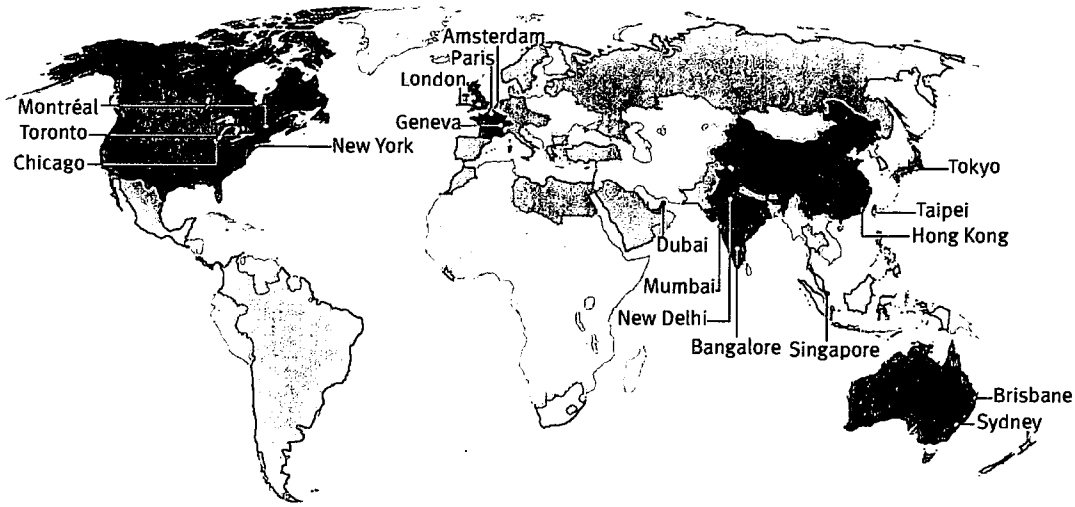
Appendix 1

Global Footprint

MF Global operates in 13 countries on more than 70 exchanges, providing access to some of the largest financial markets in the world.



● Countries with offices and Introducing Broker (IB) relationships

○ Countries with IB relationships

Appendix 1.B

U.S. Fixed Income Cash Inventory
(As of December 31, 2009)

US CASH INVENTORY		
Treasury's	**LONG**	**SHORT**
0 - 6 months	399,787,706	319,437,246
6 months - 1yr	997,478,540	0
0 - 1 yr	1,089,312,729	0
1 yr - 2 yr	170,117,656	144,746,128
2 yr - 5 yr	240,350,598	609,430,172
5 yr - 10 yr	538,345,897	348,314,539
10 yr - 30 yr	65,168,748	126,705,341
Agency's		
0 - 6 months	1,042,594,752	2,054,394,657
6 months - 1 yr	21,228,789	103,401,763
1 yr - 2 yr	115,026,348	0
2 yr - 5 yr	106,054,057	62,063,683
5 yr - 10 yr	44,325,179	36,755,581
10 yr - 30 yr	943,912,057	0
Corp's		
0 - 1 yr	0	0
1 yr - 2 yr	1,487,332	0
2 yr - 5 yr	6,458,272	45,884,843
5 yr - 10 yr	4,896,296	40,819,244
10 yr - 30 yr	29,841,489	36,228,254
TOTAL	**5,816,386,444**	**3,928,181,452**

U.S. Fixed Income Net Balance Sheet
(As of December 31, 2009)

Net Asset				Net Liability	
Treasury - US	7,732,764,424	29%	67%	18,441,499,674	Treasury - US
AGENCY Deb - US	3,652,592,761	14%	5%	1,481,401,500	AGENCY Deb - US
AGENCY MBS - US	6,710,740,856	25%	24%	6,697,338,106	AGENCY MBS - US
Bonds Borrowed - US	6,963,600,148	26%	0%	-	Bonds Borrowed - US
Canada Sov - CAN	236,126,089	1%	1%	237,019,698	Canada Sov - CAN
EUR Sov - EUR	5,023,792	0%	0%	5,097,923	EUR Sov - EUR
GBP Sov - UK	184,341,338	1%	1%	184,482,597	GBP Sov - UK
Corporate - US	201,952,737	1%	0%	68,694,798	Corporate - US
CORPORATE - GBP	-	0%	0%	-	CORPORATE - GBP
Corporate - EURO	-	0%	0%	-	Corporate - EURO
EQUITY - EUR	-	0%	0%	-	EQUITY - EUR
EQUITY - GBP	-	0%	0%	-	EQUITY - GBP
EQUITY - USD	-	0%	0%	-	EQUITY - USD
Stock Borrow - UK	-	0%	0%	-	Stock Borrow - UK
Stock Borrow - US	754,377,602	3%	2%	564,492,851	Stock Borrow - US
	26,441,519,747	**Grand Total**		**27,680,027,147**	

Appendix 2.A

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "MF GLOBAL INC.", FILED IN THIS OFFICE ON THE SECOND DAY OF MAY, A.D. 2008, AT 3:17 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE KENT COUNTY RECORDER OF DEEDS.

3399369 8100

080500155

You may verify this certificate online at corp.delaware.gov/authver.shtml

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 6566466

DATE: 05-02-08

State of Delaware
Secretary of State
Division of Corporations
Delivered 03:17 PM 05/02/2008
FILED 03:17 PM 05/02/2008
SRV 080500155 - 3399369 FILE

AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

MF GLOBAL INC.

MF Global Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "DGCL"), hereby certifies as follows:

1. The name of the corporation is "MF Global Inc." (the "**Corporation**").

2. The Corporation's Certificate of Incorporation was originally filed in the office of the Secretary of State of Delaware on June 4, 2001 and the name under which the corporation was originally incorporated is MF Holdings Inc.

3. The Board of Directors of the Corporation and the stockholders of the Corporation adopted resolutions, pursuant to Section 245 of the DGCL authorizing the restatement of the Certificate of Incorporation and written notice of the adoption of this Amended and Restated Certificate of Incorporation has been given as provided by Section 228 of the DGCL to every stockholder entitled to receive such notice.. This Amended and Restated Certificate of Incorporation reads as follows:

First. The name of the corporation (the "**Corporation**") is MF Global Inc.

Second. The address of the Corporation's registered office in the State of Delaware is National Registered Agents, Inc., 160 Greentree Drive, Suite 101, Dover, Delaware, 19904, County of Kent. The name of the registered agent of the Corporation in the State of Delaware at such address is National Registered Agents, Inc.

Third. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

Fourth. The total number of shares of stock which the Corporation shall have authority to issue is 3,000 shares of common stock, $.01 par value.

Fifth. The Board of Directors of the Corporation shall have the power to make, amend, alter and repeal the by-laws of the Corporation.

Sixth. The election of directors need not be by written ballot.

Seventh. No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty as a director; provided, however, that nothing in this Section 7 shall eliminate or limit the liability of any director (i) for breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit. Neither the amendment nor repeal of this Section 7, nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Section 7, shall eliminate or reduce the effect of this Section 7 in respect of any matter occurring, or any cause of action, suit or claim that, but for this Section 7, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

Eighth. The Corporation shall, to the fullest extent legally permissible under the provisions of the DGCL, as the same may be amended from time to time, indemnify and hold harmless any and all persons whom it shall have power to indemnify under said provisions from and against all liabilities (including expenses) imposed upon or reasonably incurred by him or her in connection with any action, suit or other proceeding in which he or she may be involved or with which he or she may be threatened, or other matters referred to in or covered by said provisions both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director or officer of the Corporation. Such indemnification shall not be deemed exclusive of any other rights to which those indemnified persons may be entitled under any by-law, agreement or resolution adopted by the stockholders entitled to vote thereon after notice.

IN WITNESS WHEREOF, I have hereunto signed my name and affirm, under the penalties of perjury, that this Certificate is my act and deed and that the facts stated herein are true this 2nd day of May, 2008.

Laura E. Ross
Vice President and Secretary

Appendix 2.B

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF MERGER, WHICH MERGES:

"MF GLOBAL INC.", A DELAWARE CORPORATION,

WITH AND INTO "MF GLOBAL SECURITIES INC." UNDER THE NAME OF "MF GLOBAL INC.", A CORPORATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE STATE OF DELAWARE, AS RECEIVED AND FILED IN THIS OFFICE THE TWENTIETH DAY OF DECEMBER, A.D. 2007, AT 12:06 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE EFFECTIVE DATE OF THE AFORESAID CERTIFICATE OF MERGER IS THE THIRTY-FIRST DAY OF DECEMBER, A.D. 2007.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

3399369 8100M

071346600

You may verify this certificate online at corp.delaware.gov/authver.shtml

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 6265546

DATE: 12-27-07

State of Delaware
Secretary of State
Division of Corporations
Delivered 12:06 PM 12/20/2007
FILED 12:06 PM 12/20/2007
SRV 071346600 - 3399369 FILE

CERTIFICATE OF MERGER

OF

MF GLOBAL INC.

AND

MF GLOBAL SECURITIES INC.

It is hereby certified that:

1. The constituent business corporations participating in the merger herein certified are:

(i) MF Global Inc., which is incorporated under the laws of the State of Delaware; and

(ii) MF Global Securities Inc., which is incorporated under the laws of the State of Delaware.

2. An Agreement of Merger has been approved, adopted, certified, executed, and acknowledged by each of the aforesaid constituent corporations in accordance with the provisions of subsection (c) of Section 251 of the Delaware General Corporation Law.

3. The name of the surviving corporation in the merger herein certified is MF Global Securities Inc., which will continue its existence as said surviving corporation under the name MF Global Inc. upon the effective date of said merger pursuant to the provisions of the Delaware General Corporation Law.

4. The Certificate of Incorporation of MF Global Securities Inc. is to be amended and changed by reason of the merger herein certified by striking out article 1 thereof, relating to the name of said surviving corporation, and by substituting in lieu thereof the following article:

"The name of the corporation (the "Corporation") is MF Global Inc."

and said Certificate of Incorporation as so amended and changed shall continue to be the Certificate of Incorporation of said surviving corporation until further amended and changed in accordance with the provisions of the Delaware General Corporation Law.

5. An executed copy of the Agreement of Merger between the aforesaid constituent corporations is on file at the principal place of business of the aforesaid surviving corporation, the address of which is as follows:

717 Fifth Avenue, 9th Floor, New York, New York 10022

6. A copy of the aforesaid Agreement of Merger will be furnished by the aforesaid surviving corporation, on request, and without cost, to any shareholder of each of the aforesaid constituent corporations.

7. This Certificate of Merger shall be effective after the close of business on December 31, 2007.

IN WITNESS WHEREOF, said Corporation has caused this Certificate to be signed by Thomas A. Hayes Jr., its Secretary, on December 20, 2007.

Thomas A. Hayes Jr.
Secretary

Appendix 3

MF Global Holdings Ltd.
Control Persons

Name, Title and Address	Date of Birth	Social Security Number	Citizenship
Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy			

Name, Title and Address	Date of Birth	Social Security Number	Citizenship
Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy			

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

CONFIDENTIAL PERSONAL INFORMATION

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

[redacted]

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Redacted Pursuant to Exemption 6 of the Bank's Disclosure of Information Policy

Please protect from disclosure under the Privacy Act of 1974 and 12 CFR 261a.

Appendix 4.A

MF GLOBAL INC.

DIRECTORS

Bernard W. Dan
Thomas M. Harte
Laurie Ferber

OFFICERS

Name	Title
Bernard W. Dan	President
Thomas M. Harte	Executive Vice President
Martin Timmins	Executive Vice President
Fred Demler	Executive Vice President
Stephen Grady	Executive Vice President
Peter J. McCarthy	Executive Vice President
Randy MacDonald	Executive Vice President
Tracy While	Chief Compliance Officer, Executive Vice President
Michael Roseman	Executive Vice President
Christine Serwinski	Senior Vice President
Jake Vrabel	Senior Vice President
Howard Schneider	Senior Vice President
Dennis Klejna	Senior Vice President
Daniel S. Caputo	Senior Vice President
Jeffrey S. Mester	Senior Vice President
Ronald J. Thauer	Vice President
Ronald T. Wolf	Vice President/Assistant Secretary
Margaret Liautaud	Vice President
Phil Tanzar	Vice President
Stephen Hood	Vice President
Monica Rodriguez	Vice President
Henri Steenkamp	Vice President
Joseph T. Pucci	Vice President
Nancy Westwick	Vice President
Dawn Caruso	Vice President
Kelly S. Diemand	Secretary, Privacy Officer

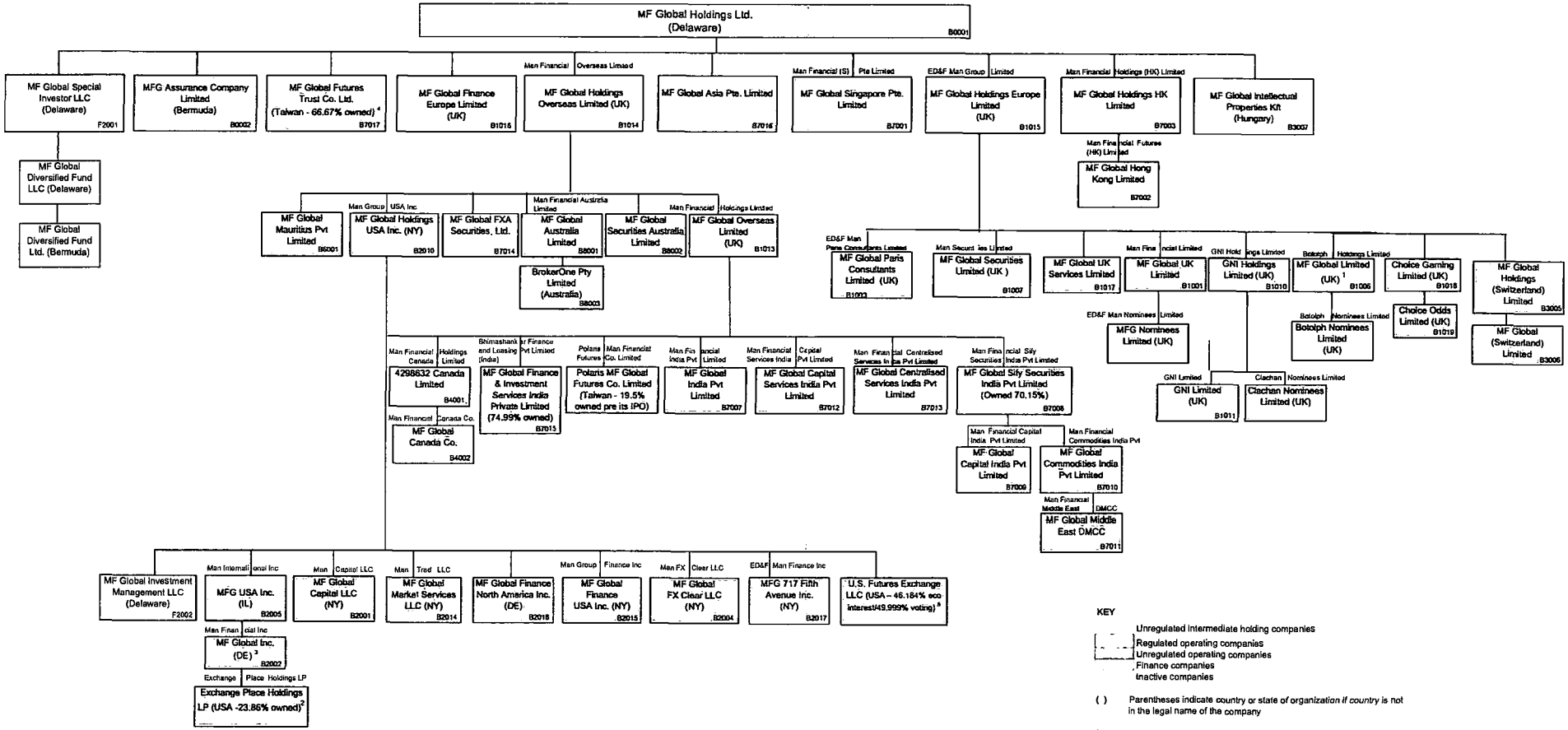
Philip F. O'Reilly	Vice President
Thomas Frankel	Vice President
Adam Rochlin	Vice President
John Brand	Privacy Compliance Officer – Futures, Anti-Money Laundering Compliance Officer
Joan P. Ackerman	Assistant Vice President/Assistant Secretary
Toni Rossetti	Assistant Vice President
James Colburn	Assistant Vice President
H. Franklin Stone	Assistant Vice President
James P. Sullivan	Assistant Vice President
Robert Adelstein	Assistant Vice President
Dean Geyer	Assistant Vice President
David Dunne	Treasurer
William Shannon	Chief Procurement Officer
Richard Gill	Vice President

Last Updated: 12-17-09

Appendix 4.B

FOR INTERNAL USE ONLY

MF GLOBAL LEGAL STRUCTURE



KEY

- Unregulated intermediate holding companies
- Regulated operating companies
- Unregulated operating companies
- Finance companies
- Inactive companies

( ) Parentheses indicate country or state of organization *if country* is not in the legal name of the company

[1] Name changed to preserve brand in the U.K.; dormant company
[2] Holds a 7.63% interest in USFE
[3] Effective January 1, 2008, MF Global Inc. is the name of the company which holds the broker-dealer and FCM licenses
[4] 33.33% owned by Polaris MF Global Futures Co. Limited
[5] Liquidated as of 12/31/08; not yet dissolved

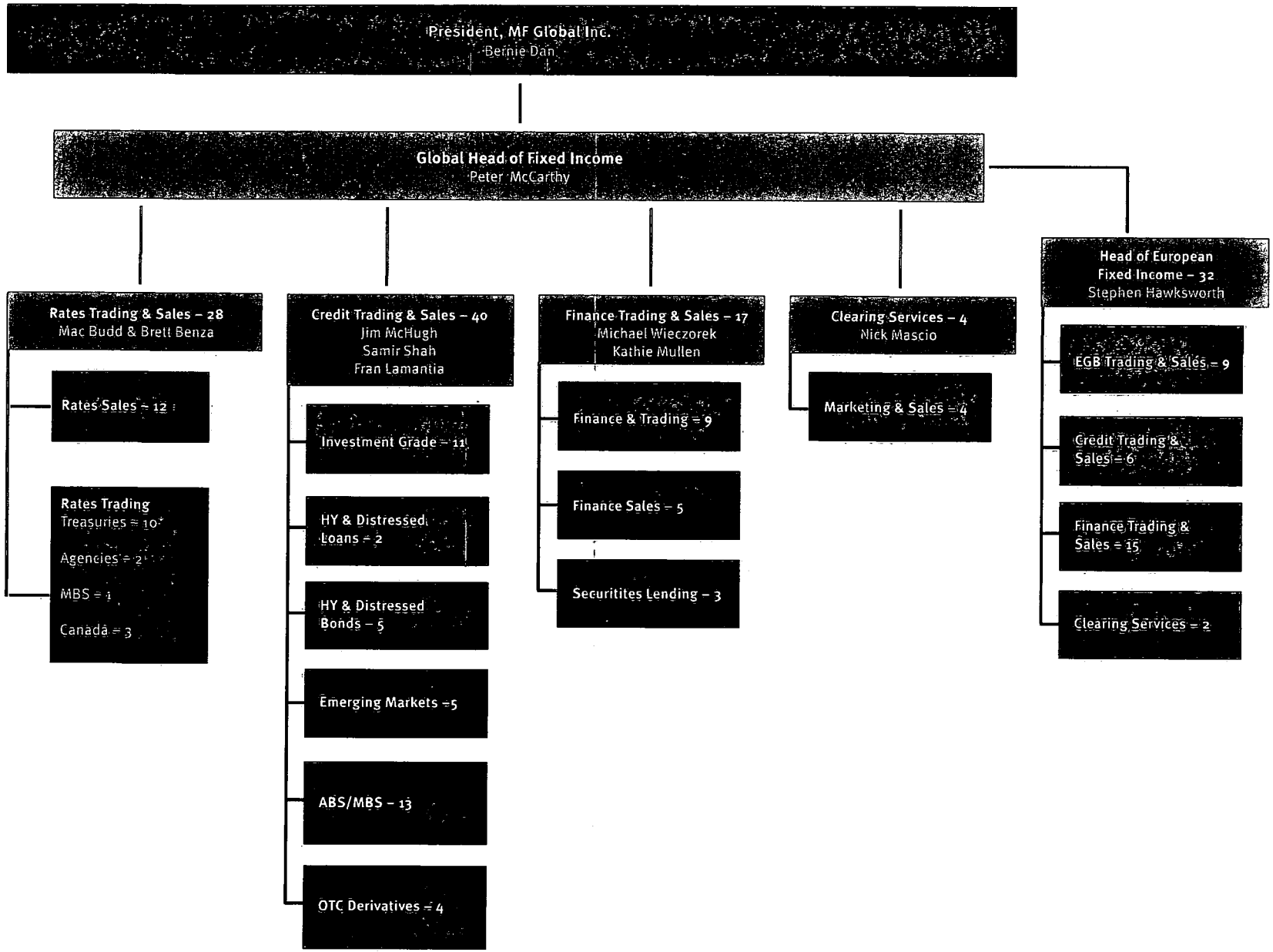
Dated January 4, 2010

FOR INTERNAL USE ONLY

Appendix 4.C

MF Global Fixed Income Organ.. ..ional Chart

(including number of employees in each group)

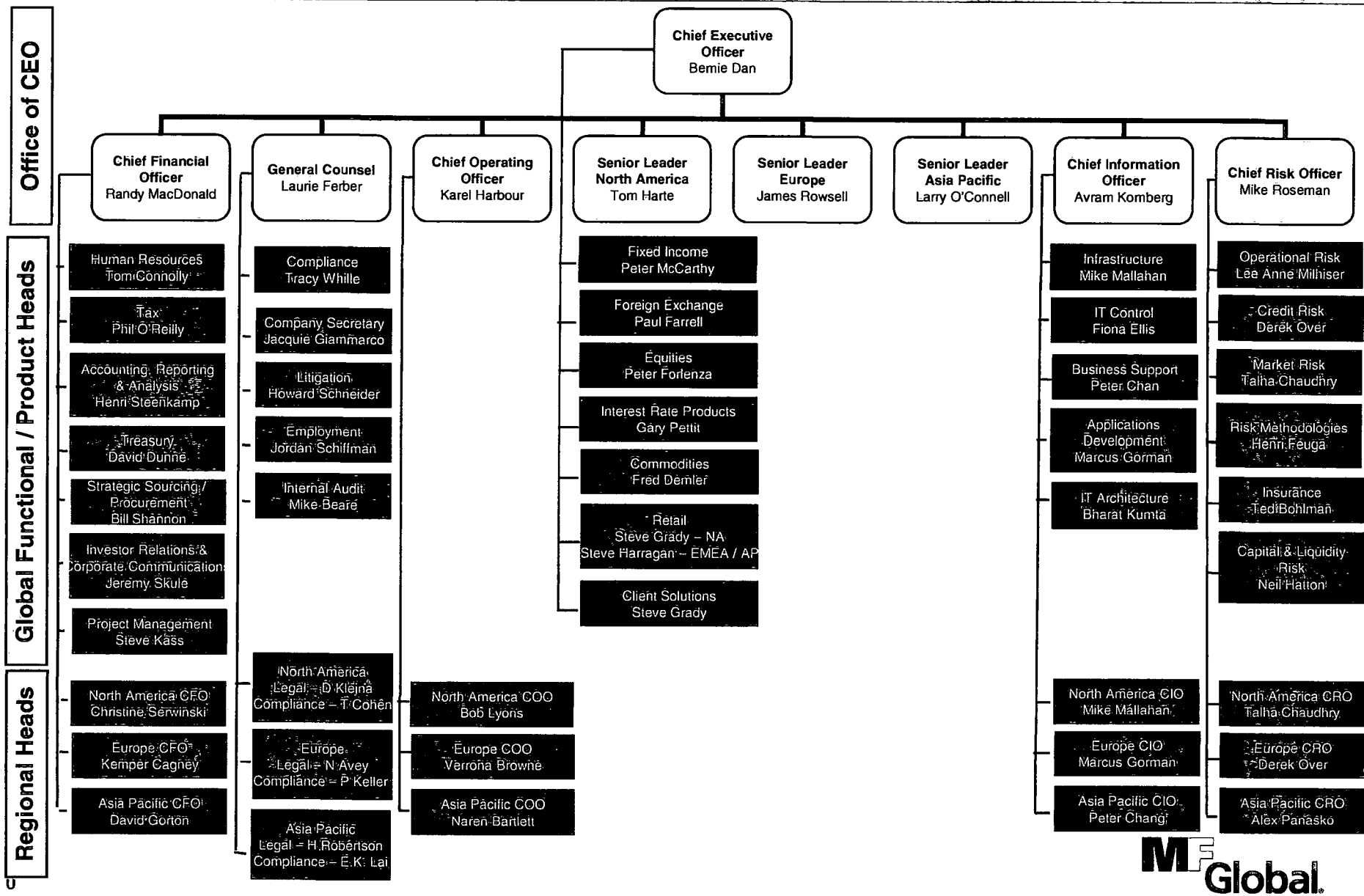


*Includes Interest Rate Swaps

Note: This chart represents MF Global's global fixed income team.

Appendix 5

Global Organization- Functional Alignment



MF Global

Appendix 6

Morningstar® Document Research℠

FORM 8-K

MF Global Holdings Ltd. - MF

Filed: August 07, 2009 (period: August 07, 2009)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: August 7, 2009
(Date of earliest event reported)

MF Global Ltd.
(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of incorporation)

001-33590
(Commission File Number)

98-0551260
(IRS Employer Identification No.)

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda
(Address of Principal Executive Offices)

N/A
(Zip Code)

(441) 295-5950
(Registrant's Telephone Number, Including Area Code)

Not applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Powered by Morningstar® Document Research℠

Item 8.01 Other Events.

On April 1, 2009, MF Global Ltd. (together with its subsidiaries, "the Company") adopted (i) Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS No. 160") and (ii) FASB Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"), each of which is effective for the Company's fiscal year ending March 31, 2010 and interim periods within such fiscal year. SFAS No. 160 and FSP APB 14-1 were not effective for fiscal periods covered by the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 (the "2009 Form 10-K") at the time it was filed with the Securities and Exchange Commission. The Company is filing this Form 8-K to retroactively apply SFAS No. 160 and FSP APB 14-1 to its historical audited financial statements included in the 2009 10-K. Attached as Exhibit 99.1 to this Form 8-K and incorporated by reference herein are the following items of the 2009 10-K, as amended, reflecting the retroactive application of SFAS No. 160 and FSP APB 14-1:

- Item 6 — Selected Financial Data

- Item 8 — Financial Statements and Supplementary Data

SFAS No. 160 requires, among other things, that noncontrolling interests (previously referred to as minority interests) be recorded as equity in the consolidated financial statements. The Company's adoption of this standard resulted in the reclassification of $12.8 million previously classified as minority interests in consolidated subsidiaries to noncontrolling interests at March 31, 2009, which is now presented as a separate component of equity on the Company's consolidated balance sheet. In addition, SFAS No. 160 changed the presentation of noncontrolling interests within the Company's consolidated and combined statements of operations, and now requires that net (loss)/income attributable to noncontrolling interests be shown separately from net (loss)/income attributable to the Company. Prior period information presented in the Exhibits to this Form 8-K has been restated to comply with these requirements.

FSP APB 14-1 requires issuers of certain convertible debt instruments that may be settled wholly or partially in cash upon conversion or settlement to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuers' nonconvertible debt borrowing rate. The Company's adoption of FSP APB 14-1 impacts the historical accounting for the Company's 9.00% Convertible Senior Notes due 2038 (the "Convertible Notes") and for the year ended March 31, 2009 resulted in the recognition of additional interest on borrowings of approximately $0.8 million and an additional gain of $0.4 million on the extinguishment of debt related to the Company's cash tender offer for its Convertible Notes. As a result, the retroactive application of FSP APB 14-1 increased our net loss by $0.4 million, or 0.8%, to a net loss of $49.1 million and also resulted in our basic and diluted loss per share increasing by $0.01 to $0.58 per share, in each case for the fiscal year ended March 31, 2009. Prior period information presented in the Exhibits to this Form 8-K has been restated to comply with these requirements.

The information in this Form 8-K does not reflect any event or development occurring after June 10, 2009, the date on which the Company filed its 2009 Form 10-K. Except as described above, we have not modified or updated any disclosures in our 2009 Form 10-K. Certain amounts in Management's Discussion and Analysis of Financial Condition and Results of Operations have not been modified due to immateriality. This Current Report on Form 8-K should be read in conjunction with our 2009 Form 10-K. For a discussion of events and developments subsequent to the filing of the Company's 2009 Form 10-K, please refer to the Company's Securities and Exchange Commission filings since that date. In our Quarterly Report on Form 10-Q for the period ended June 30, 2009, the consolidated financial statements for the quarter ended March 31, 2009 will reflect the retroactive application of SFAS No.160 and FSP APB 14-1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Exhibit No.	Exhibit Description
23	Consent of Independent Registered Public Accounting Firm
99.1	Selected Items of the Company's Annual Report on Form 10-K for the year ended March 31, 2009, as revised

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MF GLOBAL LTD.

Date: August 7, 2009

By: /s/ J. Randy MacDonald
J. Randy MacDonald
Chief Financial Officer

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-157770) and Form S-8 (No. 333-144697) of MF Global Ltd. of our report dated June 10, 2009, except with respect to the effects of Note 24, as to which the date is August 7, 2009, which appears in this Current Report on Form 8-K of MF Global Ltd. dated August 7, 2009.

/s/ PricewaterhouseCoopers LLP
August 7, 2009

Powered by Morningstar® Document Research℠

ITEM 6. SELECTED FINANCIAL DATA

The following tables present certain selected financial data for our business which gives effect to the retrospective adoption of SFAS No. 160 and FSP APB 14-1, as discussed in Note 24 of our financial statements. These tables should be read in conjunction with our financial statements and related notes included elsewhere in this report.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

	YEAR ENDED MARCH 31,				
	2009	2008	2007	2006	2005
		(in millions, except per share data)			
Statement of Operations					
Revenues					
Execution only commissions	$ 381.1	$ 486.2	$ 386.5	$ 261.8	$ 237.7
Cleared commissions	1,261.3	1,528.6	1,280.0	865.6	687.0
Principal transactions	287.7	281.9	299.6	158.6	142.9
Interest income	872.3	3,669.0	4,090.4	1,388.1	669.2
Other	112.4	54.1	37.8	29.2	24.1
Total revenues	2,914.8	6,019.8	6,094.4	2,703.2	1,760.9
Interest and transaction-based expenses:					
Interest expense	495.1	3,165.2	3,739.3	1,173.5	537.0
Execution and clearing fees	741.0	927.4	700.4	463.4	396.3
Sales commissions	252.0	291.0	275.9	119.8	105.8
Total interest and transaction-based expenses	1,488.1	4,383.6	4,715.6	1,756.7	1,039.1
Revenues, net of interest and transaction-based expenses	1,426.7	1,636.3	1,378.7	946.5	721.8
Expenses					
Employee compensation and benefits (excluding non-recurring IPO awards)	796.2	896.7	834.7	595.7	415.3
Employee compensation related to non-recurring IPO awards	44.8	59.1	—	—	—
Communications and technology	122.6	118.7	102.2	72.2	62.2
Occupancy and equipment costs	44.8	35.6	29.8	24.5	14.9
Depreciation and amortization	57.8	54.8	46.8	28.2	23.3
Professional fees	90.4	74.6	50.1	26.7	19.8
General and other	100.6	108.3	77.3	46.4	50.5
PAAF legal settlement	—	76.8	—	—	—
Broker related loss	—	141.0	—	—	—
IPO-related costs	23.1	56.1	33.5	—	—
Impairment of intangible assets and goodwill	82.0	—	—	—	—
Refco integration costs	0.7	2.7	19.4	66.8	—
Total other expenses	1,363.1	1,624.6	1,193.9	860.5	586.1
Gains on exchange seats and shares	15.1	79.5	126.7	33.5	5.8
Net gain on settlement of legal proceeding	—	—	21.9	—	—
Loss on extinguishment of debt	—	18.3	—	—	—
Interest on borrowings	68.6	69.3	43.8	31.5	17.7
Income before provision for income taxes	9.9	3.6	289.7	88.0	123.8
Provision for income taxes	41.9	66.6	100.0	28.2	39.5
Equity in earnings of unconsolidated companies (net of tax)	(16.2)	(1.7)	0.1	0.3	—
Net (loss)/income	(48.1)	(64.7)	189.7	60.1	84.2
Less: Net income attributable to noncontrolling interest	1.0	4.9	1.7	0.3	—
Net (loss)/income attributable to MF Global Ltd.	$ (49.1)	$ (69.5)	$ 188.0	$ 59.8	$ 84.2
Weighted average number of basic shares outstanding [1]	121,183,447	115,027,797	103,726,453		
Weighted average number of diluted shares outstanding [1]	121,183,447	115,027,797	103,726,453		
Basic (loss)/earnings per share [2]	$ (0.58)	$ (0.60)	$ 1.81		
Diluted (loss)/earnings per share [2]	$ (0.58)	$ (0.60)	$ 1.81		
Dividends declared per share [3]	$ —	$ 0.01	$ 0.03		

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

	YEAR ENDED MARCH 31,				
	2009	2008	2007	2006	2005
	(in millions, except per share data)				
Balance Sheet Data					
Total assets	$ 38,835.6	$ 49,254.9	$ 51,670.3	$ 34,314.6	$ 21,910.7
Long-term borrowings	938.0	—	594.6	617.9	517.0

(1) The weighted average number of common shares outstanding for periods prior to the reorganization and separation is calculated using the number of common shares outstanding immediately following the reorganization and separation.

(2) Net earnings per share for fiscal 2007 is calculated by dividing historical net income by the weighted average number of common shares outstanding (basic and diluted) during fiscal 2007.

(3) These dividends were paid to Man Group when we were wholly owned by Man Group and are not indicative of future dividends. We currently do not expect to pay any cash dividends on our common shares in the foreseeable future. Dividends declared per share is calculated by dividing dividends paid to Man Group by the number of common shares outstanding (basic) during fiscal 2008 and fiscal 2007.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
MF Global Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated and combined statements of operations, comprehensive income, changes in shareholders' equity, and cash flows present fairly, in all material respects, the financial position of MF Global Ltd. and its subsidiaries (the "Company") at March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Report on Internal Control over Financial Reporting" (not presented herein) appearing under Item 8 of the Company's 2009 Annual Report on Form 10-K. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which was an integrated audit in fiscal 2009). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Note 24 to the consolidated and combined financial statements, the Company changed the manner in which it accounts for its convertible debt instrument and the manner in which it accounts for noncontrolling interests effective April 1, 2009.

/s/ PricewaterhouseCoopers LLP

New York, New York
June 10, 2009, except with respect to the effects of Note 24,
as to which the date is August 7, 2009

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

MF GLOBAL LTD.
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share data)

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Revenues			
Execution only commissions	$ 381,118	$ 486,192	$ 386,533
Cleared commissions	1,261,262	1,528,642	1,280,047
Principal transactions	287,652	281,912	299,546
Interest income	872,330	3,669,020	4,090,431
Other	112,449	54,081	37,836
Total revenues	2,914,811	6,019,847	6,094,393
Interest and transaction-based expenses:			
Interest expense	495,131	3,165,247	3,739,310
Execution and clearing fees	741,003	927,369	700,435
Sales commissions	252,011	290,972	275,916
Total interest and transaction-based expenses	1,488,145	4,383,588	4,715,661
Revenues, net of interest and transaction-based expenses	1,426,666	1,636,259	1,378,732
Expenses			
Employee compensation and benefits (excluding non-recurring IPO awards)	796,191	896,694	834,710
Employee compensation related to non-recurring IPO awards	44,819	59,131	—
Communications and technology	122,611	118,732	102,234
Occupancy and equipment costs	44,830	35,622	29,823
Depreciation and amortization	57,841	54,820	46,777
Professional fees	90,367	74,576	50,082
General and other	100,614	108,334	77,335
PAAF legal settlement	—	76,814	—
Broker-related loss	—	141,045	—
IPO-related costs	23,117	56,133	33,531
Impairment of intangible assets and goodwill	82,028	—	—
Refco integration costs	727	2,709	19,382
Total other expenses	1,363,145	1,624,610	1,193,874
Gains on exchange seats and shares	15,054	79,519	126,712
Net gain on settlement of legal proceeding	—	—	21,900
Loss on extinguishment of debt	—	18,268	—
Interest on borrowings	68,626	69,301	43,807
Income before provision for income taxes	9,949	3,599	289,663
Provision for income taxes	41,877	66,587	100,000
Equity in earnings of unconsolidated companies (net of tax)	(16,154)	(1,683)	69
Net (loss)/income	(48,082)	(64,671)	189,732
Less: Net income attributable to noncontrolling interest	976	4,871	1,733
Net (loss)/income attributable to MF Global Ltd.	(49,058)	(69,542)	187,999
Dividends declared on preferred stock	18,594	—	—
Cumulative and participating dividends	2,033	—	—
Net (loss)/ income applicable to common share holders	$ (69,685)	$ (69,542)	$ 187,999
(Loss)/ earnings per share (see Note 12):			
Basic	$ (0.58)	$ (0.60)	$ 1.81
Diluted	$ (0.58)	$ (0.60)	$ 1.81
Weighted average number of common shares outstanding:			
Basic	121,183,447	115,027,797	103,726,453
Diluted	121,183,447	115,027,797	103,726,453

The accompanying notes are an integral part of these financial statements.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

MF GLOBAL LTD.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	MARCH 31, 2009	MARCH 31, 2008
Assets		
Cash and cash equivalents	$ 639,183	$ 1,481,084
Restricted cash and segregated securities	9,670,494	12,047,009
Securities purchased under agreements to resell	12,902,670	13,022,376
Securities borrowed	8,624,906	4,649,172
Securities received as collateral	54,488	623,752
Securities owned, at fair value ($3,202,430 and $4,142,612 pledged, respectively)	3,605,908	7,380,290
Receivables:		
Brokers, dealers and clearing organizations	2,473,341	7,085,652
Customers (net of allowances of $24,585 and $15,958 respectively)	415,532	2,367,461
Affiliates	95	716
Other	36,884	41,835
Memberships in exchanges, at cost (market value of $19,375 and $43,167, respectively)	6,370	8,909
Furniture, equipment and leasehold improvements, net	62,717	54,911
Goodwill	—	74,145
Intangible assets, net	151,688	193,180
Other assets	191,359	224,379
TOTAL ASSETS	38,835,635	49,254,871
Liabilities and Shareholders' Equity		
Short-term borrowings, including current portion of long-term borrowings	148,835	1,729,815
Securities sold under agreements to repurchase	14,271,698	18,638,033
Securities loaned	5,951,679	3,188,154
Obligation to return securities borrowed	54,488	623,752
Securities sold, not yet purchased, at fair value	2,884,591	1,869,039
Payables:		
Brokers, dealers and clearing organizations	1,077,379	6,317,297
Customers	11,766,390	15,302,498
Affiliates	1,602	12,921
Accrued expenses and other liabilities	293,207	313,507
Long-term borrowings	938,007	—
TOTAL LIABILITIES	37,387,876	47,995,016
Commitments and contingencies (Note 15)		
Preference shares, $1.00 par value per share; 200,000,000 shares authorized;		
1,500,000 Series A Convertible, issued and outstanding, cumulative	96,167	—
1,500,000 Series B Convertible, issued and outstanding, non-cumulative	128,035	—
SHAREHOLDERS' EQUITY		
Common shares, $1.00 par value per share; 1,000,000,000 shares authorized, 120,723,046 and 119,647,222 shares issued and outstanding, respectively	120,723	119,647
Treasury shares	(97)	—
Receivable from shareholder	(29,779)	—
Additional paid-in capital	1,335,449	1,265,733
Accumulated other comprehensive (loss)/income (net of tax)	(24,015)	6,084
Accumulated deficit	(191,497)	(142,439)
Noncontrolling interest	12,773	10,830
TOTAL SHAREHOLDERS' EQUITY	1,223,557	1,259,855
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 38,835,635	$ 49,254,871

The accompanying notes are an integral part of these financial statements.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

MF GLOBAL LTD.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(Dollars in thousands, except share data)

	YEAR ENDED MARCH 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)/income	$ (48,082)	$ (64,671)	$ 189,732
Less: Net income attributable to noncontrolling interest	976	4,871	1,733
Net (loss)/income attributable to MF Global Ltd.	$ (49,058)	$ (69,542)	$ 187,999
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Gains on sale of exchanges seats and shares	(14,214)	(153,248)	(59,231)
Depreciation and amortization	57,841	54,820	46,777
Stock-based compensation expense	80,223	103,902	26,089
Bad debt expense	19,656	150,392	3,982
Deferred income taxes	(7,989)	(25,099)	7,452
Equity in income of unconsolidated affiliates	1,580	1,683	(69)
Income attributable to noncontrolling interest, net of tax	976	4,871	1,733
(Gain)/loss on extinguishment of debt	(1,539)	18,268	—
(Gain)/loss on disposal of furniture, equipment and leasehold improvements	(2)	(338)	975
Write-down of capitalized professional fees	1,820	—	—
Employee compensation related to defined benefit plan liability	—	3,638	—
Loss on cash flow hedges	—	51,407	—
Amortization of debt issuance costs	12,073	—	—
Impairment of Equity Investment	14,574	—	—
Impairment of Intangible assets and goodwill	82,028	—	—
(Increase)/decrease in operating assets:			
Restricted cash and segregated securities	2,304,468	(1,832,564)	232,117
Securities purchased under agreements to resell	119,706	2,890,918	(11,949,064)
Securities borrowed	(3,975,733)	194,109	(614,664)
Securities owned	3,764,435	3,684,227	(5,430,416)
Receivables:			
Brokers, dealers and clearing organizations	4,583,645	(810,151)	870,608
Customers	1,930,717	(1,687,814)	(271,026)
Affiliates	621	40,565	19,340
Other	4,101	992	21,095
Other assets	51,370	(68,140)	(6,025)
Increase/(decrease) in operating liabilities:			
Securities sold under agreements to repurchase	(4,366,334)	1,763,811	13,904,274
Securities loaned	2,763,525	(6,919,527)	1,132,113
Securities sold, not yet purchased, at fair value	1,015,552	(1,509,423)	2,049,159
Payables:			
Brokers, dealers and clearing organizations	(5,239,496)	3,755,345	(453,638)
Customers	(3,445,898)	(662,979)	294,865
Affiliates	(11,319)	(23,281)	182,561
Accrued expenses and other liabilities	(46,344)	(31,412)	270
Net cash (used in)/provided by operating activities	$ (349,015)	$ (1,074,570)	$ 197,276

The accompanying notes are an integral part of these financial statements.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

MF GLOBAL LTD.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS, continued
(Dollars in thousands, except share data)

	YEAR ENDED MARCH 31,		
	2009	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of $0 and $8,351 cash acquired in 2009 and 2008, respectively (Note 3)	$ (6,653)	$ (58,468)	$ (15,000)
Proceeds from sale of memberships in exchanges	25,450	177,118	61,143
Purchase of memberships in exchanges	(1,369)	(1,101)	(217)
Purchase of furniture, equipment and leasehold improvements	(33,766)	(28,623)	(26,399)
Proceeds from sale of furniture, equipment and leasehold improvements	66	274	108
Net cash (used in)/provided by investing activities	(16,272)	89,200	19,635
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Repayment of)/Proceeds from bridge financing	$ (1,400,000)	$ 1,400,000	$ —
(Payment)/proceeds from other short-term borrowings	(29,539)	244,521	26,364
Repayment of private placement notes	—	(472,620)	—
Repayment of borrowings from Man Group	—	(927,380)	—
Proceeds from borrowings from affiliate	—	—	20,313
Proceeds from liquidity facility borrowings	350,000	—	—
Proceeds from two-year term facility	240,000	—	—
Issuance of convertible notes	210,000	—	—
Repayment of convertible notes	(3,200)	—	—
Payment of debt issuance costs	(45,524)	—	—
Issuance of preference shares	300,000	—	—
Preference shares issuance costs	(75,798)	—	—
Proceeds from Recapitalization	—	516,223	—
Payment of Recapitalization adjustment to Man Group	—	(16,161)	—
Proceeds from Man Group for indemnification of tax expense	3,200	54,997	—
Distribution to noncontrolling interest	(828)	(1,145)	(683)
Payment to settle interest rate hedge	—	(51,407)	—
Excess tax benefit on employee stock options	—	—	7,290
Payment of dividends on preference shares	(18,594)	—	—
Dividends to Man Group	—	(1,011)	(3,787)
Net cash (used in)/provided by financing activities	(470,283)	746,017	49,497
Effect of exchange rates on cash and cash equivalents	(6,331)	27,883	12,634
(Decrease)/increase in cash and cash equivalents	(841,901)	(211,470)	279,042
Cash and cash equivalents at beginning of year	1,481,084	1,692,554	1,413,512
Cash and cash equivalents at end of year	$ 639,183	$ 1,481,084	$ 1,692,554
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	$ 850,446	$ 3,323,564	$ 2,317,441
Cash paid for income taxes	$ 8,589	$ 129,707	$ 79,983
SUPPLEMENTAL NON-CASH FLOW INFORMATION			
Securities received as collateral	569,265	(68,523)	49,758
Obligation to return securities borrowed	(569,265)	68,523	(49,758)
Net distributions to Man Group [1]	—	139,900	(45,900)
Receivable from shareholder	(29,779)	—	—

(1) Represents net non-cash distributions to Man Group for the periods presented resulting from U.S. GAAP and carve-out adjustments and the related tax effects thereof applied to the carve-out accounts of the Company to present the financial statements on a stand-alone basis. Included in this amount is approximately $90,000, for the year ended March 31, 2007, of purchase price above net book value of subsidiaries acquired from entities under common control which is accrued as a payable to affiliate.

The accompanying notes are an integral part of these financial statements.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

MF GLOBAL LTD.
CONSOLIDATED AND COMBINED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY/ EQUITY
(Dollars in thousands, except share data)

	Common Shares	Treasury Shares	Receivable from Shareholder	Additional paid-in capital	Accumulated Deficit (Subsequent to Reorganization and Separation)	Accumulated Other Comprehensive (Loss)/Income	Noncontrolling interest in subsidiaries	Total Shareholders' Equity/Equity
Equity at March 31, 2006								$ 374,103
Net income								187,999
Dividends to Man Group								(3,787)
Change in available for sale securities (net of $17,619 tax)								25,354
Net distributions to Man Group								(45,900)
Noncontrolling interest in subsidiaries acquired								5,487
Equity at March 31, 2007								$ 543,256
Net income prior to Reorganization and Separation								72,897
Dividends to Man Group prior to Reorganization and Separation								(1,011)
Foreign currency translation								(462)
Change in available for sale securities prior to Reorganization and Separation								(24,652)
Net distribution to Man Group prior to Reorganization and Separation								139,900
Change in noncontrolling interest in subsidiaries								1,486
Total Equity prior to Reorganization and Separation								$ 731,414
Issuance of shares as part of Formation and Separation	$ 103,727			$ 620,714			$ 6,973	$ 731,414
Effect of Recapitalization	17,379			498,844				516,223
Shares repurchased from Man Group	(1,474)			1,474				—
Tax indemnification from Man Group as capital contribution				54,997				54,997
Non cash contribution for Man Group plc equity awards				1,829				1,829
Stock-based compensation				103,902				103,902
Net loss following Reorganization and Separation					$ (142,439)			(142,439)
Net income attributable to noncontrolling interests							4,871	4,871
Foreign currency translation						$ 4,239	131	4,370
Dividend paid to noncontrolling interests							(1,145)	(1,145)
Deferred loss on cash flow hedges (net of $21,077 tax)						30,330		30,330
Reclassification of deferred loss on cash flow hedges (net of $21,077 tax)						(30,330)		(30,330)
Shares issued	15			(15)				—
Recapitalization adjustment paid to Man Group				(16,161)				(16,161)
Windfall tax benefit from stock-based compensation				1,139				1,139
Impact of adoption of FIN 48				(990)				(990)
Minimum pension liability (net of $512 tax)						1,845		1,845
Shareholders' equity at March 31, 2008	$ 119,647	$ —	$ —	$ 1,265,733	$ (142,439)	$ 6,084	$ 10,830	$ 1,259,855
Stock-based compensation				80,223				80,223
Net loss attributable to MF Global Ltd.					(49,058)			(49,058)
Net income attributable to noncontrolling interests							976	976
Foreign currency translation						(26,775)	(892)	(27,667)
Purchase of noncontrolling interest							2,949	2,949
Disposal of noncontrolling interest							(1,090)	(1,090)
Shares issued	1,076	(97)		(1,552)				(573)
Tax indemnification from Man Group				3,200				3,200
Dividend distributions				(18,594)				(18,594)
Minimum pension liability (net of $765 tax)						(3,324)		(3,324)
Impact of adoption of FSP APB 14-1				6,439				6,439
Receivable from shareholder			(29,779)	—				(29,779)
Shareholders' equity at March 31, 2009	$ 120,723	$ (97)	$ (29,779)	$ 1,335,449	$ (191,497)	$ (24,015)	$ 12,773	$ 1,223,557

The accompanying notes are an integral part of these financial statements.

Powered by Morningstar® Document Research℠

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

MF GLOBAL LTD.
CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands, except share data)

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Net (loss)/income	$ (48,082)	$ (64,671)	$ 189,732
Other comprehensive income adjustments:			
Changes in available for sale securities (net of $17,619 tax)	—	—	25,354
Deferred loss on cash flow hedges (net of $21,077 tax)	—	30,330	—
Loss on cash flow hedges (net of $21,077 tax)	—	(30,330)	—
Foreign currency translation adjustment	(27,667)	4,370	4,757
Minimum pension liability adjustment (net of $765 and $512 tax in 2009 and 2008, respectively)	(3,324)	1,845	—
Comprehensive (loss)/income	$ (79,073)	$ (58,456)	$ 219,843
Comprehensive income attributable to noncontrolling interest	84	5,002	1,733
Comprehensive (loss)/income attributable to MF Global Ltd.	$ (79,157)	$ (63,458)	$ 218,110

The accompanying notes are an integral part of these financial statements.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Note 1: Organization and Basis of Presentation

MF Global Ltd. (together with its subsidiaries, the "Company") is a leading intermediary offering customized solutions in global cash, derivatives and related markets. The Company provides trade execution and clearing services for exchange-traded and over-the-counter derivative products as well as certain products in the cash market. The Company operates globally, with a presence in the United States, the United Kingdom ("UK"), France, Singapore, Australia, Hong Kong, Canada, India, Switzerland and Japan among others. The Company believes it is one of the leading intermediaries within the global cash, derivatives, and related markets and serves a worldwide client base, including financial institutions, asset managers, hedge funds, professional traders and private clients. The Company is operated and managed on an integrated basis as a single operating segment.

The Company's principal subsidiaries operate as registered futures commission merchants and as broker-dealers or the local equivalent and maintain futures, options and securities accounts for customers. The Company's subsidiaries are members of various commodities, futures, and securities exchanges in the United States, Europe, and the Asia/Pacific region and accordingly are subject to local regulatory requirements including those of the U.S. Commodity Futures Trading Commission ("CFTC"), the U.S. Securities and Exchange Commission ("SEC"), and the UK Financial Services Authority ("FSA"), among others.

These audited financial statements include the following:

- Subsequent to the Company's reorganization and separation, the consolidated accounts of MF Global Ltd. and its subsidiaries.
- Prior to such reorganization and separation, the combined financial statements of Man Financial, the brokerage division of Man Group plc and its subsidiary companies ("Man Group"), a UK corporation.

Initial Public Offering

The Company completed an initial public offering ("IPO") of its common shares on July 23, 2007.

In July 2007, Man Group plc separated its brokerage business from its asset management business by transferring to the Company all of the entities and net assets of Man Group and its subsidiaries that comprised its brokerage business, formerly known as Man Financial. In the separation, Man Group retained its asset management business. Man Group transferred the brokerage unit to MF Global Holdings Overseas Limited (formerly known as Man Financial Overseas Ltd.) and MF Global Holdings Europe Limited (formerly known as ED&F Man Group Ltd.), two holding companies incorporated in the United Kingdom (the "Reorganization"). Man Group completed the separation of the brokerage business by transferring all of the outstanding capital stock of MF Global Holdings Overseas Limited, MF Global Holdings Europe Limited, MF Global Singapore Pte Limited (formerly known as Man Financial (S) Pte Limited), and MF Global Holdings HK Limited (formerly known as Man Financial Holdings (HK) Ltd.) to the Company in exchange for 103,726,353 of the Company's common shares (the "Separation").

Man Group also made a net capital contribution of $516,223 in cash to the Company in return for 17,379,493 common shares that the Company issued to the Man Group selling shareholder (the "Recapitalization"). The Recapitalization was based on the Company's estimated equity at June 30, 2007, as adjusted for certain subsequent transactions, and estimated on the date of the Recapitalization. The Company and Man Group have subsequently finalized the net capital contribution amount based on the Company's balance sheet as of June 30, 2007, with reasonable adjustment thereto, as agreed with additional consideration for activity subsequent to June 30, 2007 but prior to the IPO. This recalculation has resulted in the Company paying a Recapitalization adjustment to Man Group on March 31, 2008 of $16,161.

Also, pursuant to a separation agreement entered into with Man Group, the Company received $54,997 from Man Group as reimbursement for a one-time tax charge, which has been recorded through Shareholders' Equity as a capital contribution from a shareholder. In the prior year, Man Group reorganized its U.S. affiliates by separating the affiliates engaged in brokerage activities from those engaged in investment and money management activities by means of an internal spin-off. While initially treated as tax-free for U.S. income tax purposes, the IPO had the effect of converting this earlier spin-off transaction into a fully taxable one and triggered a one-time tax charge. Under U.S. income tax principles, the Company is liable for this tax, and was reimbursed by Man Group. Any future tax expense associated with this transaction will be funded by Man Group as payment becomes due.

On July 19, 2007, Man Group received all of the net proceeds from the issuance of 97,379,765 shares at an IPO price of $30 per share and retained approximately 18.6% ownership in the Company. The Company did not receive any proceeds from the sale of these common shares. Man Group also transferred 1,473,514 common shares previously issued to and held by them to the Company for one dollar in aggregate by way of a share adjustment based on the difference between the estimated and final IPO price.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The Company has noted that an additional payment of $29,779 is due to the Company from Man Group in connection with the recapitalization at the time of the IPO in fiscal 2008. The Company has made a request of Man Group for payment, who has demanded arbitration, and the Company is exploring its options in that regard. As a result of this unresolved claim, the Company has reduced shareholders' equity as reported at March 31, 2009 by $29,779 by recording a receivable from shareholder in shareholders' equity. If the claim is successful, the Company would expect to restore shareholders' equity by the amount received from Man Group (if any), and if the claim is not successful would expect to write off the receivable to additional paid in capital and not to increase shareholders' equity. The reduction in shareholders' equity does not affect amounts reported in the Company's earnings, income statement or cash position for any prior period.

Basis of presentation

The audited consolidated and combined financial statements are prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). Management believes that these audited consolidated and combined financial statements include all normally recurring adjustments and accruals necessary for a fair presentation of the audited consolidated and combined statements of operations, balance sheets, cash flows, changes in shareholders' equity and comprehensive income for the periods presented.

All significant intercompany balances and transactions between the Company's entities have been eliminated in consolidation. Transactions between the Company and Man Group and its affiliates are herein referred to as "related party" transactions. The Company's policy is to consolidate all entities of which it owns more than 50% unless it does not have control. Investments in entities in which the Company generally owns greater than 20% but less than 50% and exercises significant influence, but not control, are accounted for using the equity method of accounting. As of March 31, 2009 and 2008, the Company had a 19.5% and 20% equity investment in Polaris MF Global Futures Co., Ltd ("Polaris"), respectively. As of March 31, 2008, the Company had a 47.9% equity investment in U.S. Futures Exchange LLC ("USFE"). In December 2008, the Company announced its strategic decision to no longer participate in USFE, a Chicago-based electronic futures exchange. Subsequently, USFE announced its decision to liquidate its operations. As a result, the Company recorded an impairment charge of $14,574, net of tax, to write down its full 47.9% equity investment in USFE in the year ended March 31, 2009.

Prior to July 1, 2007 the Company's financial statements were prepared on a combined basis in conformity with U.S. GAAP as if the Company had existed on a stand-alone basis. The combined financial statements were carved out from Man Group and include the accounts of the Company and its majority and wholly owned subsidiaries, in each case using the historical basis of accounting for the results of operations and assets and liabilities of the respective businesses. The carve-out combined financial statements may not necessarily reflect the results of operations, financial position and cash flows if the Company had actually existed on a stand-alone basis during the periods presented. The carve-out combined financial statements include the Company's direct expenses as well as allocations of expenses arising from shared services and infrastructure provided by Man Group.

The impact of the adoption of SFAS No. 160 and FSP APB 14-1 has been reflected in the accompanying footnotes, with a summary of the impact of these adoptions in Note 24.

Certain prior year amounts have been reclassified to conform to current year presentation. Specifically, during the second quarter of fiscal 2008, the Company began classifying the total return equity swaps entered into as part of a matched equity hedge in principal transactions rather than in net interest. Additionally, the Company also began presenting the interest and dividends earned on contracts for differences on a gross rather than net basis within interest income and interest expense. For the year ended March 31, 2007, these reclassifications caused an increase to principal transactions of $53,872; an increase to interest income of $315,045; and an increase to interest expense of $368,917, and have been reclassified in the Company's combined financial statements. This reclassification did not result in any change to revenues, net of interest and transaction-based expenses, or net income.

During the year ended March 31, 2008, the Company recorded an $8,800 reduction to interest income, a $4,800 adjustment to principal transactions, and a $1,900 reduction to employee compensation and benefits, in each case related to errors in prior year accruals that were deemed immaterial to all prior periods presented. During the year ended March 31, 2009, the Company identified errors in its previously reported financial statements. These errors related to the historical accounting for specific exchange and clearing fees, the timing and amount of certain accruals, the accounting for transactions related to the spin-off of the Company's operations from Man Group plc in connection with its IPO, including the deductibility of certain taxes from that transaction, as well as the classification of certain revenues and expenses between line items in the audited consolidated and combined statements of operations. The impact of the errors on net income for the years ended March 31, 2008 and 2007 is an increase of $1,357 and $5,103, respectively.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The Company does not believe that these adjustments are quantitatively or qualitatively material to the results of the respective reporting periods, its projected results for the current year, any prior year's earnings, earnings trends, or financial statement line items.

Relationship with Man Group

Historically, Man Group has provided financial and administrative support to the Company. In connection with the IPO, the Company entered into several transitional services agreements with Man Group pursuant to which Man Group agreed to continue to provide the Company with administrative support for certain corporate functions, such as corporate-level coordination and support services related to the Company's regulatory capital activities, tax administration, corporate secretarial services and insurance management, for a limited transition period. As of March 31, 2009, all such services had terminated with the exception of office services. The agreement for office services will continue for as long as the Company leases office space from Man Group.

Note 2: Summary of Significant Accounting Policies

Use of estimates

The preparation of consolidated and combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated and combined financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. The nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for a full year.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term highly liquid investments with original maturities of three months or less, other than those used for trading or margin purposes. The carrying amount of such cash equivalents approximates their fair value due to the short-term nature of these instruments.

Restricted Cash and Securities Segregated under Federal and Other Regulations

Certain subsidiaries are obligated by rules mandated by their primary regulators, including the SEC and CFTC in the U.S. and the FSA in the UK, to segregate or set aside cash or qualified securities to satisfy regulations, promulgated to protect customer assets. The Company also has fixed cash deposits classified within Restricted Cash and Segregated Securities of $48,630 and $144,951 as of March 31, 2009 and 2008, respectively, which are held as margin for the issuance of bank guarantees to satisfy local exchange requirements for day-to-day clearing. In addition, substantially all of the subsidiaries are members of clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities. At March 31, 2009 and 2008, the Company was in compliance with its segregation requirements. At March 31, 2009 and 2008, in addition to segregated cash, the Company has segregated securities of $7,969,127 and $6,070,210, respectively, classified within Restricted cash and segregated securities. These amounts include securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC and totaled $4,998,887 and $5,401,987 at March 31, 2009 and 2008, respectively.

Securities purchased under agreements to resell and securities sold under agreements to repurchase

Transactions involving purchases of securities under agreements to resell ("resale agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. The resulting interest income and expense for these arrangements are generally included in Interest income and Interest expense in the consolidated and combined statements of operations.

Resale and repurchase transactions are presented on a net-by-counterparty basis when the requirements of Financial Accounting Standards Board ("FASB") Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements* ("FIN No. 41") are satisfied.

