CORZINE-LED FIRM IS SAID TO BE EYED ON MISSING FUNDS

FEDERAL INQUIRY CITED

Bankruptcy Is Sought as Discovery Reportedly Derails a Deal

By BEN PROTESS, MICHAEL J. DE LA MERCED and SUSANNE CRAIG

FEDERAL regulators have discovered that hundreds of millions of dollars in customer money has gone missing from MF Global in recent days, prompting an investigation into the brokerage firm, which is run by Jon S. Corzine, the former New Jersey governor, several people briefed on the matter said on Monday.

The recognition that money was missing scuttled at the 11th hour an agreement to sell a major part of MF Global to a rival brokerage firm. MF Global had staked its survival on completing the deal. Instead, the New York-based firm filed for bankruptcy on Monday.

Regulators are examining whether MF Global diverted some customer funds to support its own trades as the firm teetered on the brink of collapse.

The discovery that money could not be located might simply reflect sloppy internal controls at MF Global. It is still unclear where the money went. At first, as much as $950 million was believed to be missing, but as the firm sorted through its bankruptcy, that figure fell to less than $700 million by late Monday, the people briefed on the matter said. Additional funds are expected to trickle in over the coming days.

But the investigation, which is in its earliest stages, may uncover something more intentional and troubling.

In any case, what led to the unaccounted-for cash could violate a tenet of Wall Street regulation: Customers’ funds must be kept separate from company money. One of the basic duties of any brokerage firm is to keep track of customer accounts on a daily basis.

Neither MF Global nor Mr. Corzine has been accused of any wrongdoing. Lawyers for MF Global did not respond to requests for comment.

Now, the inquiry threatens to tarnish further the reputation of Mr. Corzine, the former Goldman Sachs executive who had sought to revivie his Wall Street career last year just a few months after being defeated for re-election as New Jersey’s governor.

When he arrived at MF Global — after more than a decade in politics, including serving as a Democratic United States senator from New Jersey — Mr. Corzine sought to bolster profits by increasing the number of bets the firm made using its own capital. It was a strategy born of his own experience at Goldman, where he rose
Mr. Corzine, the former Goldman Sachs executive and New Jersey governor, was trying to revive his Wall Street career.

through the ranks by building out the investment bank’s formidable United States government bond trading arm.

One of his hallmark traits, according to the 1999 book “Goldman Sachs: The Culture of Success,” by Lisa Endlich, was his willingness to tolerate losses if the theory behind the trades was well thought out.

He made a similar wager at MF Global in buying up big holdings of debt from Spain, Italy, Portugal, Belgium and Ireland at a discount. Once Europe had solved its fiscal problems, those bonds would be very profitable.

But when that bet came to light in a regulatory filing, it set off alarms on Wall Street. While the bonds themselves have lost little value and mature in less than a year, MF Global was seen as having taken on an enormous amount of risk with little room for error given its size. By Friday evening, MF Global was under pressure to put up more money to support its trading positions, threatening to drain the firm’s remaining cash.

The collapse of MF Global underscores the extent of investor anxiety over Europe’s debt crisis. Other financial institutions have been buffeted in recent months because of their holdings of debt issued by weak European countries. The concerns about MF Global’s exposure to Europe prompted two ratings agencies to cut their ratings on the firm to junk last week.

The firm played down the effect of the ratings, saying, “We believe that it bears no implications for our clients or the strategic direction of MF Global.”

Even by Sunday evening, MF Global thought it had averted its demise after a disastrous week. Over five days, the firm lost more than 67 percent of its market value and was downgraded to junk status, which prompted investor desertions and raised borrowing costs.

Mr. Corzine and his advisers frantically called nearly every major Wall Street player, hoping to sell at least some of the firm in a bid for survival.

On Friday, the asset manager BlackRock was hired to help MF Global wind down its balance sheet, which included efforts to sell its hold-
ings of European debt. BlackRock was able to
value the portfolio, but did not have time to find a
buyer for it given the other obstacles MF Global
faced, according to people close to the talks.

By Saturday, Jefferies & Company became
the lead bidder to
buy large portions
of MF Global, be-
fore backing out
late in the day.

On Sunday, a ri-
vail firm, Interactive
Brokers, emerged
as the new favorite.

