STATEMENT OF MICHAEL K. ROSEMAN
CHIEF RISK OFFICER OF MF GLOBAL HOLDINGS LTD.
FROM AUGUST 2008 TO JANUARY 2011

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE
FEBRUARY 2, 2012

Chairman Neugebauer, Ranking Member Capuano, and Members of the Subcommittee, my name is Michael Roseman, and I was the former Chief Risk Officer ("CRO") of MF Global Group from August 2008 to January 2011. Thank you for the opportunity to testify today. I hope that my comments will help you to continue to build on your knowledge of the events that led to the collapse of MF Global.

My Background

I started my professional career as an Aerospace Engineer after graduating from the University of Delaware in 1983. In 1994 , I received an MBA from the Kenan-Flagler business school at the University of North Carolina and pursued a career in financial services. After graduation I joined Sanwa Financial Products (Sanwa Bank's derivatives products subsidiary) with responsibility for the risk analysis function (product control). The following year, I moved to the trading team and co-managed the US dollar OTC option portfolio for a number of years before returning to risk management as the Global Head of Market Risk.

In 2001, after Sanwa consolidated, I joined the Bank of Montreal as the Head of US Risk Oversight for all trading, underwriting and investment activities in the United States and with the mandate to strengthen the risk management capabilities in the US. Then in 2004, I joined Newedge (formerly Fimat before its merger with Calyon Financial) as the Chief Risk Officer of the Americas, again with a mandate to elevate the risk management capabilities to fully support the growing brokerage business.

In each of these experiences, I led and coordinated significant efforts to implement new best-practice policies, systems, analytics, processes and controls in support of the businesses and to bring full transparency to, and governance of, the risks across the organizations.

MF Global Background

As I believe you are aware, in February 2008 shortly after MF Global went public in 2007, the company suffered an "unauthorized trading incident" and lost $141 million overnight. This incident significantly impacted MF Global's share price as well as customer relationships and led to two rating agency credit downgrades. The incident was immediately reviewed by two specialized consulting firms that were hired by the company to fully understand the cause of the incident and to make recommendations to the company and the Board of Directors (the "Board") as to how to prevent similar incidents from occurring in the future. After an in-depth review, the two consulting firms made a list of recommendations that were largely risk management (and compliance) oriented. The proposals reflected needed changes to fully integrate the company globally (after a number of acquisitions prior to the IPO), to strengthen the enterprise risk management governance and capabilities, and to mitigate the likelihood of future unexpected events from occurring. Specifically, these recommendations included implementing enterprise risk management policies, enhancing the risk systems, strengthening the global 24-hour risk monitoring capabilities, and hiring a global Chief Risk Officer.

In August of 2008 I left Newedge and joined MF Global as the Chief Risk Officer reporting to the CEO with responsibility for the risk department worldwide, along with a mandate to elevate the risk management capabilities to support the strategic objectives and to address the recommendations made by the two consulting firms. As the CRO I provided leadership over, and oversaw the adherence to, the enterprise risk management framework across all categories of risk including chairing the monthly Enterprise Risk Committee meetings. Further, I was a member of the Executive Management team and provided regular CRO reports to the Board.

Over the next two years I coordinated closely with Executive Management and the Board to implement a new, comprehensive enterprise risk management framework, including the establishment of new risk management committees, enterprise risk policies, and a Board-approved risk appetite statement with associated delegations of authority across all categories of risk. Among other things, I led and coordinated the efforts to enhance the risk systems, implement new analytics and risk measures, strengthen the 24-hour global risk monitoring (in the Americas, Europe, and Asia), implement comprehensive enterprise controls across the organization, and, with the CEO, established a culture of sound risk management throughout the company.

Throughout this period, I, along with others on the Executive team, regularly interacted with various stakeholders to provide transparency on the significant efforts and progress made to implement the consulting company recommendations and to strengthen MF Global's risk management capabilities. Over time, the stakeholders, including the rating agencies, regulators, insurance companies, counterparties, and customers gained confidence in MF Global's improvements. Ultimately, the two consulting firms conducted on-site reviews and reported to the Board that the recommendations were satisfactorily addressed.

Risk Appetite and Delegations

As previously stated, after I joined MF Global, the company adopted a risk appetite statement and new delegations of authority that were approved by the Board, calibrated to the existing business, supported the strategic objectives of the company, and encompassed all categories of risk, including market, credit, operational, capital, and liquidity risks. The risk appetite statement and delegations of authority were subsequently reviewed by the Board as part of the annual risk review process and also at interim Board meetings throughout the year if Executive Management requested adjustments. Additionally, there were escalation policies that were implemented in order to timely bring breaches of the approved limits to the attention of appropriate levels of management and ultimately to the Board, depending on the severity of a breach.

