



23 January 2012

**MF Global Australia Limited  
(Administrators Appointed) (MFGA)**

## **Client Account Explanatory Statement - January 2012**

As indicated in previous updates to clients of MFGA, the Administrators have received the majority of close out data from various exchanges, counter parties and clearing houses. The MFGA back office and the Administrators' team have now completed reviewing that information and have processed the transactions to client accounts.

This explanatory statement has been prepared to inform clients of the:

- information contained in the January 2012 issued account statement
- method MFGA adopted to process close out transactions
- Online Client Claim Statement process
- impact of anticipated court applications by the Administrators

We have also attached some frequently asked questions that may assist clients to consider their statements and confirm (or not) their Gross Liquidated Value (GLV) as at 1 November 2011.

### **1. January 2012 issued statements**

The statements that have been issued to clients in January 2012 show clients' claims as at 1 November 2011 being the date of appointment of the Voluntary Administrators.

Your statement will show the following information;

1. your cash position as at 31 October 2011
2. the transactions to close out your positions and the profit & loss impact
3. your Gross Liquidated Value (GLV) or your Estimated GLV in Australian dollars as at 1 November 2011
4. the exchange rates used to convert your foreign currency positions to Australian dollars
5. interest and charges processed

The statements that have been produced in January 2012 have used a stand-alone system and not the corporate systems used pre-administration. Therefore you may notice some changes to the statement layout.

**MF Global Australia Limited  
(Administrators appointed)**

Level 21  
225 George Street  
Sydney NSW 2000  
PO Box N699  
Grosvenor Place NSW 1220  
Australia

Tel + 61 2 8273 8822  
Fax + 61 2 9247 3765  
[www.mfglobal.com.au](http://www.mfglobal.com.au)



### 1.1 Cash Position as at 31 October 2011

The opening cash position of your account is the balance as shown in MFGA records as at close 31 October 2011. Information has been extracted from the pre-administration corporate systems.

### 1.2 Close Out Transactions

Information to close out your positions effective 1 November 2011 has been based on the transaction data received from exchanges, clearing houses, counter parties and MFGA affiliates.

Not all information has been received from some sources, as follows;

<b>CFD's</b>	<b>Futures &amp; Options</b>	<b>Margin FX</b>
MF Global Singapore	MF Global Inc.	MF Global Singapore
MF Global UK	MF Global UK	

Only a small number of MFGA client accounts are impacted by the missing close out information. We have been advised that required information from affiliates is not expected to be received until close out transactions are processed by the affiliates. In some cases the information is yet to be received from third parties.

Your account statement has a number of sections that show close out transactions depending on whether the actual close out data has been received or not. These sections are:

- Finalised Realised Profit & Loss – this section shows close out transaction where the external close out data has been received and finalised in the books of MFGA
- Estimated Realised Profit & Loss – this is where close out data has not been received and your close out position is estimated as at 31 October 2011 at mark to market
- Account Summary – this section shows the total of both Finalised Variation and Estimated Realised Variation to arrive at the GLV or Estimated GLV amount respectively

### 1.3 Gross Liquidated Value (GLV)

The GLV is the balance of your account after all close out transactions have been processed and after all transaction charges or adjustments, in Australian dollars.

### 1.4 Estimated GLV

Where close out information has not been received for open positions the account will show the mark to market position as at 31 October 2011 as contained in the records of MFGA. This is shown in total as Estimated Realised Variation in the Account Summary.



The Estimated Realised Variation has been used in calculating an Estimated GLV as at 1 November 2011 and will be updated once the close out information is received. Your GLV balance will be regarded as an Estimated GLV if any part of your account has an Estimated Realised Variation balance.

### *1.5 Exchange Rates*

The exchange rates used to convert foreign currency to Australian dollars are shown on your statement in the account summary section, referred to as "spot rates". These rates are as at 31 October 2011 being the last available rates in the MFGA system prior to the Administrators' appointment.

