

MF Global – John S. Corzine.

John S. Corzine is a remedial student of the lessons learned in the last financial crisis. The head of MF Global had been sheltered from the worst of the nation's economic woes in office, while he served first as a US Senator and then as a Governor of New Jersey. Now, all at once, the worst of Lehman's fall has been revisited upon him.

Corzine took the reins of MF Global this year in an aggressive return to Wall Street. Trying to replicate his success at Goldman Sachs, it is reported that Corzine engaged in a characteristically risky pattern of investment, including reinvestment of MF Global's own profits in order to bolster returns. In September, finding that MF Global was over-leveraged in European sovereign debt, analysts downgraded its stock. Regulators demanded that MF Global raise cash to cover its investments and trading partners began demanding more up-front. Apparently, pushed beyond the brink, MF Global tried to sell out over the past weekend, but the deal fell through. In a final desperate move, MF Global filed for bankruptcy on Monday. As the dust settles, investors, traders, analysts, regulators, and federal investigators are all trying to make sense of what went on behind closed doors in MF Global's last days.

First on many people's minds are the anywhere from \$600 to 900 million still unaccounted for. Some attribute this shortfall to MF Global's use of customer cash to back its own trades in a last ditch effort at self-preservation. So far, this is speculation. According to the press, what has been confirmed is that the customers' accounts were not segregated from MF Global's own. That alone is a severe violation of industry regulations and undermined MF Global's attempts at a buyout. MF Global's attorneys told the bankruptcy court on Tuesday that "to the best knowledge of management, there is no shortfall." Some speculate that the missing funds are being withheld by interested parties or are merely the result of accounting errors. Nevertheless, fears persist, perhaps justifiably, that the worst has yet to come to light.

Investigations have been undertaken in every affected sector at every level. The Chicago Mercantile Exchange has taken extraordinary measures, initially locking MF Global's traders off the floor and transferring MF Global's accounts to other brokers. The Security Investor Protection Corporation has appointed a trustee to ensure that investors' interests are protected in the course of bankruptcy proceedings and the CFTC has issued subpoenas to MF Global requesting certain documents and information. The Intercontinental Exchange and the Department of the Treasury have declared that, after conducting their own investigations, they

remain unaffected. Neither FINRA nor the SEC have publicly taken a stance on the issue, but both are undoubtedly conducting their own investigations. Finally, the FBI has reportedly begun looking into the matter and criminal charges seem likely.