As a key part of my CRO responsibility, I reviewed MF Global's firm-wide exposures and evolving risks. I regularly presented the firm-wide risk exposures in the context of the approved risk appetite to Executive Management and the Board. Both Executive Management and the Board received a monthly enterprise risk report that detailed firm-wide exposures against the risk appetite and approved limits. As CRO, I also presented limit requests from Executive Management, along with their associated risks, to the Board.

Sovereigns

MF Global had both country-level credit limits and specific sovereign issuer trading limits in place to control the exposure of all activities in all countries, as well as to control specific sovereign issuer exposures. These limits took into account the risks presented by a country and MF Global's approved risk appetite, and were regularly reviewed and adjusted from time to time as country conditions or business strategies changed. The risk department distributed country level and daily issuer level risk reports that showed all exposures by country, and by sovereign issuer, against the limits and highlighted any limit breaches for escalation.

With respect to Italy, Spain, Portugal, Ireland, and Greece, there were sovereign level issuer trading limits in place to support the European brokerage activity prior to Mr. Corzine joining MF Global. These issuer limits were well within the company's approved risk appetite, were adjusted when conditions began to deteriorate in Greece, and I believe the positions in March 2010 were less than $500 million in total across these issuers.

In June/July of 2010, I received requests to adjust the European sovereign limits from business units. I reviewed the positions and limits in detail with the business heads and with Mr. Corzine. I expressed my views on the requests outlining the potential capital risk implied by the credit default swap ("CDS") market, along with the continued political and financial uncertainty in the relevant countries. While Mr. Corzine and I shared different views on the potential sovereign default risk, after taking into account the new European Financial Stability Facility ("EFSF") that was established in May 2010 and the forward funding schedule of the named sovereigns, we agreed upon a $1.0 billion total gross nominal limit across the named sovereigns. Additionally, we agreed on more specific limits by sovereign with various maturity buckets of up to 12 months to mitigate the capital risk and to keep the positions well within the EFSF's June 2013 maturity. Further, while I expressed my cautions on the potential capital risk, the liquidity risk of the positions was not considered an issue at this point given the size of the limits and the ability of the company to fund or liquidate the positions if conditions changed.

By mid-September, I recall that the positions and limits had increased to some $1.5 to $2.0 billion. During this time period, I expressed my increasing concerns with regard to the potential capital risk associated with the growing positions and began to express caution on the growing liquidity risk. Additionally, around this time the strategy to significantly increase the positions through Repo-to-Maturity ("RTM") trades was being evaluated given the profitability of the transactions and the importance of generating earnings. At this point I indicated to Mr. Corzine that we would need to consult the Board for approval for increased sovereign limits given the increasing materiality of the risks as they related to the Board's approved risk appetite. As such, the decision was made to consult with the Board to discuss the strategy, the risks, and the sovereign limits, and subsequently sovereign limits were presented to, and approved by, the Board. Prior to this, given the size of the positions and level of risk, the sovereign issuer limits had been managed under the risk delegation of authority. However, certain adjustments to country limits had been presented to the Board for approval to accommodate the sovereign trades and other transactions within a given country.

By late October, I recall that the positions were approaching $3.5 to $4.0 billion, and I was asked to present another request to the Board on behalf of Executive Management to increase the total sovereign limit to $4.75 billion. At this point, not only was I concerned with the capital risk, but given the size, I was now concerned with the liquidity risk relative to the risk appetite and taking into account the liquidity risks presented by other positions held by the company. I discussed my concerns about the positions and the risk scenarios with Mr. Corzine and others. However, the risk scenarios I presented were challenged as being implausible.

At the November 2010 Board meeting I presented the new request along with a detailed analysis of the potential liquidity risk stress scenarios. These scenarios included potential variation margin requirements from price changes of the securities, and as well as potential initial margin calls from the repo counterparties. These scenarios were presented at both the individual sovereign levels as well as at the correlated level across all sovereigns and all repo counterparties. I also provided an analysis on the CDS market, and highlighted the significant capital risk given the sovereign default risk associated with the unresolved financial issues in Europe.

During this meeting, all of the risks were debated. In particular, the liquidity scenarios were discussed and were challenged by some members of the Board as being not plausible. There was disagreement as to whether the correlated liquidity risk scenarios could occur across all counterparties and issuers at the same time. Ultimately, the Board approved the request, conditioned on the limits being evaluated again early in 2011.

My Departure

In January 2011, I was notified that I was being replaced by a new Chief Risk Officer, Michael Stockman, effectively immediately. For the next month I helped to transition my duties to Mr. Stockman prior to departing from the company in March.

Closing Comments

While I wasn't at MF Global when the events took place, and am not aware of the specifics that played out, in my opinion the events that occurred were not due to the lack of transparency of the risks, but rather the governance of concentration risks, and the resistance to certain potential stress scenarios, much the same as during the mortgage crisis, as well as the availability of sufficient capital and liquidity resources needed to fully support the company's evolving strategy.

I would be happy to answer the Committee's questions.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Michael K. Roseman	Self

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☐ Yes ☑ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

7. Signature:

Please attach a copy of this form to your written testimony.