mercantile Exchange
Member, Board of Directors—Mid-America Stock Exchange
Chairman, Board of Directors—Board of Trade Clearing Corporation

Les was a founder of the National Futures Association (NFA), a futures industry self-regulatory body that administers licensing examinations and registration for futures and options brokers, trading advisers, and firms. It also provides arbitration services.

In 1981 and 1982, Les was elected to two one-year terms as chairman of the Chicago Board of Trade. During his terms of office, he created new classes of membership for the CBOT to allow trading opportunities to develop. He was also responsible for enabling the innovation and growth of financial futures.

In 1988, when J. Robert Collins merged his own firm with Rosenthal & Company, the firm name changed to Rosenthal Collins Group. According to the Futures Industry of America (FIA), “Of all the brokerage firms that have sought to move the Chicago exchanges, few have had the influence of the Rosenthal Collins Group. Everyone who trades Treasury futures today owes Les Rosenthal a debt of gratitude, because he provided the essential leadership necessary to win the members’ approval to develop and launch the Ginnie Mae futures contract, the world’s first contract based on interest rates.”

At present Les Rosenthal acts in an advisory capacity to various industry committees and exchanges, while serving as a managing member of one of the largest clearing firms in the futures business.

Mr. Rosenthal has been married for 52 years and has three children and four grandchildren.

How did you first hear about the Board of Trade?

I first heard about it when I was in high school. Then I graduated from high school and I was looking around for a job. At the time, the economy was sort of on the downturn. There weren’t many jobs around. One of the jobs that I heard about was as a runner on the Chicago Board of Trade. So I applied for a job as a runner and I worked from 9:00 in the morning until about 1:30 in the afternoon. Then I went to college at a local university. That was the only way I could fit in an education and keep a job as well.

Did you graduate?

I graduated from Roosevelt University with a degree in history.

What made you want to be part of the CBOT?

In the beginning, I just needed the job. Being a runner was the only job that I could find that would fit into any kind of a program that was available to me. I really didn't know anything about it. I just happened to pick it up from a friend of mine and I came down, applied, and that was it.

Did you find it exciting?

Yes. I found it very exciting. It was pretty much a people business. It was a very active floor and I was right in the midst of things. As a runner, I was right down on the floor, taking orders from the telephone station into the pits.

How long was it until you bought your membership?

What happened was I worked at the CBOT all the time that I was in school. Then when I got out of school, I got married, and then I got drafted. It wasn't until two years after I graduated from college and I came back from the Army that I was able to think about buying a membership. To do that, I borrowed \$5,000 from my father-in-law.

How did that work out?

It worked out pretty well. I paid him back relatively quickly, although he kept insisting that I owed him a little bit more. This didn't necessarily translate into money, but in things to do like hiring relatives and things like that.

Did you appeal those requests?

No. When I started at the Board of Trade, it was one of the things that just went on down there. It was sort of a generational type of a thing. In other words, fathers brought their sons down and brought their nephews down, things like that. That's the way the Board of Trade ran at that time.

When you first began trading, were you successful right away?

Well, there were some good days and some bad days. It wasn't always easy, that's for sure. My wife Harriet didn't want to come right out and ask how my day was, so she used to ask whether we were going to have "hamburger or steak for dinner."

That was a gentle way of checking things out. Tell me about some of the legends that you encountered at the Board of Trade.

When I came down to the Board of Trade as a runner, it was a little bit different than when I bought my membership. The exchange was in

the process of an evolution. We were going from the normal type of things that had gone on there for the 50 years before that. So there were some real characters down there. There were many different types of traders on the floor.

For example, there was a family down there named Griffin. Bill Griffin was a big trader. There was a fellow named Joe Dimon who was a real character. There was a man named Vince Fagan. There were a number of people on the way out at the time. One of the biggest traders was Dan Rice. He was still active, but not as active as he used to be. So, what we had down there was a conglomeration of different personalities, all of which made for a very interesting workplace.

How were they different?

These people were risk takers. In order to be a successful trader at the Board of Trade, you had to have a personality that allowed you to be a risk taker. And it was generally so for most of the legends that I named, although there was some inconsistency to them. It was usually boom or bust, and you never knew what portion of their history they were going through at the time. Nevertheless it was all very interesting.

