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**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

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In re : Chapter 11  
MF Global Holdings Ltd., *et al.*, : Case No. 11-15059 (MG)  
: (Jointly Administered)  
Debtors. :  
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**FIRST REPORT OF LOUIS J. FREEH,  
CHAPTER 11 TRUSTEE OF MF GLOBAL HOLDINGS LTD., *et al.*,  
FOR THE PERIOD OCTOBER 31, 2011 THROUGH JUNE 4, 2012**

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## INTRODUCTION<sup>1</sup>

Prior to the commencement of the Chapter 11 Cases, MF Global Holdings Ltd. (“**Holdings Ltd.**”) and its worldwide affiliates and subsidiaries (collectively, the “**MF Global Group**”), through its regulated and unregulated broker/dealers (“**B/D**”) and futures commission merchants (“**FCM**”), were a leading brokerage firm offering customized solutions in the global cash and derivatives markets. The MF Global Group provided execution and clearing services for products in the exchange-traded and over-the-counter (“**OTC**”) derivatives markets, as well as for certain products in the cash market. The MF Global Group operated globally, with a presence in, among other locations, the United States, the United Kingdom, France, Singapore, Australia, Hong Kong, Canada, India and Japan, providing its clients with global market access to more than seventy securities and futures exchanges and facilitated trades in the OTC markets.

As the global economy soured in the Fall of 2011, the MF Global Group was confronted by numerous challenges. On September 1, 2011, Holdings Ltd. announced that the Financial Industry Regulatory Authority (“**FINRA**”) informed it that MF Global Inc. (“**MFGI**”), Holdings Ltd.’s regulated U.S. operating subsidiary, was required to modify its capital treatment of certain repurchase to maturity (“**RTM**”) transactions that were collateralized with European sovereign debt and increase its net capital pursuant to Securities and Exchange Commission (“**SEC**”) Rule 15c3-1, with which MFGI complied.

Thereafter, on October 24, 2011, Moody’s Investor Service (“**Moody’s**”) downgraded Holdings Ltd.’s rating to one notch above “junk” status based on its belief that (i) Holdings Ltd. would announce lower than expected earnings and (ii) the current low interest rate environment

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<sup>1</sup> This Court approved the appointment of Louis J. Freeh as chapter 11 trustee (the “**Trustee**”) on November 28, 2011. On April 12, 2012, the Court requested that the Trustee submit a report on the status of the Chapter 11 Cases (as defined below) and the Trustee’s efforts to wind-down the Debtors’ (as defined below) estates (the “**Report**”). The Trustee reserves his right to amend this Report should further information arise pertaining to the facts and circumstances set forth in this Report.

and volatile capital markets conditions made it unlikely that the MF Global Group would be able to meet, in the short term, the profitability targets Moody's had set for the MF Global Group. Moody's also raised concerns about the MF Global Group's RTM positions, increased risk appetite and capitalization, as well as internal risk management or control issues.<sup>2</sup>

On October 25, 2011, Holdings Ltd. announced its results for its second fiscal quarter ended September 30, 2011. Holdings Ltd. disclosed that it posted a \$191.6 million GAAP net loss in the second quarter, compared with a loss of \$94.3 million for the same period the prior year. The net loss reflected, among other things, a decrease in net revenue primarily due to the contraction of proprietary principal activities. The loss also included valuation allowances against deferred tax assets, which accounted for \$119.4 million of the \$191.6 million in GAAP net loss. With regard to the RTM position, concerns over euro zone sovereign debt had caused global market fluctuations in prior months and, in particular, the weeks leading up to the bankruptcy filings of the Initial Debtors (as defined below). The MF Global Group's weakened core profitability and increased risk-taking, in the form of its European RTM positions, led Fitch Ratings and Moody's to further downgrade the MF Global Group to "junk" status on October 27, 2011. This sparked an increase in margin calls against MFGI and an exodus of its customers, threatening overall liquidity.

Following the October 24 Moody's downgrade, some of MFGI's principal regulators -- the Commodity Futures Trading Commission ("CFTC"), the SEC and the Chicago Mercantile Exchange ("CME") -- expressed grave concerns about MFGI's viability and whether it should continue operations in the ordinary course. The MF Global Group explored a number of

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<sup>2</sup> The MF Global Group held a long position totaling \$6.3 billion in a short-duration European sovereign debt portfolio financed to maturity, which included debt securities of Belgium, Italy, Spain, Portugal and Ireland. These countries had some of the most troubled economies in the euro zone. The RTM exposure was divided between MFGI and FinCo (as defined below).

strategic alternatives with respect to its business operations, including a sale of the businesses in part or in whole. On October 30, 2011, with the MF Global Group's overall liquidity quickly diminishing to unsustainable levels, a sale to Interactive Brokers collapsed when Holdings Ltd. advised Interactive Brokers, and the regulators, that a potential significant shortfall in customer segregated funds had been identified.

Beginning on October 31, 2011 (the "**October Petition Date**"), several entities of the MF Global Group filed for bankruptcy, dissolution, administration and/or liquidation in the various jurisdictions in which the MF Global Group operated. This Report, among other things, summarizes the progress made to date in the chapter 11 cases (the "**Chapter 11 Cases**") of Holdings Ltd., MF Global Finance USA, Inc. ("**FinCo**") (together with Holdings Ltd., the "**Initial Debtors**"), MF Global Capital LLC ("**Capital**"), MF Global FX Clear LLC ("**FX Clear**"), MF Global Market Services, LLC ("**Market Services**," and collectively with Capital and FX Clear, the "**Unregulated Debtors**"), and MF Global Holdings USA Inc. ("**Holdings USA**"), and collectively with the Unregulated Debtors, the "**Subsequent Debtors**," and the Subsequent Debtors collectively with the Initial Debtors, the "**Debtors**") to maximize the value of the Debtors' estates for the benefit of creditors and all parties in interest.

This Report focuses on the Debtors' Chapter 11 Cases and the Trustee's efforts to meet his duties under chapter 11 of title 11 of the United States Code, as amended (the "**Bankruptcy Code**"), and his fiduciary duty to maximize value and returns to the Debtors' creditors. To maximize the creditors' returns, the Trustee must realize value from the various entities of the

MF Global Group that are in administration or liquidation proceedings both domestically and abroad.<sup>3</sup>

Initially, the Report details the Debtors, their Chapter 11 Cases, their businesses, the appointment of the Official Committee of Unsecured Creditors of MF Global Holdings Ltd., *et al.* (the “**Committee**”) and the Trustee, and the various professionals retained to assist with the wind-down of the Debtors’ estates.

The focus of the Report then turns to the relationships between the Debtors and the MF Global Group, detailing the over \$2 billion in financing provided by the Debtors to MFGI and the proprietary transactions entered into by the Debtors with and among MFGI and MF Global U.K. Limited (“**MFGUK**”). In addition, an analysis of the claims against the MF Global Group’s worldwide affiliates is provided. The Trustee has attempted to provide the most complete and transparent account of all of the Debtors’ claims against all other entities in the MF Global Group.

Finally, the Report closes with a discussion of additional topics of interest that have arisen during the Chapter 11 Cases, including various court proceedings, litigations and testimony before Congress.

### **INITIAL CHAPTER 11 FILINGS**

#### **I. MF GLOBAL HOLDINGS LTD. AND MF GLOBAL FINANCE USA INC.**

##### **A. October Petition Date and First Day Motions**

On the October Petition Date, the Initial Debtors filed voluntary petitions under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Southern District of

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<sup>3</sup> For a summary of the claims filed by the Debtors and their non-debtor affiliates against all members of the MF Global Group that are the subject of liquidation proceedings and administrations throughout the world, *see* Exhibit A.



New York (the “**Court**”). On the October Petition Date, the Initial Debtors filed the following first day motions in order to make their transition to, and operation in, chapter 11 occur with minimum interruption or disruption to their businesses or loss of productivity or value.

1. Joint Administration.

The Initial Debtors requested the joint administration of their Chapter 11 Cases for procedural purposes only to reduce costs and facilitate the administrative process by avoiding the need for duplicative notices, applications, and orders. On November 2, 2011, the Court entered an order authorizing joint administration.<sup>4</sup>

2. Schedules and Statements Extension Motion.

The Initial Debtors sought to extend the deadline to file their schedules of assets and liabilities and statements of financial affairs (collectively, the “**Schedules**”). Given the complexity of the Initial Debtors’ businesses, as well as the effort required to prepare for and conduct their Chapter 11 Cases on an emergency basis, the Initial Debtors determined that they would not be in a position to accurately complete their Schedules within the deadline provided by the Federal Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”) and the Local Bankruptcy Rules for the Southern District of New York (the “**Local Rules**”). On November 2, 2011, the Court entered an order extending the deadline for filing the Schedules.<sup>5</sup>

3. List of Creditors and Initial Notices.

To ease the administrative burden of the Chapter 11 Cases on the Initial Debtors’ estates, the Initial Debtors requested authorization to (i) prepare a consolidated list of creditors in the form maintained in the ordinary course of business and in electronic format only, (ii) file a

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<sup>4</sup> Docket No. 19.

<sup>5</sup> Docket No. 21. The deadline to file the Schedules subsequently was further extended. The Trustee filed the Schedules for five of the Debtors on May 18, 2012 and the remaining Debtor on May 30, 2012 (Docket Nos. 692–701, 707, 708).

consolidated list of the 50 largest general unsecured creditors, and (iii) mail initial notices. The Initial Debtors also requested authority not to file (i) the consolidated list of creditors described above, but instead to make such lists available only upon request, and (ii) a list of each Initial Debtor's equity security holders. On November 2, 2011, the Court entered an order granting the Initial Debtors' requests, provided that a list of the Initial Debtors' equity holders be maintained by GCG, Inc. ("GCG"), the Court-appointed claims and noticing agent, and made available upon request.<sup>6</sup>

4. Cash Management, Business Forms, and Intercompany Transfers.

The Initial Debtors requested (i) a waiver of the requirement in the U.S. Trustee Guidelines that pre-petition bank accounts be closed and new post-petition bank accounts be opened, (ii) authority to continue to use all business forms existing immediately prior to the October Petition Date, without reference to the Initial Debtors' status as debtors in possession, provided that the Initial Debtors would use their reasonable best efforts to refer to their status as debtors in possession on all checks issued after the commencement of the Initial Debtors' Chapter 11 Cases and on other physical business forms after the Initial Debtors' existing stock was exhausted, and (iii) authority to continue intercompany transactions among the Initial Debtors and accord superpriority status to all post-petition intercompany claims. The Court entered four interim orders and a final order on December 14, 2011 authorizing the Initial Debtors to continue using their existing bank accounts, cash management system and business forms, and to continue intercompany transactions among the Initial Debtors, according superpriority status to all post-petition intercompany claims.<sup>7</sup>

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<sup>6</sup> Docket No. 20.

<sup>7</sup> Docket Nos. 25, 119, 205, 254, 276.

5. Cash Collateral.

The Initial Debtors sought authority to use funds held in their accounts (the “**Cash Collateral**”) at JPMorgan Chase Bank, N.A. (“**JPM**”) to maintain sufficient liquidity so that the Initial Debtors could continue to operate their businesses in the ordinary course of business during their Chapter 11 Cases. The Initial Debtors asserted that immediate and ongoing use of Cash Collateral was required to fund the day-to-day activities of the Initial Debtors, including payments to employees and vendors in the ordinary course of business whose services and goods were integral to the Initial Debtors’ operations. Without the use of the Cash Collateral, the Initial Debtors would be unable to pay for services and expenses necessary to preserve and maximize the value of the Initial Debtors’ estates.

The Court entered an order on November 2, 2011 authorizing the Initial Debtors to use Cash Collateral on an interim basis, and an order on December 14, 2011 authorizing the Initial Debtors to use Cash Collateral on a final basis, subject to certain terms and restrictions.<sup>8</sup>

**B. The Initial Debtors’ Professionals**

1. Skadden, Arps, Slate, Meagher & Flom LLP.

On January 23, 2012, the Trustee filed an application to retain Skadden, Arps, Slate, Meagher & Flom LLP (“**Skadden**”), *nunc pro tunc* to the October Petition Date, as the Initial Debtors’ bankruptcy counsel through November 28, 2011 and thereafter as special counsel to the Trustee through March 31, 2012.<sup>9</sup> Prior to the October Petition Date, Skadden was retained for advice on strategic options in connection with efforts to respond to the Debtors’ financial circumstances. Skadden’s service included, among other things, assisting the Initial Debtors

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<sup>8</sup> Docket Nos. 26, 275.

<sup>9</sup> Docket No. 386.

with restructuring their financial affairs and capital structure, and, as necessary, advising the Initial Debtors with respect to any reorganization cases filed under chapter 11 of the Bankruptcy Code. Skadden worked closely with the MF Global Group to restructure its business, and when those efforts failed, to file petitions under chapter 11 of the Bankruptcy Code and address the numerous issues that resulted therefrom. After his appointment, the Trustee sought to retain Skadden on a limited basis to capture the knowledge and insights into the cases that Skadden had gained during its tenure as the Initial Debtors' proposed bankruptcy counsel, and to ensure a seamless transition to his professionals. Specifically, Skadden's services were used to assist the Trustee with (i) the surrender of leased premises at 717 Fifth Avenue, (ii) tax refund matters, and (iii) other matters where Skadden had acquired material knowledge during its representation of the Initial Debtors. On February 9, 2012, the Court entered an order authorizing the retention of Skadden through and including March 31, 2012.<sup>10</sup>

2. FTI Consulting, Inc.

On January 23, 2012, the Trustee filed an amended application to retain FTI Consulting, Inc. ("**FTI**") as financial advisors to the Initial Debtors from October 31, 2011 to November 28, 2011, and as financial advisors to the Trustee thereafter.<sup>11</sup> FTI provides consulting and advisory services, including assistance with (i) the preparation of financial-related disclosures required by the Court, the Bankruptcy Code, the Bankruptcy Rules and the Local Rules, (ii) analyses related to the pursuit of debtor in possession financing and the use of Cash Collateral, (iii) the identification and implementation of short-term cash management procedures, (iv) the development and implementation of key employee retention and other critical employee benefit

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<sup>10</sup> Docket No. 436.

<sup>11</sup> Docket No. 389.

programs, (v) the identification of core business assets and the disposition of assets or liquidation of unprofitable operations, (vi) the identification of executory contracts and leases and analysis of cost/benefit evaluations with respect to the affirmation or rejection of each, (vii) the valuation of the present level of operations and identification of areas of potential cost savings, (viii) analysis of creditor claims, including assisting with development of databases, as necessary, to track such claims, (ix) monitoring the various other insolvency proceedings and administrations of the Initial Debtors' affiliates, (x) the evaluation and analysis of avoidance actions, (xi) forensic accounting, forensic reviews and investigations, information technology issues, data retention, data preservation, data collection, and data analysis, and (xii) certain other issues related to the Chapter 11 Cases. On February 9, 2012, the Court entered an order authorizing the retention of FTI.<sup>12</sup>

3. Kasowitz, Benson, Torres & Friedman LLP.

On January 23, 2012, the Trustee filed an application to retain Kasowitz, Benson, Torres & Friedman LLP (“**Kasowitz**”) as the Initial Debtors’ conflicts counsel through November 28, 2011 and thereafter as special investigative counsel to the Trustee through March 31, 2012.<sup>13</sup> Kasowitz’s tasks consisted primarily of assisting the Trustee in connection with certain formal and informal investigative matters and the transition of those matters to the Trustee and his counsel, Freeh Sporkin & Sullivan, LLP. Since the October Petition Date, the Initial Debtors have received numerous subpoenas and information requests from various governmental agencies such as the SEC and the CFTC, which require the preservation, collection and review of voluminous data and documents in the possession, custody or control of the Initial Debtors.

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<sup>12</sup> Docket No. 438.

<sup>13</sup> Docket No. 384.

Kasowitz had been selected earlier by the Initial Debtors as conflicts counsel to coordinate their document preservation efforts and respond to various investigative subpoenas and requests. The Trustee subsequently sought to retain Kasowitz as special investigative counsel for a limited time to (i) take advantage of the knowledge and experience that Kasowitz acquired in representing the Initial Debtors in these matters prior to the appointment of the Trustee, (ii) avoid unnecessary duplication of efforts, and (iii) assist the Trustee in expeditiously responding to the numerous investigations and requests for information, and managing the process of identifying, preserving, collecting and analyzing electronic and hard copy documents in the Initial Debtors' possession, custody and control. On February 9, 2012, the Court entered an order authorizing the retention of Kasowitz.<sup>14</sup>

4. GCG.

On October 31, 2011, the Initial Debtors filed an application to retain GCG as the claims and noticing agent for the Initial Debtors' Chapter 11 Cases.<sup>15</sup> In light of the number of anticipated claimants and parties in interest, the Initial Debtors believed that appointing GCG, an independent third party, to act as claims and noticing agent would provide the most effective and efficient means, and relieve the Initial Debtors and the Clerk's Office of the administrative burden, of noticing, administering claims, and assisting in other administrative tasks. On November 2, 2011, the Court entered an order authorizing the retention of GCG.<sup>16</sup>

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<sup>14</sup> Docket No. 439.

<sup>15</sup> Docket No. 5.

<sup>16</sup> Docket No. 22.

**C. Description of the Initial Debtors' Businesses**

1. Holdings Ltd.

Holdings Ltd. was a public company that traded on the New York Stock Exchange under the ticker symbol "MF," and since the October Petition Date trades under the ticker symbol "MFGLQ". Holdings Ltd. is a corporate holding company that is the direct or indirect parent of all of the other companies in the MF Global Group.

2. FinCo.

FinCo is a New York corporation that provided financing services to affiliated companies and third parties.

**STATUTORY CREDITORS' COMMITTEE**

**I. COMMITTEE MEMBERS**

On November 7, 2011, the Office of the United States Trustee (the "**U.S. Trustee**"), under Bankruptcy Code sections 1102(a) and (b), appointed the following unsecured creditors to the Committee: (1) Wilmington Trust Company, (2) JPM, (3) Bank of America, N.A. ("**BoA**"), (4) Elliot Management Corporation, and (5) Caplin Systems Ltd.<sup>17</sup>

**II. COMMITTEE PROFESSIONALS**

**A. Dewey & LeBoeuf LLP**

On January 19, 2012, the Court authorized the Committee's retention of Dewey & LeBoeuf LLP ("**Dewey**") as legal counsel, *nunc pro tunc* to November 9, 2011, to advise and assist the Committee with respect to the administration of the Chapter 11 Cases.<sup>18</sup>

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<sup>17</sup> Docket No. 51. Upon information and belief, Elliot Management Corporation has resigned from the Committee.

<sup>18</sup> Docket No. 377. The Trustee has been advised that the Committee will substitute Proskauer Rose LLP ("**Proskauer**") for Dewey as counsel.

**B. Capstone**

On February 9, 2012, the Court authorized the Committee's retention of Capstone Advisory Group, LLC, together with its wholly-owned subsidiary Capstone Valuation Services, Inc. ("**Capstone**", and together with Proskauer, the "**Committee Professionals**"), as its financial advisor, *nunc pro tunc* to November 9, 2011, to help guide the Committee through the Debtors' reorganization efforts and to assist it in the tasks associated with negotiating and implementing a chapter 11 plan.<sup>19</sup>

**C. Rust Consulting, Inc.**

On May 5, 2012, the Committee filed an application to retain Rust Consulting, Inc. as administrative agent to establish and maintain the Committee's website and to assist the Committee in providing the Debtors' unsecured creditors with access to information in connection with the Chapter 11 Cases.<sup>20</sup> The application will be heard by the Court on June 14, 2012.

**III. COMMITTEE ACTIVITY**

On March 7, 2012, the Court entered the *Stipulation and Agreed Order Between the Chapter 11 Trustee and the Statutory Creditors' Committee of MF Global Holdings Ltd., et al. Regarding Creditor Access to Information Pursuant to 11 U.S.C. §§ 105(a), 1102(b)(3) and 1103(c)*,<sup>21</sup> which sets forth the procedures for creditors' access to information and provides that a vendor be retained by the Committee to serve as administrative agent for the Committee website.

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<sup>19</sup> Docket No. 435.

<sup>20</sup> Docket No. 668.

<sup>21</sup> Docket No. 533.



As noted, the Committee selected Rust Consulting, Inc. to serve as administrative agent, subject to Court approval.

## **CHAPTER 11 TRUSTEE**

### **I. APPOINTMENT OF CHAPTER 11 TRUSTEE**

On November 21, 2011, the Initial Debtors and the Committee filed a joint emergency motion requesting that the Court direct the appointment of a chapter 11 trustee to reorganize and/or liquidate the Debtors' assets for the benefit of the Debtors' estates, their creditors, and other stakeholders.<sup>22</sup> The Debtors and the Committee believed that a court-appointed chapter 11 trustee would have the reputation, experience, and confidence to manage and coordinate the investigations of the various court-appointed administrators and regulators in the MF Global Group administrations, and would do so in a manner that is more efficient and cost effective than could be achieved by the debtors in possession. The Initial Debtors and the Committee also believed that the appointment of a chapter 11 trustee would be in the best interests of the Initial Debtors' estates and the stakeholders of those estates, allowing the trustee to aid in the management of, and facilitate, global cooperation with the various court-appointed administrators and regulators of the non-Debtors of the MF Global Group, as well as work with the Committee for the prompt recovery of assets for the benefit of creditors.

On November 22, 2011, the Court entered an order directing the appointment of a chapter 11 trustee.<sup>23</sup>

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<sup>22</sup> Docket No. 131.

<sup>23</sup> Docket No. 156.

On November 25, 2011, the U.S. Trustee appointed the Trustee, which appointment was approved by the Court and accepted by the Trustee on November 28, 2011 and December 2, 2011, respectively.<sup>24</sup>

## **II. TRUSTEE'S PROFESSIONALS<sup>25</sup>**

### **A. Freeh Group International Solutions, LLC**

On January 23, 2012, the Trustee filed an application to retain Freeh Group International Solutions, LLC (“**FGIS**”) as his business and operations advisors, *nunc pro tunc* to November 28, 2011,<sup>26</sup> to (i) manage the facilitation and coordination of information and data exchange between the various worldwide administrations, (ii) coordinate workflow administration between the Trustee’s professionals, the Committee and its professionals, and the various worldwide administrations, (iii) assist the Trustee with the day-to-day management of the bankruptcy process, including evaluation of strategic and tactical options with respect to the liquidation proceeding respecting MFGI under the Securities Investor Protection Act of 1970, 15 U.S.C. § 78aaa, *et seq.*, as amended (“**SIPA**”), and various insolvency administrations throughout the world, as well as management of the wind-down of the Debtors’ operations, and (iv) assist the Trustee in undertaking additional tasks that the Court may direct, to the extent those tasks are consistent with these delineated services. As part of the above tasks, FGIS formulates for the Trustee strategies for the cost-effective utilization of existing company personnel and the integration of the company’s staff with the financial advisory team and other professionals retained in the Chapter 11 Cases.

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<sup>24</sup> Docket Nos. 168, 170, 210.

<sup>25</sup> The Trustee’s professionals have agreed, at the request of the Trustee, to a 10% reduction of their hourly rates.

<sup>26</sup> Docket No. 390.

On April 5, 2012, the Trustee and the U.S. Trustee entered into a stipulation regarding the retention and employment of FGIS,<sup>27</sup> and on April 10, 2012, the Court entered an order authorizing such retention.<sup>28</sup>

**B. Freeh Sporkin & Sullivan, LLP**

On January 23, 2012, the Trustee filed an application to retain Freeh Sporkin & Sullivan, LLP (“FSS”) as his investigative counsel, *nunc pro tunc* to November 28, 2011,<sup>29</sup> to (i) represent the Trustee in his dealings with various regulatory authorities, (ii) represent the Trustee in his dealings with various prosecutors’ offices and law enforcement authorities, (iii) represent the Trustee in his dealings with various U.S. House and Senate Committees and Sub-Committees, (iv) coordinate information requests and responses to all regulators, congressional committees, prosecutors’ offices, lender groups, and other parties in interest in the bankruptcy process, (v) assist the Trustee in his investigation of the acts and conduct of the Debtors, including conducting witness interviews, and (vi) assist the Trustee in undertaking additional tasks that the Court may direct, to the extent those tasks are consistent with these delineated services. On February 9, 2012, the Court entered an order authorizing the retention of FSS.<sup>30</sup>

**C. Morrison & Foerster LLP**

On January 23, 2012, the Trustee filed an application to retain Morrison & Foerster LLP (“MoFo”) as general bankruptcy counsel to the Trustee, *nunc pro tunc* to November 28, 2011.<sup>31</sup> As general bankruptcy counsel, MoFo is responsible for (i) advising the Trustee with respect to

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<sup>27</sup> Docket No. 610.