It is the general policy of the Company to take possession of securities with a market value equal to or in excess of the principal amount loaned plus the accrued interest thereon in order to collateralize resale agreements. Similarly, the Company is generally required to provide securities to counterparties to collateralize repurchase agreements. The Company's agreements with counterparties generally contain contractual provisions allowing for additional collateral to be obtained, or excess collateral returned. The collateral is marked to market daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, when deemed appropriate.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

From time-to-time, the Company enters into securities financing transactions that mature on the same date as the underlying collateral. The Company accounts for these transactions in accordance with the prescribed guidance included in Statement of Financial Accounting Standard ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS No. 140"). Such transactions are treated as a sale of financial assets and a forward repurchase commitment, or conversely as a purchase of financial assets and a forward resale commitment. The forward repurchase and resale commitments are accounted for as derivatives under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133").

Securities borrowed and securities loaned

Securities borrowed and securities loaned transactions are accounted for as collateralized financing transactions and are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions facilitate the settlement process and require the Company to deposit cash or other collateral with the lender. In these transactions, the Company receives cash or other collateral in an amount generally in excess of the market value of the applicable securities borrowed and loaned. The Company monitors the market value of securities borrowed or loaned on a daily basis, with additional collateral obtained or refunded as necessary. Consistent with Securities purchased under agreements to resell, from time-to-time, the Company enters into securities financing transactions that mature on the same date as the underlying collateral. The Company accounts for these transactions in accordance with the prescribed guidance included in SFAS No. 140. Such transactions are treated as a sale of financial assets and a forward repurchase commitment, or conversely as a purchase of financial assets and a forward resale commitment.

Collateral

The Company enters into financing transactions and matched book positions principally through the use of repurchase agreements and securities lending agreements. In these transactions, the Company receives cash or securities in exchange for other securities, including U.S. government and federal agency obligations, corporate debt and other debt obligations, and equities, or cash. The Company records assets it has pledged as collateral in collateralized borrowings and other arrangements on the consolidated balance sheets when the Company is the debtor as defined by SFAS No. 140.

The Company obtains securities as collateral principally through the use of resale agreements, securities borrowing agreements, customer margin loans and other collateralized financing activities to facilitate its matched book arrangements, inventory positions, customer needs and settlement requirements. In many cases, the Company is permitted to sell or repledge securities held as collateral. These securities may be used to collateralize repurchase agreements, to enter into securities lending or to cover short positions. As of March 31, 2009 and 2008, the fair value of securities received as collateral by the Company, excluding collateral received under resale agreements, that it was permitted to sell or repledge was $9,693,486 and $16,911,170, respectively. As of March 31, 2009 and 2008, the Company sold or repledged $7,396,382 and $14,349,597, respectively. Counterparties have the right to sell or repledge these securities. See Note 5 for a description of the collateral received and pledged in connection with agreements to resell or repurchase securities.

Securities owned and securities sold, not yet purchased

Stocks, government and corporate bonds, futures, options and foreign currency transactions are reported in the audited consolidated and combined financial statements on a trade date basis. Securities owned and securities sold, not yet purchased are stated at fair value. Realized and unrealized gains and losses are reflected in Principal transactions or Gains on exchange seats and shares on the audited consolidated and combined statements of operations. Fair values are based on quoted market prices.

Securities sold, not yet purchased, represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value as of the date of the consolidated and combined financial statements. However, these transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of the securities sold, not yet purchased, may exceed the amount reflected in the consolidated balance sheets.

Shares in exchanges held by the Company that are not required for trading rights are recorded at fair market value, taking into account any restrictions. Unrealized gains and losses arising from these assets are reported separately in the consolidated and combined statements of operations as Gain on exchange seats and shares.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Receivables from and payables to customers

These balances pertain primarily to margin and open contractual commitments related to customers' futures, foreign currency forwards and securities transactions. Receivables from and payables to customers include gains and losses on open futures, options and forward contracts and amounts due on cash and margin transactions.

Securities owned by customers are held as collateral for receivables. Customer securities transactions are recorded on a trade date basis. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the consolidated balance sheets. The Company generally nets receivables and payables related to its customers' futures, foreign currency forwards and securities transactions on a counterparty basis pursuant to master netting or customer agreements. It is the Company's policy to settle these transactions on a net basis with its counterparties.

Receivables from and payables to brokers, dealers and clearing organizations

Receivables from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by the Company to the purchaser by the settlement date ("fails to deliver") and margin deposits. Payables to brokers, dealers and clearing organizations include amounts payable for securities not received by the Company from the seller by the settlement date ("fails to receive"). Receivables and payables to brokers, dealers and clearing organizations also include amounts related to net payables and receivables from unsettled trades.

Memberships in exchanges, at cost

Memberships in exchanges represent both an ownership interest and the right to conduct business on the exchange. Exchange memberships of the Company's broker-dealer and Futures Commission Merchant subsidiaries, representing the right to conduct business, are recorded at cost and tested at least annually for impairment or more frequently if events or circumstances indicate a possible impairment. At March 31, 2009, there was no impairment charge for memberships in exchanges. In the years ended March 31, 2008 and 2007, recorded impairment charges for memberships in exchanges were not material.

Available for sale securities

Memberships in exchanges owned by the Company that are not required to conduct business are recorded at fair value within Securities owned. During the year ended March 31, 2007, the Company classified certain of these exchange memberships as available for sale securities and accounted for them in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, because they were not held by one of the Company's broker-dealer or Futures Commission Merchant subsidiaries. These shares were obtained in a cash-free exchange upon demutualization of an exchange; the memberships were carried at cost prior to the demutualization. The fair value of these exchange shares was $44,801 (cost $1,828) at March 31, 2007 and the Company recorded unrealized gains for these exchange memberships within Equity of $25,354 (net of $17,619 tax). During the year ended March 31, 2007, proceeds from the sale of available for sale securities aggregated $38,940, with gross realized gains of $37,176, determined on a specific identification basis. As of March 31, 2009 and 2008, there were no available for sale securities held.

Furniture, equipment and leasehold improvements

Furniture and equipment are stated at cost, net of accumulated depreciation. Furniture and equipment are depreciated over their estimated useful lives of 3 to 5 years on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the related leases, which range from 2 to 10 years. The total depreciation expense for all furniture, equipment and leasehold improvements for the years ended March 31, 2009, 2008 and 2007 was $23,658, $21,544 and $17,025, respectively.

The Company reviews the carrying value of its furniture, equipment, or leasehold improvements for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The impairment is measured as the amount by which the carrying value exceeds the fair value of the asset as determined by an estimate of undiscounted cash flows. Impairment charges for furniture, equipment, and leasehold improvements recorded in the years ended March 31, 2009, 2008 and 2007, were not material.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Goodwill

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. Goodwill is not amortized and the Company's single reporting unit is tested at least annually for impairment as of March 31, 2009. Under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), an assessment of goodwill for potential impairment is performed in two steps. Step 1 of the analysis is used to identify the impairment and involves determining and comparing the fair value of the Company with its carrying value, or shareholders' equity. If the fair value of the Company exceeds its carrying value, goodwill is not impaired. Step 2 of the analysis compares the fair value of the Company to the aggregated fair values of its individual assets, liabilities, and identified intangibles, to calculate the amount of impairment, if any.

In performing Step 1 of the analysis, the Company compared its net book value to its estimated fair value. In determining the estimated fair value, the Company performed a discounted cash flow analysis using management's current business plans which factored in the current market conditions including contract and product volumes and pricing as the basis for expected future cash flows for the first five years and a 1% growth rate for the cash flows thereafter. Management used a weighted average cost of capital ("WACC") of 10.45% as its discount rate in this analysis, which was derived from market participant data and estimating the fair value and yield of the Company's debt, preferred shares, and equity as of the testing date. The WACC represents the yield of the Company's financial instrument as currently stated. A discounted cash flow model involves the subjective selection and interpretation of data inputs, and given market conditions at March 31, 2009 there was a very limited amount of observable market data inputs available in determining the model.

Based on the results of Step 1 of the analysis, the Company determined its goodwill was impaired, as the fair value derived from the discounted cash flow model was less than the Company's book value at March 31, 2009. Then, based on the results of Step 2 of the analysis, the Company determined that its market capitalization and the computed fair value from Step 1 of the analysis was less than the estimated fair value of the Company's balance sheet and therefore recorded a charge of $76,821 in the fourth quarter of fiscal 2009 to write-off the entire amount of the Company's goodwill. See Note 3 for further information. The Company has an earn-out arrangement that could result in additional goodwill being recorded in future periods. The Company will continue to assess its goodwill annually or whenever events such as market capitalization and net book value decline, or changes in circumstances indicate that an interim assessment is necessary. There was no impairment of goodwill identified for the years ended March 31, 2008 and 2007.

Intangible assets, net

Intangible assets represent the cash paid in a business combination for customer relationships, technology assets, and trade names. The Company amortizes finite-lived intangible assets over their estimated useful lives on a straight-line basis, which range from 4 to 14 years, unless the economic benefits of the intangible are otherwise impaired. The Company did not have any indefinite lived intangible assets at March 31, 2009 and 2008. Intangible assets are reviewed at least annually for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

During the fourth quarter of fiscal 2009, the Company identified triggering events that required an impairment analysis to be performed related to certain intangible assets pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Due to the decrease in expected cash flows from certain long-lived intangible assets related to the decline of the respective customers and trading volume, the Company concluded that such assets were not fully recoverable. In connection with its analyses as of March 31, 2009, the Company recorded asset impairments of $5,207. The asset impairments recorded reduced the carrying values of certain customer relationships and trade names. See Note 3 for further information.

There was no impairment of intangible assets identified for the years ended March 31, 2008 and 2007.

Noncontrolling interests

The Company consolidates and combines the results and financial position of entities it controls, but does not wholly own. As of March 31, 2009, the Company owned 70.2% of MF Global Sify Securities India Private Limited, 75.0% of MF Global Financial Services India Private Limited and 73.2% of MF Global Futures Trust Co. Ltd. During the year ended March 31, 2009 the Company purchased the remaining 9.0% of MF Global Securities Ltd it did not previously own, following the exercise of a put option held by the noncontrolling shareholder. At March 31, 2009 and 2008, noncontrolling interest recorded in the consolidated balance sheets were $12,773 and $10,830, respectively.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

Derivative instruments and hedging activities

During the year ended March 31, 2008, the Company entered into interest rate forward contracts, in the anticipation of issuing new debt, which would serve to eliminate the variability of cash flows due to changes in the U.S. Treasury interest rate. The interest rate forward contracts fixed the interest rate to be applied on the first ten forecasted semi-annual interest payments associated with the Company's planned issuance of debt. The changes in fair value of these interest rate forward contracts were designated and qualified as cash flow hedges in accordance with SFAS 133, and were recorded in other comprehensive income/(loss) within Shareholders' Equity. The Company tested hedge effectiveness quarterly, on both a prospective and retrospective basis, using the dollar-offset method. Ineffectiveness of the hedge or termination of the hedged transaction required amounts to be reclassified from other comprehensive income/ (loss). During the year ended March 31, 2008, changes in capital markets and other events impacted the Company's prospective issuance of debt and caused the Company to review its capital plan. As this capital plan did not exactly match the original plan in place when the Company originally entered into the interest rate forward contracts, the Company was not able to maintain hedge accounting in accordance with SFAS 133, and as such recognized a loss from the interest rate forward contracts of $51,407, in Principal transactions in the consolidated statement of operations during the year ended March 31, 2008. All amounts recorded in other comprehensive income/ (loss) related to this hedge accounting were reclassified to Principal transactions in the consolidated statement of operations.

Prior to the IPO, the Company had interest rate swaps in place to swap the fixed interest payments on subordinated and senior debt to floating rates, which were repaid in July 2007. These swap contracts enabled the Company to substitute fixed rate interest payments with variable rate interest payments, and manage its exposure on its borrowings. The Company applied fair value hedge accounting using interest rate swap contracts to hedge the benchmark interest rate (LIBOR) on its fixed rate long-term borrowings. The Company hedged the risk of changes in fair value of the hedged debt attributable to changes in LIBOR. The changes in the fair value of these swaps that were designated and qualified as fair value hedges were recorded in the consolidated and combined statements of operations together with any changes in the fair value of the hedged liability that were attributable to the hedged risk. The Company tested hedge effectiveness on its interest rate swaps quarterly, on both a prospective and retrospective basis using the dollar-offset method. Ineffectiveness on each hedging relationship was calculated as the difference between the change in fair value of the interest rate swap contract and the change in fair value of the hedged debt attributable to changes in the benchmark interest rate (LIBOR). In the year ended March 31, 2007, the loss recorded in Principal transactions in the consolidated and combined statements of operations due to ineffectiveness was immaterial. The total notional amount of this outstanding interest rate swap contract was $465,000 at March 31, 2007. There were no such contracts outstanding at March 31, 2009 and 2008.

Prior to the IPO, the Company also entered into derivative contracts, to manage its exposure to foreign currency exchange rates, which do not qualify for hedge accounting as defined in SFAS No. 133. For these transactions, the Company recorded all gains and losses within Principal transactions in the audited consolidated and combined statements of operations. The cash flow impact of derivative contracts that do not qualify for hedge accounting is classified within cash flows from operating activities in the consolidated and combined statements of cash flows.

All derivative financial instruments are carried at market value, or if market prices are not readily available, fair market value. Market values for exchange-traded derivatives are based on quoted market prices. Fair market values for over-the-counter derivative financial instruments are based on pricing models that are based on observable market data intended to approximate the amounts that would be received from or paid to a third party in settlement of the contracts.

Derivative financial instruments involve varying degrees of off-balance sheet market risk. Changes in foreign exchange rates may result in cash settlements which exceed the amounts recognized on the consolidated balance sheets. The counterparties to the Company's forward foreign exchange contracts nclude a number of major international financial institutions. The Company could be exposed to loss in the event of non-performance by these counterparties. However, credit ratings and concentrations of risk to these financial institutions are monitored on a continuous basis. See Note 21 for further information.

Employee Benefits

The Company's employees participate in various pension and savings benefit plans. The Company uses various actuarial methods and assumptions to determine the pension benefit costs and obligations, including the discount rate used to determine the present value of future benefits and expected long-term rate of return on plan assets. Prior to the IPO, the defined benefit plan arrangements sponsored by Man Group were accounted for as multi-employer plans.

Income Taxes

The income tax provision is reflected in the consolidated and combined statements of operations. The Company has presented fiscal 2007 as if it operated on a stand-alone basis as the Company was owned by Man Group. The income tax provision reflects the

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

asset and liability method prescribed by SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). Under this method, deferred income taxes are provided for differences between the carrying value of assets and liabilities for financial reporting and income tax purposes, and are measured using the enacted tax rates that will be in effect when these differences are expected to reverse. A valuation allowance is provided for deferred tax assets when it is more likely than not (likelihood of greater than 50%) that the benefits of net deductible temporary differences and net operating loss carryforwards will not be realized.

In accordance with FIN 48, *Accounting for Uncertainty in Income Taxes,* tax positions are recognized only when it is more likely than not, based on technical merits, that the position will be sustained upon examination. Tax positions that meet the more likely than not threshold are measured using a probability weighted approach as the largest amount of tax benefit that has a greater than 50% likelihood of being realized. A liability associated with an unrecognized tax benefit is classified as a long-term liability, except for the amount for which a cash payment is anticipated within one year.

The Company has classified deferred tax assets within other assets, and deferred tax liabilities and accrued taxes payable within accrued expenses and other liabilities on the consolidated balance sheets.

Allowance for Doubtful Accounts

The Company's allowance for doubtful accounts is based upon management's continuing review and evaluation of factors such as collateral value, aging and the financial condition of the customers. The allowance is assessed to reflect the best estimate of probable losses due to client defaults that have been incurred as of the balance sheet date. Any changes are included in the current period operating results. In circumstances where a specific customer's inability to meet its financial obligation is known, the Company records a specific provision against accounts receivable to reduce the receivable to the amount it reasonably believes will be collected. The bad debt expense recognized for the years ended March 31, 2009, 2008 and 2007 are $19,654, $150,392 and $3,982, respectively. The bad debt expense recorded in the year ended March 31, 2008 was mainly related to an unauthorized trading incident, as discussed further in Note 15.

Stock-based Compensation

The Company accounts for its stock-based compensation plans in accordance with SFAS No. 123(R), *Share Based Payment* ("SFAS No. 123(R)"). SFAS No. 123(R) measures the cost of employee services received for stock based compensation based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Revenue Recognition

Execution-only commissions

Execution-only commissions are recorded on a trade-date basis as customer transactions occur. Fees are charged at various rates based on the products traded and the method of trade. Execution-only commissions consist of fees charged for executing trades on an agency basis for counterparties that have clearing accounts with other brokerage institutions. Execution-only commissions do not include (1) commissions the Company earns when both executing and clearing the transaction for the customer, which are recognized as cleared commissions described below, or (2) "markups" earned from executing customer trades on a matched principal basis, which are recognized under principal transactions revenue, as described below.

Cleared commissions

Cleared commissions revenue is recorded on a trade-date basis as customer transactions occur. Fees are charged at various rates based on the products traded and the method of trade. Cleared commissions consist of transaction fees earned: (1) by both executing and clearing transactions for customers and (2) by providing clearing services where the trade is executed by another brokerage firm and then routed to the Company. Cleared commissions include fees earned for providing both types of services. Cleared commissions are presented net of rebates earned by customers based on the volume of transactions they execute and clear pursuant to guidance presented in Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent.*

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

Principal transactions

Principal transactions include revenues from both matched principal brokerage activities and proprietary securities transactions. Revenues from matched principal brokerage activities are recorded on the trade date. For these activities, commission is not separately billed to customers; instead a commission equivalent is included in the transaction revenues following execution of the transaction on behalf of customers. Principal transactions also includes unrealized gains or losses on equity swaps and contracts for differences ("CFDs") together with the unrealized gains and losses on the related matching equity hedges that are entered into on a matched-principal basis. Additionally, the Company records the total return of equity swaps entered into as part of a matched equity hedge in Principal transactions.

Proprietary securities transactions are recorded on the trade date. Profits and losses arising from all securities and commodities transactions entered into for the account and risk of the Company are recorded on a trade date basis, including to a lesser extent from derivatives transactions executed for the Company's own account to hedge foreign currency exposure as well as the ineffectiveness and termination of hedged transactions with respect to the Company's interest rate exposure. The Company does not separately amortize purchase premiums and discounts associated with proprietary securities transactions, as these are a component of the recorded fair value. Changes in the fair value of such securities are recorded as unrealized gains and losses within principal transactions in the consolidated and combined statements of operations. Contractual interest expense earned and incurred on these transactions is included in interest income and interest expense in the consolidated and combined statements of operations.

Interest

Interest is recognized on an accrual basis and includes amounts receivable on customer funds, company funds, debt instruments such as agency securities and collateralized financing arrangements. Interest income related to repurchase agreements, securities borrowed and collateralized financing arrangements are recognized over the life of the transaction. Interest income and expense for repurchase agreement transactions are presented net in the consolidated and combined statements of operations, pursuant to the requirements of FIN 41 and FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts* ("FIN No. 39").

Other

Other revenues consist of revenues the Company earned from other normal business operations that are not otherwise included elsewhere. These include fees from clients and other counterparties for certain ancillary services provided by the Company, such as the use of trading systems and other back-office services and support. This would also include insurance proceeds, which are not recorded until received.

Transaction-based expenses

Transaction-based expenses are variable expenses directly incurred in conjunction with the generation of revenues, and consist of execution and clearing fees and sales commissions.

Execution and clearing fees

Execution and clearing fees reflect the expenses of executing, clearing and settling trades on behalf of customers. These fees are paid to third parties, specifically clearing brokers, exchanges and clearing-houses, and regulatory bodies. Execution and clearing fees are recognized on a trade date basis. Execution and clearing fees also reflect losses due to trading errors for the years ended March 31, 2009, 2008 and 2007 of $8,635, $15,885 and $13,000, respectively.

Sales commissions

Sales commissions consist of payments to introducing brokers that are deemed third parties.

Gains on exchange seats and shares

Gains on exchange seats and shares consist of (1) realized gains on sales of exchange seats and shares, (2) unrealized gains and losses arising from fair value movements on the exchange shares held by the Company but not required for clearing transactions and (3) dividend income earned on all exchange memberships held by the Company.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Fair value of financial instruments

Financial instruments are recorded in the financial statements on a trade-date basis and they include related accrued interest or dividends. These instruments include cash and derivative products that primarily represent the Company's investment, trading and customer facilitation activities.

The Company has adopted the provisions of SFAS No. 157 *Fair Value Measurements* ("SFAS No. 157") as of April 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an "exit" price. For financial instruments measured at fair value, changes in fair value are recognized in earnings within Principal transactions in the consolidated and combined statements of operations. Based on market convention the Company marks its financial instruments based on product class which is generally bid or mid price. Fair value measurements are not adjusted for transaction costs.

Credit risk is a component of fair value and represents the loss the Company would incur if a counterparty or an issuer of securities or other instruments the Company holds fails to perform under its contractual obligations to the Company, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including OTC derivatives, the Company holds. To reduce the Company's credit exposures in its operating activities, the Company generally enters into agreements with its counterparties that permit it to offset receivables and payables with such counterparties and obtain margin and/or collateral from the counterparty on an upfront and ongoing basis. The Company monitors and manages its credit exposures daily. In the Company's adoption of SFAS No. 157, it considered the impact of counterparty credit risk in the valuation of its assets and its own credit risk in the valuation of its liabilities that are presented at fair value.

Legal reserves

In the ordinary course of business, the Company has been named as a defendant in legal and regulatory proceedings. The Company estimates the potential losses that may arise out of legal and regulatory proceedings and recognizes liabilities for such contingencies to the extent that such losses are probable and the amount of the loss can be reasonably estimated. Legal professional fees are accrued as incurred.

Shareholders' Equity

Prior to the Reorganization and Separation, the Company's financial statements were prepared on a combined basis, and as such, the Company's equity reflects an aggregation of accumulated earnings, accumulated comprehensive income/loss, and foreign currency translation adjustments. For periods after the Reorganization and Separation, shareholders' equity and its components have been presented on a consolidated basis from the date of the Reorganization and Separation prospectively.

The Company has 1,000,000,000 shares authorized at $1.00 par value per share of which 120,723,046 and 119,647,222 were issued and outstanding at March 31, 2009 and 2008. This excludes restricted shares issued that are subject to forfeiture of 237,665 and 406,745 for March 31, 2009 and 2008 respectively.

The Company accounts for treasury shares under the par value method. Under this method, the excess of the cost of treasury shares over its par value is recorded in additional paid-in capital.

Termination Costs

The Company records a liability for a cost associated with an exit or disposal activity, as measured initially at its fair value, in the period in which the liability is incurred, in accordance with the provisions of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. During the year ended March 31, 2009, the Company recorded $10,952 related to the reorganization of its offices in France and Canada, which $7,716 was recorded in Employee compensation and benefits (excluding non-recurring IPO awards), $2,170 in Occupancy and equipment, $601 in Professional fees, $439 in Depreciation and amortization and $26 in General and other in the consolidated and combined statement of operations. Of this total amount, $7,233 related to employee severance and $3,719 related to contract termination and other costs. As of March 31, 2009, $8,377 amount was accrued, substantially all of which will be paid out within one year.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which cash is generated and expended. This is generally the local currency for the Company's non-U.S. operations, except for certain entities in the UK and Singapore. The assets and liabilities of foreign operations are translated into U.S. dollars at the spot exchange rates prevailing at the close of business on the

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

reporting date. Revenue and expenses of the foreign operations are translated into U.S. dollars at average exchange rates during the period. Gains or losses on the translation of financial statements of the Company's non-U.S. subsidiaries, where the functional currency is other than the U.S. dollar, are included in shareholders' equity on the consolidated balance sheets. The impact of translating monetary assets and liabilities to the reporting currency as well as transaction gains and losses are recorded in General and other expenses in the consolidated and combined statements of operations. For the years ended March 31, 2009, 2008 and 2007 net currency translation (losses)/gains recorded in General and other expenses were $12,614, $3,817 and $(1,011), respectively.

Earnings per Share

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share* and EITF 03-6 *Participating Securities and the Two-Class Method.* The Company's Series A Preference Shares are participating securities whereby the holder of Series A Preference Shares participates in undistributed earnings with common shareholders.

Recently Issued Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. The Company will adopt SFAS No. 165 in the first quarter of fiscal 2010 and do not expect a material impact on its consolidated financial statements upon adoption.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have decreased significantly. FSP FAS 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. The Company will adopt FSP FAS 157-4 in the first quarter of fiscal 2010 and it does not expect a material impact on its consolidated financial statements upon adoption.

In April 2009, the FASB issued FASB Staff Position No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* ("FSP FAS 141(R)-1"). FSP FAS 141(R)-1 amends and clarifies SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS No. 141(R)") to address application issues raised on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective on or after the beginning of the first annual reporting on or after December 15, 2008. The Company will apply FSP FAS 141(R)-1 to future acquisitions that close after April 1, 2009.

In April 2009, the FASB issued FASB Staff Position Nos. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP FAS 115-2 and FAS 124-2"). The objective of FSP FAS 115-2 and FAS 124-2 is to amend the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt FSP FAS 115-2 and FAS 124-2 in the first quarter of fiscal 2010 and does not expect a material impact on its consolidated financial statements upon adoption.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and Accounting Principles Board ("APB") No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments in interim reporting periods of publicly traded companies that were previously only required to be disclosed in annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company will adopt FSP FAS 107-1 and APB 28-1 in the first quarter of fiscal 2010. As FSP FAS 107-1 and APB 28-1 only amends the disclosure requirements on fair value of financial instruments in interim periods, the adoption of FSP FAS 107-1 and APB 28-1 will not affect its consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities* ("FSP FAS 140-4 and FIN 46(R)-8"). FSP FAS 140-4 and FIN 46(R)-8 requires public entities to provide additional disclosures about transfers of financial assets. It also

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

amends FIN 46(R), *Consolidation of Variable Interest Entities*, to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. The Company adopted FSP FAS 140-4 and FIN 46(R)-8 as of December 31, 2008. As FSP FAS 140-4 and FIN 46(R)-8 only require additional disclosures, the adoption did not impact its audited consolidated and combined financial statements.

In November 2008, the FASB issued EITF Issue No. 08-6, *Equity-Method Investment Accounting* ("EITF 08-6"). EITF 08-6 requires the accounting for transaction and impairment consideration involving equity-method investments to be consistent with certain requirements in SFAS 141(R). EITF 08-6 is effective for fiscal years beginning after December 15, 2008. The Company will adopt EITF 08-6 in the first quarter of fiscal 2010 and apply the requirements to future equity-method investments that close on or after April 1, 2009.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FSP FAS 157-3"). FSP FAS 157-3 clarifies the application of SFAS No. 157 in a market that is not active and provides implementation guidance when the market for that financial asset is not active. The Company adopted FSP FAS 157-3 as of September 30, 2008 with no impact on its audited consolidated and combined financial statements.

In September 2008, the FASB issued FASB Staff Position No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161* ("FSP FAS 133-1 and FIN 45-4"). FSP FAS 133-1 and FIN 45-4 requires an entity that sells credit derivatives to make additional disclosures about the adverse affects of changes in credit risk on the financial results and cash flows of the entity. The Company adopted FSP FAS 133-1 and FIN 45-4 as of December 31, 2008 with no material impact on its audited consolidated and combined financial statements.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ("FSP EITF 03-6-1"). The guidance in FSP EITF 03-6-1 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact FSP EITF 03-6-1 will have on its calculation of earnings per share upon adoption in the first quarter of fiscal 2010.

In June 2008, the FASB reached a consensus on EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* ("EITF 07-5"). EITF 07-5 addresses the determination of whether an equity linked financial instrument (or embedded feature) that has all of the characteristics of a derivative under U.S. GAAP is indexed to an entity's own stock and would thus meet the first part of a scope exception from classification and recognition as a derivative instrument. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied by recording a cumulative effect adjustment to the opening balance of retained earnings at the date of adoption. The Company will adopt EITF 07-5 in the first quarter of fiscal 2010 and it does not expect a material impact on its consolidated financial statements upon adoption.

In June 2008, FASB issued EITF Issue No. 08-4, *Transition Guidance for Conforming Changes to Issue No. 98-5* ("EITF 08-4"). The objective of EITF 08-4 is to provide transition guidance for conforming changes made to EITF Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, that result from EITF Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*, and SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Issue is effective for financial statements issued for fiscal years ending after December 15, 2008. The Company adopted EITF 08-4 as of December 31, 2008 with no material impact on its audited consolidated and combined financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ("FSP APB 14-1"), which is effective for fiscal years beginning after December 15, 2008. FSP APB 14-1 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company adopted FSP APB 14-1 in the first quarter of fiscal 2010 and the impact on its consolidated and combined financial statements are discussed in Note 24.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"), which is effective for fiscal years beginning after December 15, 2008. FSP FAS 142-3 removes the requirement

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

under paragraph 11 of SFAS No. 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions. FSP FAS 142-3 requires an entity to consider its own historical experience in renewing similar arrangements. The Company will adopt FSP FAS 142-3 in the first quarter of fiscal 2010 and the Company does not expect a material impact on its consolidated financial statements upon adoption.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 enhances the disclosures of an entity's derivative and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS No. 161 as of March 31, 2009. For additional information related to the Company's adoption of SFAS No. 161, see Note 21 of the Company's audited consolidated and combined financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP FAS 140-3"). The objective of FSP FAS 140-3 is to provide implementation guidance on accounting for a transfer of a financial asset and a repurchase financing. FSP FAS 140-3 presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction) under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* ("SFAS 140"). If certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and shall be evaluated separately under SFAS 140. FSP FAS 140-3 is effective for fiscal years beginning after November 15, 2008. The Company will adopt FSP FAS 140-3 in the first quarter of fiscal 2010 and it does not expect a material impact on its consolidated financial statements upon adoption.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The guidance will become effective for fiscal years beginning after December 15, 2008. The Company adopted SFAS No. 160 in the first quarter of fiscal 2010 and the impact on the consolidated and combined financial statements are discussed in Note 24.

In December 2007, the FASB issued a revision to SFAS No. 141, *Business Combinations* ("SFAS No. 141(R)"). SFAS 141(R) changes the accounting for business combinations including transaction and restructuring costs, contingent consideration and other balances in a business combination. It also changes the accounting for the acquisition of minority shareholder interests when there is no change in control. The acquiring company must measure and record all of the target company's assets and liabilities, including goodwill, at fair value as if the entire target company had been acquired. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company will apply SFAS No. 141(R) to future acquisitions that close after April 1, 2009.

In April 2007, the FASB issued FASB Staff Position No. FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"). This amendment allows a reporting entity to offset fair value amounts recognized for derivative instruments with fair value amounts recognized for the right to reclaim or the obligation to return cash collateral. Additionally, this amendment requires disclosure of the accounting policy on the reporting entity's election to offset or not offset amounts for derivative instruments. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007. The Company adopted FSP FIN 39-1 in the first quarter of fiscal 2009 with no material impact to its audited consolidated and combined financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, and in February 2008, the FASB amended SFAS No. 157 by issuing FASB Staff Position FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* ("FSP FAS 157-1"), and FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP FAS 157-2"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, except those relating to lease classification, and accordingly does not require any new fair value measurements. SFAS No. 157 is effective for financial assets and financial liabilities in fiscal years beginning after November 15, 2007, and for nonfinancial assets and liabilities in fiscal years beginning after November 15, 2008. The Company adopted SFAS No. 157 for financial assets and liabilities in the first quarter of fiscal 2009. For additional information related to the Company's adoption of SFAS 157, see Note 21 of the Company's audited consolidated and combined financial statements. The Company adopted FSP FAS 157-1 in the second quarter of fiscal 2009 with no impact to its consolidated financial statements. The Company will adopt FSP FAS 157-2 in the first quarter of fiscal 2010 and does not expect a material impact on its audited consolidated and combined financial statements.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Note 3: Goodwill and Intangible Assets

There were no acquisitions during the year ended March 31, 2009. During the year ended March 31, 2008, the Company made three acquisitions, BrokerOne Pty. Ltd., FXA Securities Ltd., and ChoiceOdds Gaming Ltd., which were not significant on an individual or aggregate basis. BrokerOne is a large online broker for retail clients and professional traders in Australia; FXA Securities is a leading provider of online foreign exchange products to retail investors in Japan, while ChoiceOdds is a leading independent UK-based financial binary trading firm. Net tangible assets acquired for these businesses were $8,735. The Company does not consider the impact of these acquisitions to be significant to its operations.

These acquisitions impacted Intangible Assets by increasing customer relationships, technology assets, and trade names by $20,918, $3,530, and $1,097, respectively. Of the Goodwill recorded during the year ended March 31, 2008, $5,839 represents the deferred taxes on non-deductible intangibles.

During fiscal 2009, earn-out payments of $6,653 were made relating to prior acquisitions, which are accounted for as additional purchase consideration. As of March 31, 2009, the Company had one remaining arrangement that could result in contingent, or "earn-out", payments. These payments are based on earnings over years, subject to maximum and minimum amounts. If the minimum earn-out is not reached at the end of 5 years, the Company's obligation to pay the earn-out can extend for up to 10 years, to 2017, subject to a remaining maximum of approximately $72,000.

Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. Goodwill is not amortized and the Company's single reporting unit is tested at least annually for impairment as of March 31, 2009. Under SFAS 142, an assessment of goodwill for potential impairment is performed in two steps. Step 1 of the analysis is used to identify the impairment and involves determining and comparing the fair value of the Company with its carrying value, or shareholders' equity. If the fair value of the Company exceeds its carrying value, goodwill is not impaired. Step 2 of the analysis compares the fair value of the Company to the aggregated fair values of its individual assets, liabilities, and identified intangibles, to calculate the amount of impairment, if any.

In performing Step 1 of the analysis, the Company compared its net book value to its estimated fair value. In determining the estimated fair value, the Company performed a discounted cash flow analysis using management's current business plans which factored in the current market conditions including contract and product volumes and pricing as the basis for expected future cash flows for the first five years and a 1% growth rate for the cash flows thereafter. Management used a weighted average cost of capital ("WACC") of 10.45% as its discount rate in this analysis, which was derived from market participant data and estimating the fair value and yield of the Company's debt, preferred shares, and equity as of the testing date. The WACC represents the yield of the Company's financial instrument as currently stated. A discounted cash flow model involves the subjective selection and interpretation of data inputs, and given market conditions at March 31, 2009 there was a very limited amount of observable market data inputs available in determining the model.

Based on the results of Step 1 of the analysis, the Company determined its goodwill was impaired, as the fair value derived from the discounted cash flow model was less than the Company's book value at March 31, 2009. Then, based on the results of Step 2 of the analysis, the Company determined that its market capitalization and the computed fair value from Step 1 of the analysis was less than the estimated fair value of the Company's balance sheet and therefore recorded a charge of $76,821 in the fourth quarter of fiscal 2009 to write-off the entire amount of the Company's goodwill. As discussed, the Company has an earn-out arrangement that could result in additional goodwill being recorded in future periods. The Company will continue to assess its goodwill annually or whenever events or changes in circumstances indicate that an interim assessment is necessary.

The summary of the Company's goodwill is as follows:

Balance as of March 31, 2007	$ 35,767
Acquisitions	38,378
Balance as of March 31, 2008	$ 74,145
Acquisitions	6,653
Impairment	(76,821)
Foreign currency translation	(3,977)
Balance as of March 31, 2009	$ —

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Intangible assets, subject to amortization as of March 31, 2009 and 2008 are as follows:

	MARCH 31,	
	2009	2008
Customer relationships		
Gross carrying amount	$ 257,775	$ 264,413
Accumulated amortization	(116,234)	(86,475)
Net carrying amount	141,541	177,938
Technology assets		
Gross carrying amount	31,388	31,388
Accumulated amortization	(22,933)	(18,604)
Net carrying amount	8,455	12,784
Trade names		
Gross carrying amount	2,827	3,284
Accumulated amortization	(1,135)	(826)
Net carrying amount	1,692	2,458
Total	$ 151,688	$ 193,180

During the fourth quarter of fiscal 2009, the Company identified triggering events that required an impairment analysis to be performed related to certain intangible assets pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Due to the decrease in expected cash flows from certain long-lived intangible assets related to the decline of the respective customers and trading volume, the Company concluded that such assets were not fully recoverable. As a result of its analyses, the Company recorded an aggregate amount of $5,207 impairment charge related to customer relationships and trade names. The Company used a discounted cash flow approach in determining the estimated fair values using the WACC as the discount rate in the analysis.

During the year ended March 31, 2009, the total goodwill and impairment charge of $82,028 was recorded in Impairment of intangible assets and goodwill in the Company's audited consolidated and combined statement of operations. The amortization included in Depreciation and amortization for the year ended March 31, 2009 and 2008 was $34,183 and $33,276, respectively. The amortization expense for these assets for the next five fiscal years is approximately $31,213, $26,789, $21,448, $21,406 and $20,991, respectively.

Note 4: Receivables from and Payables to Customers

Receivables from and payables to customers, net of allowances, are as follows:

	March 31,			
	2009		2008	
	Receivables from customers	Payables to customers	Receivables from customers	Payables to customers
Futures transactions	$ 276,385	$ 10,869,884	$ 424,739	$ 13,667,808
Foreign currency and other OTC derivative transactions	61,043	651,759	92,389	1,076,077
Securities transactions	65,471	242,609	1,844,087	532,950
Other	12,633	2,138	6,246	25,663
Total	$ 415,532	$ 11,766,390	$ 2,367,461	$ 15,302,498

Note 5: Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase

The Company's policy is to take possession of securities purchased under resale agreements, which consist largely of securities issued by the U.S. government. The Company retains the right to re-pledge collateral received in collateralized financing transactions. As of March 31, 2009, the market value of collateral received under resale agreements was $53,321,790, of which $837,359 was

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

deposited as margin with clearing organizations. As of March 31, 2008, the market value of collateral received under resale agreements was $42,017,881, of which $1,444,153 was deposited as margin with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, as appropriate. As of March 31, 2009 and 2008, the market value of collateral pledged under repurchase agreements was $58,662,562 and $55,991,535, respectively. As of March 31, 2009 and 2008, there were no amounts at risk under repurchase agreements or resale agreements with a counterparty greater than 10% of Shareholders' Equity.

Resale and repurchase transactions are presented on a net-by-counterparty basis when the requirements of FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements* are satisfied. In accordance with SFAS No. 140, the Company de-recognized assets and liabilities from the consolidated balance sheets. At March 31, 2009, this consisted of securities purchased under agreements to resell and securities sold under agreements to repurchase of $1,944,417 and $11,393,006, respectively, at contract value.

The carrying values of the assets sold under repurchase transactions, including accrued interest, by maturity date are:

	MARCH 31, 2009					
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	Total
Security type						
U.S. Government	$ 282,108	$ 10,170,909	$ 57,487	$ 876,992	$ 280,288	$ 11,667,784
U.S. Corporations	2,344	—	—	—	—	2,344
Foreign Governments	17,164	1,774,401	662,841	1,829	—	2,456,235
Foreign Corporations	10,282	—	135,053	—	—	145,335
Total	$ 311,898	$ 11,945,310	$ 855,381	$ 878,821	$ 280,288	$ 14,271,698

	MARCH 31, 2008					
	Demand	Overnight	Less than 30 days	30 to 90 days	After 90 days	Total
Security type						
U.S. Government	$ 1,142,753	$ 2,398,100	$ 1,002,275	$ 952,323	$ 2,315,481	$ 7,810,932
U.S. Corporations	123,665	48,242	440,564	15,204	—	627,675
Foreign Governments	205,753	2,502,811	2,756,044	1,344,422	1,535,429	8,344,459
Foreign Corporations	1,439,367	239,238	76,095	100,267	—	1,854,967
Total	$ 2,911,538	$ 5,188,391	$ 4,274,978	$ 2,412,216	$ 3,850,910	$ 18,638,033

Note 6: Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations consist of the following:

	MARCH 31,			
	2009		2008	
	Receivables	Payables	Receivables	Payables
Securities failed to deliver/receive	$ 531,270	$ 518,814	$ 2,068,289	$ 3,402,525
Due from/to clearing brokers	529,542	93,056	1,004,648	787,079
Due from/to clearing organizations	1,297,902	314,681	1,463,997	198,606
Fees and commissions	1,034	58,892	1,174	74,754
Unsettled trades and other	113,593	91,936	2,547,544	1,854,333
Total	$ 2,473,341	$ 1,077,379	$ 7,085,652	$ 6,317,297

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

Note 7: Securities Owned and Securities Sold, Not Yet Purchased

Securities owned, at fair value, and securities sold, but not yet purchased, consist of the following:

	MARCH 31,			
	2009		2008	
	Securities Owned	Securities Sold, Not Yet Purchased	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities and federal agency obligations	$ 3,195,431	$ 2,757,372	$ 3,045,040	$ 780,645
Corporate debt securities	224,958	—	2,755,494	—
Foreign government bonds	7,953	—	363,028	881,267
Equities	153,538	124,209	1,171,511	207,127
Shares held due to demutualization of exchanges	14,367	—	27,642	—
Other	9,661	3,010	17,575	—
Total	$ 3,605,908	$ 2,884,591	$ 7,380,290	$ 1,869,039

At March 31, 2009 and 2008, $149,442 and $54,032, respectively, of U.S. government securities and federal agency obligations owned by the Company were deposited as margin with clearing organizations.

Note 8: Furniture, Equipment, and Leasehold Improvements

A summary of furniture, equipment, and leasehold improvements is as follows:

	MARCH 31,	
	2009	2008
Leasehold improvements	$ 52,079	$ 38,959
Equipment	66,461	78,982
Furniture and fixtures	35,230	33,930
Computer software	22,501	16,188
Total cost	176,271	168,059
Less: accumulated depreciation and amortization	113,554	113,148
Cost, net of accumulated depreciation and amortization	$ 62,717	$ 54,911

Note 9: Borrowings

Short term borrowings consist of the following:

	MARCH 31,	
	2009	2008
364-Day Bridge Facility	$ —	$ 1,400,000
Other short-term borrowings	142,500	276,304
Bank overdrafts	6,335	53,511
Total	$ 148,835	$ 1,729,815

Long-term borrowings consist of:

	MARCH 31,	
	2009	2008
9.00% Convertible Notes due 2038	$ 198,007	$ —
Two-year term facility	240,000	—
Other long-term borrowings	500,000	—
Total	$ 938,007	$ —

Bridge Facility

In the year ended March 31, 2008, one of the Company's U.S. finance subsidiaries, MF Global Finance USA Inc., entered into a 364-day unsecured revolving credit facility in an aggregate principal amount of up to $1,400,000 (the "bridge facility") with several financial institutions and borrowed the full amount under the facility. The Company's borrowings under the bridge facility as of June 15, 2007 bore interest at a rate per annum equal to either of the Company's options, (1) a designated fluctuating base rate or (2) a

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

designated fluctuating alternative base rate equal to seven-day or one-, two-, three-or six-month LIBOR plus a margin of 0.32% per annum, or 1.22% with respect to those lenders who are party to the amendment described below, based on its current senior unsecured non-credit enhanced rating from Standard & Poor's and Moody's. The bridge facility contained a minimum tangible net worth financial covenant as well as other customary covenants, including those that limit debt incurrence, asset sales, incurrence of liens, the Company's ability to be acquired, fundamental changes to the business and failure to maintain required regulatory capital. The Company paid an arrangement fee of $500 and an administration fee of $100 in connection with the bridge facility and liquidity facility (described below). In addition, based on the Company's credit rating, the Company paid a facility fee of 8 basis points per annum during the remaining period the bridge facility was in effect.

On January 31, 2008, the Company entered into an amendment (the "Amendment") to the bridge facility to extend the original maturity date of June 13, 2008 for $1,050,000 of the $1,400,000 of the outstanding borrowings by six months to December 12, 2008 and to increase the rate per annum payable to those lenders who are party to the Amendment by 0.40%, which rate was increased by 0.25% as of and after June 13, 2008 and was further increased by another 0.25% to 1.22% as of and after September 13, 2008. The Company paid a one-time upfront fee of 5 basis points to amend its bridge facility. Under the terms of the second amendment to the bridge facility, the Company's interest rate increased to a margin of 4.90% per annum. Advances were subject to certain conditions, including the accuracy of certain representations and warranties and the absence of a default. The Company paid down $350,000 of the $1,400,000 outstanding under the bridge facility in June 2008 with the proceeds of borrowings under its liquidity facility (described below). The Company paid additional upfront fees equivalent to 5 basis points on June 13, 2008 on the $1,050,000 outstanding. In July 2008, the Company paid down $950,000 of the remaining balance outstanding under the bridge facility using $288,750 in net proceeds from the Two-Year Term Facility (discussed below), $109,200 in net proceeds of the sale of Series A Preference Shares (See Note 20), $129,734 in net proceeds of the sale of the Series B Preference Shares (See Note 20) and $129,733 in net proceeds of the sale of the Convertible Notes (discussed below), and $292,583 of cash. Additional costs of $11,400 have been recorded related to the issuance of the Series A Preference Shares, Series B Preference Shares, Convertible Notes and the Two-Year Term Facility. On November 24, 2008, the Company paid the remaining outstanding balance of $100,000 on the bridge facility which was due on December 12, 2008, terminating all remaining obligations under the bridge facility.

Liquidity Facility

Concurrent with the bridge facility discussed above, the Company entered into a $1,500,000 five-year unsecured committed revolving credit facility (the "liquidity facility") with a syndicate of banks. Borrowings under this liquidity facility bear interest at a rate per annum equal to either, at the Company's option, (1) a designated fluctuating base rate or (2) a designated fluctuating alternative base rate equal to seven-day or one-, two-, three-or six-month LIBOR plus a margin of 0.31% per annum, at the Company's current senior unsecured non-credit enhanced rating from Standard & Poor's and Moody's. In addition, the Company pays a facility fee of 9 basis points per annum during the period the liquidity facility is in effect. On January 16, 2009, the facility fee increased to 10 basis points per annum. In addition, the Company paid an annual administration fee of $75 in connection with the liquidity facility. The liquidity facility contains financial and other customary covenants that are similar to those in the bridge facility. In general terms, and subject to certain exceptions, the Company has agreed to maintain a consolidated tangible net worth of not less than $620,000 (plus 50% of the proceeds of certain equity offerings and 25% of the Company's consolidated positive net income for each completed fiscal year), and the Company has agreed not to incur indebtedness through the Company's subsidiaries exceeding 10% of the Company's shareholders' equity less goodwill and intangible assets, incur liens on its assets, merge or consolidate with (or dispose of substantially all of the Company's assets to) any person, engage in material new businesses, engage in transactions with affiliates except on arm's-length terms or fail to satisfy any regulatory net capital or financial resources requirement or comply with applicable laws or regulations. If the Company fails to pay any amount when due under the facility or to comply with its other requirements, if the Company fails to pay any amount when due on other material debt (defined as $50,000 or more in principal) or other material debt is accelerated in whole or in part by the lenders, or upon certain events of liquidation or bankruptcy, an event of default will occur under the facility. Upon an event of default, all outstanding borrowings, together with all accrued interest, fees and other obligations, under the facility will become due and the Company will not be permitted to make any further borrowings under the facility. In June 2008, the Company borrowed $350,000 under the liquidity facility and used the proceeds to pay down $350,000 under the bridge facility. In connection with this drawdown, the Company agreed to increase the interest rate margin by 1.10% per annum on the $500,000 outstanding. Other outstanding amounts under the liquidity facility bear interest with a margin of 0.31%. On January 16, 2009, the Company's agreed interest rate increased to 1.50% per annum on the outstanding balance, and the liquidity facility interest also increased to a margin of 0.40%, due to a change in credit ratings. The increase prior to the scheduled maturity date in June 15, 2012 only applies to the existing amount outstanding under the liquidity facility and future borrowings under the facility will remain unchanged from the pricing structure outlined above. As of March 31, 2009 and March 31, 2008, $642,500 and $150,000, respectively, were outstanding under the liquidity facility with the remainder available to the Company as a committed facility. The Company does not intend to pay $500,000 of the amount outstanding at March 31, 2009 under the liquidity facility prior to the maturity date of the liquidity facility. Accordingly, this amount has been classified as long-term borrowings in the consolidated

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

balance sheet. In October 2008, Lehman Commercial Paper Inc., one of the participating banks with a total commitment amounting to $75,000 under the liquidity facility filed for bankruptcy, and accordingly, the Company believes Lehman Commercial Paper Inc. will not fund the balance of its loan commitment, which is $50,000.

The Company also had a 364-day revolving credit facility with a bank on an unsecured committed basis, which terminated and is no longer in place at March 31, 2009. As of March 31, 2009 and March 31, 2008, $0 and $96,000 were outstanding under these facilities, respectively.

Convertible Senior Notes

On June 25, 2008, the Company completed the issuance and sale of $150,000 aggregate principal amount of its 9.00% Convertible Senior Notes due 2038 (the "Convertible Notes"). The Convertible Notes bear interest at a rate of 9.00% per year, payable semi-annually in arrears on June 15 and December 15 of each year, beginning December 15, 2008. The Convertible Notes mature on June 20, 2038. Holders may convert the Convertible Notes at their option at any time prior to the maturity date. Upon conversion, the Company will pay or deliver, as the case may be, cash, common shares or a combination thereof at the Company's election. The initial conversion rate for the Convertible Notes is 95.6938 common shares per $1 principal amount of Convertible Notes, equivalent to an initial conversion price of approximately $10.45 per common share. The conversion rate will be subject to adjustment in certain events, primarily make-whole fundamental changes and issuances of common shares by the company. The Company may redeem the Convertible Notes, in whole or in part, for cash at any time on or after July 1, 2013 at a price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest. Holders may require the Company to repurchase all or a portion of their Convertible Notes for cash on July 1, 2013, July 1, 2018, July 1, 2023, July 1, 2028 and July 1, 2033 at a price equal to 100% of the principal amount of Convertible Notes to be repurchased plus accrued and unpaid interest.

In connection with the issuance of the Convertible Notes, the Company also granted the initial purchasers of the Convertible Notes an option to purchase up to an additional $60,000 aggregate principal amount of the Convertible Notes within a period of 30 days beginning on June 20, 2008. On July 18, 2008, the Company agreed to extend the term of the option so that it would expire on September 18, 2008. On August 7, 2008, the initial purchasers exercised the option to purchase an additional $60,000 of the Convertible Notes. Upon the issuance and sale of the additional Convertible Notes on August 12, 2008, the securities demand feature of the Two-Year Term Facility was fulfilled. The Convertible Notes mature in 2038, subject to redemption at the Company's option after five years and a right of holders to require repurchase every five years beginning in five years. The proceeds from the additional $60,000 Convertible Notes were used to pay down a portion of the Two-Year Term Facility.

On March 26, 2009, the Company completed its cash tender offer to purchase its $210,000 Convertible Notes at a purchase price equal to $0.64 per $1.00 of the principal amount, plus accrued interest up to March 25, 2009. The Company validly repurchased $5,000 in aggregate principal amount of the Convertible Notes. The Company paid $3,326 in cash including accrued interest and related transaction costs. Additionally, the Company expensed $589 in unamortized costs. This resulted in a net gain of $1,539 on the early extinguishment of debt, which is recorded in other revenue in the consolidated statement of operations. In addition, the Company recorded $6,439 in additional paid in capital in the consolidated balance sheet as of March 31, 2009 related to the adoption of FSP APB 14-1. As of March 31, 2009, the Convertible Notes has an aggregate principal remaining balance of $205,000 of which $6,993 represents debt discount.

Two-Year Term Facility

On July 18, 2008, the Company entered into a credit agreement with several banks that provides for a two-year, $300,000 unsecured term loan facility (the "Two-Year Term Facility") intended to enable the Company to prepay loans under its bridge facility which were otherwise due and payable on December 12, 2008. Loans outstanding under the Two-Year Term Facility may be prepaid without penalty, subject to certain restrictions. Interest on any loan extended under the Two-Year Term Facility bears interest, at the option of the Company, at the higher of (i) the federal funds effective rate plus 0.5% and (ii) the prime rate, plus, in either case, an applicable margin ranging from 300 to 400 basis points depending on the Company's credit rating, or the Eurodollar rate equal to LIBOR plus an applicable margin ranging from 400 to 500 basis points depending on the Company's credit rating. The applicable margin will increase by 100 basis points on the first anniversary of the closing date, or July 18, 2009, and by 200 basis points on all overdue amounts. The Two-Year Term Facility contains customary representations and warranties, financial covenants including minimum net worth, a maximum leverage ratio of adjusted total indebtedness to interest expense, a maximum ratio of net cash capital to net liquid assets and a minimum ratio of net cash capital to net liquid assets and other customary covenants including limitations on material changes in lines of business, limitations on liens and indebtedness, certain restrictions on mergers and sales of property, compliance with laws, conduct of business and maintenance of existence, material licenses and membership, compliance with regulatory capital standards and restrictions on use of proceeds. If the Company fails to pay any amount when due under the Two-

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Year Term Facility, if any other outstanding debt with an aggregate principal amount exceeding $50,000 is accelerated or not paid when due, upon certain events of bankruptcy or liquidation of the Company or certain of its subsidiaries or upon a change of control or ownership, an event of default will occur under the Two-Year Term Facility. In connection with its entry into the Two-Year Term Facility, the Company has paid a total of $12,600 in fees to several banks that are parties to the Two-Year Term Facility. Pursuant to the loan agreement, the Company also paid an additional one time underwriting fee to such banks of $1,200 on December 15, 2008.

On July 18, 2008, the Company borrowed $300,000 under the Two-Year Term Facility, and $288,750 of the proceeds was used to repay a portion of the Company's bridge facility. On August 7, 2008, the proceeds of $60,000 from the additional sale of Convertible Notes were used to pay down a portion of the Two-Year Term Facility. At March 31, 2009, the Two-Year Term Facility had an outstanding balance of $240,000.

At March 31, 2009, the Company was in compliance with its covenants under the liquidity facility. On April 16, 2009, the Company paid the remaining outstanding balance of $240,000 million on the Two-Year Term Facility ahead of its maturity date of July 2010. See Note 23 for Subsequent Events for further information.

Note 10: Stock-Based Compensation Plans

Stock-based compensation issued by MF Global

In connection with the IPO, the Company established the 2007 Long-term Incentive Plan ("LTIP") which provides for equity compensation awards in the form of share options, share appreciation rights, restricted shares, restricted share units, performance awards, cash-based awards and other awards to eligible employees, consultants, directors, and other individuals who provide services to the Company, each as determined by the Compensation Committee of the Board of Directors. It can authorize up to 24,000,000 shares to be issued.

The Company issued restricted share units, share options, and restricted shares under the LTIP. Share options vest in equal installments over three years, and vested awards can be exercised, subject to continued employment, within seven years from the date of grant. Share options have an exercise price, equal to the price per common share at the grant date. Restricted share units vest in full after three years, subject to continued employment or meeting certain retirement eligibility criteria. Restricted share awards vest in full after one year, following the grant date, subject to continued employment. Restricted share units and restricted shares issued at the IPO are defined as non-recurring IPO awards and presented in Employee compensation related to non-recurring IPO awards within the consolidated and combined statement of operations.

Compensation expense for the stock-based compensation plans has been measured in accordance with SFAS No.123(R), *Share-Based Payment.* Net income for the years ended March 31, 2009 and 2008 includes the following related to the Company's stock-based compensation arrangements:

	YEAR ENDED MARCH 31,	
	2009	2008
Compensation costs		
Employee compensation and benefits (excluding IPO awards)	$ 35,404	$ 29,683
Employee compensation related to non-recurring IPO awards	44,819	59,131
Total	$ 80,223	$ 88,814
Income tax benefits	$ 25,206	$ 30,765

The Company has no pool of windfall tax benefits. The Company has deferred tax assets recorded on its consolidated balance sheets related to stock compensation awards issued in connection with the IPO. Due to the recent declines in the Company's stock price, these may not equal the tax benefit ultimately realized at the date of delivery of these awards, as the deferred tax assets are based on the stock awards' grant date fair value.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The fair value of each share option is estimated on the date of grant using a Black-Scholes option valuation model that uses the following assumptions:

Expected Volatility: Based on the lack of historical data for the Company's own shares, the Company based its expected volatility on a representative peer group that took into account the criteria outlined in SEC Staff Accounting Bulletin No. 107 ("SAB 107"): industry, market capitalization, stage of life cycle, and capital structure.

Expected Term: Expected term represents the period of time that options granted are expected to be outstanding. The Company elected to use the 'simplified' calculation method, which was provided for by SAB 107 to be used for companies that lack extensive historical data. The mid-point between the vesting date and the contractual expiration date is used as the expected term under this method.

Expected Dividend Yield: The Company has not paid and does not expect to pay dividends in the future. Accordingly, the assumed dividend yield is zero.

Risk Free Interest Rate: The risk-free rate is determined using the implied yield currently available on zero-coupon U.S. government bonds with a term consistent with the expected term on the date of grant.

	YEAR ENDED MARCH 31,	
	2009	2008
Expected volatility	43.7%	32.0%
Risk free interest rate	3.1%	4.9%
Expected dividend yield	0.0%	0.0%
Expected term	4.5 years	4.5 years

The following tables summarize activity for the Company's plans for year ended March 31, 2009:

	Options	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding as of April 1, 2008	10,883,308	$ 30.00	6.3	$ —
Granted	2,703,695	11.31	—	
Forfeited and cancelled	3,453,134	29.24	—	
Stock options outstanding as of March 31, 2009	10,133,869	25.27	5.5	598
Stock options expected to vest as of March 31, 2009	9,713,029	25.46	5.5	541
Stock options exercisable at March 31, 2009	2,791,650	$ 30.00	5.3	$ —

The weighted-average grant-date fair value of options granted during the year ended March 31, 2009 and 2008 was $4.29, and $10.45, respectively. No options were exercised during the year ended March 31, 2009 and 2008.

	Restricted Share Units	
	Awards	Weighted-Average Grant Date Fair Value
Nonvested as of April 1, 2008	7,445,102	$ 30.01
Granted	1,033,361	11.55
Exercised	748,497	25.11
Forfeited	799,672	29.76
Nonvested as of March 31, 2009	6,930,294	$ 22.16
Total unrecognized compensation expense remaining	$ 55,548	
Weighted-average years expected to be recognized over	1.4	

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

	Restricted Shares	
	Awards	Weighted-Average Grant Date Fair Value
Nonvested as of April 1, 2008	421,535	$ 29.30
Granted	113,869	6.70
Vested	236,680	25.06
Forfeited	27,766	29.61
Nonvested as of March 31, 2009	270,958	$ 23.34
Total unrecognized compensation expense remaining	$ 2,847	
Weighted-average years expected to be recognized over	1.4	

The weighted average grant date fair value of restricted share units and restricted shares granted during the year ended March 31, 2008 was $30.01 and $29.30, respectively. No restricted share units or restricted shares were exercised or vested during the year ended March 31, 2008.

The Company has employee stock purchase plans in the U.S. and UK to provide employees with an opportunity to purchase shares from the Company at a discount and to pay for these purchases through payroll deductions. In the U.S., participants can withhold 1-15% of their eligible compensation; however, no participant can purchase more than 500 shares or total shares exceeding $8 in fair market value. As of March 31, 2009 167,799 shares were awarded from this plan at a price of $1.73 per share. No shares were awarded from the plan as of March 31, 2008. In the UK, participants can withhold up to £0.25 per month over 3 to 5 years to purchase shares at a 20% discount from the price on the date of grant. As of March 31, 2009, no shares were awarded from this plan. These plans are accounted for as compensatory under SFAS 123 (R).

Stock-based compensation issued by Man Group

Historically, certain of the Company's employees were granted awards under several stock-based incentive plans established by Man Group and approved by Man Group's Remuneration Committee. At the IPO, employees that held these awards were deemed to have terminated employment with Man Group as 'good leavers' and outstanding awards were treated in accordance with plan guidelines. The Company did not assume or convert Man Group awards into LTIP awards or into common shares of the Company. The information presented below for the year ended March 31, 2008 includes activity through the date of the IPO and relates only to employees of the Company. Subsequent to the IPO, expense on awards exercised related to these plans are being incurred by Man Group.

Net income for the year ended March 31, 2008 includes $22,764 of compensation costs and $8,088 of income tax benefits related to Man Group's stock-based compensation arrangements through July 18, 2007. Of the total charge recorded in the year ended March 31, 2008, $14,579 related to the vesting of Man Group plc awards at the IPO under the plan terms. Net income for the year ended March 31, 2007 includes $26,089 of compensation costs and $10,025 of income tax benefits related to stock-based compensation arrangements. All of these compensation costs have been recorded in Employee compensation and benefits (excluding non-recurring IPO awards) within the audited consolidated and combined statements of operations. Certain stock-based compensation awards have been classified as liabilities.

Executive Share Option Plan

Executive share option awards are stock option awards granted to selected senior employees and directors, where the ability to exercise the stock option depends on Man Group's achievement of a financial target. The financial target is based on the retail price index, plus a margin, and on Man Group's earnings per share, as defined by the plan. Man Group's financial target is measured over three consecutive years, as defined by the plan. Executive share option awards are granted at the market value of Man Group stock on the date of grant, vest over three years, and lapse if the financial target is not achieved after three years. When exercised, the holder receives Man Group shares in exchange for paying cash consideration equal to the option price.