How does someone like Jim McKerr fit into that description?

Jim McKerr and I went head-to-head in the wheat pit for a number of years. Jim was an active wheat trader and a member of the McKerr family. There were a number of the McKerrs down at the time. Jimmy and I used to go at it in the wheat pit. One day I came down and found out that the positions I had on weren't doing too well. And I talked to the people that I was trading with at the time, and they suggested that I go out and try to get some money from somewhere, to see if I could shore up some of the trading positions that I had on. And so I went around asking a few people. I had a very difficult time, until somebody suggested that I go talk to Jimmy McKerr. I said, "Are you crazy? Why should I talk to Jim McKerr? McKerr and I are always fighting after every trade in the wheat pit, and he'd be the last guy in the world that would help me out."

But the guy I was talking to kept pushing me in that direction. He said, "Why don't you go up and try?" So, having exhausted all of my other resources, I went up and I talked to Jim. I went into his office and I said, "Jimmy, you're not going to believe this, but I'm, you know, in a little bit of trouble over here. I'm looking around to finance myself for a little while until I get back on my feet."

He did not hesitate for one second. He reached into the middle drawer of his desk. He pulled out a checkbook. He said, "How much do

you need?” And I said, “You know, Jim, this really surprises me.” He said, “That’s the way we do it around here. It doesn’t matter what happens, what goes on the pit. Once one of our own gets into trouble, we’re all there to help out.”

Isn’t that wonderful?

Yeah. It was terrific.

That leads me to a question about the word ‘integrity’ and how it relates to the CBOT.

Integrity is a very integral part of the system here at the CBOT. It’s changed somewhat now that so much of the trading is happening on the screen. In the electronic marketplace, you don’t see the people eye to eye and you don’t know who you’re making your trade with, but integrity is still very important. But in the days that we’re talking about, integrity was very important, because you made a trade with a person across the pit, and sometimes it wasn’t anything more than a gesture. You would nod your head or you’d flick your finger or you would do other acknowledging things. You’d have to make sure that the person that you were making that trade with showed up the next day, even when the trade might be against him, because if he didn’t, then you would be out of luck. There were very few instances that I can recall of anybody not showing up. Once in a while it happened, but most of the time the man who made the trade was as good as his word.

Can you tell me about some of those signals that you would give in the pit?

Well, sure. Depending on what portion of the trading community you belonged to, whether you were a broker filling orders or a trader trading for your own account, they varied a little bit. Sometimes, depending on the nuances of what was going on, if there was somebody across the pit bidding and you wanted to sell to that person at whatever he was bidding, you might not want the rest of the pit to know exactly what you were doing. So instead of making an open outcry and yelling “sold,” you might nod your head or you might point a finger at him. There was always a way that brokers announced it to the pit as to what it was that they were bidding, at what price, and what amounts they were bidding on. There were finger types of signals. There were all sorts of things that were part of the culture.

You changed the culture a little bit. Can you tell me about that?

We had a difficult time identifying people who would be executing orders for us in the pit, because everybody wore the same drab jackets.

I came up with the idea that the best thing to do would be to go out and make trading jackets out of colored cloth. For me, that color was purple. I did this so that when my phone men were writing down orders and they would give them to runners, they would also only have to say to them, "Here, take it to that guy in a purple jacket." It wasn't long after I adopted that type of trading jacket that many other companies did the same thing. All the multicolor jackets that you see on the floors came from that idea.

Tell me how your business evolved from when you started your business to where it's come to today.

I started off as a runner on the floor of the Board of Trade and then I went into the Army. When I came out from the service, I purchased a membership. In those days you had to have a membership in order to be able to sit down and write orders over a telephone, receiving orders, writing them on a notepad, and that's what I did as my first job on the floor of the Board of Trade. Other than a runner, I was a phone man for Lamson Brothers.

Then I went from being a phone man to being an assistant floor manager, wherein I was helping the floor manager of a firm run the business on the floor. Then I graduated from that job to becoming the floor manager for the firm. This involved writing a market letter. And from there, I went into the pit as a floor broker and started filling orders.