<sup>28</sup> Docket No. 618.

<sup>29</sup> Docket No. 388.

<sup>30</sup> Docket No. 437.

<sup>31</sup> Docket No. 391.

his powers and duties as Trustee and in the continued management and operation of the businesses and properties of the Debtors, (ii) attending meetings and negotiating with creditors and parties in interest, (iii) advising the Trustee in connection with any sale of assets in the Chapter 11 Cases, (iv) taking all necessary action to protect and preserve the Debtors' estates, including prosecuting actions on behalf of the Trustee and the Debtors, defending any action commenced against the Trustee or the Debtors, and representing the Debtors' interests in negotiations concerning all litigation in which the Debtors are involved, including, but not limited to, objections to claims filed against the Debtors, (v) preparing all motions, applications, answers, orders, reports, and papers necessary to the administration of the Chapter 11 Cases, (vi) appearing before the Court, any appellate courts, and the U.S. Trustee, and protecting the interests of the Debtors before such courts and the U.S. Trustee, (vii) performing other necessary legal services to the Trustee in connection with the Chapter 11 Cases, including (a) analyzing the Debtors' leases and executory contracts and the assumption or assignment thereof, (b) analyzing the validity of liens against the Debtors, and (c) advising on corporate, litigation, and other legal matters, and (viii) taking all steps necessary and appropriate to bring the Chapter 11 Cases to conclusion. On February 9, 2012, the Court entered an order authorizing the retention of MoFo.<sup>32</sup>

**D. Pepper Hamilton LLP**

On January 23, 2012, the Trustee filed an application to retain Pepper Hamilton LLP (“**Pepper**”) as special counsel to the Trustee, *nunc pro tunc* to November 28, 2011,<sup>33</sup> to provide services related to (i) tax issues, including tax audits and refunds, and tax issues involving

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<sup>32</sup> Docket No. 440.

<sup>33</sup> Docket No. 385.

affiliates, employee benefit issues, and certain insurance matters affecting the Debtors' estates, (ii) WARN Act litigation matters and insurance litigation related to insurance claims, defenses and indemnities, (iii) miscellaneous real estate issues involving leases, furniture, fixture and equipment relating to the Debtors' relocation, and employment issues affecting the operation of the remaining business of the estate, and (iv) any matters as to which MoFo has a conflict involving JPM, BoA or UBS, A.G. and their affiliates. On February 9, 2012, the Court entered an order authorizing the retention of Pepper.<sup>34</sup>

**E. Covington & Burling LLP**

On March 27, 2012, the Trustee filed an application to retain Covington & Burling LLP (“**Covington**”) as special insurance counsel to the Trustee, *nunc pro tunc* to November 28, 2011,<sup>35</sup> to (i) provide legal analysis and advice concerning the Trustee's rights and obligations with respect to the captive insurance subsidiary MFG Assurance Company Limited (“**MFGA**”), and policies issued to the Debtors by MFGA, (ii) review claims asserted under outstanding insurance policies and insurers' responses to such claims, and advise the Trustee with respect to such claims, (iii) represent the Trustee in the Chapter 11 Cases with respect to matters involving the scope or availability of insurance coverage or entitlement to proceeds under the policies, and (iv) confer with, and assist when appropriate, the Trustee's bankruptcy counsel concerning insurance coverage issues within the scope of Covington's special expertise, and pursue potential claims for indemnification or reimbursement under such policies on behalf of the Trustee. On April 12, 2012, the Court entered an order authorizing the retention of Covington.<sup>36</sup>

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<sup>34</sup> Docket No. 441.

<sup>35</sup> Docket No. 597.

<sup>36</sup> Docket No. 627.

## SUBSEQUENT CHAPTER 11 FILINGS

### **I. MF GLOBAL CAPITAL LLC, MF GLOBAL FX CLEAR LLC, MF GLOBAL MARKET SERVICES LLC, AND MF GLOBAL HOLDINGS USA INC.**

#### **A. Petition Date and First Day Motions**

The commencement of the Chapter 11 Cases of Holdings Ltd. and FinCo severely impacted certain of their U.S. affiliates. Since the October Petition Date, the Debtors have been discontinuing their operations and winding down their former businesses.

To avoid the depletion of assets with no attendant benefit, the Unregulated Debtors filed voluntary petitions under chapter 11 of the Bankruptcy Code on December 19, 2011 (the “**December Petition Date**”).

To facilitate the ongoing orderly wind-down of the other Debtors and their non-debtor affiliates, Holdings USA filed a voluntary petition under chapter 11 of the Bankruptcy Code on March 2, 2012 (the “**March Petition Date**”).

The Trustee filed the following first day motions on behalf of the Subsequent Debtors to ease their transition to chapter 11 and cause minimum interruption or disruption to their businesses or loss of productivity or value.

#### **1. Joint Administration.**

The Trustee requested joint administration of the Chapter 11 Cases of the Subsequent Debtors with the jointly administered Chapter 11 Cases of the Initial Debtors to reduce costs and facilitate the administrative process by avoiding the need for duplicative notices, applications, and orders. On December 21, 2011 and March 6, 2012, the Court entered orders granting joint administration of the Initial Debtors’ and the Subsequent Debtors’ cases.<sup>37</sup>

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<sup>37</sup> Docket Nos. 298, 528.

2. Application of Certain Orders to the Subsequent Debtors.

On each of the December Petition Date and the March Petition Date, the Trustee requested entry of an order making certain of the orders entered in the Chapter 11 Cases of the Initial Debtors applicable to the Subsequent Debtors to avoid unnecessary duplication and expenses to the Subsequent Debtors and their estates.<sup>38</sup> These orders included and/or involved the appointment of the Trustee as the chapter 11 trustee of each of the estates, the retention of the professionals discussed above for each of the estates, and various other motions filed in the Initial Debtors' cases. On December 23, 2011 and March 7, 2012, the Court entered orders declaring these previous orders to be applicable to the Subsequent Debtors.<sup>39</sup>

3. Cash Management, Business Forms, and Intercompany Transfers.

The Subsequent Debtors requested (i) a waiver of the requirement in the U.S. Trustee Guidelines that pre-petition bank accounts be closed and new post-petition bank accounts be opened, (ii) authority to maintain cash management systems, (iii) authority to continue to use all business forms existing immediately prior to the December and March Petition Dates, without reference to the Subsequent Debtors' status as debtors in possession, provided that the Subsequent Debtors would use their reasonable best efforts to refer to their status as debtors in possession on all checks issued after the commencement of the Subsequent Debtors' Chapter 11 Cases and on other physical business forms after the Subsequent Debtors' existing stock was exhausted, and (iv) authority to continue intercompany transactions among the Subsequent Debtors and accord superpriority status to all post-petition intercompany claims. The Court entered various interim orders and final orders authorizing the Subsequent Debtors to continue

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<sup>38</sup> Docket Nos. 293, 509.

<sup>39</sup> Docket Nos. 303, 534.

using their existing bank accounts, cash management system and business forms, and to continue intercompany transactions among the Subsequent Debtors, according superpriority status to all post-petition intercompany claims.<sup>40</sup>

4. Employee Compensation, Expense Reimbursement,  
and Withholding and Payroll-Related Taxes.

The Trustee determined that the Subsequent Debtors had incurred certain Pre-petition Employee Obligations (as defined below) that remained unpaid as of the December Petition Date. To minimize the personal hardship on the employees, and to maintain the employees' morale during the Chapter 11 Cases, the Trustee requested:

(i) authority to pay and honor various pre-petition employee-related obligations of the Subsequent Debtors (collectively, the "**Pre-Petition Employee Obligations**") to or for the benefit of their employees, for compensation and expense reimbursements under all plans, programs and policies maintained by the Subsequent Debtors prior to the December and March Petition Dates (the "**Benefit Programs**");<sup>41</sup>

(ii) confirmation that the Trustee is permitted, but not required, to pay any and all local, state, and federal withholding and payroll-related taxes relating to pre-petition periods, whether withheld from employees' wages or paid directly by the Trustee, to the applicable governmental authorities;

(iii) confirmation that the Trustee is permitted to pay to third parties any and all amounts deducted from employee paychecks for payments on behalf of employees for garnishments, support payments, tax levies, bankruptcy payments, savings programs, and other similar programs;

(iv) an order directing all banks to honor pre-petition checks, ACH debits, draw-downs, or other forms of funds transfers and

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<sup>40</sup> Docket Nos. 269, 378, 529, 625.

<sup>41</sup> These Benefits Programs include, without limitation, plans, programs, policies and agreements providing for (i) wages, salaries, contractual compensation, and other accrued or incurred compensation; (ii) workers' compensation obligations; (iii) employee health benefits; and (iv) retirement benefits. The Trustee stated that no individual employee was to receive payment in excess of \$11,725 for pre-petition amounts owed.



disbursements for payment of the Subsequent Debtors' Pre-Petition Employee Obligations;

(v) confirmation that the Trustee is permitted to take the necessary administrative actions to cause the 401(k) plan administrator or other benefits administrators, to the extent necessary, to terminate the 401(k) plan and other unnecessary benefits plans and/or programs; and

(vi) authority to continue the post-petition payroll processing and administration of any Benefit Programs and Pre-Petition Employee Obligations that are administered or paid through a third-party administrator or provider, and pay any pre-petition claims of such administrators in the ordinary course of business.

The Court entered several interim and final orders granting this relief.<sup>42</sup>

**B. Appointment of Chapter 11 Trustee**

On December 23, 2011, the Trustee was appointed as chapter 11 trustee of the estates of the Unregulated Debtors.<sup>43</sup> This appointment was approved by the Court and accepted by the Trustee on December 27, 2011.<sup>44</sup>

On March 8, 2012, the Trustee was appointed as chapter 11 trustee of the estate of Holdings USA.<sup>45</sup> This appointment was approved by the Court on March 8, 2012 and accepted by the Trustee on March 12, 2012.<sup>46</sup>

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<sup>42</sup> Docket Nos. 297, 551, 576, 626.

<sup>43</sup> Docket No. 304.

<sup>44</sup> Docket No. 306, 307.

<sup>45</sup> Docket No. 546.

<sup>46</sup> Docket Nos. 548, 557.

**C. Brief Description of the Businesses**

1. Capital.

Capital is a New York limited liability company that provided foreign exchange, prime brokerage, and energy and credit default swaps.

2. FX Clear.

FX Clear is a New York limited liability company that provided foreign exchange execution and clearing services.

3. Market Services.

Market Services is a New York limited liability company that entered into matched principal trading of energy and agricultural products.

4. Holdings USA.

Holdings USA is a New York corporation that provided administrative services to Holdings Ltd. and its U.S. subsidiaries.

**DEBTORS' OPERATIONS**

**I. DESCRIPTION OF GLOBAL OPERATIONS**

Prior to the October Petition Date, the MF Global Group, through its regulated and unregulated B/Ds and FCMs, was one of the world's leading brokers in markets for commodities and listed derivatives. The MF Global Group provided access to more than seventy exchanges globally and was a leader by volume on many of the world's largest derivative exchanges. The MF Global Group also was an active broker-dealer in markets for commodities, fixed income securities, equities, and foreign exchange.

The MF Global Group was headquartered in the United States and had operations in, among other countries, the United Kingdom, Australia, Singapore, India, Canada, Hong Kong,

Japan and Taiwan. A copy of the MF Global Group's organizational chart is annexed hereto as Exhibit B. The MF Global Group's priority was to serve the needs of its diversified global client base, which included a wide range of institutional asset managers and hedge funds, professional traders, corporations, sovereign entities, and financial institutions. The MF Global Group also offered a range of services for individual traders and introducing brokers.

The MF Global Group derived revenues from three main sources: (i) commissions generated from execution and clearing services; (ii) principal transactions revenue, generated both from client facilitation and proprietary activities; and (iii) net interest income from cash balances in client accounts maintained to meet margin requirements, as well as interest related to the MF Global Group's collateralized financing arrangements and principal transactions activities. For fiscal year 2011, the MF Global Group generated total revenues of approximately \$2.2 billion, revenues net of interest and transaction-based expenses of approximately \$1.1 billion, and incurred a net loss of \$81.2 million.

## **II. U.S. DEBTORS**

### **A. Attrition of Employees.**

Prior to the October Petition Date, the MF Global Group employed approximately 2,870 employees worldwide, with approximately 1,300 employees in the United States. Approximately 250 of the U.S. employees were employed by the Debtors, while the remaining U.S.-based employees worked for MFGI. In the period immediately following the commencement of the Initial Debtors' Chapter 11 Cases, however, the Debtors began the rapid wind-down of their former operations, quickly reducing employee headcount and other costs and taking additional actions to preserve the assets of their estates for the benefit of stakeholders. Holdings Ltd. has been able to retain its President, Chief Financial Officer and General Counsel,

who have remained to assist the Trustee with the wind-down of the Debtors' estates. By December 2011, the Debtors had 30 other employees remaining as a result of the headcount reductions.

Since December 2011, 17 employees have left the Debtors' employment to pursue other opportunities. The loss of these employees had a considerable negative impact on the Debtors. As time passes, employees continue to leave the Debtors in favor of new opportunities and greater job security rather than assist the Debtors in the wind-down of their affairs.

The remaining employees perform a variety of critical functions necessary for an orderly wind-down, a successful chapter 11 liquidation process, and compliance with the various obligations required under the Bankruptcy Code, the Bankruptcy Rules, the Local Rules and the Internal Revenue Code. The remaining employees are vital to the operations of the Debtors and implementation of the orderly wind-down during the pendency of the Chapter 11 Cases. The remaining employees' positions fall into the following descriptions:

- Finance / General Accounting
- Cash Management
- Tax
- Accounting Systems
- Information Technology
- Legal / Insurance
- Transactional Finance
- Restructuring Communications

The remaining employees have essential knowledge and skills required to assist with the efficient and effective wind-down the Debtors' estates. This includes, but is not limited to, knowledge of investment positions to be unwound to maximize value to the estates; knowledge of historical financial and tax reporting and cash management systems; knowledge of intercompany relationships and receivables and payables balances; knowledge of complex legal structures and U.S. tax filing requirements; familiarity with important insurance issues affecting

the Debtors; and knowledge of information technology infrastructure and systems application needs. The remaining employees' knowledge and unique skill sets will enable the Trustee to complete the many tasks mandated by the Bankruptcy Code or that are otherwise necessary in the wind-down of the Debtors' operations and the liquidation of their assets.

The remaining core group of employees also have assumed numerous finance and accounting functions previously provided by employees of MFGI, including certain cash management, payroll and accounts payable accounting and processing for the Debtors. These employees also have assisted with federal and state tax compliance and bankruptcy administration responsibilities, including the preparation of monthly operating reports and the preparation of the Schedules for filing in the Debtors' cases. Moreover, using the Debtors' analysis of intercompany balances as of October 31, 2011, which was made possible through the work and knowledge of the remaining employees, as detailed below, the Trustee is actively pursuing recoveries against former affiliates and has filed or is in the process of filing numerous and substantial claims against certain of the Debtors' domestic and foreign affiliates that are in insolvency proceedings in their local jurisdictions. These employees have shared a wealth of knowledge, which has allowed the Trustee and his professionals to organize and understand quickly the information necessary to create and execute strategies for the orderly liquidation of these estates. This would not have been possible, or certainly could not have been accomplished as quickly or as cost-effectively, without the institutional knowledge of and assistance from the Debtors' employees on a daily basis.

**B. Real Estate and Leases.**

Prior to the commencement of the Chapter 11 Cases, the Debtors maintained offices at 717 Fifth Avenue, New York, New York 10022 (the related lease is referred to herein

as the “**717 Lease**”). Due to their changed financial circumstances and increasing employee attrition rate, the Debtors determined that they no longer needed to maintain an office of that size. In November 2011, the Debtors terminated the 717 Lease and moved into temporary office space located at 1350 Avenue of the Americas, New York, New York 10019. As of March 1, 2012, the Debtors entered into a lease to maintain their offices at 142 West 57th Street, New York, New York 10019 (the “**57th Street Lease**”). The 57th Street Lease terminates on June 29, 2013. By terminating the 717 Lease and entering into the 57th Street Lease, the Debtors have reduced their rent obligations by approximately \$9 million on an annual basis.

### **C. Pre-petition Debt Facilities**

#### 1. Liquidity Facility.

Prior to the October Petition Date, Holdings Ltd. and FinCo (in this capacity, the “**Borrowers**”)<sup>47</sup> entered into that certain five-year revolving credit facility dated as of June 15, 2007 (as amended, supplemented or otherwise modified from time to time, the “**Liquidity Facility**”) with JPM, as administrative agent, and the several lenders from time to time that are parties thereto (collectively, the “**Liquidity Facility Lenders**”). On June 29, 2010, the Liquidity Facility was amended (i) to permit Holdings Ltd., in addition to certain of its subsidiaries, to borrow funds under the Liquidity Facility and (ii) to extend the lending commitments of certain of the Liquidity Facility Lenders by two years, from June 15, 2012 to June 15, 2014. Under the Liquidity Facility, the Liquidity Facility Lenders made available to the Borrowers the aggregate principal amount of approximately \$1.2 billion, \$1.172 billion of which was drawn as of the October Petition Date.

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<sup>47</sup> Holdings Ltd. was named as one of the Borrowers. Holdings Ltd. changed its jurisdiction of incorporation from Bermuda to the State of Delaware and has continued its existence as a corporation organized under the laws of the State of Delaware under the name of MF Global Holdings Ltd.

2. Secured Facility to MFGI.

On June 29, 2011, MFGI entered into a \$300 million 364-day secured revolving credit facility (the “**MFGI Secured Facility**”) with a syndicate of lenders. The Trustee understands that, although the MFGI Secured Facility is not fully drawn, MFGI borrowed a substantial amount on the facility as of the October Petition Date. The SIPA Trustee has not provided a consistent answer regarding the exact amount outstanding on the MFGI Secured Facility as of the October Petition Date.

JPM is the administrative agent under the MFGI Secured Facility. The MFGI Secured Facility is secured by eligible collateral that was held by MFGI. The Trustee believes that the borrowings under the MFGI Secured Facility were over-collateralized by securities pledged by MFGI. However, the SIPA Trustee has not provided any further details to allow the Trustee to ascertain the level of overcollateralization. Holdings Ltd. and FinCo provided unsecured guarantees of MFGI’s obligations under the facility.

3. Unsecured Convertible Notes.

Holdings Ltd. owes approximately \$287.5 million in unsecured debt under certain 1.875% Convertible Senior Notes due 2016 (the “**1.875% Convertible Notes**”). The 1.875% Convertible Notes mature on February 1, 2016 and are convertible at the option of the holders prior to August 1, 2015 upon the occurrence of certain events relating to the price of Holdings Ltd.’s common stock or various corporate events.

Holdings Ltd. also has outstanding approximately \$78.6 million in aggregate principal amount of 9.00% Convertible Senior Notes due 2038 (the “**9% Convertible Notes**”). The 9% Convertible Notes mature on June 20, 2038 and are convertible at the option of the holders at any

time prior to the maturity date. Upon conversion, Holdings Ltd. must pay or deliver cash, common stock or a combination thereof.

In July 2011, Holdings Ltd. raised \$325 million in aggregate principal amount of 3.375% Convertible Senior Notes due 2018 (the “**3.375% Convertible Notes**,” and, together with the 1.875% Convertible Notes and the 9% Convertible Notes, the “**Convertible Notes**”). In August 2011, Holdings Ltd. also launched and priced its first senior unsecured debt offering, issuing \$325,000,000 in five-year 6.25% senior notes (the “**Senior Notes**”). Holdings Ltd. used a portion of the net proceeds from these offerings to repurchase a portion of its existing 9% Convertible Notes, repaid a portion of its outstanding permanent indebtedness under the Liquidity Facility, and used the remainder for general corporate purposes. Wilmington Trust, N.A. is the indenture trustee for each of the Convertible Notes and the Senior Notes.

#### **D. Equity Interests**

As of June 30, 2011, there were 1,500,000 shares of Series A Preferred Stock in Holdings Ltd. issued and outstanding to J.C. Flowers. Also as of June 30, 2011, 403,550 shares of Series B Preferred Stock were outstanding.

#### **E. Use of Cash Collateral**

In the period immediately following the commencement of the Initial Debtors’ Chapter 11 Cases, the Initial Debtors began the rapid wind-down of their former operations, swiftly reducing employee headcount and other costs and taking additional actions to preserve the assets of their estates for the benefit of stakeholders. The Initial Debtors simultaneously focused on obtaining debtor in possession financing to fund an orderly wind-down of their estates. Despite their best efforts and extensive negotiations with potential lenders, the Debtors were unable to secure debtor in possession financing. The Initial Debtors did secure an interim Cash Collateral



agreement through a stipulated order with JPM, the administrative agent to the lenders under the Liquidity Facility, which, along with the recovery of unencumbered, liquid assets, provided the Initial Debtors with \$8 million and allowed them to continue wind-down operations.

Immediately after the appointment of the Trustee, the Initial Debtors entered into negotiations with JPM to increase the available Cash Collateral for use by the Initial Debtors to fund the Debtors' operations. Thereafter, the Initial Debtors reached an agreement with JPM for the consensual use of approximately \$21.3 million in Cash Collateral through and until September 30, 2012. The Court approved the terms of the stipulation and entered a final order on December 14, 2012 (the "**Final Cash Collateral Order**").<sup>48</sup> At the time of the Final Cash Collateral Order, the Initial Debtors had recovered sufficient funds to offset the Cash Collateral previously used.

As a part of the Court's written opinion issued with the Final Cash Collateral Order, the Court ordered the Trustee to conduct an investigation into whether funds of the customers of MFGI that should have been segregated pursuant to CFTC and SEC rules had been commingled with the Debtors' Cash Collateral in the JPM Cash Collateral account. After the Trustee conducted an investigation, the Trustee issued his report on February 16, 2012 that determined that none of the funds in the JPM account were commingled funds.<sup>49</sup> The SIPA Trustee (as defined below) did not disagree with the conclusion reached by the Trustee's investigation.

#### **MF GLOBAL INC.**

On the October Petition Date, the Securities Investor Protection Corporation ("**SIPC**") began the orderly wind-down of MFGI when it filed a complaint in the United States District Court for the Southern District of New York (the "**District Court**") for the liquidation of

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<sup>48</sup> Docket Nos. 272, 275.

<sup>49</sup> Docket No. 451.

MFGI.<sup>50</sup> At that time, SIPC moved for an order determining that the customers of MFGI were in need of the protections afforded under SIPA.<sup>51</sup> The District Court granted the order (the “**SIPA Proceeding**”)<sup>52</sup> and thereafter transferred the SIPA Proceeding to this Court. The case caption and case name were changed to reflect its status as a liquidation proceeding in this Court. The case is now known as *In re MF Global Inc.*, Case No. 11-2790 (MG) SIPA.<sup>53</sup>

## **I. SIPA TRUSTEE AND PROFESSIONALS**

SIPC appointed James W. Giddens (the “**SIPA Trustee**”) as trustee for the liquidation of MFGI. The SIPA Trustee then hired his firm, Hughes Hubbard and Reed, LLP as counsel. The SIPA Trustee also has retained Ernst & Young and Deloitte as consultants and forensic accountants to aid him in investigating the details of the collapse of MFGI, and the impact of the MF Global Group’s collapse on MFGI, as well as determining the claims customers and creditors have against MFGI, and, ultimately, recovering and distributing MFGI’s assets to customers and creditors pursuant to the priority scheme established by statute. To assist the SIPA Trustee with matters in Europe, he retained Slaughter and May as U.K. counsel. Blake, Cassels & Graydon LLP was retained as Canadian counsel. In addition, the SIPA Trustee retained Haynes and Boone, LLP as conflicts counsel.