While MF Global was resigned to putting
its parent company into bankruptcy, Interactive
Brokers was also willing to help prop up other
MF Global units, including a British affiliate.

By late Sunday evening, an embattled MF
Global had all but signed a deal with Interac-
tive Brokers. The acquisition would have mir-
rored what Lehman Brothers did in 2008, when
its parent filed for bankruptcy but Barclays of
Britain bought some of its assets.

But in the middle of the night, as Interactive
Brokers investigated MF Global's customer ac-
counts, the potential buyer discovered a seri-
ous obstacle: Some of the customer money was
missing, according to people close to the discus-
sions. The realization alarmed Interactive Bro-
kers, which then abandoned the deal.

Later on Monday, when explaining to reg-
ulators why the deal had fallen apart, MF Global
disclosed the concerns over the missing mon-
ey, according to a joint statement issued by
the Commodity Futures Trading Commission
and the Securities and Exchange Commission.
Regulators, however, first suspected a poten-
tial shortfall days ago as they gathered at MF
Global's Midtown Manhattan headquarters, the
people briefed on the matter said. It is not un-
common for some funds to be unaccounted for
when a financial firm fails, but the magnitude in
the case of MF Global was unnerving.

For now, there is confusion surrounding the
missing MF Global funds. It is likely, one per-
son briefed on the matter said, that some of the
money may be “stuck in the system” as banks
holding the customer funds hesitated last week
to send MF Global the money.

But the firm has yet to produce evidence
that all of the $600 million or $700 million out-
standing is deposited with the banks, according
to the people briefed on the matter. Regulators
are looking into whether the customer funds
were misallocated.

With the deal with Interactive Brokers
dashed, MF Global was hanging in limbo for
several hours before it filed for bankruptcy. The
Federal Reserve Bank of New York and a num-
ber of exchanges said they had suspended MF
Global from doing new business with them.

It was not the first time regulators ex-
pressed concerns about MF Global.

MF Global confirmed on Monday that the
Commodity Futures Trading Commission and
the S.E.C. — had “expressed their grave con-
cerns” about the firm's viability.

By midmorning on Monday, the firm filed
for bankruptcy.

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Azam Ahmed contributed reporting.
In Corzine Comeback, Big Risks and a Steep Fall

By PETER LATTMAN and NELSON D. SCHWARTZ

When Jon S. Corzine joined MF Global last year it seemed like a strange choice — the firm had none of the glamour, let alone the profits or footprint of Goldman Sachs, the bank he ran during the 1990s.

On Wall Street, it was as if a manager of the New York Yankees was making a comeback in the minor leagues.

Mr. Corzine, 64, who not only presided over Goldman but later served in the United States Senate and then as governor of New Jersey, seemed surprised himself.

“Don’t ask me any hard questions,” he joked to a visitor who met with him just days after Mr. Corzine took over in March 2010. “I hadn’t heard of this company a week ago.”

Now, nearly everyone has.

MF Global, a commodities and derivatives brokerage house, collapsed on Monday in the biggest bankruptcy on Wall Street since the failure of Lehman Brothers. The firm imploded after a big investment in European bonds — a bet he directed and defended as not particularly risky as recently as last week — led investors, clients and ratings agencies to lose confidence in the firm.

The fall of MF Global, and the discovery that hundreds of millions of dollars were missing from the firm’s customer accounts, have now cast a dark cloud over Mr. Corzine’s legacy and reputation. Federal authorities have stepped up an inquiry into why the firm failed to keep its customers’ money separate from the company’s — a regulatory violation.

MF Global was supposed to be Mr. Cor-
zine’s comeback vehicle after New Jersey voters turned him out in 2009. Instead, the collapse of the firm appears to be a humiliating coda to the career of a one-time titan of Wall Street.

His insistence on taking more risks, including buying the debt of European countries like Italy and Spain, along with a contract that would have provided him with an additional $12.1 million if he left the firm, paint a picture of excess.

And Mr. Corzine, with a fortune estimated at half a billion dollars at its peak, future ambitions were not confined to Wall Street. Even as he was seeking to revive his financial career, Mr. Corzine, a Democrat, had long styled himself as a financial executive moving seamlessly between Washington and Wall Street, in the mold of former Treasury secretaries like Robert E. Rubin or C. Douglas Dillon.

