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MF Global Bankruptcy and its Impact on Traders

The country's seventh largest trading firm, MF Global filed for bankruptcy October 31 and sent shock waves through the investment fraternity. MF Global was a brokerage that acted as a counter party to investors who wanted to buy or sell commodities, including crops like corn and soybeans. In a recent letter the CME Group, owner of the Chicago Board of Trade admitted that MF Global's bankruptcy created "a difficult period for many of our customers". However, CME assured everyone that commodity trading investors will still be able to access their accounts despite the bankruptcy.

Nevertheless, the trustee has frozen the customer funds of the firm and as a result, some commodity traders and also farmers have not been able to access their money since the bankruptcy.

MF Global was run by John Corzine, formerly of Goldman Sachs and ex-governor of New Jersey. The firm made bought extensively into European debts, particularly in countries like Italy, Spain, Portugal and Belgium. They are also believed to have dipped into so-called segregated funds held by trading customers in a way that is similar to bank deposits. Regulators have discovered about \$600 million in investor funds that went missing and are now investigating the matter.

Some investors blame CME for the malady, saying that the CME guaranteed their funds when invested in any member company. One owner of a commodities brokerage in Delaware County, Ken Ries, said he could potentially lose as much as \$1 million if the money remains frozen. But he is determined to make good any losses incurred by his 100 farmer customers. Ries wrote in a letter to his customers, "For the past 30 years we have been operating under the assumption that customer funds are guaranteed under the umbrella of the CME and its clearing members. However, with the events of this past (week) we have come to learn that in this instance of rerouting segregated customer accounts the Exchange will not, in fact, guarantee customer funds."

CME Group issued a statement explaining their own limitations, "the US bankruptcy code requires that free credit balances be frozen at least on an interim basis, and that fully paid securities and warehouse receipts may not be made immediately." Hence, it said, its hands were tied.

Commodity Futures Trading Commission chairman Gary Gensler recently recused himself from the investigations on the basis of his close personal ties with Corzine as both had been colleagues in Goldman Sachs in the past.

US Senator Chuck Grassley (R-Ia) commented, "MF Global's case is a big collapse that requires a lot of work from the commission to try to figure out what went wrong and minimize further investor losses if possible."