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

In re

MF GLOBAL INC.,

Debtor.

Case No. 11-2790 (MG) SIPA

TRUSTEE'S SIXTY DAY REPORT ON STATUS OF LIQUIDATION

I. BACKGROUND

1. At a hearing on November 22, 2011, the Court suggested that James W. Giddens, as trustee (the “Trustee”) for the liquidation of the business of MF Global Inc. (“MFGI”) prepare reports on a more frequent basis than a six month formal reporting period. (ECF No. 423). The Trustee’s counsel indicated that the Trustee would submit relatively brief status reports or updates approximately every sixty days before, and during intervals between, submission of lengthier and more comprehensive six month interim reports. This report (the “Report”) is the first such sixty day update report. Since the Court-ordered meeting with customers and creditors was scheduled for January 12, 2012, this Report includes information and slides presented at that meeting, annexed hereto as Appendix A. The Trustee envisions that future sixty day reports will take the form of updated versions of the appended slides, depending on developments in the liquidation and how useful the Court finds this format to be. More formal, narrative reports will be submitted on a six month basis.

2. As the Court is aware, on October 31, 2011 (the “Filing Date”), the Honorable Paul A. Engelmayer, United State District Court Judge for the Southern District of New York, entered an Order (the “MFGI Liquidation Order”) commencing liquidation of MFGI pursuant to the provisions of the Securities Investor Protection Act (“SIPA”), 15 U.S.C. §§ 78aaa et seq.,¹ in the case captioned Securities Investor Protection Corp. v. MF Global Inc., Case No. 11-CIV-7750 (PAE).

3. The MFGI Liquidation Order, inter alia: (i) appointed James W. Giddens as Trustee for the liquidation of the business of MFGI pursuant to SIPA § 78eee(b)(3); (ii) appointed Hughes Hubbard & Reed LLP counsel to the Trustee pursuant to SIPA § 78eee(b)(3);

1. For convenience, subsequent references to SIPA will omit “15 U.S.C.”

and (iii) removed the case to this Court as required for SIPA cases by SIPA § 78eee(b)(4) (the “SIPA Proceeding”).

4. The SIPA Proceeding began in a turbulent situation, amidst allegations of significant amounts of unaccounted for or missing funds that should have been segregated for commodities customers, and attendant anxiety and hardship for commodities customers. Many members of the agricultural community were particularly troubled by the prospect of having no access to their futures positions and cash for an indeterminate period. These circumstances dictated innovative and immediate measures to ameliorate hardship and market uncertainty to the extent possible. SIPA proved in many respects a successful, if not wholly perfect, vehicle for that purpose.

5. Under the supervision of the Court, operating on an emergency basis, and with the cooperation of the Securities Investor Protection Corporation (“SIPC”), the Commodities Futures Trading Commission (“CFTC”), the Securities and Exchange Commission (“SEC”), the Chicago Mercantile Exchange (“CME”) and other Derivative Clearing Organizations (“DCOs”), and a number of futures commission merchants (“FCMs”) willing and able to take on new accounts, the Trustee has been able, among other things, to transfer approximately four billion dollars of customer property within weeks of the commencement of the liquidation, as well as to commence a claims process within one month of the Filing Date.

6. This Report will summarize the nature of the SIPA Proceeding, the principal developments to date, the status of available property and known or estimated claims, and some of the key issues confronting the Trustee.

II. NATURE OF THE PROCEEDING

7. Because MFGI was a registered securities broker-dealer and SIPC member, as well as an FCM, it is being liquidated pursuant to the provisions of SIPA. See SIPA § 78eee(a). SIPA is a special statute with certain unique features permitting the expedited institution of proceedings upon the application of SIPC, specific procedures for filing and allowing claims based on a customer's defined net equity, and an emphasis on customer protection through allocation and return of customer property. SIPA incorporates provisions of the Bankruptcy Act, including the provisions governing a bankruptcy trustee's liquidation of a commodities broker, to the extent that they are consistent with the provisions of SIPA. SIPA §78fff(b). SIPA thus emphasizes protection of and return of segregated property to commodities customers as well as securities customers.