With MF Global’s bankruptcy, that goal seems forever out of reach. It has also taken a big toll on a man known for the kind of optimism that comes naturally to experienced traders and political leaders.

Six weeks ago, Mr. Corzine journeyed a few blocks from the firm’s Midtown Manhattan office to the Hilton Hotel for a routine presentation to money managers. Mr. Corzine’s manner was anything but routine, however.

“He looked like he had just seen a ghost,” said one participant. “He looked visibly disturbed.”

Mr. Corzine could not be reached for comment.

Friends say this is one more humiliation in a career marked by painful public ousters, whether it was from the executive suite at Goldman or from Drumthwacket, the New Jersey governor’s mansion.

“That’s part of the tragedy here,” said Robert G. Torricelli, the former Democratic senator from New Jersey whose political career was also cut short. “Jon is very proud and this must be exceedingly difficult. You can lose an election and not take it as personally because it’s a reflection on issues and trends. But this is obviously different: all eyes are on him. It’s one thing to make financial misjudgments and to pay the price yourself. But it’s another when institutions are damaged.”

Mr. Corzine’s arrival seemed like a coup for MF Global when it hired him as chief executive. MF Global has been a leading player in brokering trades in commodities and derivatives like futures contracts.

But MF Global had the potential to be more than a brokerage firm, Mr. Corzine thought. When he was at Goldman, that firm had bought a commodities trader in 1981, J. Aron & Company, which was encouraged to take more risks and became a huge success.

Mr. Corzine replaced old-line traders and brokers with more aggressive hires from Goldman Sachs, UBS and Soros Fund Management.

In May 2010, in his first investor call as chief executive of MF Global, Mr. Corzine discussed what could go wrong at the brokerage firm as it ratcheted up risk. “It will be mistaken judgments,” he said, “that go beyond limits, which I don’t intend to allow happen.”

Yet despite his confidence in risk management, Mr. Corzine’s message to traders was clear: Take more risks. “He was instrumental in pushing our firm forward with risk taking in every book, whether it was U.S. government bonds, currencies, or in repos,” said one trader. “Everything was full throttle go.”

European sovereign debt looked especially tempting. Instead of the near-zero yields on United States Treasury bonds, short to medium Italian and Spanish bonds were earning 2 to 3 percent. Simply holding those to maturity and collecting the yields would buttress profits as other businesses shrank.

And while most Wall Street firms sharply ratcheted down their use of leverage, MF Global continued to pile on large amounts of debt. On the eve of its collapse, it had about $34 of debt for each $1 of capital it held, according to data from Keefe, Bruyette & Woods. By contrast, Goldman Sachs’ leverage ratio is $13.50 for every $1.

The combination of potential losses on the European debt and the MF Global’s thin capital cushion is what spooked investors, setting off the crisis. MF Global’s demise was the eighth largest bankruptcy in the country’s history, but with $41 billion in assets it was considerably smaller than Lehman which had assets of $691 billion.

For those who have followed Mr. Corzine’s
career, however, the problems at MF Global have elicited a strong sense of déjà vu.

In 1994, Mr. Corzine ascended to the top of Goldman Sachs despite hundreds of millions of dollars in trading losses at the bank’s bond unit, which he had overseen. He assumed leadership of Goldman, say his former colleagues, in part because he was one of the few partners who understood how to extricate the bank from its soured trades.

Mr. Corzine, a lifelong trader with a large appetite for risk, recently reflected on his past experiences dealing with crises in William D. Cohan’s book “Money and Power, How Goldman Sachs Came to Rule the World,” a recent history of the bank.

“Until you’ve actually traded and had to deal with one of those come-to-Jesus moments with a bad position,” he said, “and you have to make the decisions about whether to eliminate it, hold it, reduce it — those kind of existential moments involving the people you work with and your firm, those are the kinds of things that really get your attention.”

Mr. Corzine’s worldview had been forged at Goldman, where he spent 24 years. After growing up in a farm town in Illinois, where he was captain of his high school basketball team, Mr. Corzine, armed with an M.B.A. from the University of Chicago, joined Goldman Sachs in 1975 as a bond trader. Bond trading was then low on the totem pole of Goldman. But he gained notice making big bets — and generating big profits — trading government bonds. At the age of 33, he made partner.