## **II. SIPA TRUSTEE’S DUTIES UNDER SIPA**

Pursuant to 15 U.S.C. § 78fff-1, the SIPA Trustee has the same fiduciary duties as a chapter 7 trustee, as long as those duties do not conflict with SIPA. The statute states: “[t]o the extent consistent with the provisions of this chapter or as otherwise ordered by the court, a

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<sup>50</sup> *In re MFGI Inc.*, Case No. 11-02790 (MG) SIPA Docket No. 1.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> *In re MFGI Inc.*, Case No. 11-02790 (MG) SIPA Docket No. 2.

trustee shall be subject to the same duties as a trustee in a case under chapter 7 of title 11.”

Chapter 7 of the Bankruptcy Code requires the SIPA Trustee to, among other things, “furnish such information concerning the estate and estate administration as is requested by a party in interest.” 11 U.S.C. § 704(a)(7).

Courts reviewing the interplay between SIPA and the Bankruptcy Code have determined that a SIPA trustee is bound to serve all of the creditors of an estate, not one particular subset over another. Indeed, these courts determined that a chapter 7 trustee’s primary duty is not to any individual creditor or even any particular class of creditors, but to the estate as a whole. *Kusch v. Mishkin, et al. (In re Adler, Coleman Clearing Corp.)*, Case No. 95-08203(JLG), Adv. Proc. No. 95-9248(A), 1998 Bankr. LEXIS 1076, \*49 (Bankr. S.D.N.Y. Aug. 24, 1998) (the court, in dismissing a breach of fiduciary duty claim against a SIPA trustee, stated that the trustee's duties to the estate prevail over the interests of any single customer). The *Adler, Coleman* court explained, in *dicta*, that to find that a SIPA trustee owes a greater fiduciary duty to customers than to general creditors would be “antithetical to the fundamental principles underlying our bankruptcy laws.” *Id.*; see also *Germain v. Connecticut National Bank*, 988 F.2d 1323, 1330 n.7 (2d Cir. 1993) (stating that a chapter 7 trustee “is an officer of the court and owes a fiduciary duty both to the debtor and to the creditors as a group.”).

The Debtors are (i) a securities customer of MFGI under SIPA regulations (owed approximately \$556 million), (ii) a futures customer of MFGI under the CFTC regulations (owed approximately \$90 million), (iii) both a secured and unsecured creditor of MFGI (owed approximately \$1.667 billion), and (iv) the 100% equity holder of MFGI. The Debtors are the single largest creditor of MFGI. The Debtors’ estates are highly dependent on the SIPA estate not only for information, but for the return of value to their creditors, who infused the SIPA

estate with in excess of \$950 million in the month of October 2011 alone and more than \$2 billion overall.

### **III. DESCRIPTION OF MFGI BUSINESS/ROLE IN GLOBAL OPERATIONS**

MFGI was a wholly-owned subsidiary of Holdings USA and an indirect subsidiary of Holdings Ltd. MFGI provided brokerage services to customers and affiliates on United States securities and commodity futures exchanges and on overseas exchanges through affiliates or independent correspondent clearing brokers. MFGI also was engaged in principal and proprietary<sup>54</sup> trading in U.S government and corporate securities, futures, and purchase and resale agreements, as well as stock/bond borrow and stock/bond loan activities.<sup>55</sup>

MFGI is registered with the SEC as a securities B/D. As a securities B/D, MFGI was a member of several regulatory organizations, including FINRA, the Chicago Board Options Exchange (the “CBOE”), the Depository Trust Clearing Corporation, the National Securities Clearing Corporation, and the Fixed Income Clearing Corporation. The CBOE was the designated examining authority of the MFGI B/D’s securities related activities.

MFGI also is registered with the CFTC as a FCM. As a FCM, MFGI was a member of the National Futures Association, an industry self-regulatory agency. Additionally, MFGI was a member of the CME, the Chicago Board of Trade, the New York Mercantile Exchange, the Intercontinental Exchange, the Kansas City Board of Trade, and the Minneapolis Grain Exchange. The CME was the MFGI FCM’s designated self-regulatory organization.

Beginning in February 2011, MFGI was one of 20 “primary dealers” to the Federal Reserve Bank of New York (the “**Federal Reserve**”). Designation as a “primary dealer”

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<sup>54</sup> See Annex 1 ¶ 1.

<sup>55</sup> See Annex 1 ¶ 7 for an explanation of stock/bond borrow and stock/bond loan activities.

enabled MFGI to serve as counterparty to the Federal Reserve in open-market operations, participate directly in U.S Treasury auctions, and provide analysis and market intelligence to the Federal Reserve's trading desks.

**A. Repos-To-Maturity**

In or around September 2010, the MF Global Group began aggressively acquiring long positions in European sovereign debt securities in MFGI as part of its proprietary trading activities. MFGUK acted as agent for the acquisitions, including the repurchase transactions (“**Repos**”) to finance the purchases, and also cleared the trades since it was the only member of the MF Global Group that was a member of the relevant clearinghouses, such as the LCH.Clearnet Ltd. (in London) or LCH.Clearnet SA (in Paris) (collectively, “**LCH Clearnet**”) or Eurex (together with LCH Clearnet, the “**Exchanges**”). Therefore, MFGUK served as the “counterparty” to MFGI in these transactions.

To finance the MF Global Group's sovereign debt purchases, MFGUK would enter into back-to-back Repo transactions consisting of two legs -- a Repo leg with third parties to finance the acquisition and a reverse Repo leg, with MFGI to finance MFGI's long position.<sup>56</sup> By entering into the two offsetting back-to-back Repos, MFGUK was “flat” to the market and did not bear any of the associated risk that may have resulted from fluctuations in the market value of the European sovereign debt positions. As a result, the economic risk of ownership was transferred from MFGUK to MFGI.

Under the terms of the Repos with third parties, MFGUK agreed to sell to the third party (and the third party agreed to purchase) European sovereign debt securities while MFGUK simultaneously agreed to repurchase those securities from the third party at an agreed upon

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<sup>56</sup> A repurchase agreement, from the viewpoint of the party obtaining financing, is referred to as a Repo and a reverse Repo is from the perspective of the party providing financing.

repurchase price, on a date falling immediately prior to the maturity date of the securities.<sup>57</sup> MFGUK and the third parties entered into the Repos either on a bilateral basis or cleared the transactions through the Exchanges. In the cases where an Exchange cleared the Repo, the Exchange would become the counterparty to the original parties under the Repo. MFGUK would then look to the Exchange, and not the financing counterparty, to satisfy the financing counterparty's obligations under the Repo trade (*i.e.*, delivery of securities to MFGUK upon maturity of Repo against payment by MFGUK of Repo financing).<sup>58</sup> MFGUK posted the initial margin with the Exchanges to finance the leveraged long positions in European sovereign debt.

Under the terms of MFGUK's reverse Repo with MFGI, MFGI agreed to sell to MFGUK various European sovereign debt securities, while MFGI simultaneously agreed to repurchase the securities from MFGUK at an agreed upon repurchase price, on a date falling immediately prior to the maturity date of those securities. The reverse Repo transactions were governed by the master securities sale and repurchase agreement previously entered into between MFGI and MFGUK, dated July 19, 2004 (substantially in the form of the Global Master Repurchase Agreement published by the International Capital Market Association) ("**GMRA**") and the confirmations that provided the details for each of the individual trades entered into thereunder. Under the terms of the reverse Repos, MFGI would post initial margin with MFGUK to finance the leveraged long positions in European sovereign debt. MFGI's purchase of the sovereign debt positions, with the associated financing from MFGUK, resulted in the benefits and risks of economic ownership shifting from MFGUK to MFGI.

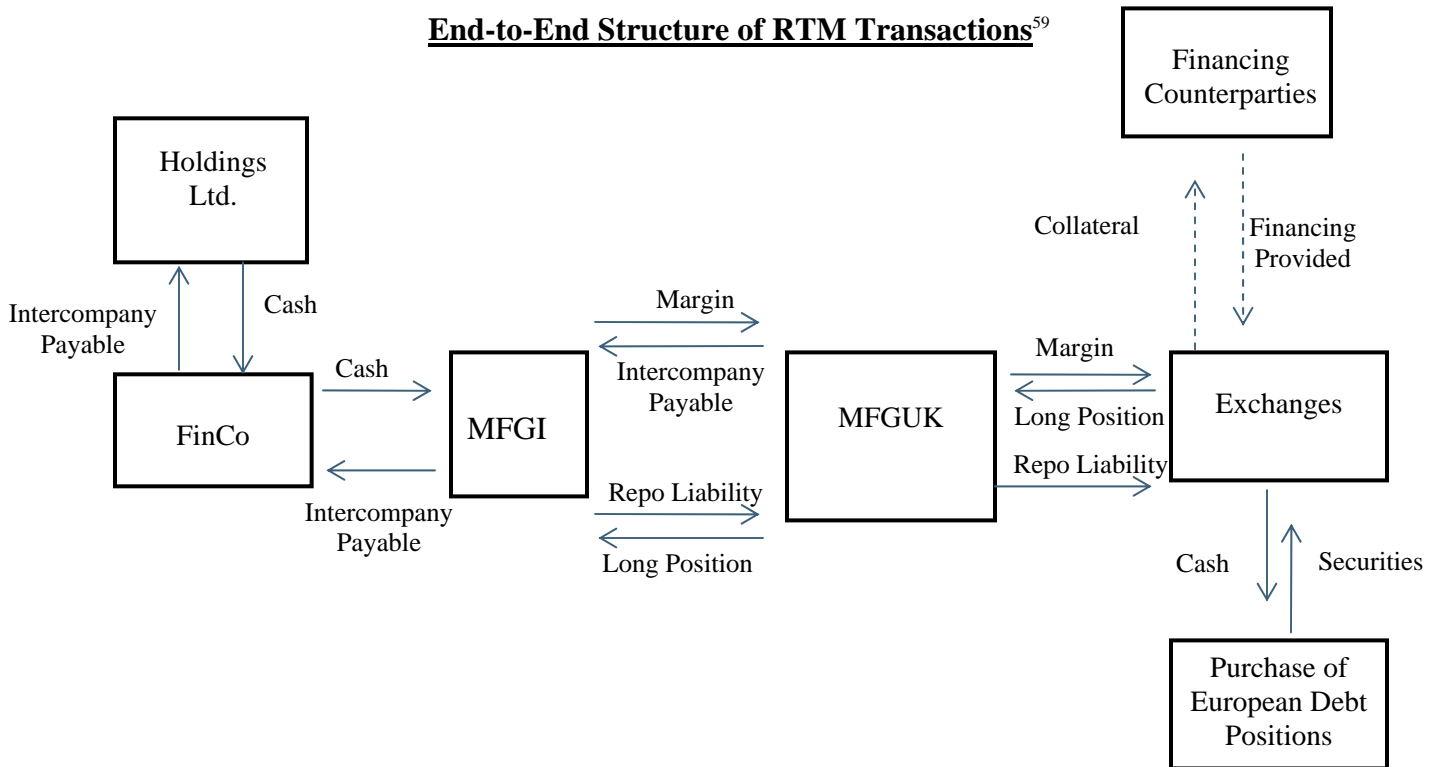
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<sup>57</sup> Repo transactions where the maturity date of the financing is within two days of the maturity of the underlying security are commonly referred to as RTMs. See Annex 1 ¶ 3 for a more detailed explanation of RTM transactions.

<sup>58</sup> LCH Clearnet acted as a clearing house (or exchange) and was essentially an intermediary that helped mitigate counterparty credit risk. LCH Clearnet played a similar role as that of the Fixed Income Clearing Corporation in the United States.

At the time the MF Global Group began acquiring the European sovereign debt positions, each of the sovereign debt issuances was rated as investment grade (Moody’s rated A or better). MFGUK, therefore, was required by the clearinghouses or third parties who were the counterparties to their trades to post only a small initial margin payment -- as low as 3% of the face amount of the securities to be financed through the RTM -- and in turn required only this amount from MFGI. This allowed the MF Global Group to build a highly leveraged portfolio. MFGI met its initial margin obligations to MFGUK and subsequent variation margin calls as required by MFGUK using MFGI’s own liquidity as well as intercompany loans provided by FinCo. The below diagram visualizes the end-to-end structure of the Repo to Maturity transactions prior to August 2011.

**End-to-End Structure of RTM Transactions<sup>59</sup>**



Under the terms of a Repo transaction, the financing counterparty (*e.g.*, MFGUK) generally has the right to require the borrower under the Repo (*e.g.*, MFGI) to post additional

<sup>59</sup> See Annex 1 ¶ 8 for an explanation of intercompany payable.

cash or securities as collateral resulting from decreases in the market value of the collateral underlying the Repo transaction. To accomplish this, the financing counterparty would issue a margin call. Accordingly, financing the acquisition of securities through the use of Repos had the potential to create a significant risk to the liquidity of MFGI and the MF Global Group as a whole.<sup>60</sup> A summary of the MF Global Group's net sovereign debt holdings is described in the below diagram.

**The MF Global Group's RTM Summary as of 9/30/2011**

|  | Italy <sup>(1)</sup>                             | Spain <sup>(1)</sup>                               | Belgium         | Portugal  | Ireland                          | Net Total   |
|--|--|--|-----------------|---|----------------------------------|---|
| Net size (\$ in millions)                | \$3,213  | \$1,111  | \$603           | \$997   | \$368                            | \$6,292   |
| % of total portfolio                     | 51%  | 18%  | 10%             | 16%   | 6%                               | 100%  |
| Weighted Avg. Maturity of Long Positions | Dec 2012   | Oct 2012   | Dec 2012        | Mar 2012  | Feb 2012                         | Oct 2012  |
| Maturity Schedule                        | 6% - Mar 2012<br>3% - Aug 2012<br>91% - Dec 2012 | 12% - Apr 2012<br>61% - Oct 2012<br>27% - Dec 2012 | 100% - Dec 2012 | 3% - Oct 2011<br>36% - Nov 2011<br>61% - Jun 2012 | 18% - Nov 2011<br>82% - Mar 2012 | 5% - Nov 2011<br>7% - Mar 2012<br>3% - Apr 2012<br>7% - Jun 2012<br>2% - Aug 2012<br>15% - Oct 2012<br>61% - Dec 2012 |

<sup>(1)</sup> Includes France's short positions of \$1.3 billion as proxy hedges, split equally between Italy and Spain.

Source: Second Fiscal Quarter 2012 Results Investor Presentation

As the value of the MF Global Group's European sovereign debt positions deteriorated in the Summer and Fall of 2011, MFGUK -- and consequently MFGI (and later FinCo) -- were required to post additional variation margin. In late October 2011, as the MF Global Group's credit ratings were downgraded, the Exchanges also required additional initial margin. MFGUK, as counterparty to the Exchanges, was responsible for meeting the Exchanges' margin calls, which at certain points were issued on a daily basis. MFGUK would then issue margin calls to

<sup>60</sup> See Annex 1 ¶ 3 for an explanation of the potential for liquidity risk posed by these transactions.



MFGI, which the Trustee believes were funded in whole or in part by loans from FinCo. As the Trustee understands it, MFGUK made one or more “house” margin calls to MFGI that were in excess of MFGUK’s margin requirements with the Exchanges in order to cover potential intraday liquidity risk on margin calls to MFGI and to satisfy MFGUK’s regulators.

Two approaches taken to hedge the European sovereign debt portfolio and to limit the margin posting requirements therewith were: (i) MFGUK shorted \$1.3 billion of French sovereign debt through the Exchanges as a proxy-hedge against its exposure to Italian and Spanish sovereign debt; and (ii) MFGUK entered into trades with counterparties, including overnight, short-term and medium-term reverse Repos that were cleared through the Exchanges to reduce margin requirements (“**Margin Reduction Trades**”) (with a back-to-back Repo transaction into MFGI).<sup>61</sup>

## **B. The RRTM**

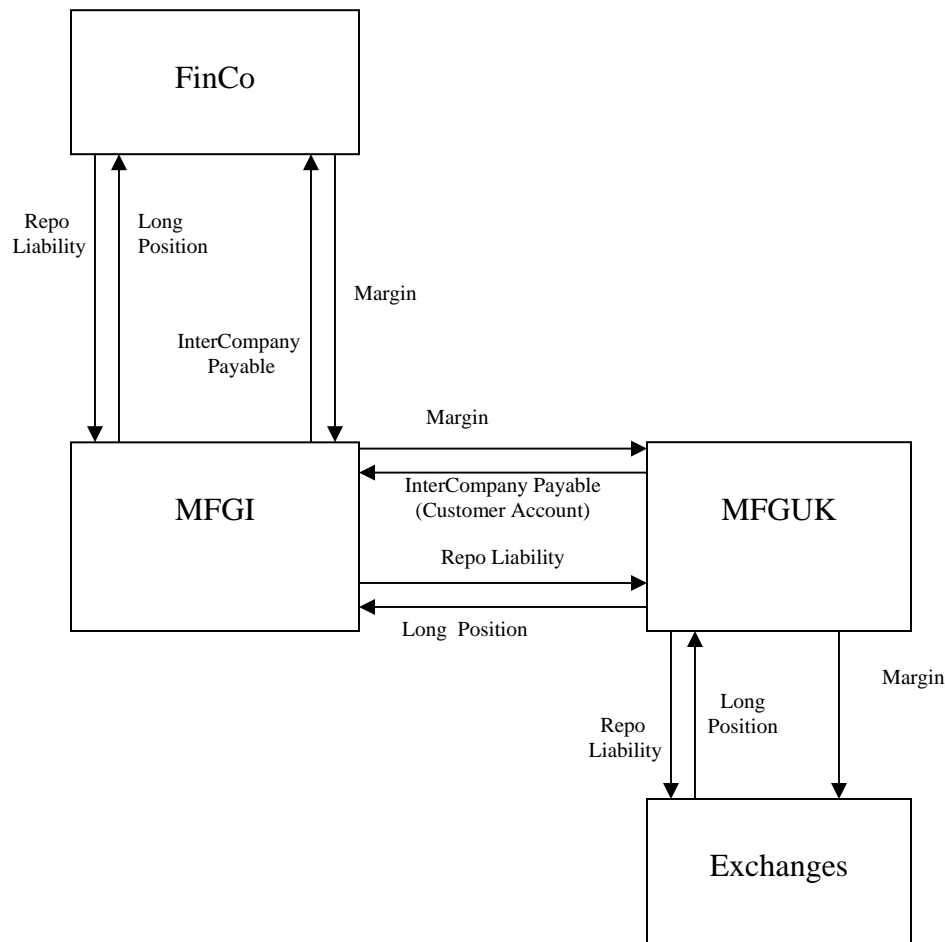
In order to ensure that MFGI was in compliance with its capital requirements as of August 24, 2011, in late August 2011 MFGI entered into “back-to-back” reverse repo-to-maturity (“**RRTM**”) transactions with FinCo for a portion of the RTM portfolio<sup>62</sup> pursuant to a master repurchase agreement dated January 6, 2011 between MFGI and FinCo (the “**FinCo MRA**”) and the transaction confirmations thereunder. These trades effectively made FinCo the beneficial holder of €2.925 billion of Italian bonds. This strategy allowed the MF Global Group to transfer the economic benefits and risks from MFGI (a regulated entity) to FinCo (an unregulated entity), and thereby reduce MFGI’s regulatory capital requirements. The below diagram shows the RRTM transactions between MFGI and FinCo.

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<sup>61</sup> See Annex 1 at ¶ 4 for an explanation of Margin Reduction Trades.

<sup>62</sup> See Annex 1 at ¶ 3 for an explanation of RRTMs.

**MFGI RRTM Transaction**



The SIPA Trustee has indicated that the RRTM was booked flat, meaning that the financing was equal to the underlying value of the securities position. The Trustee cannot verify that this information is correct because, despite the Trustee's request for all documents -- including confirmations issued under the master repurchase agreement between FinCo and MFGI, detailing the terms of the RRTM transactions -- the SIPA Trustee has yet to provide any such documents.

**C. Pre-Petition Funding**

The relationship between the Debtors and MFGI can be reduced to three distinct types of intercompany activities: (i) financing; (ii) trading and (iii) general corporate administration.

1. Financing.

a. Subordinated Debt Financing.

Holdings USA and FinCo provided a total of \$600 million in subordinated debt financing (the “**Sub-Debt**”) to MFGI prior to the October Petition Date. The Sub-Debt was memorialized in multiple loan agreements. The subordinated notes carried interest at the rate of 30-day LIBOR plus 500 basis points (5%). A summary of the outstanding loan obligations as of the October Petition Date is included in the table below.

| Lender       | CME/CBOE Loan Number | Effective Date | Maturity Date | Amount               |
|--------------|----------------------|----------------|---------------|----------------------|
| Holdings USA | 287-120706-0001      | 12/31/2007     | 6/28/2013     | \$65,000,000         |
| Holdings USA | 287-120707-0001      | 12/31/2007     | 9/30/2013     | \$65,000,000         |
| FinCo        | 287-120701-0001      | 12/31/2007     | expired       | \$0                  |
| FinCo        | 287-120702-0001      | 12/31/2007     | 6/29/2012     | \$130,000,000        |
| FinCo        | 287-120703-0001      | 12/31/2007     | 3/30/2012     | \$130,000,000        |
| FinCo        | 287-120704-0001      | 12/31/2007     | expired       | \$0                  |
| FinCo        | 287-120705-0001      | 12/31/2007     | 9/30/2011     | \$50,000,000         |
| FinCo        | 287-081001-0001      | 8/9/2010       | 7/31/2013     | \$0                  |
| FinCo        | 287-081001-002       | 8/10/2010      | 7/31/2013     | \$160,000,000        |
| <b>Total</b> |                      |                |               | <b>\$600,000,000</b> |

b. Intercompany Loans.

FinCo generally acted as the financing arm for the U.S. operations of the MF Global Group. FinCo provided substantial amounts of working capital financing to MFGI. In addition to the Sub-Debt, FinCo provided an additional \$991 million in intercompany funding to MFGI (the “**Intercompany Loans**”). Substantially all of the Intercompany Loans (\$875 million) were funded during October 2011. Again, although the Trustee has requested information relating to

the use of these funds from the SIPA Trustee on multiple occasions, the Trustee only recently received the MFGI bank account statements -- in raw data form -- and the Trustee still is awaiting information regarding the Securities and Futures accounts of MFGI. Therefore, the Trustee has limited access to information that would aid in determining the purposes of MFGI's funding requests. The Trustee believes that a portion of the Intercompany Loans (approximately \$233 million to \$293 million) was used by MFGI to fund variation margin payments to MFGUK during the ten days prior to the October Petition Date. Below is a schedule detailing the margin calls from MFGUK to MFGI during that timeframe.

