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MF Global Creditors take action in wake of Bankruptcy

Since the bankruptcy filing of MF Global on October 30, the brokerage firm's creditors have started to take action to recover their losses. These include suing the company's advisers, searching for assets overseas and seeking information from a probe into the mingling of customer accounts. MF Global's liabilities amount to \$39.7 billion and its assets are valued at \$41 billion. The firm has said it has about \$26 million in cash. But about \$593 million of MF customer funds cannot be unaccounted for.

At this point, the trustee overseeing the liquidation of MF Global's operating unit, James Giddens has started an investigation into possible fraud or misconduct, as has the FBI. Giddens was allowed by the bankruptcy court to investigate the company's directors and officers, lenders and other investors. The investigation will be centered primarily on customer recoveries. Besides the FBI, other government agencies investigating are the Commodity Futures Trading Commission and the Securities and Exchange Commission. MF Global requested an extension to the usual 14-day period to provide its list of assets and debts and was granted an extension till January 30 to do so.

The trustee is facilitating the formation of a creditors' committee to look after their interests. The majority of these creditors are unsecured bondholders. But creditors and bankruptcy lawyers may hesitate to get involved in the case because of fears that it may have insufficient funds to pay the committee's legal fees.

Another group taking action are members of exchanges who provided liquidity for MF Global to trade. Among them are members of the New York Mercantile Exchange, COMEX and Intercontinental Exchange.

MF Global's financial problems began escalating when the firm issued two tranches of \$325 million in repo-to-maturity debt and made bets amounting to \$6.3 billion on financially-strapped European countries like Portugal, Italy and Spain, among others. US regulators had questioned MF Global's use of so-called repo-to-maturity transactions as early as March.

MF Global tried to sell itself before filing for bankruptcy but there were no buyers. The firm subsequently filed for bankruptcy. Usually, such a company would seek loans to fund their operations in bankruptcy from a lender who wants to protect its prior investment, or a potential buyer. In MF Global's case, the financier is likely JPMorgan Chase & Co. JPMorgan Chase & Co., agent to a \$1.2 billion unsecured loan, also provided a \$300 million secured loan to MF Global's brokerage. JP Morgan has asked for all of MF Global's remaining collateral.

MF Global's bankruptcy could end up as complex as that of Lehman Brothers, where disputes arose over whether parties holding collateral for one transaction have a right to hold it because they have an unrelated claim against MF Global.