As Goldman’s senior partner from 1994 to 1999, he led the bank through the Asian financial crisis and the collapse of the Long-Term Capital Management hedge fund. His crowning achievement was Goldman’s initial public offering in 1999, though the controversial move led to a power struggle that ultimately cost him his job.

In 1998, he also drew the ire of his Goldman partners for discussing a merger with Mellon Bank without conferring with the firm’s management committee, a misstep that also contributed to his being replaced by Henry M. Paulson Jr., who later became secretary of the Treasury under President George W. Bush.

Upon leaving Goldman, Mr. Corzine turned his attention to public service, spending a sizable chunk of his fortune — more than $100 million — to pursue political office.

After being elected to the senate as a Democrat from New Jersey in 2000, Mr. Corzine distinguished himself in Washington for his financial acumen. But he viewed himself as more of an executive than a legislator, and decided to run for governor in 2005 before completing his term.

Mr. Corzine’s one term as governor was marked by difficulties. He complicated his run for governor by divorcing his wife of more than 34 years shortly before announcing his candidacy and was dogged throughout his time in office by complaints that his romantic relationship with a leader of state employees’ union left him in an untenable conflict of interest.

His first year in office, he presided over a weeklong government shutdown when the legislature originally balked at his proposal to increase the sales tax. The next year, he was badly injured in a car accident when his speeding state vehicle crashed. Mr. Corzine, a passenger who was not wearing a seat belt, endured months of difficult rehabilitation that aides and critics said drastically affected the rest of his term.

Working at MF Global, Mr. Corzine’s life has revolved around Manhattan; he is rarely seen in Hoboken, where he keeps an apartment. Last year he married Sharon Elghanayan, the former wife of K. Thomas Elghanayan, a New York real estate developer.

National politics remained a focus of Mr. Corzine after he joined MF Global. He pitched in to help raise money for President Obama — who had campaigned for Mr. Corzine during his re-election bid for governor.

Mr. Obama’s first major re-election fund-raiser in New York was held at the Manhattan home of Mr. Corzine’s wife, with tickets going for $35,800 each. And Mr. Corzine was one of the president’s most elite bundlers, supporters who tap friends and business associates to bring in checks: He has helped Mr. Obama raise more than $500,000 this year.

When White House officials sought to broker a meeting between disgruntled Wall Street executives and Mr. Obama’s new chief of staff this year, they turned to Mr. Corzine, who organized a sit-down at the Four Seasons. Mr. Corzine was on the list. There had even been talk of his being named the next Treasury secretary.
Mr. Corzine faces difficult questions about what happened on his watch and whether he should have returned to Wall Street at all.

“He wanted to be back in the game,” said one old friend. “He thought he could make it work.”
MF Global Inquiry Escalates

By BEN PROTESS and MICHAEL J. de la MERCEDE 

EDEERAL officials are escalating an investigation into MF Global, the bankrupt brokerage firm run by Jon S. Corzine, as the search continues for roughly $600 million in missing customer money.

The Commodity Futures Trading Commission, which first detected the missing money last week, decided to issue subpoenas to MF Global and demanded that the firm retain any documents that may be related to the investigation, according to people briefed on the situation.

The trading commission along with the Securities and Exchange Commission and exchanges like the CME Group are examining whether MF Global diverted customer money in recent days to support its own trades in a last-ditch effort to save itself — a serious violation of federal rules.

The Federal Bureau of Investigation has also joined the inquiry, according to a person with knowledge of the case.

The F.B.I. has only started its review of the matter, and there is still no indication that criminal laws were violated. An F.B.I. spokesman declined to comment.

Neither MF Global nor Mr. Corzine, the former governor of New Jersey and once a top executive at Goldman Sachs, has been accused of any wrongdoing.

In Federal Bankruptcy Court in downtown Manhattan on Tuesday, MF Global’s lawyers played down the missing money. Ken Ziman, one of the lawyers, said in the firm’s first hearing that banks or clearinghouses had been slow to produce the money.

“To the best knowledge of management, there is no shortfall,” Mr. Ziman said.

But regulators on Tuesday still could not locate the customer money, and the firm had not accounted for it.

The downfall of MF Global, and the growing federal investigation into the missing money, threaten to bruise Mr. Corzine’s reputation. After losing his bid for re-election as New Jersey’s governor in 2009, ending a decade-long run in politics, Mr. Corzine returned to Wall Street, landing at MF Global in March 2010.