Once I was in the pit and filled orders, then I started trading for myself. And the evolution of my firm came about just as many others did. There came a time when I figured I could do it just as well as some of the people around me. I thought I could do it with my own firm and maybe make a little bit more money. So I formed a partnership with another trader, Hank Shatkin, and we went into the customer business. Our firm was called S&R.

Do you remember the first lesson you learned at the CBOT?

The first lesson that I learned down at the Board of Trade was to never give up. If you do, you're out the door and you don't have a chance at coming back. We had many, many examples of people who were going through difficult periods and who in the terminology of the trade "busted out" and then came back. Personally, I've been through some of that in my own life. Having had those experiences, I became a part of the culture at the Board of Trade that helped the people out who were going through hard times. It was almost an inheritance handed down, not from father to son, but from member to member.

Have you passed that lesson on to your family?

I think that I try to pass it on to whoever listens to me. Some people listen and some people don't.

How about the word 'discipline'? Does it apply?

Discipline obviously applies to trading. Anybody who is disciplined makes for a much better trader. There are some cases when discipline stands in your way, but you're around much longer if you're a disciplined trader than if you're not.

Can you give me an example of a time when discipline can stand in your way?

There are some instances when discipline makes you exit a trade too early.

How about the idea of tradition in the business?

At the CBOT there were many traditions. That's basically one of the sad things that is happening right now. The Board of Trade used to be loaded with tradition. You always used to look to certain people down there. You watched what they did. It was a mentor society, so that people took others under their wings. In my mind, that basically was the leading guideline or the leading tradition of the Board of Trade.

Now that you're starting to move everything to screen trading and everything is electronic, there still is some of that tradition down there, but because of the demise of the open outcry system, that tradition is starting to change.

Were there pit traditions?

Yes, there were. It was territorial. You had a pit that was configured for different months, and what happened was the floor brokers, the people who were filling orders or acting as agents for other companies, established their own territories. Generally speaking, they tried to do it so that they would be within sight of their principal business. What that means is that they would be standing on the top of the pit, so that the person on the telephone could see them and they'd be able to signal certain orders in to them or ask them for quotations or things like that.

It became very, very important that you establish a certain position in the pit and that you went to that position every day at the same time, so that people would be able to identify where you were and be able to make their decisions based on your position in the pit.

What happened if somebody stood in your position?

That became a very difficult thing, because generally speaking, there is no outright rule that dictates where people can stand in the pit.

If somebody wanted to come in and infringe on your territory, they would be allowed to do it. You'd have to work it out between yourself and the other trader. Sometimes it got kind of physical, and other times it was just based on whether you'd been there longer than anybody else.

When it became physical, how did everybody work that out? What were the rules down there?

At times, things got rather heated. Things occasionally did get physical and there was a lot of shoving and pushing. Every once in a while it came to a point where you knew a few punches might be exchanged. And usually what happened was that the people who were involved in the dispute would go to the group in charge of pit governance, which was called a pit committee. That was where they tried to work it out. The pit committee tried to get between people and somehow or other mitigate whatever it was that was going on.

In that same vein, can you describe the role of the Board of Trade and self-regulation?

Self-regulation is something that the exchanges handle themselves. While there is a government regulatory agency that has oversight, we always try to keep as much in the way of regulation at the exchange level. To accomplish this task, there are many committees. Many people serve on these committees as volunteers. Each of those committees appoints a chairman.

To find members for these committees, which are part of the governance of the Board of Trade, we would hand out questionnaires to see whether any of the members would be interested in serving on committees, and the ones who were interested in serving on committees usually got appointed. So we had many, many committees at the Board of Trade, sometimes too many. I say there were sometimes too many because it often became burdensome to operate.

Why does self-regulation work for this business?

Self-regulation works particularly well in this industry. Before we invented the new types of memberships, we had 1,402 members. Each one of those members was invested in doing something that would govern the Board of Trade well. All these members had a vote and a say in who became the leadership of the Board of Trade. All wanted to make sure we presented the proper face to the public and there wasn't any criticism attached to the exchange that would have cut down on the trading aspect of it. The people who knew the industry most intimately were responsible for governing its participants and its practices.

How about the role of the CFTC?

