

The Downside of Risk

Merrill Lynch didn't take CFO Jeff Edwards up on his offer to resign after the company's huge subprime hit, but he could hardly be on a slippier slope.

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Last July, Merrill Lynch CFO Jeff Edwards told investors that the investment bank's exposure to the subprime mess was "limited, contained, and appropriately marked." But the more than \$8 billion in third-quarter subprime write-offs the bank took showed that Edwards was a bit off the mark. The question is, will he be forgiven?

Edwards, who is in charge of the firm's risk management, did offer to resign on the heels of CEO Stanley O'Neal's forced retirement. That offer was rejected by the board, but the bank's growing financial woes, an investigation by the Securities and Exchange Commission, and a class-action lawsuit alleging that Edwards and others failed to disclose a "ticking time bomb" do not bode well for the finance chief. "He has been well regarded within Merrill and on the Street, but the board will have to evaluate the overall financial management under his leadership in relationship to this issue," says Barry Bregman, a partner at executive search firm CTPartners.

Just the fact that Merrill has named NYSE Euronext CEO John Thain to replace O'Neal puts Edwards's future in question. "Any CFO is at risk when a new CEO comes in because the first things he or she [evaluates] are the senior leaders around him and the strength of that team," says Crist Associates vice president Scott Simmons.

At this point, Edwards himself might not be surprised if that evaluation also focused on future risks. As he told *CFO* magazine last March, "If everybody said there's no risk in the world, that would cause us all to be concerned that there was a lot of risk that nobody saw."