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Local clients exit struggling MF Global

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The future of the Australian arm of futures and derivatives trading house MF Global is under a cloud, with its US-listed parent coming under financial pressure.

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Australian-based clients have told *BusinessDay* they have been pulling funds from the firm as its US parent was reportedly seeking a financial backer over the weekend.

Commonwealth Bank's online trading arm CommSec has stopped new trades that use MF Global to hedge its over-the-counter CFD positions. CommSec recommended its customers also close out its positions linked with the firm, according to a CommSec memo.

The moves come as MF Global's US parent is reportedly about to enter bankruptcy protection and sell its assets to another CFD provider, Interactive Brokers, for \$US1 billion.

It is believed the urgent sale was forced on MF Global's New York-listed parent after offshore regulators threatened to close the company down.

The Australian arm of MF Global, which holds around \$168 million of client funds, has made an aggressive push into the risky contract for difference market in recent years.

A Singapore spokeswoman for MF Global declined to comment on whether clients have been seeking redemptions, however she said the trading house plans to release a global statement shortly.

MF Global is believed to have stopped taking new positions ahead of the sale, which sources said could happen within hours.

The crisis has also drawn the attention of local regulator the Australian Securities and Investments Commission, whose head Greg Medcraft has long been a critic of CFDs.

“We are aware of the situation and we are monitoring it closely,” an ASIC spokesman said.

According to disclosures accompanying MF Global's Australian products, all contract-for-difference client funds are pooled together in one account. This potentially exposes one client to the risk of losses for another clients trade. However client funds are not exposed to the firm's finances.

MF Global is the fourth largest provider of CFDs in Australia, with a market share of about 5 per cent, according to an "Investment Trends" report from May. Leading the sector is IG Markets, ahead of CMC Markets and CommSec.

Pressure has mounted on MF Global - run by former Goldman Sachs chief executive Jon Corzine - to sell after a week in which it posted a quarterly loss, its shares slumped on the New York Stock Exchange and its credit ratings were cut to junk.

The brokerage, which under Mr Corzine increasingly used its own capital to trade, is paying the price for investments made on bonds of countries in the euro zone, and it is emerging as one of the hardest-hit US firms in the fallout from Europe's sovereign debt crisis.

US press reports said MF Global has reached out to major banks over the weekend including Macquarie, Barclays, Citigroup, Deutsche Bank and JPMorgan Chase, State Street and Wells Fargo, looking for a buyer.

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