### *1.6 Interest and Charges*

Interest on your account has been processed up to and including 31 October 2011. No interest has been posted to your account from 1 November 2011 as the statement is as at 1 November 2011.

Charges that were applicable to your account prior to 31 October 2011 have been processed to your account. Charges and commissions for the close out transactions have also been processed to your account.

Where applicable, GST charges are also shown in the account summary section of the statement.

## **2. MFGA close out method**

The close out method adopted by MFGA to value transactions to close out open positions is based on the actual close out pricing information provided by third parties. In applying this method the following process has been implemented;

### *2.1 CFD's*

#### *2.1.1 Australian & Asian CFD's:*

The pricing applied is that which Deutsche Bank closed out the hedge positions between MFGA and Deutsche Bank.

Corporate actions were included in the close out information and have been processed to accounts as previously treated by MFGA.

We have been advised by Deutsche Bank that some illiquid hedge positions could not be closed. Under the Prime Broking Agreement these positions have been priced at zero for long positions and priced at an estimate by Deutsche Bank for short positions. This has been reflected in the MFGA statements. Deutsche Bank has indicated it will

endeavour to close out these hedge positions and account for them to MFGA at a later date. For the small number of clients affected by the illiquid positions they will receive separate correspondence over the next few weeks.

#### *2.1.2 Australian Index / Commodity CFD's:*

The pricing applied is that received from ASX Clear (Futures) when it closed MFGA's net hedge positions.

#### *2.1.3 US Index / Commodity CFD's:*

MFG Inc. has provided hedge close out information which has been applied to client accounts.

### *2.2 Futures and Options*

#### *2.2.1 Australian Futures & Options:*

ASX Clear (Futures) and ASX Clear. The ASX issued a default notice to MFGA shortly after the appointment of Voluntary Administrators on 1 November 2011. The ASX then proceeded to close out its net market exposure on positions held by MFGA (including positions held through MFGUK as Clearing Participant solely for MFGA). MFGA client positions have been closed out at the prices provided by ASX Clear and ASX Clear (Futures) related to the net market exposure. To implement this MFGA closed out long and short positions using an average weighted calculation of close out trades which in some cases occurred over a number of days.

#### *2.2.2 Asian Futures & Options:*

MFG Singapore and MFG Hong Kong have provided the actual close out prices for MFGA open positions. This pricing has been applied to MFGA client accounts.

#### *2.2.3 US Futures & Options - Bank of New York Mellon (BNYM).*

Most future and option close out transactions and a small number of position transfers (without collateral) were transacted by BNYM in accordance with MFGA client instructions. The normal daily transaction information from BNYM was received each day and has been processed to MFGA client accounts.

#### *2.2.4 Options:*

Some option positions were exercised into futures contracts by counterparties to assist with the close out process. In order to value these option positions, the option price on



the day of exercise was used to calculate an effective close out value. This ensured option positions received the correct realisable value.

### 2.3 Margin FX

No close out information has been received

### 2.4 Online FX

MFGA has received the close out information and no adjustments were required. Actual close out prices have been applied to client accounts.

## 3. Online Client Claim Statement process

A key step in making a distribution of funds to clients requires clients to quantify their claims to the Administrators. Based on account statements issued in January 2012, clients now have the ability to confirm (or not) the GLV as at 1 November 2011. We have implemented an Online Client Claim Statement to efficiently allow clients to advise the Administrators of their confirmation or rejection of their GLV.

Clients are required to

- review the January 2012 issued account statements
- review this explanatory statement and
- complete the Online Client Claim Statement within 28 days of the date of the e mail attaching their January 2012 issued account statement

The Online Client Claim Statement process requests:

- You confirm that you are the account owner or a person authorised by the account owner to confirm the GLV.
- You confirm, or not, your agreement with the AUD equivalent of GLV using the exchange rate of 31 October 2011. If you do not agree with the GLV then, after completing the online process, an automated e mail will be sent to you requesting details of your disagreement with the GLV.
- You confirm that distributions are to be paid to the bank account details held by MFGA. Should you wish to change the account details an automated email will be sent to you requesting change of bank account details in accordance with MFGA risk processes.

