

## 10,000 accounts in freeze

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Thousands of retail investors had their trading accounts frozen after the local arm of broker MF Global went into voluntary administration yesterday.

About 10,000 accounts were shut down, preventing clients from executing trades or withdrawing funds. The freeze was extended to clients of other brokers, including CommSec and Westpac, which offer MF Global contracts for difference (CFDs).

The futures market was also affected and the Australian Securities Exchange said it had declared a default on one of MF Global's entities.

MF Global is one of the major clearers in the Australian futures market. It is ranked among the top five brokers across ASX-listed futures and options and is the largest participant in the grain and wool markets.

"ASX's exposures are a small proportion of the combined futures markets and are adequately collateralised," ASX spokesman Matthew Gibbs said.

Deloitte accountants were yesterday poring over the financial accounts of MF Global's three local entities at its Sydney office, after its US parent filed for bankruptcy.

US regulators discovered hundreds of millions in client money was missing, sparking an investigation into the firm.

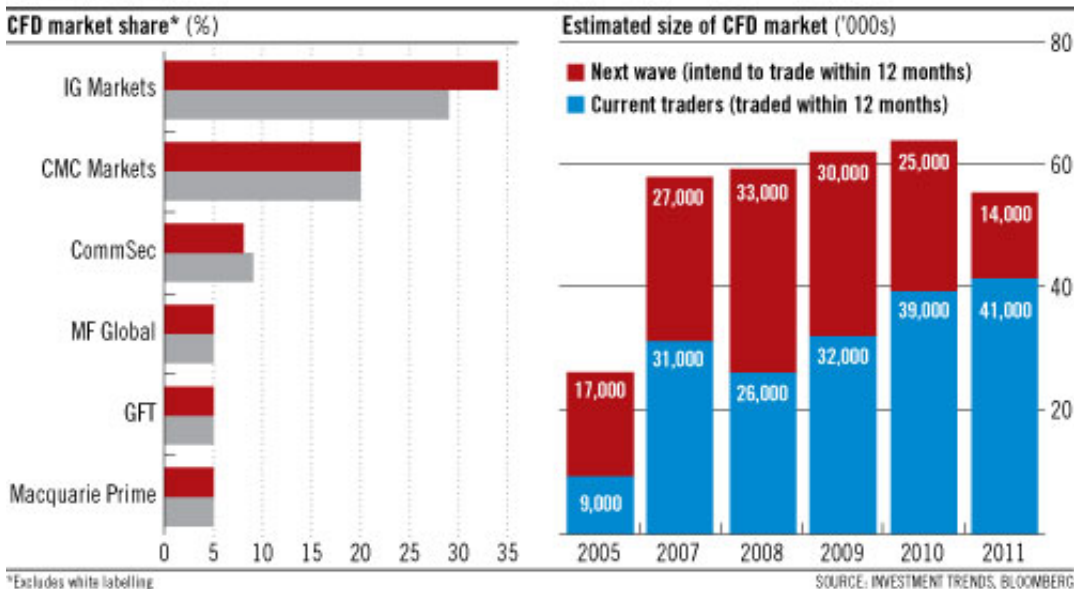
Deloitte administrator Chris Campbell told *The Australian Financial Review* last night an early analysis of the local business showed there was a possible shortfall of client funds in Australia.

"There is a bunch of transactions that happened through the global operations and the funds from those operations haven't flowed back into Australia.

"I understand them to be client money," Mr Campbell said.

He said the key would be to repatriate funds from offshore custodians and clearing houses.

### Shut down



Clients of MF Global and other brokers tried in vain to redeem funds yesterday, mindful of investors who lost money in the recent collapses of stockbrokers Sonray Capital Markets, Opes Prime and Lift Capital.

MF Global's marketing documents state that a "cardinal safeguard" of its financial products is that client funds are segregated from the funds of the broker-dealer and can't be used to meet the company's obligations.

But clients were concerned that their funds might be pooled and not individually segregated, raising fears some money could be used to cover other clients' losses.

Investor Adam Townley was worried some funds were being held by MF Global's prime broker, Deutsche Bank, its

counter-party on CFD trades.

“The current situation makes a nonsense of client-segregated funds,” Mr Townley said. Deutsche declined to comment.

MF Global has about 11 per cent of the local CFD market, including its “white label” products sold by Commsec and Westpac, research group Investment Trends says.

CFDs are derivative instruments that bet on movements in the price of an underlying asset using leverage. The average margin outlaid by a CFD client is \$5300, although gains and losses can be many multiples of that.

CommSec CFD investor Chris Harris said he could not withdraw funds yesterday.

“One of the problems is I gave them instructions to close positions today [Tuesday] because I want to be able to manage that risk, but they were unable to close an order because the administrator of MF Global has taken control,” Mr Harris said.

“It’s been taken out of their [CommSec’s] hands and I’m at the end of the stick.”

CommSec last night said the issue had affected a “small number” of investors, but declined to say how many.

“CommSec is working to close out all open OTC [over the counter] CFD client positions in an orderly manner and minimise any delays associated with this process,” it said.

“CommSec’s business model for OTC CFDs means that the clients’ counterparty is CommSec and therefore CommSec can commit to the return of any funds owing to clients in a timely manner.”

A Westpac spokesman said it had fewer than 75 customers with an exposure of more than \$100.

The Australian Securities and Investments Commission said it was working with affected parties.

Deloitte’s Mr Campbell said it was too early to know how many clients were affected or how much money was at risk, noting that some clients held between five and 10 accounts each.

MF Global declined to comment when approached by the *Financial Review* at its Sydney office.

ASX advised trading in the wool and grain futures and options markets will be restored today.

The Australian Financial Review

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