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# MF Global woes reach Australia

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HUNDREDS of Australian clients of futures and derivatives trading house MF Global face being caught up in the drama engulfing the broker's US-listed parent, which last night was 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 high-risk instruments known as contracts-for-difference, or CFDs.

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

The moves came as MF Global's US parent was preparing 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 overseas regulators threatened to close the company down.

MF Global Australia holds about \$168 million of client funds and threatens to become a headache for the Australian Securities and Investments Commission if its offshore problems spill over to the local arm.

With an Australian trading book of more than \$400 million, MF Global is the biggest of the CFD brokers that have hit financial problems. ASIC head Greg Medcraft has long been a critic of CFDs given that 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's trade or failure to act on a margin call.

The financial troubles of MF Global's New York-listed parent could also be felt by 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.

Australian clients of MF Global yesterday told BusinessDay they were attempting to redeem funds 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 a May *Investment Trends* report.

Pressure has mounted on MF Global 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.

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