If within the 28 days a client does not complete the Online Client Claim Statement, either by confirming or rejecting the GLV or Estimated GLV they will not be able to access the Online Client Claim Statement. This will delay consideration of their claims by the Administrators. While this may not jeopardise a client's ultimate claim, it may delay distribution of funds to those clients.



Should you agree and confirm the GLV the Administrators will take that as confirming your GLV, subject to any alterations required following Court determination or, errors and omissions in calculating your GLV.

#### 4. Court Applications

In previous correspondence the Administrators have indicated that a number of matters will need to be referred to the Court for determination. Some of these matters may affect the calculation of a client's account GLV. The key issues this will cover include;

- Valuations of close out transactions
- Application of exchange rates
- Pooling and entitlement to monies held in client segregated accounts and from recoveries

Should the Court determine that the method used to calculate the GLV of an account as at 1 November 2011 is to be changed, then your GLV will be recalculated in accordance with the Court order. This recalculation will occur whether or not you have confirmed or rejected the GLV as at 1 November 2011 using the Online Client Claim Statement.

#### 5. Questions

Questions regarding your account statement should be forwarded by email to [mfgaustralia@deloitte.com.au](mailto:mfgaustralia@deloitte.com.au) together with a daytime contact number. In the header it would be useful to use;

*"Account Enquiry – account name [insert account number]"*

The hotline remains open however there is only a limited number of people manning the service. Therefore it will be more efficient to deal with questions by email. Any IT issues with the Online Client Claim Statement system can be directed to [mfgaustralia@deloitte.com.au](mailto:mfgaustralia@deloitte.com.au) or the hotline.

#### 6. Limitations

Please note that information contained in the account statements is based on information from external sources, and neither MFGA nor the Administrators do not represent or warrant that the information contained in the account statements is accurate or complete. MFGA reserves the right to correct any error in the calculations or amend the calculations following a court determination.

The Administrators of MFGA are not personally liable for the information provided herein or in the Account Statements.

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### FAQ's

- **Why have the Administrators closed out open positions using close out data from external sources rather than prices as at 31 October 2011?**

The reasons for using close out prices based on close out data provided by external parties include, but are not limited to;

- Cash recovered or recoverable from third parties is the amount referable to the actual close out transactions. To use another price or valuation to close client accounts would result in a surplus or deficit of cash compared to client GLV's.
- Some external counterparties closed out transactions were in accordance with client instructions.
- Client agreements and Product Disclosure Statements (PDS) appear to allow MFGA to implement this method.
- In some cases exchanges and clearing houses closed out positions in accordance with their rules, to which MFGA and clients are subject.
- It appears that this method maintains some equity between competing client claims to assets.
- To use pricing from any other date would be a theoretical calculation.

It is likely a court determination will settle the close out valuation method.

- **Why has this taken so long?**

It has been approximately 2.5 months since the appointment of the Administrators. The early phase of the Administration was focused on recovering and preserving assets of clients and MFGA. During this period most of the automatic feeds of information to update client accounts were withdrawn and close out information was not received from counterparties for some time.

The close out information was required to be manually reviewed and reconciled before processing to client accounts. A decision was made not to use the pre-administration MFGA systems to update client accounts as;

- The Administrators could not be certain of continued access to these systems which were not in their control and located offshore
- The existing systems were not set up to process a close out of client accounts as at 1 November 2011, primarily due to it not being in the ordinary course of business. It

is likely that using the existing systems would have required extensive reconciliations further delaying issue of client statements

- It is possible that a court may direct a change of the method or assumptions used in calculating the GLV. The existing MFGA systems were unlikely to cope with these changes. As an alternative the Administrators, in conjunction with MFGA back office team, have created a less complex system to manage client statements and closing calculations

- **Why have charges and commissions been applied to my account?**

Charges relating to periods prior to 31 October 2011 have been applied and are applicable in calculating your GLV. Charges and commissions relating to close out transactions have also been applied to recover counterparty and clearing house charges together with costs incurred by MFGA to manage your account.

