

Bloomberg

Corzine: Don't Know Missing Funds Location

By Silla Brush and Lorraine – Dec 8, 2011

Jon S. Corzine, former chairman and chief executive officer of [MF Global Holdings Ltd. \(MF\)](#), apologized to investors, customers and employees of the failed New York broker and told lawmakers he doesn't know the location of an estimated \$1.2 billion in missing client money.

"I simply do not know where the money is, or why the accounts have not been reconciled to date," Corzine told lawmakers in his prepared statement to a House Agriculture Committee hearing in Washington today.

Corzine, a Democrat who served in the Senate and as [New Jersey's](#) governor before joining MF Global, testified on events leading to the brokerage's filing for bankruptcy protection on Oct. 31. James W. Giddens, the trustee overseeing the liquidation of the firm, has estimated that \$1.2 billion in client money is missing, and the Commodity Futures Trading Commission, Securities and Exchange Commission and [Justice Department](#) are investigating the collapse.

Corzine, who resigned from his MF Global positions on Nov. 4, said in his 21-page statement that he was "stunned" to learn on Oct. 30 that the company couldn't account for "many hundreds of millions of dollars." His appearance before the House Agriculture Committee, which oversees the CFTC, comes after the panel voted to issue a subpoena to compel his testimony. The Senate Agriculture Committee and a House Financial Services subcommittee also voted to subpoena Corzine.

Avoiding the Fifth

In his remarks, Corzine apologized to MF Global's customers, [investors](#) and former employees who have suffered because of the bankruptcy. "Their plight weighs on my mind every day -- every hour," he said.

Corzine told lawmakers that he would attempt to answer questions and avoid relying on his Fifth Amendment right to remain silent. "As a former United States Senator who recognizes the importance of congressional oversight, and recognizing my position as former chief executive officer in these terrible circumstances, I believe it is

appropriate that I attempt to respond to your inquiries,” Corzine said. At the same time, “without adequate time and materials to prepare, I may be unable to respond to various questions,” he said.

Corzine said he offered to testify to Congress without subpoena in January, by which time he might have been better able to prepare.

‘Chaotic Days’

“I want to emphasize that, since my resignation from MF Global on November 3, 2011, I have not had access to the information that I would need to understand what happened,” Corzine said. “It is extremely difficult for me to reconstruct the events that occurred during the chaotic days and the last hours leading up to the bankruptcy filing.”

CFTC commissioner Jill Sommers, testifying in advance of Corzine, said regulators are still working to trace all the transactions and that some client funds may be recovered.

“If there is any customer money that has been transferred out of the accounts, that is part of what we are working together to find and that money will be clawed back to be distributed back to customers,” Sommers, the commissioner overseeing the agency’s investigation of MF Global, told the committee.

MF Global employees could face civil or criminal penalties if rules or laws were violated, Sommers said.

“They are subject to civil prosecution under our rules, and there would also be potential for criminal violations,” Sommers said.

European Debt

MF Global filed for [bankruptcy protection](#) after risky bets on some of [Europe’s](#) most indebted countries. Sommers said that regulators haven’t found evidence that client funds were incorporated in the European debt positions.

Under current rules, customer money is supposed to be kept segregated from the firms’ accounts. “We were receiving daily segregation reports from MF Global and those did not raise red flags for us until right before the bankruptcy,” Sommers said.

If funds are missing because of internal errors at MF Global, Corzine may have breached responsibilities under Sarbanes-Oxley rules, according to Daniel Collins, a professor of accounting at the University of Iowa's Tippie College of Business. Under the law, top executives must certify the accuracy of financial statements and assess whether they have sufficient safeguards to catch fraud and bookkeeping errors. Corzine signed off on quarterly reports prior to the bankruptcy.

Sarbanes-Oxley Rules

"Whether these are operational errors or not is a serious matter," Collins said in a phone interview. "If effective controls for monitoring the flow of the funds from the clients through the different investments are not in place, then that would be a breach of the Sarbanes-Oxley responsibilities of top management."

President [George W. Bush](#) signed Sarbanes-Oxley into law in 2002 after accounting scandals at Enron Corp. and WorldCom Inc. eroded investor confidence. Executives must also have internal controls certified by an outside auditor under the law.

In his statement, Corzine for the first time provided details on so-called repurchase-to-maturity transactions that have drawn legal and regulatory scrutiny in the weeks since the bankruptcy. He described himself as a "strong" advocate of the transactions while saying that because he isn't an accountant he can't vouch for the way the transactions were handled.

"I accept responsibility for the RTM trades that MF Global engaged in from the time that I arrived at MF Global until my departure, on November 3, 2011, and I strongly advocated the trading strategy that I have described," he said.

MF's Board

MF Global's board was told of the European debt trades and approved limits on the risk in the trades by specific countries, Corzine said in his statement.

"At the time of the bankruptcy, MF Global was within the risk limits set up by the board of directors," he said. "MF Global's board was not a rubber stamp."

None of the foreign debt securities that MF Global used in the repo transactions has yet defaulted or been restructured, Corzine said.

He acknowledged lobbying the CFTC and its Chairman [Gary Gensler](#), a former colleague at [Goldman Sachs Group Inc. \(GS\)](#), on a rule change relating to how client funds can be invested. Corzine said he took part in a conference call with Gensler on the matter, a conversation that involved other officials.

“According to the CFTC’s records, I was not the only representative of the industry that had calls with members of the CFTC, including Chairman Gensler, regarding the proposed changes,” Corzine said. He said that he and Gensler saw each other at a number of other personal and business events in 2010 and 2011, but that the two didn’t discuss regulatory matters.

Gensler Recusal

Gensler has recused himself from involvement in matters related to the MF Global bankruptcy because of his ties to Corzine, who was co-chairman of Goldman Sachs before entering politics. The client funds rule, which was delayed by Gensler to give commissioners more time to debate the regulation, has since been completed.

Corzine’s testimony details events leading up to the firm’s bankruptcy, insisting that its losses were related to ratings downgrades on its European debt portfolio, not to direct losses on those positions. Following a disappointing earnings report, clients and counterparties began to withdraw business and collateral.

“Despite our best efforts to sell assets and generate liquidity, the marketplace lost confidence in the firm,” Corzine said.

‘Extraordinary Number’

Corzine reiterated that his knowledge of specific transactions involving client funds was limited.

“There were an extraordinary number of transactions during MF Global’s last few days, and I do not know, for example, whether there were operational errors at MF Global or elsewhere, or whether banks and counterparties have held onto funds that should rightfully have been returned to MF Global,” Corzine said. “I am sure that the trustee in bankruptcy, the SIPC receiver, and the regulators are working to answer these questions and to understand precisely what happened during the firm’s last days and hours.”

To contact the reporter on this story: Silla Brush in [Washington](#) at sbrush@bloomberg.net