

Johnson Opening Statement on MF Global Hearing

WASHINGTON – Today, Senate Banking Committee Chairman Tim Johnson (D-SD) held a hearing entitled “The Collapse of MF Global: Lessons Learned and Policy Implications.” The Committee examined the policy questions raised by the collapse of MF Global, and discussed ways to improve regulatory oversight and better protect customer funds in the future.

Below is Chairman Johnson’s statement as prepared for delivery:

“Today’s hearing will examine the lessons learned from the collapse of MF Global. The misuse of customer accounts by one of the world’s largest commodities and derivatives brokers has shaken confidence in our markets and deserves a thoughtful discussion of how to better protect farmers, ranchers and investors going forward.

“But before we get to these important issues, I would like to express my deep concern that almost six months after MF Global’s bankruptcy, thousands of former customers – including hundreds of South Dakotans – still have not recovered the \$1.6 billion removed from what should have been protected customer accounts. I know that the trustees, regulators, as well as the FBI and Justice Department, continue to investigate what happened in the final chaotic days of MF Global, but these customer funds must be returned without further delay to their rightful owners and those individuals and executives responsible for transferring these funds must be held accountable to the full extent of the law. Lastly, it is not acceptable for MF Global executives to be given bonuses when customers have not recovered funds improperly taken from them by MF Global – and I thank Senator Tester for his leadership on this issue.

“Since the collapse of MF Global in October 2011, my staff has worked closely with Senator Shelby’s staff in conducting extensive interviews and due diligence with the regulators, self-regulatory organizations and other parties involved in overseeing MF Global and its bankruptcy. We have also coordinated with the Senate Agriculture Committee – which has primary jurisdiction over matters involving commodities – in holding a series of bipartisan briefings for all Senate staff with representatives of many of the organizations before us today to help our constituents impacted by the firm’s downfall.

“As investigators seek to recover MF Global customer funds and hold accountable those responsible for any wrongdoing, this committee will focus our attention on preventing future abuses and the other critical public policy issues raised by the collapse of MF Global.

“Today’s hearing provides a unique opportunity to ask an important set of questions: how can we strengthen protections for customer accounts at futures commission merchants or broker dealers, including those firms that hold US customer funds abroad? Given the size of the shortfall in MF Global’s customer accounts, what should Congress understand about the idea of extending to commodity accounts similar insurance protections that are currently available to securities accounts under the Securities Investor Protection Act? And how we can continue to improve regulatory oversight and coordination for large, complex global financial institutions?

“MF Global may also provide some early lessons about the Wall Street Reform Act since it is the first collapse of a major financial institution since the law’s passage. For example, the story of

MF Global teaches us that effective customer protection and market oversight demands that we fully fund our regulatory cops on the beat. In hindsight, there is little doubt that the regulators responsible for monitoring MF Global should have taken additional steps. But shortchanging the CFTC or SEC of much needed funding will only force them to delegate even more authority to self-regulatory organizations in a way that could impair effective market surveillance. When funding cuts prevent regulators from inspecting firms or assigning necessary staff to monitor crises, the American people and market confidence pay the price.

“Additionally, a key pillar of the Wall Street reform bill was to end “too big to fail” – and if MF Global demonstrates anything, it is that those who take risky bets that bring down their companies are now free to fail and will not receive any more taxpayer bailouts.”