In his new role, Mr. Corzine sought to transform MF Global from a sleepy brokerage firm into a high-flying Wall Street presence reminiscent of his former employer, Goldman Sachs. He started buying debt from Italy, Ireland and other troubled European nations at a discount.

Amid the continuing sovereign debt crisis, the holdings alarmed investors and led to widespread concerns about the health of MF Global. By the last week of October, the stock was in free fall and Mr. Corzine moved to strike a deal to sell off all or part of the firm.

Early Monday, MF Global disclosed to regulators that it had failed to segregate clients’ accounts, breaking fundamental Wall Street rules. The revelation of missing money dashed a potential deal and propelled the company into Chapter 11 bankruptcy.

While it is unclear where the money went, some of the money is expected to turn up as MF Global sorts through the bankruptcy process. Little, if any, money trickled in on Tuesday, however, according to two people briefed on the matter, and roughly $600 million in unac-
counted assets remained.

As of Tuesday night, regulators were still at MF Global’s headquarters poring over the firm’s books, according to people briefed on the matter. They are, in part, examining whether MF Global used customer money to satisfy demands from trading partners that the firm produce more cash to meet its financial obligations.

Exchanges, too, are increasing the pressure on MF Global to come up with the assets.

CME, the giant exchange where MF Global conducted business until Monday, said it was investigating the missing money. With special permission from regulators, CME was planning to take the unusual step of transferring MF Global’s customer accounts to other brokerages, potentially without all of the money, according to a person briefed on the matter.

“If we are unable to determine the precise scope of the firm’s violation at this time, we are investigating the circumstances of the firm’s failure,” Craig Donohue, CME’s chief executive, said during the exchange’s earnings call on Tuesday.

“We recognize that yesterday was a very difficult day for all concerned,” Mr. Donohue added. “As is nearly always the case in matters like this, this is a very fluid situation involving complex legal, regulatory and bankruptcy related issues.”

To keep the firm running during the Chapter 11 proceedings, lawyers for MF Global sought approval for several initial motions in bankruptcy court on Tuesday. The presiding judge, Martin Glenn, agreed to let MF Global use $8 million of its remaining $26 million in cash for essential operations, like salary for a skeleton staff. MF Global can use the funds until Nov. 14, at which point the firm would need additional approval.

MF Global said it would try to find extra cash in its operations and raise money by liquidating assets. Mr. Ziman said that the firm was also searching for a lender to provide bankruptcy financing.

As part of the hearing, MF Global also reached an agreement with JPMorgan Chase, the firm’s chief unsecured creditor, which had laid claim to most of the firm’s $26 million in cash. By letting MF Global use some of the money, JPMorgan argued, it was being pressed into providing an involuntary bankruptcy loan.

To assuage those fears, MF Global agreed to cover some of JPMorgan’s legal fees.

“This is a lifeline for the enterprise,” Mr. Ziman said at the hearing.
Jon Corzine, second from right, held a morning meeting on the trading floor of MF Global’s Manhattan office last year.

A Collapse in Spite of Regulators

Many Alarms Rang
Before MF Global
Crashed Into Ruins

By SUSANNE CRAIG, BEN PROTESS and MICHAEL J. DE LA MERCED

A LITTLE before 2 a.m. on Monday, Jon S. Corzine was in MF Global’s offices in Midtown Manhattan, scrambling to cut a deal to save his firm. Haggard from too little sleep, at times pacing the hallways, he at least had a handshake agreement with one suitor for the firm.

Then the chief executive was interrupted to handle a brief conversation that would stop the deal talks cold: hundreds of millions of dollars
in customer funds, he was told, could not be located.

Three hours later, the board of MF Global, with no bidders or options left, voted to file for bankruptcy, the largest failure on Wall Street since Lehman Brothers in 2008.

While the commodities and derivatives brokerage firm fell apart with ferocious speed, the collapse came after regulators raised warning flags for more than four months. They told MF Global it needed to raise more capital, and they asked about risky transactions involving European debt.

Yet Mr. Corzine resisted, lobbying to persuade regulators that the firm did not need to raise capital, according to people briefed on the discussions. MF Global did improve its capital position, but it was not enough to save the firm.

