

**STATEMENT OF MICHAEL G. STOCKMAN
BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE**

FEBRUARY 2, 2012

Chairman Neugebauer, Ranking Member Capuano, and Distinguished Members of the Subcommittee:

Thank you for the opportunity to make this brief statement. I am deeply saddened by the bankruptcy of MF Global and its impact on customers, shareholders and employees. Although I was only with the company for approximately nine months, I hope my testimony today will assist the Committee in obtaining a clear picture of what happened at MF Global during my tenure at the company.

I have worked in the financial services industry for more than 25 years. Of particular note, I served as a risk officer at UBS for over a decade, eventually rising to the position of Chief Risk Officer for the Americas for that institution. Since 2006, I have been a member of the MBA Advisory Board of the Tuck School of Business at Dartmouth College, where I have also served as a Scholar-in-Residence.

I began interviewing for the position of Chief Risk Officer at MF Global in the fall of 2010. During the interview process, I was informed that MF Global was in the process of transitioning its business model from a traditional commodities broker to a full-scale investment bank, and that the company was seeking a new Chief Risk Officer with the experience and skill-set to assist in that transition.

In or about January 2011, MF Global offered me the position of Chief Risk Officer, and I joined the company in that capacity, reporting directly to the Chief Operating Officer. My responsibilities included, among other things, assessing market

and credit risk for the company. I provided analyses about these risks to senior management and the Board, who used this information in setting the company's business strategy. I was ably assisted in the performance of my duties by a strong staff of approximately 60 dedicated employees, located in company offices around the world, including the United States, Europe and Asia. Although the Chief Risk Officer did not have formal responsibility for managing the company's liquidity risk, my staff and I performed numerous analyses measuring the company's potential liquidity needs under various stress scenarios. My understanding is that my portfolio of responsibilities as Chief Risk Officer was largely the same as that of my predecessor.

There has been substantial discussion about MF Global's participation in transactions involving European sovereign debt known as "repurchase transactions to maturity" or "RTMs". The company's European sovereign debt trading strategy was firmly in place when I joined the company in late January 2011. At that time, the Board had approved an RTM limit of \$4.75 billion.

After I joined MF Global, the Risk Department regularly analyzed the company's RTM positions. For the first several months of my tenure, based on analyses performed by my department, I believed that the risk profile associated with the company's European sovereign debt position was acceptable in light of then-prevailing market conditions. Among the many metrics supporting this assessment were credit ratings, credit spreads, and probabilities of default relevant to the company's RTMs. In addition, the Risk Department, under my direction, analyzed potential liquidity needs associated with these trades under stressed market conditions, and had received

information from other departments that the company possessed adequate liquidity sources to address such potential needs.

As credit markets deteriorated in the summer of 2011, I came to the view that it would be prudent for the company to mitigate the increased risks associated with its European sovereign debt trading position, and to consider entering into hedging transactions to reduce the company's exposure. In July 2011, I initiated several discussions with senior management to express this view and explore such risk mitigation strategies. I also highlighted the increased default and liquidity risks associated with the RTMs in written and oral presentations to the Board of Directors at the August 2011 Board meeting.

In my view, the Board and senior management were highly sophisticated; they knew and understood how the RTMs worked; and they were well aware of the increased risks caused by weakening market conditions, as highlighted in my reports to the Board. To the best of my recollection, following my presentation at the August 2011 Board meeting, the Board and senior management made an informed business judgment to cease adding to the company's long position in European sovereign debt and to allow existing long positions to roll off as the underlying securities reached maturity, thereby reducing the company's exposure over time. It is my understanding that none of the European sovereign debt securities underlying the RTMs has defaulted or been restructured, and all of the securities in the RTM portfolio that reached maturity have been paid in full.

I am, of course, aware of numerous press reports that more than \$1 billion in customer funds are missing and unaccounted for. I have no personal knowledge of any


missing funds or unreconciled customer accounts. While at MF Global, I did not have responsibility for treasury functions, such as funds transfers and the maintenance of segregated customer funds. Like everyone else, I am very hopeful that all missing customer funds will be located and promptly returned to the rightful owners.

That concludes my personal statement. I look forward to answering any questions you might have.

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: Michael G. Stockman	2. Organization or organizations you are representing: NONE
3. Business Address and telephone number: 	
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? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	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? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> 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. 	
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