At the IPO, all outstanding executive share option awards became vested and exercisable to the extent the applicable performance criteria were achieved by Man Group as of March 31, 2007, and any options with respect to which the performance criteria were not achieved were forfeited. To the extent vested, outstanding Man Group options are exercisable for 12 months after the IPO.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

During the year ended March 31, 2008, Man Group issued no stock option awards to employees of the Company. During the year ended March 31, 2007, Man Group issued 501,198 stock option awards with a weighted-average grant date fair value of $2.38. The total intrinsic value of stock options exercised during the years ended March 31, 2008 and 2007 was $1,973 and $98, respectively. During the year ended March 31, 2008, there were 215,760 stock options exercised with a $1,973 impact on cash flows from operations and financing activities.

The Company estimates the fair value of options granted under the Employee Stock Purchase Plans using the Black-Scholes option-pricing model and uses a binomial lattice option-pricing model to estimate the fair value of Executive Share Option Plan awards. These pricing models require the input of assumptions related to exercise behavior and a price volatility assumption for the underlying stock. Changes in the assumptions can materially affect the estimate of fair value and results of operations could be materially impacted.

The assumptions used for the years ended March 31, 2008 and 2007 were as follows:

Expected Volatility: The expected volatility factor used to estimate the fair value of stock options awarded is based on the historical volatility of Man Group's common stock over a period consistent with the expected term of the option and on the implied volatility of market-traded options on Man Group's common stock, together with other factors.

Expected Dividend Yield: The dividend yield assumptions are based on an analysis of Man Group's average historical dividend yield prior to each award date, together with other factors.

Risk Free Interest Rate: The risk-free rate is determined using the implied yield currently available on zero-coupon U.S. and UK government bonds (where applicable) with a term consistent with the expected option life.

The grant date fair value of each option grant has been estimated with the following weighted-average assumptions:

	YEAR ENDED MARCH 31,	
	2008	2007
Expected volatility	30.0%	30.0%
Risk free interest rate—Executive Share Option Plan	4.8%	5.2%
Risk free interest rate—Employee Stock Purchase Plan	5.0%	5.0%
Expected dividend yield	2.5%	2.0%
Expected term—Executive Share Option Plan	8.5 years	8.5 years
Expected term—Employee Stock Purchase Plan	3.4 years	3.4 years

The binomial lattice option-pricing model used to value the Executive Share Option Plan contains a model for early exercise behavior. The output of the model can be used to derive the expected term of the options granted.

Performance Share Plan

Performance share awards, granted to selected senior employees and executive directors, are stock-based awards in which the number of shares ultimately received by the participant depends on Man Group's achievement of a financial target. The financial target is based on Man Group's average return on equity measured over three consecutive years, as defined by the plan. Participants are awarded shares in the plan by Man Group's Remuneration Committee. Participants can also purchase Man Group shares using their cash bonus or by taking out a non-interest bearing loan with Man Group to further invest in the plan. Based on the shares awarded and shares purchased for further investment in the plan, participants are entitled to receive matching shares of Man Group stock if the financial target is met. All shares that are awarded through the plan vest over three to four years, but lapse if the financial target is not met for the three year measurement period. The amount of Man Group stock matched to shares in the plan ranges from 0% to 100%, depending on the degree Man Group achieved the financial target.

At the IPO, all outstanding performance share awards were allocated to participants on a pro-rata basis (based on service during the three-year performance period) and the remaining share awards were forfeited. As a result of the IPO, the holding periods applicable to shares purchased by employees lapsed and became freely tradable, subject to certain restrictions. Underlying Man Group shares will be delivered subject to the achievement of certain performance criteria.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

During the years ended March 31, 2008 and 2007, 0 and 1,050,872 shares were purchased by participants for additional investment in the plan. During the year ended March 31, 2008, Man Group issued no performance share awards to employees of the Company. During the year ended March 31, 2007, Man Group issued 172,000 performance share awards with a weighted-average grant date fair value of $6.67. The total fair value of performance share awards distributed to participants during the years ended March 31, 2008 and 2007 was $0 and $8,383, respectively.

Co-Investment Plan

The Co-Investment plan allows selected senior employees to use a portion of their cash bonus to purchase Man Group stock for investment within the plan. Participants can also purchase shares by taking out a non-interest bearing loan with Man Group to further invest in the plan. Shares held as investment within the plan for at least three years are matched by four shares of Man Group stock. Participants vest into the matching Man Group shares after one additional year. The plan limits the total value that can be received by a participant at 100% of their cash bonus, including both their original investment in the plan and the matching shares of Man Group stock.

As a result of the IPO, the holding periods applicable to shares purchased by employees lapsed and became freely tradable, subject to certain restrictions. Outstanding matching shares awarded to employees vested on a pro-rata basis as of the IPO, and are exercisable for nine months after the IPO. The remaining matching shares have been forfeited.

During the year ended March 31, 2008 and 2007, 0 and 875,000 shares were purchased by participants for additional investment in the plan. During the year ended March 31, 2008, Man Group issued no matching share awards to employees of the Company. During the year ended March 31, 2007, Man Group issued 3,501,896 matching share awards with a weighted-average grant date fair value of $6.84. The total fair value of matching awards distributed to participants during the years ended March 31, 2008 and 2007 was $0 and $24,576, respectively.

Employee Stock Purchase Plans

In accordance with local tax regulations in the UK and U.S., Man Group sponsors two employee stock purchase plans, which allow all employees to invest funds within the plan, that contain an option to purchase shares of Man Group stock at a discount, subject to certain terms and conditions. Participants in the UK can invest in the plan over 3 or 5 years, after which they are eligible to purchase shares at a 20% discount from the market value of Man Group stock when the investment in the plan was originally made. In the U.S., participants can invest in the plan for two years, after which they are eligible to purchase shares at a 15% discount from the market value of Man Group stock when the investment in the plan was originally made. In the U.S. plan, once vested, participants have the option of receiving cash or shares of Man Group stock within one year. If Man Group stock is selected, participants are required to hold the shares for one additional year.

In connection with the IPO, U.S. employees continued to be eligible to participate in the plan until June 30, 2007, at which time certain of their purchase rights accelerated and were exercised. UK employees continued to be eligible to participate in this plan for nine months after the IPO and shares purchased under the plan became freely transferable. During the year ended March 31, 2008 the Company issued 270,949 shares under the employee stock purchase plan at an average option price of $9.43 per share.

Note 11: Income Taxes

The tax results of the Company's U.S. operations are included in the consolidated and combined income tax returns of MF Global Holdings USA Inc. The tax results of the Company's foreign operations are included in the tax returns of the respective jurisdictions in which the Company conducts business. The income tax provision is reflected in the Company's consolidated and combined statements of operations. Fiscal 2007 is presented as if the Company operated on a stand-alone basis.

The components of income / (loss) before provision for income taxes, equity in earnings and noncontrolling interests are as follows:

	YEAR ENDED MARCH 31,		
	2009	2008	2007
U.S.	$ 56,259	$ (209,420)	$ 44,947
International	(46,310)	213,019	244,716
Total	$ 9,949	$ 3,599	$ 289,663

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The provision/ (benefit) for income taxes consists of:

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Current:			
U.S.	$ 35,927	$ (480)	$ 21,240
International	13,939	92,166	71,308
	49,866	91,686	92,548
Deferred:			
U.S.	(2,010)	(231)	8,270
International	(5,979)	(24,868)	(818)
	(7,989)	(25,099)	7,452
Total	$ 41,877	$ 66,587	$ 100,000

The reconciliation of income tax expense before equity earnings and noncontrolling interest expense as reflected in the consolidated and combined statements of operations to the expected tax expense by applying the U.S. federal statutory income tax rate is as follows:

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Income before provision for income taxes	$ 9,949	$ 3,599	$ 289,663
Federal income tax expense at 35%	3,639	1,260	101,382
State taxes	4,559	(12,565)	4,894
Tax on the Spin-off	—	75,714	—
Non-taxable UK gains on disposition to Man Group	—	(13,131)	—
Nondeductible operating expenditures	5,316	8,710	—
Nondeductible goodwill and intangible assets	20,647	—	—
Effect of lower overseas tax rates	(14,832)	(25,815)	(14,527)
FIN 48 liabilities relating to operations	3,597	12,698	—
Adjustments in respect of prior periods	3,912	3,016	(1,521)
Stock-based compensation	5,474	—	(1,790)
IPO-related costs	—	11,143	10,874
Valuation allowance change	6,895	207	4,055
Witholding tax expense	1,643	1,920	—
Other, net	1,027	3,430	(3,367)
Provision for income taxes	$ 41,877	$ 66,587	$ 100,000
Effective tax rate	420.9%	1,850.2%	34.5%

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Deferred income tax assets and liabilities reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for the same items for income tax reporting purposes. The components of deferred tax assets and liabilities consist of the following items:

	MARCH 31,	
	2009	2008
Deferred tax assets		
Net operating loss carry forwards	$ 22,782	$ 19,062
Depreciation	9,638	9,095
Stock-based compensation	51,245	35,310
Deferred compensation	2,169	5,616
Intangible asset	24,592	15,251
State Asset	1,802	168
Professional fees	4,610	—
Bad Debts	1,915	1,196
Equity Investee	11,931	—
Other, net	2,972	5,368
Total deferred tax assets	133,656	91,066
Valuation allowance	(14,430)	(14,688)
Deferred tax assets, net of valuation allowance	119,226	76,378
Deferred tax liabilities		
Intangible Liabilities	(11,169)	(15,206)
Exchange membership seats	(1,964)	(2,418)
Unrealized gain (loss)	(26,586)	(2,326)
Total deferred tax liabilities	(39,719)	(19,950)
Net deferred tax assets/liabilities	$ 79,507	$ 56,428

At March 31, 2009, the Company had approximately $26,846 of net operating loss carry forwards in certain non-U.S. jurisdictions. A valuation allowance has been provided against $14,690 of these losses. Net operating losses of $17,559 have an indefinite carryforward life. Net operating losses of $9,133 will expire beginning 2025. The remaining carryforward of $154 will expire within the next seven years if not utilized.

As of March 31, 2009, the Company earned income that was excluded from taxable income in certain states. This has resulted in a net operating loss increase from $195,497 as of March 31, 2008 to $318,135 as of March 31, 2009 in these states. These loss carry forwards will expire in future years beginning in 2019 through 2029. A valuation allowance has been provided against $136,281 of those losses on the basis that recovery is uncertain. The deferred tax assets relating to all net operating loss carry forwards and related valuation allowances are reflected, without offset, above.

The total valuation allowance for deferred tax assets of $14,430 and $14,688 at March 31, 2009 and March 31, 2008, respectively, relates principally to uncertainty of the utilization of tax loss carryforwards in various jurisdictions. The valuation allowance was calculated in accordance with SFAS No. 109, which requires that a valuation allowance be established or maintained when it is "more likely than not" that all or a portion of deferred tax assets will not be realized.

Except for taxes on earnings that have been currently distributed, no additional provision has been made for taxes that would be payable on the remittance of undistributed earnings of subsidiaries or for unrecognized deferred tax liabilities for temporary differences related to investments in subsidiaries. The Company expects such investments to be essentially permanent in duration, and the undistributed earnings to be permanently reinvested, or the Company has concluded that no additional tax liability will arise as a result of the distribution of such earnings. The Company has determined that a liability of $3,397 could arise if amounts are distributed by such subsidiaries or if such subsidiaries are ultimately disposed of.

Uncertain tax positions

The Company adopted FIN 48 as of April 1, 2007. This interpretation clarifies the criteria that must be met prior to recognition of the financial statement benefit, in accordance with SFAS No. 109, of a position taken in a tax return.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

As of adoption, the Company had gross unrecognized tax benefits of $4,740, $990 of which was recognized as a change in opening retained earnings. For the year ended March 31, 2009, the Company had gross unrecognized tax benefits of $27,755. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had approximately $5,710 accrued for the estimated interest and penalties on unrecognized tax benefits at March 31, 2009.

The total balance of gross unrecognized tax benefits of $27,755 would, if recognized, affect the Company's effective income tax rate in future periods. It is expected that unrecognized tax benefits will decrease in the next twelve months by approximately $1,092 as a result of expiring statutes of limitations or settlements. The Company does not expect this change to have a significant impact on the results of operations or financial position of the Company.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	MARCH 31,	
	2009	2008
Beginning balance	$ 26,078	$ 4,740
Additions based on tax positions taken during prior periods	1,571	2,265
Reductions based on tax positions taken during prior periods	(11,418)	(1,030)
Additions based on tax positions taken during the current period	15,829	20,103
Reductions based on tax positions taken during the current period	(3,100)	—
Reductions based on settlement of tax matters	—	—
Reductions related to the lapse of statutes of limitations	(1,205)	—
Ending Balance	$ 27,755	$ 26,078

In many cases the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities. The following table summarizes these open tax years by jurisdiction with major uncertain tax positions:

	OPEN TAX YEAR	
Jurisdiction	Examination in progress	Earliest year subject to examination
United States	None	2006
United Kingdom	None	2007

Note 12: Earnings per Share

The Company computes earnings per share in accordance with SFAS No. 128, *Earnings per Share* and EITF 03-6 *Participating Securities and the Two-Class Method*. The Company's Series A Preference Shares are participating securities whereby the holder participates in undistributed earnings with common shareholders.

The numerator for Basic EPS is net income, reduced by an allocation of earnings between common shareholders and the Series A Preference Shares holder, based on their respective rights to receive dividends on the Company's common stock as well as any undeclared dividends for the Series A Preference Shares where the shareholder has a cumulative right to dividends. This is then reduced by dividends declared for the Series B Preference Shares. The denominator for Basic EPS is the weighted average number of common shares outstanding. If dilutive, the numerator for Diluted EPS is net income after adjusting for the interest expense recorded on the Convertible Notes, net of tax. The denominator for Diluted EPS is the weighted average number of common shares outstanding with the potential effect of stock awards outstanding, calculated as Convertible Notes, Series A and Series B Preference Shares, if dilutive, in accordance with the if-converted method.

The Company uses the treasury stock method to reflect the potentially dilutive effect of the unvested restricted shares and unexercised stock options. In calculating the number of dilutive shares outstanding, the shares of common stock underlying unvested restricted shares are assumed to have been delivered on the grant date. The assumed proceeds from the assumed vesting and delivery were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized as of March 31, 2009 and (b) the amount of tax benefit, if any, that was credited to additional paid-in capital assuming vesting and delivery of the restricted shares. The tax benefit is the amount resulting from a tax deduction, if any, for compensation in excess of compensation expense recognized for financial statement reporting purposes.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The computation of earnings per share is as follows:

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Basic and diluted earnings per share:			
Numerator:			
Net (loss)/income attributable to MF Global Ltd.	$ (49,058)	$ (69,542)	$ 187,999
Less: Dividends declared for Series A Preference Shares	(9,250)	—	—
Cumulative and participating dividends	(2,033)	—	—
Dividends declared on Series B Preference Shares	(9,344)	—	—
Net (loss)/ income applicable to common shareholders	$ (69,685)	$ (69,542)	$ 187,999
Denominator for basic calculation:			
Basic weighted average common shares outstanding	121,183,447	115,027,797	103,726,453
Denominator for diluted calculation:			
Basic weighted average common shares outstanding	121,183,447	115,027,797	103,726,453
Basic (loss)/ earnings per share	$ (0.58)	$ (0.60)	$ 1.81
Diluted (loss)/ earnings per share	$ (0.58)	$ (0.60)	$ 1.81

The weighted average number of common shares outstanding for periods prior to the Reorganization and Separation is calculated using the common stock outstanding immediately following the Reorganization and Separation.

Diluted earnings per share is the same as basic earnings per share for all periods presented as the impact of outstanding stock awards, Convertible Notes, and Series A and Series B Preference Shares is anti-dilutive. The Convertible Notes, and Series A and Series B Preference Shares are weighted based on the period outstanding during the respective period presented. The following table presents the potential shares excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive:

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Restricted shares units and restricted shares	7,386,903	7,460,621	—
Stock options	10,133,869	10,883,308	—
9.0% Convertible Notes	14,599,200	—	—
Series B Preference Shares	10,972,013	—	—
Series A Preference Shares	8,416,438	—	—
Total	51,508,423	18,343,929	—

Note 13: Regulatory Requirements

One of the Company's subsidiaries is registered as a futures commission merchant and broker-dealer and others are registered as local equivalents and accordingly are subject to the capital rules of the SEC, CFTC, and FSA, principal exchanges of which they are members, and other local regulatory bodies, as applicable.

One of the Company's subsidiaries, MF Global Inc, is required to maintain minimum net capital equal to the greater of the amount required by the SEC or CFTC, as defined. At March 31, 2009, the Company had net capital, as defined, of $594,545, which was $234,623 in excess of the minimum capital required to be maintained.

The Company is subject to certain notifications and other provisions of the net capital rules of the SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At March 31, 2009, the Company was in compliance with all of these provisions.

In accordance with the rules of the FSA in the UK, the Company's FSA-regulated subsidiaries must comply with financial resources requirements, which since January 1, 2008, are subject to the requirements of the European Union's Capital Requirements

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Directive. The capital held is intended to absorb unexpected losses and a minimum requirement is calculated in accordance with a standard regulatory formula that addresses the exposure to counterparty credit risk, position/market risk, foreign exchange risk, operational risk and concentration risk. Counterparty risk is calculated as a percentage of unpaid customer margin for exchange traded business and an exposure calculation for off-exchange business. Position risk is calculated by applying percentages to positions based on the underlying instrument and maturity.

At March 31, 2009, the Company's FSA-regulated subsidiaries had financial resources in total, as defined, of $576,621, resource requirements of $198,274, and excess financial resources of $378,347. The Company is currently in discussion with the FSA regarding future capital requirements.

The Company is also subject to the requirements of other regulatory bodies and exchanges of which it is a member in other international locations in which it conducts business. The Company was in compliance with all of these requirements at March 31, 2009 and 2008.

Note 14: Financial Instruments with Off-balance Sheet Risk, Concentrations of Credit Risk, and Other Related Risks

The Company is exposed to a wide variety of risks, which are inherent to its business and activities. Management reviews the industry, competition, and regulations on a continuous basis to identify, assess, monitor, and manage each type of risk. Overall risk is governed by executive management, however business managers are held accountable for risks assumed within their areas of responsibility and for executing the risk management policy set by executive management. From an overall business perspective, the Company is exposed to several types of risk including: (1) volume or margin pressure that could be brought about by a general decline in volumes in the markets and products in which it offers execution and clearing services, (2) margin pressure due to market conditions, (3) diminishing client franchise due to either disintermediation by exchange or other competitors applying innovations in technology, and (4) macro-economic changes such as a fall in interest rates that would reduce the income earned on balances held on behalf of customers. Long-term exposure to any of these risks could affect not only financial performance, but also the Company's reputation.

The Company is exposed to market risks arising from changes in equity prices, foreign currency exchange rates and interest rates. The Company seeks to mitigate market risk by employing hedging strategies that correlate rate, price and spread movements of securities owned and related financing and hedging activities. In its day to day business activities, the Company is engaged in various trading, brokerage and investing activities with counterparties, which primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk of default.

Market Risk

The Company's market risks include interest rate risk, currency rate risk, equity price risk, and commodity price risk.

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk on debt, customer cash and margin balances and positions carried in equity securities, options and futures. Interest rate risk is managed through investment policies and interest rate derivative contracts.

Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments and the value of the Company's entities located outside of the U.S. To hedge this risk, the Company may purchase forward contracts, which serve to manage fluctuations in foreign currency rates and the Company's global exposure related to its non-U.S. dollar operating transactions.

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. The Company is subject to equity price risk primarily in securities owned and securities sold, not yet purchased. The Company attempts to limit such risks by diversifying its portfolio across many different options, futures and underlying securities and avoiding concentrations of positions based on the same underlying security.

Commodity price risk arises from the possibility that commodity prices will fluctuate affecting the value of instruments directly or indirectly lined to the price of the underlying commodity. The Company is directly exposed to commodity prices through its transactions in the metals and energy markets.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

While the Company generally executes transactions on a matched principal basis, it has market risk exposure (reflected in the Value at Risk measure in Item 7A) associated with limited interest rate, foreign exchange, equity and commodity positions taken for the Company's own account to support and facilitate client orders as well as relative value positions taken by the business.

Credit Risk

Credit risk is the possibility that the Company may suffer a loss from the failure of counterparties, customers, or borrowers to meet their financial obligations, in a timely manner. The Company acts as both an agent and principal in providing execution and clearing services, primarily for exchange traded products as well as for OTC transactions, which exposes us to credit risk.

Credit risks include both pre-settlement and settlement risk. Pre-settlement risk is the possibility that should a counterparty default on its obligations under a derivative contract; the Company could incur a loss when it covers the resulting open position because the market price has moved against the Company. Settlement risk is the possibility that the Company may pay a counterparty, such as a bank in a foreign exchange transaction, and fail to receive the corresponding settlement in turn. Many of these exposures are subject to netting agreements which reduce the net exposure to the Company. Limits for counterparty exposures are based on the creditworthiness of the counterparty and are subject to formal lines of approval. The credit risk is diversified between customers and counterparties across a wide range of markets.

For execution-only customers, credit risk arises from the potential failure of customers to pay commissions on the trades. There is also the risk that a clearing broker may refuse to accept the client's trade and in such cases the Company will be required to assume the position and any market risk thereon. For cleared customers that transact on a margin basis, the principal credit risk arises from the Company paying variation margin to the exchanges before receiving it from customers. Most customers are required to cover initial and variation margin with cash and are required to pay any margin deficits within 24 hours.

The Company mitigates the risk on its cleared margin business by requiring the initial margin to be paid by customers as a deposit before they can commence trading. The Company also uses software to test the adequacy of initial margins and, where appropriate, sets margin requirements at higher levels than those requested by the exchanges to minimize credit risk. Most customers are required to cover initial and variation margins with cash. Client activity levels are monitored daily to ensure credit exposures are maintained in accordance with agreed risk limits. Daily and, if required, intra-day margin calls are made on clients to reflect market movements affecting client positions. Financial analysis is performed to evaluate the effect of potential market movements on customer positions and may result in customers being asked to reduce positions. The Company generally reserves the right to liquidate any customer position immediately in the event of a failure to meet a margin call.

The Company is also exposed to the risk of default by counterparties with respect to positions with counterparties. These are mainly exchanges, clearing-houses and highly rated and internationally recognized banks.

In most markets the Company acts as an intermediary, resulting in limited market risk to the Company. The exceptions are intra-day positions in foreign exchange, fixed income, metals and energy markets where the Company acts as principal and there may be time delays between opening and closing a position. The Company may also maintain small positions overnight in these markets.

In line with market practices, the Company also provides unsecured credit lines to some customers for initial and variation margin. The Company's exposure to credit risk associated with its trading and other activities is also measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Credit lines to customers are subject to formal review and approval. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

In the normal course of business, the Company's customer activities include the execution, settlement, and financing of various customer securities transactions that are loaned or borrowed. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. The Company controls this risk by monitoring the market value of securities pledged, by requiring adjustments of collateral levels in the event of excess market exposure, and by establishing limits for such activities that are monitored daily.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the consolidated and combined financial statements at March 31, 2009, at the fair values of the related securities and will incur a loss if the fair value of the securities increases subsequent to March 31, 2009.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Operational Risk

Operational risk is defined as the risk of loss or other adverse consequence arising from inadequate or failed internal processes, people and systems or from external events. Consistent with the Company's competitors, its operations are exposed to a broad number of these types of risks which could result in significant impact on the Company's business. Therefore, the Company has an independent Operational Risk Department to ensure application of a globally consistent Operational Risk Management framework and the Company is implementing firm-wide policies, standards and processes for risk identification, assessment, mitigation and reporting in order to create a more transparent and accountable Operational Risk environment.

Operational Risk is inherent in each of the Company's businesses, support and control activities; therefore, the primary day-to-day responsibility for managing operational risk rests with these areas. Each area has established processes, systems and controls to manage operational risk and reports on losses, control and performance metrics and issues. These reports are then summarized for senior management and governance committees. Additionally, the Company considers the inherent operational risk in new products, systems, and business activities as they are developed or modified.

As a diversified financial services firm, the Company also relies on an extensive technology platform that includes the utilization of vendor services and software as well as internally developed applications. The Company mitigates its technology exposures through the implementation of standard controls, contractual agreements, and performance monitoring. More broadly, the Company has an on-going Business Continuity Management program designed to enable the organization to recover and restore business activities in the event of a disaster or other business disruption.

As deemed prudent, the Company mitigates certain operational risk impacts through insurance coverage and economic capital.

Note 15: Commitments and Contingencies

Leases

The Company has operating lease arrangements with unaffiliated parties for the use of certain office facilities, equipment and computer hardware. Certain leases contain provisions for escalation. At March 31, 2009, future minimum rental payments under non-cancellable leases for office premises are as follows:

Minimum rental payments	
2010	$ 29,779
2011	26,620
2012	21,683
2013	16,688
2014	16,950
2015 and thereafter	105,273
Total	$216,993

In the years ended March 31, 2009, 2008, and 2007 the Company incurred $32,159, $29,326, and $19,162 of rent expense, respectively. The Company also has operating lease agreements with Man Group; refer to Note 17 for further details.

Legal

Set forth below are the potentially material litigations and regulatory proceedings to which the Company is a party or in which the Company is involved.

Unauthorized Trading Incident of February 26/27, 2008

One of the Company's brokers, Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of the Company's front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26, 2008 and early morning of February 27, 2008. The positions were liquidated at a loss of $141,045 on February 27, 2008. The trades were unauthorized and because the broker had no apparent means of paying for the trades, the Company, as a clearing member of the exchange, was required to pay the $141,045 shortfall. The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by the Company the next day. As a result of this unauthorized trading incident:

- *Class Action Suits*. The Company, Man Group, certain of its current and former officers and directors, and certain underwriters for the IPO have been named as defendants in five actions filed in the United States District Court for the Southern District of New York. These actions, which purport to be brought as class actions on behalf of purchasers of MF Global stock between the date of the IPO and February 28, 2008, seek to hold defendants liable under §§ 11, 12 and 15 of the Securities Act of 1933 for alleged misrepresentations and omissions related to the Company's risk management and monitoring practices and procedures. The five purported shareholder class actions have been consolidated for all purposes into a single action. The Company has made a motion to dismiss which is pending. The litigation is in its early stages, and the Company believes it has meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

- *The U.S. Attorney's Office, Chicago Examination.* The U.S. Attorney's Office in Chicago, Illinois is examining Mr. Dooley and the unauthorized trades. The Company has been cooperating with the U.S. Attorney's Office, which has informed the Company that it is not a target of their investigation, and that Mr. Dooley is a target.

- *Commodity Futures Trading Commission Investigation.* The CFTC has issued a formal order of investigation naming the Company and Mr. Dooley. The CFTC, in coordination with the Chicago Mercantile Exchange ("CME"), has been collecting documentation from the Company and taking depositions of its employees. The CFTC and CME investigation is ongoing and it is not yet certain what actions the CFTC and/or the CME might take. The Company established an accrual of $10,000 in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to below under the captions, "Commodity Futures Trading Commission Potential Action" and "CFTC Natural Gas Price Information Investigation". This is the Company's best estimate and there is no assurance that the $10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures. No accrual has been made for the CME matter.

- *Retention of Consultants.* The Company's Nominating and Corporate Governance Committee, composed of certain independent Board members, hired two consultants to help advise them and, through them, the Company on matters relating to the unauthorized trading incident. FTI Consultants advised on technology-related matters and Promontory Financial Group advised on policies and procedures in the risk aspects of the Company's business.

- *Insurance Claim.* The Company filed a claim under its Fidelity Bond Insurance ("the Bond"), which provides coverage for wrongful or fraudulent acts of employees, seeking indemnification for this loss. After months of investigation, the Company's Bond insurers have denied payment of this claim based on certain definitions and exclusions to coverage in the Bond. They have also initiated an action against the Company in the Supreme Court of the State of New York seeking a declaration that there is no coverage for this loss under the Bond. The Company believes the insurers' position to be in error and will seek to enforce its right to payment in court.

Commodity Futures Trading Commission Potential Action

In May 2007, the Company's U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, and two of its individual employees received what is commonly referred to as a "Wells notice" from the staff of the Division of Enforcement of the CFTC. The notice relates to two trades that the Company executed in 2004 for a customer and reported to NYMEX. In the notice, Division of Enforcement staff indicated that it is considering recommending to the Commission that a civil proceeding be commenced against the Company and the two individuals, in which the Commission would assert that the Company and the two individuals violated Section 9(a)(4) of the Commodity Exchange Act, which generally prohibits any person from willfully making any false, fictitious, or fraudulent statements or representations, or making or using any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement to a board of trade. The Division of Enforcement staff contends that the Company and the individuals presented or participated in the submission of information to the exchange that falsely represented the dates on which the trades in question occurred. The Company and the individuals dispute the contentions of the Division of Enforcement staff and have

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

submitted a written statement to the Division of Enforcement, setting forth the reasons why it believes no proceeding should be brought. It is not yet certain what action the CFTC will take. The Company established an accrual of $10,000 in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to above under the caption, "Unauthorized Trading Incident of February 26/27, 2008—Commodity Futures Trading Commission Investigation" and below under the caption "CFTC Natural Gas Price Information Investigation". This is the Company's best estimate and there is no assurance hat the $10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

CFTC Natural Gas Price Information Investigation

The Company has been cooperating in an investigation conducted by the U.S. Attorneys Office in the Southern District of New York, which has brought an indictment in a related matter, and by a New York County Grand Jury. The CFTC and the SEC have also been involved in the investigation and each has brought cases in related matters. The investigation centers around trading by a market making energy trader at Bank of Montreal (BMO) who allegedly mismarked his book. One of the Company's brokers did business with the BMO trader, and used bid and offer prices for forward OTC trades the BMO trader sent to him as a basis for prices which the Company's broker disseminated to its customers, including BMO, as price indications that reflected a consensus. The Company has been told that neither the Company nor its broker are targets of the Grand Jury investigation. In connection with this investigation, the Company has been served by the CFTC with a Wells notice in anticipation of civil charges against the broker under the anti-fraud provisions of CFTC Regulation 33.10 and the Company with derivative liability for the broker's actions. The CFTC investigation is ongoing and it is not yet certain what action the CFTC may take against the Company or its broker. The Company established an accrual of $10,000 in fiscal 2008 to cover the potential of CFTC civil monetary penalties in this matter and the two matters referred to above under the captions, "Unauthorized Trading Incident of February 26/27, 2008" and "Commodity Futures Trading Commission Potential Action." This is the Company's best estimate and there is no assurance that the $10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

Philadelphia Alternative Asset Fund

On May 8, 2006, the plaintiff, a court-appointed receiver for a hedge fund, Philadelphia Alternative Asset Fund Ltd. ("PAAF"), and its fund manager and commodity pool operator, Philadelphia Alternative Asset Management Co., LLC ("PAAMCo"), commenced suit against MF Global Inc., formerly known as Man Financial Inc, the Company's U.S. operating subsidiary, and seven of its employees in connection with a Commodity Futures Trading Commission-imposed shutdown of PAAMCo. PAAMCo and its principal, Paul Eustace ("Eustace"), allegedly defrauded PAAF by misrepresenting its trading performance, artificially inflating PAAF's net asset value, and failing to disclose trading losses suffered in a subaccount maintained by the Company for PAAF. The receiver, in his complaint, alleged among other things, negligence, common law fraud, violations of the Racketeer Influenced Corrupt Organizations Act (RICO), violations of the Commodity Exchange Act and aiding and abetting fraud. The Company, and its employees, denied all material allegations of the complaint. Although the complaint did not quantify the exact amount of damages sought, the amount claimed was estimated to be approximately $175,000 (with the plaintiff claiming that these damages should be tripled under RICO). The court-appointed receiver in this matter was, by judicial order, replaced by a "receiver *ad litem*" (solely for purposes of this litigation) because of a conflict of interest on the part of the original receiver. In July 2007, the receiver *ad litem* dismissed all claims against six of the Company's employees, and filed a Second Amended Complaint against Man Financial Inc, one employee, and UBS Fund Services (Cayman) Ltd. The allegations against the Company were substantially similar to those in the initial complaint. On December 3, 2007, the Company entered into a Settlement Agreement with the prior receiver and the receiver *ad litem* pursuant to which, without admitting liability, the Company paid $69,000, plus $6,000 of litigation expenses, to the receivership estate as a restoration fund for the benefit of receivership investors in exchange for full releases and a dismissal of the action with prejudice.

Man Group agreed to indemnify the Company for all costs, expenses and liabilities the Company may incur as a result of the PAAF litigation and any other claims or litigation arising from the facts or circumstances which give rise to that claim for amounts in excess of $50,000, net of any insurance proceeds the Company receives. The Company received $25,000 on July 10, 2008 from Man Group in relation to the PAAMCo matter under the Deed of Indemnity executed at the time of the separation from Man Group.

As a result of discussions leading to this settlement, the Company recorded an expense of $76,814 in fiscal 2008. The Company's insurance carriers were notified of the settlement agreement (together with amounts paid thereunder) and of its associated defense costs in the PAAMCo-related litigation. In that regard, the Company instituted a dispute resolution procedure against insurers under its insurance contract. On October 23, 2008, the Company and its insurers entered into a settlement agreement pursuant to which the Company received $75,000 from insurers in full settlement of all of its claims against insurers in the PAAF matter. Excluding previously recovered amounts, the Company has recognized $62,000 in insurance proceeds in its financial statements for the quarter ended December 31, 2008.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

On December 26, 2007, the Company settled a related investigation by the CFTC arising out of the PAAF matter. Without admitting or denying the allegations, the Company agreed to the entry of an order finding that it violated supervision and recordkeeping requirements and the Company agreed to follow revised procedures and paid a civil monetary penalty of $2,000, which was accrued in fiscal 2008.

Conservative Concepts Portfolio Management GmbH ("CCPM") Related Arbitrations

In or about October 2003, the Company uncovered an apparent fraudulent scheme conducted by third parties unrelated to the Company that may have victimized a number of its clients. CCPM, a German Introducing Broker, introduced to the Company all the clients that may have been victimized. An agent of CCPM, Michael Woertche (and his confederates), apparently engaged in a Ponzi scheme in which allegedly unauthorized transfers from, and trading in, accounts maintained at the Company were utilized to siphon money out of these accounts, on some occasions shortly after they were established. The Company was involved in two arbitration proceedings relating to these CCPM introduced accounts. The first arbitration involved claims made by two claimants before a National Futures Association panel. The second arbitration involves claims made by four claimants before a FINRA panel. The claims in both arbitrations are based on allegations that the Company and an employee assisted CCPM in engaging in, or recklessly or negligently failed to prevent, unauthorized transfers from, and trading in, accounts maintained by the Company. Damages sought in the NFA arbitration proceeding were approximately $1,700 in compensatory damages, unspecified punitive damages and attorneys' fees in addition to the rescission of certain deposit agreements. The NFA arbitration was settled for $200 as to one claimant and a net of $240 as to the second claimant during fiscal 2008. Damages sought in the FINRA proceeding were approximately $6,000 in compensatory damages and $12,000 in punitive damages. During the quarter ended September 30, 2008, the FINRA arbitration was settled for an aggregate amount of $800.

Parabola/Tangent

In December 2006, Parabola/Tangent filed a claim in the Commercial Court in London against the Company and one of its brokers alleging alternatively fraudulent and negligent misrepresentation and breach of fiduciary duty in connection with execution-only accounts that were active in the Company's London office between July 2001 and February 2002. The claimants seek £3,700 (approximately $5,300) in damages and speculative claims, including claims for lost profits, of up to an additional £28,000 (approximately $35,800). Mediation began in April 2008 but was not successful and a trial began in March 2009. In May 2009 a judgment was rendered in favor of the plaintiff and against the Company in the amount of £19,700 plus costs. The Company intends to appeal this judgment. An expense of $8,000 has been recorded in the three months ended March 31, 2009 in connection with this litigation, based on the judgment rendered, after adjusting for expected insurance proceeds of $23,500.

Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.

The Company's U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, was named as a co-defendant in an action filed in Florida State Court by Eagletech Communications Inc. ("Eagletech") and three of its alleged shareholders against 21 defendants, including banks, broker-dealers and clearing brokers, as well as "100 John Doe defendants or their nominee entities". The complaint alleges that the defendants engaged in a criminal conspiracy designed to manipulate the publicly traded share price of Eagletech stock. Plaintiffs seek unspecified compensatory and special damages, alleging that "Man Group PLC d/b/a Man Financial Inc" participated in the conspiracy by acting as a clearing broker for a broker-dealer that traded in Eagletech stock. The complaint asserts claims under RICO, the Florida Securities and Investor Protection Act, the Florida Civil Remedies for Criminal Practices Act, and a related negligence claim. On May 9, 2007, defendants filed a notice removing the State Court action to Federal Court pursuant to 28 U.S.C. § 1441(a). On October 2, 2007, Plaintiffs filed a first amended complaint in the Federal Court action asserting additional claims against Man Financial Inc under Florida common law, including civil conspiracy, conversion and trespass to chattels. On February 26, 2008, the financial institution defendants, including MF Global Inc., filed a motion to dismiss seeking dismissal of all claims asserted in the amended complaint on the ground that the claims are barred by the Private Securities Litigation Reform Act ("PSLRA") and preempted by the federal securities laws. On June 27, 2008, the Court partially granted the motion, holding that the federal RICO claims are barred by the PSLRA and dismissing the RICO claims with prejudice. The Court declined to exercise supplemental jurisdiction over the state law claims and remanded those claims to the Florida State Court. On July 25, 2008, plaintiffs filed a notice of appeal of the Court's June 27, 2008 decision to the United States Court of Appeals for the Eleventh Circuit but subsequently withdrew its appeal. The Company is unsure of whether plaintiffs will pursue the State Court action. Since the case is in its earliest stages, it is difficult to determine exposure, if any. The Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Amacker v. Renaissance Asset Management Fund et. al.

In December 2007, the Company, along with four other futures commission merchants ("FCMs"), were named as defendants in an action filed in the U.S. District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

LLC) operated by Renaissance Asset Management LLC. The complaint alleges that the Company and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of $32,000, plus exemplary damages, from all defendants. All of the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference, the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek $17,000 in claimed damages plus exemplary damages from all defendants. The Company filed a motion to dismiss the amended complaint which was granted by the court and appealed by the plaintiffs. The case is at its earliest stages so it is not possible to determine the Company's exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Leaderguard Matter

Proceedings have been instituted against the Company's UK subsidiary by the liquidator of Leaderguard Spot Forex Limited ("LSF"), a Mauritius based investment firm that became insolvent in March 2005. The Company's UK subsidiary (originally through GNI Limited and then Man Financial Limited) provided foreign exchange broking services to two companies in the Leaderguard group between 2001 and 2005. The claim alleges, inter alia, that the Company was complicit in assisting the directors of various Leaderguard group companies to breach fiduciary duties owed by such directors to their companies and that the Company knowingly benefited from assets received in breach of such fiduciary duties. The claim further alleges the Company is liable to account for funds lost through transactions executed by such directors with its UK company which are alleged to amount to $18,000. It is difficult at this stage to determine exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Hobart Securities

The Company was in a dispute with Hobart Securities (formerly Dawnay, Day Capital Markets Limited) ("DDCM"). The Company exercised a contractual right of set-off on July 10 and 11, 2008 over DDCM's account to off-set liabilities of approximately £2,500 (approximately $3,600) of other Dawnay, Day companies with accounts at MF Global. DDCM instituted legal proceedings seeking to have the Company reverse the £2,500 set-off, with DDCM claiming that the Company was not entitled to exercise a set-off as DDCM had taken itself out of the Dawnay, Day group of companies through a management buy-out on July 11, 2008. During the quarter ended December 31, 2008, the Company settled the matter by retaining £500 (approximately $700) and paying the plaintiff £2,000 (approximately $2,900).

Class Action Suit

The Company and certain of the Company's executive officers and directors have been named as defendants in an action filed in the United States District Court for the Southern District of New York. This action, which purported to be brought as a class action on behalf of purchasers of MF Global stock between March 17, 2008 and June 20, 2008, sought to hold defendants liable under §§ 10 and 20 of the Securities Exchange Act of 1934 for alleged misrepresentations and omissions related to the Company's financial results and projections and capital structure. The Company filed a motion to dismiss which the court granted, with prejudice.

Voiran Trading Limited

On December 29, 2008, the Company received a letter before action from solicitors on behalf of Voiran Trading Limited ("Voiran"). The letter alleges that the Company's UK affiliate was grossly negligent in advice it gave to Voiran between April 2005 and April 2006 in relation to certain copper futures contracts and claims $37,600 in damages. This potential litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

Sentinel Bankruptcy

The Liquidation Trustee ("Trustee") for Sentinel Management Group, Inc. ("Sentinel") recently notified the Company that he believes that the Company's withdrawal of $50,122 within 90 days of the filing of Sentinel's bankruptcy petition on August 17, 2007 is a voidable preference under Section 547 of the Bankruptcy Code, and therefore recoverable by the Trustee, along with interest and costs. The Company believes there are substantial defenses available to it and it intends to resist the Trustee's attempt to recover those funds from the Company. In addition, to the extent the Trustee recovered any funds from the Company, it would be able to assert an offsetting claim in that amount against the assets available in Sentinel's bankruptcy case. The matter is in its early stages and no litigation has yet been commenced. No provision for losses has been recorded in connection with this claim.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Agape World

Investors in a venture set up by Nicholas Cosmo have sued Bank of America and the Company, among others, in the US District Court for the Eastern District of NY, alleging that the Company, among others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost $400,000. The litigation is in its earliest stages. The Company believes it has meritorious defenses, and intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Man Group Receivable

In late April 2009, the Company formally requested that Man Group (our largest shareholder and former parent company) make a payment of $29,779 that Man Group owes to the Company in connection with the recapitalization of its balance sheet at the time of the IPO in fiscal 2008. Man Group has recently demanded arbitration and the Company is exploring its options in that regard. As a result of this unresolved claim, the Company has reduced its shareholders' equity as reported at March 31, 2009 by $29,779 by recording a receivable from shareholder in shareholders' equity. If the Company prevails on its claim, the Company would expect to restore its shareholders' equity by the amount it receives from Man Group (if any), and if the Company is not successful it would expect to write off the receivable to additional paid in capital and not to increase its shareholders' equity. The reduction in shareholders' equity does not affect amounts reported in the Company's earnings, its income statement or its cash position for any prior period, and the Company does not expect the resolution of the claim, whether favorable to the Company or not, to affect its earnings or its income statement for the current or any future period, although any amounts the Company recovers would increase its cash position. This matter is in its very earliest stages and the Company intends to pursue this claim vigorously.

Morgan Fuel/Bottini Brothers

MF Global Inc. ("MFG") and MF Global Market Services LLC ("Market Services") are currently involved in litigation with a former customer of Market Services, Morgan Fuel & Heating Co., Inc. ("Morgan Fuel") and its principals, Anthony Bottini, Jr., Brian Bottini, and Mark Bottini (the "Bottinis"). The litigations arise out of trading losses incurred by Morgan Fuel in over-the-counter derivative swap transactions, which were unconditionally guaranteed by the Bottini principals.

- MF Global Market Services LLC v. Anthony Bottini, Jr., Brian Bottini and Mark Bottini, FINRA No. 08-03673. On October 6, 2008, Market Services commenced an arbitration against the Bottinis before the Financial Industry Regulatory Authority ("FINRA") to recover $8,300, which is the amount of the debt owed to Market Services by Morgan Fuel after the liquidation of the swap transactions. Each of the Bottinis executed a guaranty in favor of Market Services personally and unconditionally guaranteeing payment of the obligations of Morgan Fuel upon written demand by Market Services. Market Services asserted a claim of breach of contract based upon the Bottinis' failure to honor the guarantees.

- Morgan Fuel v. MFG and Market Services, FINRA No. 08-03879. On October 21, 2008, Morgan Fuel commenced a separate arbitration proceeding before FINRA against MFG and Market Services. Morgan Fuel claims that MFG and Market Services caused Morgan Fuel to incur approximately $14,200 in trading losses. Morgan Fuel seeks recovery of $5,900 in margin payments that it allegedly made to Market Services and a declaration that it has no responsibility to pay Market Services for the remaining $8,300 in trading losses. Morgan Fuel contends that MFG and Market Services should not have allowed Morgan Fuel to enter into, or maintain, the swap transactions. The Supreme Court of New York for the County of New York has temporarily stayed the arbitration commenced by Morgan Fuel on the ground that there is no agreement to arbitrate. The motion for a permanent stay is pending before the court.

- The Bottinis asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against MFG, Market Services and Steven Bellino (an MFG employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim also is pending before the Supreme Court. As a result of the motions, both of the arbitration proceedings have been temporarily stayed.

It is difficult at this stage to determine exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

Other

In addition to the matters discussed above, from time to time the Company is party to litigation and regulatory proceedings that arise in the ordinary course of its business. Aside from those matters discussed above, the Company does not believe that it is party to any pending or threatened litigation or regulatory proceedings that, individually or in the aggregate, would in the opinion of management have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Guarantees

FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. As of March 31, 2009 and 2008, the Company has guaranteed loans to certain individuals for their purchase of exchange seats. In these arrangements, the Company can sell the exchange seats to cover amounts outstanding. As of March 31, 2009 and 2008 the Company has not recorded a guarantee liability, as the fair value of the exchange seats exceeds any potential loss on these loans.

Additionally, in its normal course of business, the Company may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote. The Company is a member of various exchanges and clearing organizations. Under the standard membership agreement, members are required to guarantee collectively the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the Company believes that the potential for the Company to be required to make payments under these arrangements is remote, and accordingly, no liability has been recorded.

Other Commitments

Certain clearing-houses, clearing banks, and clearing firms used by the Company are given a security interest in certain assets of the Company held by those clearing organizations. These assets may be applied to satisfy the obligations of the Company to the respective clearing organizations. See Note 13 for further information.

Lines of Credit

The Company had a bridge facility in an aggregate principal amount of up to $1,400,000 and has a $1,500,000 five-year unsecured committed revolving liquidity facility. The Company has also entered into multiple 364-day revolving credit facilities through various banks on a committed, unsecured basis for a total amount of $275,000, under similar terms as the liquidity facility. As of March 31, 2009 and 2008, $0 and $96,000 were outstanding under these facilities, respectively. Additionally, one of the Company's subsidiaries had a local 364-day revolving credit facility for 55,000 Canadian Dollars, of which $0 and $30,304 was outstanding as of March 31, 2009 and 2008. See Note 9 for further information.

The Company also has other credit agreements with financial institutions, in the form of trading relationships, which facilitate execution, settlement, and clearing flow on a day to day basis for the Company's clients, as well as provide evidence, as required, of liquidity to the exchanges it conducts business on. As of March 31, 2009 and 2008, the Company had $22,000 and $95,000 of issued letters of credit, respectively.

Note 16: Segment and Geographic Information

The Company has one reportable business segment, as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS No. 131"). SFAS No. 131 requires a public enterprise to report financial information on a basis consistent with that used by management to allocate resources and assess performance. The Company is operated and managed by its chief operating decision maker on an integrated basis as a single operating segment.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Each region's contribution to the consolidated and combined amounts is as follows:

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Revenues, net of interest and transaction-based expenses:			
North America	$ 787,176	$ 718,638	$ 571,224
Europe	479,603	715,403	688,331
Rest of World	159,887	202,218	119,177
Total	$ 1,426,666	$ 1,636,259	$ 1,378,732
Long-lived assets:			
North America	$ 43,428	$ 34,779	$ 30,988
Europe	13,143	11,336	7,933
Rest of World	6,146	8,796	6,835
Total	$ 62,717	$ 54,911	$ 45,756

Revenues, net of interest and transaction-based expenses are attributed to geographic areas based on the location of the relevant legal entities. Rest of the world comprises primarily the Asia/Pacific region. No single customer accounted for greater than 10% of total revenues in the years ended March 31, 2009, 2008 and 2007. Revenues, net of interest and transaction-based expenses by product have not been provided as this information is impracticable to obtain.

Note 17: Related Party Transactions

Subsequent to the IPO, Man Group holds an investment of approximately 18.4% in the Company and as such is considered a related party for the period ending March 31, 2009.

The Company clears transactions on behalf of certain managed investment funds which are related parties to Man Group. The Company earned commission revenues by executing and clearing brokerage transactions for these investment funds as well as incurred net interest expense. The related party revenues, net of interest and transaction-based expenses, do not reflect the interest income earned from third parties in the reinvestment of related party fund balances by the Company.

Employee compensation and benefits consists of amounts allocated by Man Group for shared services, as well as expenses related to the various plans sponsored by Man Group, in which the Company's employees participated prior to July 18, 2007. Included in this, are expenses relating to stock-based compensation plans of $22,764, and $26,089 in the years ended March 31, 2008 and 2007, respectively. Expenses of $4,521, and $7,455 for the years ended March 31, 2008 and 2007, respectively, were charged related to benefit plans. There were no such charges in the year ended March 31, 2009.

The Company earns sublease income from Man Group for its use of certain office space. In addition to these arrangements, Man Group also charges lease expense to the Company for the use of office space.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Revenues earned from and expenses incurred with Man Group, including allocated expenses, for the years ended March 31, 2009, 2008, and 2007 are summarized as follows:

	YEAR ENDED MARCH 31,		
	2009	2008	2007
Revenues			
Cleared commissions	$ 14,648	$ 23,320	$ 37,120
Interest income	1,407	357	85
Total revenues	16,055	23,677	37,205
Less: Interest expense	21,811	58,118	67,043
Revenues, net of interest and transaction-based expenses	(5,756)	(34,441)	(29,838)
Expenses			
Employee compensation and benefits	1,147	29,475	54,129
Communications and technology	1,345	2,895	1,654
Occupancy and equipment costs	8,143	7,011	8,033
Professional fees	3,364	2,818	6,060
Depreciation and amortization	—	—	75
General and other	3,899	1,122	2,625
Total non-interest expenses	17,898	43,321	72,576
Interest on borrowings	—	5,353	14,852
Gains on exchange seats and shares	—	97,907	—
Total, net	$ (23,654)	$ 14,792	$ (117,266)

For the periods prior to the Reorganization and Separation, the combined financial statements include the Company's direct expenses as well as allocations of expenses arising from shared services and infrastructure provided by Man Group. These expenses are allocated to the Company using estimates that the Company considers to be a reasonable reflection of the utilization of services provided to or benefits received by the Company. The costs included in the combined financial statements were determined based on cost of the services to Man Group, the proportion of Man Group's services fully dedicated to the Company, as well as the Company's usage of such services. Services received by the Company include employee compensation and benefits, use of office facilities, and services provided related to overall corporate functions including tax, legal, regulatory capital, finance, internal audit, and executive management.

In connection with the IPO, the Company entered into several transitional services agreements with Man Group pursuant to which Man Group agreed to continue to provide the Company with administrative support for certain corporate functions, such as corporate-level coordination and support services related to the Company's regulatory capital activities, tax administration, corporate secretarial services and insurance management, for a limited transitional period. As of March 31, 2009, all such services had terminated with the exception of office services. The service agreement for office services will continue for as long as the Company leases office space from Man Group.

The Company also entered into a master separation agreement with Man Group that governs the principal terms of the separation of the Company's business from Man Group. The master separation agreement and other agreements contain important provisions regarding the Company's relationship with Man Group following the completion of the IPO, including provisions relating to non-competition and non-solicitation, access, and confidentiality. Further, Man Group has agreed to indemnify the Company against certain litigation and tax matters. During the year ended March 31, 2009, Man Group paid the Company $3,200 related to the tax indemnity agreement recognized in APIC. The Company also received $62,128 in insurance proceeds from Man Group related to the PAAF matter under the legal indemnity agreement.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

During the year ended March 31, 2007 the Company was allocated the following amounts by Man Group:

	YEAR ENDED March 31, 2007
Employee compensation and benefits	$ 20,585
Communications and technology	1,654
Occupancy and equipment costs	8,491
Professional fees	6,060
Depreciation and amortization	75
General and other	2,581
Interest on borrowings	4,549
Interest expense	2,384
	$ 46,379

These allocated expenses are included in the Company's audited consolidated and combined statements of operations, as noted in the table above.

As of March 31, 2009 and 2008, the Company held receivables balances with Man Group of $95 and $716, and payables balances of $1,602 and $12,921, respectively. The Company has noted that an additional payment of $29,779 is due to the Company from Man Group in connection with the recapitalization at the time of the IPO in fiscal 2008. The Company has made the request, Man Group has demanded arbitration, and the Company is exploring its options in that regard. As a result of this unresolved claim, the Company has reduced shareholders' equity as reported at March 31, 2009 by $29,779 by recording a receivable from shareholder in shareholders' equity. If the claim is successful, the Company would expect to restore shareholders' equity by the amount received from Man Group (if any), and if the claim is not successful would expect to write off the receivable to additional paid in capital and not to increase shareholders' equity. The reduction in shareholders' equity does not affect amounts reported in the Company's earnings, income statement or cash position for any prior period.

The Company had subordinated borrowings from Man Group during fiscal 2007 and 2008. For the years ended March 31, 2008, and 2007, interest expense incurred on subordinated borrowings was approximately $5,353, and $14,852, respectively.

Note 18: Employee Benefits

The Company operates and contributes to various defined benefit and defined contribution plans. The Company does not operate any material post-employment and post-retirement benefit plans. Where appropriate, the fund assets, liabilities and pension costs for the year have been assessed by independent actuaries. In connection with the Separation, the Company terminated its defined benefit plan (the "Domestic Plan") for its U.S. employees. For a select group of UK employees who had previously participated in a frozen Man Group pension plan, the Company created a new pension plan, that it sponsors, which will provide similar benefits as the Man Group pension plan. During the year ended March 31, 2008, Man Group transferred the value of assets equivalent to the defined benefits accumulated for these employees to the Company's new plan trust. This new plan is small and covers only 36 participants, therefore, the disclosures below focus on the Company's larger plans prior to the Separation.

The Domestic plan was frozen on August 31, 2006 and was terminated by December 31, 2006. Retirement benefits for the Domestic plan were derived from a formula, based on length of service and compensation. The Company used a measurement date of March 31 for this plan. The Company also sponsored a Supplemental Executive Retirement Plan, a defined benefit plan, for certain U.S. employees. This plan, which provided supplemental retirement benefits, was frozen on August 31, 2006, and terminated by March 31, 2007. For these plans, the Company subsequently settled the accumulated benefit obligation by purchasing non-participating annuity contracts and making payouts to the participants, who elected to have their benefits distributed in a single sum payment. The Company recorded curtailment and settlement expenses during the year end March 31, 2007 related to these plan terminations.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The following table provides a summary of the changes in the Company's pension plans' benefit obligations and the fair value of assets and a statement of the funded status of the plans as of March 31:

	YEAR ENDED MARCH 31, 2007
Change in projected benefit obligation	
Projected benefit obligation, beginning of year	$ 34,443
Service cost	1,063
Interest cost	1,657
Benefits paid	(897)
Plan amendments	11,068
Curtailments	(612)
Settlements	(50,922)
Actuarial losses	4,200
Projected benefit obligation, end of year	$ —
Change in fair value of plan assets	
Fair value of plan assets, beginning of year	$ 31,623
Actual return on plan assets	635
Employer contributions	19,561
Benefits paid	(897)
Settlements	(50,922)
Fair value of plan assets, end of year	$ —

The components of net periodic pension cost are set forth below:

	YEAR ENDED MARCH 31, 2007
Service cost	$ 1,063
Interest cost	1,657
Expected return on plan assets	(1,878)
Amortization of:	
Prior service cost	214
Unrecognized actuarial losses	314
Loss recognized due to Curtailments	13,984
Loss recognized due to Settlements	12,726
Net periodic cost	$ 28,080

The weighted-average assumptions used in determining the benefit obligations at March 31, 2007 are as follows:

	MARCH 31, 2007
Discount rate	5.75%
Rate of compensation increase	5.00%

The weighted-average assumptions used in determining the net periodic benefit cost for the year ended March 31, 2007 are as follows:

	MARCH 31, 2007
Discount rate	5.75%
Rate of compensation increase	5.00%
Expected return on plan assets	8.00%

The expected long-term rates of return on plan assets were determined as of the measurement date. The expected long-term rates of return were projected to be the rates of return to be earned over the period until the benefits are paid. Accordingly, the expected long-term rates of return reflected the rates of return on present investments, expected contributions to be received during the current year and on reinvestments over the period. The expected long-term rate of return on plan assets was based on what is achievable given the plan's investment policy and the types of assets held. The Company reviewed each plan and its historical returns and asset

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

allocations to determine the appropriate expected long-term rate of return on plan assets to be used. The projected benefit cash flows under the plan were discounted using the spot rates derived from the Citigroup Pension Discount Rate Curve as of the measurement date and an equivalent single discount rate was derived resulting in the same liability.

The Company's investment objectives in managing its defined benefit plan assets were to ensure that present and future benefit obligations to all participants and beneficiaries were met as they become due; to provide a total return that, over the long term, minimizes the present value of required company contributions, at the appropriate levels of risk; and to meet any statutory requirements, laws and local regulatory agencies' requirements. Key investment management decisions reviewed regularly were asset allocations, investment manager performance, investment advisors and trustees or custodians.

The Company's investment allocations as of March 31, 2007 and future expected contributions were not applicable, as the plan terminations were complete as of March 31, 2007.

The Company also sponsors a defined contribution plan for its U.S. employees, the MF Global Holdings, USA Inc. Employees' Savings and Investment Plan, whereby the Company contributes 50% of a participant's contribution per year, subject to certain maximum thresholds, as defined by the plan. These contributions were $3,682, $3,993, and $5,896, for the years ending March 31, 2009, 2008 and 2007, respectively.

The Company's non-U.S. employees are covered by non-U.S. defined contribution, savings, and benefit plans. Employer contributions to these plans are determined based on criteria specific to the individual plans. The largest of these non-U.S. plans are a defined benefit plan and defined contribution plan sponsored by the Company. For the years ended March 31, 2009, 2008 and 2007 the Company's contributions to the defined benefit and defined contribution plans sponsored by Man Group were $113, $4,621, and $7,455, respectively. The Company's contributions to the Company's other non-U.S. savings and defined benefit plans were $11,954, $7,949, and $3,079 for the years ending March 31, 2009, 2008 and 2007, respectively.

Note 19: Acquisition of Refco

On November 25, 2005, the Company acquired the customer accounts, balances, certain other assets and subsidiaries of Refco for $304,864. Refco and its subsidiaries provided execution and clearing services for exchange-traded derivatives and prime brokerage services in the fixed income and foreign exchange markets. Refco's parent company went into liquidation, and the Company purchased most of the Refco assets from these bankruptcy proceedings to expand its brokerage services and gain certain customer relationships. The Company's acquisition comprised primarily all of the employees and client accounts of Refco's regulated futures brokerage. The acquisition included the customer accounts, balances and certain other assets in the U.S., Singapore, Canada, and India and was accounted for as a business combination in accordance with SFAS No. 141, *Business Combinations* ("SFAS No. 141"). The Company acquired a significant amount of these assets in transactions involving a purchase of assets, while a small portion was obtained through the acquisition of stock in small non-U.S. entities.

The rights to the European operations of Refco were immediately assigned to Marathon Asset Management. The assets of Refco's Singapore business were acquired on December 6, 2005 and Refco's 20% shareholding in the Taiwanese operation Polaris Refco Futures on February 6, 2006. Refco's legal entities in Canada (100%) and India (70%) were acquired on January 31, 2006 and February 28, 2006, respectively. The results of the acquired Refco assets and entities have been included in the combined financial statements from their respective acquisition dates.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The assets and liabilities acquired were as follows:

Total purchase price paid	$ 304,864
Assets acquired	
Cash and cash equivalents	7,296
Restricted cash	74,026
Securities owned, at fair value	18,350
Due form brokers, dealers and clearing organizations	53,991
Due from customers, net	10,858
Other receivables	867
Memberships in exchanges	97,897
Furniture, equipment and leasehold improvements, net	10,688
Intangible assets subject to amortization	179,600
Investment in Polaris	9,700
Other assets	8,709
Total assets acquired	471,982
Liabilities assumed	
Due to customers	115,197
Employee termination liabilities	12,653
Deferred income taxes	11,167
Accrued expenses and other liabilities	21,465
Long-term borrowings	3,580
Total liabilities assumed	164,062
Noncontrolling interest	5,061
Fair value of net assets acquired	302,859
Goodwill resulting from acquisition	$ 2,005

The application of purchase accounting under SFAS No. 141 requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values being recorded as goodwill. The Company paid a premium (i.e. goodwill) over the fair value of net tangible and identified intangible assets acquired of $2,005, of which none is expected to be deductible for tax purposes. The following table provides a summary of amounts assigned to intangible assets:

	Amount Assigned
ntangible asset subject to amortization:	
Customer relationships	$ 161,700
Technology assets	16,700
Trade names	1,200
Total of intangible assets subject to amortization	$ 179,600

The customer relationships, technology assets, and trade names are being amortized on a straight-line basis over an amortization period of 10, 5, and 14 years, respectively. Amortization aggregating $6,532 was recorded for the period from the acquisition date through March 31, 2006. The weighted average useful life of the intangible assets is approximately 9.6 years.