The details that have emerged about MF Global’s final 72 hours — drawn from dozens of interviews with people who participated in the weekend discussions or were directly briefed by people who did — illustrate that three years after the financial crisis, Wall Street executives are still fighting regulators’ demands.

It also shows that even when the watchdogs sound the alarm, it is not necessarily enough to save a firm. Now, multiple regulators and the Federal Bureau of Investigation are examining the firm’s collapse, trying to determine what went wrong and where the missing money, now suspected to be roughly $630 million, went.

The CME Group, a major exchange where MF Global traded until this week, said on Wednesday that Mr. Corzine’s firm had appeared to transfer client money sometime last week “in a manner that may have been designed to avoid detection,” a serious violation of Wall Street regulations. MF Global did not disclose the shortfall in client money to CME or to regulators until early Monday morning, shortly before the firm filed for bankruptcy.

A person close to the company said it was not aware of any audit by the CME Group. Neither Mr. Corzine nor MF Global have been accused of any wrongdoing.

One of the first signs of trouble for MF Global came in June, when regulators reviewed its recent financial statements, according to a person with direct knowledge of the matter. In a footnote, MF Global disclosed that it had bought debt from Italy, Ireland and other troubled European nations.

The disclosure alarmed the Financial Industry Regulatory Authority, Wall Street’s self-regulator, which worried that MF Global lacked enough capital to support the trades.

Finra called MF Global, pushing it to raise its capital levels, but Mr. Corzine fought back, according to the person with knowledge of the matter. Frustrated, Mr. Corzine decided to go over Finra’s head to the Securities and Exchange Commission, the person said. In July, Mr. Corzine traveled to Washington to state his case to S.E.C. officials at their offices near Union Station in Washington. Mr. Corzine chatted up their concerns to undue jitters over Europe’s ballooning debt crisis, the person said. The S.E.C. and Finra wouldn’t bend, and in August, the firm increased its capital cushion.

MF Global declined to comment; Mr. Corzine did not respond to a request for comment.

The move offered only short-term relief. By mid-October, MF Global’s European gamble was being widely discussed on a nervous Wall Street. Rumors spread that Moody’s Investors Service was considering a cut to MF Global’s credit rating. Finra resumed regular talks with the firm, questioning whether anxious customers, investors and trading partners would drain the firm’s liquidity.

Late on Oct. 24, Moody’s did move to cut its rating on the firm, to just one notch above junk status, citing in part the European bond holdings.

That proved to be a watershed moment: the downgrade led MF Global’s trading partners to demand extra collateral, draining the firm’s cash supply.

Under mounting pressure from Washington and Wall Street, MF Global moved up its scheduled quarterly earnings announcement by two days, reporting on Oct. 25 that it had recorded a $186 million loss, its fourth loss in six quarters. The share price of MF Global went into free fall, tumbling 67 percent over the course of that week. The firm also started drawing on its credit lines.

Mr. Corzine quickly hired the investment bank Evercore Partners to help him find a buyer for part or of all of the firm. MF Global also contacted BlackRock, the giant asset manager, to help it wind down its balance sheet — including efforts to sell its holdings of European debt.
Eventually, MF Global brought bankruptcy lawyers on board to prepare for the worst.

Mr. Corzine had other fires to put out.

Last Thursday, regulators from several agencies arrived at MF Global’s offices in New York and Chicago. What they saw over the course of the next few days troubled them, according to people knowledgeable about the matter who spoke only on condition of anonymity. The Commodity Futures Trading Commission, led by Gary Gensler, became concerned that MF Global had not kept customer money separate from company funds, a fundamental rule on Wall Street.

MF Global assured regulators at the time that the money was in order, these people say.

On Saturday, Mr. Gensler reached out to H. Rodgin Cohen, a partner at Sullivan & Cromwell who has long served as Wall Street’s go-to lawyer in a crisis. During the tumultuous days of 2008, Mr. Cohen advised a number of embattled Wall Street executives, including Richard S. Fuld Jr. of Lehman Brothers. He now found himself counseling Mr. Corzine.

“We need more documents,” Mr. Gensler told the lawyer, according to people briefed on the conversation. The call set off a scramble at MF Global as employees tried to locate the documents regulators were demanding.

Other issues about the quality of the firm’s bookkeeping were being spotted by employees from BlackRock, who had arrived to value the MF Global portfolio, according to a person with knowledge of the matter.

