

# Bloomberg

## MF Global Shortfall May Exceed \$1.2B: Trustee

By Tiffany Kary - Nov 21, 2011 5:22 PM GMT

MF Global Inc.'s shortfall in U.S. segregated customer accounts may exceed \$1.2 billion, said the trustee overseeing a liquidation of the failed brokerage run by former New Jersey Governor [Jon Corzine](#).

James Giddens, the trustee, said today that distributing 60 percent of what should have been in customers' accounts will take \$1.3 billion to \$1.6 billion, or almost all of the assets he has within his control. While he expects the transfer will occur in early December, he doesn't have access to funds beyond \$1.6 billion, Giddens said in a statement.

A shortfall of \$593 million, or 11 percent of customer funds, had been previously estimated by a person with knowledge of probes of the firm's collapse. Giddens said today that forensic accountants and investigators are working "around the clock," and the shortfall estimate may change.

"The apparent shortfall in what MF Global management should have segregated at US depositories may be as much as \$1.2 billion or more," Giddens said in the statement. "The trustee wants to stress that these are preliminary numbers that may well change, and the trustee will update in due course."

[Kent Jarrell](#), a Giddens spokesman, didn't immediately respond to an e-mail asking what this meant for customer demanding 100 percent of their collateral.

### Exhausting Funds

"He is very close to exhausting the funds under his control," according to the statement, which noted that the amount of assets the trustee can access is different than the amount of the shortfall. Recovering funds from foreign depositories may take more time, Giddens said.

Customer accounts with \$5.45 billion were frozen Oct. 31, the day after a unit of the New York-based brokerage reported a "material shortfall" in customer funds that are required to be segregated under rules of the U.S. Commodity Futures Trading

Commission. The parent, MF Global Holdings Inc., filed for bankruptcy to apportion returns to creditors.

Giddens has so far brought \$3.7 billion under his control, all of which has come from the former U.S. depositories of MF Global Inc., according to his statement. He has already distributed \$1.5 billion in collateral, and is currently returning \$520 million in cash to customers.

## Bonds Fall

The parent company's bonds to a record low after the trustee raised the estimate of the shortfall. Its \$325 million of 6.25 percent notes fell 8.75 cents to 28 cents on the dollar at 11:46 a.m. in [New York](#), according to Trace, the bond price reporting system of the Financial Industry Regulatory Authority. The debt, issued at par in August, has declined from 50 cents on the dollar since the company's Oct. 31 bankruptcy filing.

MF Global Holdings Ltd. moved hundreds of millions of dollars from its futures client accounts to other accounts before its Oct. 31 bankruptcy, according to a person familiar with the audit of the company.

MF Global ran futures and securities brokerages and was required to segregate funds posted as collateral by futures clients. The company filed the eighth-largest U.S. bankruptcy after a wrong-way \$6.3 billion trade on its own behalf on bonds of some of [Europe's](#) most indebted nations.

## Probes

The CFTC, the Securities and Exchange Commission and the U.S. Justice Department are investigating cash movements at the firm before the bankruptcy filing. The CFTC has been probing about \$600 million in futures client funds that disappeared as the firm prepared for bankruptcy. Regulators haven't located the money.

The estimated amount of the shortfall has fluctuated. Examiners from CME Group Inc., the world's largest futures exchange, found unexplained wire transfers at MF Global Inc. and a \$900 million shortfall in client funds during the weekend the failing broker was talking with possible buyers, a person briefed on the matter said.

CME, which was the overseer of MF Global, noticed the shortfall by Oct. 30 -- about a day before U.S. regulators said they were told of the missing funds and the broker filed for [bankruptcy protection](#), according to the person, who spoke on condition of anonymity because the review isn't public.

#### Customer Committee

Separately, the brokerage's commodity customers shouldn't be allowed to form their own committee to press for recoveries, lawyers for Giddens wrote in court papers filed today. An official committee of commodity broker customers wouldn't represent all parties who have claims against the broker, and would waste assets of the bankrupt estate, Giddens said.

Creditors of the brokerage's parent, MF Global Holdings Inc., also objected, saying Congress did not intend for such committees under SIPA, and that customers' interests are adequately protected by the trustee.

In its Oct. 31 bankruptcy filing, parent company MF Global Holdings listed debt of \$39.7 billion and assets of \$41 billion. The firm said it has about \$26 million in cash. Jon Corzine, the former co-chief executive officer of [Goldman Sachs Group Inc. \(GS\)](#), quit as MF Global's CEO on Nov. 4.

The brokerage case is Securities Investor Protection Corp. v. MF Global Inc., 11-02790, U.S. District Court, Southern District of New York ([Manhattan](#)). The parent's bankruptcy case is MF Global Holdings Ltd., 11-bk-15059, [U.S. Bankruptcy Court](#), Southern District of New York (Manhattan).

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