All intangible assets, which were independently valued, were recognized at their respective fair values. Customer relationships were the principal source of value in the acquired Refco business. The methodology used for estimating the fair value of customer relationships was based on incorporating the residual profit, or excess earnings method. The valuation of the customer relationships was calculated using a discount rate equivalent to the implied internal rate of return derived from management's cash flow projections and the total fair value of the Refco acquired businesses under the market approach. Refco's internally developed technology assets were valued using the replacement cost approach. The royalty savings approach was applied in valuing the trade name. The Company also acquired a 20% interest in Polaris Refco Futures, a publicly traded company on the Taiwan OTC Exchange. The Company finalized its allocation of the purchase price to the assets acquired during the year ended March 31, 2007, as allowed by SFAS No. 141.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

As a result of the circumstances leading to the bankruptcy of Refco, the accounting records of the business were incomplete. It was therefore not practical to assess the significance of or meaningful to disclose the financial results of Refco as if the acquisition had taken place at the beginning of the year ending March 31, 2006 or for the year ending March 31, 2005.

In connection with the acquisition of Refco, Man Group recorded total integration costs of $79,422 of which $12,654 qualified as exits costs in accordance with EITF No. 95-3, *"Recognition of Liabilities in Connection with a Purchase Business Combination"* ("EITF No. 95-3"), in the year ending March 31, 2006. These charges, consisting of employee termination expenses, were initiated to integrate the acquisition and reduce the overall cost structure, and have been accounted for as part of the purchase price allocation. During the year ending March 31, 2007, the Company paid $5,493 of these exit costs and the liability remaining at March 31, 2007 was $0. During the year ending March 31, 2006, the Company paid $7,161 of these exit costs and the liability remaining at March 31, 2006 was $5,493.

The Company incurred other Refco integration costs related to retention of $727, $2,709, and $19,382 in the years ended March 31, 2009, 2008 and 2007, respectively.

Note 20: Convertible Preference Shares

Non-cumulative Convertible Preference Shares, Series B

On June 25, 2008, the Company completed the issuance and sale of $150,000 in aggregate liquidation preference of its 9.75% Non-Cumulative Convertible Preference Shares, Series B (the "Series B Preference Shares"). The Company pays dividends on the Series B Preference Shares, when, as and if declared by its board of directors, quarterly in arrears at a rate of 9.75% per year, payable on February 15, May 15, August 15 and November 15, commencing on August 15, 2008. Dividends on the Series B Preference Shares are not cumulative and may be paid in cash, common shares or both.

The Series B Preference Shares are convertible, at the holder's option, at any time, initially into 9.5694 Common Shares based on an initial conversion price of approximately $10.45 per share, subject to specified adjustments. The conversion rate will also be adjusted upon the occurrence of certain make-whole acquisition transactions and other events. On or after July 1, 2018, if the closing price of the Company's common shares exceeds 250% of the then-prevailing conversion price for 20 trading days during any consecutive 30 trading day period, the Company may, at its option, cause the Series B Preference Shares to be automatically converted into common shares at the then-prevailing conversion price. There is no beneficial conversion feature to be recognized at the issuance date of the Series B Preference Shares, however, given certain conditions, primarily the issuance of common shares by the Company, a beneficial conversion feature could be recognized in the future.

The Series B Preference Shares rank junior to the Company's indebtedness and senior to the Common Shares. Upon liquidation of the Company, holders of Series B Preference Shares are entitled to receive a liquidation amount of $100 per share plus declared dividends prior to any distribution to holders of Common Shares. The Company used the net proceeds from the sale of the Series B Preference Shares to repay a portion of the Company's bridge facility.

Cumulative Convertible Preference Shares, Series A

On July 18, 2008, the Company completed the issuance and sale of $150,000 in aggregate liquidation preference of its Cumulative Convertible Preference Shares, Series A (the "Series A Preference Shares") to J.C. Flowers II L.P. ("J.C. Flowers"). The Company used the net proceeds from the sale of the Series A Preference Shares to repay a portion of the Company's bridge facility pursuant to its capital plan. Pursuant to certain previously disclosed adjustment provisions of its Investment Agreement with J.C. Flowers and as a result of its completed private offerings of Series B Preference Shares and Convertible Notes, the Company paid J.C. Flowers approximately $36,300 in cash and reset the annual dividend rate on the Series A Preference Shares, from 6.0% to 10.725%. Shares are subject to additional resets if the Company issues any equity security, as defined in the agreement. The Company also paid J.C. Flowers its $4,500 fee in cash in connection with the backstop facility provided by J.C. Flowers under the Investment Agreement. The Series A Preference Shares rank senior to the Company's common shares with respect to dividend rights and rights upon liquidation of the Company.

Under the terms of the Investment Agreement, J.C. Flowers agreed to purchase a minimum of 1,500 shares, for an aggregate value of $150,000 and up to a maximum of 3,000 shares, for an aggregate value of $300,000, of a newly authorized series of the Company's convertible preference shares, designated as 6.0% Cumulative Convertible Series A Preference Shares at a stated offer

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

price which was 100% of their liquidation amount or preference, i.e. $100 per share. The Series A Preference Shares are convertible any time, at the option of the holder, into eight of the Company's common shares, representing an initial conversion price of $12.50 per share.

Subject to certain exceptions, none of the Series A Preference Shares sold to J.C. Flowers may be transferred for a period of 12 months after closing and J.C. Flowers may not beneficially own 20% or more of the Company's outstanding common shares for a period of three years after the closing. Immediately prior to signing the definitive agreement with J.C. Flowers, the Company also amended its shareholder rights plan to exclude J.C. Flowers (including any affiliate of J.C. Flowers), after the first time it becomes the beneficial owner of 15% or more of the Company's common shares, and until such time as either it falls below the threshold or becomes the owner of 20% or more of the Company's common shares, from the provision that triggers the shareholder rights plan when any person acquires 15% or more of the Company's issued and outstanding common shares without approval of its board of directors.

The conversion rate and the conversion price are subject to adjustments in certain circumstances, primarily the issuance of common shares by the Company. Dividends on the Series A Preference Shares are cumulative at the rate of 10.725% per annum, payable in cash or common shares, at the Company's option, and holders will participate in common share dividends, based upon the stock into which the Series A Preference shares are convertible, if any. Dividends are payable if, as and when determined by the Company's board of directors, but if not paid they accumulate and dividends accrue on the arrearage at the same annual rate. Accumulated dividends on the Series A Preference Shares become payable in full upon any conversion or any liquidation of the Company. The Company will not be permitted to pay any dividends on or to repurchase its common shares during any period when dividends on the Series A Preference Shares are in arrears. Holders will have the right to vote with holders of the common shares on an "as-converted" basis. The Company may require the holders to convert the shares at any time after May 15, 2013 when the closing price of the common shares exceeds 125% of the conversion price for a specified period. If, prior to the first anniversary of the closing of the backstop commitment, the Company sells common shares or securities convertible into or exercisable for common shares at a price less than the conversion price on the Series A Preference Shares, the Company will pay J.C. Flowers a make-whole amount reflecting the difference in pricing, payable at its option in cash or common shares. In addition, if, prior to the first anniversary of the closing of the backstop commitment (or in any offering required under any future bank financings), the Company sells any other series of preference shares with a dividend rate above 5.45%, the dividend rate on the Series A Preference Shares held by J.C. Flowers will be increased so as to equal 110% of the other series' dividend rate, with the increase to be payable at the Company's option in cash or common shares. In connection with the investment, J.C. Flowers was granted the right to appoint up to two directors to the Company's Board of Directors. Pursuant to this right, on July 29, 2008, the Company appointed David I. Schamis to its board. In addition, if the Company fails to pay dividends on the Series A Preference Shares for six quarterly periods, whether or not consecutive, the Series A preference shareholders will have the right as a class to elect two additional directors to the Company's board.

On July 29, 2008, the Company's Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares in the aggregate amount of $1,207 and $2,031, respectively. These dividends had a record date of August 5, 2008 and were paid on August 15, 2008. On October 28, 2008 and January 30, 2009, the Company's Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares in the aggregate amount of $4,022 and $3,656, respectively. These dividends had a record date of November 1, 2008 and February 5, 2009 and were paid on November 17, 2008 and February 17, 2009, respectively. See also Note 23, Subsequent Events.

Note 21: Fair Value Measurements and Derivative Activity

Fair Value

The Company adopted the provisions of SFAS No. 157 on April 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company has applied SFAS No. 157 to all financial instruments that are required to be reported at fair value.

In accordance with FSP FAS 157-2, the Company elected to defer application of SFAS No. 157 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis until April 1, 2009.

SFAS No. 157 nullifies select guidance provided by EITF Issue No. 02-3, which prohibited the recognition of trading gains or losses at the inception of a derivative contract, unless the fair value of such derivative is obtained from a quoted market price, or other valuation technique that incorporates observable market data. There was no impact in adopting the provisions of SFAS No. 157, on April 1, 2008.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

SFAS No. 157 also requires the Company to consider its own credit spreads when measuring the fair value of liabilities, including OTC derivative contracts. The Company has considered the impact of counterparty credit risk in the valuation of its assets and its own credit spreads when measuring the fair value of liabilities, including derivatives.

Securities owned, Securities sold, not yet purchased and Derivative transactions are carried at fair value and are classified and disclosed in the following categories:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Level 1 consists of financial instruments whose fair values are estimated using quoted market prices. Included in Level 1 are exchange traded equities and U.S. government securities as well as futures and options traded on exchanges.

Level 2 – Quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term. Included in Level 2 are those financial instruments for which fair values are estimated using models or other valuation methodologies. These models are primarily industry-standard models that consider various observable inputs, including time value, yield curve, volatility factors, observable current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Financial instruments in this category include fixed income instruments including floating rate notes, federal agency securities, corporate debt and certificates of deposit, as well as over the counter forwards, swaps, and options.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity). Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are not readily observable from objective sources. Financial instruments that fall within Level 3 are shares held due to the demutualization of exchanges.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A market is active if there are sufficient transactions on an ongoing basis to provide current pricing information for the asset or liability, pricing information is released publicly, and price quotations do not vary substantially either over time or among market makers. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

In determining the appropriate fair value hierarchy levels, the Company performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

The following table summarizes the Company's financial assets and liabilities as of March 31, 2009, by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total as of March 31, 2009
Assets					
Securities owned					
U.S. government securities and federal agency obligations	$ 2,131,812	$ 4,033,860	$ —	$ —	$ 6,165,672
Corporate debt securities	—	224,958	—	—	224,958
Foreign government bonds	7,953	—	—	—	7,953
Equities	153,538	—	—	—	153,538
Shares held due to demutualization of exchanges	—	—	14,367	—	14,367
Other	3,743	5,918	—	—	9,661
Total securities owned (4)	$ 2,297,046	$ 4,264,736	$ 14,367	$ —	$ 6,576,149
Derivative Assets					
Futures transactions	$ 3,888,513	$ —	$ —	$ (2,475,932)	$ 1,412,581
Foreign currency and other OTC derivative transactions	112,274	3,818,546	—	(3,828,839)	101,981
Total derivative assets (2)	4,000,787	3,818,546	—	(6,304,771)	1,514,562
Total assets at fair value	**$ 6,297,833**	**$ 8,083,282**	**$ 14,367**	**$ (6,304,771)**	**$ 8,090,711**
Liabilities					
Securities sold, not yet purchased					
U.S. government securities and federal agency obligations	$ 1,535,795	$ 1,221,577	$ —	$ —	$ 2,757,372
Equities	124,209	—	—	—	124,209
Other	2,276	734	—	—	3,010
Total securities sold, not yet purchased	$ 1,662,280	$ 1,222,311	$ —	$ —	$ 2,884,591
Derivative liabilities					
Futures transactions	$ 3,913,972	$ —	$ —	$ (525,921)	$ 3,388,051
Foreign currency and other OTC derivative transactions	132,067	3,900,869	—	(3,388,355)	644,581
Total derivative liabilities (3)	4,046,039	3,900,869	—	(3,914,276)	4,032,632
Total liabilities at fair value	**$ 5,708,319**	**$ 5,123,180**	**$ —**	**$ (3,914,276)**	**$ 6,917,223**

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

(2) Reflects derivative assets within Receivables from Customers and Receivables from Brokers, Dealers, and Clearing Organizations. Excludes $1,374,311 within Receivables from Customers and Receivables from Brokers, Dealers, and Clearing Organizations which are accounted for at other than fair value. Excludes $4,964 which is recorded in Securities Owned.

(3) Reflects derivative liabilities within Payables to Customers and Payables to Brokers, Dealers, and Clearing Organizations. Excludes $8,811,137 within Payables to Customers and Payables to Brokers, Dealers, and Clearing Organizations which are accounted for at other than fair value. Excludes $3,009 which is recorded in Securities Sold, Not Yet Purchased.

(4) Includes $2,970,240 of Securities owned which are held in segregation. These securities have been classified within Restricted Cash and Segregated Securities in the Consolidated Balance Sheet.

Changes in unrealized gains and losses relating to assets or liabilities still held at the end of the period are reported in Principal transactions revenues in the consolidated and combined statements of operations. The risks or volatility associated with the transactions that make up this amount are often offset or reduced by certain hedging strategies associated with products with a higher Level (either Level 1 or 2). The Company generally maintains a matched book, which means positions with one counterparty are generally offset with opposite transactions with other dealers or counterparties. These hedging transactions and the associated underlying financial instruments are often classified in different levels in the fair value hierarchy.

The table below provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3). The table reflects gains and losses during the period for all financial assets and liabilities categorized as Level 3 as of the year ended March 31, 2009. The net unrealized gain reflected in Level 3 should be considered in the context of the factors discussed below.

- A derivative contract with Level 1 and/or Level 2 inputs is classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.
- If there is one significant Level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., Level 1 and Level 2) is still classified as Level 3.
- Gains or losses that have been reported in Level 3 resulting from changes in Level 1 or Level 2 inputs are frequently offset by gains or losses attributable to instruments classified in Level 1 or Level 2 or by cash instruments reported in Level 3 of the fair value hierarchy.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Year ended March 31, 2009
Balance as of April 1, 2008	$ (42,543)
Total realized and unrealized gains and (losses)	(1,748)
Purchases, sales, issuances and settlements, net	62,255
Transfers in and (out) of Level 3	(3,597)
Balance as of March 31, 2009	$ 14,367

The balance at March 31, 2009 is comprised of shares held due to the demutualization of exchanges. Total realized and unrealized gains or losses represent the total gains and losses recorded for the Level 3 assets and liabilities and are reported in Principal transactions in the audited consolidated and combined statements of operations. Purchases, sales and settlements represent Level 3 assets and liabilities that were either purchased, sold or settled during the period. Changes in the fair value hierarchy for a specific financial asset or financial liability may result in transfers in the hierarchy level.

The fair value of long-term borrowings at March 31, 2009 was $824,400. The Company did not have long-term borrowings at March 31, 2008. The fair value of long-term debt was determined by reference to the March 31, 2009 market values of comparably rated debt instruments.

Derivative Activity

The Company provides trade execution and clearing services for exchange-traded and over-the-counter derivative products. In connection with these trading activities, the Company may use derivative instruments to facilitate client transactions on a matched-principal basis. The Company may enter into derivative transactions generally in response to or in anticipation of client demand, primarily to facilitate the execution of existing client orders or in the expectation that future client orders will become available to fill the other side of the transaction. The Company may enter into derivatives or other financial instruments to generally offset the exposure from client transactions. The Company may also use derivative instruments to hedge its own corporate exposure to changes in foreign currency and interest rate risks and to manage its liquid corporate assets. The Company currently does not apply hedge accounting to its derivative activities, as defined by SFAS No. 133.

The Company recognizes all of its derivative contracts as either assets or liabilities in the consolidated balance sheets at fair value, which is reflected net of cash paid or received pursuant to credit support arrangements with counterparties and reported on a net-by-counterparty basis under legally enforceable netting agreements. These derivative assets and liabilities are included in Receivables from and Payables to customers, Receivables from and Payables to broker dealers and clearing organizations, Securities owned and Securities sold, not yet purchased. Changes in the fair value of all derivative instruments are recognized in Principal transactions in the audited consolidated and combined statements of operations.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

The following table summarizes the fair value of the Company's derivative contracts by major type on a gross basis as of March 31, 2009.

	MARCH 31, 2009		
	Derivative Assets (1)	Derivative Liabilities (2)	Number of Contracts (3)
	(in thousands, except number of contracts)		
Derivative contracts for trading activities			
Interest rate	$ 552	$ 783	405,875
Foreign exchange rate	470,797	500,923	2,751,635
Equity	41,188	94,978	416,101,028
Commodity	7,311,760	7,353,233	822,458
Total fair value of derivative contracts for trading activities	$ 7,824,297	$ 7,949,917	
Impact of netting and collateral	6,304,771	3,914,276	
Total fair value	$ 1,519,526	$ 4,035,641	

(1) Reflects derivative assets within Securities Owned, Receivables from Customers and Receivables from Broker, Dealers and Clearing Organizations. Excludes non-derivatives included in Securities Owned and Receivables from Customers and Receivables from Broker, Dealers, and Clearing Organizations.

(2) Reflects derivative liabilities within Securities Sold, not yet Purchased, Payables to Customers and Payable to Broker, Dealers and Clearing Organizations. Excludes non-derivative Securities Sold, not yet Purchased and Payables to Customers and Payables to Broker, Dealers, and Clearing Organizations which are accounted for at other than fair value.

(3) Contract equivalent is determined using industry standards and equivalent contracts in the futures market. OTC contract equivalents are determined by dividing OTC notionals by associated contract notionals. For minor currencies for which no futures contracts are traded, contract equivalents are determined to be equal to the USD notional divided by $1000, which is consistent with other minor currency futures contracts.

The Company's volumes of exchange traded futures and options executed and/ or cleared, where the unrealized gain or loss is settled daily, and there is no receivable or payable associated with the contract, was 1,830,244,823 contracts for fiscal 2009. These contracts are primarily cleared through commodity clearing corporations.

The table below summarizes the gains or losses relating to the Company's trading activities as reported in Principal transactions in the audited consolidated statements of operations for the quarter ended March 31, 2009.

Type of Instrument	Three Months ended March 31, 2009
Fixed Income	$ 1,440
Interest rate	(4,605)
Foreign exchange	20,339
Equity	7,193
Commodity	18,868
Other	2,073
Total	$ 45,308

Certain of the Company's derivative trading agreements contain provisions requiring the Company to post collateral according to the Company's long-term credit ratings. These terms are pursuant to bilateral agreements with certain counterparties, and could require immediate payment or ongoing overnight collateralization on derivative instruments in net liability positions. As of March 31, 2009, the aggregate fair value of derivative agreements with credit-risk-related contingent features that were in a net liability position was $79,292, for which the Company has posted collateral of $37,809 in the normal course of business. If the Company's long term credit rating had a one-notch or two-notch reduction as of March 31, 2009, the amount of additional collateral that could be called by counterparties for these derivative agreements would be approximately $39,281 or $42,985, respectively.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Note 22: Selected Quarterly Financial Data (Unaudited)

	THREE MONTHS ENDED								YEARS ENDED MARCH 31,	
	JUNE 30,		SEPTEMBER 30,		DECEMBER 31,		MARCH 31,			
	2007	2008	2007	2008	2007	2008	2008	2009	2008	2009
	(in thousands, except per share data)									
Revenues, net of interest and transaction-based expenses:										
	$ 374,403	$ 374,654	$ 435,504	$ 372,888	$ 418,438	$ 422,021	$ 407,914	$ 257,103	$ 1,636,259	$ 1,426,666
Net (loss)/income attributable to MF Global Ltd:										
	72,897	14,391	(90,592)	9,411	31,218	38,730	(83,065)	(111,590)	(69,542)	(49,058)
Basic (loss)/ earnings per share:										
	$ 0.70	$ 0.12	$ (0.78)	$ 0.03	$ 0.26	$ 0.23	$ (0.69)	$ (0.98)	$ (0.60)	$ (0.58)

Note 23: Subsequent Events

On April 28, 2009, the Company's Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares in an aggregate amount of $4,022 and $3,656, respectively. These dividends had a record date of May 1, 2009 and payment date of May 15, 2009.

On April 16, 2009, the Company paid the remaining outstanding balance of $240,000 on the Two-Year Term Facility ahead of its maturity date of July 2010, terminating all remaining obligations under the Two-Year Term Facility.

On May 6, 2009 a High Court Judge in the U.K. ruled that MF Global UK Ltd. was vicariously liable to pay damages and claimants' costs to Parabola Investments Limited and Aria Investments Limited. The Company will seek to appeal the decision. As a result of the ruling, the Company recorded litigation expense of $8,027 in its audited consolidated statement of operations during the fourth quarter of 2009, which is net of expected insurance proceeds.

Note 24: Retrospective adoption of SFAS 160 and FSP APB 14-1

On April 1, 2009, the Company adopted SFAS No. 160 and FSP APB 14-1 and accordingly adjusted its previously issued financial statements as of and for the years ended March 31, 2009, 2008 and 2007.

SFAS No. 160 changes the accounting for noncontrolling interests (previously referred to as minority interests). The Company's adoption of this standard resulted in the reclassification of $12.8 million previously classified as minority interests in consolidated subsidiaries to noncontrolling interests at March 31, 2009, which is now presented as a separate component of equity on the Company's consolidated balance sheet. In addition, SFAS No. 160 has changed the presentation of noncontrolling interests within the Company's consolidated and combined statements of operations, and now requires that net (loss)/income attributable to noncontrolling interests be shown separately from net (loss)/income attributable to MF Global Ltd. Lastly, all previous references to minority interests' have been changed to "noncontrolling" interests in the financial statements.

FSP APB 14-1 requires issuers of certain convertible debt instruments that may be settled wholly or partially in cash upon conversion or settlement to separately account for the liability (debt) and equity (conversion option) components of such instruments in a manner that reflects the issuers' nonconvertible debt borrowing rate. The Company's adoption of FSP APB 14-1 impacts the historical accounting for the Company's 9% Convertible Notes and for the year ended March 31, 2009 resulted in the recognition of additional interest on borrowings of approximately $0.8 million and an additional gain of $0.4 million on the extinguishment of debt related to the Company's cash tender offer for its Convertible Notes. As a result, for the year-ended March 31, 2009, the retroactive application of FSP APB 14-1 increased Net Loss by $0.4 million and increased basic and diluted loss per share by $0.01 per share.

Additionally, the impact of the adjustments on the Company's consolidated and combined statements of cash flows for the years ended March 31, 2009, 2008 and 2007, was immaterial.

Source: MF Global Holdings Ltd., 8-K, August 07, 2009 Powered by Morningstar® Document Research℠

The retrospective adoption of FSP APB 14–1 has the following effect on the Company's consolidated statement of operations:

	For the Year Ended March 31, 2009		
	As previously reported	As adjusted	Effect of Change
Other revenue	$ 112,095	$ 112,449	$ 354
Interest on borrowings	67,824	68,626	802
Income before provision for income taxes	10,397	9,949	(448)
Net (loss)/income attributable to MF Global Ltd.	$ (48,610)	$ (49,058)	$ (448)
Basic loss per share	$ (0.57)	$ (0.58)	$ (0.01)
Diluted loss per share	$ (0.57)	$ (0.58)	$ (0.01)

The retrospective adoption of these two standards has the following effect on the Company's consolidated balance sheets:

	March 31, 2009			March 31, 2008		
	As previously reported	As adjusted	Effect of Change	As previously reported	As adjusted	Effect of Change
Other assets	$ 192,361	$ 191,359	$ (1,002)	N/A	N/A	N/A
Total Assets	38,836,637	38,835,635	(1,002)	N/A	N/A	N/A
Long-term borrowings	945,000	938,007	(6,993)	N/A	N/A	N/A
Total Liabilities	37,394,869	37,387,876	(6,993)	N/A	N/A	N/A
Additional paid-in capital	1,329,010	1,335,449	6,439	N/A	N/A	N/A
Accumulated deficit	(191,049)	(191,497)	(448)	N/A	N/A	N/A
Total Shareholders' Equity	$ 1,204,793	$ 1,223,557	$ 18,764	$ 1,249,025	$ 1,259,855	$ 10,830

Created by Morningstar® Document Research℠
http://documentresearch.morningstar.com

Source: MF Global Holdings Ltd., 8-K, August 07, 2009

Powered by Morningstar® Document Research℠

Appendix 7.A

MF Global Inc.

Statement of Financial Condition
March 31, 2008

Available for Public Inspection

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	February 28, 2010
Estimated average burden hours per response.....	12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8- 18104

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 4/1/2007 (MM/DD/YY) AND ENDING 3/31/2008 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: MF Global Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

440 South LaSalle Street, 20th Floor
(No. and Street)

Chicago	Illinois	60605
(City)	(State)	(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Jim Marino 312-261-7102
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP
(Name – *if individual, state last, first, middle name*)

One North Wacker Drive, 14th Floor	Chicago	Illinois	60606
(Address)	(City)	(State)	(Zip Code)

CHECK ONE:

- [X] Certified Public Accountant
- [ ] Public Accountant
- [ ] Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

**Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)*

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, F. Kemper Cagney, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MF Global Inc., as of March 31, 20 08, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

signature

Chief Financial Officer
Title

signature

Notary Public

OFFICIAL SEAL
JOAN P. ACKERMAN
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 3-6-2010

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

MF Global Inc.
Index
March 31, 2008

	Page(s)
Report of Independent Auditors	1
Statement of Financial Condition	2
Notes to Statement of Financial Condition	3-15

Report of Independent Auditors

To the Board of Directors and Stockholder of
MF Global Inc.:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of MF Global Inc. (the "Company") at March 31, 2008 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

signature

May 29, 2008

MF Global Inc.
Statement of Financial Condition
March 31, 2008

Assets	
Cash and cash equivalents	$ 358,080,300
Cash and securities segregated under Federal and other regulations	3,081,978,000
Securities purchased under agreements to resell	8,469,334,700
Securities borrowed	2,974,549,400
Securities owned, at fair value	3,580,746,800
Receivables - brokers, dealers and clearing organizations (net of allowance of $1,078,500)	1,989,826,000
Receivables - customers and non-customers (net of allowance of $2,269,300)	2,080,492,200
Receivables - affiliates, net	120,392,500
Other receivables	8,419,300
Memberships in exchanges, at cost (market value $36,033,400)	8,441,200
Furniture, equipment and leasehold improvements (net of accumulated depreciation and amortization of $11,747,100)	19,583,900
Intangible assets (net of accumulated amortization of $47,538,500)	132,027,600
Deferred tax assets, net	32,509,100
Other assets	58,765,000
Total assets	$ 22,915,146,000
Liabilities and Stockholder's Equity	
Liabilities	
Securities sold under agreements to repurchase	$ 7,550,805,600
Securities loaned	379,722,700
Securities sold, not yet purchased, at fair value	780,089,400
Payables - brokers, dealers and clearing organizations	4,157,599,000
Payables - customers and non-customers	8,478,898,700
Payables - affiliates, net	293,112,600
Accrued expenses and other liabilities	115,110,200
Total liabilities	21,755,338,200
Commitments and contingent liabilities (Note 16)	-
Subordinated borrowings	756,000,000
Stockholder's equity	403,807,800
Total liabilities and stockholder's equity	$ 22,915,146,000

The accompanying notes are an integral part of this financial statement.

1. Organization

MF Global Inc. (the "Company" or "MFGI"), a Delaware corporation, is a wholly owned subsidiary of MFG USA Inc. (the "Parent"), an Illinois corporation, which is 100% owned by MF Global Holdings USA Inc. ("Holdings"), a Delaware corporation. The ultimate parent is MF Global Ltd. ("MFG Ltd"), a Bermuda corporation.

The Company was an indirect, wholly owned subsidiary of Man Group plc. In July 2007, Man Group plc separated its brokerage business, Man Financial, from its asset management business and completed an initial public offering ("IPO") of the common shares of Man Financial on the New York Stock Exchange on July 19, 2007. In conjunction with this event, Man Financial changed its name to MF Global Ltd.

As of the close of business on December 31, 2007, MFGI (formerly known as Man Financial Inc) dividended its ownership interest in MF Global Securities Inc. (formerly known as Man Securities Inc), a wholly owned-subsidiary, ("MFGSI") to the Parent. Simultaneously, MFGI and MFGSI merged, with MFGSI being the surviving legal entity, and MFGSI's name was changed to MF Global Inc. This transaction was accounted for as a pooling of interests in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141").

MFGI is registered with the Securities and Exchange Commission ("SEC") as a securities broker-dealer and is a member of the Financial Industry Regulatory Authority ("FINRA") and the Chicago Board Options Exchange ("CBOE").

MFGI is also registered with the Commodity Futures Trading Commission ("CFTC") as a futures commission merchant and is a member of the National Futures Association, an industry self-regulatory agency. MFGI is also a member of the Chicago Mercantile Exchange, Chicago Board of Trade, New York Mercantile Exchange, Intercontinental Exchange, Kansas City Board of Trade, Minneapolis Grain Exchange, Philadelphia Board of Trade and Fixed Income Clearing Corporation ("FICC").

The Company provides brokerage services to customers and affiliates on United States securities and futures exchanges and on overseas exchanges through affiliates or independent correspondent clearing brokers. The Company is also engaged in proprietary trading in U.S. government securities, as well as stock borrow, stock loan, repurchase and resale transactions.

2. Significant Accounting Policies

Use of Estimates

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results may differ from those estimates.

Fair Value of Financial Instruments

Fair value for securities owned and securities sold, not yet purchased, is estimated using external market quotations. Management estimates that the aggregate value of other financial instruments recognized on the statement of financial condition (including receivables, payables, accrued

expenses, securities borrowed, securities loaned, securities purchased under agreements to resell, securities sold under agreements to repurchase and subordinated borrowings) approximates their fair value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Revenue Recognition
Customer securities transactions are recognized on settlement date. Related commissions revenue and associated direct costs are recognized on trade date.

Proprietary securities transactions and the related profit and loss are recorded on a trade date basis.

Interest income related to repurchase agreements, securities lending and collateralized financing arrangements is recognized on an accrual basis.

Stock-Based Incentive Compensation
The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), "Share-Based Payments" ("SFAS 123R"), requiring the costs of all employee share-based payments be measured at fair value on the award's grant date and be recognized over the requisite service period.

Income Taxes
The Company is included in the consolidated federal and state income tax returns of Holdings. Federal and state income taxes are determined on a separate return basis pursuant to a tax sharing agreement between the Company and Holdings. The Company accounts for income taxes under the liability method. Under this method, deferred taxes are provided for differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when these differences are expected to reverse.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase
Transactions involving purchases of securities under agreements to resell ("resale agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are accounted for as collateralized financings. Transactions cleared through FICC and certain non-FICC resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements" ("FIN 41") and FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts" ("FIN 39").

From time to time, the Company enters into securities financing transactions which mature on the same date as the underlying collateral's stated maturity. The Company accounts for these transactions under the prescribed guidance included in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), as a sale of financial assets and a purchase commitment or, conversely, as a purchase of financial assets and a sale commitment. The purchase and sale commitments are valued at estimated fair value and are accounted for as derivatives under SFAS No.133 "Accounting for Derivative Instruments and Hedging Activities." Realized gains and losses are recognized on settlement date.

Receivables From and Payables to Customers and Non-Customers
Receivable from and payable to customers and non-customers, arising in connection with futures and securities transactions, include cash margin deposits and gains and losses on open commodity futures contracts from customers and non-customers.

Customer and non-customer owned securities, consisting primarily of U.S. Government securities, are held by the Company as collateral for receivables from customers and non-customers as margin deposits for trading. Customer and non-customer owned securities held by the Company (amounting to $1,758,283,000 and $229,308,300, respectively) and the net short value of customers and non-customers' options on futures positions (amounting to $280,581,500 and $6,347,900, respectively) are not reflected on the statement of financial condition. A portion of these securities, in the amount of $985,990,600, has been deposited as margin with clearing organizations and carrying brokers.

Securities Borrowed and Loaned
Securities borrowed and securities loaned transactions are reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. In securities loaned transactions, the Company receives collateral in the form of cash or other collateral. The fair value of the collateral in securities borrowed and loaned transactions is generally in excess of the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary. As of March 31, 2008, the market value of collateral received in securities borrowed transactions was $4,571,098,000. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged as appropriate. As of March 31, 2008, the market value of collateral pledged under securities loaned transactions was $363,296,300.

Collateral
All assets the Company has pledged as collateral in secured borrowings and other arrangements when the secured party cannot sell or repledge the assets remain on the Company's statement of financial condition.

Memberships in Exchanges
Exchange memberships used in the Company's operations are reflected at cost or, if an impairment in value is determined by management to be other than temporary, at an adjusted value that reflects management's estimate of the impairment.

Furniture, Equipment and Leasehold Improvements
Furniture and equipment are depreciated over their estimated useful lives of three to five years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the related lease.

Intangible Assets
Intangible assets represent primarily the cash paid for the purchase of customer accounts and relationships. Intangible assets are amortized on a straight-line basis over their estimated lives of 4 to 14 years. Intangible assets are reviewed annually for impairment and there were no other than temporary impairments at March 31, 2008.

Translation of Foreign Currency
Assets and liabilities denominated in foreign currencies are translated at spot exchange rates prevailing at the close of business on the reporting date. Revenues and expenses are translated at average exchange rates during the period.

Cash and Cash Equivalents
Cash and cash equivalents include cash and financial instruments with an original maturity date less than ninety days.

3. Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. As of March 31, 2008, the market value of collateral received under reverse repurchase agreements was $33,314,460,500 of which $1,257,858,800 was pledged with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged as appropriate. As of March 31, 2008, the market value of collateral pledged under repurchase agreements was $45,297,495,900.

In accordance with SFAS 140, at March 31, 2008 the Company de-recognized assets and liabilities from the statement of financial condition related to securities sold under agreements to repurchase when the maturity date of the underlying collateral is the same as the maturity date of the repurchase agreement. The amounts de-recognized were as follows:

	Contract Value
Securities purchased under agreements to resell	$ 1,763,386,700
Securities sold under agreements to repurchase	$ 13,766,403,900

	Market Value
Securities owned	$ 13,816,831,600
Securities sold, not yet purchased	$ 1,776,302,900

The fair value of the open commitments resulting from the application of SFAS 140 is recorded on the statement of financial condition.

4. Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations at March 31, 2008 consist of the following:

	Receivable	Payable
Securities failed to deliver/receive	$ 1,803,679,300	$ (3,272,201,200)
Receivables from and payables to clearing brokers	37,001,000	(760,282,500)
Receivables from and payables to clearing organizations	148,922,000	(125,115,300)
Other	223,700	-
	$ 1,989,826,000	$ (4,157,599,000)

5. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased at March 31, 2008 consist of:

	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities	$ 3,569,054,000	$ 780,089,400
Other	11,692,800	-
	$ 3,580,746,800	$ 780,089,400

At March 31, 2008, $146,149,700 of U.S. government securities owned by the Company are pledged as margin with clearing organizations.

6. Derivative Financial Instruments

The Company may use futures contracts and foreign currency forward contracts primarily for purposes of mitigating its exposure to fluctuation in interest rates and foreign currencies. The futures and forward contracts are marked to market based upon quoted market prices. The Company had no principal positions in derivatives at March 31, 2008 and the impact of principal derivative trading activities during the year on the Company's operations was immaterial.

Derivative financial instruments involve varying degrees of off-balance sheet market risk, whereby changes in the level or volatility of interest rates, foreign exchange rates or market values of the underlying financial instruments or commodities may result in cash settlements, which may exceed the amounts recognized on the statement of financial condition. The Company has procedures in place to control market risk, although there can be no assurance that they will, in fact, succeed in doing so.

7. Segregation of Funds

The Company is required, under the Commodity Exchange Act and under Rule 15c3-3 of the Securities Exchange Act of 1934, to segregate assets at least equivalent to balances due to customers trading on domestic and foreign futures and securities markets.

At March 31, 2008, assets segregated or held in separate accounts under applicable regulations included on the statement of financial condition are as follows:

Pursuant to commodity exchange act:	
Cash at:	
Banks	$ 2,755,667,500
Clearing organizations	35,325,200
Securities and commodities owned at:	
Banks	2,474,745,800
Clearing organizations	3,565,289,100
Due to exchange clearing organizations, net	(79,610,100)
Total segregated assets included on the statement of financial condition	8,751,417,500
Items reclassified for statement of financial condition purposes:	
Market value of securities owned by customers	1,742,398,500
Market value of commodity options owned by customers	(286,650,800)
Total segregated assets	10,207,165,200
Foreign secured assets related to foreign futures activities:	
Cash at:	
Banks	131,879,900
Due from brokers, net	719,463,900
Total foreign secured assets included on the statement of financial condition	851,343,800
Items reclassified for statement of financial condition purposes (Note 2):	
Market value of securities owned by customers	15,884,500
Market value of commodity options owned by customers	6,069,300
Total foreign secured assets	873,297,600
Total segregated and foreign secured assets	$ 11,080,462,800
Pursuant to Securities Exchange Act requirements:	
Cash at bank	$ 177,421,200

At March 31, 2008, the Company is in compliance with these segregation requirements and holds segregated assets in excess of amounts due to customers.

Securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC totaled $1,408,486,800 at March 31, 2008.

8. Income Taxes

The Company files consolidated federal, state and local income tax returns with Holdings and separate income tax returns in the states in which it does business.

The components of the deferred tax assets and liabilities at March 31, 2008 are as follows:

Deferred tax assets	
Deferred compensation	$ 16,683,000
Intangibles	14,778,700
Illinois net operating losses	14,271,000
Depreciation	1,828,000
Legal reserves	833,100
Bad debts	497,900
Other	71,700
Valuation allowance	(14,271,000)
Subtotal	34,692,400
Deferred tax liabilities	
Unrealized gains	(2,183,300)
Deferred tax assets, net	$ 32,509,100

The Company has determined that the deferred tax asset related to Illinois net operating losses, arising from the exclusion of U.S. treasury interest income from Illinois taxable income, is not realizable and has therefore recorded a full valuation allowance against this amount. The Company has reviewed the other components of the net deferred tax asset and determined it is more likely than not that it will be realized.

Uncertain tax positions

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") as of April 1, 2007. This interpretation clarifies the criteria that must be met prior to recognition of the financial statement benefit, in accordance with FASB Standard No. 109, "Accounting for Income Taxes" ("FAS 109"), of a position taken in a tax return.

As of adoption, the Company had zero gross unrecognized tax benefits. For the year ended March 31, 2008, the Company has gross unrecognized tax benefits of $4,160,000, including interest and penalties.

It is expected that unrecognized tax benefits will decrease in the next twelve months by $804,000 as a result of expiring statute of limitations. The Company does not expect this change to have a significant impact on the financial position of the Company.

In many cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities, which vary by jurisdiction. The Company's earliest open tax year is 2000 for certain states in the United States.

9. Benefit Plans

During the year, eligible employees of the Company were covered by Holdings 401(k) plan. The Company matches employees' contributions to the 401(k) plan subject to certain limitations set forth in the 401(k) plan's agreement.

10. Subordinated Borrowings

At March 31, 2008, the total balance of subordinated notes due to Holdings and MF Global Finance USA Inc. ("MFG Finance") includes:

Lender	Amount	Maturity
Holdings	$ 65,000,000	1-3 years
Holdings	65,000,000	Over 3 years
MFG Finance	130,000,000	Less than 1 year
MFG Finance	446,000,000	1-3 years
MFG Finance	50,000,000	Over 3 years
	$ 756,000,000	

The interest rates on the subordinated notes are agreed by the lender and the Company from time to time based upon the unpaid balance or at the federal funds target rate plus 105 basis points. The interest rate was 5.25% at March 31, 2008. Based upon agreements approved by the Chicago Mercantile Exchange and the Chicago Board Options Exchange, the Company's designated self-regulatory organizations, the subordinated debt is available in computing regulatory net capital. This debt may be repaid prior to maturity only if, after giving effect to such payment, the Company meets its regulatory net capital requirements.

The carrying value of subordinated debt approximates fair value as interest rates on the subordinated notes reset frequently.

11. Affiliate Transactions

Holdings provides certain administrative services to the Company. These services include, but are not limited to, the Company's payroll, tax, accounting and human resources processing. The Company reimburses Holdings for these services.

The Company earns a portion of its commission revenue by executing and clearing brokerage transactions for various affiliates.

Day-to-day financing is provided to the Company by an affiliate. The Company has a revolving loan agreement with MFG Finance that matures March 31, 2010. The Company can borrow up to $120,000,000 under this agreement. There are no outstanding borrowings at March 31, 2008. Financing interest payable to the affiliate is calculated based on the federal funds rate plus 105 basis points.

MFG Finance provides financing loans to certain clients of the Company, primarily for meeting margin variations. As of March 31, 2008, the total amount of outstanding financing due to MFG Finance is $50,461,200.

The Company has an agreement with MF Global UK Ltd. ("MFGUK"), an affiliate, to introduce customers to MFGUK who desire to purchase or sell London Metals Exchange futures and options contracts. For such contracts, the counterparties are customers of MFGUK with no obligation of performance by the Company. The Company receives a share of the "Net Profits," as defined in the agreement, from such transactions.

The following is a schedule of the components of the receivable from and payable to affiliates. Certain balances included in receivable from and payable to affiliates on the statement of financial condition have been recorded net in accordance with FIN 39.

Receivables - affiliates, net	
Reverse repos	$ 794,093,900
Futures transactions	(763,975,700)
Securities transactions	(61,648,900)
Stock borrows	61,663,800
Other	90,259,400
Total	$ 120,392,500
Payables - affiliates, net	
Futures transactions	$ (276,644,000)
Securities transactions	(11,626,000)
Other	(4,842,600)
Total	$ (293,112,600)

12. Leases

The Company enters into renewable one-year operating lease agreements with MFG Finance whereby the Company agrees to make monthly payments to MFG Finance for use of furniture and equipment.

The Company also leases certain office premises, equipment and computer hardware from unaffiliated parties for its own use. At March 31, 2008, the minimum annual rental commitments under non-cancelable leases for office premises are:

Fiscal Year Ended March 31,	**Commitments**
2009	$ 6,138,700
2010	4,623,300
2011	4,534,400
2012	4,532,700
2013	4,279,900
Thereafter	17,134,100
Total	$ 41,243,100

13. Net Capital Requirement

The Company is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1"), which requires a broker-dealer that is also registered as a futures commission merchant to maintain adjusted net

capital equal to or above the greater of its requirement under paragraph (a)(1)(ii) of Rule 15c3-1, or the aggregate of 8% of customer maintenance margin requirements and 4% of noncustomer maintenance margin requirements. At March 31, 2008, MFGI had net capital, as defined, of $775,329,100, which was $357,827,000 in excess of the minimum capital required to be maintained.

The Company is subject to certain notification and other provisions of the net capital rules of the CFTC and SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At March 31, 2008, the Company was in compliance with all of the requirements.

14. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is engaged in various trading; brokerage and investing activities with counterparties, which primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk of default. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

Transactions in futures contracts are conducted through regulated exchanges for which the Company, its customers and other counterparties are subject to margin requirements, which are settled in cash on a daily basis, thereby minimizing credit risk. Off-balance sheet market risk of futures and options positions executed and cleared for the Company's customers and affiliates is directly borne by such entities. However, as a clearing broker, the Company is required to reimburse the exchanges if credit losses arise because counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral, where appropriate.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at March 31, 2008, at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to March 31, 2008.

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks

associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily, and pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes limits for such activities and monitors compliance on a daily basis.

15. Stock-Based Compensation

In conjunction with its IPO, the Company's employees participate in MFG Ltd's 2007 Long-term Incentive Plan ("LTIP"). The Company records its allocated share of MFG Ltd's stock-based compensation costs. The LTIP Plan permits the grant of up to 24,000,000 shares of stock in the form of share appreciation rights, restricted shares, restricted share units, performance awards, cash-based awards and other awards to eligible employees, consultants, directors and other individuals who provide services to MFG Ltd and its subsidiaries, each as determined by the Compensation Committee of the Board of Directors. Share options vest in equal installments over three years and are generally not exercisable for the first year following the IPO. The vested awards can be exercised, subject to continued employment, within seven years from the date of the grant. Share options granted at the date of the IPO have an initial exercise price of $30 per share, equal to the price per common share at the IPO. Restricted share units vest in full after three years, subject to continued employment or meeting certain retirement criteria and were issued at no cost to the employee.

The fair value is estimated on the date of grant using a Black-Scholes option valuation model that uses the following assumptions. For expected volatility, MFG Ltd used an implied volatility of public companies in its industry sector taking into account the criteria outlined in the SEC Staff Accounting Bulletin No. 107, "Share-Based Payments" ("SAB 107").

The expected term assumption was established by adopting SAB 107's simplified method, which uses an average of the vesting and contractual terms as the expected term. The risk-free rate is based on the zero coupon U.S. government bonds with the expected term on the date of grant. The model's assumptions are as follows:

	Year ended March 31, 2008
Expected volatility	32.0%
Risk-free rate	4.9%
Expected dividends	0.0%
Expected term (in years)	4.5 years

The stock options activity for the year ended March 31, 2008, is as follows:

	Options	Weighted-Avg. Exercise Price (per share)	Weighted-Avg. Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding as of April 1, 2007	-	$ -	-	$ -
Granted	5,082,830	30.00	7.0	-
Forfeited	494,168	30.00	-	-
Stock options outstanding as of March 31, 2008	4,588,662	30.00	6.3	-
Stock options exercisable at March 31, 2008	-	-	-	-

A summary of the restricted share units and restricted share activity is attached below:

	Restricted Share Units		Restricted Shares	
	Awards	Weighted-Average Grant Date Fair Value (per award)	Awards	Weighted-Average Grant Date Fair Value (per award)
Outstanding as of April 1, 2007	-	$ -	-	$ -
Granted	3,221,501	30.00	96,603	30.00
Forfeited	58,101	30.00	10,287	30.00
Nonvested as of March 31, 2008	3,163,400	30.00	86,316	30.00
Total unrecognized compensation expense remaining	$ 55,308,000		$ 748,000	
Weighted-average years expected to be recognized over	2.2		0.3	

In the fourth quarter of fiscal 2008, MFG Ltd created an Employee Stock Purchase Plan ("ESPP") to provide employees with an opportunity to purchase shares from MFG Ltd at a discount of 15% and to pay for these purchases through payroll deductions. Participants can withhold 1-15% of their eligible compensation; however, no participant can purchase more than 500 shares or shares exceeding $8,000 in market value. As of March 31, 2008, no shares were awarded from this plan.

16. Commitments and Contingencies

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. The Company, in its normal course of business, may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote. In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations and other litigation. Certain of these legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or

indeterminate damages, or actions which are in very preliminary stages, the Company cannot predict with certainty the eventual loss or range of loss related to such matters. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of these actions will not have a material adverse effect on the financial condition of the Company, although the outcome could potentially be material to the Company's future operating results for a particular period or periods.

In December 2007, the Company reached an agreement to settle the litigation brought by the Receiver for Philadelphia Alternative Asset Fund ("PAAF") and related entities. The settlement agreement obligated the Company to pay $69 million into a restoration fund for the benefit of investors in PAAF. The Company also paid $8 million in legal and other fees and expenses. Man Group plc has agreed to indemnify the Company for all costs, expenses and liabilities the Company may incur as a result of the PAAF litigation and any other claims or litigation arising from the facts or circumstances which give rise to that claim for amounts in excess of $50 million, net of any insurance proceeds the Company receives.

The Company believes that settlement and litigation costs related to the PAAF matter are substantially insured. During the year, the Company received $9.4 million of insurance proceeds for legal costs incurred related to the PAAF matter. These proceeds have been recognized as received, other proceeds, if any will not be recognized until actually received. The Company's insurance carriers have been notified of the settlement agreement (together with amounts paid thereunder) and of its associated defense costs in the PAAF-related litigation. The insurers have offered an amount, without prejudice, which the Company regards as inadequate and the Company has taken the matter to binding dispute resolution under the insurance contract. The Company has claimed in excess of $90 million and the insurers have counterclaimed for previously paid defense costs. It is anticipated that there will not be a resolution of the matter for approximately one year.

On February 28, 2008, MFGI announced that a registered representative in one of its U.S. branch offices substantially exceeded his authorized trading limit. The unauthorized activity resulted in a loss of $141.5 million, which the registered representative was unable to settle. As a result, the Company recorded a loss for the full amount. The Company has notified its insurance carrier and has claimed coverage of the unauthorized trading loss under its fidelity bond policy. Insurance proceeds, if any, will be recognized when received.

At March 31, 2008, customers' letters of credit amounting to $614,300,000 have been deposited for margin requirements with clearing organizations.

The Company guarantees certain third party loans to professional traders on a collateralized basis. Guarantees at March 31, 2008 amount to approximately $5,419,300 and the market value of the collateral, consisting of exchange memberships, is approximately $23,402,200.

Appendix 7.B

MF Global Inc.

Statement of Financial Condition
March 31, 2009

Available for Public Inspection

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	February 28, 2010
Estimated average burden hours per response.....	12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8- 18104

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 04/01/08 (MM/DD/YY) AND ENDING 03/31/09 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: MF Global Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

440 South LaSalle Street, 20th Floor
(No. and Street)

Chicago (City) Illinois (State) 60605 (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Jim Marino (312) 548-1510
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP
(Name – *if individual, state last, first, middle name*)

One North Wacker Drive, 14th Floor (Address) Chicago (City) Illinois (State) 60606 (Zip Code)

CHECK ONE:

- [x] Certified Public Accountant
- [ ] Public Accountant
- [ ] Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

**Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)*

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Christine Serwinski, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MF Global Inc., as of March 31st, 20 09, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

signature

Signature

Chief Financial Officer

Title

signature

Notary Public

OFFICIAL SEAL
JOAN P. ACKERMAN
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 3-6-2010

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).*

MF Global Inc.
Index
March 31, 2009

	Page(s)
Report of Independent Auditors	1
Financial Statements	
Statement of Financial Condition	2
Notes to Statement of Financial Condition	3-21

Report of Independent Auditors

To the Board of Directors and Stockholder of
MF Global Inc.:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of MF Global Inc. (the "Company") at March 31, 2009 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

signature

May 29, 2009

MF Global Inc.
Notes to the Statement of Financial Condition
March 31, 2009

Assets	
Cash	$ 20,681,200
Restricted cash and segregated securities	8,126,226,300
Securities purchased under agreements to resell	9,763,212,100
Securities borrowed	8,166,617,100
Securities owned, at fair value	3,195,965,200
Receivables - brokers, dealers and clearing organizations (net of allowance of $2,481,800)	615,156,000
Receivables - customers and non-customers (net of allowance of $3,149,400)	184,897,000
Receivables - affiliates, net	353,000
Other receivables	627,900
Memberships in exchanges, at cost (market value $14,007,300)	5,935,100
Furniture, equipment and leasehold improvements (net of accumulated depreciation and amortization of $16,166,400)	23,141,900
Intangible assets (net of accumulated amortization of $70,717,500)	112,192,500
Deferred tax assets, net	55,485,200
Other assets	14,499,800
Total assets	$ 30,284,990,300
Liabilities and stockholder's equity	
Liabilities	
Securities sold under agreements to repurchase	$ 11,667,784,400
Securities loaned	5,496,361,300
Securities sold, not yet purchased, at fair value	2,757,372,000
Payables - brokers, dealers and clearing organizations	825,162,000
Payables - customers and non-customers	7,294,209,000
Payables - affiliates, net	1,164,384,200
Accrued expenses and other liabilities	126,385,600
Total liabilities	29,331,658,500
Commitments and contingent liabilities (Note 17)	-
Subordinated borrowings	490,000,000
Stockholder's equity	463,311,800
Total liabilities and stockholder's equity	$ 30,284,990,300

The accompanying notes are an integral part of this financial statement.

1. Organization

MF Global Inc. (the "Company" or "MFGI") is a wholly-owned subsidiary of MFG USA, Inc. (the "Parent"), which is 100% owned by MF Global Holdings USA Inc. ("Holdings"), a United States corporation. The ultimate parent is MF Global Ltd. ("MFG Ltd."), a Bermuda corporation which is publicly traded on the New York Stock Exchange.

MFGI is registered with the Securities and Exchange Commission ("SEC") as a securities broker-dealer and is a member of the Financial Industry Regulatory Authority ("FINRA"), Chicago Board Options Exchange ("CBOE") and Fixed Income Clearing Corporation ("FICC").

MFGI is also registered with the Commodity Futures Trading Commission ("CFTC") as a futures commission merchant and is a member of the National Futures Association ("NFA"), an industry self-regulatory agency. Additionally, MFGI is a member of the Chicago Mercantile Exchange ("CME"), Chicago Board of Trade ("CBOT"), New York Mercantile Exchange, Intercontinental Exchange, Kansas City Board of Trade and the Minneapolis Grain Exchange.

The Company provides brokerage services to customers and affiliates on United States securities and futures exchanges and on overseas exchanges through affiliates or independent correspondent clearing brokers. The Company is also engaged in principal trading in U.S. government securities, futures, repurchase and resale agreements, as well as stock/bond borrow and stock/bond loan transactions.

2. Significant Accounting Policies

Use of Estimates

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results may differ from those estimates.

Fair Value of Financial Instruments

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS 157") as of April 1, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an "exit" price. Securities owned and securities sold, not yet purchased are reflected on the statement of financial condition at fair value and are recorded on a trade date basis. Fair value for these instruments includes related accrued interest. Based on market convention, the Company marks its financial instruments based on product class, which is generally bid or mid price for securities owned and ask for securities sold, not yet purchased. Fair value measurements are not adjusted for transaction costs.

Management estimates the aggregate fair value of financial instruments recognized on the statement of financial condition (including receivables, payables, and accrued expenses) approximates their fair value; as such financial instruments are either reported at fair value or are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Credit risk is a component of fair value and represents the loss the Company would incur if a counterparty or an issuer of securities or other instruments the Company holds fails to perform under its contractual obligations to the Company, or upon a deterioration in the credit quality of

third parties whose securities or other instruments the Company holds. To reduce the Company's credit exposures in its operating activities, the Company generally enters into agreements with its counterparties that permit it to offset receivables and payables with such counterparties and obtain margin and/or collateral from the counterparty on an upfront and ongoing basis. The Company monitors and manages its credit exposures daily. In the Company's adoption of SFAS 157, it considered its collateral and margin process, as well as the type of and duration of its financial instruments, when assessing its credit risk.

Revenue Recognition
Customer securities transactions are recognized on settlement date. Related commissions revenue and associated direct costs are recognized on trade date.

Principal securities transactions and the related profit and loss are recorded on a trade date basis.

Interest income and expense related to repurchase agreements, securities lending and collateralized financing arrangements is recognized on an accrual basis.

Stock-Based Incentive Compensation
The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), "Share-Based Payments" ("SFAS 123R"). SFAS 123R measures the cost of employee services received for stock-based compensation based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Income Taxes
The Company is included in the consolidated federal and state income tax returns of Holdings. Federal and state income taxes are determined on a separate return basis pursuant to a tax sharing agreement between the Company and Holdings. The Company accounts for income taxes under the liability method. Under this method, deferred taxes are provided for differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when these differences are expected to reverse.

Restricted Cash and Segregated Securities
The Company is obligated by rules mandated by its primary regulators, the SEC and CFTC, to set aside cash or qualified securities to satisfy regulations, promulgated to protect customer assets. At March 31, 2009, the Company has restricted cash and segregated securities recorded on the statement of financial condition which includes the following:

	March 31, 2009
Cash at banks	$ 200,330,300
Securities purchased under agreements to resell	4,998,886,700
Securities owned	2,927,009,300
	$ 8,126,226,300

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase
Transactions involving purchases of securities under agreements to resell ("resale agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are accounted for as collateralized financings. Transactions cleared through FICC and certain non-FICC resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with

Financial Accounting Standards Board ("FASB") Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements" and FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts" ("FIN 39").

From time to time, the Company enters into securities financing transactions which mature on the same date as the underlying collateral's stated maturity. The Company accounts for these transactions under the prescribed guidance included in SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), as a sale of financial assets and a purchase commitment or, conversely, as a purchase of financial assets and a sale commitment. The purchase and sale commitments are valued at estimated fair value and are accounted for as derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133").

Receivables From and Payables to Customers and Non-Customers
Receivables from and payables to customers and non-customers, arising in connection with futures and securities transactions, include cash margin deposits and gains and losses on open commodity futures contracts from customers and non-customers.

Customer and non-customer owned securities, consisting primarily of U.S. Government securities, are held by the Company as collateral for receivables from customers and non-customers as margin deposits for trading. Customer and non-customer owned securities held by the Company (amounting to $778,750,500 and $94,464,400, respectively) and the net short value of customers and non-customers' options on futures positions (amounting to $144,559,500 and $1,165,900, respectively) are not reflected on the statement of financial condition. A portion of these securities, in the amount of $418,068,600, has been deposited as margin with clearing organizations and carrying brokers.

Securities Borrowed and Loaned
Securities borrowed and securities loaned transactions are reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. In securities loaned transactions, the Company receives collateral in the form of cash or other collateral. The fair value of the collateral in securities borrowed and loaned transactions is generally in excess of the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary. As of March 31, 2009, the market value of collateral received in securities borrowed transactions was $8,014,697,500. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, as appropriate. As of March 31, 2009, the market value of collateral pledged under securities loaned transactions was $5,493,417,200.

Collateral
All assets the Company has pledged as collateral in secured borrowings and other arrangements when the secured party cannot sell or repledge the assets are reflected on the Company's statement of financial condition.

Memberships in Exchanges
Exchange memberships used in the Company's operations are reflected at cost or, if an impairment in value is determined by management to be other than temporary, at an adjusted value that reflects management's estimate of the impairment. There was no other than temporary impairment at March 31, 2009.

Furniture, Equipment and Leasehold Improvements
Furniture and equipment are depreciated over their estimated useful lives of three to five years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the related lease.

Goodwill
Goodwill represents the excess of the purchase price of a business acquisition over the fair value of the net assets acquired. During the year ended March 31, 2009, earn-out payments in excess of the liability established at acquisition, totaling $2,759,200, related to a prior acquisition were made, which were accounted for as additional purchase consideration and capitalized to goodwill in accordance with FASB Statement No. 141 "Business Combinations". Goodwill is not amortized and the Company's single reporting unit is tested at least annually for impairment during the fourth quarter of each fiscal year. If this review indicates that the goodwill will not be recoverable based on the estimated undiscounted cash flows of the reporting unit, impairment is measured by comparing the carrying value of goodwill to its fair value. Fair value is estimated based on discounted cash flows, market values or appraisals. During the year ended March 31, 2009, the Company recorded an impairment loss of $3,142,500 related to goodwill, which represents total recorded goodwill. The impairment is the result of an overall decline in the business environment related to the acquired business.

Intangible Assets
Intangible assets represent primarily the cash paid for the purchase of customer accounts and relationships. Intangible assets are amortized on a straight-line basis over their estimated lives of 4 to 14 years. Intangible assets are reviewed annually for impairment. During the year ended March 31, 2009, the Company recorded an impairment loss of $430,000 related to intangible assets. The impairment is the result of decreases in revenues, operating profit and volumes of the acquired business.

Translation of Foreign Currency
Assets and liabilities denominated in foreign currencies are translated at spot exchange rates prevailing at the close of business on the reporting date. Revenues and expenses are translated at daily exchange rates during the period.

3. Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. As of March 31, 2009, the market value of collateral received under reverse repurchase agreements was $50,796,303,300, of which $758,141,700 was pledged with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, as appropriate. As of March 31, 2009, the market value of collateral pledged under repurchase agreements was $57,228,141,300.

In accordance with SFAS 140, at March 31, 2009, the Company de-recognized assets and liabilities from the statement of financial condition related to securities sold under agreements to repurchase when the maturity date of the underlying collateral is the same as the maturity date of the repurchase agreement.

The amounts de-recognized were as follows:

	Contract Value
Securities purchased under agreements to resell	$ 1,944,416,800
Securities sold under agreements to repurchase	$ 11,393,005,700

	Market Value
Securities owned	$ 11,407,541,000
Securities sold, not yet purchased	$ 1,947,227,200

The fair value of the open commitments resulting from the application of SFAS 140 and the associated loss is immaterial as of and for the year ended March 31, 2009.

4. Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts due from and due to brokers, dealers and clearing organizations at March 31, 2009 consist of the following:

	Due From	Due To
Securities failed to deliver/receive	$ 521,147,400	$ 514,039,400
Receivables from and payables to brokers and dealers	48,203,500	101,183,700
Receivables from and payables to clearing organizations	45,805,100	209,938,900
	$ 615,156,000	$ 825,162,000

Receivables from and payables to brokers and dealers include amounts related to third parties for cash margin deposits, stock loan/borrow rebates, execution and brokerage fees. Receivables from clearing organizations include margin deposits and net receivables from unsettled trades. Payables to clearing organizations include transaction fees and net payables from unsettled trades.

5. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased at March 31, 2009 consist of:

	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities	$ 3,195,431,500	$ 2,757,372,000
Other	533,700	-
	$ 3,195,965,200	$ 2,757,372,000

At March 31, 2009, $149,442,100 of U.S. government securities owned by the Company are pledged as margin with clearing organizations.

6. Segregation of Funds

The Company is required, under the Commodity Exchange Act and under Rule 15c3-3 of the Securities Exchange Act of 1934, to segregate assets at least equivalent to balances due to customers trading on domestic and foreign futures and securities markets.

At March 31, 2009, assets segregated or held in separate accounts under applicable regulations are as follows:

Pursuant to Commodity Exchange Act:	
Cash at:	
Banks	$ 157,666,200
Clearing organizations	8,014,000
Securities and commodities owned at:	
Banks	4,163,363,000
Clearing organizations	3,214,442,600
Due to exchange clearing organizations, net	(145,689,300)
Total segregated assets included on the statement of financial condition	7,397,796,500
Items reclassified for statement of financial condition purposes:	
Market value of securities owned by customers	771,319,100
Market value of commodity options owned by customers, net	(138,486,500)
Total segregated assets	8,030,629,100
Foreign secured assets related to foreign futures activities:	
Cash at:	
Banks	6,157,400
Due from brokers, net	1,150,804,100
Total foreign secured assets included on the statement of financial condition	1,156,961,500
Items reclassified for statement of financial condition purposes (Note 2):	
Market value of securities owned by customers	7,431,400
Market value of commodity options owned by customers, net	(6,073,000)
Total foreign secured assets	1,158,319,900
Total segregated and foreign secured assets	$ 9,188,949,000
Pursuant to Securities Exchange Act requirements:	
Cash at bank	$ 36,506,800

At March 31, 2009, the Company is in compliance with these segregation requirements and holds segregated assets in excess of amounts due to customers.

Securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC totaled $4,998,886,700 at March 31, 2009 and are included in restricted cash and segregated securities on the statement of financial condition.

7. Fair Value Measurement

The Company has adopted the provisions of SFAS 157 as of April 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company has applied SFAS 157 to all financial instruments that are required to be reported at fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A market is active if there are sufficient transactions on an ongoing basis to provide current pricing information for the asset or liability, pricing information is released publicly, and price quotations do not vary substantially either over time or among market makers. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

In accordance with FASB Staff Position FAS No. 157-2, "Effective Date of FASB Statement No. 157", the Company elected to defer application of SFAS 157 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis until April 1, 2009.

SFAS 157 also requires the Company to consider its own credit spreads when measuring the fair value of liabilities. The impact of considering the Company's own credit spreads when measuring the fair value of liabilities did not have a material impact on fair value measurements at March 31, 2009.

Financial instruments are carried at fair value and disclosed in the following categories:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Level 1 consists of financial instruments whose fair values are estimated using quoted market prices. Included in Level 1 are exchange-traded equities and U.S. government securities.

Level 2 – Quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term. Included in Level 2 are those financial instruments for which fair values are estimated using models or other valuation methodologies. These models are primarily industry-standard models that consider various observable inputs, including time value, yield curve, volatility factors, observable current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Financial instruments in this category consist of fixed income instruments, including floating rate notes, federal agencies and corporate debt.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity). Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are not readily observable from objective sources. Financial instruments that fall within Level 3 are equity shares in exchanges.

The following table summarizes the Company's financial assets and liabilities as of March 31. 2009, by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
Assets				
Restricted cash and segregated securities				
U.S. government securities and federal agency obligations	$ 846.838.600	$ 2.080,170.600	$ -	$ 2.927.009.200
Securities owned				
U.S. government securities and federal agency obligations	1,242.158,400	1.953,273.100	-	3.195,431.500
Equities	240,800	-	-	240.800
Shares held in exchanges	-	-	292.900	292,900
Total securities owned	1.242.399,200	1.953.273,100	292.900	3,195.965.200
Total assets at fair value	**$ 2,089,237,800**	**$ 4,033,443.700**	**$ 292,900**	**$ 6,122,974,400**
Liabilities				
Securities sold. not yet purchased				
U.S. government securities and federal agency obligations	$ 1,535.795.400	$ 1,221.576.600	$ -	$ 2,757,372.000
Total liabilities at fair value	**$ 1,535.795,400**	**$ 1,221,576,600**	**$ -**	**$ 2,757,372,000**

The table below provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3).

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Balance as of April 1, 2008	$ 8,305,800
Total realized and unrealized gains (losses), net	716,200
Purchases and sales, net	(8,729,100)
Transfers in (out) of Level 3	-
Balance as of March 31, 2009	$ 292,900

8. Derivative Financial Instruments

The Company may use futures contracts and foreign currency forward contracts primarily for purposes of mitigating its exposure to fluctuation in interest rates and foreign currencies. The futures and forward contracts are marked to market based upon quoted market prices. As of March 31, 2009, there are no open forward contracts and the number of long and short open futures contracts were 1,250 and 4,849, respectively.

Derivative financial instruments involve varying degrees of off-balance sheet market risk, whereby changes in the level or volatility of interest rates, foreign exchange rates or market values of the underlying financial instruments or commodities may result in cash settlements which may exceed the amounts recognized on the statement of financial condition. The Company has procedures in place to mitigate market risk, although there can be no assurance that they will, in fact, succeed in doing so.

9. Benefit Plans

During the year, eligible employees of the Company were covered by Holdings' 401(k) plan. The Company matches employees' contributions to the 401(k) plan subject to certain limitations set forth in the 401(k) plan's agreement.

10. Income Taxes

The Company files consolidated federal, state and local income tax returns with Holdings or separate income tax returns in the states in which it solely does business.

The components of the deferred tax assets and liabilities at March 31, 2009 are as follows:

Deferred tax assets	
Deferred compensation	$ 23,634,400
Intangibles	16,760,700
Illinois net operating losses	5,559,600
Accrued expenses	4,609,700
Other state net operating losses	3,490,500
Depreciation	2,892,600
State taxes	1,307,200
Bad debts	1,198,900
Goodwill	1,131,400
Other	1,071,400
Valuation allowance	(5,559,600)
Subtotal	56,096,800
Deferred tax liabilities	
Transfer pricing	(611,600)
Deferred tax assets, net	$ 55,485,200

The Company has determined that the deferred tax asset related to Illinois net operating losses, arising from the exclusion of U.S. treasury interest income from Illinois taxable income, is not realizable and has therefore recorded a full valuation allowance of $5,559,600. The Company has reviewed the other components of the net deferred tax asset and determined it is more likely than not that it will be realized.

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" as of April 1, 2007. This interpretation clarifies the criteria that must be met prior to recognition of the financial statement benefit, in accordance with SFAS No. 109, "Accounting for Income Taxes", of a position taken in a tax return.

As of adoption, the Company had zero gross unrecognized tax benefits. As of March 31, 2009, the Company has gross unrecognized tax benefits of $15,149,000, including interest and penalties.

The total balance of gross unrecognized tax benefits of $15,149,000 would, if recognized, affect the Company's effective income tax rate in future periods. It is expected that unrecognized tax benefits will decrease in the next twelve months by $611,000 as a result of expiring statute of limitations.

The Company does not expect this change to have a significant impact on the financial position of the Company.

In many cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities, which vary by jurisdiction. The Company's earliest open tax year is for the fiscal year ended March 31, 2006.

11. Subordinated Borrowings

At March 31, 2009, the total balance of subordinated notes due to Holdings and MF Global Finance USA, Inc. ("MFG Finance") includes:

Lender	Amount	Maturity
Holdings	$ 130,000,000	1-3 years
MFG Finance	130,000,000	Less than 1 year
MFG Finance	230,000,000	1-3 years
	$ 490,000,000	

The subordinated notes carry interest at rates agreed to between the lender and the Company from time to time based upon the unpaid balance or at the 30-day LIBOR rate as of the first day of the month plus 500 basis points. The effective interest rate was 5.48% at March 31, 2009. Based upon agreements approved by the CME, the Company's designated self-regulatory organization, the subordinated debt is available in computing regulatory net capital. This debt may be repaid prior to maturity only if, after giving effect to such payment, the Company meets its regulatory net capital requirements. During the year ended March 31, 2009, the Company extended the maturity of subordinated notes totaling $180,000,000 by one year.

12. Affiliate Transactions

Holdings provides certain administrative services to the Company. These services include, but are not limited to, the Company's payroll, tax and human resources processing. The Company reimburses Holdings for these services.

The Company earns a portion of its commission revenue by executing and clearing brokerage transactions for various affiliates.

The Company has a revolving loan agreement with MFG Finance that matures February 28, 2010. The Company can borrow up to $200,000,000 under this agreement. There are no outstanding borrowings at March 31, 2009.

MFG Finance provides financing loans to certain customers of the Company, primarily for meeting margin variations. As of March 31, 2009, the total amount of outstanding financing provided by MFG Finance is $10,241,000.

The Company has an agreement with MF Global UK Ltd ("MFG UK"), an affiliate, to introduce customers to MFG UK who desire to purchase or sell London Metals Exchange futures and options contracts. For such contracts, the counterparties are customers of MFG UK with no obligation of performance by the Company. The Company receives a share of the "Net Profits," as defined in the agreement, from such transactions.

Certain balances included in receivable from and payable to affiliates on the statement of financial condition have been recorded net in accordance with FIN 39. The following is a schedule of the components of the receivable from and payable to affiliates. These balances are reported net.

	Due From	Due To
Securities purchased under agreements to resell	$ -	$ 528,494,600
Futures transactions	(1,300)	616,346,400
Securities loaned	-	880,400
Securities transactions	-	14,394,800
Direct and indirect allocated expenses	354,300	4,268,000
	$ 353,000	$ 1,164,384,200

13. Leases

The Company enters into renewable one year operating lease agreements with MFG Finance whereby the Company agrees to make monthly payments to MFG Finance for use of furniture and equipment.

The Company also leases certain office premises, equipment and computer hardware from unaffiliated parties for its own use. At March 31, 2009, the minimum annual rental commitments under non-cancelable leases for office premises are:

Fiscal Year Ended March 31,	Commitments
2010	$ 4,833,600
2011	4,787,000
2012	4,791,800
2013	4,545,300
2014	4,541,100
Thereafter	13,465,100
Total	$ 36,963,900

14. Net Capital Requirement

The Company is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1"), which requires a broker-dealer that is also registered as a futures commission merchant to maintain adjusted net capital equal to or above the greater of its requirement under paragraph (a)(1)(ii) of Rule 15c3-1, or the aggregate of 8% of customer maintenance margin requirements and 4% of non-customer maintenance margin requirements. At March 31, 2009, MFGI had net capital, as defined, of $594,544,700, which was $234,622,600 in excess of the minimum capital required to be maintained.

The Company is subject to certain notification and other provisions of the net capital rules of the CFTC and SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At March 31, 2009, the Company was in compliance with all of the requirements.

15. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is engaged in various trading, brokerage and investing activities with counterparties, which primarily include broker-dealers, banks and other financial institutions. In the event

counterparties do not fulfill their obligations, the Company may be exposed to risk of default. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

Transactions in futures contracts are conducted through regulated exchanges and are subject to margin requirements which are settled in cash on a daily basis, thereby minimizing credit risk. Off-balance sheet market risk of futures and options positions executed and cleared for the Company's customers and affiliates is directly borne by such entities. However, as a clearing broker, the Company is required to reimburse the exchanges if credit losses arise because counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral, where appropriate.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at March 31, 2009, at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to March 31, 2009.

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources, such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes limits for such activities and monitors compliance on a daily basis.

16. Stock-Based Compensation

Certain of the Company's employees participate in MFG Ltd.'s 2007 Long-term Incentive Plan ("LTIP"). The Company records its allocated share of MFG Ltd.'s stock-based compensation costs. The LTIP permits the grant of up to 24,000,000 shares of stock in the form of share appreciation rights, restricted shares, restricted share units, performance awards, cash-based awards and other awards to eligible employees, consultants, directors and other individuals who provide services to MFG Ltd. and its subsidiaries, each as determined by the Compensation Committee of the Board of Directors. Share options vest in equal installments over three years. The vested awards can be exercised, subject to continued employment, within seven years from the date of the grant. Restricted shares vest in full after three years, subject to continued employment or meeting certain retirement criteria and were issued at no cost to the employee.

The fair value of each share option is estimated at the date of grant using a Black-Scholes option valuation model that uses the following assumptions. For expected volatility, MFG Ltd. used an implied volatility of public companies in its industry sector taking into account the criteria outlined in SEC Staff Accounting Bulletin No. 107, "Share-Based Payments" ("SAB 107"). The expected term assumption was established by adopting SAB 107's simplified method, which uses an average of the vesting and contractual terms as the expected term. The risk-free rate is based on the zero coupon U.S. government bond with the expected term on the date of grant. The model's assumptions for the year ended March 31, 2009 are as follows:

Expected volatility	43.7%
Risk free interest rate	3.1%
Expected dividend yield	0.0%
Expected term	4.5 years

The outstanding options owned by certain employees, that become employees of other consolidated subsidiaries of MFG Ltd. and which became obligations of the new employer, are presented as Transfers, net in the table below. The stock option activity for the year ended March 31, 2009 is as follows:

	Number	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding as of April 1, 2008	4,588,662	$ 30.00	6.3	$ -
Transfers, net	(1,310,000)	30.00	6.3	
Granted	679,462	13.40	6.2	
Forfeited	(472,680)	28.59	5.4	
Stock options outstanding as of March 31, 2009	3,485,444	26.96	5.5	25,000
Stock options expected to vest as of March 31, 2009	3,354,789	27.07	5.5	22,617
Stock options exercisable at March 31, 2009	1,028,484	30.00	5.3	-

The restricted share units and restricted share activity for the year ended March 31, 2009, is as follows:

	Restricted Share Units		Restricted Shares	
	Awards	Weighted-Average Grant Date Fair Value (per award)	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2008	3,163,400	$ 30.00	86,316	$ 30.00
Transfers, net	(1,442,333)	30.00	(3,821)	30.00
Granted	340,950	13.28	-	-
Exercised	(60,550)	30.00	(72,442)	30.00
Forfeited	(102,551)	30.00	(10,053)	30.00
Nonvested as of March 31, 2009	1,898,916	27.00	-	-
Total unrecognized compensation expense remaining	$ 20,947,800		$ -	
Weighted-average years expected to be recognized over	1.4		-	

In the fourth quarter of fiscal 2008, MFG Ltd. created an Employee Stock Purchase Plan ("ESPP") to provide employees with an opportunity to purchase shares from MFG Ltd. at a discount of 15% and to pay for these purchases through payroll deductions. Participants can withhold 1-15% of their eligible compensation; however, no participant can purchase more than 500 shares or shares exceeding $8,000 in market value. As of March 31, 2009, 218,704 shares were awarded from this plan.

17. Commitments and Contingencies

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. The Company, in its normal course of business, may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote.

Set forth below are the potentially material litigations and regulatory proceedings related to the Company:

Unauthorized Trading Incident of February 26/27, 2008

One of the Company's brokers, Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of the Company's front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26, 2008 and early morning of February 27, 2008. The positions were liquidated at a loss of $141,045,000 on February 27, 2008. The trades were unauthorized and because the broker had no apparent means of paying for the trades, the Company, as a clearing member of the exchange, was required to pay the $141,045,000 shortfall. The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by the Company the next day. As a result of this unauthorized trading incident:

The U.S. Attorney's Office, Chicago Examination. The U.S. Attorney's Office in Chicago, Illinois is examining Mr. Dooley and the unauthorized trades. The Company has been cooperating with

the U.S. Attorney's Office, which has informed the Company that it is not a target of their investigation, and that Mr. Dooley is a target.

Commodity Futures Trading Commission Investigation. The CFTC has issued a formal order of investigation naming the Company and Mr. Dooley. The CFTC, in coordination with the CME, has been collecting documentation from the Company and taking depositions of its employees. The CFTC and CME investigation is ongoing and it is not yet certain what actions the CFTC and/or the CME might take. The Company established an accrual of $10,000,000 in the first quarter of fiscal 2009 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to below under the captions, "Commodity Futures Trading Commission Potential Action" and "CFTC Natural Gas Price Information Investigation". This is the Company's best estimate and there is no assurance that the $10,000,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures. No accrual has been made for the CME matter.

Retention of Consultants. MFG Ltd's Nominating and Governance Committee, composed of certain independent Board members, hired two consultants to help advise them and, through them, the Company on matters relating to the unauthorized trading incident. FTI Consultants advised on technology-related matters and Promontory Financial Group advised on policies and procedures in the risk aspects of the Company's business.

Insurance Claim. The Company filed a claim under its Fidelity Bond Insurance ("the Bond"), which provides coverage for wrongful or fraudulent acts of employees, seeking indemnification for this loss. After months of investigation, the Company's Bond insurers have denied payment of this claim based on certain definitions and exclusions to coverage in the Bond. They have also initiated an action against the Company in the Supreme Court of the State of New York seeking a declaration that there is no coverage for this loss under the Bond. The Company believes the insurers' position to be in error and will seek to enforce its right to payment in court.

Commodity Futures Trading Commission Potential Action

In May 2007, the Company and two of its individual employees received what is commonly referred to as a "Wells notice" from the staff of the Division of Enforcement of the CFTC. The notice relates to two trades that the Company executed in 2004 for a customer and reported to NYMEX. In the notice, Division of Enforcement staff indicated that it is considering recommending to the CFTC that a civil proceeding be commenced against the Company and the two individuals, in which the CFTC would assert that the Company and the two individuals violated Section 9(a)(4) of the Commodity Exchange Act, which generally prohibits any person from willfully making any false, fictitious, or fraudulent statements or representations, or making or using any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement to a board of trade. The Division of Enforcement staff contends that the Company and the individuals presented or participated in the submission of information to the exchange that falsely represented the dates on which the trades in question occurred. The Company and the individuals dispute the contentions of the Division of Enforcement staff and have submitted a written statement to the Division of Enforcement, setting forth the reasons why it believes no proceeding should be brought. It is not yet certain what action the CFTC will take. The Company established an accrual of $10,000,000 in the first quarter of fiscal 2009 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to above under the caption, "Unauthorized Trading Incident of February 26/27, 2008" and below under the caption "CFTC Natural Gas Price Information Investigation". This is the Company's best estimate and there is no assurance that the $10,000,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

CFTC Natural Gas Price Information Investigation

The Company has been cooperating in an investigation conducted by the U.S. Attorneys Office in the Southern District of New York, which has brought an indictment in a related matter, and by a New York County Grand Jury. The CFTC and the SEC have also been involved in the investigation and each has brought cases in related matters. The investigation centers around trading by a market making energy trader at Bank of Montreal ("BMO") who allegedly mismarked his book. One of the Company's brokers did business with the BMO trader, and used bid and offer prices for forward OTC trades the BMO trader sent to him as a basis for prices which the Company's broker disseminated to its customers, including BMO, as price indications that reflected a consensus. The Company has been told that neither the Company nor its broker are targets of the Grand Jury investigation. In connection with this investigation, the Company has been served by the CFTC with a Wells notice in anticipation of civil charges against the broker under the anti-fraud provisions of CFTC Regulation 33.10 and the Company with derivative liability for the broker's actions. The CFTC investigation is ongoing and it is not yet certain what action the CFTC may take against the Company or its broker. The Company established an accrual of $10,000,000 in the first quarter of fiscal 2009 to cover the potential of CFTC civil monetary penalties in this matter and the two matters referred to above under the captions, "Unauthorized Trading Incident of February 26/27, 2008" and "Commodity Futures Trading Commission Potential Action." This is the Company's best estimate and there is no assurance that the $10,000,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

Philadelphia Alternative Asset Fund

On May 8, 2006, the plaintiff, a court-appointed receiver for a hedge fund, Philadelphia Alternative Asset Fund Ltd. ("PAAF"), and its fund manager and commodity pool operator, Philadelphia Alternative Asset Management Co., LLC ("PAAMCo"), commenced suit against the Company and seven of its employees in connection with a CFTC-imposed shutdown of PAAMCo. PAAMCo and its principal, Paul Eustace ("Eustace"), allegedly defrauded PAAF by misrepresenting its trading performance, artificially inflating PAAF's net asset value, and failing to disclose trading losses suffered in a subaccount maintained by the Company for PAAF. The receiver, in his complaint, alleged among other things, negligence, common law fraud, violations of the Racketeer Influenced Corrupt Organizations Act (RICO), violations of the Commodity Exchange Act and aiding and abetting fraud. The Company, and its employees, denied all material allegations of the complaint. Although the complaint did not quantify the exact amount of damages sought, the amount claimed was estimated to be approximately $175,000,000 (with the plaintiff claiming that these damages should be tripled under RICO). The court-appointed receiver in this matter was, by judicial order, replaced by a "receiver ad litem" (solely for purposes of this litigation) because of a conflict of interest on the part of the original receiver. In July 2007, the receiver ad litem dismissed all claims against six of the Company's employees, and filed a Second Amended Complaint against the Company, one employee, and UBS Fund Services (Cayman) Ltd. The allegations against the Company were substantially similar as those in the initial complaint. On December 3, 2007, the Company entered into a Settlement Agreement with the prior receiver and the receiver ad litem pursuant to which, without admitting liability, the Company paid $69,000,000 plus $6,000,000 of litigation expenses, to the receivership estate as a restoration fund for the benefit of receivership investors in exchange for full releases and a dismissal of the action with prejudice.

Man Group plc agreed to indemnify MFG Ltd. for all costs, expenses and liabilities the Company may incur as a result of the PAAF litigation and any other claims or litigation arising from the facts or circumstances which give rise to that claim for amounts in excess of $50,000,000 net of any insurance proceeds the Company receives. MFG Ltd. received $25,000,000 on July 10, 2008 from Man Group plc in relation to the PAAMCo matter under the Deed of Indemnity executed at the time of the separation from Man Group plc.

As a result of discussions leading to this settlement, the Company recorded an expense of $76,814,000 in fiscal 2008. The Company's insurance carriers were notified of the settlement agreement (together with amounts paid thereunder) and of its associated defense costs in the PAAMCo-related litigation. In that regard, the Company instituted a dispute resolution procedure against insurers under its insurance contract. On October 23, 2008, MFG Ltd. and its insurers entered into a settlement agreement pursuant to which MFG Ltd. will receive $75,000,000 from insurers in full settlement of all of its claims against insurers in the PAAAF matter. Excluding previously received amounts, MFG Ltd. recognized $62,000,000 in insurance proceeds in its financial statement for the quarter ending December 31, 2008.

On December 26, 2007, the Company settled a related investigation by the CFTC arising out of the PAAF matter. Without admitting or denying the allegations, the Company agreed to the entry of an order finding that it violated supervision and recordkeeping requirements and the Company agreed to follow revised procedures and paid a civil monetary penalty of $2,000,000 which was accrued in fiscal 2008.

Conservative Concepts Portfolio Management GmbH ("CCPM") Related Arbitrations

In or about October 2003, the Company uncovered an apparent fraudulent scheme conducted by third parties unrelated to the Company that may have victimized a number of its clients. CCPM, a German Introducing Broker, introduced to the Company all the clients that may have been victimized. An agent of CCPM, Michael Woertche (and his confederates), apparently engaged in a Ponzi scheme in which allegedly unauthorized transfers from and trading in accounts maintained at the Company were utilized to siphon money out of these accounts, on some occasions shortly after they were established. The Company was involved in two arbitration proceedings relating to these CCPM introduced accounts. The first arbitration involved claims made by two claimants before a NFA panel. The second arbitration involves claims made by four claimants before a FINRA panel. The claims in both arbitrations are based on allegations that the Company and an employee assisted CCPM in engaging in, or recklessly or negligently failed to prevent, unauthorized transfers from, and trading in, accounts maintained by the Company. Damages sought in the NFA arbitration proceeding were approximately $1,700,000 in compensatory damages, unspecified punitive damages and attorneys' fees in addition to the rescission of certain deposit agreements. The NFA arbitration was settled for $200,000 as to one claimant and a net of $240,000 as to the second claimant during fiscal 2008. Damages sought in the FINRA proceeding were approximately $6,000,000 in compensatory damages and $12,000,000 in punitive damages. During the year ended March 31, 2009, the FINRA arbitration was settled for an aggregate of $800,000.

Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.

The Company was named as a co-defendant in an action filed in Florida State Court by Eagletech Communications Inc. ("Eagletech") and three of its alleged shareholders against 21 defendants, including banks, broker-dealers and clearing brokers, as well as "100 John Doe defendants or their nominee entities". The complaint alleges that the defendants engaged in a criminal conspiracy designed to manipulate the publicly traded share price of Eagletech stock. Plaintiffs seek unspecified compensatory and special damages, alleging that "Man Group PLC d/b/a Man Financial Inc" participated in the conspiracy by acting as a clearing broker for a broker-dealer that traded in Eagletech stock. The complaint asserts claims under RICO, the Florida Securities and Investor Protection Act, the Florida Civil Remedies for Criminal Practices Act, and a related negligence claim. On May 9, 2007, defendants filed a notice removing the State Court action to Federal Court pursuant to 28 U.S.C. § 1441(a). On October 2, 2007, Plaintiffs filed a first amended complaint in the Federal Court action asserting additional claims against the Company under Florida common law, including civil conspiracy, conversion and trespass to chattels. On

February 26, 2008, the financial institution defendants, including the Company, filed a motion to dismiss seeking dismissal of all claims asserted in the amended complaint on the ground that the claims are barred by the Private Securities Litigation Reform Act ("PSLRA") and preempted by the federal securities laws. On June 27, 2008, the Court partially granted the motion, holding that the federal RICO claims are barred by the PSLRA and dismissing the RICO claims with prejudice. The Court declined to exercise supplemental jurisdiction over the state law claims and remanded those claims to the Florida State Court. On July 25, 2008, plaintiffs filed a notice of appeal of the Court's June 27, 2008 decision to the United States Court of Appeals for the Eleventh Circuit but subsequently withdrew its appeal. The Company is unsure of whether plaintiffs will pursue the State Court action. Since the case is in its earliest stages, it is difficult to determine exposure, if any. The Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Amacker v. Renaissance Asset Management Fund et. al.

In December 2007, the Company, along with four other future commission merchants ("FCMs"), were named as defendants in an action filed in the U.S. District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that the Company and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of $32,000,000, plus exemplary damages, from all defendants. All the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference, the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek $17,000,000 in claimed damages plus exemplary damages from all defendants. The Company filed a motion to dismiss the amended complaint which was granted by the court and appealed by the defendants. The case is at its earliest stages so it is not possible to determine the Company's exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Sentinel Bankruptcy

The Liquidation Trustee ("Trustee") for Sentinel Management Group, Inc. ("Sentinel") recently notified the Company that he believes that the Company's withdrawal of $50,122,000 within 90 days of the filing of Sentinel's bankruptcy petition on August 17, 2007 is a voidable preference under Section 547 of the Bankruptcy Code, and therefore recoverable by the Trustee, along with interest and costs. The Company believes there are substantial defenses available to it and it intends to resist the Trustee's attempt to recover those funds from the Company. In addition, to the extent the Trustee recovered any funds from the Company, it would be able to assert an offsetting claim in that amount against the assets available in Sentinel's bankruptcy case. The matter is in its early stages and no litigation has yet been commenced. No provision for losses has been recorded in connection with this claim.

Agape World

In March 2009, investors in a venture set up by Nicholas Cosmo have sued Bank of America and us, among others, in the US District Court for the Eastern District of NY, alleging that we, among

others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost $400,000,000. The litigation is in its earliest stages. We believe we have meritorious defenses, and intend to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Morgan Fuel/Bottini Brothers

The Company and MF Global Market Services LLC ("Market Services"), an affiliate, are currently involved in litigation with a former customer of Market Services, Morgan Fuel & Heating Co., Inc. ("Morgan Fuel") and its principals, Anthony Bottini, Jr., Brian Bottini, and Mark Bottini (the "Bottinis"). The litigations arise out of trading losses incurred by Morgan Fuel in over-the-counter derivative swap transactions, which were unconditionally guaranteed by the Bottini principals.

MF Global Market Services LLC v. Anthony Bottini, Jr., Brian Bottini and Mark Bottini, FINRA No. 08-03673. On October 6, 2008, Market Services commenced an arbitration against the Bottinis before the Financial Industry Regulatory Authority ("FINRA") to recover $8,263,562, which is the amount of the debit owed to Market Services by Morgan Fuel after the liquidation of the swap transactions. Each of the Bottinis executed a guaranty in favor of Market Services personally and unconditionally guaranteeing payment of the obligations of Morgan Fuel upon written demand by Market Services. Market Services asserted a claim of breach of contract based upon the Bottinis' failure to honor the guarantees.

Morgan Fuel v. MFGI and Market Services, FINRA No. 08-03879. On October 21, 2008, Morgan Fuel commenced a separate arbitration proceeding before FINRA against MFGI and Market Services. Morgan Fuel claims that MFGI and Market Services caused Morgan Fuel to incur approximately $14.2 million in trading losses. Morgan Fuel seeks recovery of $5.9 million in margin payments that it allegedly made to Market Services and a declaration that it has no responsibility to pay Market Services for the remaining $8.3 in trading losses. Morgan Fuel contends that MFGI and Market Services should not have allowed Morgan Fuel to enter into, or maintain, the swap transactions. The Supreme Court of New York for the County of New York has temporarily stayed the arbitration commenced by Morgan Fuel on the ground that there is no agreement to arbitrate. The motion for a permanent stay is pending before the court.

The Bottinis asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against MFGI, Market Services, and Steven Bellino (a Market Services employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim also is pending before the Supreme Court. As a result of the motions, both of the arbitration proceedings have been temporarily stayed.

Other

In addition to the matters discussed above, from time to time the Company is party to litigation and regulatory proceedings that arise in the ordinary course of its business. Aside from those matters discussed above, the Company does not believe that it is party to any pending or threatened litigation or regulatory proceedings that, individually or in the aggregate, would in the opinion of management have a material adverse effect on the Company's business or financial.

At March 31, 2009, customers' letters of credit amounting to $812,275,000 have been deposited for margin requirements with clearing organizations.

The Company guarantees certain third party loans to lenders on behalf of professional traders on a collateralized basis. Guarantees at March 31, 2009 amount to $6,237,200 and the market value of the collateral, consisting of exchange memberships, is $19,749,000.

Appendix 7.C

MF Global Inc.

Statement of Financial Condition
September 30, 2009
(unaudited)

Available for Public Inspection

MF Global Inc.
Index
September 30, 2009

Page(s)

Financial Statements

Statement of Financial Condition 1

Notes to Statement of Financial Condition 2-20

MF Global Inc.
Statement of Financial Condition
September 30, 2009

Assets	
Cash	$ 64,728,700
Restricted cash and segregated securities	8,150,590,800
Securities purchased under agreements to resell	18,026,989,700
Securities borrowed	11,282,186,000
Securities owned, at fair value	4,747,596,300
Receivables - brokers, dealers and clearing organizations (net of allowance of $1,396,200)	316,181,800
Receivables - customers and non-customers (net of allowance of $3,628,600)	368,344,900
Receivables - affiliates, net	4,287,634,500
Other receivables	878,300
Memberships in exchanges, at cost (market value $15,797,700)	5,935,100
Furniture, equipment and leasehold improvements (net of accumulated depreciation and amortization of $18,621,200)	24,139,600
Intangible assets (net of accumulated amortization of $81,120,100)	101,789,900
Deferred tax assets, net	18,976,100
Other assets	50,077,700
Total assets	$ 47,446,049,400
Liabilities and stockholder's equity	
Liabilities	
Securities sold under agreements to repurchase	$ 28,578,866,100
Securities loaned	4,436,873,100
Securities sold, not yet purchased, at fair value	3,928,843,300
Payables - brokers, dealers and clearing organizations	570,709,400
Payables - customers and non-customers	6,769,802,700
Payables - affiliates, net	2,105,709,700
Accrued expenses and other liabilities	99,148,200
Total liabilities	46,489,952,500
Commitments and contingent liabilities (Note 16)	
Subordinated borrowings	490,000,000
Stockholder's equity	466,096,900
Total liabilities and stockholder's equity	$ 47,446,049,400

The accompanying notes are an integral part of this financial statement.

1. Organization

MF Global Inc. (the "Company" or "MFGI") is a wholly-owned subsidiary of MFG USA, Inc. (the "Parent"), which is 100% owned by MF Global Holdings USA Inc. ("Holdings"), a United States corporation. The ultimate parent is MF Global Ltd. ("MFG Ltd."), a Bermuda corporation which is publicly traded on the New York Stock Exchange.

MFGI is registered with the Securities and Exchange Commission ("SEC") as a securities broker-dealer and is a member of the Financial Industry Regulatory Authority ("FINRA"), Chicago Board Options Exchange ("CBOE") and Fixed Income Clearing Corporation ("FICC").

MFGI is also registered with the Commodity Futures Trading Commission ("CFTC") as a futures commission merchant and is a member of the National Futures Association ("NFA"), an industry self-regulatory agency. Additionally, MFGI is a member of the Chicago Mercantile Exchange ("CME"), Chicago Board of Trade ("CBOT"), New York Mercantile Exchange, Intercontinental Exchange, Kansas City Board of Trade and the Minneapolis Grain Exchange.

The Company provides brokerage services to customers and affiliates on United States securities and futures exchanges and on overseas exchanges through affiliates or independent correspondent clearing brokers. The Company is also engaged in principal trading in U.S. government securities, futures, repurchase and resale agreements, as well as stock/bond borrow and stock/bond loan transactions.

2. Significant Accounting Policies

Use of Estimates

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results may differ from those estimates.

Fair Value of Financial Instruments

The Company has adopted the provisions of Accounting Standards Codification ("ASC") 820, formerly Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" as of April 1, 2008. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an "exit" price. Securities owned and securities sold, not yet purchased are reflected on the statement of financial condition at fair value and are recorded on a trade date basis. Fair value for these instruments includes related accrued interest. Based on market convention, the Company marks its financial instruments based on product class, which is generally bid or mid price for securities owned and ask for securities sold, not yet purchased. Fair value measurements are not adjusted for transaction costs.

At September 30, 2009, certain of the Company's resale and repurchase agreements are carried at fair value as a result of the Company's fair value election in accordance with ASC 825, formerly SFAS No. 159, "The Fair Value Option for Financial Assets and Fianancial Liabilities" which discusses the fair value option for financial assets and financial liabilities. The Company elected the fair value option for those resale and repurchase agreements that were entered into on or after April 1, 2009, and that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements in accordance with ASC 860 (such as repo-to-maturity transactions). The Company further elected the fair value option for those securities

borrowed and securities loaned transactions that were entered into on or after July 1, 2009, and that have a specific termination date beyond the business day following the start date. The Company has elected the fair value option for these instruments to reflect more timely market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities.

Management estimates the aggregate fair value of financial instruments recognized on the statement of financial condition (including receivables, payables, and accrued expenses) approximates their fair value; as such financial instruments are either reported at fair value or are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Credit risk is a component of fair value and represents the loss the Company would incur if a counterparty or an issuer of securities or other instruments the Company holds fails to perform under its contractual obligations to the Company, or upon a deterioration in the credit quality of third parties whose securities or other instruments the Company holds. To reduce the Company's credit exposures in its operating activities, the Company generally enters into agreements with its counterparties that permit it to offset receivables and payables with such counterparties and obtain margin and/or collateral from the counterparty on an upfront and ongoing basis. The Company monitors and manages its credit exposures daily. In the Company's adoption of ASC 820, it considered its collateral and margin process, as well as the type of and duration of its financial instruments, when assessing its credit risk.

Revenue Recognition
Customer securities transactions are recognized on settlement date. Related commissions revenue and associated direct costs are recognized on trade date.

Principal securities transactions and the related profit and loss are recorded on a trade date basis.

Interest income and expense related to repurchase agreements, securities lending and collateralized financing arrangements is recognized on an accrual basis.

Stock-Based Incentive Compensation
The Company accounts for stock-based compensation in accordance with ASC 718, formerly SFAS No. 123(R), "Share-Based Payments". ASC 718 measures the cost of employee services received for stock-based compensation based on the grant date fair value of the award. That cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Income Taxes
The Company is included in the consolidated federal and state income tax returns of Holdings. Federal and state income taxes are determined on a separate return basis pursuant to a tax sharing agreement between the Company and Holdings. The Company accounts for income taxes under the liability method. Under this method, deferred taxes are provided for differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when these differences are expected to reverse.

Restricted Cash and Segregated Securities
The Company is obligated by rules mandated by its primary regulators, the SEC and CFTC, to set aside cash or qualified securities to satisfy regulations, promulgated to protect customer assets.

At September 30, 2009, the Company has restricted cash and segregated securities recorded on the statement of financial condition which includes the following:

Cash at banks	$ 534,292,700
Securities purchased under agreements to resell	7,345,993,700
Securities owned	270,304,400
	$ 8,150,590,800

Securities purchased under agreement to resell in segregation include $2,710,922,200 receivable from MFG Ltd.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase
Transactions involving purchases of securities under agreements to resell ("resale agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are accounted for as collateralized financings. Transactions cleared through FICC and certain non-FICC resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with ASC 210-20, formerly Financial Accounting Standards Board ("FASB") Interpretation No. 41, "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements" and FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts".

From time to time, the Company enters into securities financing transactions which mature on the same date as the underlying collateral's stated maturity. The Company accounts for these transactions under the prescribed guidance included in ASC 860, formerly SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", as a sale of financial assets and a purchase commitment or, conversely, as a purchase of financial assets and a sale commitment. The purchase and sale commitments are valued at estimated fair value and are accounted for as derivatives under ASC 815, formerly SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities".

Receivables From and Payables to Customers and Non-Customers
Receivables from and payables to customers and non-customers, arising in connection with futures and securities transactions, include cash margin deposits and gains and losses on open commodity futures contracts from customers and non-customers.

Customer and non-customer owned securities, consisting primarily of U.S. Government securities, are held by the Company as collateral for receivables from customers and non-customers as margin deposits for trading. Customer and non-customer owned securities held by the Company (amounting to $764,357,800 and $157,611,100, respectively) and the net short value of customers and non-customers' options on futures positions (amounting to $47,845,500 and $3,480,000, respectively) are not reflected on the statement of financial condition. A portion of these securities, in the amount of $530,419,400, has been deposited as margin with clearing organizations and carrying brokers.

Securities Borrowed and Loaned
Securities borrowed and securities loaned transactions are reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. In securities loaned transactions, the Company receives collateral in the form of cash or other collateral. The fair value of the collateral in securities borrowed and loaned transactions is generally in excess of the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary. As of September 30, 2009, the market

value of collateral received in securities borrowed transactions was $11,090,657,000. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, as appropriate. As of September 30, 2009, the market value of collateral pledged under securities loaned transactions was $4,451,267,900.

Certain of the Company's securities borrowed transactions are carried at fair value as a result of the Company's fair value election in accordance with ASC 825. At September 30, 2009, the fair value of these borrow transactions was $2,919,379,000.

Collateral
All assets the Company has pledged as collateral in secured borrowings and other arrangements when the secured party cannot sell or repledge the assets are reflected on the Company's statement of financial condition.

Memberships in Exchanges
Exchange memberships used in the Company's operations are reflected at cost or, if an impairment in value is determined by management to be other than temporary, at an adjusted value that reflects management's estimate of the impairment. There was no other than temporary impairment at September 30, 2009.

Furniture, Equipment and Leasehold Improvements
Furniture and equipment are depreciated over their estimated useful lives of three to five years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the related lease.

Goodwill
Goodwill represents the excess of the purchase price of a business combination over the fair value of the net assets acquired. During the six months ended September 30, 2009, earn-out payments totaling $1,107,400, related to a prior acquisition were made, which were accounted for as additional purchase consideration and capitalized to goodwill. Goodwill is not amortized and the Company's single reporting unit is tested at least annually for impairment during the fourth quarter of each fiscal year or when there is an interim triggering event. If the review indicates that fair value of goodwill is below its carrying value and will not be recoverable, the fair value of the Company is compared to the aggregated fair values of its individual assets and liabilities to calculate the amount of impairment, if any. Fair value is estimated based on discounted cash flows and market values. During the six months ended September 30, 2009, the Company recorded an impairment loss of $1,107,400 related to goodwill, which represents total recorded goodwill. The impairment is the result of an overall decline in the business environment related to the acquired business.

Intangible Assets
Intangible assets represent primarily the cash paid for the purchase of customer accounts and relationships. Intangible assets are amortized on a straight-line basis over their estimated lives of 4 to 14 years. Intangible assets are reviewed annually for impairment or when events or change in circumstances indicate that the carrying amount may not be recoverable. There were no other than temporary impairments at September 30, 2009.

Translation of Foreign Currency
Assets and liabilities denominated in foreign currencies are translated at spot exchange rates prevailing at the close of business on the reporting date. Revenues and expenses are translated at daily exchange rates during the period.

3. Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. As of September 30, 2009, the market value of collateral received under reverse repurchase agreements was $80,728,824,500, of which $248,034,300 was deposited with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, as appropriate. As of September 30, 2009, the market value of collateral pledged under repurchase agreements was $91,561,382,500.

Certain of the Company's resale and repurchase agreements are carried at fair value as a result of the Company's fair value election in accordance with ASC 825. At September 30, 2009, the fair value of these resale and repurchase agreements was $14,921,403,700 and $6,380,745,000, respectively.

In accordance with ASC 860, at September 30, 2009, the Company de-recognized assets and liabilities from the statement of financial condition related to securities sold under agreements to repurchase when the maturity date of the underlying collateral is the same as the maturity date of the repurchase agreement.

The amounts de-recognized were as follows:

	Contract Value
Securities purchased under agreements to resell	$ 2,298,554,400
Securities sold under agreements to repurchase	$ 14,220,701,300

	Market Value
Securities owned	$ 14,234,127,500
Securities sold, not yet purchased	$ 2,299,168,700

The fair value of the open commitments resulting from the application of ASC 860 and the associated loss is immaterial as of and for the six months ended September 30, 2009.

4. Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Amounts due from and due to brokers, dealers and clearing organizations at September 30, 2009 consist of the following:

	Due From	Due To
Securities failed to deliver/receive	$ 137,184,000	$ 294,207,700
Receivables from and payables to brokers and dealers	69,527,700	36,725,800
Receivables from and payables to clearing organizations	109,470,100	239,775,900
	$ 316,181,800	$ 570,709,400

Receivables from and payables to brokers and dealers include amounts related to third parties for cash margin deposits, stock loan/borrow rebates, execution and brokerage fees. Receivables from clearing organizations include margin deposits and net receivables from unsettled trades. Payables to clearing organizations include transaction fees and net payables from unsettled trades.

5. Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased at September 30, 2009 consist of:

	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities and federal agency obligations	$ 4,672,036,300	$ 3,852,591,700
Corporate debt securities	74,782,100	76,251,600
Other	777,900	-
	$ 4,747,596,300	$ 3,928,843,300

At September 30, 2009, no U.S. government securities owned by the Company are deposited as margin with clearing organizations. At September 30, 2009, $3,951,964,800 securities owned by the Company are pledged under financing transactions.

6. Income Taxes

The Company files consolidated federal, state and local income tax returns with Holdings or separate income tax returns in the states in which it solely does business.

The components of the deferred tax assets and liabilities at September 30, 2009 are as follows:

Deferred tax assets	
Deferred compensation	$ 23,634,400
Intangibles	16,760,700
Illinois net operating losses	5,559,600
Accrued expenses	509,400
Other state net operating losses	3,490,500
Depreciation	2,892,600
Bad debts	1,198,900
Goodwill	1,131,400
Other	1,071,400
Valuation allowance	(5,559,600)
Subtotal	50,689,300
Deferred tax liabilities	
Transfer pricing	(611,600)
Deferred tax assets, net	$ 50,077,700

The Company has determined that the deferred tax asset related to Illinois net operating losses, arising from the exclusion of U.S. treasury interest income from Illinois taxable income, is not

realizable and has therefore recorded a full valuation allowance of $5,559,600. The Company has reviewed the other components of the net deferred tax asset and determined it is more likely than not that it will be realized.

As of September 30, 2009, the Company has gross unrecognized tax benefits of $15,149,000, including interest and penalties. The total balance of gross unrecognized tax benefits would, if recognized, affect the Company's effective income tax rate in future periods. It is expected that unrecognized tax benefits will decrease in the next twelve months by $611,000 as a result of expiring statute of limitations. The Company does not expect this change to have a significant impact on the financial position of the Company.

In many cases, the Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxable authorities, which vary by jurisdiction. The Company's earliest open tax year is for the fiscal year ended March 31, 2006.

7. Fair Value Measurement

The Company has adopted the provisions of ASC 820 as of April 1, 2008. ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company has applied ASC 820 to all financial instruments that are required to be reported at fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A market is active if there are sufficient transactions on an ongoing basis to provide current pricing information for the asset or liability, pricing information is released publicly, and price quotations do not vary substantially either over short periods of time or among market makers. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

ASC 820 also requires the Company to consider its own credit spreads when measuring the fair value of liabilities. The impact of considering the Company's own credit spreads when measuring the fair value of liabilities did not have a material impact on fair value measurements at September 30, 2009.

Financial instruments are carried at fair value and disclosed in the following categories:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Level 1 consists of financial instruments whose fair values are estimated using quoted market prices. Included in Level 1 are exchange-traded equities and U.S. government securities.

Level 2 – Quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term. Included in Level 2 are those financial instruments for which fair values are estimated using models or other valuation methodologies. These models are primarily industry-standard models that consider various observable inputs, including time value, yield curve, volatility factors, observable current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Financial instruments in this category consist of fixed income instruments, including federal agencies and corporate debt, resale and repurchase agreements, and securities borrowed and loaned transactions.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity). Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are not readily observable from objective sources. Financial instruments that fall within Level 3 are equity shares in exchanges.

The following table summarizes the Company's financial assets and liabilities as of September 30, 2009, by level within the fair value hierarchy.

	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total
Assets					
Restricted cash and segregated securities					
U.S. government securities and federal agency obligations	$ 102,417,100	$ 167,887,300	$ -	$ -	$ 270,304,400
Securities owned					
U.S. government securities and federal agency obligations	$ 2,995,529,900	$ 1,676,506,400	$ -	$ -	$ 4,672,036,300
Corporate debt securities	-	74,782,100	-	-	74,782,100
Equities	479,700	-	-	-	479,700
Shares held in exchanges	-	-	292,900	-	292,900
Other	5,300	-	-	-	5,300
Total securities owned	2,996,014,900	1,751,288,500	292,900	-	4,747,596,300
Securities purchased under agreements to resell (2)	-	44,455,047,300	-	(29,533,643,600)	14,921,403,700
Securities borrowed (3)	-	2,919,379,000	-	-	2,919,379,000
Receivables - affiliates (4)	-	1,507,530,600	-	(855,817,400)	651,713,200
Total assets at fair value	**$ 3,098,432,000**	**$ 50,801,132,700**	**$ 292,900**	**$(30,389,461,000)**	**$ 23,510,396,600**
Liabilities					
Securities sold, not yet purchased					
U.S. government securities and federal agency obligations	$ 2,063,152,300	$ 1,789,439,400	$ -	$ -	$ 3,852,591,700
Corporate debt securities	-	76,251,600	-	-	76,251,600
Total securities sold, not yet purchased	2,063,152,300	1,865,691,000	-	-	3,928,843,300
Securities sold under agreements to repurchase (2)	-	35,914,388,600	-	(29,533,643,600)	6,380,745,000
Payable - affiliates (4)	-	855,817,400	-	(855,817,400)	-
Total liabilities at fair value	**$ 2,063,152,300**	**$ 38,635,897,000**	**$ -**	**$(30,389,461,000)**	**$ 10,309,588,300**

(1) Represents the impact of netting certain resale and repurchase agreements in accordance with ASC 210-20.

(2) Excludes Securities purchased under agreements to resell and Securities sold under agreements to repurchase that are held at contract value.

(3) Excludes Securities borrowed that are held at contract value.

(4) Represents securities purchased under agreements to resell with affiliates and securities sold under agreements to repurchase with affiliates at held at fair value. Excludes agreements with affiliates held at contract value.

The table below provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3).

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
Balance as of April 1, 2009	$	292,900
Total realized and unrealized gains (losses), net		-
Purchases and sales, net		-
Transfers in (out) of Level 3		-
Balance as of September 30, 2009	$	292,900

8. Benefit Plans

During the year, eligible employees of the Company were covered by Holdings' 401(k) plan. The Company matches employees' contributions to the 401(k) plan subject to certain limitations set forth in the 401(k) plan's agreement.

9. Subordinated Borrowings

At September 30, 2009, the total balance of subordinated notes due to Holdings and MF Global Finance USA, Inc. ("MFG Finance") includes:

Lender		Amount	Maturity
Holdings	$	130,000,000	1-3 years
MFG Finance		180,000,000	Less than 1 year
MFG Finance		180,000,000	1-3 years
	$	490,000,000	

The subordinated notes carry interest at rates agreed to between the lender and the Company from time to time based upon the unpaid balance or at the 30-day LIBOR rate as of the first day of the month plus 500 basis points. The effective interest rate was 5.25% at September 30, 2009. Based upon agreements approved by the CME and CBOE, the Company's designated self-regulatory organizations, the subordinated debt is available in computing regulatory net capital. This debt may be repaid prior to maturity only if, after giving effect to such payment, the Company meets its regulatory net capital requirements. During the six months ended September 30, 2009, the Company extended the maturity of subordinated notes totaling $130,000,000 by two and one-half years.

10. Affiliate Transactions

Holdings provides certain administrative services to the Company. These services include, but are not limited to, the Company's payroll, tax and human resources processing. The Company reimburses Holdings for these services.

The Company earns a portion of its commission revenue by executing and clearing brokerage transactions for various affiliates.

The Company has a revolving loan agreement with MFG Finance that matures February 28, 2010. The Company can borrow up to $200,000,000 under this agreement. There are no outstanding borrowings at September 30, 2009.

MFG Finance provides financing loans to certain customers of the Company, primarily for meeting margin variations. As of September 30, 2009, the total amount of outstanding financing provided by MFG Finance is $21,688,900.

The Company has an agreement with MF Global UK Ltd ("MFG UK"), an affiliate, to introduce customers to MFG UK who desire to purchase or sell London Metals Exchange futures and options contracts. For such contracts, the counterparties are customers of MFG UK with no obligation of performance by the Company. The Company receives a share of the "Net Profits," as defined in the agreement, from such transactions.

Certain balances included in receivable from and payable to affiliates on the statement of financial condition have been recorded net in accordance with ASC 210-20. The following is a schedule of the components of the receivable from and payable to affiliates. These balances are reported net.

	Due From	Due To
Securities purchased under agreements to resell	$ 4,305,865,400	$ 646,206,700
Futures transactions	(1,200)	1,441,858,600
Securities loaned	-	5,229,600
Securities transactions	(18,968,400)	14,031,900
Direct and indirect allocated expenses	738,700	(1,617,100)
	$ 4,287,634,500	$ 2,105,709,700

11. Net Capital Requirement

The Company is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1"), which requires a broker-dealer that is also registered as a futures commission merchant to maintain adjusted net capital equal to or above the greater of its requirement under paragraph (a)(1)(ii) of Rule 15c3-1, or the aggregate of 8% of customer maintenance margin requirements and 4% of non-customer maintenance margin requirements. At September 30, 2009, MFGI had net capital, as defined, of $626,854,300, which was $270,726,100 in excess of the minimum capital required to be maintained.

The Company is subject to certain notification and other provisions of the net capital rules of the CFTC and SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At September 30, 2009, the Company was in compliance with all of the requirements.

12. Segregation of Funds

The Company is required, under the Commodity Exchange Act and under Rule 15c3-3 of the Securities Exchange Act of 1934, to segregate assets at least equivalent to balances due to customers trading on domestic and foreign futures and securities markets.

At September 30, 2009, assets segregated or held in separate accounts under applicable regulations are as follows:

Pursuant to Commodity Exchange Act:	
Cash at:	
Banks	$ 316,528,700
Clearing organizations	8,009,700
Securities and commodities owned at:	
Banks	4,095,865,600
Clearing organizations	2,896,575,400
Due to exchange clearing organizations, net	(185,211,700)
Total segregated assets included on the statement of financial condition	7,131,767,700
Items reclassified for statement of financial condition purposes:	
Market value of securities owned by customers	753,192,100
Market value of commodity options owned by customers, net	32,085,400
Total segregated assets	7,917,045,200
Foreign secured assets related to foreign futures activities:	
Cash at:	
Banks	13,034,400
Securities owned at:	
Banks	41,866,300
Due from brokers, net	954,729,100
Total foreign secured assets included on the statement of financial condition	1,009,629,800
Items reclassified for statement of financial condition purposes (Note 2):	
Market value of securities owned by customers	11,165,700
Market value of commodity options owned by customers, net	15,760,100
Total foreign secured assets	1,036,555,600
Total segregated and foreign secured assets	$ 8,953,600,800
Pursuant to Securities Exchange Act requirements:	
Cash at bank	$ 204,037,300

At September 30, 2009, the Company is in compliance with these segregation requirements and holds segregated assets in excess of amounts due to customers.

Securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC totaled $7,345,993,700 at September 30, 2009 and are included in restricted cash and segregated securities on the statement of financial condition.

13. Derivative Financial Instruments

The Company may use futures contracts and foreign currency forward contracts primarily for purposes of mitigating its exposure to fluctuation in interest rates and foreign currencies. The futures and forward contracts are marked to market based upon quoted market prices. As of September 30, 2009, there are no open forward contracts and the number of long and short open futures contracts were 1,951 and 8,880, respectively.

Derivative financial instruments involve varying degrees of off-balance sheet market risk, whereby changes in the level or volatility of interest rates, foreign exchange rates or market values of the underlying financial instruments or commodities may result in cash settlements which may exceed the amounts recognized on the statement of financial condition. The Company has procedures in place to mitigate market risk, although there can be no assurance that they will, in fact, succeed in doing so.

14. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is engaged in various trading, brokerage and investing activities with counterparties, which primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk of default. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

Transactions in futures contracts are conducted through regulated exchanges and are subject to margin requirements which are settled in cash on a daily basis, thereby minimizing credit risk. Off-balance sheet market risk of futures and options positions executed and cleared for the Company's customers and affiliates is directly borne by such entities. However, as a clearing broker, the Company is required to reimburse the exchanges if credit losses arise because counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral, where appropriate.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the financial statements at September 30, 2009, at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to September 30, 2009.

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory

and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources, such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes limits for such activities and monitors compliance on a daily basis.

15. Stock-Based Compensation

Certain of the Company's employees participate in MFG Ltd.'s 2007 Long-term Incentive Plan ("LTIP"). The Company records its allocated share of MFG Ltd.'s stock-based compensation costs. The LTIP permits the grant of up to 24,000,000 shares of stock in the form of share appreciation rights, restricted shares, restricted share units, performance awards, cash-based awards and other awards to eligible employees, consultants, directors and other individuals who provide services to MFG Ltd. and its subsidiaries, each as determined by the Compensation Committee of the Board of Directors. Share options vest in equal installments over three years. The vested awards can be exercised, subject to continued employment, within seven years from the date of the grant. Restricted shares vest in full after three years, subject to continued employment or meeting certain retirement criteria and were issued at no cost to the employee.

The fair value of each share option is estimated at the date of grant using a Black-Scholes option valuation model that uses the following assumptions. Due to the lack of historical data for MFG Ltd.'s own shares, MFG Ltd. based its expected volatility on a representative peer group that took into account the following criteria: industry, market capitalization, stage of life cycle and capital structure. The risk-free rate is based on the implied yield currently available on zero coupon U.S. government bonds with a term consistent with the expected term on the date of grant. MFG Ltd. has not paid and does not expect to pay dividends in the future; accordingly the assumed dividend yield is zero. The model's assumptions for the six months ended September 30, 2009 are as follows:

Expected volatility	55.0%
Risk free interest rate	2.9%
Expected dividend yield	0.0%
Expected term	4.5 years

The stock option activity for the Company's employees for the six months ended September 30, 2009 is as follows:

	Number	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Stock options outstanding as of April 1, 2009	3,485,444	$ 26.96	5.5	$ 25,000
Granted	262,163	5.92	6.7	
Forfeited	(220,619)	28.88	4.9	
Stock options outstanding as of September 30, 2009	3,526,988	25.27	5.1	523,318
Stock options expected to vest as of September 30, 2009	3,429,717	25.47	5.1	476,626
Stock options exercisable at September 30, 2009	2,031,982	28.47	4.9	-

The restricted share units and restricted share activity for the Company's employees for the six months ended September 30, 2009, is as follows:

	Restricted Share Units	
	Awards	Weighted-Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2008	1,898,916	$ 27.00
Granted	364,163	5.47
Exercised	(130,963)	19.76
Forfeited	(63,030)	27.85
Nonvested as of September 30, 2009	2,069,086	23.64
Total unrecognized compensation expense remaining	$ 14,436,166	
Weighted-average years expected to be recognized over	1.1	

MFG Ltd. has an Employee Stock Purchase Plan ("ESPP") to provide employees with an opportunity to purchase shares from MFG Ltd. at a discount of 15% and to pay for these purchases through payroll deductions. Participants can withhold 1-15% of their eligible compensation; however, no participant can purchase more than 500 shares or shares exceeding $8,000 in market value. As of September 30, 2009, 156,503 shares were awarded from this plan.

16. Commitments and Contingencies

ASC 460, formerly FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. The Company, in its normal course of business, may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote.

Set forth below are the potentially material litigations and regulatory proceedings related to the Company:

Unauthorized Trading Incident of February 26/27, 2008

One of the Company's brokers, Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of the Company's front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26, 2008 and early morning of February 27, 2008. The positions were liquidated at a loss of $141,045,000 on February 27, 2008. The trades were unauthorized and because the broker had no apparent means of paying for the trades, the Company, as a clearing member of the exchange, was required to pay the $141,045,000 shortfall. The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by the Company the next day. As a result of this unauthorized trading incident:

The U.S. Attorney's Office, Chicago Examination. The U.S. Attorney's Office in Chicago, Illinois is examining Mr. Dooley and the unauthorized trades. The Company has been cooperating with the U.S. Attorney's Office, which has informed the Company that it is not a target of their investigation, and that Mr. Dooley is a target.

Commodity Futures Trading Commission Investigation. The CFTC has issued a formal order of investigation naming the Company and Mr. Dooley. The CFTC, in coordination with the CME, has been collecting documentation from the Company and taking depositions of its employees. The CFTC and CME investigation is ongoing and it is not yet certain what actions the CFTC and/or the CME might take. The Company established an accrual of $10,000,000 in the first quarter of fiscal 2009 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to below under the captions, "Commodity Futures Trading Commission Potential Action" and "CFTC Natural Gas Price Information Investigation". This is the Company's best estimate and there is no assurance that the $10,000,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures. The Company established an accrual of $450,000 in the six months ended September 30, 2009 for the CME matter.

Retention of Consultants. MFG Ltd's Nominating and Governance Committee, composed of certain independent Board members, hired two consultants to help advise them and, through them, the Company, on matters relating to the unauthorized trading incident. FTI Consultants advised on technology-related matters and Promontory Financial Group advised on policies and procedures in the risk aspects of the Company's business.

Insurance Claim. The Company filed a claim under its Fidelity Bond Insurance ("the Bond"), which provides coverage for wrongful or fraudulent acts of employees, seeking indemnification for this loss. After months of investigation, the Company's Bond insurers have denied payment of this claim based on certain definitions and exclusions to coverage in the Bond. They have also initiated an action against the Company in the Supreme Court of the State of New York seeking a declaration that there is no coverage for this loss under the Bond. The Company believes the insurers' position to be in error and has filed a counterclaim in order to seek to enforce its right to payment in court.