The Commodity Futures Trading Commission (CFTC) evolved from something called a Commodity Exchange Authority (CEA). At that time there was very little oversight on the part of the CEA, and there was a hue and cry on the part of Congress, as there is in many instances, for more regulation. That's why the CFTC was formed. The exchanges had pretty good input into it, because we lobbied down in Washington to do things in the proper way.

During my last term as chairman of the board of directors for the Chicago Board of Trade, we put together something called the National Futures Association (NFA), which was, in effect, a private sector regulatory agency. The role of the NFA was to administer licensing examinations and registration for futures and options brokers, trading advisers, and firms. It would also provide arbitration services.

What we managed to do was convince the regulators that the industry was basically too big for any one type of regulatory oversight committee to be watching. We tried to put together a process in which the government was responsible for certain regulations, the exchanges had certain regulations, and the NFA had certain regulations, so that regulation, in effect, was shared by these three entities.

What do the people in the industry know that somebody coming from the outside might not?

Well, that's just it. The people in the industry know the industry intimately and they know when a regulation would adversely affect anything to do with the business. It's a better business judgment on the part of the private sector than it is on the part of government, as it is in anything else. There are many in-house committees that are responsible for making this system effective.

Which committees did you serve on?

I kind of made my way up through many of the committees, but the ones that I was most interested in had something to do with new products. I thought that bringing in new products was a very important aspect of the business of the Board of Trade. We have to keep inventing products that would appeal to people, rather than just continue on with the historical products.

You had something to do with several innovations.

Yes, we did. We had something to do with the structure of the Board of Trade, as well, because in the old days the way that you would promote a new product would be you would get some people who were

members, and you would say to them, “You know, why don’t you go over there? There’s a new product being traded. We need some volume.” I really believe people are attracted to commodities only if they see some volume. Then we would go even further to ask for their involvement. We would say, “Why don’t you do your patriotic number? Go over there and trade 100 contracts or stand over there for 15 minutes and trade.”

While trying to launch innovations, we discovered it was getting difficult to get people away from their normal course of business to do something in the way of sponsoring new products. We came up with a plan that allowed what we would call “developmental membership.”

What we did was figured out a way that we could sort of “rifle shoot” a membership at a product. To do this, we originated a certain membership that could only trade a certain new product. And when you can only trade a certain new product, you have nowhere else to go for the trading day, so you’re kind of glued to that pit. It became a very successful way of putting together support for a new product.

Can you tell me some of the names of those new memberships?

Sure. We had AMs (Associate Memberships). We had COMs (Commodity Options Memberships). We had IDEMs (Index and Energy Markets). They were specifically designed to encourage certain markets. A COM, for instance, could only trade options. An AM would trade financial instruments. An IDEM was a catchall for future product development; the thought being that we add the multiple stock index and energy futures. We had a couple of other new products that we were talking about trading and the IDEM could only trade those.

The result was that these memberships appealed to the general public. We discovered that many people were coming in to buy these kinds of memberships, not just current exchange members. They were low-priced and attracted many people who were doing other jobs. So if you could spare a few hours, you could buy yourself one of these memberships. You could come down and you could get on-the-job training at the Chicago Board of Trade. It was wildly successful.

Do they still exist today?

Actually, all of these memberships still exist and allow for participating in some of the contracts trading today. Aside from that, what is going on is they are getting phased out because there is no longer any need for a floor membership-sponsored approach toward new products, with everything starting to go on the screen. What advantages these memberships give are what the membership rates should be.

When you started at the CBOT, what did you trade?

I started off trading in wheat. I went into the pit to trade for some firms and to fill orders for some firms, like Bache and Lamson. After a while, as my career progressed, I gave up the deck in the wheat pit and I branched out into trading a number of other items. I traded soybeans. I traded corn. I traded financial instruments when they first came out.

How would you define being a speculator?

A speculator basically boils down to a risk taker. The theory behind the Chicago Board of Trade is that it's a risk transference mechanism, whether you're transferring it from a farmer to a trader to a speculator. A speculator is just a definition of a certain type of trader.

How is he or she different from being a gambler?

A gambler creates his own risk. As a speculator in our business, you assume somebody else's risk. So there's a definite economic value to being a speculator, where there isn't necessarily a value for a gambler.

And whose risk do they assume?

