

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

March 27, 2012

Memorandum

To: Members, Committee on Financial Services

From: Committee Staff

Subject: Addendum to Oversight and Investigations Subcommittee Hearing
Memorandum dated March 23, 2012

A March 23, 2012 memorandum (“Hearing Memo”) prepared by staff of the Subcommittee on Oversight and Investigations stated that:

On the afternoon of Friday, October 28, MF Global transferred \$200 million from a segregated customer account at JPMC [JPMorgan Chase] to cover a \$175 million overdraft in one of MF Global’s JPMC accounts in London. MF Global Holdings Global Treasurer Vinay Mahajan wrote in an e-mail he sent early that afternoon that JPMC was “holding up vital business in the U.S. as a result” of the overdrawn account and that the account must be “fully funded ASAP.” Ms. [Edith] O’Brien wrote in an e-mail that the transfer was “Per JC’s [Jon Corzine’s] direct instructions.”

While there has been some confusion suggesting that this paragraph links Mr. Corzine directly to the loss of customer funds, for instance by implying that the money that was transferred out of the segregated customer account was known to be customer money, in actual fact the Hearing Memo does not purport to directly link Mr. Corzine to the loss of \$200 million in customer funds.

To amplify: documents show that MF Global moved \$200 million from its segregated customer account to an MF Global “house” account, and then it transferred \$175 million of that money from the “house” account to the UK Account. These two transactions are of a piece—that is, MF Global transferred money out of the segregated customer account in order to replenish its UK Account—but when Mr. Corzine allegedly directed MF Global employees to move \$175 million to cover the overdraft, he may or may not have known the source of funds.¹ Second, even though MF Global withdrew \$200 million from a segregated customer account, it does not necessarily follow that it knowingly withdrew *customer* money, which is prohibited for most purposes. As noted in Footnote 2

¹ See Letter from Donna S. Dellosa to MF Global Inc., October 28, 2011 (requesting assurances that October 28, 2011 transfer of funds from a segregated customer account to an MF Global “house” account, and then from “house” account to MF Global’s UK account, represented MF Global’s “actual interest” in such funds and was in accordance with the Commodity Exchange Act and the rules and regulations of the Commodity Futures Trading Commission) (Attached).

of the Hearing Memo, futures commission merchants like MF Global are permitted to, and in the ordinary course do, deposit their own funds into segregated customer accounts. These "excess funds" belong to the firm, and may be transferred out of the segregated customer accounts whenever the firm desires. According to a filing of MF Global Inc. Trustee James Giddens:

[W]hile personnel may not have been immediately aware of it, [MF Global Inc.] experienced a shortfall in...customer funds beginning during the day on Wednesday, October 26th...[MF Global Inc.] appears to have remained in a shortfall of commodity customer segregated funds virtually continuously until Monday, October 31st."2

Based on the materials reviewed, it is not known whether personnel were aware of the shortfall at the time of the October 28th transfer.

Donna S Delloso
Managing Director

October 29, 2011

MF Global Inc.
440 S. LaSalle – 20th Floor
Chicago, IL 60605
Attention: Ms. Edith O'Brien, Assistant Treasurer
Regional Counsel

Dear Edith:

We are writing in reference to the MF Global Inc. Commodity Customer Segregated Account (the "Customer Segregated Account") currently maintained with JPMorgan Chase Bank, N.A. ("J.P. Morgan"). Specifically we are asking that by returning this letter, MF Global Inc. acknowledge and confirm that the transfer and withdrawal made on October 28, 2011 in the amount of \$ 200,000,000 transaction number 1787500301JO out of such Customer Segregated Account to a proprietary account of MF Global Inc. and the subsequent transfer to the MF Global UK Ltd. account under transaction number 1792400301JO for the purpose of covering overdraft amounts in accounts with J.P. Morgan represented your actual interest in such funds according to CFTC Regulation 1.23. and were made in accordance with the provisions of the Commodity Exchange Act and the Rules and Regulations of the Commodity Futures Trading Commission ("CFTC") thereunder.

J.P. MORGAN CHASE BANK, N.A.

ACKNOWLEDGED AND AGREED:
MF GLOBAL INC.

By: _____
Name: _____