Please note that, merely making these charges on your account does not produce an immediate cash flow to MFGA.

- **What if a Court order is given to change the calculation of GLV's?**

MFGA will calculate the GLV and reissue a new statement in accordance with the Court order.

- **What if I disagree with the close out prices applied to my account?**

If you disagree with the close out prices then we assume you also disagree with the GLV on your January 2012 issued statement. Therefore you should use the Online Client Claim Statement to indicate your disagreement. On completion of the Online Client Claim Statement, an automated email will be sent to you requesting you provide details of your disagreement together with supporting documentation.

- **Is the Online Client Claim Statement binding?**

Should you agree and confirm your GLV the Administrators will take that as a confirmation of your GLV, subject to any alterations required following a Court determination, or errors and omissions in calculating your GLV. This does not include estimated GLVs.

- **What does this mean in terms of the quantum and timing for clients to receive a distribution of funds?**

A client agreeing the amount of their claim against various pools of assets is an important process in being able to calculate distribution of funds. However, as set out in previous correspondence, the Administrators require a Court determination to calculate a client's entitlement to the various client segregated bank accounts and funds received during the administration. This court process was commenced in December 2011. Court materials are

MF Global Australia Limited  
(Administrators appointed)  
Level 21  
225 George Street  
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being collated for submission to Court. The first Court date is 6 February 2012, after which we hope to have a better view of the Court timetable.

- **What checks were carried out on the close out data received by third parties?**

With regard to the close out data received, the MFGA back office undertook reconciliations between the third party data and MFGA records in line with reconciliations they conducted prior to the appointment of the Administrators. This resulted in agreeing the quantum of positions transacted to MFGA records.

In regard to pricing MFGA back office and the Administrators team carried out manual comparisons to check the close out prices supplied by the counterparties to that day's market range. The results were for each counterparty, the close out pricing appeared to be within an acceptable range of the day's market range of prices. For the very small number that appear outside of an acceptable daily trading range further enquiry will be made. In most cases clients will find it difficult to compare the close out price to external market data as;

- For some transactions weighted average prices had to be used and
- Close out processes by the external parties occurred over a number of days.

- **What about interest post 1 November 2011?**

Accounts have been closed as at 1 November 2011. No interest after this date was applied to client accounts. The Administrators are requesting clients to confirm, or not, their GLV as at 1 November 2011. In addition as all positions are effectively closed as at 1 November 2011 and the account is a GLV only, i.e. no open positions. Therefore there should be no interest receivable or payable on positions such as short or long CFD positions.

The liability to pay interest on GLV balances post 1 November 2011 has not been settled and may require Court determination as to applicability, quantum and who is liable to pay the interest.

- **Have corporate actions been processed, e.g. dividend entitlements for CFD hedges?**

Yes. This information was provided by the external third parties and has been processed to client accounts.

- **Am I required to pay unpaid margin calls?**

During the administration MFGA has not issued any margin calls. Provided your account was in order and the loss on close out did not exceed your equity, then your GLV should be positive. Therefore there should be no margin call as there are no open positions remaining.



- **Can I request historical statements?**

MFGA has limited access to historical client statements as it does not have control over the corporate systems which are located and operated overseas. An electronic version of the October 2011 statements may be available. MFGA has a small number of staff remaining and their priority is to finalise client accounts and the books of MFGA. Therefore MFGA has limited capability to deal with requests for historical statements and these requests will not receive priority.

- **If I have enquiries on my account how can I make these before completing the Online Client Claim Statement?**

If you have enquires that this explanatory statement has not covered, you should document your questions and submit them to [mfgaustralia@deloitte.com.au](mailto:mfgaustralia@deloitte.com.au). In the email header it would be helpful to use:

“Account Enquiry – account number [insert account number]”

Whilst the hotline remains open there is limited MFGA staff to answer queries and therefore it would be more efficient to answer client queries via email.