They assume the risk of anyone that comes in on the opposite side of it. They don't necessarily identify the person or the company. They could be taking the opposite side of a commercial grain company's hedge. They could be taking the opposite side of a farmer who's making a forward sale. They could be taking the opposite side of even a foreign entity that's doing something in the way of trying to price a product it's going to be buying in the next several months in the marketplace.

Do you think the CBOT is a global price discovery mechanism?

I think the term "price discovery" is the basic tenet of the Chicago Board of Trade. It's basically the reason that we became successful with new products, because all the new products that we've invented have been for the purpose of price discovery.

Has your company evolved with that idea?

We've evolved from the different types of needs that we saw in the marketplace. In the beginning, we started off as a local type of an arrangement, whereby we were organized to help clear some of the local traders that were trading in the pits. And then what happened was we expanded from that into some customer business. We got other broker/dealer type firms to come and give us their clearing, so then we became a clearing company.

Right at the moment, I'd say if you're asking me what the current version is of the Rosenthal Collins Group, we're morphing into a technology company. The reason that we're morphing into a technology

company is because that's where the business is headed. Unless you do something to change with the times, you become nonexistent.

One of the biggest changes was options trading. Please talk about that, and the history of how and why the CBOE came about?

The CBOE was an invention of a number of traders at the Chicago Board of Trade who also were forward-thinking people. They thought about the fact that options were a great vehicle and there wasn't much in the way of an options transaction in the securities business. In order to be able to trade securities, the Chicago Board of Trade had a securities license at one time. By the time we got around to talking about the Chicago Board Options Exchange, that license had lapsed.

In order to be able to trade options on securities, which is what the CBOE does, we had to form a new exchange and we had to apply for a securities license in order to be able to trade options on securities. It was basically a product mix. If it had been the type of thing that we could have done it within the Chicago Board of Trade, we probably would have done it within the Chicago Board of Trade. But we couldn't do it for regulatory purposes.

What do you think was the impact of options trading?

It was interesting. I was involved in the Board of Trade administration at the time when we brought options on. Even the most intelligent people at the Board of Trade, and by intelligent I mean those with an understanding of what trading means, basically fought against options because they thought that they were going to take away from the volume of the underlying futures market. We had to make the argument that, contrary to what everybody was talking about, they were going to add to it. And we had a real fight on our hands to bring them through, but as it turns out, that's exactly what happened.

What do you think is going to happen with the CBOE?

I think that's a very difficult question, because the price basically dictates what's going to happen at the Board of Trade, meaning the price of the exercise right that the Board of Trade members have. Somewhere along the line, whether it's a court decision or it's some type of compromise, there's going to have to be some type of agreement between the Board of Trade and the CBOE as to how they treat these trading rights.

The CBOE certainly provided a big change for the exchange, but what do you think is the biggest change that has come about since you've been at the CBOT?

Well, we've had a number of different changes, but obviously the most current happenings have been some of the biggest. It's no longer a Chicago market or a U.S. market, but it is now an international market. It is not only an international market on the level of exchanges, but it's an international market on the level of governments as well.

We've got international involvement in our marketplaces that we didn't have before. We also have the advent of things like hedge funds and all types of new trading vehicles and mechanisms that basically dwarf anything that we've had in the past.

People talk about the business being a global one. What do you think of the opportunities to come?

We're on the brink of starting something new. We're on the cutting edge of opening up our marketplaces to a much greater customer base than we've ever had in the past. In the old days, you used to talk about a certain segment of our business being a customer-based business and people used to identify things like there's probably about 500,000 customer accounts in the whole industry. Now with the advent of technology, you're talking about opening up this thing not just to 500,000 customer accounts, but to maybe 50 million customer accounts.

It is no longer just the United States, where you have a lot of cross-selling that's going on with people who are trading securities, but also worldwide you've got new economies coming on. You've got China coming on. You've got India. You've got the European community. They are all looking to the Chicago Board of Trade for many types of products.

So we're going to be challenged, because we're not only going to have to invent products that appeal to people, but we're going to have to find ways to execute them. We are coming into the technology age right now, and we have to recognize that.

What do you think will be the impact of this worldwide trading on the service component of the CBOT?

