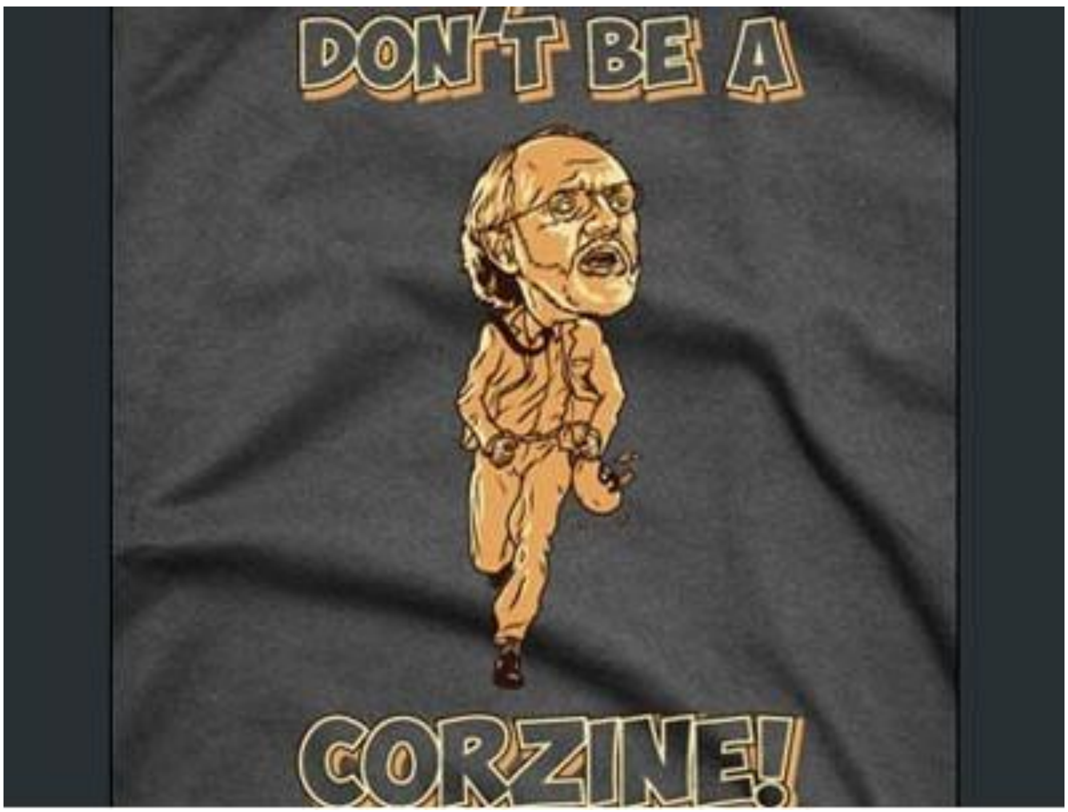
William Cohan of Bloomberg comments:

The highly compensated Wall Street spin machine never ceases to amaze me. Case in point: defending the indefensible Jon S. Corzine. As soon as the Commodity Futures Trading Commission sued the embattled former chairman and chief executive officer of MF Global Inc., the now liquidated brokerage, the spinmeisters mobilized.



The CFTC's gutsy June 27 lawsuit claimed that Corzine failed to "diligently supervise" MF Global and, as the firm's "control person," allowed lower-level employees to illegally use more than $1 billion of customer funds to try to stave off MF Global's Halloween 2011 bankruptcy filing.

In truth, Corzine is lucky he isn't facing criminal charges for overseeing the demise of MF Global. Its creditors lost billions, and 3,000 employees lost their jobs.

Corzine isn't an easy man to defend. He is the avuncular former senior partner of Goldman Sachs (when it was still a partnership) who designed a trade that almost bankrupted the firm in 1994. He held secret merger talks in 1998 with Mellon Bank, something he denied when his partners confronted him. This bit of obfuscation led Hank Paulson to organize the coup that toppled Corzine the next year.

After leaving Goldman, Corzine embarked on his political career, first as a U.S. senator from New Jersey and then as its governor. One example of Governor Corzine's view of risk management was his decision, in April 2007, not to wear a seat belt in the front seat of his sport utility vehicle while being driven at 90 miles-per-hour on the Garden State Parkway. When the SUV crashed, Corzine almost died from his injuries.

