

# Character Counts In Iowa

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- NEWS

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**Credit Where Credit Is Due: Peregrine Financial Once Won The “Iowa Character Award”**  
By SUSAN ANTILLA

You know those letters that go out from banks and brokerage firms a couple days after a financial disaster has hit the news? They usually begin with “Dear Valued Customer,” and they assure freaked-out investors that that sort of thing would never happen here.

Like this one, published November 1, 2011, the day after MF Global filed for bankruptcy.

“Dear PFGBEST customers,” it began. Those rogues at MF Global might have lost track of a billion dollars or so of their customers’ money, but PFG clients could count on “the absolute dedication of PFGBEST to protect you and your PFGBEST accounts.”

The soothing dispatch was signed by Russell Wasendorf, Jr., president and chief operating officer and son of the CEO Russell Wasendorf, Sr. It pledged that PFG was “compliance-focused,” and said the principled firm was in communication with regulators “to assist in any way” after the purloining of MF Global’s clients.

Well, you can’t argue that the senior Wasendorf didn’t assist his regulators. The CEO of PFG Best, aka Peregrine Financial Group, even sat on an advisory committee of the National Futures Association.

On that “compliance-focused” part, though, the your-money-is safe-with-us vow didn’t turn out to be so reliable. Eight months after the “Dear customer” letter, PFG filed for liquidation under Chapter 7 of the U.S. Bankruptcy Code on July 10 — a day after the NFA said the Cedar Falls, Iowa futures brokerage firm was short about \$200 million in its customer accounts.

That would be the same NFA whose board had on three occasions – in 2004, 2007 and 2009 — voted to put Wasendorf, Sr. on its Futures Commission Merchant advisory committee that weighed in on new rules. NFA spokesman Larry Dyekman declined to comment.

Russ Senior today is in the Linn County jail in Cedar Rapids, Iowa, having been charged with making false statements to regulators about the value of his customers’ accounts. His bail hearing is on Friday. Junior hasn’t been accused of wrongdoing and his lawyer told The Wall

Street Journal that the younger Wasendorf is cooperating with regulators to track down assets. Neither man's lawyers returned phone calls.

The elder Wasendorf tried to commit suicide on July 9 and left a note saying he'd been stealing from customers for 20 years. "I had no access to additional capital and I was forced into a difficult decision," he wrote. "Should I go out of business or cheat?"

Well, we know the answer to that one.

During the years he was dipping into customers' funds, Wasendorf was honored with awards for his charity, his patriotism, and his devotion to green initiatives.

The firm received accolades, too. Last year, it was among 13 winners of the "Iowa Character Award." Spokeswoman Amy Smit of "Character Counts in Iowa" said in an email that PFG won for its "extensive community involvement," including research for pediatric diseases and support to tornado victims. Futures magazine called it "one of the nation's Top 50 Brokers" for 13 years in a row. Ginger Szala, group editorial director at Summit Business Media, which publishes Futures, said in an email that the list is based on "customer equity reports" that the magazine gets from the Commodity Futures Trading Commission. The CFTC gets those from the firms. "We rely on the regulator to confirm the amount as accurate, and of course, that now is under question," she said.

Oh yeah, that.

We could take a little comfort if it had all come as a surprise – the cagey guy who'd never given the regulators a clue. No such luck. While he was picking up his trophies over the years, Wasendorf was running companies that waved red flags. He owned a securities firm, Peregrine Financials & Securities Inc., that first registered with Finra in 1998. That firm wound up terminating its registration in June of 2004, just two months after Finra fined it \$251,000 for "unfair and excessive" commissions and for failing to keep proper records of emails. A year before that, in February of 2003, Finra said Peregrine had filed inaccurate reports and had failed to maintain the minimum required net capital. Peregrine also lost arbitrations with customers in 2001 (for breach of contract) and 2004 (for misrepresentation and "fraudulent activity.")

His separate futures trading company, PFG, had its own set of problems. In 2009, an administrative law judge said it had failed to investigate numerous questionable activities in the account of a 73-year-old retiree, adding that PFG had shown "a reckless disregard" for its duties. Ten years before, the Commodity Futures Trading Commission said the firm had failed on several occasions to report that it had fallen below minimum financial requirements, and that it had been showing receivables as current assets in its reports to the regulator.

There is more, but you get the idea.

Wasendorf thought regulators were kind of dumb, and while he may be a big-time liar, you can't argue with him on that one. It was "relatively simple" to trick regulators, he said in his suicide letter.

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At a hearing of the House Committee on Agriculture Wednesday, amid talk about how to prevent future MF Global and Peregrine-style fiascos, witnesses from the financial industry made the familiar business lobby pitches that regulations can kill competition, stifle innovation, and lead to firms leaving the futures business altogether.

The carrying on could almost have been scripted by Wasendorf himself. When the CFTC was proposing increased margin rules for foreign exchange traders in 2010, Wasendorf said in a press release that the changes would send thousands of U.S. jobs overseas. “Congress made it clear that the industry was to be policed, not abolished,” he said at the time. Even if this guy gets stuck doing a couple years in prison, there’s got to be a financial lobbying job in his future.

*Susan Antilla is a columnist for Bloomberg View.*

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