Servicing the customers will be the key. After service, you've got something that we call in business "value added." So what you're going to have to do is differentiate yourself from the next guy. You're going to have to be able to offer certain things that the norm doesn't offer.

At the Rosenthal Collins Group, we always strive to be the standard in the industry. While we recognize that there will always be the new thing that people will be coming up with, we always try to lead the pack in anything that's coming on. Our company's goal for the immediate future is to grow our customer base.

What did you hope to accomplish in your years as CBOT chairman?

I was elected twice. In those days, it was a one-year term. What I wanted to do was basically establish what we thought was going to be the future of the exchange and the industry in general. We were just starting to get adapted to what was a different set of circumstances for trading old products and for types of new products.

In the old days, when you were thinking about bringing up a new product, it was generally some type of an agricultural product that had some type of a format with a deliverable stage. That meant that the farmer harvests it, you send it to an elevator, you issue an elevator receipt, you put it to the Board of Trade, and the Board of Trade starts circulating that elevator receipt.

Now what we had to do was talk about new things that were coming on, and we were looking at the financial instruments. We started off with Ginnie Maes, which were a government-backed mortgage type of a contract. But we had a lot of resistance to that.

Why was there resistance?

The traditional debt dealers wanted to keep the game closed to themselves. They didn't want an open, transparent system that could have price discovery and many participants. The interesting thing is that once it established itself, the dealers who resisted these contracts became the contracts' largest users.

How did you proceed from there?

We went from Ginnie Maes to government debt. Government debt grows every year, just like a corn crop grows every year, because the government keeps issuing the debt. We picked the long part of the yield curve. What we basically started trading were long bonds (30-year bonds) and 10-year Treasury notes.

The Chicago Mercantile Exchange picked up the short end of the yield curve. We just didn't have the wherewithal to be able to do it all at the same time, but it worked out very well for us. It was a different kind of commodity. Who had ever thought about commoditizing government bonds? You just didn't do things like that. Now of course they commoditize anything that comes up. We're trading emissions over on the Chicago Climate Exchange. We're doing all sorts of things, and there are all kinds of new products that are going to be coming along.

What new products do you think are going to have some success?

What we have to do right now is develop some of the things that we've started working on. We have to get an acceptance. Emissions

trading, for example, is going to be one of the things that we look forward to, because we think that every year there is more and more awareness of what we're doing to our climate. As a result of that, we're starting to get some political pressure behind doing things in a "green" way. It appears that the general public is getting closer to accepting that. In the near future, I think it won't be too exotic for them to view emissions as a trading mechanism. I'm certain that's going to be the next big success.

How do you think people will feel about trading air?

The more information the public is exposed to, whether that's in newspaper articles, whether it's in magazines, whether it's in some type of a special documentary like Al Gore is putting forward, the easier it will be to gain the public's approval. I think we're starting to get more and more people aware of it, and it's going to become accepted much quicker than we once thought.

Can you think of any other new products that are on the horizon?

I'm excited by what we're doing right at the moment. I think it's a wonderful part of our existence that we've got all these new things going on. We're erupting in different types of energy that we're trading. There is a different paradigm to why people trade things. It's becoming an asset class.

People who never thought about trading commodities for anything other than their agricultural applications are now looking to feed crops to do many other things. For example, there are hedge funds looking at trading our corn contract at the Chicago Board of Trade, not because of the demand it might have on an international basis for feed for animals, but basically because of what effect it has on ethanol. Ethanol, in turn, has something to do with how you view the energy picture. They're all starting to become intertwined and are much, much more exciting.

Going back to some of the exciting times and things that happened on the floor when you were there, do you remember being part of the Crash of 1987?

Yes, I do. We were definitely part of it. Part of the trouble that we had was that there were members' firms that had positions on different exchanges, and in those days you couldn't offset one against the other. We had trouble taking monies from one exchange where a member had a position and giving it to them so that they could pay off whatever position it was that they had at the other exchange. But we had very good government cooperation on the part of the Federal Reserve and on the

part of the Congress. Everybody was behind us, and we were able to come through. I think that you can point back to that particular occasion as something that proves to the world that we're able to weather storms like that.

How about the role of the MMI contract?

The contract was able to absorb some of the shock, which is one of the reasons for the CBOT's existence. We're here for risk transference, and that's one of the things that proved to be a big success.