### Margin Statement

| <b>Margin Call Statement MF Global Inc - Collateral Financing Portfolio</b> |                    |                    |                    |                    |                    |                    |                    |                  |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|
| As at COB:  | 28-Oct-11          | 27-Oct-11          | 26-Oct-11          | 25-Oct-11          | 24-Oct-11          | 21-Oct-11          | 20-Oct-11          | 19-Oct-11        | 18-Oct-11          | 17-Oct-11          |
| Initial Margin Requirement  | 495,975,763        | 454,624,390        | 410,963,534        | 277,302,875        | 278,049,205        | 277,679,686        | 273,604,300        |                  | 273,939,212        | 275,899,318        |
| Variation Margin  | 199,344,353        | 182,811,558        | 185,592,415        | 188,277,470        | 182,979,874        | 174,800,604        | 173,978,422        |                  | 167,180,609        | 151,003,397        |
| Buffer margin for fx exposure   | 5,000,000          | 5,000,000          | 5,000,000          | 5,000,000          | 5,000,000          | 5,000,000          | 5,000,000          |                  | 5,000,000          | 5,000,000          |
| Increase coverage   | 23,219,740         | 23,280,469         |                    |                    |                    |                    |                    |                  |                    |                    |
| <b>Total Margin requirement</b>   | <b>723,539,856</b> | <b>665,716,417</b> | <b>601,555,949</b> | <b>470,580,345</b> | <b>466,029,079</b> | <b>457,480,289</b> | <b>452,582,722</b> |                  | <b>446,119,821</b> | <b>431,902,715</b> |
| Collateral received   | 663,925,523        | 604,003,047        | 492,732,015        | 464,694,118        | 457,962,898        | 452,795,960        | 451,731,735        |                  | 430,943,455        | 430,892,493        |
| Additional Collateral Required  | 59,614,333         | 61,713,370         | 108,823,934        | 5,886,227          | 8,066,181          | 4,684,329          | 850,987            |                  | 15,176,366         | 1,010,222          |
|   | FX Rates           | 1                  | 1                  | 1                  | 1                  | 1                  | 1                  |                  | 1                  | 1                  |
| Change attributable to movement in FX Rate                                  | 1,675,841          | 15,397,744         | (2,975,361)        | (100,430)          | 823,043            | n.a                | n.a                |                  | n.a                | n.a                |
| <i>For Reference:</i>   |                    |                    |                    |                    |                    |                    |                    |                  |                    |                    |
| <b>I.M. Breakdown</b>   | <b>28-Oct-11</b>   | <b>27-Oct-11</b>   | <b>26-Oct-11</b>   | <b>25-Oct-11</b>   | <b>24-Oct-11</b>   | <b>21-Oct-11</b>   | <b>20-Oct-11</b>   | <b>19-Oct-11</b> | <b>18-Oct-11</b>   | <b>17-Oct-11</b>   |
| Eurex   | 122,303,820        | 101,486,439        | 97,908,521         | 98,729,580         | 98,761,993         | 98,676,172         | 97,341,174         |                  | 97,377,072         | 98,066,691         |
| LCH Clearnet SA   | 324,580,597        | 318,916,812        | 285,469,981        | 159,129,290        | 159,848,240        | 159,182,204        | 156,221,795        |                  | 156,784,797        | 157,247,059        |
| <i>LCH SA fwd margin</i>  | 37,345,178         | 22,282,810         | 10,991,748         | 11,094,572         | 11,087,738         | 11,063,861         | 11,256,792         |                  | 10,946,410         | 11,734,066         |
| LCH Clearnet Ltd  | 11,746,169         | 11,938,329         | 16,593,284         | 8,349,433          | 8,351,233          | 8,757,449          | 8,784,540          |                  | 8,830,933          | 8,851,501          |
| <b>Total</b>  | <b>495,975,763</b> | <b>454,624,390</b> | <b>410,963,534</b> | <b>277,302,875</b> | <b>278,049,205</b> | <b>277,679,686</b> | <b>273,604,300</b> |                  | <b>273,939,212</b> | <b>275,899,318</b> |
| <b>V.M. Breakdown</b>   |                    |                    |                    |                    |                    |                    |                    |                  |                    |                    |
| Eurex   | 13,764,761         | 9,717,223          | 17,035,399         | 16,877,226         | 17,107,177         | 16,480,844         | 16,371,063         |                  | 19,123,032         | 15,418,817         |
| LCH Clearnet SA   | 92,250,980         | 69,275,628         | 69,053,086         | 69,733,482         | 68,393,188         | 66,916,000         | 67,042,082         |                  | 61,412,708         | 50,992,502         |
| LCH Clearnet Ltd  | 93,551,632         | 106,431,756        | 98,390,637         | 100,548,637        | 95,296,346         | 89,594,614         | 88,843,948         |                  | 87,174,875         | 87,285,593         |
| Bilateral   | (223,020)          | (2,613,049)        | 1,113,293          | 1,118,125          | 2,183,164          | 1,809,145          | 1,721,329          |                  | (530,005)          | (2,693,515)        |
|   | 199,344,353        | 182,811,558        | 185,592,415        | 188,277,470        | 182,979,874        | 174,800,604        | 173,978,422        |                  | 167,180,609        | 151,003,397        |

#### c. Margin Financing.

FinCo provided margin financing to certain MFGI customers. The purpose of this financing was to allow customers to acquire additional securities or futures positions. Generally,

the documentation memorializing the financing terms provided that the customers of MFGI granted FinCo a security interest in the customer's securities and/or futures accounts and MFGI, as custodian of the securities and/or futures accounts, acknowledged FinCo's security interest. The SIPA Trustee, however, made distributions to these margin customers irrespective of the FinCo security interest in the account. In certain instances, the SIPA Trustee actually disbursed more money to the margin borrowers than they were entitled to receive. The Trustee understands that this was a result of the SIPA Trustee calculating the net equity of the margin borrower's account without taking into account any outstanding loan obligation to FinCo. As a result, the SIPA Trustee actually distributed the Debtors' property to certain of the margin borrowers. The Trustee has sent letters to ten former customers of MFGI requesting that they repay the margin financing received from FinCo in the approximate aggregate amount of \$36.9 million. As of the filing of this Report, FinCo has not received any funds back from these customers.

d. Repo Financing.

(i) HTM Repo.

In or around June 2009, Holdings Ltd. began acquiring a portfolio of securities classified on its balance sheet for account purposes as hold-to-maturity ("**HTM**")<sup>63</sup> and financed the purchases with Repo financing provided by the MFGI B/D. Each Repo was governed by the master repurchase agreement dated as of May 19, 2009 between Holdings Ltd. and MFGI and the confirmations issued detailing the specific transaction details (the "**Holdings Ltd. MRA**").<sup>64</sup>

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<sup>63</sup> See Annex 1 ¶ 5 for an explanation of HTMs.

<sup>64</sup> Although requested by the Trustee on multiple occasions, at this time, the Trustee has not received copies of any confirmations issued by the MFGI B/D under the Holdings Ltd. MRA detailing the salient terms of each HTM Repo financing transaction.

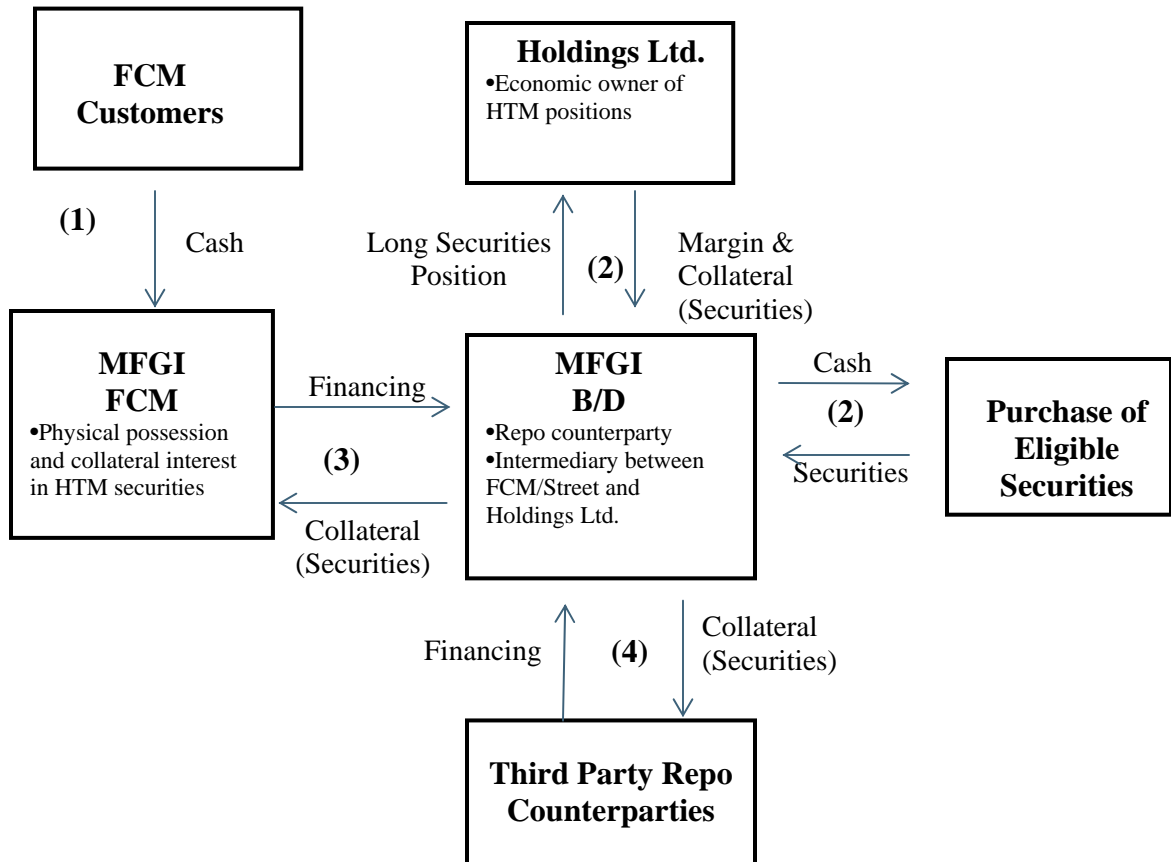
Initially, the FCM provided substantially all of the financing MFGI made available for the HTM portfolio. Later, the MFGI B/D diversified the financing of the HTM portfolio to include third party investors. The FCM was able to provide this financing because the HTM securities were eligible investments under CFTC Regulation 1.25 (“**Regulation 1.25**”).<sup>65</sup> Pursuant to authority under Section 4(c) of the Commodity Exchange Act, the CFTC established a list of permitted investments under Regulation 1.25 that, prior to the October Petition Date, included general obligations issued by any enterprise sponsored by the United States, bank certificates of deposit, commercial paper, corporate notes, general obligations of a sovereign nation (but only to the extent that the FCM had balances in segregated accounts owed to its customers denominated in that country’s currency) and interests in money market mutual funds. In addition, a FCM could buy and sell permitted investments pursuant to resale or repurchase agreements, including Repos entered into with an affiliate and so-called “in-house” transactions, *e.g.*, between the B/D and FCM businesses of the same legal entity. The Trustee understands that over time, the HTM portfolio was increasingly financed by third-party investors (as opposed to using FCM financing) via back-to-back Repo financing transactions entered into with counterparties by the MFGI B/D.

As of October 25, 2011, the HTM portfolio consisted of government agency securities and corporate bonds (mainly issued by financial institutions) with a market value of \$8.644 billion (including accrued interest). The Repo financing associated with the HTM portfolio totaled \$8.567 billion as of October 25, 2011. As a result, Holdings Ltd. had margin equity of \$77 million in the Repo portfolio. The structuring of the HTM Repo is illustrated in the below diagram.

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<sup>65</sup> See 17 CFR § 1.25.

**Hold To Maturity Repo**



- (1) FCM customers posted cash (*i.e.*, margin) at the FCM to enable them to trade futures.
- (2) Holdings Ltd. purchased \$8.6 billion (market value as of October 25, 2011) of Regulation 1.25-eligible securities that formed the HTM portfolio from various third party counterparties. The purchase was made by the MFGI B/D side of the MFGI business on behalf of Holdings Ltd. Holdings Ltd. received economic ownership of the positions in exchange for initial margin and the posting of the securities back at MFGI as collateral.
- (3) The purchase of eligible securities was financed partially using FCM customer funds. The MFGI B/D entered into intra-company Repos with the FCM, whereby securities were posted as collateral in exchange for financing. The FCM retained physical possession of the securities.
- (4) The purchase of eligible securities also was financed partially by third parties. MFGI entered into repo transactions with third party repo counterparties, whereby securities were posted as collateral in exchange for financing.

FinCo appears to have provided financing for some HTM positions. According to an October 28 report provided by the SIPA Trustee, there appears to have been \$10.3 million (par value) of HTM positions that were not financed by the third-parties (the “**Street**”) or with FCM funds and were instead financed through intercompany repos between MFGI and FinCo.

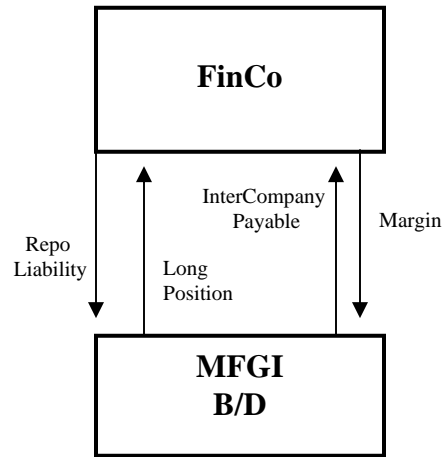
From October 25, 2011 until the October Petition Date, Holdings Ltd. undertook a massive liquidation of HTM positions with the goal of freeing up liquidity, during which time the HTM portfolio was reduced by about \$7.2 billion to approximately \$1.4 billion by October 31, 2011. The Trustee has requested information from the SIPA Trustee regarding the close-out pricing for both the HTM Portfolio and the back-to-back Repo positions the MFGI B/D entered into with the FCM or third parties. By reconstructing the wind-down of the HTM portfolio, the Trustee can determine the losses resulting from the precipitous liquidation of the HTM portfolio. The Trustee requires this information to determine the HTM portfolio's impact on the funding provided by FinCo to MFGI and the extent of the Debtors' claims against MFGI.

(ii) Box Repo

FinCo entered into Repo financing transactions with the MFGI B/D (the "**Box Repo**") where FinCo agreed to buy from the MFGI B/D various securities (the "**Box Portfolio**"), with a simultaneous agreement of the MFGI B/D to repurchase from FinCo those securities (or securities considered equivalent thereto) at a repurchase price the next day. This type of agreement is commonly referred to as an overnight Repo. The Box Repo transactions were governed by the terms of the FinCo MRA and the confirmations issued for each transaction entered into thereunder. The MFGI B/D held the securities comprising the Box Portfolio in custody for FinCo. The MFGI B/D had the right to substitute collateral of equivalent value in the Box Portfolio and the Box Repo was generally rolled-over on a daily basis; however, the securities that formed the Box Repo portfolio are identifiable. As of the October Petition Date, the MFGI B/D was obligated to repurchase the Box Repo collateral from FinCo for \$177,715,443.11.



**Box Portfolio Repo**



2. Trading.

The Unregulated Debtors conducted certain trading activity, including futures, through MFGI (and also faced certain of its counterparties directly). In addition, a non-debtor wholly-owned subsidiary of Holdings Ltd., MF Global Special Investor LLC (“**Special Investor**”), also acquired a securities portfolio from MFGI and conducted its securities trading activities through MFGI.

3. General Administration.

As a global trading organization, the MF Global Group had integrated systems, including global accounting and tax systems and programs. Many of the MF Global Group's regulated entities also acted as clearing brokers and custodians for their affiliates. As a global organization, certain overhead costs and expenses for shared services that were incurred at the corporate level were allocated across the group in the ordinary course of their business. It was generally believed that system integration, as opposed to operating each of the affiliates in a silo, was a more cost-effective use of the MF Global Group's resources.

**IV. CLAIMS FILED AGAINST THE SIPA ESTATE**

**Total Number of Claims Filed Against this Entity  
by the Debtors and their Non-Debtor Affiliates<sup>66</sup>: 68.**

**Total Value of Those Claims: \$2,317,765,096.00.**

On November 23, 2011, the Court entered an order establishing January 31, 2012 as the bar date for customers' claims against the SIPA estate and established June 2, 2012 as the general bankruptcy claims bar date.<sup>67</sup> The Debtors' estates filed 68 claims against MFGI totaling in excess of \$2.3 billion.

**Securities and Futures Claims Filed Against MFGI  
by the Debtors and their Non-Debtor Affiliates: 58.**

**Total Value of Those Claims: \$646,798,448.00**

**General Unsecured Claims Filed Against MFGI  
by the Debtors and their Non-Debtor Affiliates: 10.**

**Total Value of Those Claims: \$1,670,966,648.00 (\$600 million in Sub-Debt claims)**

The below chart reflects a more detailed breakdown of the claims filed by the Debtors and non-debtor affiliates.

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<sup>66</sup> In addition, contingent and unliquidated claims were filed by the Debtors against MFGI.

<sup>67</sup> *In re MFGI Inc.*, Case No. 11-02790 (MG) SIPA Docket No. 423.

**Debtors' and Non-Debtor Affiliates' Claims Against MFGI**

| Claimant         | Class of Claim      | No. of Claims | Amount                 | Description                  |
|------------------|---------------------|---------------|------------------------|------------------------------|
| Holdings Ltd.    | Securities Customer | 1             | \$77,332,223           | HTM                          |
| Holdings Ltd.    | Securities Customer | 1             | Unliquidated           | Trading                      |
| Holdings Ltd.    | Futures Customer    | 3             | Unliquidated           | Trading                      |
| Holdings Ltd.    | General Unsecured   | 1             | \$38,720,558           | General                      |
| Holdings USA     | General Unsecured   | 1             | \$36,585,647           | General                      |
| Holdings USA     | General Unsecured   | 1             | \$130,000,000          | Sub-Debt                     |
| FinCo            | Securities Customer | 1             | \$127,151,670          | RRTM, Box Repo <sup>68</sup> |
| FinCo            | Futures Customer    | 10            | \$36,857,586           | Margin Financing             |
| FinCo            | General Unsecured   | 1             | \$990,943,179          | Loans                        |
| FinCo            | General Unsecured   | 1             | \$552,948              | General                      |
| FinCo            | General Unsecured   | 1             | \$470,000,000          | Sub-Debt                     |
| Special Investor | Securities Customer | 21            | \$352,061,762          | 9/30 statements              |
| Special Investor | Securities Customer | 12            | Unliquidated           | Trading                      |
| Special Investor | Futures Customer    | 1             | \$140,841              | Trading                      |
| Capital          | Futures Customer    | 3             | \$28,236,299           | Trading                      |
| Capital          | General Unsecured   | 1             | \$3,733,828            | Trading                      |
| Market Services  | Futures Customer    | 3             | \$25,016,824           | Trading                      |
| FX Clear         | Securities Customer | 1             | Unliquidated           | Trading                      |
| FX Clear         | Futures Customer    | 1             | \$1,243                | Trading                      |
| FX Clear         | General Unsecured   | 1             | \$398,448              | General                      |
| FX Clear         | General Unsecured   | 1             | \$29,300               | General                      |
| MFGA             | General Unsecured   | 1             | \$2,740                | General                      |
| <b>Total</b>     |                     | <b>68</b>     | <b>\$2,317,765,096</b> |                              |

**A. Legal Issues Related to the Debtors' Claims**

1. Holdings Ltd. Securities Customer Claim Related to HTM Portfolio.

Holdings Ltd. filed a securities customer claim in an estimated amount of \$77,332,223 relating to the HTM Repo transactions. These claims were estimated because, prior to the customer claims bar date, the Trustee was not in possession of an October account statement, but rather was relying on the Debtors' internal risk reports. The Trustee was not in possession of

<sup>68</sup> The total amount financed under the Box Repos was \$177,715,443.11.

details confirming the liquidation of HTM securities that took place after September 25, 2011. Therefore, the Trustee determined that, out of an abundance of caution, Holdings Ltd. should file an estimated claim, subject to reconciliation of its books and records with those of the MFGI B/D, the counterparty to the HTM transactions. The SIPA Trustee has not yet provided the details confirming the liquidation of the HTM portfolio after October 25, 2011.

2. FinCo Repo Claim.

On May 18, 2012, the SIPA Trustee denied the FinCo claim related to the Repo transactions, including the RRTM and the Box Portfolio, when he sent the FinCo estate a letter of determination as to that claim. The SIPA Trustee stated that he denied FinCo's claim because, in his determination, the cash and securities upon which FinCo filed its claim are not customer property pursuant to SIPA. In addition, the SIPA Trustee indicated that FinCo's claims were being converted to general creditor claims. Moreover, FinCo's claim for \$177,715,443.11 was being reduced to the liquidation value of \$63,690,295.38, which appeared on FinCo's account statement as of October 31, 2011.

The Trustee will object to the SIPA Trustee's determination of the FinCo claim for several reasons. First, a number of courts have found that a participant in Repo transactions is a customer for SIPA proceedings. *In the Matter of Bevill, Bressler & Schulman Asset Management Corp.*, 67 B.R. 557 (D. N.J. 1986); *City of Elkins v. Charles Darwin Davidson (In re Swink & Company, Inc.)*, 142 B.R. 874 (Bankr. E.D. Ark. 1992). Second, the FinCo MRA is clear that the parties intended to treat the Box Repo transactions as true purchase and sale transactions, with MFGI holding the securities under the FinCo MRA in custody for FinCo's account. Third, both FinCo and MFGI accounted for these transactions distinctly from other

financings, secured or unsecured. Thus, the Trustee believes that the FinCo claims are customer claims under SIPA, with facts similar to those in *Bevill*, *Bressler* and similar cases.

Alternatively, if the Court finds that FinCo does not fall within the SIPA definition of a “customer,” the Court should hold that MFGI, as custodian for the Box Repo securities, should turn over the Box Repo securities pursuant to Bankruptcy Code section 543. MFGI only has a possessory interest in the Box Repo securities, similar to that of a bailee, and thus the securities are not property of the SIPA estate under Bankruptcy Code section 541.

As previously discussed, many of the documents underlying the Box Repo transactions remain in the possession of the SIPA Trustee and have not been provided to the Trustee.

Although the Trustee believes that FinCo’s claim is a customer claim based on one of the two alternative theories summarized herein, the Trustee cannot be certain as to the determination of this claim.

3. FinCo RRTM Claim.

The SIPA Trustee has indicated that the RRTM was booked flat (*i.e.*, the Repo financing was equal to the underlying mark-to-market value of the long position at the time the Repo was transacted). Thus, according to the SIPA Trustee, MFGI’s books and records reflect that MFGI did not require FinCo to post initial or variation margin with respect to the RRTM transactions. FinCo provided funding to MFGI to enable MFGI to meet initial and variation margin calls from MFGUK with respect to the RTM portfolio. As a result of FinCo entering into the RRTM transaction with MFGI, certain of the financing provided by FinCo to MFGI -- for purposes of meeting margin requirements -- should have been characterized as margin posted by FinCo to MFGI to support the RRTM transactions (as opposed to a financing). In addition, any additional margin required of MFGI by MFGUK related to the RRTM position should have been

characterized as margin posted by FinCo to MFGI rather than as an intercompany loan.

Accordingly, it is the Trustee's belief that a portion of the intercompany loans FinCo provided to MFGI should be characterized as margin related to the RRTM position. The finance function of MFGI in Chicago, however, was responsible for booking the intercompany general ledger entries. Therefore, the Trustee believes that FinCo should have either a direct claim against MFGUK for the margin related to the RRTM position or, in the alternative, FinCo should be entitled to priority treatment as a customer of MFGI with a portion of the intercompany loan recharacterized to properly reflect its true nature (*i.e.*, a margin payment).

4. Special Investor Securities Customer Claims.

Special Investor filed securities customer claims in an estimated amount of \$352,061,762.16, relating to twenty-one securities accounts. These claims were estimated because, prior to the customer claims bar date, the Trustee only possessed account statements as of September 30, 2011. On April 18, 2012, the SIPA Trustee rejected Special Investor's securities customer claims based upon an alleged subordination agreement, purportedly entered into between Special Investor and MFGI dated as of August 19, 2011. In the subordination agreement, Special Investor purportedly agreed to subordinate its claims to those of MFGI's customers and creditors.

In his denial letter, the SIPA Trustee valued the Special Investor securities claim at \$43,768,836 as of October 31, 2011. The Trustee is continuing to investigate the propriety and enforceability of the purported subordination agreement referred to in the SIPA Trustee's denial letter. The Trustee will decide whether to object to the SIPA Trustee's claim determination upon completion of his investigation.

5. Futures Customer Claims.

On December 12, 2011, the SIPA Trustee, the CFTC and SIPC submitted memoranda,<sup>69</sup> pursuant to the Court's direction, setting forth their respective positions as to their expectations for the SIPA Trustee in allocating and distributing the property of the MFGI estate under the various statutory and regulatory provisions applicable to the SIPA Proceeding.<sup>70</sup> Each of the briefing parties argued that under the applicable regulations and statutes, all customer claims must be satisfied in full before property of the estate may be used to pay any general creditors' claims. In addition, the SIPA Trustee, the CFTC and SIPC argued that "insiders," who were also brokerage customers, are subordinated to public customers' claims.

On January 9, 2012, the Trustee filed his *Statement in Response to Briefing Regarding the Legal Principles and Framework for Allocation and Distribution of Customer Property*,<sup>71</sup> wherein the Trustee disputed the purported broad authority granted to CFTC to determine what constitutes "customer property."