Commodity Futures Trading Commission Potential Action

In May 2007, the Company and two of its individual employees received what is commonly referred to as a "Wells notice" from the staff of the Division of Enforcement of the CFTC. The notice relates to two trades that the Company executed in 2004 for a customer and reported to NYMEX. In the

notice, Division of Enforcement staff indicated that it is considering recommending to the CFTC that a civil proceeding be commenced against the Company and the two individuals, in which the CFTC would assert that the Company and the two individuals violated Section 9(a)(4) of the Commodity Exchange Act, which generally prohibits any person from willfully making any false, fictitious, or fraudulent statements or representations, or making or using any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement to a board of trade. The Division of Enforcement staff contends that the Company and the individuals presented or participated in the submission of information to the exchange that falsely represented the dates on which the trades in question occurred. The Company and the individuals dispute the contentions of the Division of Enforcement staff and have submitted a written statement to the Division of Enforcement, setting forth the reasons why it believes no proceeding should be brought. It is not yet certain what action the CFTC will take. The Company established an accrual of $10,000,000 in the first quarter of fiscal 2009 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to under the captions, "Unauthorized Trading Incident of February 26/27, 2008" and "CFTC Natural Gas Price Information Investigation". This is the Company's best estimate and there is no assurance that the $10,000,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

CFTC Natural Gas Price Information Investigation

The Company has been cooperating in an investigation conducted by the U.S. Attorneys Office in the Southern District of New York, which has brought an indictment in a related matter, and by a New York County Grand Jury. The CFTC and the SEC have also been involved in the investigation and each has brought cases in related matters. The investigation centers around trading by a market making energy trader at Bank of Montreal ("BMO") who allegedly mismarked his book. One of the Company's brokers did business with the BMO trader and used bid and offer prices for forward O.T.C. trades the BMO trader sent to him as a basis for prices which the Company's broker disseminated to its customers, including BMO, as price indications that reflected a consensus. The Company has been told that neither the Company nor its broker are targets of the Grand Jury investigation. In connection with this investigation, the Company has been served by the CFTC with a Wells notice in anticipation of civil charges against the broker under the anti-fraud provisions of CFTC Regulation 33.10 and the Company with derivative liability for the broker's actions. The CFTC investigation is ongoing and it is not yet certain what action the CFTC may take against the Company or its broker. The Company established an accrual of $10,000,000 in the first quarter of fiscal 2009 to cover the potential of CFTC civil monetary penalties in this matter and the two matters referred to above under the captions, "Unauthorized Trading Incident of February 26/27, 2008" and "Commodity Futures Trading Commission Potential Action." This is the Company's best estimate and there is no assurance that the $10,000,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

Bank of Montreal ("BMO")

On August 28, 2009, BMO instituted suit against the Company and its former broker, Joseph Saab ("Saab") (as well as a firm named Optionable, Inc. and five of its principals or employees), in the United States District Court for the Southern District of New York. In its complaint, BMO asserts various claims against all defendants for their alleged misrepresentation of price quotes to BMO's Market Risk Department ("MRD") as independent quotes when defendants knew, or should have known, that David Lee ("Lee"), BMO's trader, created the quotes which, in circular fashion, were passed on to BMO through the Company's broker, thereby enabling Lee substantially to overvalue his book at BMO. BMO further alleges that the Company and Saab knew that Lee was fraudulently misrepresenting prices in his options natural gas book and aided and abetted his ability to do so by the Company's actions in sending price indications to the BMO MRD, and substantially assisted

Lee's breach of his fiduciary duties to BMO as its employee. The facts underlying this action also relate to the on-going CFTC natural gas price information investigation described above in "CFTC Natural Gas Price Information Investigation." The Complaint seeks to hold all defendants jointly and severally liable and, although it does not specify an exact damage claim, it claims CAD 680,000,000 (approximately $635,900,000) as a pre-tax loss for BMO in its natural gas trading, and claims that it would not have paid brokerage commissions to the Company (and Optionable Inc.), would not have continued Lee and his supervisor as employees at substantial salaries and bonuses, and would not have incurred substantial legal costs and expenses to deal with the Lee mispricing. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.

The Company was named as a co-defendant in an action filed in Florida State Court by Eagletech Communications Inc. ("Eagletech") and three of its alleged shareholders against 21 defendants, including banks, broker-dealers and clearing brokers, as well as "100 John Doe defendants or their nominee entities". The complaint alleges that the defendants engaged in a criminal conspiracy designed to manipulate the publicly traded share price of Eagletech stock. Plaintiffs seek unspecified compensatory and special damages, alleging that "Man Group PLC d/b/a Man Financial Inc" participated in the conspiracy by acting as a clearing broker for a broker-dealer that traded in Eagletech stock. The complaint asserts claims under RICO, the Florida Securities and Investor Protection Act, the Florida Civil Remedies for Criminal Practices Act, and a related negligence claim. On May 9, 2007, defendants filed a notice removing the State Court action to Federal Court pursuant to 28 U.S.C. § 1441(a). On October 2, 2007, Plaintiffs filed a first amended complaint in the Federal Court action asserting additional claims against the Company under Florida common law, including civil conspiracy, conversion and trespass to chattels. On February 26, 2008, the financial institution defendants, including the Company, filed a motion to dismiss seeking dismissal of all claims asserted in the amended complaint on the ground that the claims are barred by the Private Securities Litigation Reform Act ("PSLRA") and preempted by the federal securities laws. On June 27, 2008, the Court partially granted the motion, holding that the federal RICO claims are barred by the PSLRA and dismissing the RICO claims with prejudice. The Court declined to exercise supplemental jurisdiction over the state law claims and remanded those claims to the Florida State Court. On July 25, 2008, plaintiffs filed a notice of appeal of the Court's June 27, 2008 decision to the United States Court of Appeals for the Eleventh Circuit but subsequently withdrew its appeal. The Company is unsure of whether plaintiffs will pursue the State Court action. Since the case is in its earliest stages, it is difficult to determine exposure, if any. The Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Amacker v. Renaissance Asset Management Fund et. al.

In December 2007, the Company, along with four other futures commission merchants ("FCMs"), were named as defendants in an action filed in the U.S. District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that the Company and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor, which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of $32,000,000, plus exemplary damages, from all defendants. All of the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference,

the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek $17,000,000 in claimed damages plus exemplary damages from all defendants. The Company filed a motion to dismiss the amended complaint which was granted by the court and appealed by the plaintiffs. The case is at its earliest stages so it is not possible to determine the Company's exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Sentinel Bankruptcy

The Liquidation Trustee ("Trustee") for Sentinel Management Group, Inc. ("Sentinel") sued the Company in June 2009 on the theory that the Company's withdrawal of $50,122,000 within 90 days of the filing of Sentinel's bankruptcy petition on August 17, 2007 is a voidable preference under Section 547 of the Bankruptcy Code and, therefore, recoverable by the Trustee, along with interest and costs. The Company believes there are substantial defenses available to it and it intends to resist the Trustee's attempt to recover those funds from the Company. In addition, to the extent the Trustee recovered any funds from the Company, it would be able to assert an offsetting claim in that amount against the assets available in Sentinel's bankruptcy case. The matter is in its early stages and litigation has just commenced. No provision for losses has been recorded in connection with this claim.

Agape World

In May 2009, investors in a venture set up by Nicholas Cosmo sued Bank of America and the Company, among others, in the U.S. District Court for the Eastern District of NY, alleging that the Company, among others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost $400,000,000. The Company has made a motion to dismiss which is currently pending before the court. The litigation is in its earliest stages. The Company believes it has meritorious defenses and intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Phidippides Capital Management/Mark Trimble

In the late spring of 2009, the Company was sued in Oklahoma State Court by customers who were substantial investors with Mark Trimble and/or Phidippides Capital Management. Trimble and Phidippides may have been engaged in a Ponzi scheme. Plaintiffs allege that the Company "materially aided and abetted" Trimble's and Phidippides' violations of the anti-fraud provisions of the Oklahoma securities laws and they are seeking damages "in excess of" $10,000 each. The Company made a motion to dismiss which was granted by the court. Plaintiffs have appealed. The Company believes it has meritorious defenses and intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Morgan Fuel/Bottini Brothers

The Company and MF Global Market Services LLC ("Market Services"), an affiliate, are currently involved in litigation with a former customer of Market Services, Morgan Fuel & Heating Co., Inc. ("Morgan Fuel") and its principals, Anthony Bottini, Jr., Brian Bottini and Mark Bottini (the "Bottinis"). The litigations arise out of trading losses incurred by Morgan Fuel in over-the-counter derivative swap transactions, which were unconditionally guaranteed by the Bottini principals.

MF Global Market Services LLC v. Anthony Bottini, Jr., Brian Bottini and Mark Bottini, FINRA No. 08-03673. On October 6, 2008, Market Services commenced an arbitration against the Bottinis

before the FINRA to recover $8,300,000, which is the amount of the debt owed to Market Services by Morgan Fuel after the liquidation of the swap transactions. Each of the Bottinis executed a guaranty in favor of Market Services personally and unconditionally guaranteeing payment of the obligations of Morgan Fuel upon written demand by Market Services. Market Services asserted a claim of breach of contract based upon the Bottinis' failure to honor the guarantees.

Morgan Fuel v. MFGI and Market Services, FINRA No. 08-03879. On October 21, 2008, Morgan Fuel commenced a separate arbitration proceeding before FINRA against the Company and Market Services. Morgan Fuel claims that the Company and Market Services caused Morgan Fuel to incur approximately $14,200,000 in trading losses. Morgan Fuel seeks recovery of $5,900,000 in margin payments that it allegedly made to Market Services and a declaration that it has no responsibility to pay Market Services for the remaining $8,300,000 in trading losses. Morgan Fuel contends that the Company and Market Services should not have allowed Morgan Fuel to enter into, or maintain, the swap transactions. The Supreme Court of New York for the County of New York has temporarily stayed the arbitration commenced by Morgan Fuel on the ground that there is no agreement to arbitrate. The motion for a permanent stay was denied and the Company has appealed that decision.

The Bottinis asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against the Company, Market Services and Steven Bellino (a Market Services employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim was also denied by the court and the Company has appealed that decision as well.

It is difficult at this stage to determine exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Other

In addition to the matters discussed above, from time to time the Company is party to litigation and regulatory proceedings that arise in the ordinary course of its business. Aside from those matters discussed above, the Company does not believe that it is party to any pending or threatened litigation or regulatory proceedings that, individually or in the aggregate, would in the opinion of management have a material adverse effect on the Company's business or financial condition.

At September 30, 2009, customers' letters of credit amounting to $797,775,000 have been deposited for margin requirements with clearing organizations.

The Company guarantees certain third-party loans to lenders on behalf of professional traders on a collateralized basis. Guarantees at September 30, 2009 amount to $5,092,500 and the market value of the collateral, consisting of exchange memberships, is $13,417,500.

17. Subsequent Events

During the third fiscal quarter of 2010, the Company repaid $50,000,000 of outstanding subordinated debt scheduled to mature on March 31, 2010. After giving effect to the payment, the Company continues to meet its regulatory net capital requirements.

Appendix 7.D

Man Securities Inc

Statement of Financial Condition
March 31, 2007
Available for Public Inspection

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0123 Expires: January 31, 2007 Estimated average burden hours per response.....12.00

ANNUAL AUDITED REPORT
FORMX-17A-5
PART III

SEC FILE NUMBER
8- 18104

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 4/1/2006 (MM/DD/YY) AND ENDING 3/31/2007 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Man Securities Inc

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

440 South LaSalle Street 20th Floor
(No. and Street)

Chicago (City) Illinois (State) 60605 (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Jim Marino 312-261-7102
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in the Report*
PricewaterhouseCoopers LLP
(Name – if individual, state last, first, middle name)

One North Wacker Drive 14th Floor (Address) Chicago (City) Illinois (State) 60606 (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number
SEC 1410 (06-02)

OATH OR AFFIRMATION

I, F. Kemper Cagney, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Man Securities Inc, as of March 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

signature

Signature

Chief Financial Officer

Title

signature

Notary Public

"OFFICIAL SEAL"
LAURA M SCOTT
COMMISSION EXPIRES 01/31/11

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Man Securities Inc
Index
March 31, 2007

	Page(s)
Report of Independent Auditors	1
Statement of Financial Condition	2
Notes to Statement of Financial Condition	3-9

Report of Independent Auditors

To the Board of Directors and Stockholder of
Man Securities Inc:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Man Securities Inc (the "Company") at March 31, 2007, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

signature

May 29, 2007

Man Securities Inc
Statement of Financial Condition
March 31, 2007

Assets		
Cash	$	13,453,900
Cash segregated under Federal regulations		71,181,300
Securities purchased under agreements to resell		5,228,922,300
Due from brokers, dealers and clearing organizations		59,573,400
Due from customers and noncustomers, net		28,658,300
Securities borrowed		1,539,688,200
Securities owned, at fair value		438,408,400
Due from affiliates		309,710,800
Memberships in exchanges, at cost (market value of $1,911,500)		422,400
Fixed assets and computer equipment (net of accumulated depreciation of $87,600)		144,700
Accounts receivable and other assets, net		22,466,100
Total assets	$	7,712,629,800
Liabilities and Stockholder's Equity		
Liabilities		
Securities sold under agreements to repurchase	$	3,749,621,700
Due to brokers, dealers and clearing organizations		107,947,000
Due to customers and noncustomers		137,994,700
Securities loaned		1,653,350,500
Securities sold, not yet purchased, at fair value		699,684,300
Due to affiliates		1,229,131,700
Accounts payable and accrued liabilities		15,177,100
Total liabilities		7,592,907,000
Commitments and contingent liabilities (Note 11)		
Subordinated borrowings		60,000,000
Stockholder's equity		59,722,800
Total liabilities and stockholder's equity	$	7,712,629,800

The accompanying notes are an integral part of this financial statement.

1. Organization

Man Securities Inc (the "Company") is a wholly owned subsidiary of Man Financial Inc (the "Parent"). The Company's Parent is a wholly owned subsidiary of Man International Inc ("Man International") which is 100% owned by Man Group USA Inc. ("Man Group"), a United States corporation. The ultimate parent is Man Group plc, a United Kingdom corporation.

The Company is registered with the Securities and Exchange Commission ("SEC") as a securities broker-dealer, and is a member of the National Association of Securities Dealers, Inc. ("NASD") and the Chicago Board Options Exchange ("CBOE"). The Company provides clearing and execution services to customers and affiliates on United States securities exchanges. The Company is engaged in proprietary trading in U.S. government securities and futures contracts, as well as stock borrow, stock loan, repurchase and resale transactions.

On March 30, 2007, Man Group plc announced its intentions to separate its brokerage business under Man Financial Global Ltd. (MF Global). The proposed separation will be effected by an initial public offering on the New York Stock Exchange of a majority interest in MF Global and is intended to take place in the third calendar quarter of 2007, subject to market conditions remaining favorable.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results may differ from those estimates.

Fair Value of Financial Instruments

Fair value for securities owned and securities sold, not yet purchased, is estimated using external market quotations. Management estimates the aggregate fair value of other financial instruments recognized on the statement of financial condition (including receivables, payables, accrued expenses and subordinated borrowings) approximates their fair value as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Revenue Recognition

Customer securities transactions and related securities commissions, floor brokerage and clearance fees and related expenses are recognized on settlement date. There is no material difference between trade date and settlement date accounting.

Proprietary securities transactions are recorded on the trade date. Profit and loss arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase
Transactions involving purchases of securities under agreements to resell ("resale agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are accounted for as collateralized financings. Resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements.*

From time to time, the Company enters into securities financing transactions which mature on the same date as the underlying collateral's stated maturity. The Company accounts for these transactions under the prescribed guidance included in Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"), as a sale of financial assets and a purchase commitment or, conversely, as a purchase of financial assets and a sale commitment. The purchase and sale commitments are valued at estimated fair value and are accounted for as derivatives under SFAS No.133 "Accounting for Derivative Instruments and Hedging Activities". Realized gains and losses are recognized on settlement date.

Due from and Due to Customers and Noncustomers
Due from and due to customers and noncustomers arising in connection with securities transactions include cash deposits and amounts due on margin transactions. Securities owned by customers and noncustomers are held as collateral for receivables. Such collateral is not reflected on the statement of financial condition.

Securities Borrowed and Loaned
Securities borrowed and securities loaned transactions are reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. In securities loaned transactions, the Company receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary. As of March 31, 2007, the market value of collateral received in securities borrowed transactions was $1,931,442,200. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged as appropriate. As of March 31, 2007, the market value of collateral pledged under securities loaned transactions was $1,927,832,800.

Collateral
The Company records on the statement of financial condition assets it has pledged as collateral in secured borrowings and other arrangements when the secured party cannot sell or repledge the assets.

Memberships in Exchanges
Exchange memberships used in the Company's operations are reflected at cost, or, if an impairment in value is determined by management to be other than temporary, at an adjusted value that reflects management's estimate of the impairment. There was no other than temporary impairment at March 31, 2007.

Fixed Assets and Computer Equipment
Furniture and equipment are depreciated over their estimated useful lives of three to five years using the straight-line method.

Stock Based Compensation
Certain employees of the Company participate in stock-based incentive plans sponsored by Man Group plc. Employee stock-based compensation expense is allocated by Man Group Plc to the Company.

Income Taxes
The Company is included in the consolidated Federal and state income tax returns of Man Group. Federal and state income taxes are determined on a separate return basis pursuant to a tax sharing agreement between the Company and Man Group. The Company accounts for income taxes under the liability method. Under this method, deferred taxes are provided for differences between financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates that will be in effect when these differences are expected to reverse.

3. Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. As of March 31, 2007, the market value of collateral received under reverse repurchase agreements was $26,626,908,700 of which $158,975,200 was pledged with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged as appropriate. As of March 31, 2007, the market value of collateral pledged under repurchase agreements was $26,696,339,100.

In accordance with SFAS No. 140, at March 31, 2007, the Company de-recognized assets and liabilities from the statement of financial condition as follows:

	Contract Value
Securities purchased under agreements to resell	$ 3,845,728,900
Securities sold under agreements to repurchase	$ 4,464,115,500
	Market Value
Securities owned	$ 4,455,766,500
Securities sold, not yet purchased	$ 3,838,361,000

The fair value of the open commitments resulting from the application of SFAS 140 is recorded on the statement of financial condition as follows:

	March 31, 2007
Forward purchase commitment - included in Due to brokers, dealers and clearing organizations	$ 3,114,500
Forward sale commitment - included in Due from customers and non customers	$ 2,694,200

4. Due from and Due to Brokers, Dealers and Clearing Organizations

Amounts due from and due to brokers, dealers and clearing organizations at March 31, 2007 consist of the following:

	Due From	Due To
Securities failed to deliver/receive	$ 12,656,500	$ 4,899,300
Due from/due to clearing brokers	2,558,600	100,345,000
Due from/due to clearing organizations	44,078,800	2,702,700
Other	279,500	-
	$ 59,573,400	$ 107,947,000

5. Securities Owned and Securities Sold, Not Yet Purchased

Securities at March 31, 2007 consist of:

	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities	$ 432,909,900	$ 699,663,600
Other (primarily equity securities)	5,498,500	20,700
	$ 438,408,400	$ 699,684,300

At March 31, 2007, $21,054,100 of U.S. government securities owned by the Company are pledged with clearing organizations.

6. Income Taxes

The Company files consolidated Federal, state and local income tax returns with Man Group.

The components of the deferred tax assets and liabilities at March 31, 2007 are as follows:

Deferred tax assets	
Deferred compensation	$ 761,000
Charitable contributions	19,900
Bad debts	23,700
Goodwill	57,600
Costs not incurred	210,300
Depreciation	5,200
Illinois net operating losses	5,230,800
Valuation allowance	(5,230,800)
	1,077,700
Deferred tax liabilities	
Unrealized gains	(327,300)
	(327,300)
Deferred tax asset, net	$ 750,400

The Company has determined that the deferred tax asset related to Illinois net operating losses, arising from the exclusion of U.S. treasury interest income from Illinois taxable income, is not realizable. The Company has reviewed the other components of the net deferred tax asset and determined it is more likely than not that it will be realized. The net deferred tax asset is included in accounts receivable and other assets on the statement of financial condition.

7. Benefit Plans

During the year, eligible employees of the Company were covered by Man Group's non-contributory single-employer cash balance pension plan and 401(k) plan. The cash balance pension plan was terminated effective August 31, 2006. The Company matches employees' contributions to the 401(k) plan subject to certain limitations set forth in the 401(k) plan's agreement.

8. Subordinated Borrowings

The Company has a subordinated loan agreement with Man Group Finance, Inc. ("Man Group Finance") for $60,000,000. The loan matures on December 31, 2007 and carries interest at a rate agreed between Man Group Finance and the Company. The effective interest rate was 6% at March 31, 2007. Based upon an agreement approved by the CBOE, the subordinated loan is available in computing regulatory net capital. This loan may be repaid prior to maturity only if, after giving effect to such payment, the Company meets its regulatory net capital requirements.

9. Related Party Transactions

Man Group and the Parent provide certain administrative services to the Company. These services include, but are not limited to, the Company's payroll, accounting, office services, back office and human resources processing. The Company reimburses Man Group and the Parent for these services.

Day to day financing is provided to the Company by an affiliate and the Parent. The Company has a revolving loan agreement with Man Group Finance which matures March 31, 2010. The Company can borrow up to $120,000,000 under this agreement. Outstanding borrowings amounted to $25,602,500 at March 31, 2007. The Company also has a revolving loan agreement with the Parent which matures March 31, 2010. The Company can borrow up to $45,000,000 under this agreement. There were no outstanding borrowings at March 31, 2007. Financing interest due to the affiliate is calculated based on the Federal funds rate plus 75 basis points and interest due to the Parent is based on the Federal funds rate.

10. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is engaged in various trading, brokerage and investing activities with counterparties, which primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk of default. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these

obligations in the financial statements at March 31, 2007, at market values of the related securities and will incur a loss if the market value of the securities increases subsequent to March 31, 2007.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes limits for such activities and monitors compliance on a daily basis.

11. Commitments and Contingencies

FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. The Company, in its normal course of business, may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote.

In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations and other litigation. Certain of these legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, or actions which are in very preliminary stages, the Company cannot predict with certainty the eventual loss

or range of loss related to such matters. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of these actions will not have a material adverse effect on the financial condition of the Company, although the outcome could potentially be material to the Company's future operating results for a particular period or periods.

Appendix 7.E

Man Financial Inc and Subsidiaries

Consolidated Statement of Financial Condition
March 31, 2007

Available for Public Inspection

Man Financial Inc and Subsidiaries
Contents
March 31, 2007

	Page(s)
Report of Independent Auditors	1
Consolidated Statement of Financial Condition	2
Notes to Consolidated Statement of Financial Condition	3-13

CFTC FORM 1-FR-FCM [0005]

Name of Company: Man Financial Inc [0010]	Employer ID No: 362801777 [0020]	NFA ID No: 0266826 [0030]
Address of Principal Place of Business: 440 South LaSalle Street, 20th Floor, Chicago, Il 60605 [0050]	Person to Contact Concerning This Report: Christine Serwinski [0040] Telephone No: 312-261-7105 [0060] E-Mail Address: cserwinski@manfinancial.com [0085]	

1. Report for the period beginning 04/01/2006 [0070] and ending 03/30/2007 [0080]

2. Type of report [0090] [X] Certified [ ] Regular quarterly/semiannual [ ] Monthly 1.12(b)

   [ ] Special call by: _____ [X] Other -- Identify: Annual

3. Check whether [0095] [X] Initial filing [ ] Amended filing

4. Name of FCM's Designated Self-Regulatory Organization: CME [0100]

5. Name(s) of consolidated subsidiaries and affiliated companies:

Name		Percentage Ownership		Line of Business	
GNI Securities Inc	0110	100.00	0120	Non regulated entity	0130
Man Securities Inc	0140	100.00	0150	Broker Dealer	0160

The futures commission merchant, or applicant for registration therefor, submitting this Form and its attachments and the person whose signature appears below represent that, to the best of their knowledge, all information contained therein is true, correct and complete. It is understood that all required items, statements and schedules are integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted. It is further understood that any intentional misstatements or omissions of facts constitute Federal Criminal Violations (see 18 U.S.C. 1001).

Signed this 28th [redacted]

Manual signature [redacted]

Type or print name F. Kemper Cagney

[ ] Chief Executive Officer [X] Chief Financial Officer Corporate Title _____

[ ] General Partner [ ] Sole Proprietor

AUTHORITY: Sections 4c, 4d, 4f, 4g, 5a, 8a, and 17 of the Commodity Exchange Act (7 U.S.C. 6c, 6d, 6f 6g, 7a, 12a and 21)

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One North Wacker
Chicago IL 60606
Telephone (312) 298 2000
Facsimile (312) 298 2001

Report of Independent Auditors

To the Board of Directors and Stockholder of
Man Financial Inc:

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the consolidated financial position of Man Financial Inc and its subsidiaries (collectively, the "Company") at March 31, 2007 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

signature

June 28, 2007

Man Financial Inc and Subsidiaries
Consolidated Statement of Financial Condition
March 31, 2007

Assets	
Cash	$ 548,785,600
Cash and securities segregated under Federal regulations	939,053,900
Securities purchased under agreements to resell	7,164,607,700
Due from brokers, dealers and clearing organizations	803,501,100
Due from customers and noncustomers (net of allowance of $1,636,600)	330,950,100
Securities borrowed	1,539,688,100
Securities owned, at fair value	3,064,363,100
Due from affiliates	461,345,300
Memberships in exchanges, at cost (market value of $61,208,400)	11,139,100
Accounts receivable and other assets (net of allowance of $389,400)	75,204,500
Furniture, equipment and leasehold improvements (net of accumulated depreciation and amortization of $8,796,200)	18,841,500
Deferred tax asset, net	4,345,100
Intangible assets (net of accumulated amortization of $25,890,700)	153,650,800
Total assets	$ 15,115,475,900
Liabilities and Stockholder's Equity	
Liabilities	
Securities sold under agreements to repurchase	$ 3,749,621,700
Due to brokers, dealers and clearing organizations	122,435,800
Due to customers and noncustomers	7,466,365,200
Securities loaned	1,653,350,500
Securities sold, not yet purchased, at fair value	699,684,300
Due to affiliates	192,251,100
Accounts payable and accrued liabilities	246,271,700
Total liabilities	14,129,980,300
Commitments and contingent liabilities (Note 15)	
Subordinated borrowings	716,000,000
Stockholder's equity	269,495,600
Total liabilities and stockholder's equity	$ 15,115,475,900

The accompanying notes are an integral part of this consolidated financial statement.

1. Organization

This consolidated statement of financial condition includes Man Financial Inc and its wholly owned subsidiaries, Man Securities Inc and GNI Securities Inc (collectively, the "Company").

The Company is a wholly owned subsidiary of Man International Inc (the "Parent"), which is 100% owned by Man Group USA Inc ("Man Group"), a United States corporation. The ultimate parent is Man Group plc, a United Kingdom corporation.

Man Financial Inc ("MFI") is registered with the Commodity Futures Trading Commission ("CFTC") as a futures commission merchant and is a member of the National Futures Association, an industry self-regulatory agency. MFI is also a member of the Chicago Mercantile Exchange, Chicago Board of Trade, New York Mercantile Exchange, Intercontinental Exchange, Kansas City Board of Trade, Minneapolis Grain Exchange, and Fixed Income Clearing Corporation ("FICC"). Man Securities Inc ("MSI") is registered with the Securities and Exchange Commission ("SEC") as a securities broker-dealer and is a member of the National Association of Securities Dealers, Inc. ("NASD") and the Chicago Board Options Exchange ("CBOE"). GNI Securities Inc is a dormant company.

The Company provides brokerage services to customers and affiliates on United States securities and futures exchanges and on overseas exchanges through affiliates or independent correspondent clearing brokers. The Company is also engaged in proprietary trading in U.S. government securities and futures contracts, as well as stock borrow, stock loan, repurchase and resale transactions.

On March 30, 2007, Man Group plc announced its intentions to separate its brokerage business under MF Global Ltd ("MF Global"). The proposed separation will be effected by an initial public offering on the New York Stock Exchange of a majority interest in MF Global and is intended to take place in the third calendar quarter of 2007, subject to market conditions remaining favorable. This transaction is not expected to have a material impact on the business operations of the Company.

2. Significant Accounting Policies

Use of Estimates

The preparation of this consolidated statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statement. Actual results may differ from those estimates.

Consolidation

All significant intercompany balances and related transactions have been eliminated in consolidation.

Fair Value of Financial Instruments

Fair value for securities owned and securities sold, not yet purchased, is estimated using external market quotations. Management estimates the aggregate fair value of other financial instruments recognized on the consolidated statement of financial condition (including receivables, payables, accrued expenses and subordinated borrowings) approximates their fair

value as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

Securities Transactions
Customer securities transactions, related commissions revenue and associated direct costs are recognized on settlement date. There is no material difference between trade date and settlement date accounting.

Proprietary securities transactions and the related profit and loss are recorded on a trade date basis.

Income Taxes
The Company is included in the consolidated Federal and state income tax returns of Man Group. Federal and state income taxes are determined on a separate return basis pursuant to a tax sharing agreement between the Company and Man Group. The Company accounts for income taxes under the liability method. Under this method, deferred taxes are provided for differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when these differences are expected to reverse.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase
Transactions involving purchases of securities under agreements to resell ("resale agreements") or sales of securities under agreements to repurchase ("repurchase agreements") are accounted for as collateralized financings. With respect to transactions cleared through FICC, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41 and FIN 39.

From time to time, the Company enters into securities financing transactions which mature on the same date as the underlying collateral's stated maturity. The Company accounts for these transactions under the prescribed guidance included in Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140"), as a sale of financial assets and a purchase commitment or, conversely, as a purchase of financial assets and a sale commitment. The purchase and sale commitments are valued at estimated fair value and are accounted for as derivatives under SFAS No.133 "Accounting for Derivative Instruments and Hedging Activities". Realized gains and losses are recognized on settlement date and are included in other revenue.

Due From and Due to Customers and Noncustomers
Due from and due to customers and noncustomers, arising in connection with futures transactions, includes cash margin deposits and gains and losses on open commodity futures contracts.

Customer and noncustomer owned securities, consisting primarily of U.S. Government securities, are held by the Company as collateral for receivables from customers and noncustomers as margin deposits for trading. Customer and noncustomer owned securities held by the Company (amounting to $1,937,026,700 and $230,140,700, respectively) and the net short value of customers and noncustomers' options on futures positions (amounting to $468,190,800 and $3,144,800, respectively) are not reflected on the consolidated statement of financial condition. A portion of these securities, in the amount of $750,128,000, has been deposited as margin with clearing organizations and carrying brokers.

Due from and due to customers and noncustomers arising in connection with securities transactions include cash deposits and amounts due on margin transactions. Securities owned by customers and noncustomers are held as collateral for receivables. Such collateral is not reflected on the consolidated statement of financial condition.

Securities Borrowed and Loaned
Securities borrowed and securities loaned transactions are reported as collateralized financings. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. In securities loaned transactions, the Company receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary. As of March 31, 2007, the market value of collateral received in securities borrowed transactions was $1,931,442,200. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged as appropriate. As of March 31, 2007, the market value of collateral pledged under securities loaned transactions was $1,927,832,800.

Collateral
The Company records on the consolidated statement of financial condition assets it has pledged as collateral in secured borrowings and other arrangements when the secured party cannot sell or repledge the assets.

Memberships in Exchanges
Exchange memberships used in the Company's operations are reflected at cost or, if an impairment in value is determined by management to be other than temporary, at an adjusted value that reflects management's estimate of the impairment. There was no other than temporary impairment at March 31, 2007.

Furniture, Equipment and Leasehold Improvements
Furniture and equipment are depreciated over their estimated useful lives of three to five years using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the related lease.

Intangible Assets
Intangible assets represent primarily the cash paid for the purchase of customer accounts and relationships. Intangible assets are reviewed annually for impairment and there was no other than temporary impairment at March 31, 2007.

On March 2, 2007, the Company purchased certain professional trading groups for a cash payment of $15,000,000. The purchase agreement includes an eamout provision under which additional payments will be made based on the profitability of the trading groups. The estimated fair value of the intangible assets acquired, customer relationships, was $21,510,000. The excess of the fair value of intangible assets acquired over the purchase price incurred through March 31, 2007, amounting to $6,018,400, has been recorded as a deferred acquisition credit. The intangible assets are being amortized over their estimated useful life of 7 years.

The following table illustrates the composition, type, cost, and years of amortization for the Company's intangible assets.

Intangible	Years	Original Cost	Accumulated Amortization
Customer relationships	4-10	$ 161,641,400	$ (21,330,500)
Technology	5	16,700,000	(4,453,400)
Trade name	14	1,200,000	(106,700)

Translation of Foreign Currency
Assets and liabilities denominated in foreign currencies are translated at spot exchange rates prevailing at the close of business on the reporting date. Revenues and expenses are translated at average exchange rates during the period. Translation and transaction gains and losses are recorded in other income.

3. Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. As of March 31, 2007, the market value of collateral received under reverse repurchase agreements was $28,562,190,000 of which $668,817,900 was pledged with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged as appropriate. As of March 31, 2007, the market value of collateral pledged under repurchase agreements was $26,696,339,100.

In accordance with SFAS 140, at March 31, 2007, the Company de-recognized assets and liabilities from the consolidated statement of financial condition as follows:

	Contract Value
Securities purchased under agreements to resell	$ 3,845,728,900
Securities sold under agreements to repurchase	$ 4,464,115,500

	Market Value
Securities owned	$ 4,455,766,500
Securities sold, not yet purchased	$ 3,838,361,000

The fair value of the open commitments resulting from the application of SFAS 140 is recorded on the consolidated statement of financial condition as follows:

	March 31, 2007
Forward purchase commitment - included in Due to brokers, dealers and clearing organizations	$ 3,114,500
Forward sale commitment - included in Due from customers and non customers	$ 2,694,200

4. Due from and Due to Brokers, Dealers and Clearing Organizations

Amounts due from and due to brokers, dealers and clearing organizations at March 31, 2007 consist of the following:

	Due From	Due To
Securities failed to deliver/receive	$ 12,656,400	$ 4,899,300
Due from/due to clearing brokers	46,034,300	100,345,000
Due from/due to clearing organizations	744,530,800	17,191,500
Other	279,600	-
	$ 803,501,100	$ 122,435,800

5. Securities Owned and Securities Sold, Not Yet Purchased

Securities at March 31, 2007 consist of:

	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities	$ 1,867,243,200	$ 699,663,600
Mutual funds	1,123,800,000	-
Other	73,319,900	20,700
	$ 3,064,363,100	$ 699,684,300

At March 31, 2007, $1,843,842,400 of U.S. government securities owned by the Company are pledged with clearing organizations.

6. Segregation of Funds

The Company is required, under the Commodity Exchange Act and under Rule 15c3-3 of the Securities Exchange Act of 1934, to segregate assets at least equivalent to balances due to customers trading on domestic and foreign futures and securities markets.

At March 31, 2007, assets segregated or held in separate accounts under applicable regulations included on the consolidated statement of financial condition are as follows:

Pursuant to Commodity Exchange Act requirement	
Cash at banks and clearing organizations	$ 1,113,405,500
Securities at banks and clearing organizations	5,628,268,900
Due from clearing organizations, net	9,812,700
Total segregated assets included on the consolidated statement of financial condition	6,751,487,100
Items not recorded on the consolidated statement of financial condition (Note 2)	
Market value of securities owned by customers	1,933,649,900
Net market value of commodity options owned by customers	(476,802,100)
Total segregated assets	8,208,334,900
Foreign secured assets related to foreign futures activities	
Cash at banks	307,610,400
Due from brokers, net	779,330,900
Total foreign secured assets included on the consolidated statement of financial condition	1,086,941,300
Items not recorded on the consolidated statement of financial condition (Note 2)	
Net market value of securities owned by customers	3,376,800
Net market value of commodity options owned by customers	8,611,300
Total foreign secured assets	1,098,929,400
Total segregated and foreign secured assets	$ 9,307,264,300
Pursuant to Securities Exchange Act requirements	
Cash at bank	$ 71,181,300

At March 31, 2007, the Company is in compliance with these segregation requirements and holds segregated assets in excess of amounts due to customers.

Securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC totaled $1,933,649,900 at March 31, 2007.

7. Derivative Financial Instruments

The Company may use futures contracts and foreign currency forward contracts primarily for purposes of mitigating its exposure to fluctuation in interest rates and foreign currencies. The futures and forward contracts are marked to market based upon quoted market prices, with gains and losses recorded in the consolidated statement of income as other revenue. The Company had no positions in derivatives at March 31, 2007.

Derivative financial instruments involve varying degrees of off-balance sheet market risk, whereby changes in the level or volatility of interest rates, foreign exchange rates or market

values of the underlying financial instruments or commodities may result in cash settlements which may exceed the amounts recognized on the consolidated statement of financial condition. The Company has procedures in place to control market risk, although there can be no assurance that they will, in fact, succeed in doing so.

8. Income Taxes

The Company files consolidated Federal, state and local income tax returns with Man Group and a separate income tax return in the State of Missouri.

The components of the deferred tax assets and liabilities at March 31, 2007 are as follows:

Deferred tax assets	
Deferred compensation	$ 11,926,200
Goodwill amortization	9,968,400
Bad debts	828,100
Reserves	210,300
Depreciation	1,007,900
Lease abandonment	105,100
Other	91,500
Illinois net operating losses	6,807,000
Valuation allowance	(6,807,000)
	24,137,500
Deferred tax liabilities	
Unrealized losses	(16,764,500)
Unrealized gains	(3,027,900)
Deferred tax asset, net	$ 4,345,100

The Company has determined that the deferred tax asset related to Illinois net operating losses, arising from the exclusion of U.S. treasury interest income from Illinois taxable income, is not realizable. The Company has reviewed the other components of the net deferred tax asset and determined it is more likely than not that it will be realized.

9. Benefit Plans

During the year, eligible employees of the Company were covered by Man Group's non-contributory single-employer cash balance pension plan and 401(k) plan. The cash balance pension plan was terminated effective August 31, 2006. The Company matches employees' contributions to the 401(k) plan subject to certain limitations set forth in the 401(k) plan's agreement.

10. Subordinated Borrowings

At March 31, 2007, the total balance of subordinated notes due to Man Group and Man Group Finance Inc ("Man Group Finance") includes:

Lender	Amount	Maturity
Man Group	$ 361,000,000	Less than 1 year
Man Group	130,000,000	1-3 years
Man Group Finance	225,000,000	Less than 1 year
	$ 716,000,000	

The subordinated notes carry interest at rates agreed to between the lender and the Company from time to time based upon the unpaid balance or at the Federal Funds rate plus 75 basis points. The effective interest rate was 6% at March 31, 2007. Based upon agreements approved by the Chicago Mercantile Exchange and the Chicago Board Options Exchange, the Company's designated self-regulatory organizations, the subordinated debt is available in computing regulatory net capital. This debt may be repaid prior to maturity only if, after giving effect to such payment, the Company meets its regulatory net capital requirements.

11. Related Party Transactions

Man Group provides certain administrative services to the Company. These services include, but are not limited to, the Company's payroll, accounting, office services, back office and human resources processing.

The Company earns a portion of its commission revenue by executing and clearing brokerage transactions for various affiliates

Day to day financing is provided to the Company by an affiliate. The Company has a revolving loan agreement with Man Group Finance that matures March 31, 2010. The Company can borrow up to $120,000,000 under this agreement. Outstanding borrowings amounted to $25,602,500 at March 31, 2007. Financing interest due to the affiliate is calculated based on the Federal funds rate plus 75 basis points.

The Company has an agreement with Man Financial Ltd ("MFL"), an affiliate, to introduce customers to MFL who desire to purchase or sell London Metals Exchange futures and options contracts. For such contracts, the counterparties are customers of MFL with no obligation of performance by the Company. The Company receives a share of the "Net Profits," as defined in the agreement, from such transactions.

Certain balances included in due from and due to affiliates on the consolidated statement of financial condition have been recorded net in accordance with FIN 39.

12. Leases

The Company enters into renewable one-year operating lease agreements with Man Group Finance whereby the Company agrees to make monthly payments to Man Group Finance for use of furniture and equipment.

The Company also leases certain office premises, equipment and computer hardware from unaffiliated parties for its own use. At March 31, 2007, the minimum annual rental commitments under non-cancelable leases for office premises are:

Fiscal Year Ended March 31,	Commitments
2008	$ 4,118,100
2009	3,001,700
2010	2,579,100
2011	2,245,200
2012	2,277,800
Thereafter	9,620,300
Total	$ 23,842,200

13. Net Capital Requirement

MFI is subject to the CFTC Net Capital Requirements and is required to maintain adjusted net capital equivalent to the greater of $500,000 or the aggregate of 8% of customer maintenance margin requirements and 4% of noncustomer maintenance margin requirements. At March 31, 2007, MFI had adjusted net capital, as defined, of $529,408,300, which was $171,772,300 in excess of the minimum capital required to be maintained.

MSI is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1"), which requires MSI to maintain minimum net capital equal to the greater of $250,000 or 2% of aggregate debit items as defined by Rule 15c3-1. At March 31, 2007, MSI had net capital, as defined, of $86,968,200, which was $84,469,900 in excess of the minimum capital required to be maintained.

The Company is subject to certain notification and other provisions of the net capital rules of the CFTC and SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At March 31, 2007, the Company was in compliance with all of the requirements.

14. Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is engaged in various trading, brokerage and investing activities with counterparties, which primarily include broker-dealers, banks and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk of default. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty with which it conducts business.

Transactions in futures contracts are conducted through regulated exchanges for which the Company, its customers and other counterparties are subject to margin requirements which are settled in cash on a daily basis, thereby minimizing credit risk. Off-balance sheet market risk of futures and options positions executed and cleared for the Company's customers and affiliates is directly borne by such entities. However, as a clearing broker, the Company is required to reimburse the exchanges if credit losses arise because counterparties fail to perform and the value of any collateral proves inadequate. The Company manages credit risk by monitoring net exposure to individual counterparties on a daily basis, monitoring credit limits and requiring additional collateral, where appropriate.

In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the consolidated statement of financial condition at March 31, 2007, at market

values of the related securities and will incur a loss if the market value of the securities increases subsequent to March 31, 2007.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions, when necessary.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes limits for such activities and monitors compliance on a daily basis.

15. Commitments and Contingencies

FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. The Company, in its normal course of business, may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote.

In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations and other litigation. Certain of these legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate

damages, or actions which are in very preliminary stages, the Company cannot predict with certainty the eventual loss or range of loss related to such matters. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of these actions will not have a material adverse effect on the financial condition of the Company, although the outcome could potentially be material to the Company's future operating results for a particular period or periods.

At March 31, 2007, customers' letters of credit amounting to $280,950,000 have been deposited for margin requirements with clearing organizations.

The Company guarantees certain third party loans to professional traders on a collateralized basis. Guarantees at March 31, 2007 amount to approximately $10,261,000, and the market value of the collateral, consisting of exchange memberships, is approximately $89,929,000.

Appendix 8

Form **W-9**
(Rev. October 2007)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

Give form to the requester. Do not send to the IRS.

Print or type
See Specific Instructions on page 2.

Name (as shown on your income tax return)
MF Global Inc.

Business name, if different from above

Check appropriate box: ☐ Individual/Sole proprietor ☒ Corporation ☐ Partnership
☐ Limited liability company. Enter the tax classification (D=disregarded entity, C=corporation, P=partnership) ▶ .....
☐ Other (see instructions) ▶

☒ Exempt payee

Address (number, street, and apt. or suite no.)
717 Fifth Ave. 9th Fl.

Requester's name and address (optional)

City, state, and ZIP code
New York NY 10022

List account number(s) here (optional)

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on Line 1 to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Social security number
| | | |

or

Employer identification number
36 : 2801777

Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
3. I am a U.S. citizen or other U.S. person (defined below).

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. See the instructions on page 4.

signature

Date ▶ 6/9/08

General instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Purpose of Form

A person who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),

2. Certify that you are not subject to backup withholding, or

3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income.

Note. If a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

Definition of a U.S. person. For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien,
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax on any foreign partners' share of income from such business. Further, in certain cases where a Form W-9 has not been received, a partnership is required to presume that a partner is a foreign person, and pay the withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid withholding on your share of partnership income.

The person who gives Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States is in the following cases:

- The U.S. owner of a disregarded entity and not the entity,

Form **W-9**
(Rev. October 2007)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

Give form to the requester. Do not send to the IRS.

Print or type
See Specific Instructions on page 2.

Name (as shown on your income tax return)
MF GLOBAL SECURITIES INC.

Business name, if different from above
DBA MF GLOBAL INC.

Check appropriate box: [ ] Individual/Sole proprietor [x] Corporation [ ] Partnership
[ ] Limited liability company. Enter the tax classification (D=disregarded entity, C=corporation, P=partnership) ▶
[ ] Other (see instructions) ▶

[ ] Exempt payee

Address (number, street, and apt. or suite no.)
717 FIFTH AVE. , 9TH FL.

Requester's name and address (optional)

City, state, and ZIP code
NEW YORK, NY 10022

List account number(s) here (optional)

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on Line 1 to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Social security number

or

Employer identification number
16-1633029

Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
3. I am a U.S. citizen or other U.S. person (defined below).

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. See the instructions on page 4.

signature

Date ▶ 9/17/2009

n of a U.S. person. For federal tax purposes, you are d a U.S. person if you are:

ividual who is a U.S. citizen or U.S. resident alien,

- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United Sates,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax on any foreign partners' share of income from such business. Further, in certain cases where a Form W-9 has not been received, a partnership is required to presume that a partner is a foreign person, and pay the withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid withholding on your share of partnership income.

The person who gives Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States is in the following cases:

- The U.S. owner of a disregarded entity and not the entity,

Purpose of Form

A person who is required to file an information return with the IRS, must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),

2. Certify that you are not subject to backup withholding, or

3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income.

Note. If a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

Form **W-9**
(Rev. October 2007)
Department of the Treasury
Internal Revenue Service

Request for Taxpayer Identification Number and Certification

Give form to the requester. Do not send to the IRS.

Print or type
See Specific Instructions on page 2.

Name (as shown on your income tax return)
MF GLOBAL SECURITIES INC.

Business name, if different from above
DBA MF GLOBAL INC.

Check appropriate box: [ ] Individual/Sole proprietor [x] Corporation [ ] Partnership
[ ] Limited liability company. Enter the tax classification (D=disregarded entity, C=corporation, P=partnership) ▶
[ ] Other (see instructions) ▶

[ ] Exempt payee

Address (number, street, and apt. or suite no.)
717 FIFTH AVE. , 9TH FL.

Requester's name and address (optional)

City, state, and ZIP code
NEW YORK, NY 10022

List account number(s) here (optional)

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on Line 1 to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN* on page 3.

Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.

Social security number

or

Employer identification number
16-1633029

Part II Certification

Under penalties of perjury, I certify that:

1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and
3. I am a U.S. citizen or other U.S. person (defined below).

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. See the instructions on page 4.

signature

Date ▶ Jan 12, 2010

A person who is required to file an information return with the IRS, must obtain your correct taxpayer identification number (TIN) to report, for example, income paid to you, real estate transactions, mortgage interest you paid, acquisition or abandonment of secured property, cancellation of debt, or contributions you made to an IRA.

Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN to the person requesting it (the requester) and, when applicable, to:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),

2. Certify that you are not subject to backup withholding, or

3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income.

Note. If a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

n of a U.S. person. For federal tax purposes, you are ed a U.S. person if you are:

dividual who is a U.S. citizen or U.S. resident alien,

- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United Sates,
- An estate (other than a foreign estate), or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax on any foreign partners' share of income from such business. Further, in certain cases where a Form W-9 has not been received, a partnership is required to presume that a partner is a foreign person, and pay the withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid withholding on your share of partnership income.

The person who gives Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States is in the following cases:

- The U.S. owner of a disregarded entity and not the entity,

Appendix 9.A

CHICAGO BOARD OPTIONS EXCHANGE

400 South LaSalle Street
Chicago, Illinois 60605-1023
www.cboe.com

Via certified mail and electronic mail
7008-0500-0001-5434-2038

January 28, 2009

Attachment IA

Mr. Steven J. Metz
Chief Compliance Officer
MF Global, Inc.
717 Fifth Avenue
New York, NY 10022-8101

RE: Routine Financial and Operational Examination of MF Global, Inc.

Dear Mr. Metz:

As a result of the routine financial and operational examination of MF Global, Inc. ("Firm"), the Chicago Board Options Exchange's ("Exchange") Regulatory Division intends to present a report to the Exchange's Business Conduct Committee ("BCC" or the "Committee") in the near future indicating that there may be reasonable grounds to believe that a violation of U.S. Securities and Exchange Commission ("SEC") and/or Exchange Rules has been committed. Pursuant to Exchange Rule 17.2, your firm is entitled to submit to the Committee a written statement concerning why the firm believes that no violation has been committed or why no disciplinary action should be taken.

The examination report notes possible violations of the following SEC and Exchange Rules:

1. **Prevention of the Misuse of Material, Nonpublic Information** - Exchange Rules 4.2; 4.18; 15.1; SEC 15(f); SEC 17(a); SEC 17a-3 and SEC 17a-4.

   A review of the Firm's Insider Trading Program revealed that the Firm failed to evidence the review of outside brokerage account statements for 40 of 100 associated persons that disclosed having outside accounts, or 40%.

A determination as to the existence of probable cause for finding a violation of Exchange rules will be made by the Committee based on its review of the findings and conclusions contained in staff's report of its investigation and your written submission, if any. Should you determine to submit to the Committee a written statement pursuant to Rule 17.2, staff must receive such submission within **15 days** from the date of receipt of this letter. If no submission is received within this time period, the report will be presented at the next scheduled Committee meeting.

Please be advised that should the Committee determine that there is probable cause for finding a rule violation, the Committee shall direct staff to issue a Statement of Charges. If the BCC determines that your Firm had committed a rule violation, the Committee may impose one or more of the following sanctions: a suspension or bar from Exchange membership, a limitation of activities, functions or operation, a fine, disgorgement of profits, censure, suspension or bar from association with a member or any other fitting sanction.

Additionally, be advised that pursuant to Exchange Rule 17.14, the Exchange will report to the Central Registration Depository ("CRD") maintained by the Financial Industry Regulatory Authority, information concerning the initiation of all formal disciplinary proceedings (the issuance of a Statement of Charges) and all significant changes in the status of such proceedings.

Please address to the Committee in care of the undersigned any written and/or videotaped submission pursuant to Rule 17.2 and please address to the Legal Department any notification of a desire to proceed in an expedited manner pursuant to Rule 17.3.

The rules governing disciplinary matters are set forth in Chapter XVII of the CBOE Rules. Additionally, a disciplinary Pamphlet explaining the CBOE's regulatory and disciplinary process may be found at:

http://www.cboe.org/Legal/pdf/RegProcessmem.pdf

The Pamphlet offers only general guidelines, however, and is not to serve as a substitute for the Rules contained in CBOE Chapter XVII.

Sincerely,

signatures

Milan Markovic
Manager
Department of Member Firm Regulation

Robert Larson
Manager
Department of Member Firm Regulation

cc: Christine A. Serwinski - Chief Financial Officer

CHICAGO BOARD OPTIONS EXCHANGE

400 South LaSalle Street
Chicago, Illinois 60605-1023
www.cboe.com

Sent via certified mail and electronic mail
7008 0500 0001 5434 2489

May 5, 2009

Attachment IB

MF Global, Inc.
Attn: Mr. Steven J. Metz
Chief Compliance Officer
717 Fifth Avenue, 9th Floor
New York, NY 10022-8101

RE: Routine financial and operational examination of MF Global, Inc.

Dear Mr. Metz:

The Regulatory Services Division of the Chicago Board Options Exchange, Incorporated ("Exchange") has completed its routine financial and operational examination of MF Global, Inc. ("MF" or the "Firm"). Pursuant to Exchange Rule 17.4(a) – Determination not to Initiate Charges, the Business Conduct Committee has determined to issue the Firm a **Staff Interview**, a non-disciplinary, regulatory action[1] for the following apparent violations of Exchange and/or Securities and Exchange Commission ("SEC") Rules as noted below:

1. **Fingerprinting of Securities Industry Personnel / Employee Background Reviews / Books and Records** – Exchange Rules 3.7(c); 4.2; 15.1; SEC 17(a); SEC 17a-3; SEC 17a-4; SEC 17(f) and SEC 17f-2.

   The Firm failed to provide Civil Applicant Responses for 5 of 203 associated persons, or approximately 2%. The subsequent review of the FBI Civil Applicant Response for one of the individuals indicated a felony conviction in 2007 of which the Firm was unaware.

2. **Customer Protection and PAIB Reserve Computations** - Exchange Rules 4.2; 15.1; SEC 15(c); SEC 15c3-3; SEC 17(a); SEC 17a-3 and SEC 17a-5.

[1] Non-disciplinary, regulatory actions include Letters of Information, Letters of Caution and Staff Interviews. A Letter of Information advises the subject of alleged technical deficiencies in complying with a rule. A Letter of Caution may be issued when it appears that there have been non-material rule violations and a Letter of Caution will be sufficient to prevent a recurrence. The recipient is cautioned that subsequent similar violations may result in a disciplinary proceeding. A Staff Interview is generally used when there is a first alleged violation and it is deemed that an educational effort will prevent an occurrence of similar violations.

The Firm had an error in both the customer reserve and PAIB reserve calculations. The error resulted in a $19,029 understatement of the customer reserve requirement and a $19,029 overstatement of the PAIB reserve requirement.

3. **Electronic Communications / Electronic Storage** - Exchange Rules 4.2; 15.1; SEC 17(a) and SEC 17a-4.

The Firm failed to back-up data from "Windows" based applications. Additionally, the Firm limited its e-mail reviews to only Registered Representatives and the Firm was unable to produce a log of what e-mails were reviewed.

In addition, the Business Conduct Committee has determined to issue the Firm a **Letter of Information** for the following apparent violation of Exchange and SEC Rules as noted below:

4. **Books and Records** - Exchange Rules 4.2; 15.1; SEC 17(a); SEC 17a-3 and SEC 17a-4.

A review of the Firm's bank accounts revealed that the Firm lacks written supervisory procedures to address the numerous outstanding checks in multiple bank accounts that were issued as far back as 1999.

In addition, the Business Conduct Committee has determined that the following violation be **Filed Without Action**:

5. **Net Capital / Books and Records / Financial Reporting** – Exchange Rules 4.2; 15.1; SEC 15(c); SEC 15c3-1; SEC 17(a); SEC 17a-3 and 17a-5.

A review of the Firm's net capital computation revealed that the Firm understated its net capital by $41,308, or less than 1%.

Staff requests that the Firm contact the undersigned by **May 15, 2009** to schedule the noted Staff Interview. Please be advised that upon the completion of the Staff Interview, you will be required to sign a statement prepared by Staff, which summarizes the content of the Staff Interview and acknowledges the Firm's understanding of the rules and activity discussed in this letter and during the Staff Interview.

Please be advised that future activity of a similar nature may result in formal disciplinary action.

To acknowledge receipt of this letter, please sign and return a copy to the undersigned by or before May 15, 2009.

The Regulatory Division would like to take this opportunity to thank you and your staff for the courtesies and assistance extended to the examiners during the course of this examination. If you have any questions or comments concerning this report, please do not hesitate to contact the undersigned.

Sincerely

signatures

Milan Markovic
Manager
Department of Member Firm Regulation

Robert Larson
Manager
Department of Member Firm Regulation

_____
Mr. Steven J. Metz

_____
Dated

cc: Christine A. Serwinski - Chief Financial Officer

Appendix 9.B

CBOE
CHICAGO BOARD OPTIONS EXCHANGE

400 South LaSalle Street
Chicago, Illinois 60605-1023
www.cboe.com

January 22, 2010

Ms. Tracy Lowery-Whille
Chief Compliance Officer
MF Global, Inc.
440 S. LaSalle Street, 20th Floor
Chicago, IL 60605

RE: Routine financial and operational examination of MF Global, Inc.

Dear Ms. Lowery-Whille:

The Regulatory Services Division of the Chicago Board Options Exchange, Incorporated ("Exchange") has completed its routine financial and operational examination of MF Global, Inc. ("MF" or the "Firm"). Pursuant to Exchange Rule 17.4(a) – Determination not to initiate Charges, and under delegated authority of the Business Conduct Committee, senior regulatory and legal staff have determined that a **Staff Interview**, a non-disciplinary, regulatory action[1] be held with the Firm to inform MF Global that further activity of this nature may result in formal disciplinary action.

Staff's examination found the following activities to be apparent violations of Exchange and/or Securities and Exchange Commission Rules as noted below:

1. **Anti-Money Laundering Program** - Exchange Rule 4.20.

   The Firm failed to file an annual Foreign Bank & Financial Reporting ("FBAR") on a timely basis with the Department of Treasury by the June 30, 2009 deadline. The FBAR was filed in September of 2009.

Staff requests that you contact Angela Seaberry at (312) 786-7750 or the undersigned at (312) 786-7728 by **February 2, 2010** to schedule the noted Staff Interview. Please be advised that upon the completion of the Staff Interview, you will be required to sign a statement prepared by Staff, which summarizes the content of the Staff Interview and

[1] Non-disciplinary, regulatory actions include Letters of Information, Letters of Caution and Staff Interviews. A Letter of Caution advises the subject of alleged technical deficiencies in complying with a rule. A Letter of Caution may be issued when it appears that there have been non-material rule violations and a Letter of Caution will be sufficient to prevent a recurrence. The recipient is cautioned that subsequent similar violations may result in a disciplinary proceeding. A Staff Interview is generally used when there is a first alleged violation and it is deemed that an educational effort will prevent an occurrence of similar violations.

acknowledges your understanding of the rules and activity discussed in this letter and during the Staff Interview.

In addition, senior regulatory and legal staff have determined to issue the Firm a **Letter of Caution**, a non-disciplinary regulatory action, for the following apparent violations of Exchange and SEC Rules as noted below:

2. **Fingerprinting of Securities Industry Personnel / Books and Records** – Exchange Rules 3.7(c); 4.2; 15.1; SEC 17(a); SEC 17a-3; SEC 17a-4; SEC 17(f) and SEC 17f-2.

   The Firm failed to maintain fingerprint cards for 7 of 249 associated persons, or less than 3%, after fingerprints had been taken.

3. **Insider Trading Compliance Program** - Exchange Rules 4.2; 4.18; 15.1; SEC 15(f); SEC 17(a); SEC 17a-3 and SEC 17a-5.

   The Firm failed to obtain an outside brokerage account disclosure form for 1 of 342 associated persons, or less than 1%, prior to the termination of a summer intern. The Firm failed to obtain outside account disclosure forms for 2 of 342 associated persons, also less than 1%, in a timely manner. For 13 of 342 associated persons, or less than 4%, disclosure forms were incomplete, in that the Firm was receiving and reviewing more accounts than were disclosed.

4. **Anti-Money Laundering Program** - Exchange Rule 4.20.

   The Firm failed to obtain written approval from senior management of the Firm's AML program when it was revised in August 2008.

5. **Employee Records / Books and Records** - Exchange Rules 4.2; 15.1; SEC 17(a); SEC 17a-3 and SEC 17a-4.

   The Firm failed to provide employment applications for 3 of 249, or 1%, associated persons. In addition, employment applications for 13 of 249, or 5%, associated persons were incomplete.

Please be advised that future activity of a similar nature may result in formal disciplinary action.

To acknowledge receipt of this letter, please sign and return a copy to the undersigned by or before February 2, 2010.

Cc: Christine A. Serwinski – Chief Financial Officer

The Regulatory Division would like to take this opportunity to thank you and your staff for the courtesies and assistance extended to the examiners during the course of this examination. If you have any questions or comments concerning this report, please do not hesitate to contact the undersigned.

Sincerely,

signature

Michael LaGiola
Manager
Department of Member Firm Regulation

Tracy Lowery-Whille

Dated

Cc: Christine A. Serwinski – Chief Financial Officer

Appendix 9.C

Attachment II

CME Group
A CME/Chicago Board of Trade Company

August 4, 2008

Mr. Kevin R. Davis
President and Chairman
MF Global Inc.
717 5th Avenue
New York, NY 10022-8101

Dear Mr. Davis:

The Audit Department performed a financial examination of MF Global Inc.'s January 31, 2008 Computation of Net Capital, Statement of Segregation Requirements and Funds in Segregation, and Statement of Secured Amounts and Funds Held in Separate Accounts. A compliance examination was also conducted. The following significant problems were noted:

1. Collateral for house reverse repurchase transactions in possession of the FCM was not outside the control of the counterparty. Refer to SEC Rule 15c3-1.

2. Eighteen of 58 (31%) accounts examined that were not maintaining sufficient performance bond or in debit for an unreasonable period of time continued to trade. Refer to CME Rule 930.D. This problem was noted in prior examinations.

3. Thirteen order tickets reviewed did not contain proper time stamps.

A written response addressing corrective action taken for each of the problems noted must be received by August 19, 2008. The Clearing House Risk Committee may review this report and your response.

This report is for the internal use of MF Global Inc., Chicago Mercantile Exchange Inc., and other applicable regulatory organizations. Permission from Chicago Mercantile Exchange Inc. must be obtained prior to any other use of this report.

The assistance and cooperation provided during the audit were greatly appreciated.

Sincerely,

signature

Michael Procajlo
Associate Director Audits

cc: Mr. F. Kemper Cagney, Chief Financial Officer
Mr. Ira Polk, Executive Vice President
Ms. Laura Ross, Assistant General Counsel
Ms. Toni Rossetti, Assistant Vice President
Ms. Christine Serwinski, Controller
Mr. Steven Zakrzewski, Chief Compliance Officer

CME Group
A CME/Chicago Board of Trade Company

Attachment III

June 25, 2009

Mr. Bernard W. Dan
President and Chief Executive Officer
MF Global Inc.
717 Fifth Avenue
9th Floor
New York, NY 10022-8101

Dear Mr. Dan:

The Audit Department performed a financial examination of MF Global Inc.'s December 31, 2008 Computation of Net Capital, Statement of Segregation Requirements and Funds in Segregation, and Statement of Secured Amounts and Funds Held in Separate Accounts. A compliance examination was also conducted. The following significant problem was noted:

> Eighteen of 49 (37%) accounts examined that were not maintaining sufficient performance bond or in debit an unreasonable period of time continued to trade. Refer to CME Rule 930.D.

