US financial trader brought down by eurozone crisis

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Any lingering illusions that US banks and financial companies were somehow insulated from the financial turmoil in Europe were shattered on Monday when it was announced that the futures broker MF Global had gone bankrupt.

MF Global, headed by prominent Democrat Jon Corzine, former US Senator and New Jersey governor, was one of the world's largest dealers in exchange-traded futures and options. With assets of more than $41 billion, its demise was the seventh largest bankruptcy in US corporate history and the biggest since the collapse of Lehman Brothers in September 2008.

Corzine took over the firm in March 2010. He sought to transform it from a derivatives trader into an investment bank along the lines of Goldman Sachs where he was chairman until becoming a US Senator in 1999.

Corzine's strategy involved major bets on European sovereign debt, financed by overnight loans. The gamble was that whatever the immediate problems in the European sovereign debt market, the bonds would eventually increase in value because, as he reportedly told another Wall Street executive, "Europe wouldn't let these countries go down."

As a result, MF Global built up its holdings of European debt to $6.3 billion, pushing its ratio of debt to equity (leverage) to 40 to 1, on par with levels seen in the crash of 2008. According to Corzine, there was nothing to worry about. "Our judgment is that our positions have relatively little underlying principal risk in the time frame of our exposure," he told analysts at the end of September.

Barely three weeks later, the collapse of the brokerage house began when it announced losses for the second quarter of more than $190 million. This led to credit rating downgrades to junk status after Moody's, Standard & Poor's and Fitch decided that the company had taken on too much risk with its European bond holdings.

Over the weekend, Corzine attempted to find a buyer but his efforts collapsed when it was discovered that large sums of money were missing from customers' accounts. Brokerage houses are supposedly barred from trading on their own account with customers' money. Questions are now being raised about whether the firm used clients' money to make trades in a bid to recover its losses.

At the time of its bankruptcy, MF Global held $7.3 billion on behalf of clients. At least $600 million and possibly as much as $700 million is yet to be accounted for.

CME Group, the giant exchange where MF Global carried out its trading, said it was carrying out an investigation into the missing money, together with other regulators. "While we are unable to determine the precise scope of the firm's violation at this stage, we are investigating the circumstances of the firm's failure," said CME chief executive Craig Donohue.

If it is discovered that MF Global used clients' money to trade on its own behalf this could have implications for the entire futures brokerage market where, at least until now, segregation has been maintained. If the allegations were true, one London trader told Reuters, this “would be a disaster for all the smaller brokers and banks as nobody will trust them anymore.”

The demise of MF Global has again thrown the spotlight on the cesspool of parasitic speculation, political influence, dubious practices and outright criminality, which lies at the centre of the US financial system.

Corzine’s career exemplifies the close connections between Wall Street and the political establishment that carries out the demands of finance capital. Corporate and political insiders are able to pass seamlessly from one sphere to another. They rake in millions from financial operations at one point and then pass legislation supposedly to regulate these activities at another.

After making his way up the ladder at Goldman Sachs as a trader, Corzine stood down as chairman in 1999, with a payout of $400 million, and entered the US Senate. He then became governor of New Jersey in 2005 until his defeat in 2009. In March 2010 he became the CEO of MF Global and set out to turn it into a major investment bank.

However, even as Corzine went back to Wall Street, the door to politics was not completely shut. He was touted as a potential successor to Timothy Geithner—recently described by a *Financial Times* columnist as the ambassador for US investment banks—for the post of US treasury secretary.

Displaying the skill, so necessary for all capitalist politicians, of being able to speak out of both sides of his mouth at the same time, Corzine delivered a talk at Princeton last year in which he claimed he had been “arguing about the compensation sins of Wall Street” for decades. But had he been able to sell MF Global over the weekend he would have picked up $12.1 million—no questions asked—as a “severance” payment.

The bankruptcy of MF Global has been described as a “mini Lehman Brothers.” But even bigger collapses could well be in the pipeline as the financial crisis in Europe continues to intensify.