All parties acknowledged that there are inconsistencies between the Bankruptcy Code and the Part 190 Regulations. The inconsistencies are highlighted in Bankruptcy Code sections 726 and 766, which addresses the priority scheme for distributions to general unsecured creditors in a Commodity Broker Liquidation, and the Part 190 Regulations. Bankruptcy Code section 766(j)(2) states:

Except as provided in section 510 of this title if a customer is not paid the full amount of such customer's allowed net equity claim from

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<sup>69</sup> *In re MFGI Inc.*, Case No. 11-02790 (MG) SIPA Docket Nos. 724–726.

<sup>70</sup> The briefs state that the applicable statutes and regulatory provisions include 15 U.S.C. § 78fff to 78fff-4, Bankruptcy Code sections 105(a) 764, and 766(c), and 17 C.F.R. § 190.01 through 190.10 (the "**Part 190 Regulations**").

<sup>71</sup> *In re MFGI Inc.*, Case No. 11-02790 (MG) SIPA Docket No.824.

customer property, the unpaid portion of such claim is entitled to distribution under 726 of this title.

11 U.S.C. § 766(j)(2).

The Part 190 Regulations state:

(a)(1) Customer property includes the following:

(ii) All cash, securities, or other property which:

(J) Is cash, securities or other property of the debtor's estate, including the debtor's trading or operating accounts and commodities of the debtor held in inventory, but only to the extent that the property enumerated in paragraphs (a)(1)(i)(E) and (a)(1)(ii)(A) through (a)(1)(ii)(H) of this section is insufficient to satisfy in full all claims of public customers.

17 C.F.R. § 190.08(a)(1)(ii)(J).

The potential conflict is actually no conflict at all. The Bankruptcy Code is a set of laws, while the Part 190 Regulations are merely a set of rules. Although rules can help to shape and aid laws, they cannot supersede or overtake them. One bankruptcy court has held just that. According to the Chief Judge for the Northern District of Illinois, when defining “customer property” under 17 C.F.R. § 190.08(a)(1)(ii)(J), the CFTC went beyond its rule making authority. *See In re Griffin Trading Co.*, 245 B.R. 291 (Bankr. N.D. Ill. 2000). The resulting definition of customer property was inconsistent with the plain language of the Bankruptcy Code. *Id.*<sup>72</sup> Moreover, the rule appears to be at odds with the statutory duties that the SIPA Trustee owes to both customers and creditors of MFGI. *See Adler Coleman*, 1998 Bankr. LEXIS, at \*48.

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<sup>72</sup> The CFTC appealed the bankruptcy court's decision in *Griffin Trading*. The decision was vacated as part of a settlement agreement before the appeal was decided.



The Trustee continues to believe that the SIPA estate will recover sufficient segregated funds to pay all public futures customers in full. If, however, there is a shortfall of customer assets, the Trustee believes that the SIPA Trustee has misinterpreted the relevant statutory authority governing reallocation of general estate assets to cover such customer segregated assets shortfalls. Accordingly, except to the extent the SIPA Trustee provides a full accounting of the general estate assets sought to be reallocated and such accounting demonstrates that those assets should have been segregated pursuant to applicable regulation, the Trustee will continue to pursue all legal options to recover all assets to which the Debtors' estates are entitled.

## **MF GLOBAL GROUP ENTITIES IN THE UNITED KINGDOM**

### **I. MF GLOBAL HOLDINGS EUROPE LIMITED (“HOLDINGS EUROPE”)**

Holdings Europe is a wholly-owned subsidiary of Holdings Ltd. Holdings Europe is an investment holding company that is currently not in administration or liquidation.

### **II. MF GLOBAL U.K. LIMITED**

**Total number of claims filed against this entity  
by the Debtors and their Non-Debtor Affiliates:<sup>73</sup> 10.**

**Total Value of Those Claims: \$446.4 million to \$563.8 million.**

MFGUK is a wholly-owned subsidiary of Holdings Europe and an indirect subsidiary of Holdings Ltd. MFGUK carried on business as a broker providing agency services, matched-principal execution and clearing services for exchange-traded and OTC derivative products, and non-derivative foreign exchange products and securities in the cash markets, including interest rates, equities, currencies, energy, metals, agricultural and other commodities. In connection with such business, MFGUK was registered with the United Kingdom's Financial Services Authority (“FSA”) and authorized to carry on a number of regulated activities including advising

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<sup>73</sup> In addition, contingent and unliquidated claims were filed by the Debtors against MFGUK.

and arranging deals in investments, arranging, safeguarding and administering assets, and dealing in investments as agent and principal.

Following the October Petition Date, the directors of MFGUK filed an application for a special administration order pursuant to the Investment Bank Special Administration Regulations 2011 with the High Court of Justice (the “**High Court**”). The High Court granted the application and appointed Richard Fleming, Richard Heis and Michael Pink of KPMG LLP (“**KPMG**”) as joint special administrators of MFGUK (the “**Special Administrators**”) on October 31, 2011.

#### **A. Reports Filed by the Special Administrators**

The Special Administrators have filed a number of reports and updates in respect of the special administration of MFGUK which can be found on a section of KPMG’s website relating to the special administration at [www.kpmg.co.uk/mfglobaluk](http://www.kpmg.co.uk/mfglobaluk). This includes:

- (i) the Special Administrators’ Proposals for achieving the purpose of the special administration of MFGUK;
- (ii) the Special Administrators’ presentation provided at the meeting of creditors and clients of MFGUK on January 9, 2012;
- (iii) the Special Administrators’ Report for a hearing in the High Court of England and Wales on February 3, 2012 (including an interim distribution model and commentary on such model);
- (iv) Statement of Affairs of the Directors of MFGUK dated March 7, 2012; and
- (v) the Special Administrators’ Progress Report for the six month period from October 31, 2011 to April 30, 2012 published on May 30, 2012 (the “**Six Month Report**”).

#### **B. Overview of Issues Related to Special Administration of MFGUK**

The initial meeting of creditors and clients of MFGUK was held on January 9, 2012. During the meeting, the creditors approved the Special Administrators’ Proposals and elected a

creditors' committee. The committee currently consists of (i) BB Energy (Gulf) DMCC, (ii) Unipec Singapore Pte Limited, (iii) MFGI, (iv) Peabody Coal Trade International Limited, and (v) KIT Finance Europe AS.

The claims against MFGUK include proprietary claims against assets held by or on behalf of MFGUK including in the client money pool (as discussed further below) and claims of unsecured creditors.

The Special Administrators established three separate bar dates depending on the class of claim to be filed against MFGUK. The bar date for client assets claims was February 29, 2012. The bar date for client money claims was March 30, 2012. The bar date for general creditor claims was April 30, 2012. Claims can still be made in respect of all these categories of claims after such dates. However, in respect of client monies and general creditor claims, any claim made after the bar date is not entitled to share in the first interim distribution in respect of such claims (as discussed further below). Any client assets claims made after this date cannot disrupt any title acquired by any other person to whom such assets have been transferred.

*Client assets:* The Special Administrators are not permitted to return client assets within three months of the bar date referred to above and are required to establish a Distribution Plan setting out, among other things, the process and mechanism for the return of client assets and a schedule of dates on which client assets are to be returned. The Six Month Report states that a draft of the Distribution Plan has been shared with MFGUK's creditors' committee and must be approved by the Court. The Special Administrators state that they intend to apply to the Court for the approval of the Distribution Plan in July 2012 with a view to commencing the return of client assets as soon as possible thereafter.

*Client monies:* In relation to client monies, an interim distribution has been declared at 26% of the amount of claims that have been accepted. The Special Administrators commenced making interim distributions on client money claims in February, 2012. In the Six Month Report, the Special Administrators state that with respect to agreed claims, payments of \$92.1 million had been made as of May 29, 2012. This amount is less than 26% of the total amount of agreed claims due to various factors, including timing differences between the agreement of claims and the payment of dividends and “know-your-customer” checks. It was also noted that over 1,100 clients have submitted claims which conflict with MFGUK’s classification of their accounts (which represents approximately 25% of all claims received). The Special Administrators also state that as of October 31, 2011, a significant portion of client money was held by third parties including clearing houses and exchanges. They state that as at April 30, 2012, \$918 million had been received by the Special Administrators in relation to client money and a further \$161.8 million is due from affiliates (with 99% of the remaining client monies to be recovered now being held at affiliated entities).

Client money claims against MFGUK have been affected by the UK Supreme Court judgment in *LBIE v CRC Credit Fund*, which was handed down on February 29, 2012. This was a directions hearing regarding the FSA’s client money and client money distribution rules contained in chapter 7 of the FSA’s Client Assets Sourcebook (“CASS”). Under the CASS rules, all client monies held by the relevant firm are pooled upon certain events, including a special administration, and all clients entitled to such assets share *pro rata* in the client money pool. The U.K. Supreme Court held that (i) a statutory trust attaches to all client money paid into a firm’s house account from the moment it is received (whether money is client money will depend upon a number of factors including whether the client is retail or professional and the

relevant terms of business), (ii) the client money pool consists of all client money that is identifiable in any account of the firm, whether or not a segregated account, and (iii) all clients that have an entitlement in respect of client money are entitled to a distribution from the client money pool by reference to their objective contractual entitlement to have client money segregated as at the date of pooling (whether or not actually segregated).

The Special Administrators have stated that as a result of this judgment they will need to conduct a detailed and thorough regulatory and legal analysis of each client's position to establish if they had a claim in respect of client money that should have been segregated and conduct a forensic analysis into MFGUK's own bank accounts and, potentially, other assets to seek to identify client monies that were transferred to such accounts. The Special Administrators noted that the assistance of the court was likely to be needed to deal with these issues.

Thereafter, on May 3, 2012, the Special Administrators filed two applications for directions with the High Court of England and Wales. The first application (i) relates to U.S. treasury bills transferred by MFGI to MFGUK in respect of which MFGI claims were transferred subject to CFTC Rule 30.7, and (ii) seeks directions as to, among other things, (a) the legal basis on which such treasury bills were transferred to MFGUK and (b) whether MFGI has a proprietary interest and/or client asset claim and/or client money claim in relation thereto. A substantive trial on this application is not expected until the second quarter of 2013 at the earliest. The second application seeks directions as to whether a client's client money entitlement in respect of an open position is to be valued by reference to the market value at the date of pooling or by reference to liquidation value. A substantive hearing in relation to this application is not expected until the third quarter of 2012.

The Special Administrators have stated that they continue to pursue the recovery of approximately \$400 million from MFGI in relation to segregated client assets and monies and house assets and monies of MFGUK held by MFGI.

*General creditor claims:* In relation to non-segregated assets, the Special Administrators state in the Six Month Report that they have now received approximately \$1.2 billion of non-segregated assets. They state that in excess of 90% of non-affiliated monies outstanding as at April 30, 2012 were held with five entities (reduced to four as at May 30, 2012) and they continue to work with these institutions regarding the return of additional amounts. The Special Administrators state that they are unable to provide a reliable estimate of total unsecured creditors at this time, and material uncertainties remain as to the ultimate quantum of realization of non-client assets and the quantum of claims and contingent claims. The Special Administrators therefore state that they are currently unable to estimate the likely recovery for unsecured creditors.

1. Claims Filed by the Debtors.<sup>74</sup>

The claims filed by the Debtors or their non-debtor affiliates under their control generally pertain to cost allocation for administrative expenses and smaller intercompany receivables. FinCo and Holdings Ltd. filed protective claims for funds loaned to MFGI (which were subsequently transferred to MFGUK) to the extent such loans pertained to margin for the RRTM transactions or may be recoverable by FinCo or Holdings under various legal theories.

The Unregulated Debtors' activities with MFGUK primarily were related to foreign exchange and derivative product trading governed by ISDA Master Agreements.<sup>75</sup> After the

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<sup>74</sup> Although the following claims are shown in U.S. Dollars, all claims submitted against entities in administration in the United Kingdom are required to be converted into GBP at the relevant exchange rate on the debtor's petition date. In relation to US\$, the relevant exchange rate on the October Petition Date was \$1.6141/£.

October Petition Date, these agreements were terminated and the Debtors have worked with MFGUK to calculate their respective obligations under the terminated agreements.

The Debtors filed seven general unsecured claims totaling \$28.9 million against MFGUK and one client asset/general unsecured claim with an estimated value between \$124.5 million and \$242 million, which are detailed in the chart below. In addition, FinCo and Holdings Ltd. each filed a protective claim for \$293 million for advances made to MFGI that were subsequently transferred to MFGUK and may be recoverable by FinCo or Holdings Ltd. Non-debtor MF Global Intellectual Properties Kft (“MFG IP”), a Hungarian subsidiary wholly-owned by Holdings Ltd., also filed a claim against MFGUK.

**Debtors’ Claims Against MFGUK**

| Claimant          | Class of Claim                 | Amount                               |
|-------------------|--------------------------------|--------------------------------------|
| Holdings Ltd.     | General Unsecured              | \$3,988,608                          |
| Holdings Ltd.     | General Unsecured              | \$293,000,000 <sup>76</sup>          |
| Holdings USA      | General Unsecured              | \$277,804                            |
| FinCo             | General Unsecured              | \$293,000,000 <sup>77</sup>          |
| FinCo             | Client Asset/General Unsecured | \$124,480,000 - \$241,920,000        |
| Capital           | General Unsecured              | \$4,979,060                          |
| FX Clear          | General Unsecured              | \$17,099,086                         |
| MFG IP            | General Unsecured              | \$770,966                            |
| Holdings Overseas | General Unsecured              | \$1,410,172                          |
| Holdings Europe   | General Unsecured              | \$354,780                            |
| <b>Total</b>      |                                | <b>\$446,360,476 - \$563,800,476</b> |

On May 3, 2012, the Special Administrators notified FinCo that its claim had been rejected in full. In accordance with the relevant rules relating to the special administration of

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<sup>75</sup> See Annex ¶ 6 for an explanation of ISDA.

<sup>76</sup> Each of the claims filed by Holdings Ltd. and FinCo were filed to protect potential claims for the recovery of funds loaned by Holdings Ltd. and FinCo to MFGI and then were subsequently transferred to MFGUK. The Trustee did not include both claims in the total listed in this chart.

<sup>77</sup> *Supra* note 76.

MFGUK, FinCo had 21 days to appeal against such rejection or it would lose its right to object. Accordingly, on May 24, 2012, FinCo lodged an appeal against the rejection of its claim. The initial hearing in respect of such appeal is scheduled to be heard in August 2012.

### **III. MF GLOBAL UK SERVICES LIMITED (“UK SERVICES”)**

UK Services is a wholly-owned subsidiary of Holdings Europe and an indirect subsidiary of Holdings Ltd. On October 31, 2011, Richard Fleming, Richard Heis and Michael Pink of KPMG were appointed as joint administrators of UK Services, which provided employee and pension services in relation to the UK operations. On December 19, 2011, Blair Nimmo of KPMG was appointed as an additional administrator of UK Services with the role of primarily and independently acting on behalf of UK Services in relation to the negotiation of a management agreement with the Special Administrators of MFGUK. The Debtors have not filed any claims against this entity.

### **IV. MF GLOBAL FINANCE EUROPE LIMITED (“FINANCE EUROPE”) AND MF GLOBAL MFG OVERSEAS (“MFG OVERSEAS”)**

**Total number of claims filed against Finance Europe by the Debtors and their Non-Debtor Affiliates: 3.**

**Total Value of Those Claims: \$346,717,352.00.**

As a result of the Holdings Ltd. and FinCo bankruptcy filings and the subsequent administrations and filings of affiliates in the United Kingdom and Asia, the directors of MFG Overseas and Finance Europe determined that those entities were likely to become insolvent due to a lack of liquidity, uncertainty as to the value of their assets, and their respective liabilities that would become due and payable. Consequently, the boards of directors resolved to appoint Richard Fleming, Richard Heis and Michael Pink of KPMG as administrators (the “**Administrators**”) for both entities on November 2, 2011.



Finance Europe is a wholly-owned subsidiary of Holdings Ltd. It was registered in England and Wales and its principal purpose was to provide financing services to the MF Global Group.

Potentially the most significant asset of Finance Europe is a loan of \$250 million made to MFGUK. The Administrators have, however, stated in their reports that the terms of the loan provide for subordination of all payments under the loan. According to the Administrators, Finance Europe’s claim for the unpaid loan amount ranks behind amounts payable to unsecured creditors of MFGUK.

**Total number of claims filed against MFG Overseas by the Debtors and their Non-Debtor Affiliates: 3.**

**Total Value of Those Claims: \$5,815,380.00.**

MFG Overseas is a wholly-owned subsidiary of MF Global Holdings Overseas Limited (“**Holdings Overseas**”) and an indirect subsidiary of Holdings Ltd. MFG Overseas acted principally as an investment holding company for the MF Global Group’s assets in Asia and Canada.

The below chart sets forth claims filed by the Debtors against Finance Europe and MFG Overseas.

**Claims Against Finance Europe and MFG Overseas**

| Claimant                            | Debtor         | Class of Claim    | Amount               |
|-------------------------------------|----------------|-------------------|----------------------|
| Holdings Ltd.                       | Finance Europe | General Unsecured | \$34,224,652         |
| Holdings Overseas                   | Finance Europe | General Unsecured | \$299,309,693        |
| Holdings Europe                     | Finance Europe | General Unsecured | \$13,183,008         |
| <b>Total</b>                        |                |                   | <b>\$346,717,353</b> |
| Holdings Ltd.                       | MFG Overseas   | General Unsecured | \$75,000             |
| Holdings Overseas                   | MFG Overseas   | General Unsecured | \$5,713,600          |
| MF Global Clearing Services Limited | MFG Overseas   | General Unsecured | \$26,780             |
| <b>Total</b>                        |                |                   | <b>\$5,815,380</b>   |

**A. Creditors' Committees of MFG Overseas and Finance Europe**

Holdings Ltd., by virtue of its direct claims and the claims of non-debtor affiliates, as set forth in the chart above, controls all three seats on the creditors' committee for Finance Europe and MFG Overseas. The Trustee, through the creditors' committee, continues to aid the Administrators and provide input on the development of a strategy for the recovery of assets and the flow of funds up to Holdings Ltd. The Administrators continue to provide timely informational updates with respect to the posture of the subsidiary asset sales and the Administrators continue to consult with the Trustee on important decisions.

The Administrators are currently adjudicating intercompany claims and working with the Trustee to ensure a rapid distribution of funds after the liquidation of various assets held by their estates. The Trustee and his advisors are seeking to develop a strategy for interim distributions with the Administrators, which is likely to be through the establishment of a company voluntary arrangement.<sup>78</sup> The Trustee also is working with the Administrators to develop a strategy in relation to the final distribution of assets.

In addition, the Trustee and the Administrators have entered into an agreement with the Committee, allowing the Committee "observer" status on the creditors' committees of Finance Europe and MFG Overseas. This arrangement will facilitate the flow of information to the Committee and their advisors from the Administrators, provided they execute an appropriate non-disclosure agreement.

On February 22, 2012, the Trustee and the Administrators entered into a Cross-Border Insolvency Protocol to facilitate the coordination of the proceedings in relation to each estate, and to enable the Trustee and the Administrators to cooperate efficiently, effectively, and

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<sup>78</sup> A company voluntary arrangement is a binding scheme or arrangement between creditors under supervision of an independent supervisor that must be approved at meetings of creditors and members.

expeditiously in the administration of their respective estates in the best interests of all of the creditors of each estate and other potential stakeholders.

**MF GLOBAL GROUP ENTITIES IN THE REST OF THE WORLD**

**I. AUSTRALIA**

**Total Number of Claims filed Against Australian Entities  
by the Debtors and their Non-Debtor Affiliates: 4.**

**Total Value of Those Claims: \$1,389,905.00.**

The MF Global Group's Australian operations were performed by three entities, two of which were operationally active as of the October Petition Date. MF Global Australia Limited ("MFG Australia"), a wholly-owned subsidiary of MFG Overseas, was a regulated entity that provided derivatives brokering and clearing services. BrokerOne Pty Limited was a wholly-owned subsidiary of MFG Australia that was operationally inactive at the time of administration. MF Global Securities Australia Limited ("MFG Securities Australia"), another wholly-owned subsidiary of MFG Overseas, was a regulated entity that provided securities brokerage services.

As of September 30, 2011, MFG Overseas' balance sheet reflected a book value for its equity investment in MFG Australia at £20.3 million, and a book value for its equity investment in MFG Securities Australia at £3.2 million. The Australian entities are currently in administration proceedings and in the process of liquidation. Chris Campbell, Vaughan Strawbridge and David Lombe, of Deloitte, were appointed administrators of the three Australian entities on November 1, 2011. The administrators have taken control of the Australian entities and all of their operations with immediate effect, in accordance with the *Corporations Act 2001* (Cth) (Act).

An official claims bar date has not been established by the administrators. The below chart details the claims filed by the Debtors against the Australian entities.

**Claims Filed by the Debtors Against the Australian Entities**

| Claimant      | Debtor                      | Class of Claim    | Amount             |
|---------------|-----------------------------|-------------------|--------------------|
| Holdings Ltd. | MFG Australia               | General Unsecured | \$726,226          |
| Holdings Ltd. | MFG Securities<br>Australia | General Unsecured | \$139,628          |
| Holdings USA  | MFG Australia               | General Unsecured | \$523,132          |
| Holdings USA  | MFG Securities<br>Australia | General Unsecured | \$919              |
| <b>Total</b>  |                             |                   | <b>\$1,389,905</b> |

**II. CANADA**

**Total Number of Claims Filed Against this Entity  
by the Debtors and their Non-Debtor Affiliates: 5.**

**Total Value of Those Claims: \$ 1,216,100.**

MF Global Canada Co. (“**MFG Canada**”) was an indirect, wholly-owned subsidiary of MFG Overseas. MFG Canada was a regulated Canadian broker-dealer that mainly placed orders for commodity futures and options contracts on behalf of its clients. The majority of those orders were executed and cleared by MFGI. MFG Canada also served as the clearing agent for trades of MFGI that were made on the Bourse de Montreal Inc. and ICE Futures Canada. As of September 30, 2011, MFG Overseas’ balance sheet reflected the book value for its equity investment in MFG Canada at £1.6 million.

On November 4, 2011, KPMG Inc. (Canada) was appointed as trustee in bankruptcy. To date, MFG Canada clients have received an 80% distribution from the estate. Substantially all of the Canadian client claims protected by the Canadian Investor Protection Fund -- defined as those clients with balances less than C\$5 million -- either have been settled in full or paid in substantial part.

The trustees for MFG Canada established May 10, 2012 as the bar date for filing client claims, although all creditors were encouraged to submit claims by this date. At this time, the Trustee cannot estimate the potential distribution the Debtors may receive on account of these filed claims. In addition to the claims held by the Debtors (as set forth in the below chart), MFG IP has a claim against MFG Canada.

**Claims Held Against MFG Canada**

| Claimant      | Class of Claim    | Amount             |
|---------------|-------------------|--------------------|
| Holdings Ltd. | General Unsecured | \$676,049          |
| Holdings USA  | General Unsecured | \$396,916          |
| MFG IP        | General Unsecured | \$21,676           |
| Capital       | General Unsecured | \$94,832           |
| FX Clear      | General Unsecured | \$26,627           |
| <b>Total</b>  |                   | <b>\$1,216,100</b> |

**III. HONG KONG**

**Total Number of Claims Filed Against These Entities  
by the Debtors and their Non-Debtor Affiliates: 4.**

**Total amount of those claims: \$1,180,965.**

The MF Global Group's Hong Kong operations were performed by two entities: MF Global Holdings HK Limited ("**Holdings HK**"), which is a wholly-owned subsidiary of MFG Overseas, and MF Global Hong Kong Limited ("**MFG HK**"), which was a regulated entity and a member of the Hong Kong Futures Exchange Limited and the Stock Exchange of Hong Kong Limited. MFG HK's principal activity was providing brokerage services to its customers.

