

Ramki

LEARNING FROM MF GLOBAL

THE PROBLEM

- \$1.2 B OF CUSTOMER MONEY HAS VANISHED
- JOHN S. CORZINE CEO SAYS
 - I DON'T HAVE AN IDEA WHERE THE \$1.2B IS. I AM STUNNED"
- EMAILS DETAILING TRANSFER OF \$200M TO JP MORGAN CHASE FROM OUT OF CUSTOMER FUNDS ON OCT 28, 11 LOCATED
 - ALSO OTHER SUCH TRANSFERS
- MF GLOBAL FILED FOR BANCROPTCY NEXT DAY!

THE ROOT CAUSES

- SLOPPY RECORD KEEPING
- WEAK INTERNAL CONTROLS
 - IN 2010 IT FACED ENFORCEMENT ACTION OVER WEAK INTERNAL CONTROLS
- FEEBLE RISK CONTROLS:
 - RISK OFFICER MICHAEL ROSEMAN WHO ASKED TOO MANY QUESTIONS STRIPPED OF CRITICAL POWERS AND REPLACED
 - NEW CRO NOT ALLOWED TO:
 - WEIGH IN ON BROADER IMPLICATIONS THAT TRADES MAY HAVE ON FIRM INCLUDING WHETHER THEY MIGHT UNDERMINE INVESTOR CONFIDENCE!

WHAT LED TO THIS

- WEAK EARNINGS
- LOW CREDIT RATING
- LACK LUSTRE BUSINESS MODEL
- OVER LEVERAGE
 - DEBT WAS 37.3 TO 1
 - CORZINE BROUGHT IT DOWN TO 30-EVEN THEN TOO HIGH
- TOO HIGH A BET ON EUROPEAN SOVEREIGN DEBT
 - \$6.3B OF IT

TOO POWERFUL CEO?

- ONE TIME CONFIDANT OF OBAMA
- FORMER US SENATOR
- FORMER CHIEF GOLDMAN SACHS
- FORMER NJ GOVERNOR

POSSIBLE POLITICAL INFLUENCE?

- HOW WAS THIS COMPANY DESIGNATED A PRIMARY DEALER BY FEDERAL RESERVE BANK OF NY?
- ONLY 21 COMPANIES ACROSS THE WORLD HAVE THIS

AN EXPERT WHO MAKES OTHERS BLIND?

- EDITH O'BRIEN-TREASURER
- CONSIDERED EXPERT IN PROTECTING CUSTOMER MONEY IN FUTURES FIRMS!
- SEVERAL APPEARANCES AS EXPERT BEFORE COMMITTEE OF THE FUTURES TRADING AGENCY
- TWICE PANELIST AT ROUND TABLES
- THREE MEETINGS WITH OFFICIALS

OBVIOUS QUESTION

- WHAT WERE THESE DOING?
 - 20 REGULATORS AND FEDERAL AGENCIES IN CHARGE OF OVERSIGHT
 - PWC THE AUDITOR
 - MS FUSCO THE CHAIR OF AUDIT COMMITTEE (PREVIOUSLY SENIOR PARTNER DELOITTE)

DON'T THESE RING A BELL?

- HAS ANYTHING CHANGED POST 2008?!

SOURCES

- E-Mail Clues in Tracking MF Global Client Funds - NYTimes.com
- MF Global's Risk Officer Said to Lack Authority - NYTimes.com
- Jon Corzine says/ 'I don't know where the MF Global money went' | Business | The Guardian
- Corzine Defends His Actions at MF Global NY TIMES
- MF Global / 99 Problems And Auditor PwC Warned About None - Forbes-2