Corzine resigns from MF Global amid mounting probes

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Jon Corzine, the former New Jersey Democratic senator and governor, resigned Friday as CEO of MF Global, amid multiple probes into possible criminal violations at the bankrupt investment firm. It was also reported that Corzine had hired a prominent criminal defense attorney.

MF Global filed for Chapter 11 bankruptcy protection October 31, after rating agencies had downgraded its stocks to junk status over the firm's large-scale exposure to European sovereign debt. The bankruptcy is the biggest collapse on Wall Street since the financial meltdown that toppled Lehman Brothers in September 2008.

It is also the first major US casualty of the European debt crisis, but undoubtedly not the last. Wall Street briefly suspended trading Thursday on the Jefferies global banking firm after its shares fell by 20 percent. A rating agency downgraded its debt over concerns of exposure to the European crisis.

The $41 billion bankruptcy is the eighth largest in US history, slightly larger than the bankruptcy of Chrysler Corp. in 2009.

Multiple regulatory agencies are investigating MF Global's operations, including the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Financial Industry Regulatory Authority, the Chicago Mercantile Exchange and the Securities Investor Protection Corp.

The FBI has also launched its own probe, and it was reported Friday that New York City federal prosecutor Preet Bharara is investigating. In both cases, possible criminal charges are being pursued over an estimated $633 million of MF Global's clients' money that has gone missing.

It is suspected that the financial firm moved the money out of client accounts in a desperate attempt to meet margin calls after confronting ratings downgrades and the souring of its bets on European debt. This would be a gross violation of what are known as "customer segregation requirements" that require securities firms to keep clients' money separate from their own assets. Among the firm's biggest investors are pension-related mutual funds, including TIAA-CREF.

The firm's bankruptcy has served to underscore that nothing fundamental has changed in terms of practices on Wall Street that produced the financial meltdown three years ago. The major finance houses continue to set their own rules as they engage in parasitic and outright criminal forms of financial speculation. It also provides a vivid illustration of the control exerted by finance capital over government policy and both major political parties that has been a focus of the nationwide anti-Wall Street protests.

Corzine, who is at the center of the growing bankruptcy scandal, was CEO of Goldman Sachs until 1999, when he left with a fortune of $400 million. He used $62 million of this to fund his successful campaign as the Democratic candidate for the US Senate from New Jersey. He subsequently spent another $38 million in 2005 to become the Democratic governor of New Jersey, but was defeated for re-election by Republican Chris Christie in 2009.

In March 2010, he returned to Wall Street to become CEO and chairman of MF Global. In the 18 months before the firm's collapse, his total compensation rose to $14.25 million, including a $1.5 million sign-on payment and $2.75 million in bonuses, as well as stock options. While his contract guaranteed him a severance payment of $9 million, plus a $3 million bonus, it was announced Friday that he would not try to take the additional money out of the firm he bankrupted. No doubt this decision was taken with an eye towards how it would look to investigators and a potential judge and jury.

While taking in this obscene level of wealth, Corzine gave a series of lectures as a visiting professor at Princeton University's Woodrow Wilson School of Public and International Affairs decrying excessive compensation on Wall Street and calling for stiffer regulation. In one lecture, he condemned major Wall Street financial speculators for leveraging shareholder equity 30-to-1. Under his direction, MF Global was financing its high-stakes bets on European debt with short-term loans, bringing its debt-to-equity ratio (leverage) closer to 40-to-1.

Corzine had emerged in recent months as one of the principal fundraisers for President Barack Obama's re-election, bundling some half a million dollars for the campaign. Obama kicked off his fund-raising drive in New York City at Corzine's Fifth Ave. apartment overlooking Central Park, where well-heeled Wall Street supporters were invited in return for making the maximum legal contributions to both the Obama campaign and the Democratic Party.

This close relationship between Corzine and Obama, highlighted by the crash of MF Global, poses political problems for the Democratic president's cynical attempts to exploit the tide of anti-Wall Street sentiment.

It is evident that Corzine expected to be rewarded for the money he was pumping into the Democratic campaign. Last April, on the theory that its "star" CEO brought added value to the firm, MF Global offered its bond investors an extra 1 percent interest if Corzine left "due to his appointment to a federal position by the President of the United States." Reportedly, he had hoped to be named treasury secretary in a second Obama term.

In the more immediate term, Corzine used his political clout to dissuade regulators from restricting the speculative activities that produced the firm's implosion. In particular, Corzine and MF Global successfully argued against the imposition of new rules by the Commodity Futures Trading Commission (CFTC).

Last year, the CFTC drew up a proposal for tighter restriction on firms investing funds in their customers' accounts in foreign sovereign debt, given what the agency referred to as "recent global financial volatility." The financial crisis, the CFTC argued, had shown that "certain countries' debt can exceed an acceptable level of risk."

MF Global argued against the proposal, saying it was "unnecessary, and will eliminate a liquid, secure, profitable and necessary category of investment."

Last July, Corzine participated in a conference call with CFTC regulators, voicing his strong opposition to the restrictions, insisting that it would be damaging to business. He personally met with the agency's staff on at least three other occasions. In justifying Corzine's exorbitant compensation—even by Wall Street standards—MF Global directors cited in particular the CEO's success in improving the company's "regulatory environment".

The CFTC, which failed to implement the new rule, is now at the center of the investigation into MF Global and its missing money. The agency's chairman, Gary Gensler, told a Senate committee Thursday that "all appropriate action" would be taken to uncover any wrongdoing. "You don't put your hand in the cash register; you just don't," he insisted. The failure to separate clients' money from the firm's own assets, he added, violated "the core foundation" of protection for investors.

Gensler worked side by side with Corzine at Goldman Sachs for 18 years, from the 1970s, when they both began on the trading floor, to 1997, when Gensler left Goldman as co-head of finance and Corzine was CEO.

When Corzine ran for governor of New Jersey in 2005, Gensler contributed $10,000 to the state Democratic Party to assist in his Wall Street colleague's political endeavors.

It has also emerged that the CFTC's public affairs director, Steven Adamske, previously worked as Corzine's press secretary in the Senate.

The flagrant conflict-of-interest issues have led to demands that Gensler recuse himself in the investigation of MF Global. But they are only symptomatic of the effective domination of Wall Street over the agencies that supposedly regulate the parasitic financial "industry."