On November 2, 2011, Patrick Cowley, Fergal Power and Lui Yee Man were appointed joint and several provisional liquidators of Holdings HK and MFG HK. The initial meeting of creditors took place on March 22, 2012, and was attended by the Trustee's financial advisors. The Debtors were elected as one of the five members of the committee of inspection for

Holdings HK. The Debtors were one of nine creditors that expressed interest in sitting on the MFG HK committee of inspection; however, the committee is limited to seven members. The provisional liquidators have submitted an application with the Hong Kong court seeking, among other things, court approval for the Debtors to be included on the committee. This process takes four to eight weeks and the court has not yet set a hearing date on the application.

The Debtors filed four general unsecured creditor claims totaling \$1.18 million against Holdings HK and MFG HK. The Trustee is unable to determine the likelihood of a recovery because the recoveries from these entities are highly dependent upon distributions received from other affiliates on account of intercompany claims. Below is a chart that details the Debtors' claims against Holdings HK and MFG HK.

**Claims Against Holdings HK and MFG HK**

| Claimant      | Debtor      | Class of Claim    | Amount               |
|---------------|-------------|-------------------|----------------------|
| Holdings Ltd. | MFG HK      | General Unsecured | \$114,902            |
| Holdings Ltd. | Holdings HK | General Unsecured | \$403,525            |
| Holdings USA  | MFG HK      | General Unsecured | \$ 408,716           |
| Holdings USA  | Holdings HK | General Unsecured | \$253,822            |
| <b>Total</b>  |             |                   | <b>US\$1,180,965</b> |

**IV. INDIA**

**Total Number of Claims Against This Entity  
by the Debtors and their Non-Debtor Affiliates: 7.**

**Total Value of Those Claims: \$832,541.00.**

The MF Global Group's Indian operations are comprised of four principal elements discussed below. As of September 30, 2011, MFG Overseas' balance sheet reflected a book value for its Indian operations at £14.8 million.

MF Global Sify Securities India Pvt. Limited ("MF Global Sify") is a registered broker-dealer that offered institutional equity offerings and retail brokerage and research. MF Global Sify is a joint

venture between MFG Overseas and Satyam Infoway Limited (now known as Sify Technologies Limited) in which MFG Overseas owns 70.15% of the equity. MFG Sify had two operating subsidiaries: (i) MF Global Commodities India Pvt Limited, a wholly-owned subsidiary that provides brokerages services in the Indian commodities market, and (ii) MF Global Middle East DMCC, a wholly-owned subsidiary that is a trading and clearing member of the Dubai Gold & Commodities Exchange.

MF Global Centralised Services India Pvt. Limited (“**MFG Centralised Services**”) is a wholly-owned subsidiary of MFG Overseas, and is a trading and clearing member of the Dubai Gold & Commodities Exchange.

MF Global India Pvt. Limited is also a wholly-owned subsidiary that acts as a broker for other companies of the MF Global Group and receives commissions for trades performed by customers of MFG Centralised Services on overseas transactions.

MFG Overseas owns 74.99% of MF Global Finance & Investment Services India Pvt. Limited (“**MFG F&I**”), which offers lending services against securities, property and gold. MFG F&I is registered with the Reserve Bank of India as a non-deposit, non-banking financial company.

On March 26, 2012, the Administrators agreed to the terms of a sale of MFG Overseas’ share holdings in the Indian operations with Phillip Capital Group. MFG Overseas anticipates realizing an influx of funds from the proceeds of the sale depending on tax issues. The sale is subject to regulatory approval of the purchaser.

The Debtors’ books and records show intercompany receivables due from the Indian affiliates as set forth in more detail in the chart below.

**Intercompany Receivables Owed to the Debtors**

| Claimant      | Debtor                    | Class of Claim    | Amount           |
|---------------|---------------------------|-------------------|------------------|
| Holdings Ltd. | MFG Sify                  | General Unsecured | \$695,197        |
| Holdings Ltd. | MFG Centralised Services. | General Unsecured | \$51,247         |
| Holdings USA  | MFG Sify                  | General Unsecured | \$45,110         |
| Holdings Ltd. | MFG Middle East DMCC      | General Unsecured | \$20,047         |
| Holdings USA  | MFG Sify                  | General Unsecured | \$45,110         |
| Holdings USA  | MFG Middle East DMCC      | General Unsecured | \$13,950         |
| FX Clear      | MFG Middle East DMCC      | General Unsecured | \$2,653          |
| <b>Total</b>  |                           |                   | <b>\$832,541</b> |

**V. IRELAND**

MF Global Clearing Services Limited (“**MFG Clearing**”), a wholly-owned subsidiary of MFG Overseas, was created to provide clearing services for The Bank of New York Mellon. As of September 30, 2011, MFG Overseas’ balance sheet reflected a book value for its equity investment in MFG Clearing of £17,073. This entity is currently dormant and the Debtors do not anticipate realizing any value upon its dissolution.

**VI. JAPAN**

**Total Number of Claims to be Filed Against this Entity by the Debtors and their Non-Debtor Affiliates: 4.**

**Total Value of Those Claims: \$739,777.**

MF Global FXA Securities Limited (“**FXA Securities**”), a wholly-owned subsidiary of MFG Overseas, was a regulated entity engaged primarily in the cash equity brokerage business and OTC margin foreign exchange business. On November 1, 2011, FXA Securities was placed under administration by the Financial Services Authority, the Japanese regulatory agency with oversight responsibility for FXA Securities. As of September 30, 2011, MFG Overseas' balance sheet reflected a book value for its equity investment in FXA Securities at £28.5 million.



FXA Securities entered liquidation following an extended sales process that failed to gain final approval from the Japanese Financial Services Authority. The deadline for filing general unsecured claims against FXA Securities is June 13, 2012. As set forth in the chart below, the Debtors and MFG IP intend to file a total of four general unsecured creditor claims totaling \$739,877 against FXA Securities. The Debtors anticipate receiving a full recovery on account of its unsecured claims. The below chart details the Debtors' and MFG IP's claims against FXA Securities.

**Claims Against FXA Securities**

| Claimant      | Class of Claim    | Amount           |
|---------------|-------------------|------------------|
| Holdings Ltd. | General Unsecured | \$227,065        |
| Holdings USA  | General Unsecured | \$470,219        |
| Capital       | General Unsecured | \$6,644          |
| MFG IP        | General Unsecured | \$35,849         |
| <b>Total</b>  |                   | <b>\$739,877</b> |

In addition, the Administrators have indicated that they anticipate receiving a distribution on account of MFG Overseas' equity based on a current projected cash surplus after liquidation costs.

**VII. MAURITIUS**

**Total Number of Claims Against this Entity  
by the Debtors and their Non-Debtor Affiliates: 1.**

**Total Value of Those Claims: \$ 55,400.**

MF Global Mauritius Pvt Ltd ("MFG Mauritius"), a wholly-owned subsidiary of MFG Overseas, was an unregulated entity engaged in brokering and trading activities. As of September 30, 2011, MFG Overseas' balance sheet reflected a book value for its equity investment in MFG Mauritius at £683,824.

MFG Mauritius has not yet entered liquidation proceedings. Holdings Ltd. has general unsecured creditor claims totaling \$55,400 against MFG Mauritius. Holdings Ltd. anticipates receiving a full recovery on account of its unsecured claims. In addition, the Administrators have indicated that they currently anticipate receiving a distribution on account of MFG Overseas' equity based on a current projected cash surplus after liquidation costs. It is anticipated that a distribution on account of equity to MFG Overseas ultimately will benefit Holdings Ltd.

### **VIII. SINGAPORE**

**Total Number of Claims Filed Against this Entity  
by the Debtors and their Non-Debtor Affiliates: 3.**

**Total Value of Those Claims: \$ 26,514,373.**

MF Global Singapore Pte. Limited (“**MFG Singapore**”), a wholly-owned subsidiary of MFG Overseas, was a regulated broker-dealer that engaged in exchange traded and OTC derivative transactions. As at September 30, 2011, MFG Overseas' balance sheet reflected a book value for its equity investment in MFG Singapore at £58.6 million.

On November 2, 2011, Chay Fook Yuen, Bob Yap Cheng Ghee and Tay Puay Cheng of KPMG were appointed provisional liquidators of MFG Singapore. A meeting of creditors was held on May 28, 2012. The Trustee was awarded a seat on the committee of inspection. As set forth in the chart below, the Debtors and non-Debtor affiliates filed three general unsecured creditor claims totaling approximately \$26.6 million against MFG Singapore. At the creditors' meeting, the liquidators provided a statement of MFG Singapore's affairs, and distributions are highly dependent upon recoveries from claims MFG Singapore has made against other former affiliates. At this time, the Trustee does not know the potential distribution the Debtors may receive on account of these claims.

**Claims Against MFG Singapore**

| Claimant     | Class of Claim    | Amount              |
|--------------|-------------------|---------------------|
| Holdings USA | General Unsecured | \$1,219,597         |
| FinCo        | General Unsecured | \$25,000,000        |
| MFG IP       | General Unsecured | \$294,776           |
| <b>Total</b> |                   | <b>\$26,514,373</b> |

**IX. TAIWAN**

The MF Global Group's interest in Taiwan is comprised of direct and indirect equity interests held in two Taiwanese entities: MF Global Futures Trust Co. Ltd. ("**MFG FTE**"), in which Holdings Ltd. has a 67% direct ownership interest, and Polaris MF Global Futures Co. Limited ("**Polaris**"), a publicly traded Taiwanese broker-dealer that is 11% owned by MFG Overseas.<sup>79</sup>

MFG FTE is a regulated entity and one of Taiwan's first fund managers. MFG FTE is not the subject of an insolvency proceeding. As at March 31, 2012, MFG FTE had a net asset position of \$8 million. MFG Singapore acted as broker to MFG FTE and, as a result, owes approximately \$7.2 million in margin to MFG FTE. MFG Singapore also acted as broker to Polaris and, as a result, the Trustee has been advised that MFG Singapore owes Polaris approximately \$24 million in margin. Pursuant to a court order restricting repayment of segregated funds to affiliates, payment of margin to MFG FTE and Polaris was held up by the provisional liquidators of MFG Singapore. By order dated May 25, 2012, the prior Singapore court order was clarified to allow payment, as appropriate, to affiliates of MFG Singapore, including MFG FTE and Polaris, and the Trustee understands that MFG Singapore is in the process of approving an interim distribution to MFG FTE and Polaris. The Trustee is seeking to

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<sup>79</sup> Effective April 1, 2012, Polaris merged with Yuanta Futures with MFG Overseas maintaining its approximately 11% ownership share in the surviving entity, Yuanta Polaris Futures Co. Ltd.

sell or liquidate MFG FTE. The timing of any direct or indirect realization by the Debtors remains subject to approval by Taiwanese regulators and may be contingent upon all Taiwanese customers of MFG Singapore and its Taiwan branch receiving the balance of their segregated funds from MFG Singapore.

Polaris had recently traded in the TWD33 per share range, valuing MFG Overseas' stake at approximately \$29 million. As of September 30, 2011, MFG Overseas' balance sheet reflected a book value for its equity investment in Polaris at £9.99 million. KPMG Taiwan has been instructed to manage the sales process. As with MFG FTE, any sale and realization remains subject to negotiation with the Taiwanese regulators, assuming all Taiwanese customers are made whole for their segregated funds claims.

## **MISCELLANEOUS ISSUES**

### **I. RECOVERY OF TRADING CLOSE-OUT VALUATION**

The Trustee and his advisors, in conjunction with the Debtors' employees, have worked diligently to recover funds owed to the Unregulated Debtors as a result of the termination of master derivative agreements and the underlying transactions. As a result, the Debtors have been able to recover in excess of \$25 million for the Unregulated Debtors from such contract terminations.

### **II. RECOVERY OF TAX REFUNDS**

The Trustee believes that potential federal and state tax refund revenues are likely to come into the FinCo and the Subsequent Debtors' estates that may be in excess of \$30 million. Pre-petition, FinCo and the Subsequent Debtors applied to the Internal Revenue Service for a refund of taxes paid in fiscal year 2009 based on losses from 2011 that could be carried back and applied to the 2009 fiscal year.

The Internal Revenue Service is nearing completion of an audit of FinCo and the Subsequent Debtors and continues to review potential refunds for fiscal years 2007-2011. Although the Trustee does not have a finite date as of yet as to when these funds will come into the FinCo and the Subsequent Debtors' estates, he is hopeful the funds will come into these estates in 2012.

### **III. SALE OF DE MINIMIS ASSETS**

On March 22, 2012, the Trustee filed a motion for entry of an order, pursuant to Bankruptcy Code sections 105, 363 and 365, to: (i) establish procedures for the sale or disposal of *de minimis* assets and (ii) authorize the Trustee to (a) pay related fees and (b) assume, assume and assign, or reject related executory contracts or unexpired leases (the “**De Minimis Sales Motion**”). The Court held a hearing to consider the De Minimis Sales Motion on April 12, 2012 and entered an order granting the motion later that day.

Since the entry of the order granting the De Minimis Sales Motion, the Trustee has engaged in one *de minimis* asset sale, as a result of which two computer servers were sold to IT Asset Management Group for \$146,640. Oracle America, Inc. (“**Oracle**”) filed a limited objection and reservation of rights because these machines had previously been used to run Oracle software. The Trustee and Oracle resolved the issues raised in the limited objection and the Court entered an order authorizing the sale. The Trustee has received the funds from this sale.

At this time, no other *de minimis* asset sales are being contemplated by the Trustee.

#### **IV. INSURANCE**

This section of the Report examines the insurance programs maintained by Holdings Ltd. as of the October Petition Date.<sup>80</sup> Although Holdings Ltd. maintained several types of insurance through multiple carriers, this section focuses on the two lines of coverage that have been the subject of most of the insurance litigation since the October Petition Date: (i) the professional liability, or “errors and omissions,” policies (the “**E&O Policies**”) issued by MFGA and certain third-party excess insurers, and (ii) the directors & officers policies (the “**D&O Policies**”) issued by various insurance companies, for the policy period May 31, 2011 to May 31, 2012 (the “**Policy Period**”).

##### **A. MFG Assurance**

MFGA is a wholly-owned, Class 1, captive insurance subsidiary of Holdings Ltd., domiciled in Bermuda and regulated by the Bermuda Monetary Authority. The Bermuda Monetary Authority requires MFGA to maintain a balance of appropriately skilled, experienced, and qualified individuals who can apply informed and independent judgment to MFGA’s governance.<sup>81</sup> Since the commencement of the Chapter 11 Cases, the Bermuda Monetary Authority has increased its regulatory interest in MFGA, with specific regard as to whether MFGA is continuing to honor its policy obligations. MFGA’s primary responsibility is to maintain the E&O Policies.

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<sup>80</sup> The statements made in this section of the Report are not intended to be and cannot be relied upon as an interpretation or determination of the meaning, scope or definition of any term, passage or account of any of the insurance programs or policies described herein. No information provided in this section should, can or will serve as a legal opinion or determination of any “claim,” as the term claim is used in either the Bankruptcy Code or the insurance policies themselves. No one should consider that these are the actual terms and conditions provided in all or any of the insurance policies. This Report is not intended to be relied upon as an insurance policy or legal advice.

<sup>81</sup> Section 5.0, BMA Insurance Department, Guidance Note #12, Corporate Governance (2005), [http://www.bma.bm/uploaded/127-Corporate\\_Governance\\_Mar\\_05.pdf](http://www.bma.bm/uploaded/127-Corporate_Governance_Mar_05.pdf) (last visited, May 19, 2012).

## B. The E&O Policies

For the Policy Period, Holdings Ltd. entered into thirteen E&O Policies with MFGA -- one primary policy and twelve excess policies -- providing a total of \$120 million in aggregate limits of coverage. Holdings Ltd. purchased four additional excess layers of coverage providing an additional \$30 million in aggregate limits above the MFGA-issued layers. Therefore, Holdings Ltd. had \$150 million in aggregate limits of coverage under the various E&O Policies during the Policy Period.<sup>82</sup> The E&O Policies are “claims made” policies, which provide coverage for claims actually made against the *insured*<sup>83</sup> during the applicable policy period, subject to certain extensions and other terms set forth in the policies.

MFGA fully reinsured the entire \$120 million “tower” of E&O coverage through various third-party reinsurance carriers, with the sole exception of the self-insured primary layer providing \$7.475 million in coverage, with no aggregate limits, in excess of a \$25,000 retention (similar to a deductible). Under the primary E&O Policy, the first \$25,000 of loss arising from each *single claim* is borne by the *insured* or *individual insured*, as the case may be, and MFGA covers the next \$7.475 million of such loss, without recourse to reinsurance. Loss from any *single claim* in excess of \$7.5 million is insured by MFGA up to an aggregate limit of \$120 million, subject to third-party reinsurance policies that mirror the coverage of the MFGA policies. Other third-party carriers directly insured Holdings Ltd. against loss from a *single claim* exceeding \$120 million, up to \$150 million.

For the primary E&O Policy described above, the total premium owed by Holdings Ltd. for the Policy Period was \$8,479,959, payable in 12 monthly installments of \$706,663.25. For

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<sup>82</sup> Refer to Exhibit C for a depiction of the E&O Policy tower.

<sup>83</sup> Italicized terms used in this section of the Report shall have the meaning ascribed to them in the definitions contained in the E&O Policies, which definitions, in some cases, are provided in this Report.

the excess E&O Policies, the total premium owed by Holdings Ltd. was \$3,866,793, payable in 12 monthly installments of \$322,232.75. Holdings Ltd. made its last monthly installment payments to MFGA in September 2011. MFGA has fully paid to its third-party reinsurers all premium amounts due for the entire Policy Period.

**C. Substantive Provisions of the MFGA E&O Policies.**

The E&O Policies cover Holdings Ltd. and its subsidiaries, both domestically and abroad, as well as their directors, officers and employees for their actual or alleged acts, errors or omissions while in the performance of services provided by Holdings Ltd. and its subsidiaries. Specifically, subject to certain exceptions listed therein, the E&O Policies provide:

The *insurer* shall pay on behalf of the *insured* for all *loss* arising out of a *wrongful act* which gives rise to a *claim* first made against an *insured* by a third party during the *policy period* (or discovery period, if applicable) and reported in writing to the *insurer* pursuant to the terms of this policy.

To properly understand the above language, a breakdown of the defined terms is necessary. The E&O Policies define the *insurer* as MFGA. The *insureds* include the *insured entity* -- Holdings Ltd. and its subsidiaries -- and the *individual insureds*. *Individual insureds* is a broad-ranging group of employees and persons affiliated with Holdings Ltd. and its subsidiaries, including but not limited to:

- (i) Any past, present or future natural person under a contract of employment (be it full time, part-time or temporary, or be it written or implied) with the *insured entity*;
- (ii) Any past, present or future natural person working under the direct control and supervision of the *insured entity*;
- (iii) Any past, present or future *director* or *officer* when performing acts within the scope of the usual duties of an employee of the *insured entity* or while acting as a member of a committee duly elected or appointed by resolution of the Board of Directors of the *insured entity* to perform specific, as distinguished



from general, directorial acts on behalf of the *insured entity* . . . ;  
and

(v) Any past, present or future natural person compensated by the *insured* by wages, salaries, commissions or any other form of payments in respect of consultancy services.

The E&O Policies define *Loss* as follows:

- (i) *defense costs*; and/or
- (ii) damages, *aggravated damages* as permitted by law, judgments (including pre/post judgment interest), restitution orders of a compensatory nature, *claimant's costs*, *co-defendant's costs*, legal costs and expenses awarded against any *insured*; and/or
- (iii) settlements negotiated with the *insurer's* consent (such consent not to be withheld unreasonably); and/or
- (iv) awards of punitive, exemplary and multiple damages (where insurable by law). Enforceability of this paragraph shall be governed by such applicable law which most favors coverage for punitive, exemplary and multiple damages; and/or
- (v) awards of any referee, arbitrator, the Financial Services Ombudsman or any other ombudsman appointed by the Secretary of State for Trade and Industry or similar *regulator* or by any self-regulatory organization or by any recognized professional body by whose rules the *insured* is bound,

in respect of any *claim* under the policy.

However, *Loss* shall *not* include:

- (a) taxes, unless such taxes form part of an award of damages to a third party;
- (b) wages, salaries or other remuneration of any *insured*;
- (c) the cost of complying with any settlement for or award of non-monetary relief; or
- (d) principal, interest or other monies accrued or due (either now or in the future) but not yet paid to the *insured entity* as a result of any loan, lease or extension of credit.

Under the above definition and other terms of the E&O Policies, *Loss* other than *defense costs* and certain other incidental costs generally arises only upon a determination by a tribunal, referee, arbitrator or some other appointed official granting a monetary judgment or award against an *insured*, or upon a final settlement of a claim entered with MFGA's consent.

A *Wrongful Act* is the alleged or actual act, error or omission that leads to a *claim*. In the E&O Policies, *Wrongful Act* means:

Any actual or alleged act, error or omission by the *insured*, or by any other person for whose act, error or omission the *insured* is legally responsible, arising out of the provision of, or failure to provide the *services*. For the avoidance of doubt, the term "act, error or omission" as used in the foregoing, shall include, but not be limited to any:

(i) breach of duty, breach of trust (including, but not limited to, breach of constructive trust) breach of fiduciary duty, neglect, error, misstatement, misleading statement, misrepresentation, libel, slander, omission or breach of warranty of authority; or

(ii) breach of any statute enacted anywhere in the world (including any statutory provisions and/or any rules or *regulations* made by any regulatory body or authority thereunder, and including any award of any referee, arbitrator, the Financial Services Ombudsman or any other ombudsman appointed by the Secretary of State for Trade and Industry or similar *regulator* or by any self-regulatory organization or by any recognized professional body by whose rules the *insured* is bound); or

(iii) other breach of a duty to a third party which is actionable at law in tort, or actionable in delict or quasi-delict in respect of Scotland.

To be clear, a *claim* under the E&O Policies is far different than a "claim" under Bankruptcy Code section 101(5). A claim under Bankruptcy Code section 101(5) is defined as the:

(A) right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured; or

(B) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured.

11 U.S.C. § 101(5). Under the primary E&O Policy, *claim* means:

(i) any suit or proceeding, including any civil proceeding, third party proceeding, counter claim or arbitration proceeding, or a regulatory proceeding brought by any person or entity against an insured for monetary damages or other relief, including non-pecuniary relief for a specified wrongful act;

(ii) any written demand from any person or entity seeking monetary damages or other relief, including non-pecuniary relief, from an insured for the results of any specified wrongful act;

(iii) any official investigation, examination, inquiry or other similar proceeding at which an individual insured of the insured entity's attendance is required provided such official investigation, examination, inquiry or other similar proceeding is directly related to an alleged wrongful act of such individual insured or the insured entity in their capacity as such:

(1) once such individual insured is identified in writing by such investigating authority as a person against whom a civil, criminal, administrative, regulatory or arbitration proceeding for monetary, non-monetary or injunctive relief which is commenced by: (a) service of a complaint or similar pleading; (b) return of an indictment, information or similar document (in the case of a criminal proceeding); or (c) receipt or filing of a notice of charges may be commenced; or

(2) in the case of an investigation by a regulatory or a similar government authority, after the service of a subpoena upon such individual insured.<sup>84</sup>

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<sup>84</sup> This language appears only in the primary policy. The MFGA excess layers say “in the case of an investigation by the SEC or a similar state government authority, after the service of a subpoena upon such individual insured.”

The different definitions of *claim* under the E&O Policies, on the one hand, and under the Bankruptcy Code, on the other hand, as well as the definition of *loss* under the E&O Policies, have led to significant confusion among some customers of MFGI.

**D. The D&O Policies.**

Holdings Ltd. maintained a D&O insurance program during the Policy Period comprising twenty-one primary and excess D&O Policies with a total aggregate limit of \$225 million.<sup>85</sup> These policies provided what is commonly known in the insurance industry as Side A, Side B, and Side C coverage. Side A coverage provides officers and directors of Holdings Ltd. and its subsidiaries with coverage for **Loss**<sup>86</sup> arising from **Claims** made against those directors and officers for **Wrongful Acts** except when and to the extent that Holdings Ltd. has indemnified those directors and officers. Therefore, to the extent Holdings Ltd. or its subsidiaries do not indemnify the officer or director, the D&O Policies cover such **Loss**. Side B coverage (provided under the D&O Policies by part (B)(1) of the coverage grant) reimburses Holdings Ltd. or its subsidiaries for losses that Holdings Ltd. or its subsidiaries paid on behalf of **Insured Persons**. Side C coverage (provided under the D&O Policies by part (B)(2) of the coverage grant) provides entity coverage to Holdings Ltd. or its subsidiaries limited to **Loss** arising from securities claims as defined by the policies.