8. A SIPA proceeding is a liquidation proceeding. It is not a rehabilitation proceeding. The Trustee's duties are to marshal assets and recover customer property, return property to the extent possible to customers either through account transfers or by a claims process, determine other claims as in bankruptcy, and liquidate the business of the debtor. See SIPA §78fff(b). The Trustee does not seek to operate or reorganize the business, but to liquidate it and distribute its property. The Trustee also has investigatory powers and a duty to report to the Court and SIPC, as well as regulators, on events leading to a debtor's demise and potential causes of action. SIPA §78fff-1(d). The Trustee's duties toward commodities customers are governed by the provisions of the Bankruptcy Act applicable to commodities broker liquidations, as well as the CFTC regulations implementing those provisions to the extent they do not exceed the CFTC's authority and are consistent with SIPA. SIPA §78fff-1(b).

9. This SIPA Proceeding involves primarily four separate estates or pools of property, with separate claimants or creditors against each pool, except that both commodities and securities customers may share with general creditors in the non-customer assets to the extent their claims are not satisfied in full from a relevant pool of customer assets. There are primarily two pools of property that are maintained for commodities customers, to the exclusion of general creditor claims—a pool of property segregated pursuant to section 4d of the Commodity Exchange Act, attributable to property and collateral for customers with U.S. futures positions (“4d Property”); and a pool that must be separately maintained and distributed among customers with claims for property and collateral for foreign futures positions under 17 C.F.R. § 30.7 (“30.7 Property”). A third pool of property is maintained for the exclusive benefit of securities customers, representing customer property as defined by SIPA, including property that was or should have been segregated or held in reserve accounts for them. SIPA §78III(4). The fourth pool of property comprises general estate assets. Under appropriate circumstances, action may be taken to restore customer property which is no longer in segregation, and general estate property may in some circumstances be allocated to the appropriate pool of customer property where shortfalls would otherwise exist. These principles, as well as other aspects of dealing with property in the various customer property pools, are being addressed in briefing requested by the Court. (See ECF Nos. 724, 725, 726, 814, 817, 818, 819, 822, 823, and 824). Subject to the dictates of SIPA and its emphasis on customer property and satisfaction of customer claims, the Trustee owes fiduciary duties to each of these four classes of claimants and must treat each fairly, but in accordance with the law and the procedures and priorities established by SIPA.

III. ACCOUNT TRANSFERS

10. 4d Commodities Account Transfers. The Trustee's initial efforts focused on marshalling property and undertaking the first three transfers of commodities customers' property pursuant to expedited Court procedures. (ECF Nos. 14, 316, and 717). The results of these transfers are set forth in Appendix A at 10. Within the first two months of the litigation, the Trustee distributed approximately \$4 billion through new FCMs willing to accept the accounts, resulting in distributions to over 20,000 non-affiliate customers with U.S. accounts ("4d Customers") of approximately 72% of their estimated account value.

11. As indicated in Appendix A at 9, the Trustee retains an amount in excess of \$1 billion attributable to accounts containing 4d Property on the basis of MFGI's books and records. The Trustee must retain these funds pending further Court orders.² Other parties have asserted a right to participate in the transfer or otherwise asserted potential claims amounting to several hundred million dollars. Until the Trustee's investigation is complete, the full amount of available funds will not be known with certainty. It is possible that the funds available may be augmented by future recoveries. In addition, the total amount of customer claims cannot be known with certainty until all claims have been analyzed through the claims process.

12. The transfers to date, unfortunately, have had to be limited to 4d Property and cannot include 30.7 Property. The reason is that the funds necessary to satisfy these account holders (which must be treated separately from 4d Property under the CFTC regulations) are held predominantly by foreign administrators, principally in the United Kingdom and Canada, and are not under the Trustee's control. This situation is represented in Appendix A at 13.

2. The CME's "guarantee" of up to \$550 million has been helpful in allowing transfers to date, but that guarantee is limited to possible "true up" amounts to ensure that all 4d Customers receive equivalent distributions. CME has not offered to advance funds under the guarantee or otherwise to reduce shortfalls or augment total funds available for distribution.