When Chris Christie defeated Corzine in November 2009, Corzine turned to his former Goldman partner, Christopher Flowers, who had encouraged Corzine in his Mellon Bank talks a decade earlier. (Flowers was also fired from Goldman as part of the Paulson coup.) By then, Flowers ran his own buyout firm, which owned a large minority stake in MF Global, a third-tier futures and commodities brokerage with few prospects. Flowers installed Corzine as the CEO of MF Global in March 2010.
From the start, Corzine told anyone who would listen that he intended to transform MF Global from a sleepy commodities broker to a trading powerhouse along the lines of Goldman Sachs Group Inc. It isn't too big a leap to conclude that Corzine was looking for redemption. He was out to prove that Paulson et al. were wrong to push him out of Goldman. A series of reports -- one by House Republicans, another by MF Global bankruptcy trustee Louis Freeh, a former director of the Federal Bureau of Investigation -- make clear that Corzine was single-minded in his determination to ratchet up MF Global's risk taking.

Distressed Debt

He conceptualized and executed the multibillion-dollar bet that MF Global made on the distressed sovereign debt of European nations. Corzine hoped that the discounted bonds would trade up and that MF Global would make a killing. As I have written previously, the House report showed that Corzine was ruthless about firing people at MF Global who questioned his strategy. When the MF Global board had the audacity to question the wisdom of the growing size of the bet, Corzine, like an impetuous child, urged them to find a new CEO if they didn't approve his strategy. The board should have taken Corzine up on his offer. The CFTC's civil lawsuit against Corzine reveals, through damning e-mails and phone transcripts, that Corzine's employees knew he was out of control, yet were powerless to stop him. When MF Global faced its liquidity crisis in October 2011, Corzine, in my opinion, masterminded a massive shell game to use money in customers' accounts to satisfy the margin calls on his sovereign-debt bet that, at first, was heading the wrong way.

Corzine testified before Congress that he never ordered any misuse of customer funds to keep the firm afloat. Yet, according to the lawsuit, on Oct. 27 -- four days before the bankruptcy filing -- Corzine telephoned an unidentified employee with the intent "to strategize how they could use customer segregated funds to induce" JPMorgan Chase & Co. "to clear MF Global's trades more quickly."

"We have a money management account at Chase, if my memory serves me," Corzine told the employee. "Yeah, it's the JP Morgan Trust account, but that's cash seg for clients -- it has nothing to do with greasing our wheels for Chase to move," the employee said, referring to the segregated funds

Phone Transcripts

Corzine proceeded to tell the employee how to get the money anyway. “I understand but you put it in a tri-party, and then once the securities have started moving, then you move it back to the, um” -- he seemed to pause as he realized the scheme would be an obvious violation -- “this is the same thing we did last night, they left it in the tri-party, the seg money.”

The lawsuit includes other revelations, such as a conversation a few weeks earlier during which MF Global’s treasurer said, “We have to tell Jon enough is enough. We need to take the keys away from him.”

One of the employees whom Corzine allegedly failed to supervise was Edith O’Brien, MF Global’s assistant treasurer, who has also been sued by the CFTC. Based in Chicago, she was kept busy moving money from the customer accounts to the banks to try to keep them at bay.

On a late afternoon call on Oct. 25, O’Brien told another employee how she was likely to be in violation of the sacrosanct rules about borrowing money from customer accounts. “They have to move half a billion dollars out of BONY to pay me back,” she said, referring to the Bank of New York. “Tell me how much money is coming in and I will make sure it gets posted. But if you don’t tell me, then tomorrow morning I am going to have a seg problem,” she said. “I need the money back from the broker-dealer I already gave them. I can’t afford a seg problem.”
The CFTC lawsuit reveals one damning conversation like this after another. MF Global executives used every trick in the book to try to overcome a looming financial disaster caused by Corzine’s hubris.

Of course, that didn’t stop Corzine’s spinmeisters from trying to downplay the whole thing. Corzine’s attorney, Andrew Levander, a partner at Dechert LLP, denounced the CFTC’s lawsuit as “unprecedented.” It isn’t: The CFTC brought a similar “failure to supervise” case in 1988 against Brian Monieson, the former chairman of the Chicago Mercantile Exchange.

‘Meritless Allegations’

Levander also claimed the lawsuit is “based on meritless allegations that Mr. Corzine failed to supervise an experienced back office professional” -- O’Brien -- “who was located in a different city and who did not report to Mr. Corzine or even to anyone who reported to Mr. Corzine.” But it’s quite clear from the CFTC lawsuit that O’Brien was taking a lot of supervision from Corzine on how to move money around to keep MF Global from going down the tubes.

Then there is Steven Goldberg, a partner at communications firm RLM Finsbury, who called the CFTC lawsuit “not surprising considering the political pressure to hold someone liable for the failure of MF Global.” That’s an even bigger joke: There has been zero political pressure to hold Corzine accountable for what he did to MF Global.

In truth, the CFTC’s vote to file the case against Corzine was unanimous. It also crossed political lines. (CFTC Chairman Gary Gensler, a former partner of Corzine’s at Goldman, recused himself.) “Given the damning evidence, we’d be negligent if we hadn’t brought a case,” CFTC Commissioner Bart Chilton told me. He’s absolutely right about that.