The Side A coverage does not have a deductible. The Side B coverage and Side C coverage each have a \$2.5 million retention by Holdings Ltd. and its subsidiaries. The first ten layers of the D&O Policy tower provide \$150 million in aggregate limits as to types of coverage (Sides A, B and C). The next four layers -- which provide coverage for losses arising from a

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<sup>85</sup> Refer to Exhibit D for a depiction of the D&O Policy tower.

<sup>86</sup> Bold terms used in this section of the Report shall have the meaning ascribed to them in the definitions contained in the D&O Policies, which definitions, in some cases, are provided in this Report.

single claim from \$150 million to \$200 million -- provide \$50 million in Side A coverage to officers and directors. The top two layers -- aggregate coverage from \$200 million to \$225 million -- provide Side A coverage exclusively for the benefit of **Independent Directors**.

**E. Substantive Provisions of the D&O Policies.**

As amended by the endorsements, the insuring agreements in the primary D&O Policy, entered into by Holdings Ltd. and U.S. Specialty Insurance Company (“**U.S. Specialty**”), state:

(A) The Insurer will pay to or on behalf of the **Insured Person Loss** arising from **Claims** first made during the **Policy Period** or Discovery Period (if applicable), against the **Insured Persons** for **Wrongful Acts**, except when and to the extent the **Company** has paid such **Loss** to or on behalf of the **Insured Persons** as indemnification or advancement.

[a] The insurer will pay, to or on behalf of the **Insured Persons, Pre-Claim Inquiry Costs** or **Liberty Protection Costs** arising from **Pre-Claim Inquiries** first received by the **Insured Persons** during the policy period or the Discovery Period (if applicable), except when and to the extent that the **Company** has paid such **Pre-Claim Inquiry Costs** or **Liberty Protection Costs** to or on behalf of the **Insured Persons** as indemnification or advancement.

(B) The Insurer will pay to or on behalf of the **Company Loss** arising from:

(1) **Claims** first made during the **Policy Period** or the Discovery Period (if applicable) against the **Insured Persons** for **Wrongful Acts**, if the **Company** has paid such **Loss** to or on behalf of the **Insured Persons** as indemnification or advancement, and/or

[a] the Insurer will pay, to or on behalf of the **Company, Pre-Claim Inquiry Costs** or **Liberty Protection Costs** arising from **Pre-Claim Inquiries** first received by the **Insured Persons** during the **Policy Period** or the Discovery Period (if applicable), if the **Company** has paid such **Pre-Claim Inquiry Costs** or **Liberty Protection Costs** to or on behalf of the **Insured Persons** as indemnification or advancement.

**(2) Securities Claims** first made during the **Policy Period** or the **Discovery Period** (if applicable) against the **Company** for **Wrongful Acts**.

Putting the terms used in the primary D&O Policy into industry terminology, Insuring Agreement (A) is the Side A coverage, Insuring Agreement (B)(1) is the Side B coverage, and Insuring Agreement (B)(2) is the Side C coverage.

The excess layers contain a “following form” provision that provides the same coverage as the primary layer. MFGI’s customers have withdrawn most of their litigation as it relates to the D&O Policies because the D&O Policies have a priority of payment provision, which states:

If the Insurer is obligated to pay Loss, including Defense Costs, under more than one INSURING AGREEMENT, whether in connection with a single Claim or multiple Claims, the Insurer will first pay any Loss payable under INSURING AGREEMENT (A) and, if the Insurer concludes that the amount of all Loss, including Defense Costs, is likely to exceed the Insurer's Limit of Liability, the Insurer shall be entitled to withhold some or all of any Loss payable under INSURING AGREEMENT (B)(1) or (B)(2) to ensure that as much of the Limit of Liability as possible is available for the payment of Loss under INSURING AGREEMENT (A). If no Loss is payable under INSURING AGREEMENT (A), or if the Insurer's obligations under INSURING AGREEMENT (A) have been satisfied, then, subject to the Insurer's Limit of Liability as set forth in Item 3 of the Declarations, the Insurer will pay such Loss as it is required to pay under INSURING AGREEMENT (B)(1) or (B)(2) in such manner and, in the event of multiple Claims, apportioned among such Claims as the Named Corporation shall direct in writing.

This priority of payment provision provides priority to the Side A coverage (Insuring Agreement (A) over the Side B (Insuring Agreement (B)(1)) and Side C (Insuring Agreement (B)(2)) coverages. Therefore, under the D&O Policies, officers and directors receive payments prior to Holdings Ltd. or its subsidiaries should they both file claims against the policies.

**F. Insurance-Related Litigation.**

On February 3, 2012, the Trustee and MFGA served notice that they had entered into a stipulation, which they sought to have approved by the Court,<sup>87</sup> pursuant to which the Trustee and MFGA sought, in the most expeditious and cost-effective way, to allow MFGA to advance *defense costs* and otherwise meet its financial obligations under the E&O Policies. This resulted in four objections, all from customers of MFGI.<sup>88</sup>

By separate motion, on February 8, 2012, U.S. Specialty moved the Court to lift the automatic stay to allow U.S. Specialty to advance defense costs and otherwise meet its financial obligations under its D&O Policy with Holdings Ltd.<sup>89</sup> This resulted in three responses from customers of MFGI.<sup>90</sup>

The Court consolidated these matters and held a hearing on April 2, 2012 to determine whether the automatic stay should be lifted to allow the payment of defense costs of the individual insureds under either the D&O Policies or the E&O Policies or both. On April 10, 2012, the Court issued its opinion, which overruled the various objections and allowed an initial “soft cap” of \$30 million of defense costs to be paid by MFGA and U.S. Specialty, to be apportioned as those insurers saw fit.<sup>91</sup>

Among those who objected to the stipulation to allow MFGA to perform under the E&O Policies were Sapere Wealth Management LLC, Granite Asset Management, and Sapere CTA

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<sup>87</sup> Docket No. 409.

<sup>88</sup> Docket Nos. 416, 417, 419, 421.

<sup>89</sup> Docket No. 428.

<sup>90</sup> Docket Nos. 477, 482, 484.

<sup>91</sup> Docket No. 619.

Fund L.P. (collectively, “**Sapere**”).<sup>92</sup> Sapere has appealed<sup>93</sup> the Court’s decision<sup>94</sup> to lift the automatic stay to allow MFGA and U.S. Specialty to pay defense costs out of their respective policy proceeds. Sapere also sought a stay pending appeal, which this Court denied in a written opinion.<sup>95</sup> After a hearing on May 22, 2012, the District Court likewise denied Sapere’s request for a stay pending appeal because, among other reasons, there was not a substantial likelihood that Sapere would succeed on its appeal.<sup>96</sup> Sapere continues to prosecute the appeal and has recently agreed to a briefing schedule with all parties involved.

## V. LITIGATION

### A. Administration of the Chapter 11 Estate

On December 11, 2011, Sapere filed a motion with the Court requesting that the Debtors’ estates be administered pursuant to Bankruptcy Code sections 761–767 (“**Subchapter IV**”), the Commodity Broker’s Liquidation subchapter, and the Part 190 Regulations.<sup>97</sup> In addition, Sapere sought authorization to conduct a Bankruptcy Rule 2004 investigation of the Debtors. Sapere’s motion alleged, without support, that the Debtors stole customer funds from MFGI and asserted that the Debtors were commodity brokers. Based on the belief that the Debtors were commodity brokers, Sapere argued that MFGI’s customers were entitled to receive priority treatment for the alleged \$1.6 billion in “missing” customer funds.

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<sup>92</sup> Docket Nos. 416, 417, 573, 574.

<sup>93</sup> Docket No. 657. *Sapere Wealth Management, LLC., et al., v. Freeh., et al.* Case No 12 Misc. 143 (KBF).

<sup>94</sup> Docket Nos. 619 and 652.

<sup>95</sup> *Supra* note 93.

<sup>96</sup> *Sapere Wealth Management, LLC., et al., v. Freeh., et al.* Case No 12 Misc. 143 (KBF) (Docket No. 17).

<sup>97</sup> Docket No. 278.



Objections to the motion were filed by the Trustee and the Committee.<sup>98</sup> Those objections asserted, among other things, that while Subchapter IV is applicable to the liquidation of commodity brokers in cases under chapter 7 of the Bankruptcy Code, the Debtors' cases were administered under chapter 11 of the Bankruptcy Code and, therefore, Subchapter IV was not applicable to the Debtors' cases. Furthermore, the Trustee argued that Rule 2004 discovery was premature because the Trustee was still conducting his own investigation. The SIPA Trustee filed a statement agreeing that Rule 2004 discovery was not warranted at that time and noted that, although it did not appear that the Debtors had sufficient assets to pay the alleged shortfall of MFGI's customers, it was the SIPA Trustee's responsibility to recover the "missing" assets.<sup>99</sup>

A hearing on the motion was held on January 19, 2012, during which the Court heard oral argument. On February 1, 2012, the Court filed a memorandum opinion and order denying the motion in its entirety, finding that Sapere failed to allege any specific facts supporting its motion and that there was no legal basis to administer the Debtors' cases pursuant to Subchapter IV.<sup>100</sup> In addition, the Court held that Sapere needed to first show that the Debtors' cases should be converted to chapter 7 (relief they had not requested in their motion) and then establish that the Debtors were commodity brokers. The Court found that conversion of the cases was not warranted and that the Debtors were not commodity brokers.

On February 15, 2012, Sapere filed a notice of appeal.<sup>101</sup> On March 30, 2012, Sapere filed a motion seeking direct certification of its appeal to the Second Circuit Court of Appeals.<sup>102</sup>

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<sup>98</sup> Docket Nos. 339, 341.

<sup>99</sup> Docket No. 358.

<sup>100</sup> Docket No. 400.

<sup>101</sup> Docket No. 461.

<sup>102</sup> Docket No. 603.

The Trustee filed an objection to the motion for certification on April 13, 2012 and the Committee filed a joinder to the Trustee's objection.<sup>103</sup> In his objection, the Trustee argued that the Court correctly found that the relief sought in the motion had no basis in law and, accordingly, the motion did not satisfy the standard for certification of an interlocutory order, namely, that the appeal "involves a controlling question of law as to which there is no controlling law in the circuit." On April 25, 2012, the Court filed a memorandum opinion and order denying Sapere's request for certification of its appeal.<sup>104</sup>

On May 11, 2012, the District Court docketed the Sapere appeal.<sup>105</sup> Sapere filed its brief on June 1, 2012.

#### **B. Corporate Personhood**

On February 6, 2012, Adam Furgatch ("**Furgatch**"), a customer of MFGI, filed a motion requesting that the Debtors' estates be administered pursuant to Bankruptcy Code sections 523 and 507.<sup>106</sup> The motion, citing to *Citizens United v. Federal Election Commission*, 558 U.S. 50 (2010), contended that corporate parents and subsidiaries are "persons" as such term is defined in the Bankruptcy Code. Therefore, Furgatch argued, MFGI is entitled to receive "domestic support" from its parent, Holdings Ltd., which obligations are granted priority status under the Bankruptcy Code. Objections to the motion were filed by the Trustee and the Committee.<sup>107</sup> Those objections asserted, among other things, that there is no basis in law or fact for the application of Bankruptcy Code section 523(a)(5) to corporate entities such as the Debtors and

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<sup>103</sup> Docket Nos. 632, 639.

<sup>104</sup> Docket No. 655.

<sup>105</sup> *In re MF Global Holdings Ltd., et al.*, Case No 12-cv-03757(JMF).

<sup>106</sup> Docket No. 424.

<sup>107</sup> Docket Nos. 479, 481.

MFGL. The SIPA Trustee also filed a statement agreeing with the points of authority contained in the Trustee's objection.<sup>108</sup> A hearing on the motion was held on March 6, 2012, during which the Court heard oral argument from Furgatch's counsel. Following the hearing, the Court filed a memorandum opinion denying the motion in its entirety.<sup>109</sup>

On March 20, 2012, Furgatch filed a motion for leave to appeal.<sup>110</sup> The Trustee filed an objection to the motion for leave to appeal on April 3, 2012.<sup>111</sup> In his objection, the Trustee argued that the Court correctly found that the relief sought in the motion had no basis in law and, accordingly, the appeal was frivolous and did not satisfy the standard for appeal of an interlocutory motion, namely, that the appeal "involves a controlling question of law as to which there is substantial ground for difference of opinion." As of the date of this Report, the District Court has not granted Furgatch leave to appeal.

### **C. Miscellaneous Litigation**

Various parties, including customers of MFGL, former employees of the MF Global Group and shareholders of Holdings Ltd., have commenced litigation in multiple districts throughout the United States both pre- and post-bankruptcy. Actions filed pre-petition against the Debtors have been stayed pursuant to Bankruptcy Code § 362. Actions filed post-petition, which arose out of the collapse of the MF Global Group, generally do not name the Debtors as parties or are stayed as to the Debtors. A significant number of the customer actions filed post-petition have been consolidated in the Southern District of New York in the case *Joseph*

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<sup>108</sup> Docket No. 485.

<sup>109</sup> Docket No. 526.

<sup>110</sup> Docket No. 579.

<sup>111</sup> Docket No. 607.

*Deangelis v. Jon Corzine, et al.*, C.A. No. 1:11-07866. Attached as Exhibit E is a chart detailing the various litigations.

**VI. CONGRESSIONAL HEARINGS AND TESTIMONY**

Since the October Petition Date, Congress has invited many people associated with the Debtors -- whether pre-petition or post-petition, tangentially or directly -- to appear and testify before it. The below chart details the hearings held before Congress, and those who appeared as witnesses during those hearings. Attached as Exhibit F is the Trustee’s witness statement submitted prior to his testimony.<sup>112</sup>

| <u>Date</u> | <u>Committee</u>  | <u>Title of Hearing</u>                               | <u>Witnesses</u>   |
|-------------|---|---|--|
| 12/8/2011   | House Agriculture Committee   | Examination of MF Global Bankruptcy                   | Jon Corzine  |
| 12/13/2011  | Senate Agriculture, Nutrition and Forestry Committee                                | Investigation into the MF Global Bankruptcy Panel I   | Robert Hupfer<br>Jeffrey Hainline<br>Dean Tofteland<br>C.J. Blew |
| 12/13/2011  | Senate Agriculture, Nutrition and Forestry Committee                                | Investigation into the MF Global Bankruptcy Panel II  | Jon Corzine<br>Henri Steenkamp<br>Bradley Abelow                 |
| 12/13/2011  | Senate Agriculture, Nutrition and Forestry Committee                                | Investigation into the MF Global Bankruptcy Panel III | Terrence Duffy<br>James Giddens<br>Jill Sommers                  |
| 12/15/2011  | Oversight and Investigations Subcommittee of the House Financial Services Committee | Collapse of MF Global                                 | Jon Corzine<br>Bradley Abelow                                    |

<sup>112</sup> All of the witness statements associated with the chart below are available upon request to the Trustee at mfglobalinfo@mofo.com.

|           |   |  |  |
|-----------|---|--|--|
| 2/2/2012  | Oversight and Investigations Subcommittee of the House Financial Services Committee | Collapse of MF Global: Part 2 Panel I                              | Michael Roseman<br>Michael Stockman  |
| 2/2/2012  | Oversight and Investigations Subcommittee of the House Financial Services Committee | Collapse of MF Global: Part 2 Panel II                             | Craig Parmelee<br>Richard Cantor<br>James Gellert  |
| 3/28/2012 | Oversight and Investigations Subcommittee of the House Financial Services Committee | The Collapse of MF Global; Part 3 Panel I                          | Laurie Ferber<br>Henri Steenkamp<br>Christine Serwinski<br>Edith O'Brien                         |
| 3/28/2012 | Oversight and Investigations Subcommittee of the House Financial Services Committee | The Collapse of MF Global; Part 3 Panel II                         | Diane M. Genova<br>Daniel J. Roth<br>Susan M. Cosper   |
| 4/24/2012 | Senate Banking, Housing and Urban Affairs Committee                                 | The Collapse of MF Global: Lessons Learned and Policy Implications | Louis Freeh<br>James Giddens<br>Jill Sommers<br>Robert Cook<br>Richard Ketchum<br>Terrence Duffy |

## VII. THIRD PARTY INVESTIGATIONS

Since his appointment, the Trustee has negotiated and cooperated with the various governmental agencies investigating the failure of the MF Global Group, including the SEC and CFTC.<sup>113</sup> In addition, the Trustee, on April 24, 2012, testified before Congress as to the lessons learned thus far from the collapse of the MF Global Group.<sup>114</sup>

<sup>113</sup> Docket No. 538.

<sup>114</sup> See Exhibit F for the Trustee's written statement to Congress prior to his testimony.

The Trustee also has commenced his own investigation into the Debtors' operation of their businesses and the facts and circumstances surrounding the Debtors' precipitous downfall as required by Bankruptcy Code section 1106(a)(3), which provides, in pertinent part:

(a) A trustee shall—

(3) except to the extent that the court orders otherwise, investigate the acts, conduct, assets, liabilities, and financial condition of the debtor, the operation of the debtor's business and the desirability of the continuance of such business, and any other matter relevant to the case or to the formulation of a plan;

11 U.S.C. § 1106(a)(3). The investigation has included a review of internal documents, interviews with current and former employees, and discussions with third parties with knowledge of the situation.<sup>115</sup>

As soon as practicable, the Trustee will file a statement with the findings of his investigation as he is required to do to meet his statutory and fiduciary duties under the Bankruptcy Code.<sup>116</sup>

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<sup>115</sup> Docket No. 653.

<sup>116</sup> Bankruptcy Code section 1106(a)(4) requires:

(4) as soon as practicable—

(A) file a statement of any investigation conducted under paragraph (3) of this subsection, including any fact ascertained pertaining to fraud, dishonesty, incompetence, misconduct, mismanagement, or irregularity in the management of the affairs of the debtor, or to a cause of action available to the estate; and

(B) transmit a copy or a summary of any such statement to any creditors' committee or equity security holders' committee, to any indenture trustee, and to such other entity as the court designates;

11 U.S.C. § 1106(a)(4).

**CONCLUSION**

As detailed in this Report, the Trustee has undertaken the wind-down of an extremely complex, global operation. Much of the Trustee's time has been spent interacting with the SIPA Trustee and worldwide administrators in order to understand what occurred in the final weeks leading up to the October Petition Date and figuring out what steps are necessary to maximize the value of the Debtors' estates. With in excess of \$3 billion in claims filed against former affiliates, the potential recoveries for the Debtors' creditors will come primarily from recoveries on account of such claims. As a result, the Trustee actively follows the proceedings respecting those entities and even participates on certain of the creditors' committees around the world. Another potential source of value for the Debtors' estates is through litigation. The Trustee's investigation into potential claims and causes of action is in its early stages, and as it progresses, details will be provided to the Court.

Dated: New York, New York  
June 4, 2012

MORRISON & FOERSTER LLP

By: /s/ Brett H. Miller

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Lorenzo Marinuzzi  
Melissa A. Hager

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*Attorneys for the Chapter 11 Trustee*

**ANNEX 1**



1. **Principal or Proprietary Transaction** is a transaction entered into by a broker/dealer to buy or sell a security for its own account.
  
2. **A Long Position** in a security, such as a stock or a bond, or equivalently to be long in a security, means the holder of the position owns the security.
  
3. **RTMs and RRTMs** -- Under the GMRA, MFGI agreed to sell to MFGUK various European sovereign debt securities, while simultaneously entering into an agreement to repurchase those securities from MFGUK (or securities considered equivalent thereto) at an agreed upon repurchase price, on a date falling immediately prior to the maturity date of those securities. This type of sale and repurchase agreement is commonly referred to as a repo-to-maturity -- or RTM -- from the point of view of the seller/repurchaser of the securities/equivalent securities (in this case, MFGI), and a reverse repo-to-maturity -- or RRTM -- from the point of view of the purchaser/reseller of the securities/equivalent securities (in this case, MFGUK). The initial Repo funding is usually less than the value of the securities (or collateral) by an amount or percentage agreed upon by the parties and included in the confirmation detailing the trade. This is known as the initial margin or "haircut." The initial margin protects the buyer against a drop in the value of the collateral, illiquidity of the collateral and counterparty credit risk. In a classic Repo transaction, the initial margin is transferred to the buyer (or supplier of cash). The margin level for Repos varies according to the underlying collateral and is usually determined based on the credit-rating of the security posted as collateral. For example, an investment grade sovereign bond (e.g., UK or Germany) might require a 0-2% haircut, while a non-investment grade bond may require a 15% haircut. The market value of the collateral is maintained through the posting of "variation margin." Variation margin gets its name because the level of additional margin varies with the value of the collateral -- the seller will be required to post additional margin if the

collateral decreases in value and the buyer will return margin if the mark-to-market value of the collateral increases in value. Potential liquidity risks existed because if the value of the collateral underlying the repurchase agreement decreases -- whether because of market conditions or because of issuer-specific concerns -- MFGI was required to post variation margin to maintain the value of the collateral held by the Exchanges. If the value of the collateral became permanently impaired -- for example, if the issuer of the bonds or other securities posted as collateral defaulted on its obligations -- MFGI would still have the obligation to repurchase the collateral at full value upon the expiration of the Repo.

4. **Margin Reduction Trades** are characterized as such because the new positions "offset" the existing trades. Brokers are not required to post margin for both long and short positions. As a result of the offsetting nature of such trades, the brokers' portfolio margin requirements are reduced.

5. **Hold-to-Maturity** -- Under the HTM, Holdings Ltd. agreed to sell to the MFGI B/D the HTM securities, with a simultaneous agreement of Holdings Ltd. to repurchase from the MFGI B/D those same HTM securities at an agreed repurchase price, on an agreed date falling immediately prior to the maturity date of those securities.

6. **ISDA** -- The International Swaps and Derivatives Association (ISDA) is a trade organization of participants in the market for over-the-counter derivatives. ISDA has created a standardized contract (the ISDA Master Agreement) used by counterparties that enter into derivatives transactions.

7. **Stock/Bond Borrow and Stock/Bond Loan** are the different sides to a "securities lending" transaction. Securities lending is used in the securities markets for specific permitted

purposes, which include facilitating (i) settlement of a trade, (ii) delivery of a short sale, (iii) financing a security, or (iv) a loan to another borrower who is engaging in one of the aforementioned permitted purposes.

The principal reason for borrowing a security is to cover a short position. Short-sellers are required to deliver the security they sold short. Thus, unless the short-seller holds a long position in the security, of a "covered" position, the short-seller will have to borrow the security. At the end of the securities loan transaction, the borrower is required to return an *equivalent* security to the lender. Equivalent in this context means completely interchangeable.

**8. Intercompany Payable** refers to a margin payment made from one affiliate of the MF Global Group to another affiliate under a Repo that is to be repaid upon maturity, provided that no default occurred under the Repo prior to such maturity date. Upon a default, the posted margin may be utilized by the non-defaulting party to cover costs associated with unwinding closing out the Repo, thereby reducing the Intercompany Payable.

**EXHIBIT A**

**SUMMARY OF CLAIMS**

| <b>Jurisdiction / Entity</b>    | <b>No. of Claims Filed<br/>or To Be Filed</b> | <b>Amount<sup>117</sup></b>              |
|---------------------------------|---|--|
| <b>Australia</b>                | <b>4</b>                                      | <b>\$1,389,905</b>                       |
| <b>Canada</b>                   | <b>5</b>                                      | <b>\$1,216,100</b>                       |
| <b>Hong Kong</b>                | <b>4</b>                                      | <b>\$1,180,965</b>                       |
| <b>India</b>                    | <b>7</b>                                      | <b>\$832,541</b>                         |
| <b>Japan</b>                    | <b>4</b>                                      | <b>\$739,777</b>                         |
| <b>Mauritius</b>                | <b>1</b>                                      | <b>\$55,444</b>                          |
| <b>Singapore</b>                | <b>3</b>                                      | <b>\$26,514,373</b>                      |
| <b>United Kingdom</b>           |   |  |
| MFGUK                           | 10  | \$446,360,476 - \$563,800,476            |
| Finance Europe                  | 3   | \$346,717,352                            |
| MFG Overseas                    | 3   | \$5,815,380                              |
| <b>United Kingdom Sub-total</b> | <b>16</b>                                     | <b>\$798,893,208 - \$916,333,208</b>     |
| <b>United States</b>            | <b>68</b>                                     | <b>\$2,317,765,096</b>                   |
| <b>Total</b>                    | <b>112</b>                                    | <b>\$3,148,587,409 - \$3,266,027,409</b> |

<sup>117</sup> This chart provides a summary by jurisdiction of the claims filed or to be filed by the Debtors and their non-debtor affiliates against their former affiliates. This chart does not include an estimated value for unliquidated claims filed or to be filed against former affiliates or non-debtor third parties.