13. Foreign administrators have informed the Trustee that they dispute his right to the immediate return of these funds and do not necessarily regard them as having been held in strict segregation for U.S. account holders. See Appendix A at 22. The Trustee is actively pursuing discussions with administrators in the U.K. and Canada, and is prepared to institute litigation, if necessary, to obtain access to these funds for customers. The Trustee has sought and obtained a seat on the creditors' committee in the U.K. liquidation. The Trustee anticipates that efforts to resolve this impasse with foreign administrators will be a primary focus of the next phase of this litigation.

14. Securities Accounts Transfer. The Trustee has also undertaken the transfer of substantial parts of non-affiliate securities accounts to a willing purchaser pursuant to Court order. (ECF No. 718). The status of this account transfer is set forth in Appendix A at 15. Some larger accounts present complex issues that the Trustee is working through with the affected parties. Thanks to an indemnification from SIPC, a number of customers have received or will receive all or substantially all of the value of their accounts.

IV. THE CLAIMS PROCESS

15. The Trustee moved to establish parallel claims processes for commodities customers, securities customers, and general creditors on an expedited basis in a motion approved by the Court on November 23, 2011. (ECF No. 423). Pursuant to that order, over 70,000 claim forms were distributed by mail, and the forms were also posted on the Trustee's website (www.mfglobaltrustee.com). The forms and instructions reflect substantial input from customers and customer representatives, with whom the Trustee has held several meetings. Information about the status of their accounts has also been mailed to commodities customers to

help them complete their claim forms. The bar date for commodities customers, and for securities customers seeking maximum protection under SIPA, is January 31, 2012; the bar date for all securities and general claims is June 2, 2012.

16. Claims have already begun to be processed by a team that includes independent accountants and knowledgeable former back office personnel of MFGI acting under the direction of the Trustee's attorneys, as well as SIPC examiners. Letters of determination are expected to be issued in accelerating numbers throughout January and beyond. Forms for releases accompany the letters of determination, and procedures for objecting to them are also described. Customers or other creditors who have not already done so are urged to file their claims as soon as possible.

V. FINANCIAL CONDITION OF THE ESTATE

17. Appendix A at 17 sets forth the assets available to the MFGI estate, apart from funds held in segregation for commodities and securities customers, as of January 12, 2012. The Trustee's continuous marshalling efforts have yielded slightly less than \$300 million to date. As indicated in Appendix A at 17, the Trustee anticipates augmenting this amount in coming months through recovery of additional funds and securities held at various entities, sale of MFGI's exchange seats and memberships, unwinding of financial transactions, and pursuit of pending or future litigation and avoidance actions. These efforts would be in addition to efforts to locate and recover further customer property.

18. The Trustee does not yet have a reliable estimate of additional collections or recoveries, but believes they will be more than de minimis. At the same time, he does not necessarily anticipate a general estate of a size substantial enough to compensate for all

potentially unavailable sources of customer funds (assuming some allocation of general estate assets for those purposes), or to pay significant dividends to general creditors.

19. As indicated in Appendix A at 17, the property currently in the general estate is subject to allocation at some future time as between the funds of customer property and the general estate. In the Trustee's view, SIPA requires that, in cases of deficits in property available for either commodities or securities customer claims, the debtor's property is to be allocated among the funds of customer property at least to the extent necessary to compensate for regulatory and compliance shortfalls. At an appropriate time, and if sufficient general estate property exists, the Trustee may move for an allocation of assets.

VI. INVESTIGATORY ACTIVITIES

20. Pursuant to the Court's November 4, 2011 order, the Trustee has engaged in significant investigation activities. (ECF No. 34; see Appendix A at 26–27). Step one was to locate and secure MFGI's former premises, documents, and information services. The focus then quickly shifted to ascertaining what customer funds might be missing, where they might be located, and how and whether they might be recovered for customers. Review of documents and interviews of fifty witnesses have been conducted on an intensive basis. The Trustee has been assisted in this investigation by forensic accountants from Ernst & Young, as well as experienced consultants from Deloitte, and attorneys experienced in investigative work and recovering property in SIPA liquidations.