A written response addressing corrective action taken for each of the problems noted must be received by July 10, 2009. The Clearing House Risk Committee may review this report and your response.

This report is for the internal use of MF Global Inc., Chicago Mercantile Exchange Inc., and other applicable regulatory organizations. Permission from Chicago Mercantile Exchange Inc. must be obtained prior to any other use of this report.

The assistance and cooperation provided during the audit were greatly appreciated.

Sincerely,

signature

Michael A. Procajlo
Associate Director, Audits

cc: Mr. Michael Bolan, Controller
Mr. Xuong Nguyen, North America – Chief Operating Officer
Ms. Toni Rossetti, Assistant Vice President
Mr. Howard Schneider, General Counsel
Ms. Christine Serwinski, Chief Financial Officer

Appendix 10.A

FORM X-17A-5

FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

Part II [11]

(Read instructions before preparing Form)

This report is being filed pursuant to (Check Applicable Block(s)):

1) Rule 17a-5(a) [X] [16] 2) Rule 17a-5(b) [ ] [17] 3) Rule 17a-11 [ ] [18]

4) Special request by designated examining authority [ ] [19] 5) Other [ ] [26]

NAME OF BROKER-DEALER
Man Securities Inc [13]

SEC FILE NO
8-18104 [14]

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No.)
440 South LaSalle [20]
(No. and Street)

FIRM ID NO
161633029 [15]

Chicago [21] (City) Il [22] (State) 60605 [23] (Zip Code)

FOR PERIOD BEGINNING (MM/DD/YY)
1/1/2007 [24]

AND ENDING (MM/DD/YY)
3/30/2007 [25]

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Christine Serwinski [30]

(Area Code)—Telephone No.
312-261-7105 [31]

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:
[32]

OFFICIAL USE
[33]

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNT? YES [X] [40] NO [ ] [41]

CHECK HERE IF RESPONDENT IS FILING AN AUDIT REPORT? [ ] [42]

EXECUTION:
The registrant/broker or dealer submitting this form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 25TH day of APRIL 2007

Manual signatures of:

1) _____
Principal Executive Officer of Managing Partner

signature

3) _____
Principal Operations Officer or Partner

Attention - Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:f(a))

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

STATEMENT OF FINANCIAL CONDITION

As of (MMDDYY)	3/30/2007	99
SEC FILE NO.	8-18104	98
Consolidated		198
Unconsolidated	X	199

ASSETS

	Allowable		Non-Allowable		Total	
1. Cash	$ 13,453,911	200			$ 13,453,911	750
2. Cash segregated in compliance with federal and other regulations	71,181,332	210			71,181,332	760
3. Receivable from brokers or dealers and clearing organizations:						
A. Failed to deliver:						
1. Includable in "Formula for Reserve Requirements"	12,656,454	220				
2. Other	0	230			12,656,454	770
B. Securities borrowed:						
1. Includable in "Formula for Reserve Requirements"	4,007,350	240				
2. Other	1,657,674,444	250			1,661,681,794	780
C. Omnibus accounts:						
1. Includable in "Formula for Reserve Requirements"	0	260				
2. Other	0	270			0	790
D. Clearing organizations:						
1. Includable in "Formula for Reserve Requirements"	0	280				
2. Other	210,115,731	290			210,115,731	800
E. Other	16,866,221	300	$ 7,337,051	550	24,203,272	810
4. Receivables from customers:						
A. Securities accounts:						
1. Cash and fully secured accounts	18,274,467	310				
2. Partly secured accounts	0	320	0	560		
3. Unsecured accounts			39,319	570		
B. Commodity accounts	0	330	0	580		
C. Allowance for doubtful accounts	0	335	0	590	18,313,786	820
5. Receivables from non-customers:						
A. Cash and fully secured accounts	0	340				
B. Partly secured and unsecured accounts	0	350	957	600	957	830
6. Securities purchased under agreements to resell	5,296,907,871	360	0	605	5,296,907,871	840
7. Securities and spot commodities owned, at market value:						
A. Bankers acceptances, certificates of deposit and commercial paper	0	370				
B. U.S. and Canadian government obligations	432,985,178	380				
C. State and municipal government obligations	0	390				
D. Corporate obligations	0	400				

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

STATEMENT OF FINANCIAL CONDITION

ASSETS

	Allowable		Non-Allowable		Total	
E. Stock and warrants	$ 5,722,574	410				
F. Options	0	420				
G. Arbitrage	0	422				
H. Other securities	0	424				
I. Spot commodities	0	430				
J. Total Inventory - includes encumbered securities of $0 [120]					$ 438,707,752	850
8. Securities owned not readily marketable:						
A. At Cost $0 [130]	0	440	$ 0	610	0	860
9. Other investments not readily marketable:						
A. At Cost $0 [140]						
B. At estimated fair value	0	450	0	620	0	870
10. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:						
A. Exempted securities $0 [150]						
B. Other $0 [160]	0	460	0	630	0	880
11. Secured demand notes - market value of collateral:						
A. Exempted securities $0 [170]						
B. Other $0 [180]	0	470	0	640	0	890
12. Memberships in exchanges:						
A. Owned, at market value $0 [190]						
B. Owned at cost			422,375	650		
C. Contributed for use of company, at market value			0	660	422,375	900
13. Investment in and receivables from affiliates, subsidiaries and associated partnerships	0	480	0	670	0	910
14. Property, furniture, equipment, leasehold improvements and rights under lease agreements: At cost (net of accumulated depreciation and amortization)	0	490	144,737	680	144,737	920
15. Other Assets:						
A. Dividends and interest receivable	1,933	500	26,363	690		
B. Free shipments	0	510	0	700		
C. Loans and advances	0	520	0	710		
D. Miscellaneous	0	530	14,542,773	720		
E. Collateral accepted under SFAS 140	0	536				
F. SPE Assets	0	537			14,571,069	930
16. TOTAL ASSETS	$ 7,739,847,466	540	$ 22,513,575	740	$ 7,762,361,041	940

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

STATEMENT OF FINANCIAL CONDITION
LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities *		Non-A.I. Liabilities *		Total	
17. Bank loans payable:						
A. Includable in "Formula for Reserve Requirements"	$ 0	1030	$ 0	1240	$ 0	1460
B. Other	0	1040	0	1250	0	1470
18. Securities sold under repurchase agreements			0	1260	4,964,436,370	1480
19. Payable to brokers or dealers and clearing organizations:						
A. Failed to receive:						
1. Includable in "Formula for Reserve Requirements"	0	1050	0	1270	1,610,271	1490
2. Other	0	1060	0	1280	3,289,015	1500
B. Securities loaned:						
1. Includable in "Formula for Reserve Requirements"	0	1070			0	1510
2. Other	0	1080	0	1290	1,651,938,323	1520
C. Omnibus accounts:						
1. Includable in "Formula for Reserve Requirements"	0	1090			0	1530
2. Other	0	1095	0	1300	0	1540
D. Clearing organizations:						
1. Includable in "Formula for Reserve Requirements"	0	1100			0	1550
2. Other	0	1105	0	1310	8,550	1560
E. Other	0	1110	0	1320	105,434,020	1570
20. Payable to customers:						
A. Securities accounts - including free credits of $0 [950]	0	1120			170,669,037	1580
B. Commodities accounts	0	1130	0	1330	0	1590
21. Payable to non customers:						
A. Securities accounts	0	1140	0	1340	850,089	1600
B. Commodities accounts	0	1150	0	1350	0	1610
22. Securities sold not yet purchased at market value - including arbitrage of $0 [960]			0	1360	699,684,267	1620
23. Accounts payable and accrued liabilities and expenses:						
A. Drafts payable	0	1160			694,017	1630
B. Accounts payable	0	1170			433,126	1640
C. Income taxes payable	0	1180			0	1650
D. Deferred income taxes			0	1370	0	1660
E. Accrued expenses and other liabilities	0	1190			15,349,035	1670
F. Other	0	1200	0	1380	27,107,254	1680
G. Obligation to return securities			0	1386	0	1686
H. SPE Liabilities			0	1387	0	1687

* Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

STATEMENT OF FINANCIAL CONDITION
LIABILITIES AND OWNERSHIP EQUITY (continued)

Liabilities	A.I. Liabilities *		Non A.I. Liabilities *		Total	
24. Notes and mortgages payable:						
A. Unsecured	$ 0	1210			$ 0	1690
B. Secured	0	1211	$ 0	1390	0	1700
25. Liabilities subordinated to claims of general creditors:						
A. Cash borrowings			0	1400	60,000,000	1710
1. from outsiders $0 [970]						
2. Includes equity subordination(15c3-1(d)) of $0 [980]						
B. Securities borrowings, at market value			0	1410	0	1720
1. from outsiders $0 [990]						
C. Pursuant to secured demand note collateral agreements			0	1420	0	1730
1. from outsiders $0 [1000]						
2. Includes equity subordination(15c3-1(d)) of $0 [1010]						
D. Exchange memberships contributed for use of company, at market value			0	1430	0	1740
E. Accounts and other borrowings not qualified for net capital purposes	0	1220	0	1440	0	1750
26. TOTAL LIABILITIES	$ 0	1230	$ 0	1450	$ 7,701,503,374	1760

Ownership Equity

27. Sole proprietorship			$ 0	1770
28. Partnership- limited partners	$ 0	1020	0	1780
29. Corporation:				
A. Preferred stock			0	1791
B. Common stock			10	1792
C. Additional paid-in capital			60,499,990	1793
D. Retained earnings			357,667	1794
E. Total			60,857,667	1795
F. Less capital stock in treasury			0	1796
30. TOTAL OWNERSHIP EQUITY			$ 60,857,667	1800
31. TOTAL LIABILITIES AND OWNERSHIP EQUITY			$ 7,762,361,041	1810

* Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

COMPUTATION OF NET CAPITAL

1. Total ownership equity (from Statement of Financial Condition - Item 1800)					$ 60,857,667	3480
2. Deduct: Ownership equity not allowable for net capital					0	3490
3. Total ownership equity qualified for net capital					60,857,667	3500
4. Add:						
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital					60,000,000	3520
B. Other (deductions) or allowable credits (List)					0	3525
5. Total capital and allowable subordinated liabilities					$ 120,857,667	3530
6. Deductions and/or charges:						
A. Total non-allowable assets from Statement of Financial Condition (Notes B and C)			$ 22,513,575	3540		
1. Additional charges for customers' and non-customers' security accounts			0	3550		
2. Additional charges for customers' and non-customers' commodity accounts			0	3560		
B. Aged fail-to-deliver			216	3570		
1. Number of items	0	3450				
C. Aged short security differences-less reserve of	$ 0	3460	0	3580		
number of items	0	3470				
D. Secured demand note deficiency			0	3590		
E. Commodity futures contracts and spot commodities proprietary capital charges			0	3600		
F. Other deductions and/or charges			0	3610		
G. Deductions for accounts carried under Rule 15c3-1(a)(6),(a)(7) and (c)(2)(x)			8,928,377	3615		
H. Total deductions and/or charges					(31,442,168)	3620
7. Other additions and/or allowable credits (List)					0	3630
8. Net Capital before haircuts on securities positions					$ 89,415,499	3640
9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):						
A. Contractual securities commitments			0	3660		
B. Subordinated securities borrowings			0	3670		
C. Trading and Investment securities:						
1. Bankers' acceptances, certificates of deposit and commercial paper			0	3680		
2. U.S. and Canadian government obligations			3,841,999	3690		
3. State and municipal government obligations			0	3700		
4. Corporate obligations			0	3710		
5. Stocks and warrants			879,193	3720		
6. Options			25	3730		
7. Arbitrage			0	3732		
8. Other securities			0	3734		
D. Undue concentration			0	3650		
E. Other (list)			0	3736	(4,721,217)	3740
10. Net Capital					$ 84,694,282	3750

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)	$ 0	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	$ 0	3758
13. Net capital requirement (greater of line 11 or 12)	$ 0	3760
14. Excess net capital (line 10 less 13)	$ 0	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	$ 0	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition			$ 0	3790
17. Add:				
A. Drafts for immediate credit	$ 0	3800		
B. Market value of securities borrowed for which no equivalent value is paid or credited	$ 0	3810		
C. Other unrecorded amounts (List)	$ 0	3820	$ 0	3830
18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))			$ 0	3838
19. Total aggregate indebtedness			$ 0	3840
20. Percentage of aggregate indebtedness to net capital (line 19 divided by line 10)			% .00	3850
21. Percentage of aggregate indebtedness to net capital after anticipated capital withdrawals (line 19 divided by line 10 less item 4880 page 11)			% .00	3853

COMPUTATION OF ALTERNATIVE NET CAPITAL REQUIREMENT

Part B

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	$ 2,498,249	3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	$ 0	3880
24. Net capital requirement (greater of line 22 or 23)	$ 2,498,249	3760
25. Excess net capital (line 10 less line 24)	$ 82,196,033	3910
26. Percentage of Net Capital to Aggregate Debits (line 10 divided by line 17 page 8)	% .68	3851
27. Percentage of Net Capital, after anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880 page 11 divided by line 17 page 8)	% .68	3854
28. Net capital in excess of the greater of:		
A. 5% of combined aggregate debit items or 120% of minimum Net Capital Requirement	$ 78,448,659	3920

OTHER RATIOS

Part C

29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	% .50	3860
30. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6),(a)(7) and (c)(2)(x) divided by Net Capital	% .00	3852

NOTES:

(A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3
(See Rule 15c3-3, Exhibit A and Related Notes)

CREDIT BALANCES					
1.	Free credit balances and other credit balances in customers' security accounts (see Note A, Exhibit A, Rule 15c3-3)	$ 171,145,982	4340		
2.	Monies borrowed collateralized by securities carried for the accounts of customers (see Note B)	0	4350		
3.	Monies payable against customers' securities loaned (see Note C)	0	4360		
4.	Customers' securities failed to receive (see Note D)	1,610,271	4370		
5.	Credit balances in firm accounts which are attributable to principal sales to customers	0	4380		
6.	Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days	413,838	4390		
7.	**Market value of short security count differences over 30 calendar days old	13	4400		
8.	**Market value of short securities and credits (not to be offset by long or by debits) in all suspense accounts over 30 calendar days	98,242	4410		
9.	Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days	0	4420		
10.	Other (List)	49,572	4425		
11.	TOTAL CREDITS			$ 173,317,918	4430
DEBIT BALANCES					
12.	**Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deduction pursuant to Note E, Exhibit A, Rule 15c3-3	$ 25,593,146	4440		
13.	Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	4,007,350	4450		
14.	Failed to deliver of customers' securities not older than 30 calendar days	12,698,266	4460		
15.	Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts (See Note F)	82,613,691	4465		
16.	Margin related to security futures products written, purchased or sold in customer accounts required and on deposit with a clearing agency or a derivative clearing organization (see note G)	0	4467		
17.	Other (List)	0	4469		
18.	**Aggregate debit items			$ 124,912,453	4470
19.	**less 3% (for alternative method only -- see Rule 15c3-1(f)(5)(i))			(3,747,374)	4471
20.	**TOTAL 15c3-3 DEBITS			$ 121,165,079	4472
RESERVE COMPUTATION					
21.	Excess of total debits over total credits (line 19 less line 11)			$ 0	4480
22.	Excess of total credits over total debits (line 11 less line 19)			52,152,839	4490
23.	If computation permitted on a monthly basis, enter 105% of excess credits over total debits			0	4500
24.	Amount held on deposit in "Reserve Bank Account(s)", including value of qualified securities, at end of reporting period			65,681,332	4510
25.	Amount of deposit (or withdrawal) including $0 [4515] value of qualified securities			(3,000,000)	4520
26.	New amount in reserve Bank Account(s) after adding deposit or subtracting withdrawal including $0 [4525] value of qualified securities			$ 62,681,332	4530
27.	Date of deposit (MMDDYY)			04/03/2007	4540

FREQUENCY OF COMPUTATION

28. Daily [4332] Weekly X [4333] Monthly [4334]

**In the event the Net Capital Requirement is computed under the alternative method, this "Reserve Formula" shall be prepared in accordance with the requirements of paragraph (f) of Rule 15c3-1.

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3(continued)

EXEMPTIVE PROVISIONS

28. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

A. (k)(1)-$2,500 capital category as per Rule 15c3-1		0	4550
B. (k)(2)(A)-"Special Account for the Exclusive Benefit of customers" maintained		0	4560
C. (k)(2)(B)-All customer transactions cleared through another broker-dealer on a fully disclosed basis.			
Name of clearing firm	4335	0	4570
D. (k)(3)-Exempted by order of the Commission		0	4580

Information for Possession or Control Requirements Under Rule 15c3-3

State the market valuation and the number of items of:

1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3. Notes A and B	$ 0	4586
A. Number of items	0	4587
2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3. Notes B,C and D	$ 0	4588
A. Number of items	0	4589

3. The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3. Yes X 4584 No 4585

NOTES

A. - Do not include in item one customers' fully paid and excess margin securities required by Rule 15c3-3 to be in possession or control but for which no action was required by the respondent as of the report date or required action was taken by respondent within the time frames specified under Rule 15c3-3.

B - State separately in response to items one and two whether the securities reported in response thereto were subsequently reduced to possession or control by the respondent.

C. - Be sure to include in item two only items not arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

D - Item two must be responded to only with report which is filed as of the date selected for the broker's or dealer's annual audit of financial statements, whether or not such date is the end of a calendar quarter. The response to item two should be filed within 60 calendar days after such date, rather than with the remainder of this report. This information may be required on a more frequent basis by the Commission or the designated examining authority in accordance with Rule 17a-5(a)(2)(iv).

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: Man Securities Inc **as of:** March 30, 2007

COMPUTATION FOR DETERMINATION OF PAIB RESERVE REQUIREMENTS FOR BROKER-DEALERS

CREDIT BALANCES

1.	Free credit balances and other credit balances in proprietary accounts of introducing brokers (PAIB)	$ 2,238,306	2110		
2.	Monies borrowed collateralized by securities carried for PAIB	0	2120		
3.	Monies payable against PAIB securities loaned (see Note2-PAIB)	0	2130		
4.	PAIB securities failed to receive	27,076	2140		
5.	Credit balances in firm accounts which are attributable to principal sales to PAIB	0	2150		
6.	Other (List)	950	2160		
7.	TOTAL PAIB CREDITS			$ 2,266,332	2170

DEBIT BALANCES

8.	Debit balances in PAIB excluding unsecured accounts and accounts doubtful of collection	$ 0	2180		
9.	Securities borrowed to effecutuate short sales by PAIB and securities borrowed to make delivery on PAIB securities failed to deliver	0	2190		
10.	Failed to deliver of PAIB securities not older than 30 calendar days	6,828	2200		
11.	Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in PAIB accounts	0	2210		
12.	Margin related to security futures products written, purchased or sold in PAIB accounts required and on deposit with a clearing agency or a derivative clearing organization	0	2215		
13.	Other (List)	0	2220		
14.	TOTAL PAIB DEBITS			$ 6,828	2230

RESERVE COMPUTATION

15.	Excess of total PAIB debits over total PAIB credits (line 13 less line 7)	$ 0	2240
16.	Excess of total PAIB credits over total PAIB debits (line 7 less line 13)	2,259,504	2250
17.	Excess debits in customer reserve formula computation	0	2260
18.	PAIB Reserve Requirement (line 15 less line 16)	2,259,504	2270
19.	Amount held on deposit in "Reserve Bank Account(s)", including $0 [2275] value of qualified securities, at end of reporting period	5,500,000	2280
20.	Amount of deposit (or withdrawal) including $0 [2285] value of qualified securities	0	2290
21.	New amount in Reserve Bank Account(s) after adding deposit or subtracting $0 [2295] value of qualified securities	$ 5,500,000	2300
22.	Date of deposit (MMDDYY)	04/03/2007	2310

FREQUENCY OF COMPUTATION

Daily		2315
Weekly	X	2320
Monthly		2330

Page 10A

Appendix 10.B

FORM X-17A-5

FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

Part II [11]

(Read instructions before preparing Form)

This report is being filed pursuant to (Check Applicable Block(s)):

1) Rule 17a-5(a) [X] [16] 2) Rule 17a-5(b) [ ] [17] 3) Rule 17a-11 [ ] [18]

4) Special request by designated examining authority [ ] [19] 5) Other [ ] [26]

NAME OF BROKER-DEALER
MF Global Inc. [13]

SEC FILE NO
1 [14]

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No.)
440 S LaSalle [20]
(No. and Street)

FIRM ID NO
161633029 [15]

Chicago [21] (City) IL [22] (State) 60605 [23] (Zip Code)

FOR PERIOD BEGINNING (MM/DD/YY)
1/1/2008 [24]

AND ENDING (MM/DD/YY)
3/31/2008 [25]

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Christine Serwinski [30]

(Area Code)—Telephone No.
312-261-7105 [31]

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:
[32]

OFFICIAL USE
[33]

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNT? YES [X] [40] NO [ ] [41]

CHECK HERE IF RESPONDENT IS FILING AN AUDIT REPORT? [ ] [42]

EXECUTION:
The registrant/broker or dealer submitting this form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 23RD day of APRIL 2008

Manual signatures of:

1) [redacted]

signature

Principal Operations Officer or Partner

Attention - Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:f(a))

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

STATEMENT OF FINANCIAL CONDITION

As of (MMDDYY)	3/31/2008	99
SEC FILE NO.	1	98
Consolidated		198
Unconsolidated	X	199

ASSETS

	Allowable		Non-Allowable		Total	
1. Cash	$ 179,014,733	200			$ 179,014,733	750
2. Cash segregated in compliance with federal and other regulations	3,081,978,035	210			3,081,978,035	760
3. Receivable from brokers or dealers and clearing organizations:						
A. Failed to deliver:						
1. Includable in "Formula for Reserve Requirements"	9,876,733	220				
2. Other	1,793,802,529	230			1,803,679,262	770
B. Securities borrowed:						
1. Includable in "Formula for Reserve Requirements"	3,099,588	240				
2. Other	446,066,707	250			449,166,295	780
C. Omnibus accounts:						
1. Includable in "Formula for Reserve Requirements"	0	260				
2. Other	685,071,066	270			685,071,066	790
D. Clearing organizations:						
1. Includable in "Formula for Reserve Requirements"	0	280				
2. Other	123,388,447	290			123,388,447	800
E. Other	12,397,915	300	$ 13,457,550	550	25,855,465	810
4. Receivables from customers:						
A. Securities accounts:						
1. Cash and fully secured accounts	1,819,901,100	310				
2. Partly secured accounts	0	320	0	560		
3. Unsecured accounts			194,001	570		
B. Commodity accounts	177,655,258	330	19,025,979	580		
C. Allowance for doubtful accounts	0	335	(1,218,409)	590	2,015,557,929	820
5. Receivables from non-customers:						
A. Cash and fully secured accounts	53,772,048	340				
B. Partly secured and unsecured accounts	0	350	7,974,546	600	61,746,594	830
6. Securities purchased under agreements to resell	11,970,959,084	360	0	605	11,970,959,084	840
7. Securities and spot commodities owned, at market value:						
A. Bankers acceptances, certificates of deposit and commercial paper	593,148,884	370				
B. U.S. and Canadian government obligations	3,192,859,802	380				
C. State and municipal government obligations	0	390				
D. Corporate obligations	0	400				

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

STATEMENT OF FINANCIAL CONDITION

ASSETS

	Allowable		Non-Allowable		Total	
E. Stock and warrants	$ 3,225,458	410				
F. Options	0	420				
G. Arbitrage	0	422				
H. Other securities	2,668,000	424				
I. Spot commodities	0	430				
J. Total Inventory - includes encumbered securities of $0 [120]					$ 3,791,902,144	850
8. Securities owned not readily marketable:						
A. At Cost $0 [130]	0	440	$ 0	610	0	860
9. Other investments not readily marketable:						
A. At Cost $0 [140]						
B. At estimated fair value	0	450	0	620	0	870
10. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:						
A. Exempted securities $0 [150]						
B. Other $0 [160]	0	460	0	630	0	880
11. Secured demand notes - market value of collateral:						
A. Exempted securities $0 [170]						
B. Other $0 [180]	0	470	0	640	0	890
12. Memberships in exchanges:						
A. Owned, at market value $27,592,261 [190]						
B. Owned at cost			13,769,444	650		
C. Contributed for use of company, at market value			0	660	13,769,444	900
13. Investment in and receivables from affiliates, subsidiaries and associated partnerships	0	480	3,446,738	670	3,446,738	910
14. Property, furniture, equipment, leasehold improvements and rights under lease agreements: At cost (net of accumulated depreciation and amortization)	0	490	19,583,861	680	19,583,861	920
15. Other Assets:						
A. Dividends and interest receivable	1,234	500	28,305	690		
B. Free shipments	0	510	0	700		
C. Loans and advances	0	520	0	710		
D. Miscellaneous	26,014,328	530	223,720,184	720		
E. Collateral accepted under SFAS 140	0	536				
F. SPE Assets	0	537			249,764,051	930
16. TOTAL ASSETS	$ 24,174,900,949	540	$ 299,982,199	740	$ 24,474,883,148	940

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

STATEMENT OF FINANCIAL CONDITION
LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities *		Non-A.I. Liabilities *		Total	
17. Bank loans payable:						
A. Includable in "Formula for Reserve Requirements"	$ 0	1030	$ 0	1240	$ 0	1460
B. Other	0	1040	0	1250	0	1470
18. Securities sold under repurchase agreements			0	1260	7,618,351,110	1480
19. Payable to brokers or dealers and clearing organizations:						
A. Failed to receive:						
1. Includable in "Formula for Reserve Requirements"	0	1050	0	1270	2,030,856	1490
2. Other	0	1060	0	1280	3,270,170,337	1500
B. Securities loaned:						
1. Includable in "Formula for Reserve Requirements"	0	1070			0	1510
2. Other	0	1080	0	1290	432,049,834	1520
C. Omnibus accounts:						
1. Includable in "Formula for Reserve Requirements"	0	1090			0	1530
2. Other	0	1095	0	1300	0	1540
D. Clearing organizations:						
1. Includable in "Formula for Reserve Requirements"	0	1100			0	1550
2. Other	0	1105	0	1310	1,398,074	1560
E. Other	0	1110	0	1320	733,257,369	1570
20. Payable to customers:						
A. Securities accounts - including free credits of $147,863,133 [950]	0	1120			561,816,130	1580
B. Commodities accounts	0	1130	0	1330	9,600,177,257	1590
21. Payable to non customers:						
A. Securities accounts	0	1140	0	1340	4,394,364	1600
B. Commodities accounts	0	1150	0	1350	95,434,513	1610
22. Securities sold not yet purchased at market value - including arbitrage of $0 [960]			0	1360	780,089,434	1620
23. Accounts payable and accrued liabilities and expenses:						
A. Drafts payable	0	1160			27,472,933	1630
B. Accounts payable	0	1170			1,307,586	1640
C. Income taxes payable	0	1180			0	1650
D. Deferred income taxes			0	1370	0	1660
E. Accrued expenses and other liabilities	0	1190			171,174,852	1670
F. Other	0	1200	0	1380	15,272,997	1680
G. Obligation to return securities			0	1386	0	1686
H. SPE Liabilities			0	1387	0	1687

* Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

STATEMENT OF FINANCIAL CONDITION
LIABILITIES AND OWNERSHIP EQUITY (continued)

Liabilities	A.I. Liabilities *		Non A.I. Liabilities *		Total	
24. Notes and mortgages payable:						
A. Unsecured	$ 0	1210			$ 0	1690
B. Secured	0	1211	$ 0	1390	0	1700
25. Liabilities subordinated to claims of general creditors:						
A. Cash borrowings			0	1400	756,000,000	1710
1. from outsiders $0 [970]						
2. Includes equity subordination(15c3-1(d)) of $130,000,000 [980]						
B. Securities borrowings, at market value			0	1410	0	1720
1. from outsiders $0 [990]						
C. Pursuant to secured demand note collateral agreements			0	1420	0	1730
1. from outsiders $0 [1000]						
2. Includes equity subordination(15c3-1(d)) of $0 [1010]						
D. Exchange memberships contributed for use of company, at market value			0	1430	0	1740
E. Accounts and other borrowings not qualified for net capital purposes	0	1220	0	1440	0	1750
3. TOTAL LIABILITIES	$ 0	1230	$ 0	1450	$ 24,070,397,646	1760

Ownership Equity

27. Sole proprietorship		$ 0	1770
28. Partnership- limited partners	$ 0 1020	0	1780
29. Corporation:			
A. Preferred stock		0	1791
B. Common stock		8,050	1792
C. Additional paid-in capital		430,489,872	1793
D. Retained earnings		(26,012,419)	1794
E. Total		404,485,503	1795
F. Less capital stock in treasury		0	1796
30. TOTAL OWNERSHIP EQUITY		$ 404,485,503	1800
31. TOTAL LIABILITIES AND OWNERSHIP EQUITY		$ 24,474,883,149	1810

* Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

COMPUTATION OF NET CAPITAL

1. Total ownership equity (from Statement of Financial Condition - Item 1800)					$ 404,485,503	3480
2. Deduct: Ownership equity not allowable for net capital					0	3490
3. Total ownership equity qualified for net capital					404,485,503	3500
4. Add:						
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital					756,000,000	3520
B. Other (deductions) or allowable credits (List)					0	3525
5. Total capital and allowable subordinated liabilities					$ 1,160,485,503	3530
6. Deductions and/or charges:						
A. Total non-allowable assets from Statement of Financial Condition (Notes B and C)			$ 299,982,199	3540		
1. Additional charges for customers' and non-customers' security accounts			0	3550		
2. Additional charges for customers' and non-customers' commodity accounts			0	3560		
B. Aged fail-to-deliver			61,533	3570		
1. Number of items	11	3450				
C. Aged short security differences-less reserve of	$ 0	3460	0	3580		
number of items	0	3470				
D. Secured demand note deficiency			0	3590		
E. Commodity futures contracts and spot commodities proprietary capital charges			1,221,150	3600		
F. Other deductions and/or charges			76,811,280	3610		
G. Deductions for accounts carried under Rule 15c3-1(a)(6),(a)(7) and (c)(2)(x)			0	3615		
H. Total deductions and/or charges					(378,076,162)	3620
7. Other additions and/or allowable credits (List)					0	3630
8. Net Capital before haircuts on securities positions					$ 782,409,341	3640
9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):						
A. Contractual securities commitments			0	3660		
B. Subordinated securities borrowings			0	3670		
C. Trading and investment securities:						
1. Bankers' acceptances, certificates of deposit and commercial paper			0	3680		
2. U.S. and Canadian government obligations			10,638,586	3690		
3. State and municipal government obligations			0	3700		
4. Corporate obligations			0	3710		
5. Stocks and warrants			501,847	3720		
6. Options			0	3730		
7. Arbitrage			0	3732		
8. Other securities			0	3734		
D. Undue concentration			0	3650		
E. Other (list)			0	3736	(11,140,433)	3740
10. Net Capital					$ 771,268,908	3750

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER:	MF Global Inc.	as of:	March 31, 2008

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)	$ 0	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	$ 0	3758
13. Net capital requirement (greater of line 11 or 12)	$ 0	3760
14. Excess net capital (line 10 less 13)	$ 0	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	$ 0	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition			$ 0	3790
17. Add:				
A. Drafts for immediate credit	$ 0	3800		
B. Market value of securities borrowed for which no equivalent value is paid or credited	$ 0	3810		
C. Other unrecorded amounts (List)	$ 0	3820	$ 0	3830
18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))			$ 0	3838
19. Total aggregate indebtedness			$ 0	3840
20. Percentage of aggregate indebtedness to net capital (line 19 divided by line 10)			% .00	3850
21. Percentage of aggregate indebtedness to net capital after anticipated capital withdrawals (line 19 divided by line 10 less item 4880 page 11)			% .00	3853

COMPUTATION OF ALTERNATIVE NET CAPITAL REQUIREMENT

Part B

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	$ 417,502,089	3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	$ 0	3880
24. Net capital requirement (greater of line 22 or 23)	$ 417,502,089	3760
25. Excess net capital (line 10 less line 24)	$ 353,766,819	3910
26. Percentage of Net Capital to Aggregate Debits (line 10 divided by line 17 page 8)	% 7.40	3851
27. Percentage of Net Capital, after anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880 page 11 divided by line 17 page 8)	% 7.40	3854
28. Net capital in excess of the greater of: A. 5% of combined aggregate debit items or 120% of minimum Net Capital Requirement	$ 312,016,611	3920

OTHER RATIOS

Part C

29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	% .54	3860
30. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6),(a)(7) and (c)(2)(x) divided by Net Capital	% .00	3852

NOTES:

(A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3
(See Rule 15c3-3, Exhibit A and Related Notes)

CREDIT BALANCES					
1.	Free credit balances and other credit balances in customers' security accounts (see Note A, Exhibit A, Rule 15c3-3)	$ 190,777,027	4340		
2.	Monies borrowed collateralized by securities carried for the accounts of customers (see Note B)	0	4350		
3.	Monies payable against customers' securities loaned (see Note C)	0	4360		
4.	Customers' securities failed to receive (see Note D)	2,030,856	4370		
5.	Credit balances in firm accounts which are attributable to principal sales to customers	0	4380		
6.	Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days	529,320	4390		
7.	**Market value of short security count differences over 30 calendar days old	0	4400		
8.	**Market value of short securities and credits (not to be offset by long or by debits) in all suspense accounts over 30 calendar days	3,275,056	4410		
9.	Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days	0	4420		
10.	Other (List)	57,046	4425		
11.	TOTAL CREDITS			$ 196,689,305	4430
DEBIT BALANCES					
12.	**Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deduction pursuant to Note E, Exhibit A, Rule 15c3-3	$ 33,204,870	4440		
13.	Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	3,099,588	4450		
14.	Failed to deliver of customers' securities not older than 30 calendar days	9,876,733	4460		
15.	Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts (See Note F)	58,075,126	4465		
16.	Margin related to security futures products written, purchased or sold in customer accounts required and on deposit with a clearing agency or a derivative clearing organization (see note G)	0	4467		
17.	Other (List)	0	4469		
18.	**Aggregate debit items			$ 104,256,317	4470
19.	**less 3% (for alternative method only -- see Rule 15c3-1(f)(5)(i))			(3,127,690)	4471
20.	**TOTAL 15c3-3 DEBITS			$ 101,128,627	4472
RESERVE COMPUTATION					
21.	Excess of total debits over total credits (line 19 less line 11)			$ 0	4480
22.	Excess of total credits over total debits (line 11 less line 19)			95,540,678	4490
23.	If computation permitted on a monthly basis, enter 105% of excess credits over total debits			0	4500
24.	Amount held on deposit in "Reserve Bank Account(s)", including value of qualified securities, at end of reporting period			99,713,461	4510
25.	Amount of deposit (or withdrawal) including $0 [4515] value of qualified securities			6,000,000	4520
26.	New amount in reserve Bank Account(s) after adding deposit or subtracting withdrawal including $0 [4525] value of qualified securities			$ 105,713,461	4530
27.	Date of deposit (MMDDYY)			04/02/2008	4540

FREQUENCY OF COMPUTATION

28. Daily [4332] Weekly X [4333] Monthly [4334]

**In the event the Net Capital Requirement is computed under the alternative method, this "Reserve Formula" shall be prepared in accordance with the requirements of paragraph (f) of Rule 15c3-1.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER:	MF Global Inc.	as of: March 31, 2008

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3(continued)

EXEMPTIVE PROVISIONS

28. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

A. (k)(1)-$2,500 capital category as per Rule 15c3-1		0	4550
B. (k)(2)(A)-"Special Account for the Exclusive Benefit of customers" maintained		0	4560
C. (k)(2)(B)-All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm	4335	0	4570
D. (k)(3)-Exempted by order of the Commission		0	4580

Information for Possession or Control Requirements Under Rule 15c3-3

State the market valuation and the number of items of:

1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3. Notes A and B		$ 0	4586
A. Number of items		0	4587
2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3. Notes B,C and D		$ 0	4588
A. Number of items		0	4589

3. The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3. Yes X 4584 No 4585

NOTES

A. - Do not include in item one customers' fully paid and excess margin securities required by Rule 15c3-3 to be in possession or control but for which no action was required by the respondent as of the report date or required action was taken by respondent within the time frames specified under Rule 15c3-3.

B - State separately in response to items one and two whether the securities reported in response thereto were subsequently reduced to possession or control by the respondent.

C. - Be sure to include in item two only items not arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

D - Item two must be responded to only with report which is filed as of the date selected for the broker's or dealer's annual audit of financial statements, whether or not such date is the end of a calendar quarter. The response to item two should be filed within 60 calendar days after such date, rather than with the remainder of this report. This information may be required on a more frequent basis by the Commission or the designated examining authority in accordance with Rule 17a-5(a)(2)(iv).

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

COMPUTATION FOR DETERMINATION OF PAIB RESERVE REQUIREMENTS FOR BROKER-DEALERS

CREDIT BALANCES

1.	Free credit balances and other credit balances in proprietary accounts of introducing brokers (PAIB)	$ 1,792,708	2110		
2.	Monies borrowed collateralized by securities carried for PAIB	0	2120		
3.	Monies payable against PAIB securities loaned (see Note2-PAIB)	0	2130		
4.	PAIB securities failed to receive	0	2140		
5.	Credit balances in firm accounts which are attributable to principal sales to PAIB	0	2150		
6.	Other (List)	0	2160		
7.	TOTAL PAIB CREDITS			$ 1,792,708	2170

DEBIT BALANCES

8.	Debit balances in PAIB excluding unsecured accounts and accounts doubtful of collection	$ 0	2180		
9.	Securities borrowed to effecutuate short sales by PAIB and securities borrowed to make delivery on PAIB securities failed to deliver	0	2190		
10.	Failed to deliver of PAIB securities not older than 30 calendar days	0	2200		
11.	Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in PAIB accounts	0	2210		
12.	Margin related to security futures products written, purchased or sold in PAIB accounts required and on deposit with a clearing agency or a derivative clearing organization	0	2215		
13.	Other (List)	0	2220		
14.	TOTAL PAIB DEBITS			$ 0	2230

RESERVE COMPUTATION

15.	Excess of total PAIB debits over total PAIB credits (line 13 less line 7)	$ 0	2240
16.	Excess of total PAIB credits over total PAIB debits (line 7 less line 13)	1,792,708	2250
17.	Excess debits in customer reserve formula computation	0	2260
18.	PAIB Reserve Requirement (line 15 less line 16)	1,792,708	2270
19.	Amount held on deposit in "Reserve Bank Account(s)", including $0 [2275] value of qualified securities, at end of reporting period	5,000,000	2280
20.	Amount of deposit (or withdrawal) including $0 [2285] value of qualified securities	0	2290
21.	New amount in Reserve Bank Account(s) after adding deposit or subtracting $0 [2295] value of qualified securities	$ 5,000,000	2300
22.	Date of deposit (MMDDYY)	04/02/2008	2310

FREQUENCY OF COMPUTATION

Daily		2315
Weekly	X	2320
Monthly		2330

Page 10A

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

COMPUTATION OF CFTC MINIMUM NET CAPITAL REQUIREMENT

A.	Risk Based Requirement						
	i. Amount of Customer Risk Maintenance Margin Requirement	$ 5,170,209,559	7415				
	ii. Enter 8% of line A.i			413,616,765	7425		
	iii. Amount of Non-Customer Risk Maintenance Margin Requirement	47,430,066	7435				
	iv. Enter 4% of line A.iii			1,897,203	7445		
	v. Enter the sum of A.ii and A.iv			415,513,967	7455		
B.	$250,000 Requirement (Enter $250,000)			250,000	7465		
E.	Minimum CFTC Net Capital Requirement. Enter the greater of lines A.v or B. (See Note)					$ 415,513,967	7490

Note : If amount on line E (7490) is greater than minimum capital requirement computed in Item 3760 (Page 6) then enter this greater amount in Item 3760. The greater of the amount required by SEC or CFTC is the minimum net capital requirement.

- T10 -

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc.	**as of:** March 31, 2008

STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR CUSTOMERS TRADING ON U.S. COMMODITY EXCHANGES

SEGREGATION REQUIREMENTS(Section 4d(2) of the CEAct)

1. Net ledger balance				
A. Cash			$ 8,067,126,997	7010
B. Securities (at market)			1,742,398,531	7020
2. Net unrealized profit (loss) in open futures contracts traded on a contract market			136,997,022	7030
3. Exchange traded options				
A. Add market value of open option contracts purchased on a contract market			10,364,278,939	7032
B. Deduct market value of open option contracts granted (sold) on a contract market			(10,650,929,693)	7033
4. Net equity (deficit) (add lines 1, 2 and 3)			9,659,871,796	7040
5. Accounts liquidating to a deficit and accounts with debit balances				
- gross amount	159,495,111	7045		
Less: amount offset by customer securities	(134,500,136)	7047	24,994,975	7050
6. Amount required to be segregated (add lines 4 and 5)			$ 9,684,866,771	7060

FUNDS IN SEGREGATED ACCOUNTS

7. Deposited in segregated funds bank accounts		
A. Cash	2,755,667,454	7070
B. Securities representing investments of customers' funds (at market)	2,474,745,831	7080
C. Securities held for particular customers or option customers in lieu of cash (at market)	766,198,744	7090
8. Margins on deposit with derivatives clearing organizations of contract markets		
A. Cash	35,325,207	7100
B. Securities representing investments of customers' funds (at market)	3,565,289,050	7110
C. Securities held for particular customers or option customers in lieu of cash (at market)	976,199,787	7120
9. Net settlement from (to) derivatives clearing organizations of contract markets	(79,610,079)	7130
10. Exchange traded options		
A. Value of open long option contracts	10,364,278,939	7132
B. Value of open short option contracts	(10,650,929,693)	7133
11. Net equities with other FCMs		
A. Net liquidating equity	0	7140
B. Securities representing investments of customers' funds (at market)	0	7160
C. Securities held for particular customers or option customers in lieu of cash (at market)	0	7170
12. Segregated funds on hand (describe:)	0	7150
13. Total amount in segregation (add lines 7 through 12)	10,207,165,240	7180
14. Excess (deficiency) funds in segregation (subtract line 6 from line 13)	$ 522,298,469	7190

- T10-1 -

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR CUSTOMERS' DEALER OPTIONS ACCOUNTS

1.	Amount required to be segregated in accordance with Commission regulation 32.6			$ 0	7200
2.	Funds in segregated accounts				
	A. Cash	$ 0	7210		
	B. Securities (at market)	0	7220		
	C. Total			0	7230
3.	Excess (deficiency) funds in segregation (subtract line 1. from line 2.C.)			$ 0	7240

- T10-2 -

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc.	**as of:** March 31, 2008

STATEMENT OF SECURED AMOUNTS AND FUNDS HELD IN SEPARATE ACCOUNTS FOR FOREIGN FUTURES AND FOREIGN OPTIONS CUSTOMERS PURSUANT TO COMMISSION REGULATION 30.7

FOREIGN FUTURES AND FOREIGN OPTIONS SECURED AMOUNTS - SUMMARY

I. Check the appropriate box to identify the amount shown on line 1. below:

- [ ] 7300 Secured amounts in only U.S.-domiciled customers' accounts
- [X] 7310 Secured amounts in U.S. and foreign-domiciled customers' accounts
- [ ] 7320 Net liquidating equities in all accounts of customers trading on foreign boards of trade
- [ ] 7330 Amount required to be set aside pursuant to law, rule or regulation of a foreign government or a rule of a self-regulatory organization authorized thereunder

II. Has the FCM changed the method of calculating the amount to be set aside in separate accounts since the last financial report it filed?

- [ ] Yes 7340 If Yes, explain the change below.
- [X] No 7350

1.	Amount to be set aside in separate section 30.7 accounts	$ 664,114,541	7360
2.	Total funds in separate section 30.7 accounts (page T10-4, line 8)	873,297,595	7370
3.	Excess (deficiency) - (subtract line 1 from line 2)	$ 209,183,054	7380

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

STATEMENT OF SECURED AMOUNTS AND FUNDS HELD IN SEPARATE ACCOUNTS FOR FOREIGN FUTURES AND FOREIGN OPTIONS CUSTOMERS PURSUANT TO COMMISSION REGULATION 30.7

FUNDS DEPOSITED IN SEPARATE REGULATION 30.7 ACCOUNTS

1. Cash in banks					
A. Banks located in the United States		$ 131,879,942	7500		
B. Other banks designated by the Commission					
Name(s): See Attached	7510	0	7520	$ 131,879,942	7530
2. Securities					
A. In safekeeping with banks located in the United States		$ 6,846,096	7540		
B. In safekeeping with other banks designated by the Commission					
Name(s): See Attached	7550	0	7560	6,846,096	7570
3. Equities with registered futures commission merchants					
A. Cash		$ 0	7580		
B. Securities		0	7590		
C. Unrealized gain (loss) on open futures contracts		0	7600		
D. Value of long option contracts		0	7610		
E. Value of short option contracts		0	7615	0	7620
4. Amounts held by clearing organizations of foreign boards of trade					
Name(s): _	7630				
A. Cash		$ 0	7640		
B. Securities		0	7650		
C. Amount due to (from) clearing organization - daily variation		0	7660		
D. Value of long option contracts		0	7670		
E. Value of short option contracts		0	7675	0	7680
5. Amounts held by members of foreign boards of trade					
Name(s): See Attached	7690				
A. Cash		$ 250,160,217	7700		
B. Securities		106,276,168	7710		
C. Unrealized gain (loss) on open futures contracts		372,065,895	7720		
D. Value of long option contracts		29,593,094	7730		
E. Value of short option contracts		(23,523,817)	7735	734,571,557	7740
6. Amounts with other depositories designated by a foreign board of trade					
Name(s): _	7750			0	7760
7. Segregated funds on hand (describe): _				0	7765
8. Total funds in separate section 30.7 accounts (to page T10-3, line 2)				$ 873,297,595	7770

A. If any securities shown above are other than the types of securities referred to in CFTC Regulation 1.25, attach a separate schedule detailing the obligations shown on each such line.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital

Type of Proposed withdrawal or Accrual See below for code to enter	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (yes or no)
4600	4601	4602	4603	4604	4605
			4699*		

*To agree with the total on Recap (Item No. 4880)

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE:	DESCRIPTIONS
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals
4.	15c3-1(c)(2)(iv) Liabilities

- 11 -

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2008

FINANCIAL AND OPERATIONAL DATA

	Valuation		Number	
1. Month end total number of stock record breaks unresolved over three business days				
A. breaks long	$ 0	4890	0	4900
B. breaks short	$ 0	4910	0	4920

2. Is the firm in compliance with Rule 17a-13 regarding periodic count and verification of securities positions and locations at least once in each calendar quarter? (Check one) Yes [X] 4930 No [ ] 4940

A) If response is negative attach explanation of steps being taken to comply with Rule 17a-13

3. Personnel employed at end of reporting period:		
A. Income producing personnel	749	4950
B. Non-income producing personnel (all other)	896	4960
C. Total	1,645	4970
4. Actual number of tickets executed during current month of reporting period	313,357	4980
5. Number of corrected customer confirmations mailed after settlement date	0	4990

	No. of Items		Debit (Short Value)		No. of Items		Credit (Long Value)	
6. Money differences	4	5000	$ 1,094	5010	6	5020	$ 13,318	5030
7. Security suspense accounts	1	5040	$ 2,308	5050	1	5060	$ 1,641,337	5070
8. Security difference accounts	0	5080	$ 0	5090	0	5100	$ 0	5110
9. Commodity suspense accounts	0	5120	$ 0	5130	0	5140	$ 0	5150
10. Open transactions with correspondents, other brokers, clearing organizations, depositories and interoffice and inter-company accounts which could result in a charge - unresolved amounts over 30 calendar days	0	5160	$ 0	5170	0	5180	$ 0	5190
11. Bank account reconciliations-unresolved amounts over 30 calendar days	0	5200	$ 0	5210	0	5220	$ 0	5230
12. Open transfers over 40 calendar days, not confirmed	0	5240	$ 0	5250	0	5260	$ 0	5270
13. Transactions in reorganization accounts-over 60 calendar days	0	5280	$ 0	5290	0	5300	$ 0	5310
14. Total	5	5320	$ 3,402	5330	7	5340	$ 1,654,655	5350

	No. of Items		Ledger Amount		Market Value	
15. Failed to deliver 11 business days or longer (21 business days or longer in the case of Municipal Securities)	11	5360	92,625	5361	$ 36,579	5362
16. Failed to receive 11 business days or longer (21 business days or longer in the case of Municipal Securities)	7	5363	148,312	5364	$ 193,883	5365

17. Security concentrations (See instructions in Part I):		
A. Proprietary positions	$ 0	5370
B. Customers' accounts under Rule 15c3-3	$ 0	5374
18. Total of personal capital borrowings due within six months	$ 0	5378
19. Maximum haircuts on underwriting commitments during the period	$ 0	5380
20. Planned capital expenditures for business expansion during the next six months	$ 0	5382
21. Liabilities of other individuals or organizations guaranteed by respondent	$ 0	5384
22. Lease and rentals payable within one year	$ 0	5386
23. Aggregate lease and rental commitments payable for entire term of the lease		
A. Gross	$ 0	5388
B. Net	$ 0	5390

- 13 -

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER:	MF Global Inc.	**as of:**	March 31, 2008

EXCHANGE SUPPLEMENTARY INFORMATION

1.	Capital to be withdrawn within 6 months	$ 0	8000
2.	Subordinated Debt maturing within 6 months	0	8010
3.	Subordinated Debt due to mature within 6 months that you plan to renew	0	8020
4.	Additional capital requirement for excess margin on Reverse Repurchase Agreements	0	8045

If Adjusted Net Capital is less than $2,000,000 please complete lines 5 through 8:

5.	Number of Associated Persons	0	8100
6.	Number of Branch Offices	0	8110
7.	Number of Guaranteed Introducing Brokers	0	8120
8.	Number of Guaranteed Introducing Broker Branch Offices	0	8130

Futures Commission Merchants offering off-exchange foreign currency futures ("forex") to retail customers

9.	Gross revenue from Forex transactions with retail customers	0	8140
10.	Total new aggregate notional value of all open Forex transactions in retail customer and non-customer (not proprietary) accounts	0	8150

General Comments:

Appendix 10.C

FORM X-17A-5

FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

Part II [11]

(Read instructions before preparing Form)

This report is being filed pursuant to (Check Applicable Block(s)):

1) Rule 17a-5(a) [X] [16] 2) Rule 17a-5(b) [ ] [17] 3) Rule 17a-11 [ ] [18]

4) Special request by designated examining authority [ ] [19] 5) Other [ ] [26]

NAME OF BROKER-DEALER
MF Global Inc. [13]

SEC FILE NO
1 [14]

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do not use P.O. Box No.)
440 S LaSalle [20]
(No. and Street)

FIRM ID NO
161633029 [15]

Chicago [21] (City) IL [22] (State) 60605 [23] (Zip Code)

FOR PERIOD BEGINNING (MM/DD/YY)
1/1/2009 [24]

AND ENDING (MM/DD/YY)
3/31/2009 [25]

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT.
Christine Serwinski [30]

(Area Code)---Telephone No.
312-261-7105 [31]

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT: [32]

OFFICIAL USE [33]

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNT? YES [X] [40] NO [ ] [41]

CHECK HERE IF RESPONDENT IS FILING AN AUDIT REPORT? [ ] [42]

EXECUTION:
The registrant/broker or dealer submitting this form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 23rd day of April 2009

Manual signatures of:

1) [redacted]

signature

Principal Financial Officer or Partner

3) _____

Principal Operations Officer or Partner

Attention - Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:f(a))

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF FINANCIAL CONDITION

As of (MMDDYY)	3/31/2009	99
SEC FILE NO.	1	98
Consolidated		198
Unconsolidated	X	199

ASSETS

	Allowable		Non-Allowable		Total	
1. Cash	$ 20,667,463	200			$ 20,667,463	750
2. Cash segregated in compliance with federal and other regulations	200,330,340	210			200,330,340	760
3. Receivable from brokers or dealers and clearing organizations:						
A. Failed to deliver:						
1. Includable in "Formula for Reserve Requirements"	52,614	220				
2. Other	521,094,775	230			521,147,389	770
B. Securities borrowed:						
1. Includable in "Formula for Reserve Requirements"	6,818,487	240				
2. Other	8,161,988,351	250			8,168,806,838	780
C. Omnibus accounts:						
1. Includable in "Formula for Reserve Requirements"	0	260				
2. Other	609,479,609	270			609,479,609	790
D. Clearing organizations:						
1. Includable in "Formula for Reserve Requirements"	0	280				
2. Other	167,032,206	290			167,032,206	800
E. Other	8,832,094	300	$ 11,692,459	550	20,524,553	810
4. Receivables from customers:						
A. Securities accounts:						
1. Cash and fully secured accounts	59,525,443	310				
2. Partly secured accounts	0	320	0	560		
3. Unsecured accounts			304,129	570		
B. Commodity accounts	58,880,285	330	20,847,024	580		
C. Allowance for doubtful accounts	0	335	(939,685)	590	138,617,196	820
5. Receivables from non-customers:						
A. Cash and fully secured accounts	44,548,003	340				
B. Partly secured and unsecured accounts	0	350	3,482,446	600	48,030,449	830
6. Securities purchased under agreements to resell	15,155,206,163	360	0	605	15,155,206,163	840
7. Securities and spot commodities owned, at market value:						
A. Bankers acceptances, certificates of deposit and commercial paper	2,080,170,623	370				
B. U.S. and Canadian government obligations	3,908,768,509	380				
C. State and municipal government obligations	0	390				
D. Corporate obligations	0	400				

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF FINANCIAL CONDITION

ASSETS

	Allowable		Non-Allowable		Total	
E. Stock and warrants	$ 533,731	410				
F. Options	0	420				
G. Arbitrage	0	422				
H. Other securities	0	424				
I. Spot commodities	0	430				
J. Total Inventory - includes encumbered securities of $0 [120]					$ 5,989,472,863	850
8. Securities owned not readily marketable:						
A. At Cost $0 [130]	0	440	$ 0	610	0	860
9. Other investments not readily marketable:						
A. At Cost $0 [140]						
B. At estimated fair value	0	450	0	620	0	870
10. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:						
A. Exempted securities $0 [150]						
B. Other $0 [160]	0	460	0	630	0	880
11. Secured demand notes - market value of collateral:						
A. Exempted securities $0 [170]						
B. Other $0 [180]	0	470	0	640	0	890
12. Memberships in exchanges:						
A. Owned, at market value $8,072,178 [190]						
B. Owned at cost			5,935,137	650		
C. Contributed for use of company, at market value			0	660	5,935,137	900
13. Investment in and receivables from affiliates, subsidiaries and associated partnerships	0	480	10,762,550	670	10,762,550	910
14. Property, furniture, equipment, leasehold improvements and rights under lease agreements: At cost (net of accumulated depreciation and amortization)	0	490	23,141,899	680	23,141,899	920
15. Other Assets:						
A. Dividends and interest receivable	1,246	500	24,193	690		
B. Free shipments	0	510	0	700		
C. Loans and advances	0	520	0	710		
D. Miscellaneous	6,401,214	530	181,548,907	720		
E. Collateral accepted under SFAS 140	0	536				
F. SPE Assets	0	537			187,975,560	930
16. TOTAL ASSETS	$ 31,010,331,156	540	$ 256,799,059	740	$ 31,267,130,215	940

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF FINANCIAL CONDITION

LIABILITIES AND OWNERSHIP EQUITY

Liabilities	A.I. Liabilities *		Non-A.I. Liabilities *		Total	
17. Bank loans payable:						
A. Includable in "Formula for Reserve Requirements"	$ 0	1030	$ 0	1240	$ 0	1460
B. Other	0	1040	0	1250	0	1470
18. Securities sold under repurchase agreements			0	1260	12,723,261,314	1480
19. Payable to brokers or dealers and clearing organizations:						
A. Failed to receive:						
1. Includable in "Formula for Reserve Requirements"	0	1050	0	1270	62,590	1490
2. Other	0	1060	0	1280	515,140,630	1500
B. Securities loaned:						
1. Includable in "Formula for Reserve Requirements"	0	1070			0	1510
2. Other	0	1080	0	1290	5,497,333,560	1520
C. Omnibus accounts:						
1. Includable in "Formula for Reserve Requirements"	0	1090			0	1530
2. Other	0	1095	0	1300	0	1540
D. Clearing organizations:						
1. Includable in "Formula for Reserve Requirements"	0	1100			0	1550
2. Other	0	1105	0	1310	8,338,207	1560
E. Other	0	1110	0	1320	101,132,754	1570
20. Payable to customers:						
A. Securities accounts - including free credits of $0 [950]	0	1120			229,567,220	1580
B. Commodities accounts	0	1130	0	1330	8,214,248,682	1590
21. Payable to non customers:						
A. Securities accounts	0	1140	0	1340	238,296	1600
B. Commodities accounts	0	1150	0	1350	79,593,277	1610
22. Securities sold not yet purchased at market value - including arbitrage of $0 [960]			0	1360	2,757,372,021	1620
23. Accounts payable and accrued liabilities and expenses:						
A. Drafts payable	0	1160			0	1630
B. Accounts payable	0	1170			701	1640
C. Income taxes payable	0	1180			18,432,063	1650
D. Deferred income taxes			0	1370	0	1660
E. Accrued expenses and other liabilities	0	1190			146,916,703	1670
F. Other	0	1200	0	1380	14,676,308	1680
G. Obligation to return securities			0	1386	0	1686
H. SPE Liabilities			0	1387	0	1687

* Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF FINANCIAL CONDITION
LIABILITIES AND OWNERSHIP EQUITY (continued)

Liabilities	A.I. Liabilities *		Non A.I. Liabilities *		Total	
24. Notes and mortgages payable:						
A. Unsecured	$ 0	1210			$ 0	1690
B. Secured	0	1211	$ 0	1390	0	1700
25. Liabilities subordinated to claims of general creditors:						
A. Cash borrowings			0	1400	490,000,000	1710
1. from outsiders $0 [970]						
2. Includes equity subordination(15c3-1(d)) of $130,000,000 [980]						
B. Securities borrowings, at market value			0	1410	0	1720
1. from outsiders $0 [990]						
C. Pursuant to secured demand note collateral agreements			0	1420	0	1730
1. from outsiders $0 [1000]						
2. Includes equity subordination(15c3-1(d)) of $0 [1010]						
D. Exchange memberships contributed for use of company, at market value			0	1430	0	1740
E. Accounts and other borrowings not qualified for net capital purposes	0	1220	0	1440	0	1750
26. TOTAL LIABILITIES	$ 0	1230	$ 0	1450	$ 30,796,314,326	1760

Ownership Equity

27. Sole proprietorship		$ 0	1770
28. Partnership- limited partners	$ 0 1020	0	1780
29. Corporation:			
A. Preferred stock		0	1791
B. Common stock		8,050	1792
C. Additional paid-in capital		453,912,345	1793
D. Retained earnings		16,895,494	1794
E. Total		470,815,889	1795
F. Less capital stock in treasury		0	1796
30. TOTAL OWNERSHIP EQUITY		$ 470,815,889	1800
31. TOTAL LIABILITIES AND OWNERSHIP EQUITY		$ 31,267,130,215	1810

* Brokers or Dealers electing the alternative net capital requirement method need not complete these columns.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

COMPUTATION OF NET CAPITAL

1. Total ownership equity (from Statement of Financial Condition - Item 1800)					$ 470,815,889	3480
2. Deduct: Ownership equity not allowable for net capital					0	3490
3. Total ownership equity qualified for net capital					470,815,889	3500
4. Add:						
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital					490,000,000	3520
B. Other (deductions) or allowable credits (List)					0	3525
5. Total capital and allowable subordinated liabilities					$ 960,815,889	3530
6. Deductions and/or charges:						
A. Total non-allowable assets from Statement of Financial Condition (Notes B and C)			$ 256,799,059	3540		
1. Additional charges for customers' and non-customers' security accounts			0	3550		
2. Additional charges for customers' and non-customers' commodity accounts			0	3560		
B. Aged fail-to-deliver			55,123	3570		
1. Number of items	9	3450				
C. Aged short security differences-less reserve of	$ 0	3460	0	3580		
number of items	0	3470				
D. Secured demand note deficiency			0	3590		
E. Commodity futures contracts and spot commodities proprietary capital charges			7,103,250	3600		
F. Other deductions and/or charges			53,497,572	3610		
G. Deductions for accounts carried under Rule 15c3-1(a)(6),(a)(7) and (c)(2)(x)			0	3615		
H. Total deductions and/or charges					(317,455,004)	3620
7. Other additions and/or allowable credits (List)					0	3630
8. Net Capital before haircuts on securities positions					$ 643,360,885	3640
9. Haircuts on securities: (computed, where applicable, pursuant to 15c3-1(f)):						
A. Contractual securities commitments			0	3660		
B. Subordinated securities borrowings			0	3670		
C. Trading and Investment securities:						
1. Bankers' acceptances, certificates of deposit and commercial paper			0	3680		
2. U.S. and Canadian government obligations			40,904,766	3690		
3. State and municipal government obligations			0	3700		
4. Corporate obligations			0	3710		
5. Stocks and warrants			329,044	3720		
6. Options			0	3730		
7. Arbitrage			0	3732		
8. Other securities			0	3734		
D. Undue concentration			0	3650		
E. Other (list)			0	3736	(41,233,810)	3740
10. Net Capital					$ 602,127,075	3750

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER:	MF Global Inc.	as of:	March 31, 2009

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6-2/3% of line 19)	$ 0	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	$ 0	3758
13. Net capital requirement (greater of line 11 or 12)	$ 0	3760
14. Excess net capital (line 10 less 13)	$ 0	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	$ 0	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition			$ 0	3790
17. Add:				
A. Drafts for immediate credit	$ 0	3800		
B. Market value of securities borrowed for which no equivalent value is paid or credited	$ 0	3810		
C. Other unrecorded amounts (List)	$ 0	3820	$ 0	3830
18. Deduct: Adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))			$ 0	3838
19. Total aggregate indebtedness			$ 0	3840
20. Percentage of aggregate indebtedness to net capital (line 19 divided by line 10)			% .00	3850
21. Percentage of aggregate indebtedness to net capital after anticipated capital withdrawals (line 19 divided by line 10 less item 4880 page 11)			% .00	3853

COMPUTATION OF ALTERNATIVE NET CAPITAL REQUIREMENT

Part B

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	$ 359,922,129	3870
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	$ 1,000,000	3880
24. Net capital requirement (greater of line 22 or 23)	$ 359,922,129	3760
25. Excess net capital (line 10 less line 24)	$ 242,204,946	3910
26. Percentage of Net Capital to Aggregate Debits (line 10 divided by line 17 page 8)	% 4.20	3851
27. Percentage of Net Capital, after anticipated capital withdrawals, to Aggregate Debits (line 10 less item 4880 page 11 divided by line 17 page 8)	% 3.29	3854
28. Net capital in excess of the greater of:		
A. 5% of combined aggregate debit items or 120% of minimum Net Capital Requirement	$ 208,754,447	3920

OTHER RATIOS

Part C

29. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	% .37	3860
30. Options deductions/Net Capital ratio (1000% test) total deductions exclusive of liquidating equity under Rule 15c3-1(a)(6),(a)(7) and (c)(2)(x) divided by Net Capital	% .00	3852

NOTES:

(A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.