**EXHIBIT B**

**CORPORATE ENTITY CHART**



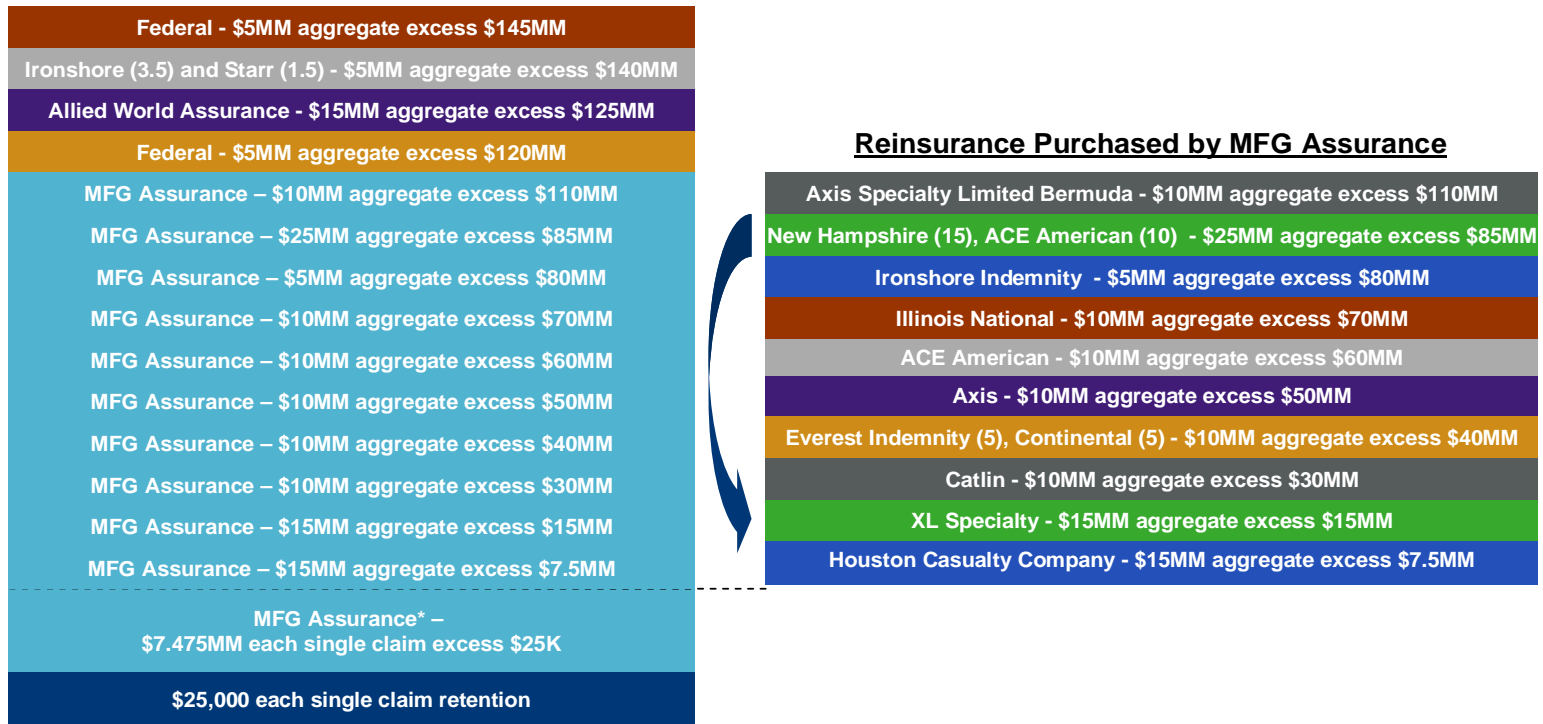
**EXHIBIT C**

**E&O POLICY TOWER**



**MF Global Holdings Ltd.  
Professional Liability Insurance Program Structure  
May 31, 2011 to May 31, 2012**

**Total Aggregate Limit = \$150MM**



\*MFG Assurance Company Limited is MF Global Holdings Ltd.'s wholly-owned captive insurance company domiciled in Bermuda and regulated by the Bermuda Monetary Authority

**THIS DOES NOT REFLECT ACTUAL TERMS AND CONDITIONS. THIS IS NOT INTENDED TO BE RELIED UPON AS AN INSURANCE POLICY OR LEGAL ADVICE.**

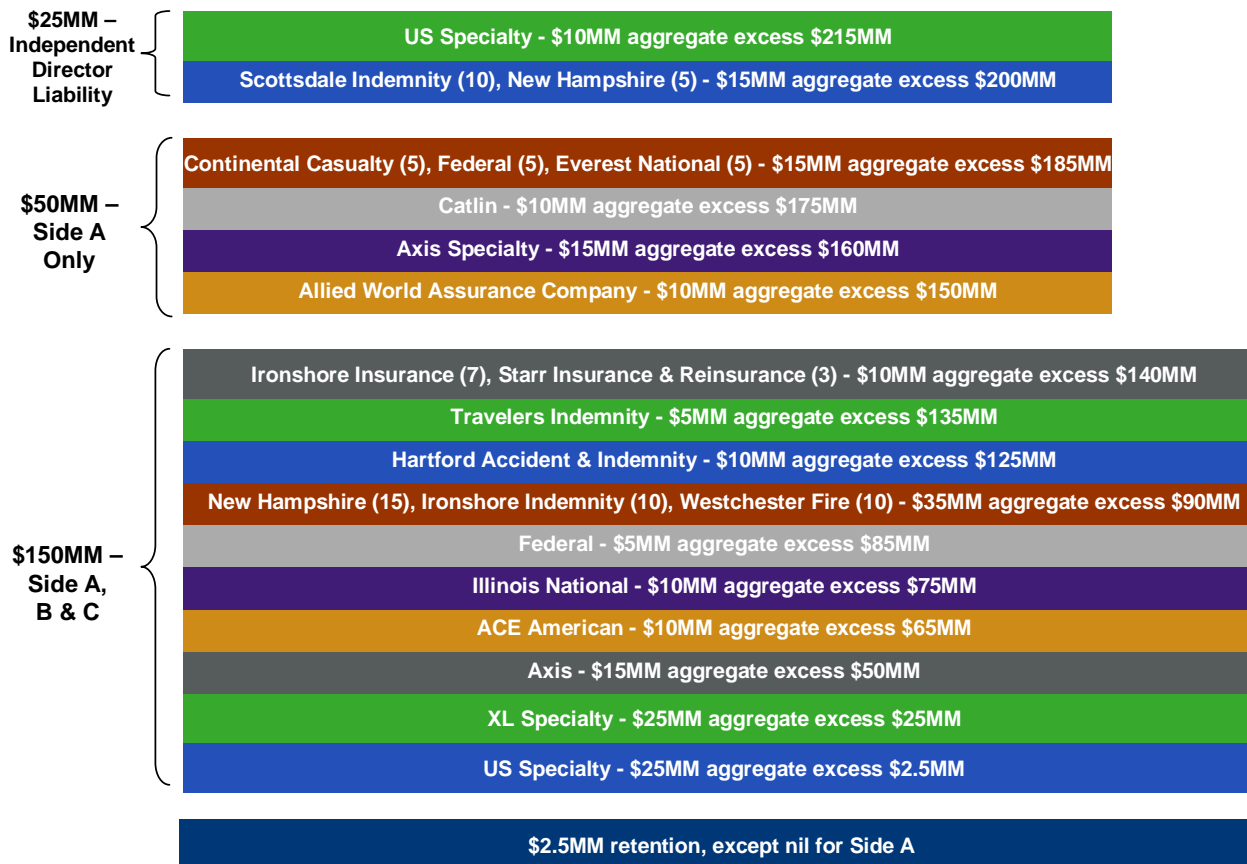


**EXHIBIT D**

**D&O POLICY TOWER**

## MF Global Holdings Ltd. Directors & Officers Liability Insurance Program Structure May 31, 2011 to May 31, 2012

**Total Aggregate Limit = \$225MM**



**PLEASE NOTE: THIS DOES NOT REFLECT ACTUAL TERMS AND CONDITIONS.  
THIS IS NOT INTENDED TO BE RELIED UPON AS AN INSURANCE POLICY OR LEGAL ADVICE.**



**EXHIBIT E**

**MULTI-DISTRICT LITIGATION CHART**

| Item No. | Case Title <sup>118</sup>                                  | Case No.    | Court | Nature of Alleged Claims <sup>119</sup> | Class Action |
|----------|--|-------------|-------|---|--------------|
| 1.       | <i>DeAngelis v. Corzine</i> <sup>120</sup>                 | 11-civ-7866 | SDNY  | C                                       | Y            |
| 2.       | <i>Accomazzo v. Corzine</i>                                | 11-civ-8467 | SDNY  | C                                       | Y            |
| 3.       | <i>Sapere CTA Fund, L.P. v. Corzine</i>                    | 11-civ-9114 | SDNY  | C                                       | N            |
| 4.       | <i>Henning-Carey Proprietary Trading, LLC v. Corzine</i>   | 12-civ-3231 | SDNY  | C                                       | Y            |
| 5.       | <i>Marcin v. Corzine</i>                                   | 12-civ-0499 | SDNY  | C                                       | Y            |
| 6.       | <i>Wacker v. Corzine</i>                                   | 12-civ-0705 | SDNY  | C                                       | Y            |
| 7.       | <i>Andrews v. Corzine</i>                                  | 12-civ-0661 | SDNY  | C                                       | Y            |
| 8.       | <i>Paradigm Global Fund I, Ltd. v. Corzine</i>             | 12-civ-0740 | SDNY  | C                                       | Y            |
| 9.       | <i>Paradigm Global Fund I, Ltd. v. MFG Assurance, Ltd.</i> | 12-civ-2471 | SDNY  | C                                       | Y            |
| 10.      | <i>Tee v. Corzine</i>                                      | 12-civ-0195 | SDNY  | C                                       | Y            |
| 11.      | <i>Summit Trust Co. v. Corzine</i>                         | 12-civ-0087 | SDNY  | C                                       | Y            |
| 12.      | <i>Pierce v. Corzine</i>                                   | 12-civ-3588 | SDNY  | C                                       | Y            |

<sup>118</sup> The following chart is provided for informational purposes only. The inclusion of these cases is not, and should not be, construed as an admission of the validity of the claims asserted against the defendants. All Debtors fully reserve all defenses, setoffs and counterclaims in connection with the actions listed herein.

<sup>119</sup> "C" = an MF Global Inc. customer complaint; "S" = a securities claim.

<sup>120</sup> Item numbers 2-23 in the above chart have been consolidated with item number 1, *DeAngelis v. Corzine*, Case No. 11-civ-7866.

| Item No. | Case Title <sup>118</sup>                                  | Case No.     | Court | Nature of Alleged Claims <sup>119</sup>                   | Class Action |
|----------|--|--------------|-------|---|--------------|
| 13.      | <i>Klinker v. J.P. Morgan Chase Co.</i>                    | 12-civ-3589  | SDNY  | C   | Y            |
| 14.      | <i>Varner, Jr. v. Corzine</i>                              | 12-civ-1722  | SDNY  | C   | Y            |
| 15.      | <i>Kennedy v. Corzine</i>                                  | 12-civ-1982  | SDNY  | C   | Y            |
| 16.      | <i>Context Partners Fund, L.P. v. Corzine</i>              | 11-civ-8888  | SDNY  | S   | Y            |
| 17.      | <i>Rodriguez v. Corzine</i>                                | 11-civ-8815  | SDNY  | S   | Y            |
| 18.      | <i>Daly, Jr. as Trustee v. Corzine</i>                     | 11-civ-8823  | SDNY  | S   | Y            |
| 19.      | <i>Espinoza v. Corzine</i>                                 | 11-civ-7960  | SDNY  | S   | Y            |
| 20.      | <i>Double D Trading, LLC v. Corzine</i>                    | 11-civ-8271  | SDNY  | S   | Y            |
| 21.      | <i>IBEW Local 990 Pension Fund v. Corzine</i>              | 11-civ-8401  | SDNY  | S   | Y            |
| 22.      | <i>Teamsters Local Union No. 35 Pension Fund v. Dan</i>    | 12-civ-1782  | SDNY  | S   | Y            |
| 23.      | <i>Arvelo v. Corzine</i>                                   | 12-civ-3884  | SDNY  | S   | Y            |
| 24.      | <i>Untitled</i>  | 12-md-2338   | SDNY  | Overall Case No. for cases transferred by <i>MDL 2338</i> | NA           |
| 25.      | <i>In re MF Global Holdings Ltd. Investment Litigation</i> | MDL No. 2338 | MDL   | Multi District Proceeding now effectively concluded       | NA           |

| Item No. | Case Title <sup>118</sup>                                    | Case No.                             | Court                         | Nature of Alleged Claims <sup>119</sup> | Class Action |
|----------|--|--------------------------------------|-------------------------------|---|--------------|
| 26.      | <i>Butler, Jr. v. Corzine</i>                                | 653074/2011                          | New York County Supreme Court | Unknown (no complaint); dormant         | N            |
| 27.      | <i>McHugh v. MF Global Holdings USA, Inc.</i>                | 12-civ-0284                          | SDNY                          | Employee claim                          | N            |
| 28.      | <i>Riffice v. MF Global Holdings USA, Inc.</i>               | 11-civ-0671                          | SDNY                          | Employee claim                          | N            |
| 29.      | <i>Calascibetta, Liquidating Trustee v. MF Global</i>        | Case No. 09-14301, A.P. No. 11-01220 | Bankr. D.N.J.                 | Fraudulent conveyance                   | N            |
| 30.      | <i>Ripes v. MF Global</i>                                    | 13-148 E 01209 11                    | AAA (Chicago)                 | Employee claim                          | N            |
| 31.      | <i>Ceko v. MF Global Holdings, Ltd.</i> <sup>121</sup>       | 10 CH 25758                          | Cook County Circuit, Il.      | Employee claim                          | N            |
| 32.      | <i>Thielmann, et. al. v. MF Global Holdings, LTD, et al.</i> | A.P. No. 11-02880 (MG)               | Bankr. SDNY                   | WARN                                    | Y            |
| 33.      | <i>Ivan Schertzer v. Jon Corzine et al</i>                   | NFA 12-ARB-17                        | NFA                           | Customer claim                          | N            |

<sup>121</sup> This adversary proceeding was filed but never served on the defendants.

**EXHIBIT F**

**TRUSTEE'S WITNESS STATEMENT**



**STATEMENT OF LOUIS J. FREEH  
BEFORE THE UNITED STATES SENATE  
COMMITTEE ON BANKING, HOUSING & URBAN AFFAIRS  
APRIL 24, 2012**

Chairman Johnson, Ranking Member Shelby, and Distinguished Members of the  
Committee:

My name is Louis J. Freeh and I am appearing before you today in my capacity as  
the Chapter 11 Trustee of MF Global Holdings Ltd. and five of its subsidiaries.

On October 31, 2011, MF Global Holdings Ltd. and MF Global Finance USA  
Inc., referred to generally as “Finco”, filed for bankruptcy under Chapter 11 of the  
Bankruptcy Code. Upon the commencement of the bankruptcy cases, the debtors  
operated as debtors-in-possession. Shortly thereafter, on November 7, 2011, the Office  
of the United States Trustee formed a creditors’ committee representing the unsecured  
creditor constituency of the Chapter 11 debtor entities. Without any possibility of  
rehabilitation, the debtors and the creditors committee jointly filed a motion to appoint a  
Chapter 11 Trustee. That motion was approved by the Court, and I was named as the  
Chapter 11 Trustee. My appointment was approved by the Bankruptcy Court effective as  
of November 28, 2011.

On December 19, 2011, three additional MF Global entities that are each indirect  
subsidiaries of the Chapter 11 parent filed for bankruptcy. I was subsequently appointed  
the Chapter 11 Trustee of those entities as well. In addition, on March 2, 2012, MF  
Global Holdings USA Inc., a direct subsidiary of the parent holding company debtor,  
filed for bankruptcy protection. On March 8, 2012 I was also appointed Chapter 11  
Trustee of that estate. As is evident from this brief timeline, we are in the early stages of

this bankruptcy proceeding, and there is still much information to be learned about the facts and circumstances that led to the collapse of MF Global.

My duties as a Chapter 11 Trustee are set forth in Section 1106 of the Bankruptcy Code and include the obligation to investigate the acts, conduct, assets, liabilities and financial condition of the debtor, among other things. Unlike the SIPA Trustee, who is charged primarily with the return to customers of their investment property, the responsibility of the Chapter 11 Trustee is to maximize the value of the estate for the benefit of its creditors.

Upon my appointment on November 28, 2011, I began to assemble a team of legal advisors and financial consultants with extensive experience in bankruptcy matters, as it was widely believed that these proceedings were likely to be among the most complex bankruptcy matters in recent memory. We immediately began to assess the Debtors' state of affairs. Investigations into the collapse of MF Global were already being conducted by the CME, the SEC, the CFTC, and the SIPA Trustee, and at least two federal prosecutors' offices.. Customers of MF Global Inc., the US broker dealer, had already commenced litigation against certain officers and directors of the broker dealer as well as those of the parent holding company debtor.

Even before the commencement of my appointment, the Debtors were faced with a number of expansive requests for documents and information and my team immediately immersed itself in a process that had already been unfolding for several weeks, in an effort to learn what documents were in my possession, how records were maintained, and where files were kept. All of this was critical to our ability to fulfill our obligations as Chapter 11 Trustee.

These difficulties were exacerbated by the fact that what had once been operated as one large MF Global world-wide organization suddenly became fragmented, virtually overnight. Separate proceedings were commenced for individual MF Global entities, most notably the SIPA proceeding here in the US and the UK administration (the UK equivalent of a US bankruptcy proceeding) of the UK broker dealer, which proceed independently from one another. The MF Global entities suddenly found themselves without access to global systems previously utilized by the entire group of companies, because certain entity-wide systems such as accounting and email systems were owned and controlled by individual MF Global companies.

With these difficulties, the Chapter 11 debtors had been able to assemble some materials before my appointment. I needed, however, to ascertain what documents, files, information, and materials were the property of the Chapter 11 parent, versus property of the SIPA estate, the UK broker dealer estate, or perhaps jointly owned by a Chapter 11 debtor and another estate. My advisory team was required to review thousands of pages of e-mails, documents and other files to determine (1) what those materials said, (2) whether the materials were responsive to any request by any governmental agency or the SIPA Trustee, and (3) whether any protectable corporate privilege existed. I then needed to implement a process to produce as quickly as we could documents requested as part of the investigations, but also in a manner that did not unnecessarily result in a broad waiver of any existing privilege. To do otherwise at this very early stage potentially could have been contrary to my obligations as Chapter 11 Trustee. Ultimately, these issues were resolved and the process moved forward expeditiously.

Although none of the entities for which I serve as Chapter 11 Trustee are regulated entities, the concerns of customers are nonetheless important to me and my advisors. With a backdrop of allegations of missing customer funds, the Bankruptcy Judge, the Honorable Martin Glenn, directed that my team perform an analysis of the approximately \$25 million held in a cash collateral account owned by Finco to determine whether that cash included misappropriated MF Global Inc. customer property. Thereafter, my advisors poured through account data and transaction documents covering more than \$3.5 billion in cash transfers, including transfers from accounts held by MF Global Inc. My advisors interviewed and met with employees of MF Global Inc. and advisors retained by the SIPA Trustee in order to ensure that an appropriate investigation had been conducted in preparing the report. Upon completing the analysis, which was shared with the SIPA Trustee, we concluded with no disagreement from the opinion of the SIPA Trustee that the cash collateral account did not include misappropriated or misdirected customer funds.

There has been a great deal of publicity regarding the shortfall in customer property. Without in any way diminishing the importance of the SIPA Trustee's obligation to locate and recover customer property, the Bankruptcy Code requires me to attempt to recover for the benefit of the creditors of the Chapter 11 estates monies that were obtained by the parent from third party lenders and investors and routed to the US broker dealer or elsewhere. In particular, and by way of example, during the month of October, 2011, in excess of \$1 billion in cash was transferred from MF Global Holdings Ltd. and Finco to MF Global Inc. In addition, a substantial portion of the net proceeds from the \$650 million of MF Global bonds sold in 2011 to investors by MF Global

Holdings Ltd. had been transferred to MF Global Inc. Just as the SIPA Trustee is analyzing and investigating the whereabouts of funds and property entrusted by customers to the US broker dealer, so too my team must investigate the whereabouts of funds loaned to the US broker dealer for which the Chapter 11 estates remain liable to creditors and investors.

In furtherance of my duty to investigate the affairs of the Chapter 11 debtors for which I serve as Trustee, my advisors and I meet regularly with our creditors committee as well as with representatives of the SIPA Trustee and the representatives of the foreign affiliates. These meetings are important for each of the estates to gather and share information with one another to facilitate a timely investigation of the facts and circumstances leading up to the bankruptcy and to determine where the assets of the various estates may be located.

The representatives of the SIPA Trustee and my advisors often speak daily, have engaged in information sharing calls at least weekly, and are currently discussing coordinated efforts to assist one another in the administration of our respective estates. I have found this cooperation to be invaluable, if not essential, to my ability to satisfy my fiduciary obligations as a Chapter 11 Trustee. I strongly believe that the interests of all of the various estates are best served by cooperating and sharing information to uncover precisely what led to the collapse of MF Global. No one estate has all of the information, but together, the puzzle pieces can be put together.

To be clear, the trustees and foreign administrators can and likely will assert different legal arguments to support their claims to property located throughout the world. The bankruptcy court and perhaps other courts will make those legal

determinations. But the ultimate legal disputes that may arise should not serve as a barrier to sharing the critical facts to tell the world what led to the collapse.

Notwithstanding that we are operating under the supervision of the court, however, it is clear even at this early stage that the competing, and perhaps at times conflicting, obligations and duties of the two Trustees and various foreign administrators has and will continue to have the effect of extending the length of time necessary for all of the estates to conduct their investigations; to determine the value and location of assets; and ultimately to make distributions to customers and/or creditors.

At the present time, the Chapter 11 debtors employ approximately 15 non-executive individuals, most of whom had been employed by one of the debtors prior to the commencement of the bankruptcy cases. They, along with the remaining senior executives, continue to provide invaluable support in reconciling the debtors' books and records, closing open trades at the unregulated entities, the preparation of tax returns, and assisting in understanding the many complex pre-petition transactions between and among the various MF Global entities.

In conversations about retaining these individuals and the knowledge they possess, I've discussed at various times the possibility of establishing a retention program. To be clear, no formal program was ever created for senior executives, nor was any motion ever filed with the court for approval in connection with any retention program for senior executives.

As we continue our investigation, we will be filing a report with the Bankruptcy Court on or before June 4, 2012. Mindful of this impending deadline, we have filed with the Bankruptcy Court a motion seeking authority to issue subpoenas for the production of

documents and examination of witnesses on a shortened timetable. That motion will be heard on April 25, 2012. We remain hopeful that parties will be cooperative during this investigation, but a formal process will be utilized as necessary.

It is important to note that the transparency of the bankruptcy process mandates that the work performed by the Chapter 11 Trustee is closely monitored by the Office of the United States Trustee and supervised by the United States Bankruptcy Court.

I fully intend to fulfill my legal obligations as Chapter 11 Trustee as timely and transparently as I can responsibly do so, recognizing that all of my, and my professionals, actions must be consistent with the duties and obligations set forth in the Bankruptcy Code.