What do you see as the CBOT's affect on world economies?

Obviously, we're the pricing mechanism for the world in grains and soybeans. This is because we're the primary market for that at the Chicago Board of Trade. The CBOT also has a great deal to do with the pricing of the U.S. government debt. Once we do something like that, it obviously has ripple effects on everything else.

I think the CBOT bringing in these contracts, and here again we come back to price discovery, makes it possible that everybody is able to identify where the contracts are traded, not just on a futures level, but also in the cash markets. It really narrows the spread a lot. It makes for easier access on the part of both institutions and individuals to purchase some of these instruments.

You know the CBOT and CME intimately. What do you think about the merger of these two exchanges?

I think that it's something that probably should have happened 25 years ago. I think that we had all sorts of initiatives to try, but we never were able to put anything together. It needed a perfect storm in order to be able to do that. So I think that's basically what happened here in the past couple of years. We had a perfect storm. We had a change in the structure of the memberships, and they both became public rather than private organizations. They had less of a country club, "members only" aspect.

I think that while it was different 25 years ago, maybe it was a good thing that it was difficult and didn't happen then. I think the members and stockholders, if you want to call them that, probably are getting much more value for things now than they would have 25 years ago. But the merger of the CBOT and the CME is definitely the thing to do.

What do you think the future will be with that marriage?

The future with that marriage is going to be the thing that Chicago needs. It will be great for our city. I think it will benefit both exchanges and their needs, because of the competition. People often refer to it as

“the Chicago competition” between the two exchanges. But even that is changing. What’s happening is we’re starting to get a worldwide recognition of the value of these types of markets, and therefore the competition for these markets is going to be coming from overseas, not necessarily domestically.

Who do you see as the greatest competition?

I think that we have an indication of what the European competition is, but I don’t think we have any idea what the Pacific Rim competition is going to mean to us. So I think you’ve got two developing giants over in the Pacific Rim. You’ve got China and you’ve got India, and there’s no telling where they’re going to be going. Those two countries are just starting to recognize the value of exchanges and what trading means. In the next 10 years, that’s where the challenge is going to come from.

Do you think there will be a challenge from the over-the-counter markets or from other exchanges?

I think that there is competition right now between the over-the-counter markets and futures markets. One of the criticisms for the merger of our Chicago exchanges comes from the over-the-counter community. They think that a merger between the Board of Trade and the Chicago Mercantile Exchange is going to be poaching in the pond of the over-the-counter market. But I think that’s the American way and that should be encouraged, not discouraged.

You’ve been described as a legend at the CBOT. One of those people was George Seals. How do you respond to that accolade?

First of all, I don’t think I’m a legend. You know, I think legends are momentary. As far as I’m concerned, that’s a misnomer. But I love George Seals and appreciate his kind thoughts. George was one of the first black members of the Chicago Board of Trade. He basically was one of the men who broke the color barrier. George had a great weight on his shoulders because he was under a microscope. Everybody was looking to George to see how he conducted himself. George was a wonderful guy and he was a gentleman. He was a pleasure to work with.

Rather than giving any credit to me about George, Henry Shatkin is the guy who brought George Seals on board at the Chicago Board of Trade. He’s the fellow who sponsored him. George traded through Henry. George and I became friends just because of our contact on the floor and the fact that Henry was a mutual, respected friend of ours.

I had a lot of comical run-ins with George on certain things that were going on, and we just laughed things off. I think George was the perfect

man to be one of the few who broke the color barrier at the Board of Trade, because he had a sense of humor, he had great patience, and most of all he had a lot of confidence in himself. You couldn't bring George down.

I think that describes you, too. You have been described as a strong, intelligent, capable leader with a great sense of knowing how to get the job done. What do you think is your personal legacy to the Chicago Board of Trade?

What we did, because it wasn't just me, was we had a breakthrough in trading customs. We accepted that you could trade something other than the historically deliverable grains that we had at the Chicago Board of Trade. This innovative way of thinking wasn't my invention. The credit for this insightful thinking goes to Richard Sandor. I think the invention of government instruments is the greatest legacy to the CBOT, because they have been the engine driving the exchange for many, many years, and will continue to do so in the future.