21. The Trustee has emphasized voluntary cooperation over subpoenas, but has sent one dozen document requests and fifty preservation notices to date, including to former employees of MFGI and its affiliates, to the affiliates themselves, to exchanges and clearing

agencies, and to financial institutions. These efforts have involved constant coordination with regulatory authorities, U.S. Attorneys' Offices and Congressional committees, and attorneys for MF Global Holdings Ltd. (which is currently in chapter 11 reorganization) and its affiliated chapter 11 debtors (together, the "Chapter 11 Debtors"). As indicated in Appendix A at 22, certain complications have arisen around issues such as attorney-client privilege. The Trustee has waived reliance on this privilege for pre-filing date documents in an effort to facilitate transparency and regulatory investigations, while the Chapter 11 Debtors have sought to preserve privilege, even as to some MFGI documents and personnel. Despite some frustration on the Trustee's part over these complications, investigation and coordination have continued.

22. It is important to note that the Trustee's investigation, while coordinated with those of law enforcement and regulatory authorities, has a different focus. Appendix A at 26. The Trustee is not a law enforcement official. He will in due course report on the circumstances that led to MFGI's SIPA filing and apparent shortfalls in customer property, but, as noted, his investigation to date has concentrated on missing funds and potential avenues to obtain them for the benefit of customers.

23. The Trustee continues to explore all such avenues. He intends to pursue all available steps, including instituting litigation wherever he believes that viable claims exist and it is necessary to do so. The Trustee is the customers' advocate. He is committed to doing everything in his power to return a one hundred percent distribution to commodities and securities customers, if it is possible to do so.

VII. COMMUNICATIONS WITH CUSTOMERS

24. The Trustee has sought to maintain channels of communication with customers, creditors, and the public to the extent that he can do so without detracting from his duties to marshal and return property, and without compromising the confidentiality of investigatory and recovery efforts. The Trustee's counsel has held three formal meet-and-confer sessions in their New York offices on November 18, 2011, December 1, 2011, and December 20, 2011, as well as numerous telephonic conferences with groups of interested customers, always seeking as representative a meeting as possible in order to avoid wasteful, duplicative efforts. The Trustee's website (www.mfglobaltrustee.com) is updated often, with court filings, statements on various issues, and reports on the progress of the liquidation. The Trustee believes that the website is the most productive vehicle for disseminating accurate information to all customers and interested parties efficiently and fairly. At the same time, he has organized a call center with a standby roster of attorneys to answer inquiries quickly and address specialized concerns where possible.

25. The Trustee will be filing summary reports with the Bankruptcy Court every sixty days, and more substantial interim reports pursuant to SIPA every six months. The Trustee and his professionals presented the information and slides contained in Appendix A to this Report to a meeting of approximately two hundred customers, creditors, and other interested parties at the New York Marriott Downtown on January 12, 2012. He or his lead counsel have voluntarily appeared before Congress, upon request, three times, in addition to participating in conference calls and meetings with Congressional staff and constituents.

VIII. STAFFING AND ADMINISTRATIVE MATTERS

26. Upon the commencement of the SIPA Proceeding, the Trustee immediately began to take efforts to reduce the expenses of the MFGI estate. To this end, as indicated in Appendix A at 24, the Trustee promptly rejected, assigned, or surrendered leases for MFGI office space across the country, while simultaneously securing the premises and preserving important data systems.

27. The Trustee also terminated all approximately 1,100 MFGI employees. The Trustee has retained experienced consultants and forensic accountants from Deloitte and Ernst & Young, along with U.K. counsel and U.S. counsel for conflicts, as indicated in connection with the hearing on disinterestedness. Finally, the Trustee has retained a skeleton staff of former MFGI employees on a temporary basis because their knowledge will facilitate the execution of an efficient claims process.

IX. CONCLUSION

28. The foregoing Report and attached Appendix A represent a summary of the status of this SIPA Proceeding and the material events that have occurred in the past sixty days. It will be supplemented and updated with future sixty day reports, and more substantial interim reports every six months.

Dated: New York, New York
January 12, 2012

Respectfully submitted,

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