Yet even as questions about MF Global’s records were beginning to surface, talks on a possible sale were getting under way. Two main bidders quickly emerged — the Interactive Brokers Group and Jefferies Group. Jefferies, a brokerage house based in New York, has a futures trading business and the idea of expanding it is said to have appealed to its chief executive, Richard Handler. A small team of Jefferies executives arrived at MF Global on Friday and were escorted into a windowless conference room. The executives returned the next day as well.

They sorted through stacks of information about MF Global’s operations. While they didn’t notice anything out of order with MF Global’s books, they left that Saturday without making a bid. Jefferies, a person with knowledge of the matter said, concluded it simply needed more time to complete such a complicated acquisition — time MF Global didn’t have.

That left Interactive Brokers. The Connecticut brokerage firm was also huddled in a separate windowless conference room not far from where the Jefferies team was holed up.

Mr. Corzine, who ran Goldman Sachs in the 1990s before serving as a Democratic senator from New Jersey and then New Jersey governor, was the lead negotiator for MF Global. One person who saw him Saturday said he looked “pained” at the events unfolding around him.

Around 2 p.m. on Sunday, Mr. Corzine and an Evercore banker, Jane Gladstone, were able to call regulators and brief them on the sale talks. They sounded optimistic, saying that they were confident a deal would get done.

That hope grew into the evening.

As Interactive Brokers continued its dive into MF Global’s books, signs of exhaustion among the participants grew. J. Christopher Flowers, the MF Global investor and former Goldman executive, was spotted at the talks on Sunday wearing mismatched shoes.

Just before 1:45 a.m., Mr. Corzine received the information telling him that customer funds were missing. That alarmed Interactive Brokers, and the firm walked away from the bargaining table.

An MF Global executive then notified the regulators, who were still camped in the firm’s Manhattan offices. Commodity Futures Trading Commission officials called Mr. Gensler, waking him around 2:30 a.m. to join a conference call with MF Global and other regulators.

MF Global executives could not stay on the phone for long — they needed to convene the board and prepare for a bankruptcy filing.

But the phone line remained open for several hours, as regulators discussed how to handle the first major financial failure of the postcrisis era.

Azam Ahmed contributed reporting.
As Regulators Pressed Changes, Corzine Pushed Back, and Won

By AZAM AHMED and BEN PROTESS

MONTHS before MF Global teetered on the brink, federal regulators were seeking to rein in the types of risky trades that contributed to the firm’s collapse. But they faced opposition from an influential opponent: Jon S. Corzine, the head of the then little-known brokerage firm.

As a former United States senator and a former governor of New Jersey, as well as the leader of Goldman Sachs in the 1990s, Mr. Corzine carried significant weight in the worlds of Washington and Wall Street. While other financial firms employed teams of lobbyists to fight the new regulation, MF Global’s chief executive in meetings over the last year personally pressed regulators to halt their plans.

The agency proposing the rule, the Commodity Futures Trading Commission, relented. Wall Street, which has been working to curb many financial regulations, won another battle.

Yet with MF Global in bankruptcy and regulators scrambling to find $630 million in missing customer funds, Mr. Corzine’s effort may come back to haunt him.

The proposed rule would have restricted a complicated transaction that allowed MF Global in essence to borrow money from its own customers. Brokerage firms are allowed to use customers’ money to earn interest, not unlike banks, but this rule would have outlawed using customer funds for a loan to the firm itself.

While such financing is not unknown on Wall Street, it carries substantial risk. An outside lender would require a firm like MF Global to produce strict accounting for a loan. Without that oversight, regulators worried that firms could use such internal customer money inappropriately, including bolstering the business in hard times. The proposed rule would have affected several dozen other financial firms.

Regulators are now examining whether these transactions explain the missing money at MF Global, according to people briefed on the investigation.

The C.F.T.C. has issued subpoenas to MF Global’s auditor, PricewaterhouseCoopers, and the Securities and Exchange Commission is also conducting an inquiry. The Federal Bureau of Investigation is also looking into the missing money, although there is no indication that criminal laws were broken.

Still, Mr. Corzine has hired a prominent criminal defense lawyer, Andrew J. Levander, a partner at Dechert, according to people briefed on the matter.

