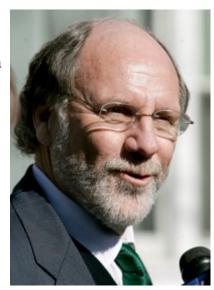




# The Bankruptcy of MF Global: So Much for Financial Regulation

It isn't as if the regulators were asleep. According to the New York Times, alarm bells went off last June when regulators from the Financial Industry Regulatory Agency (FINRA) first discovered that Corzine had gone long in a huge bet on sovereign debt from Italy, Ireland, and "other troubled European nations," including Belgium, Spain, and Portugal, expecting the European crisis to be resolved favorably and his holdings to increase in value. When FINRA learned that he had leveraged his bet between 30:1 and 40:1 with his customers' money, FINRA asked him to increase his company's capital in case his bet went wrong.



Corzine called FINRA's bluff and flew to Washington to speak directly with top officials at the Securities and Exchange Commission (SEC) without success. He was forced to increase the company's capital, buying the company a little time.

By October rumors were spreading that Moody's was going to cut MF Global's credit rating to junk status, which they did officially on October 24. The very next day MF Global issued a glowing report on its financial condition. Quoting Corzine:

Reflecting the stressed markets in the quarter, we deliberately chose to reduce overall market exposure in most principal trading activities and focused on preserving capital and liquidity....

We were particularly pleased with the repositioning of our mortgage, credit and foreign exchange businesses, the performance of our commodities group, and the common alignment of our brand to strategy. These efforts reflect positively on our ability to execute and deliver competitive returns to shareholders in the quarters ahead....

We remain confident that we have the resources and expertise to continue to successfully manage these exposures to what we believe will be a positive conclusion in December 2012.

The downgrade by Moody's was the beginning of the end. MF Global's shares lost 67 percent of their value by the end of the week. By Monday afternoon, MF Global had disappeared into bankruptcy.

Commentators <u>Eric Lewis</u> at CNN and <u>William Cohan</u> at Bloomberg each excoriated Corzine for his reckless and opaque (and failed) gamble in European bonds, and then called for more regulation. According to Lewis, "What MF Global shows is that the problem is not too much regulation but too little. Without meaningful leverage restrictions on borrowers and meaningful lending restrictions on those who are willing to underwrite this steroidal debt expansion, MF Global is likely to be the tip of yet another iceberg."



### Written by **Bob Adelmann** on November 4, 2011



Cohan echoed Lewis: "It didn't have to be this way. The tragic element of Corzine's MF Global is that Monday's bankruptcy filing could have easily been avoided if Corzine's ego and ambition had been held in check by someone — anyone — willing to stand up to the former New Jersey governor, senator and senior partner at Goldman Sachs.... The collapse of MF Global points once again, in the strongest possible terms, to the importance of having a substantive, teeth-baring regulatory regime charged with overseeing the kind of asynchronous risk-taking that gives people like Corzine the incentive to gamble with other peoples' money in hopes of reaping financial windfalls."

But why? Wall Street has been heavily regulated since the bottom of the Great Depression, with a myriad of agencies allegedly looking out for the interests of investors. All that has been accomplished is the capturing of those agencies by the very entities they were designed to regulate. As Gary North noted, the whole regulatory system is rigged against the investor. The sheen of regulation invites investors to think that someone is watching out for them so they don't have to do their own homework. Says North, "Of course it's rigged against them. It's regulated by the government. Nobody holds the regulators accountable for their failure to enforce the rules."

It's the market that does the regulating, or should. The fact that Fidelity Investments lost its 14.8 percent investment in MF Global, along with Guardian Life (7.4 percent), TIAA-CREF (6.6 percent), and Piper Jaffray (6.3 percent) is likely to inflict enough pain all by itself to keep Corzine from bamboozling them, or others, ever again. As noted by Russ Roberts at <u>CafeHayek</u>

Isn't it pretty clear that from here on out, we don't have to worry about someone holding Corzine in check? He's done it all by himself. He's going to find it a lot harder to get people to fund his risk-taking the next time out.... Why do we want the government to protect naive or greedy investors from their own shortcomings? Let's let them learn a lesson for a change. Why won't that work?

Let's tell [investors] that they can lose all their money. [Let's tell them] you're on your own. [Let's tell them] you can't go to the regulator.... [Let's tell them] you're on your own.

Photo of Jon Corzine: AP Images





## **Subscribe to the New American**

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



## **Subscribe**

#### What's Included?

24 Issues Per Year
Optional Print Edition
Digital Edition Access
Exclusive Subscriber Content
Audio provided for all articles
Unlimited access to past issues
Coming Soon! Ad FREE
60-Day money back guarantee!
Cancel anytime.