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Breaking News

Locals count cost as parent of MF Global faces collapse

Nov 01, 2011 12:45am

HUNDREDS of local clients of futures and derivatives trading house MF Global face being caught up in the drama engulfing its US-listed parent, which was last night preparing to file for bankruptcy protection.

With the future of the Australian arm under a cloud, many clients were yesterday attempting to withdraw funds from the firm, the nation's fourth biggest dealer of the high-risk instruments known as contracts for difference (CFDs).

Local brokers were closing off business with MF Global, while some of Australia's biggest banks were counting the cost of their exposure.

The moves came as its US parent was preparing to enter bankruptcy protection and sell its assets to another CFD provider, Interactive Brokers, for \$US1 billion (\$947 million).

It is believed the urgent sale was forced on the New York-listed entity after offshore regulators threatened to close the company down.

MF Global Australia holds about

\$168 million of client funds and threatens to become a major headache for the Australian Securities and Investments Commission if its offshore problems spill over to the local firm.

With an Australian trading book in excess of \$400 million, MF Global is the biggest of the CFD brokers to hit financial problems. The chairman of ASIC, Greg Medcraft, has long been a critic of CFDs, given small movements in share prices can balloon into large losses.

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

All CFD client funds are pooled in one account, potentially exposing one client to the risk of losses for another client's trade or failure to act on a margin call.

The risks of pooled funds have come to light in recent years, following the collapse of margin lenders Opes Prime and Lift Capital.

The financial troubles of MF Global's New York parent could also be felt by the Commonwealth Bank, with its online-trading arm CommSec a major counterparty to MF Global Australia. Westpac sells MF Global products through its online broking arm under a so-called white-label arrangement.

Local clients of MF Global told BusinessDay they were attempting to redeem funds from the firm as the problems of its US parent deepened over the past week. A Singapore-based spokeswoman for MF Global declined to comment on whether clients in Australia had been seeking redemptions. However, MF Global is believed to have stopped taking new positions yesterday.

CommSec also halted any new trades that use MF Global to hedge its over-the-counter CFD positions. CommSec also issued a memo to its customers recommending they close out positions linked with the firm to minimise any exposure.

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.

Pressure has mounted on MF Global - run by the 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, making it difficult to raise fresh funds.

The brokerage, which under Mr Corzine increasingly used its own capital to trade, is paying the price for billions of dollars' worth of 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 had also reached out to major banks over the weekend - including Macquarie, Barclays, Citigroup, Deutsche Bank, JPMorgan Chase, State Street and Wells Fargo - looking for a buyer.

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