Mr. Levander represented a number of Wall Street executives after the financial crisis of 2008, including the independent directors of Lehman Brothers and John A. Thain, the former chief executive of Merrill Lynch.

Neither Mr. Corzine nor MF Global has been accused of wrongdoing. MF Global declined to comment and Mr. Corzine did not respond to a request for comment.

Just three months ago, Mr. Corzine’s firm assured regulators that the proposed rule could cripple the futures brokerage industry by hurting their profitability. In a letter, MF Global told regulators that they were trying to “fix something that is not broken,” adding that the firm was not aware of any brokerage firm like itself that was unable to “provide to their customers upon request any segregated funds.”

MF Global’s clients, including hedge funds, individual investors and agricultural firms, now know a different reality, as the clients struggle
Jon Corzine, a former governor and senator, attended a dinner with his wife, Sharon, at the White House in June. Before MF Global’s collapse, Mr. Corzine was influential in Washington.
to locate their missing funds. And regulators are pushing to again move forward on the rule. But for MF Global, the rule will come too late.

The trades at the center of MF Global’s downfall — big bets on the debt of five European countries — may yet prove profitable. But they raise questions about why the firm escalated its risk-taking under Mr. Corzine, leading to a crisis of confidence among rating agencies, creditors and regulators.

As a former sovereign debt trader at Goldman Sachs, Mr. Corzine wagered that the European regulators would backstop any default. So even as dark clouds circled over Europe, he sensed an opportunity. Starting in late 2010, MF Global began to accumulate short-term sovereign debt of countries like Italy, Spain and Portugal.

MF Global financed these purchases through complex transactions known as repurchase agreements. In these, the bonds themselves were used as collateral for a loan to purchase them. The interest paid on that loan was less than the interest the bonds paid out, earning the firm a profit from the spread.

While that practice is quite common, the C.F.T.C. wanted to crack down on such lending in those instances when customer funds were used. The C.F.T.C. proposal would have also banned the use of client funds to buy foreign sovereign debt.

It is unclear whether the firm used client funds to purchase the risky bonds of Italy, Spain, and other debt-laden European nations, but experts say it is not unusual for such transactions to be paid for with customer money.

A person close to MF Global said the firm did not use client funds to finance these trades.

Leading the government’s effort to curtail these arcane practices was Gary Gensler, the chairman of C.F.T.C., who had worked for Mr. Corzine at Goldman Sachs. Mr. Gensler pushed for the proposed change in October 2010, and planned to bring it to a vote this summer.

MF Global has four outside lobbyists in Washington, tiny by Wall Street standards. But it was Mr. Corzine who marshaled the firm’s response to the proposal, lobbying most of the agency’s five commissioners directly. One commissioner said he visited with Mr. Corzine in MF Global’s headquarters, and acknowledged being impressed by the Wall Street titan, said a person with direct knowledge of the meeting who asked for anonymity because the meeting was private.

The C.F.T.C. polices the markets for futures trades. Staff members there often do not have a Wall Street pedigree.

Mr. Corzine’s background in finance made him highly credible, agency officials said.

Mr. Corzine’s efforts culminated on July 20, as the agency was preparing for a vote on the proposal. That day, MF Global executives were on four different calls with the agency’s staff. Mr. Corzine himself was on two of those calls.

One of the calls was with Mr. Gensler. Both men are active Democrats, and served on financial panels together recently.

Shortly after the calls, Mr. Gensler, aware that he could not push the vote through, decided to delay the proposal indefinitely.

But after MF Global’s blowup and the ensuing fallout from the missing funds, regulators said they were considering pushing again on the rule.

“I think it’s time to move ahead — expeditiously — and make that rule tighter, cleaner, and ultimately safer, for customers,” Bart Chilton, a Democratic member of the C.F.T.C., said in a statement.

Mr. Chilton also wants the agency to require firms to produce detailed documentation “to ensure that the funds are really there.”

Internal repurchase agreements emerged on Wall Street in 2005. At the time, the transactions were off limits to banks and brokerage firms. But at the urging of Lehman Brothers, the C.F.T.C. blessed the new approach to getting financing.

In September 2008, Lehman collapsed amid a global financial crisis. It later was disclosed that Lehman’s use of another little-known repurchase agreement allowed it to temporarily obscure billions of dollars in losses.