(B) Do not deduct the value of securities borrowed under subordination agreements or secured demand notes covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.

(C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3 (See Rule 15c3-3, Exhibit A and Related Notes)

CREDIT BALANCES					
1. Free credit balances and other credit balances in customers' security accounts (see Note A, Exhibit A, Rule 15c3-3)	$ 151,097,173	4340			
2. Monies borrowed collateralized by securities carried for the accounts of customers (see Note B)	0	4350			
3. Monies payable against customers' securities loaned (see Note C)	0	4360			
4. Customers' securities failed to receive (see Note D)	62,592	4370			
5. Credit balances in firm accounts which are attributable to principal sales to customers	0	4380			
6. Market value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days	574,034	4390			
7. **Market value of short security count differences over 30 calendar days old	0	4400			
8. **Market value of short securities and credits (not to be offset by long or by debits) in all suspense accounts over 30 calendar days	2,412	4410			
9. Market value of securities which are in transfer in excess of 40 calendar days and have not been confirmed to be in transfer by the transfer agent or the issuer during the 40 days	0	4420			
10. Other (List)	48,701	4425			
11. TOTAL CREDITS			$	151,784,912	4430
DEBIT BALANCES					
12. **Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection net of deduction pursuant to Note E, Exhibit A, Rule 15c3-3	$ 13,231,840	4440			
13. Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	6,818,487	4450			
14. Failed to deliver of customers' securities not older than 30 calendar days	52,614	4460			
15. Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts (See Note F)	123,358,150	4465			
16. Margin related to security futures products written, purchased or sold in customer accounts required and on deposit with a clearing agency or a derivative clearing organization (see note G)	0	4467			
17. Other (List)	0	4469			
18. **Aggregate debit items			$	143,461,091	4470
19. **less 3% (for alternative method only -- see Rule 15c3-1(f)(5)(i))				(4,303,833)	4471
20. **TOTAL 15c3-3 DEBITS			$	139,157,258	4472
RESERVE COMPUTATION					
21. Excess of total debits over total credits (line 19 less line 11)			$	0	4480
22. Excess of total credits over total debits (line 11 less line 19)				12,627,654	4490
23. If computation permitted on a monthly basis, enter 105% of excess credits over total debits				0	4500
24. Amount held on deposit in "Reserve Bank Account(s)", including value of qualified securities, at end of reporting period				29,006,763	4510
25. Amount of deposit (or withdrawal) including $0 [4515] value of qualified securities				(6,000,000)	4520
26. New amount in reserve Bank Account(s) after adding deposit or subtracting withdrawal including $0 [4525] value of qualified securities			$	23,006,763	4530
27. Date of deposit (MMDDYY)				04/02/2009	4540

FREQUENCY OF COMPUTATION

28. Daily [4332] Weekly X [4333] Monthly [4334]

**In the event the Net Capital Requirement is computed under the alternative method, this "Reserve Formula" shall be prepared in accordance with the requirements of paragraph (f) of Rule 15c3-1.

BROKER OR DEALER:	MF Global Inc.	as of:	March 31, 2009

COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKER-DEALERS UNDER RULE 15c3-3(continued)

EXEMPTIVE PROVISIONS

28. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

A. (k)(1)-$2,500 capital category as per Rule 15c3-1		0	4550
B. (k)(2)(A)-"Special Account for the Exclusive Benefit of customers" maintained		0	4560
C. (k)(2)(B)-All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm	4335	0	4570
D. (k)(3)-Exempted by order of the Commission		0	4580

Information for Possession or Control Requirements Under Rule 15c3-3

State the market valuation and the number of items of:

1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3. Notes A and B		$ 0	4586
A. Number of items		0	4587
2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3. Notes B,C and D		$ 0	4588
A. Number of items		0	4589

3. The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3. Yes X [4584] No [4585]

NOTES

A. - Do not include in item one customers' fully paid and excess margin securities required by Rule 15c3-3 to be in possession or control but for which no action was required by the respondent as of the report date or required action was taken by respondent within the time frames specified under Rule 15c3-3.

B - State separately in response to items one and two whether the securities reported in response thereto were subsequently reduced to possession or control by the respondent.

C. - Be sure to include in item two only items not arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

D - Item two must be responded to only with report which is filed as of the date selected for the broker's or dealer's annual audit of financial statements, whether or not such date is the end of a calendar quarter. The response to item two should be filed within 60 calendar days after such date, rather than with the remainder of this report. This information may be required on a more frequent basis by the Commission or the designated examining authority in accordance with Rule 17a-5(a)(2)(iv).

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

COMPUTATION FOR DETERMINATION OF PAIB RESERVE REQUIREMENTS FOR BROKER-DEALERS

CREDIT BALANCES

1.	Free credit balances and other credit balances in proprietary accounts of introducing brokers (PAIB)	$ 5,733,705	2110		
2.	Monies borrowed collateralized by securities carried for PAIB	0	2120		
3.	Monies payable against PAIB securities loaned (see Note2-PAIB)	0	2130		
4.	PAIB securities failed to receive	0	2140		
5.	Credit balances in firm accounts which are attributable to principal sales to PAIB	0	2150		
6.	Other (List)	0	2160		
7.	TOTAL PAIB CREDITS			$ 5,733,705	2170

DEBIT BALANCES

8.	Debit balances in PAIB excluding unsecured accounts and accounts doubtful of collection	$ 0	2180		
9.	Securities borrowed to effecutuate short sales by PAIB and securities borrowed to make delivery on PAIB securities failed to deliver	0	2190		
10.	Failed to deliver of PAIB securities not older than 30 calendar days	0	2200		
11.	Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in PAIB accounts	0	2210		
12.	Margin related to security futures products written, purchased or sold in PAIB accounts required and on deposit with a clearing agency or a derivative clearing organization	0	2215		
13.	Other (List)	0	2220		
14.	TOTAL PAIB DEBITS			$ 0	2230

RESERVE COMPUTATION

15.	Excess of total PAIB debits over total PAIB credits (line 13 less line 7)	$ 0	2240
16.	Excess of total PAIB credits over total PAIB debits (line 7 less line 13)	5,733,705	2250
17.	Excess debits in customer reserve formula computation	0	2260
18.	PAIB Reserve Requirement (line 15 less line 16)	5,733,705	2270
19.	Amount held on deposit in "Reserve Bank Account(s)", including $5 [2275] value of qualified securities, at end of reporting period	7,500,000	2280
20.	Amount of deposit (or withdrawal) including $0 [2285] value of qualified securities	500,000	2290
21.	New amount in Reserve Bank Account(s) after adding deposit or subtracting $0 [2295] value of qualified securities	$ 8,000,000	2300
22.	Date of deposit (MMDDYY)	04/02/2009	2310

FREQUENCY OF COMPUTATION

Daily		2315
Weekly	X	2320
Monthly		2330

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

COMPUTATION OF CFTC MINIMUM NET CAPITAL REQUIREMENT

A.	Risk Based Requirement						
	i. Amount of Customer Risk Maintenance Margin Requirement	$ 4,447,361,342	7415				
	ii. Enter 8% of line A.i			355,788,907	7425		
	iii. Amount of Non-Customer Risk Maintenance Margin Requirement	45,564,307	7435				
	iv. Enter 4% of line A.iii			1,822,572	7445		
	v. Enter the sum of A.ii and A.iv			357,611,480	7455		
B.	Minimum Dollar Amount Requirement (Enter $500,000 if a member of NFA)			1,000,000	7465		
C.	Other NFA Requirement			0	7475		
D.	Minimum CFTC Net Capital Requirement. Enter the greatest of lines A.v., B. or C. (See Note)					$ 357,611,480	7490

Note : If amount on line D (7490) is greater than minimum capital requirement computed in Item 3760 (Page 6) then enter this greater amount in Item 3760. The greater of the amount required by SEC or CFTC is the minimum net capital requirement.

CFTC Early Warning Level	$ 393,372,628	7495

Note : If the Minimum CFTC Net Capital Requirement computed on Line D (7490) is the
(1) Risk Based Requirement, enter 110% of Line A (7455)
or (2) Minimum Dollar Amount requirement, enter 150% of Line B (7465)
or (3) Other NFA Requirement, enter 150% of Line C (7475)

- T10 -

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR CUSTOMERS TRADING ON U.S. COMMODITY EXCHANGES

SEGREGATION REQUIREMENTS(Section 4d(2) of the CEAct)

1. Net ledger balance				
A. Cash			$ 7,579,689,821	7010
B. Securities (at market)			771,319,064	7020
2. Net unrealized profit (loss) in open futures contracts traded on a contract market			(732,643,039)	7030
3. Exchange traded options				
A. Add market value of open option contracts purchased on a contract market			5,443,021,043	7032
B. Deduct market value of open option contracts granted (sold) on a contract market			(5,581,507,497)	7033
4. Net equity (deficit) (add lines 1, 2 and 3)			7,479,879,392	7040
5. Accounts liquidating to a deficit and accounts with debit balances				
- gross amount	66,573,512	7045		
Less: amount offset by customer securities	(39,222,870)	7047	27,350,642	7050
6. Amount required to be segregated (add lines 4 and 5)			$ 7,507,230,034	7060

FUNDS IN SEGREGATED ACCOUNTS

7. Deposited in segregated funds bank accounts		
A. Cash	157,666,170	7070
B. Securities representing investments of customers' funds (at market)	4,163,362,999	7080
C. Securities held for particular customers or option customers in lieu of cash (at market)	360,512,163	7090
8. Margins on deposit with derivatives clearing organizations of contract markets		
A. Cash	8,014,060	7100
B. Securities representing investments of customers' funds (at market)	3,214,442,611	7110
C. Securities held for particular customers or option customers in lieu of cash (at market)	410,806,901	7120
9. Net settlement from (to) derivatives clearing organizations of contract markets	(145,689,325)	7130
10. Exchange traded options		
A. Value of open long option contracts	5,443,021,043	7132
B. Value of open short option contracts	(5,581,507,497)	7133
11. Net equities with other FCMs		
A. Net liquidating equity	0	7140
B. Securities representing investments of customers' funds (at market)	0	7160
C. Securities held for particular customers or option customers in lieu of cash (at market)	0	7170
12. Segregated funds on hand (describe:)	0	7150
13. Total amount in segregation (add lines 7 through 12)	8,030,629,125	7180
14. Excess (deficiency) funds in segregation (subtract line 6 from line 13)	$ 523,399,091	7190

- T10-1 -

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR CUSTOMERS' DEALER OPTIONS ACCOUNTS

1.	Amount required to be segregated in accordance with Commission regulation 32.6		$ 0	7200
2.	Funds in segregated accounts			
	A. Cash	$ 0 7210		
	B. Securities (at market)	0 7220		
	C. Total		0	7230
3.	Excess (deficiency) funds in segregation (subtract line 1. from line 2.C.)		$ 0	7240

- T10-2 -

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF SECURED AMOUNTS AND FUNDS HELD IN SEPARATE ACCOUNTS FOR FOREIGN FUTURES AND FOREIGN OPTIONS CUSTOMERS PURSUANT TO COMMISSION REGULATION 30.7

FOREIGN FUTURES AND FOREIGN OPTIONS SECURED AMOUNTS - SUMMARY

I. Check the appropriate box to identify the amount shown on line 1. below:

- [ ] 7300 Secured amounts in only U.S.-domiciled customers' accounts
- [X] 7310 Secured amounts in U.S. and foreign-domiciled customers' accounts
- [ ] 7320 Net liquidating equities in all accounts of customers trading on foreign boards of trade
- [ ] 7330 Amount required to be set aside pursuant to law, rule or regulation of a foreign government or a rule of a self-regulatory organization authorized thereunder

II. Has the FCM changed the method of calculating the amount to be set aside in separate accounts since the last financial report it filed?

- [ ] Yes 7340 If Yes, explain the change below.
- [X] No 7350

1.	Amount to be set aside in separate section 30.7 accounts	$ 517,906,127	7360
2.	Total funds in separate section 30.7 accounts (page T10-4, line 8)	1,157,970,283	7370
3.	Excess (deficiency) - (subtract line 1 from line 2)	$ 640,064,156	7380

SUPPLEMENT TO
FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

STATEMENT OF SECURED AMOUNTS AND FUNDS HELD IN SEPARATE ACCOUNTS FOR FOREIGN FUTURES AND FOREIGN OPTIONS CUSTOMERS PURSUANT TO COMMISSION REGULATION 30.7

FUNDS DEPOSITED IN SEPARATE REGULATION 30.7 ACCOUNTS

1. Cash in banks					
A. Banks located in the United States		$ 6,157,407	7500		
B. Other banks designated by the Commission					
Name(s): See Attached	7510	0	7520	$ 6,157,407	7530
2. Securities					
A. In safekeeping with banks located in the United States		$ 0	7540		
B. In safekeeping with other banks designated by the Commission					
Name(s):	7550	0	7560	0	7570
3. Equities with registered futures commission merchants					
A. Cash		$ 0	7580		
B. Securities		0	7590		
C. Unrealized gain (loss) on open futures contracts		0	7600		
D. Value of long option contracts		0	7610		
E. Value of short option contracts		0	7615	0	7620
4. Amounts held by clearing organizations of foreign boards of trade					
Name(s):	7630				
A. Cash		$ 0	7640		
B. Securities		0	7650		
C. Amount due to (from) clearing organization - daily variation		0	7660		
D. Value of long option contracts		0	7670		
E. Value of short option contracts		0	7675	0	7680
5. Amounts held by members of foreign boards of trade					
Name(s): See Attached	7690				
A. Cash		$ 865,842,888	7700		
B. Securities		555,172,135	7710		
C. Unrealized gain (loss) on open futures contracts		(263,129,060)	7720		
D. Value of long option contracts		26,437,453	7730		
E. Value of short option contracts		(32,510,540)	7735	1,151,812,876	7740
6. Amounts with other depositories designated by a foreign board of trade					
Name(s):	7750			0	7760
7. Segregated funds on hand (describe):				0	7765
8. Total funds in separate section 30.7 accounts (to page T10-3, line 2)				$ 1,157,970,283	7770

A. If any securities shown above are other than the types of securities referred to in CFTC Regulation 1.25, attach a separate schedule detailing the obligations shown on each such line.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital

Type of Proposed withdrawal or Accrual See below for code to enter		Name of Lender or Contributor		Insider or Outsider? (In or Out)		Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)		(MMDDYY) Withdrawal or Maturity Date		Expect to Renew (yes or no)	
2	4600	MF Global Finance USA	4601	In	4602	130,000,000	4603	9/30/2009	4604	Yes	4605
						$130,000,000	4699*				

*To agree with the total on Recap (Item No. 4880)

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE:	DESCRIPTIONS
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals
4.	15c3-1(c)(2)(iv) Liabilities

- 11 -

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

FINANCIAL AND OPERATIONAL DATA

	Valuation		Number	
1. Month end total number of stock record breaks unresolved over three business days				
A. breaks long	$ 0	4890	0	4900
B. breaks short	$ 0	4910	0	4920

2. Is the firm in compliance with Rule 17a-13 regarding periodic count and verification of securities positions and locations at least once in each calendar quarter? (Check one) Yes [X] 4930 No [ ] 4940

A) If response is negative attach explanation of steps being taken to comply with Rule 17a-13

3. Personnel employed at end of reporting period:		
A. Income producing personnel	897	4950
B. Non-income producing personnel (all other)	496	4960
C. Total	1,393	4970
4. Actual number of tickets executed during current month of reporting period	4,440,498	4980
5. Number of corrected customer confirmations mailed after settlement date	0	4990

	No. of Items		Debit (Short Value)		No. of Items		Credit (Long Value)	
6. Money differences	0	5000	$ 0	5010	4	5020	$ 2,412	5030
7. Security suspense accounts	0	5040	$ 0	5050	0	5060	$ 0	5070
8. Security difference accounts	0	5080	$ 0	5090	0	5100	$ 0	5110
9. Commodity suspense accounts	0	5120	$ 0	5130	0	5140	$ 0	5150
10. Open transactions with correspondents, other brokers, clearing organizations, depositories and interoffice and inter-company accounts which could result in a charge - unresolved amounts over 30 calendar days	0	5160	$ 0	5170	0	5180	$ 0	5190
11. Bank account reconciliations-unresolved amounts over 30 calendar days	0	5200	$ 0	5210	0	5220	$ 0	5230
12. Open transfers over 40 calendar days, not confirmed	0	5240	$ 0	5250	0	5260	$ 0	5270
13. Transactions in reorganization accounts-over 60 calendar days	0	5280	$ 0	5290	0	5300	$ 0	5310
14. Total	0	5320	$ 0	5330	4	5340	$ 2,412	5350

	No. of Items		Ledger Amount		Market Value	
15. Failed to deliver 11 business days or longer (21 business days or longer in the case of Municipal Securities)	9	5360	55,345	5361	$ 2,598	5362
16. Failed to receive 11 business days or longer (21 business days or longer in the case of Municipal Securities)	0	5363	0	5364	$ 0	5365

17. Security concentrations (See instructions in Part I):		
A. Proprietary positions	$ 0	5370
B. Customers' accounts under Rule 15c3-3	$ 0	5374
18. Total of personal capital borrowings due within six months	$ 0	5378
19. Maximum haircuts on underwriting commitments during the period	$ 0	5380
20. Planned capital expenditures for business expansion during the next six months	$ 0	5382
21. Liabilities of other individuals or organizations guaranteed by respondent	$ 0	5384
22. Lease and rentals payable within one year	$ 0	5386
23. Aggregate lease and rental commitments payable for entire term of the lease		
A. Gross	$ 0	5388
B. Net	$ 0	5390

- 13 -

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

BROKER OR DEALER:	MF Global Inc.	as of:	March 31, 2009

EXCHANGE SUPPLEMENTARY INFORMATION

1.	Capital to be withdrawn within 6 months	$ 0	8000
2.	Subordinated Debt maturing within 6 months	130,000,000	8010
3.	Subordinated Debt due to mature within 6 months that you plan to renew	130,000,000	8020
4.	Additional capital requirement for excess margin on Reverse Repurchase Agreements	2,310,649	8045

If Adjusted Net Capital is less than $2,000,000 please complete lines 5 through 8:

5.	Number of Associated Persons	0	8100
6.	Number of Branch Offices	0	8110
7.	Number of Guaranteed Introducing Brokers	0	8120
8.	Number of Guaranteed Introducing Broker Branch Offices	0	8130

Futures Commission Merchants offering off-exchange foreign currency futures ("forex") to retail customers

9.	Gross revenue from Forex transactions with retail customers	0	8140
10.	Total new aggregate notional value of all open Forex transactions in retail customer and non-customer (not proprietary) accounts	0	8150

General Comments:

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT
PART II

STATEMENT DETAILS

BROKER OR DEALER: MF Global Inc. **as of:** March 31, 2009

Box 3870 3870

Adj to Capital Reqirement		354,742,258
	Total	$ 354,742,258

Box 4425 Other Credit Balances

Other		48,701
	Total	$ 48,701

Box 4930 Description:

Appendix 11

History

Man Group has its origins over 200 years ago in a broking business founded by James Man. From 1869, the company was known as ED&F Man and focused principally on the physical commodities markets. It was a founding member of some of the world's first futures markets. In 1981, the futures broking firm of Anderson

Man Ltd was established which became ED&F Man International, while ED&F Man Investment Products opened its London branch in 1983. ED&F Man was floated on the London Stock Exchange in 1994 and changed its name in 2000 to Man Group plc; ED&F Man International was renamed Man Financial in 2001. In connection with this offering, we have changed our name from Man Financial to MF Global.

Man Group has over 200 years of experience operating on an international basis, and currently has offices in more than 17 countries located around the world. As part of Man Group, MF Global has decades of experience operating in a highly regulated business environment that requires stringent compliance with the rules established by numerous governmental bodies, including the Commodity Futures Trading Commission, SEC, Financial Services Authority and other regulatory organizations and self-regulatory organizations around the world. This experience, including more than 12 years of operating as part of a public company in the United Kingdom, has shaped a culture that is familiar with operating within a public company environment.

MF Global has experienced rapid growth since its inception, both organically and through acquisitions. For example, between 1989 and 2007, the following 17 important acquisitions were completed:

Seller	Year	Business or Assets Acquired
GNP	1989	Financial Futures (Chicago)
Paine Webber	1993	LME Metals Business (New York)
Geldermann	1994	Interest Rates, Equity Options, Funds (United States/United Kingdom)
Index	1996	Private Client, Order Routing, E-Trading (United States)
Standard Chartered	1997	Financial Futures (Singapore), Foreign Exchange
SLK-FOC	1998	Private Client IB Network (United States)
Gerald	1998	LME Ring Dealer (United Kingdom)
SLK-FOC	1998	Non-domestic Business (Taiwan)
Tullett	1999	Financial Futures Expansion (United Kingdom/United States /Singapore)
First American	2000	Private Client Expansion (United States)
Ord Minnett	2001	Financial Futures (Australia), Foreign Exchange, Private Client Expansion
UnionCal	2001	Private Client Expansion (United Kingdom)
Fox Investments	2002	Private Client Expansion
GNI	2002	Futures, Foreign Exchange, Equities, Contracts for Differences, Electronic Trading (United States/United Kingdom)
Refco	2005	Futures, Institutional Foreign Exchange, Equities (United States, Canada and Asia)
Dowd Westcott	2007	Commodities Clearing (United States)
FXA Securities Ltd.	2007	Private Client Foreign Exchange (Japan)

In November 2005, we acquired substantially all the assets of Refco's regulated futures commission merchant business in the United States and in Singapore, Refco's regulated subsidiaries in India and

Canada, a number of client accounts maintained at these regulated businesses and certain other assets for $304.9 million. We refer to these acquired assets, subsidiaries and client accounts as the Refco assets. We acquired the Refco assets as a result of an auction conducted under the authority of the U.S. Bankruptcy Court pursuant to sections 363 and 365 of Title 11 of the United States Code. The Refco acquisition was our largest to date and substantially increased our client base, our presence in the United States, Canada and the Asia/Pacific region and our number of offices and employees. In particular, the Refco acquisition strengthened our position in U.S. institutional futures, retail futures and cash securities. The Refco assets accounted for approximately 11.3% of our total revenues during fiscal 2007 and approximately 18.8% of our revenues, net of interest and transaction-based expenses, during this period, and approximately 7.8% of our total assets at March 31, 2007. See "—Legal Proceedings" for a discussion of litigation related to this acquisition.

Appendix 12

I. Current Legal Proceedings

Set forth below are the potentially material ($5 million and above) litigations and regulatory proceedings to which we are currently a party or in which we are involved or which were very recently settled:

Unauthorized Trading Incident of February 26/27, 2008

One of our brokers, Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of our front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26, 2008 and early morning of February 27, 2008. The positions were liquidated at a loss of $141.0 million on February 27, 2008. The trades were unauthorized and because the broker had no apparent means of paying for the trades, we, as a clearing member of the exchange, were required to pay the $141.0 million shortfall (the "Dooley Trading Incident"). The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by us the next day. As a result of the Dooley Trading Incident:

- *Class Action Suits.* We, Man Group, certain of our current and former officers and directors, and certain underwriters for the IPO have been named as defendants in five actions filed in the United States District Court for the Southern District of New York. These actions, which purport to be brought as class actions on behalf of purchasers of MF Global stock between the date of the IPO and February 28, 2008, seek to hold defendants liable under §§ 11, 12 and 15 of the Securities Act of 1933 for alleged misrepresentations and omissions related to our risk management and monitoring practices and procedures. The five purported shareholder class actions have been consolidated for all purposes into a single action. We made a motion to dismiss which has been granted, with plaintiff having a right to replead and/or appeal the dismissal. Plaintiffs made a motion to replead by filing an amended complaint, which was denied. Plaintiffs have appealed. Because the motion to dismiss was made before discovery, the litigation is in its early stages, and in the event plaintiffs successfully appeal we believe we have meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.
- *The U.S. Attorney's Office, Chicago Examination.* The U.S. Attorney's Office in Chicago, Illinois is examining Mr. Dooley and the unauthorized trades. We have been cooperating with the U.S. Attorney's Office, which has informed us that we are not a target of their investigation, and that Mr. Dooley is a target.
- *Commodity Futures Trading Commission Proceeding.* Immediately after the Dooley Trading Incident, the CFTC, in coordination with the Chicago Mercantile Exchange ("CME"), began an investigation relating to the circumstances of the Dooley Trading Incident. During the course of that investigation, we established an accrual of $10.0 million to cover possible civil monetary penalties in any potential CFTC action relating to the Dooley Trading Incident and the two other matters referred to below under the captions "CFTC Potential Action" and "CFTC Natural Gas Price Information Investigation" (collectively the "CFTC Proceedings"). The three separate matters comprising the CFTC Proceedings (together with a fourth non-material matter) were settled in a single comprehensive Order (the "CFTC Settlement"). Under the CFTC Settlement, we, without admitting or denying any of the allegations made by the CFTC against us, accepted charges of lack of supervision in each of the matters, agreed to pay an aggregate civil monetary penalty of $10.0 million and agreed to a cease and desist order. In addition, we agreed to specific undertakings related to our supervisory procedures and practices, as well as agreeing to engage an independent outside firm (Promontory Financial Group) to review and assess the implementation of the undertakings and certain recommendations previously made by Promontory to, and accepted by, us.
- *CME Proceedings.* At the same time as the CFTC Settlement, without admitting or denying the allegations made by the CME relating to the Dooley Trading Incident, we settled a CME Administrative Proceeding by paying a fine of $0.5 million and agreeing to certain undertakings essentially coextensive with the CFTC undertakings referred to in the CFTC Settlement. We had previously established an accrual of $0.5 million to cover any potential fines in the CME proceeding.
- *Retention of Consultants.* Our Nominating and Corporate Governance Committee, composed of certain independent Board members, hired two consultants to help advise them and, through them, us, on matters relating to the Dooley Trading Incident. FTI Consultants advised on technology-related matters and Promontory Financial Group advised on policies and procedures in the risk aspects of our business.
- *Insurance Claim.* We filed a claim under our Fidelity Bond Insurance ("the Bond"), which provides coverage for wrongful or fraudulent acts of employees, seeking indemnification for this loss. After months of investigation, our Bond insurers have denied payment of this claim based on certain definitions and exclusions to coverage in the Bond. They have also initiated an action against us in the Supreme Court of the State of New York seeking a declaration that there is no coverage for this loss under the Bond. We believe the insurers' position to be in error and have filed a counterclaim in order to seek to enforce our right to payment in court.

CFTC Potential Action

In May 2007, our U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, and two of our individual employees received what is commonly referred to as a "Wells notice" from the staff of the Division of Enforcement of the CFTC. The notice relates to two trades that we executed in 2004 for a customer and reported to NYMEX. This matter was settled under the terms of the CFTC Settlement referred to above under "Unauthorized Trading Incident of February 26/27, 2008—Commodity Futures

Trading Commission Proceeding".

CFTC Natural Gas Price Information Investigation

We have been cooperating in an investigation conducted by the U.S. Attorney's Office in the Southern District of New York, which has brought an indictment in a related matter, and by a New York County Grand Jury. The CFTC and the SEC have also been involved in the investigation and each has brought cases in related matters. The investigation centers around trading by a market making energy trader at Bank of Montreal (BMO) who allegedly mismarked his book. One of our brokers did business with the BMO trader and used bid and offer prices for forward OTC trades the BMO trader sent to him as a basis for prices which our broker disseminated to our customers, including BMO, as price indications that reflected a consensus. We have been told that neither we nor our broker are targets of the Grand Jury investigation. This matter was settled under the terms of the CFTC Settlement referred to above under "Unauthorized Trading Incident of February 26/27, 2008—Commodity Futures Trading Commission Proceeding".

Bank of Montreal ("BMO")

On August 28, 2009, BMO instituted suit against us and our former broker, Joseph Saab (as well as a firm named Optionable, Inc. and five of its principals or employees), in the United States District Court for the Southern District of New York. In its complaint, BMO asserts various claims against all defendants for their alleged misrepresentation of price quotes to BMO's Market Risk Department ("MRD") as independent quotes when defendants knew, or should have known, that David Lee, BMO's trader, created the quotes which, in circular fashion, were passed on to BMO through our broker, thereby enabling Lee substantially to overvalue his book at BMO. BMO further alleges that we and Saab knew that Lee was fraudulently misrepresenting prices in his options natural gas book and aided and abetted his ability to do so by our actions in sending price indications to the BMO MRD, and substantially assisted Lee's breach of his fiduciary duties to BMO as its employee. The facts underlying this action also relate to the CFTC natural gas price information investigation described above in "CFTC Natural Gas Price Information Investigation." The Complaint seeks to hold all defendants jointly and severally liable and, although it does not specify an exact damage claim, it claims CAD 680.0 million (approximately $649.4 million) as a pre-tax loss for BMO in its natural gas trading, and claims that it would not have paid brokerage commissions to us (and Optionable, Inc.), would not have continued Lee and his supervisor as employees at substantial salaries and bonuses, and would not have incurred substantial legal costs and expenses to deal with the Lee mispricing. We made a motion to dismiss which is pending before the court. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

Parabola/Tangent

In December 2006, Parabola/Tangent filed a claim in the Commercial Court in London against us and one of our brokers alleging alternatively fraudulent and negligent misrepresentation and breach of fiduciary duty in connection with execution-only accounts that were active in our London office between July 2001 and February 2002. The claimants sought £3.2 million (approximately $5.3 million) in damages and speculative claims, including claims for lost profits, of up to an additional £28.0 million (approximately $46.1 million). A trial began in March 2009. In May 2009 a judgment was rendered in favor of the plaintiff and against us in the amount of £19.29 million plus interest and costs. We have appealed this judgment. An expense of $8.0 million was recorded in the three months ended March 31, 2009 in connection with this litigation, based on the judgment rendered, after adjusting for insurance proceeds of $23.5 million.

Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.

Our U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, was named as a co-defendant in an action filed in Florida State Court by Eagletech Communications Inc. ("Eagletech") and three of its alleged shareholders against 21 defendants, including banks, broker-dealers and clearing brokers, as well as "100 John Doe defendants or their nominee entities". The complaint alleges that the defendants engaged in a criminal conspiracy designed to manipulate the publicly traded share price of Eagletech stock. Plaintiffs seek unspecified compensatory and special damages, alleging that "Man Group PLC d/b/a Man Financial Inc" participated in the conspiracy by acting as a clearing broker for a broker-dealer that traded in Eagletech stock. The complaint asserts claims under RICO, the Florida Securities and Investor Protection Act, the Florida Civil Remedies for Criminal Practices Act and a related negligence claim. On May 9, 2007, defendants filed a notice removing the State Court action to Federal Court pursuant to 28 U.S.C. §1441(a). On October 2, 2007, Plaintiffs filed a first amended complaint in the Federal Court action asserting additional claims against Man Financial Inc under Florida common law, including civil conspiracy, conversion and trespass to chattels. On February 26, 2008, the financial institution defendants, including MF Global Inc., filed a motion to dismiss seeking dismissal of all claims asserted in the amended complaint on the ground that the claims are barred by the Private Securities Litigation Reform Act ("PSLRA") and preempted by the federal securities laws. On June 27, 2008, the Court partially granted the motion, holding that the federal RICO claims are barred by the PSLRA and dismissing the RICO claims with prejudice. The Court declined to exercise supplemental jurisdiction over the state law claims and remanded those claims to the Florida State Court. On July 25, 2008, plaintiffs filed a notice of appeal of the Court's June 27, 2008 decision to the United States Court of Appeals for the Eleventh Circuit but subsequently withdrew its appeal. We are unsure of whether plaintiffs will pursue the State Court action. Since the case is in its earliest stages, it is difficult to determine exposure, if any. We intend to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Amacker v. Renaissance Asset Management Fund et. al.

In December 2007, we, along with four other futures commission merchants ("FCMs"), were named as defendants in an action filed in the United States District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that we and the other defendants violated the Commodity xchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor, which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of $32.0 million, plus exemplary damages, from all defendants. All of the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference, the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek $17.0 million in claimed damages plus exemplary damages from all defendants. We filed a motion to dismiss the amended complaint which was granted by the court and appealed by the plaintiffs. The case is at its earliest stages so it is not possible to determine our exposure, if any. In any event, we intend to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Voiran Trading Limited

On December 29, 2008, we received a letter before action from solicitors on behalf of Voiran Trading Limited ("Voiran") which has now brought an LME arbitration proceeding. The letter and arbitration proceeding alleges that our U.K. affiliate was grossly negligent in advice it gave to Voiran between April 2005 and April 2006 in relation to certain copper futures contracts and claims $37.6 million in damages. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

Sentinel Bankruptcy

The Liquidation Trustee ("Trustee") for Sentinel Management Group, Inc. ("Sentinel") sued MF Global Inc. in June 2009 on the theory that our withdrawal of $50.2 million within 90 days of the filing of Sentinel's bankruptcy petition on August 17, 2007 is a voidable preference under Section 547 of the Bankruptcy Code and, therefore, recoverable by the Trustee, along with interest and costs. We believe there are substantial defenses available to us and we intend to resist the Trustee's attempt to recover those funds from us. In addition, to the extent the Trustee recovered any funds from us, we would be able to assert an offsetting claim in that amount against the assets available in Sentinel's bankruptcy case. The matter is in its early stages and litigation has just commenced. o provision for losses has been recorded in connection with this claim.

Agape World

In May 2009, investors in a venture set up by Nicholas Cosmo sued Bank of America and us, among others, in the United States District Court for the Eastern District of New York, alleging that we, among others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost $400.0 million. We have made a motion to dismiss which is currently pending before the court. The litigation is in its earliest stages. We believe we have meritorious defenses and intend to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Phidippides Capital Management/Mark Trimble

In the late spring of 2009, we were sued in Oklahoma State Court by customers who were substantial investors with Mark Trimble and/or Phidippides Capital Management. Trimble and Phidippides may have been engaged in a Ponzi scheme. Plaintiffs allege that we "materially aided and abetted" Trimble's and Phidippides' violations of the anti-fraud provisions of the Oklahoma securities laws and they are seeking damages "in excess of" $0.01 million each. We made a motion to dismiss which was granted by the court. Plaintiffs have appealed. We believe we have meritorious defenses and intend to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Man Group Receivable

In late April 2009, we formally requested that Man Group (our largest shareholder at the time and former parent company) make a payment of $29.8 million that Man Group owes to us in connection with the recapitalization of our balance sheet at the time of the IPO in fiscal 2008. Man Group has demanded arbitration and we have agreed to an arbitration by the London Court of International Arbitration. As a result of this unresolved claim, at March 31, 2009, we recorded a receivable of $29.8 million in equity. If we prevail in our claim, we would expect to restore our equity by the amount we receive from Man Group (if any) and, if we are not successful, we would expect to write off the receivable to additional paid in capital and not to increase our equity. The reduction in equity does not affect amounts reported in our earnings, our income statement or our cash position for any prior period and we do not expect the esolution of the claim, whether favorable to us or not, to affect our earnings or our income statement for the current or any future iod, although any amounts we recover would increase our cash position. This matter is in its very earliest stages and we intend to rsue this claim vigorously.

Morgan Fuel/Bottini Brothers

MF Global Inc. ("MFG") and MF Global Market Services LLC ("Market Services") are currently involved in litigation with a former customer of Market Services, Morgan Fuel & Heating Co., Inc. ("Morgan Fuel") and its principals, Anthony Bottini, Jr., Brian Bottini and Mark Bottini (the "Bottinis"). The litigations arise out of trading losses incurred by Morgan Fuel in over-the-counter derivative swap transactions, which were unconditionally guaranteed by the Bottini principals.

- MF Global Market Services LLC v. Anthony Bottini, Jr., Brian Bottini and Mark Bottini, FINRA No. 08-03673. On October 6, 2008, Market Services commenced an arbitration against the Bottinis before the Financial Industry Regulatory Authority ("FINRA") to recover $8.3 million, which is the amount of the debt owed to Market Services by Morgan Fuel after the liquidation of the swap transactions. Each of the Bottinis executed a guaranty in favor of Market Services personally and unconditionally guaranteeing payment of the obligations of Morgan Fuel upon written demand by Market Services. Market Services asserted a claim of breach of contract based upon the Bottinis' failure to honor the guarantees.
- Morgan Fuel v. MFG and Market Services, FINRA No. 08-03879. On October 21, 2008, Morgan Fuel commenced a separate arbitration proceeding before FINRA against MFG and Market Services. Morgan Fuel claims that MFG and Market Services caused Morgan Fuel to incur approximately $14.2 million in trading losses. Morgan Fuel seeks recovery of $5.9 million in margin payments that it allegedly made to Market Services and a declaration that it has no responsibility to pay Market Services for the remaining $8.3 million in trading losses. Morgan Fuel contends that MFG and Market Services should not have allowed Morgan Fuel to enter into, or maintain, the swap transactions. The Supreme Court of New York for the County of New York has temporarily stayed the arbitration commenced by Morgan Fuel on the ground that there is no agreement to arbitrate. The motion for a permanent stay was denied and we have appealed that decision.
- The Bottinis asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against MFG, Market Services and Steven Bellino (a former MFG employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim was also denied by the court and we have appealed that decision as well.

It is difficult at this stage to determine exposure, if any. In any event, we intend to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Other

In addition to the matters discussed above, from time to time we are party to litigation and regulatory proceedings that arise in the ordinary course of our business. Aside from those matters discussed above, we do not believe that we are party to any pending or threatened litigation or regulatory proceedings that, individually or in the aggregate, would in the opinion of management have a material adverse effect on our business, results of operations, financial condition or cash flows.

II. Prior Legal Proceedings (10 year history)

Set forth below are the material litigations and regulatory proceedings to which we were a party or in which we were involved which have been settled, dismissed or otherwise closed out:

Philadelphia Alternate Asset Fund

In May, 2006, we were sued by the Receiver for Philadelphia Alternate Asset Fund ("PAAF") and associated entities for common law negligence, common law fraud, violations of the Commodity Exchange Act and RICO violations (the "Litigation"). In December, 2007, without admitting any liability of any party to the Litigation to any other party to the Litigation, the Litigation was settled by our agreeing to pay $69 million, plus $6 million of legal expenses, to the Receiver, in exchange for releases from all applicable parties and the dismissal of the Litigation with prejudice. In a related action, we settled a CFTC administrative proceeding (In the Matter of MF Global, f/k/a Man Financial Inc., and Thomas Gilmartin) brought by the CFTC against us and one of our employees for failure to supervise and recordkeeping violations. Without admitting or denying the allegations, we agreed to pay a civil monetary penalty of $2 million and accepted a cease and desist order.

Camp Case

On February 20, 2007, we also settled a CFTC administrative proceeding (In the Matter of Steven M. Camp and Man Financial Inc., CFTC Docket No. 07-04) in which we were alleged to have failed to supervise one of our former associated persons ("AP") who was charged with fraudulently soliciting customers to open accounts at our company. The CFTC alleged that the former AP misrepresented the profitability of a web-based trading system and of a purported trading system to be traded by a commodity trading advisor. Without admitting or denying the allegation, we agreed to pay restitution to customers amounting to $196,900.44 and a civil monetary penalty of $120,000. We also agreed to a cease and desist order and to strengthen our supervisory system for overseeing sales solicitations by employees in connection with accounts to be traded under letters of direction in favor of third party system providers.

CCPM Matter

In or about October 2003, we uncovered an apparent fraudulent scheme conducted by third parties unrelated to us that may have victimized a number of our clients. CCPM, a German Introducing Broker, introduced all the clients that may have been victimized. An agent of CCPM, Michael Woertche (and his confederates), apparently engaged in a Ponzi scheme in which allegedly unauthorized ansfers from and trading in accounts maintained by us were utilized to siphon money out of these accounts, on some occasions ortly after they were established. We were involved in two arbitration proceedings relating to these CCPM introduced accounts. The first arbitration involved claims made by two claimants before a NFA panel. The second arbitration involves claims made by four claimants before a FINRA panel. The claims in both arbitrations were based on allegations that we and an ex-employee assisted CCPM in engaging in, or recklessly or negligently failed to prevent, unauthorized transfers from, and trading in, accounts maintained by us. Damages sought in the NFA arbitration proceeding were approximately $1,700,000 in compensatory damages, unspecified punitive damages and attorney's fees in addition to the rescission of certain deposit agreements. The NFA arbitration was settled for $200,000 as to one claimant and a net of $240,000 as to the second claimant during fiscal 2008. Damages sought in the FINRA proceeding were approximately $6,000,000 in compensatory damages and $12,000,000 in punitive damages. During the year ended March 31, 2009, the FINRA arbitration was settled for an aggregate of $800,000.

CME Pre-execution Communications

On December 12, 2008, we settled three CME Group disciplinary actions involving allegations that on a number of occasions in 2006 and 2007, our employees engaged in impermissible pre-execution communications in connection with trades executed on the e-cbot electronic trading platform, withheld customer orders that were executable in the market for the purpose of soliciting, and brokering contra-orders and crossed orders on the e-cbot trading platform without allowing for the minimum required exposure period between the entry of the orders. We were also charged with failing properly to supervise our employees in connection with these trades. Without admitting or denying any wrongdoing, we consented to an order of a CME Business Conduct Committee Panel which found that we violated legacy CBOT Rule 504.00 and Regulations 480.10 and 9B.13 and 9B.13(c) and ordered us to pay a $400,000 fine, cease and desist from similar conduct and, in consultation with CME Market regulation Staff, enhance our training practices and supervisory procedures regarding electronic trading practices.

Leaderguard Matter

Proceedings had been instituted against our U.K. subsidiary by the liquidator of Leaderguard Spot Forex Limited ("LSF"), a Mauritius based investment firm that became insolvent in March 2005. Our U.K. subsidiary (originally through GNI Limited and then Man Financial Limited) provided foreign exchange broking services to two companies in the Leaderguard group between 2001 and 2005. The claim alleged, inter alia, that we were complicit in assisting the directors of various Leaderguard group companies to breach uciary duties owed by such directors to their companies and that we knowingly benefited from assets received in breach of such uciary duties. The claim further alleged we are liable to account for funds lost through transactions executed by such directors with our U.K. company which are alleged to amount to $18.0 million. The Leaderguard liquidator dismissed the action on July 17, 2009. No provision for losses was recorded in connection with this matter.

Class Action Suit

We and certain of our executive officers and directors had been named as defendants in an action filed in the United States District Court for the Southern District of New York. This action, which purported to be brought as a class action on behalf of purchasers of MF Global stock between March 17, 2008 and June 20, 2008, sought to hold defendants liable under §§ 10 and 20 of the Securities Exchange Act of 1934 for alleged misrepresentations and omissions related to our financial results and projections and capital structure. We filed a motion to dismiss which the court granted, with prejudice.

Appendix 13

U.S. Compliance Structure Overview

MF Global

25.D.1. ***Compliance Regime***

The Compliance Department at MF Global consists of a Global Director of Compliance, Tracy Whille who reports to the General Counsel of the firm, Laurie Ferber. Tracy has been with the firm for 18 months and before that, at various major broker dealers for a combination of over 20 years.

Reporting to Tracy in the U.S., is Tom Cohen who is the U.S. Chief Compliance Officer who is responsible for all compliance activities in the U.S. Tom has been with MF Global for 15 months and prior to that, in excess of 25 years in the industry. Tom has eight direct reports, each of whom has particular expertise in a compliance function or multiple compliance functions.

The U.S. Compliance structure consists of Anti-Money Laundering and New Accounts Due Diligence headed by John Brand, Advisory Compliance including trade surveillance aligned by business products and headed by various compliance experts in those product lines, Compliance Risk and Assurance headed by Terry Clarke, Central Compliance headed by Tracey Straub and Regulatory Inquiries headed by Joan Ackerman (see attached U.S. Compliance Structure).

There are currently 38 people in U.S. Compliance Department and ten additional positions in the process of being filled (see the attached Organizational Chart). The average industry experience for people in the U.S. Compliance Department is 17 years and the average MF Global experience is 4 years.

Compliance Officer Biographies

MF Global

Tracy Lowery Whille – Global Compliance Director

Tracy Lowery Whille joined MF Global Inc. in August, 2008 and is currently the Global Director of Compliance. Prior to joining MF Global, Tracy was the Global Director of Compliance at Bear Stearns for 3 years. Tracy also spent 4 years at Lehman Brothers as the Director of Fixed Income and Mortgage Capital Compliance and 14 years at Goldman Sachs. While at Goldman, Tracy worked in the Fixed Income Currency and Commodities Compliance Department as a Senior Compliance Officer and in the Controllers Department as a Manager of Proprietary Accounting and Risk Analysis for Fixed Income and Derivative products both in the U.S. and Asia. Tracy currently is a member of the FIA, a Vice President and member of the Executive Committee of the L&C Division of SIFMA, a member of SIFMA Self Reg Committee and on various SIFMA Legal and Compliance Committees. Tracy received her MBA and a BS in Accounting from Seton Hall University.

Thomas S. Cohen – U.S. Chief Compliance Officer

Tom is the U.S. Chief Compliance Officer for MF Global Inc. He heads a staff of 38~~46~~ compliance professionals located in the New York and Chicago offices. Tom is a member of the Company's North American Management and Operational Risk and New Products Committees. Tom also plays a role in the operation of the U.S. New York Mercantile Exchange where he serves as a member of the exchange's Business Conduct Committee.

Prior to joining MF Global in October 2008, Tom was a Senior Managing Director for Bear, Stearns & Co. Inc. where he was the head of Bear, Stearns' Futures, Commodities and Foreign Exchange Compliance group. Previously, Tom was Vice President of Futures Compliance at Goldman, Sachs & Co. and Vice President of Compliance for Commodity Exchange, Inc. Tom received an MBA in Accounting from Seton Hall University in 1982.

John Brand – U.S. Anti-Money Laundering Compliance Officer

John Brand joined MF Global Inc. in November 2005~~5~~ and currently serves as the Anti-Money Laundering Compliance Officer. John is responsible for the development, implementation and monitoring of MF Global anti-money laundering and customer identification program efforts. Prior to joining MF Global, John was a Compliance Officer for Refco, LLC for approximately 1 year. John also spent approximately 4 years at the National Futures Association (NFA). While at the NFA, John worked in the Compliance Department as an auditor and field supervisor performing regulatory examinations of futures industry registrants. John maintains his Series 3 designation and is a member of the Association of Certified Anti-Money Laundering Specialists (ACAMS). John received his BS in Finance from Illinois State University.

Terrence B. Clarke – Assurances and Compliance Risk Compliance Officer

Terry Clarke joined MF Global Inc. in April, 2009 and is currently covers general futures and securities compliance matters, including compliance assurance reviews in branches and other MF Global offices. Prior to joining MF Global, Terry worked in the Compliance Department of JPMorgan for seven years (2002 to 2009), the first two of these years being with Bank One, covering futures, general securities sales and fixed income compliance. Prior to joining Bank One in 2002, Terry worked at Credit Suisse First Boston ("CSFB") from 1993 to 2002. From 1993 to 1997 Terry was located in the CSFB Hong Kong office as head of non-Japan Asia Compliance. From 1997 to 2002, Terry worked in CSFB's New York office as head of Fixed Income Compliance. Terry's experience at both CSFB and Bank One included Treasury and Agency Compliance. Terry graduated from Loras College, Dubuque, IA in 1979 with a BA in Accounting as has passed the CPA exam.

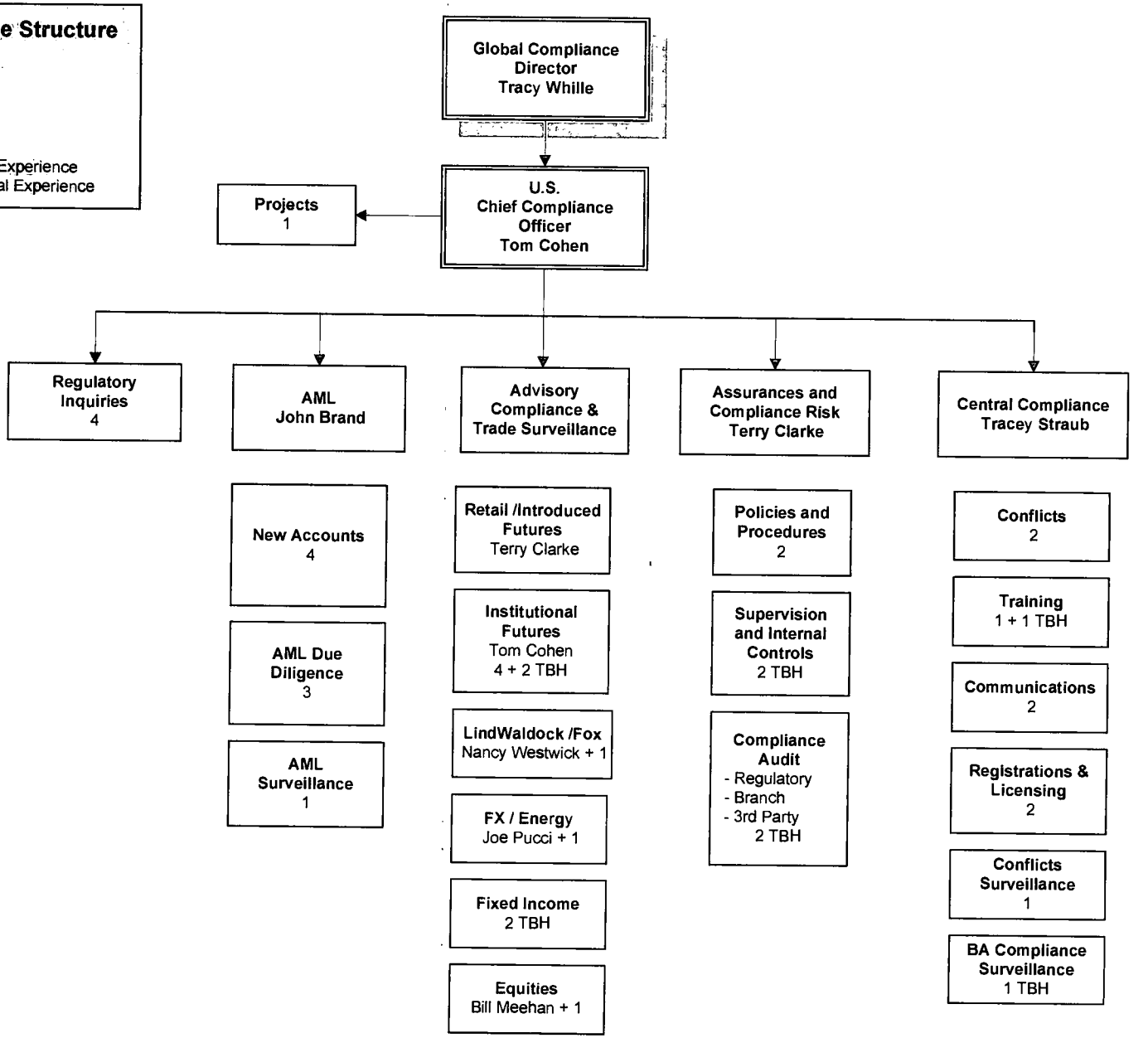
Tracey Straub – Global Conflicts Compliance Officer (U.S. Central Compliance)

Trace-y Straub joined MF Global Inc. in November, 2008 and is currently the Global Conflicts Officer. Prior to joining MF Global, Tracey was involved in Compliance Technology initiatives at Bear Stearns for 2 ½ years. Tracey spent 10 years at Prudential Securities in various Compliance, Risk Management, technology development roles as well as a member of the Sr. Management Team in the role of Chief of Staff to the President of the Private Client Group. In addition, Tracey worked at Deutsche Bank in their Policies and Procedures Group as well as with Republic National Bank, where he was instrumental in their creation of a broker-dealer. Tracey currently holds the following Securities Registrations; Series 7, 63, 24, and 53 and he received his BS in Business Administration from the University of Nebraska.

U.S. Compliance Structure

36 Compliance Employees
2 Shared Legal Resources
10 To Be Hired ("TBH")
48 Total

17 = Average years Industry Experience
4 = Average years MF Global Experience



Appendix 14

MF Global

Futures Compliance and Supervisory Procedures Manual

The contents of this Manual are confidential and proprietary to MF Global Inc. ("MF Global"). This Manual is intended for the exclusive use of MFG and its employees and should not be circulated to persons outside of MFG.

Introducing Brokers are expected to conduct their own compliance program and may not rely upon MFG to oversee any activities of an Introducing Broker's firm or Associated Persons.

FOR INTERNAL USE ONLY

Updated January 2010

MF Global

MF GLOBAL INC.

FUTURES COMPLIANCE AND SUPERVISORY PROCEDURES MANUAL

TABLE OF CONTENTS

I. INTRODUCTION I-1

II. GENERAL CONSIDERATIONS AND DESCRIPTION OF MANAGER SUPERVISORY DUTIES II-1

- A. Description of Manager Supervisory Duties II-1
  - 1. Supervision of Customer Accounts Generally II-2
  - 2. Supervision of Accounts with Excessive Activity or Losses II-2
  - 3. Supervision of Order Tickets II-2
  - 4. Supervision of Employee Accounts II-2
  - 5. Supervision of Margin Calls II-2
  - 6. Supervision of Deficit Accounts II-3
  - 7. Trade Corrections and Other Changes II-3
  - 8. Promotional Material II-3
  - 9. Publications and Speaking Engagements II-3
  - 10. Customer Complaints II-3
  - 11. Termination of Employment II-3

III. REGISTRATION III-1

- A. Futures Commission Merchant Registration III-1
- B. Associated Persons III-1
  - 1. General III-1
  - 2. Multiple Associations of APs III-1
- C. Principals III-2
- D. Floor Brokers III-2
- E. Branch Offices III-2
- F. Individual Registration Procedures III-2
  - 1. Initial Registration and Examination Requirements III-2
  - 2. Updates III-3
  - 3. Termination of Employment III-3
- G. Ethics Training III-3
- H. Commodity Trading Advisor ("CTA") Registration and Exemptions From Such Registration III-3

IV. ACCOUNT OPENING PROCEDURES IV-1

- A. Introduction IV-1
- B. Qualification Standards IV-1
  - 1. Know Your Customer Requirements IV-1
  - 2. Financial Requirements IV-2
- C. Account Opening Documents IV-2
  - 1. Account Agreement IV-2
  - 2. Disclosure Documents IV-3
- D. Hedge Accounts IV-3
- E. Regulated Entities IV-4
- F. Commodity Pool (Hedge Fund) Accounts IV-4
- G. Discretionary Accounts IV-5

MF Global

1. Account Controller Discretionary Accounts IV-5
2. AP Discretionary Accounts IV-5
3. Revocation of Trading Authorization IV-6
4. Advertising Relating to Discretionary Accounts IV-6

H. Proprietary and Non-Customer Accounts IV-6
I. Customer Omnibus Accounts IV-6
J. Introduced Accounts IV-7
K. Foreign Accounts IV-8
1. Introduction IV-8
2. CFTC Notices IV-8
3. Foreign Brokers IV-8
4. Information and Financial Requirements IV-9

L. Transfers of Accounts to MFG IV-9
M. New Account Processing and Approvals IV-9
1. General IV-9
2. Accounts That Require Special Approval IV-10
3. Unacceptable Futures Accounts IV-10

N. Documentation for Give-Up Accounts IV-10
O. Limitations on Third Party Safekeeping Accounts IV-11
P. Commissions and Fees IV-11
1. Basic Commission Rates IV-11
2. AP Commission Payments IV-11
3. Exchange and NFA Fees IV-11

V. CREDIT AND MARGIN POLICIES V-1

A. Credit Policy V-1
1. Determination of Credit Limits V-1
2. Compliance and Ongoing Review V-1

B. Margin Policy V-1
1. Overview V-1
2. Initial Margin; Maintenance Margin; Permissible Customer Funds V-2
3. Variation Margin; Permissible Customer Funds V-2
4. Risk Calls; Permissible Customer Funds V-3
5. Receipt of Customer Funds V-3
6. Margin Call Procedures V-3
7. Special Margin Requirements V-4
8. Day Trading Margin Policy V-4
9. Loans/Extensions of Credit V-4
10. Transfer of Funds From Securities Account Held with MF Global Inc. V-5
11. Cash Equity Deficit Accounts V-5
12. Restriction of Accounts V-5
13. Foreign Currency Margin V-5
14. Return of Excess Margin V-5
15. Collection of Deficits V-6

VI. ORDER ENTRY PROCEDURES AND TRADE PRACTICES VI-1

A. Overview VI-1
B. Acceptance of Orders and Preparation of Order Tickets VI-1
C. Summary of Order Entry and Confirmation Procedures VI-1
D. Errors and Adjustments VI-3
1. Errors VI-3
2. Adjustments VI-4

MF Global

E. Electronic Order Routing and Trading Systems VI-4
1. General VI-4
2. Customer Direct Access VI-4
3. Orders Entered Into an Electronic Trading System VI-5
F. Confidentiality VI-5
G. Order Allocation ("Bunched" Orders) VI-5
1. Allocation of Bunched Orders Pursuant to Pre-Filed Allocation Procedures or at the Time the Order is Placed (See Appendix C to Part 1 of the CFTC Regulations) VI-5
2. Post-Execution Allocation of Bunched Orders (See CFTC Regulation 1.35(a-1)(5)) VI-6
3. Average Prices VI-6
H. Cross Trades VI-6
1. Crossing Customer Orders VI-6
2. Crossing MFG Order Against Customer Order VI-7
I. Prohibitions on "Trading Ahead" and Disclosure of Customer Orders and Positions VI-7
J. Intermarket Frontrunning Involving Stock Index Futures VI-8
K. Wash Trading VI-8
L. Prearranged Transactions VI-9
M. Exchanges of Futures for Physicals, Exchanges of Futures for Swaps and Exchange of Futures for Related Positions VI-9
N. Foreign Futures Transactions VI-10
O. Block Trades VI-10
P. Direct Transmittal of Orders to Foreign Brokers VI-10

VII. OPERATIONS VII-1

A. Processing, Clearing and Settling Futures Trades VII-1
1. Introduction VII-1
2. Daily Clearing and Settlement Policies VII-1
3. Liquidation of Offsetting Positions VII-1
4. Deliveries VII-2
5. Pre-Delivery Period Procedures VII-2
6. Taking Delivery VII-3
7. Making Delivery VII-3
8. Exercise of Expiring Option Contracts/Allocation of Exercise Notices VII-3
9. Give-Ups VII-3
10. Off-Exchange Transfers VII-3
B. Segregation of Customer Funds VII-4
C. Customer Daily and Monthly Activity Statements VII-5
D. Regulatory Financial Requirements VII-5
E. Purging Inactive Accounts VII-5
F. Business Continuity and Disaster Recovery Plan VII-6

VIII. EXCHANGE FLOOR PERSONNEL VIII-1

A. CFTC Restrictions VIII-1
B. Exchange Limitation on Member Activities VIII-1
C. Exchange and CFTC Limitation on Floor Employee Activities VIII-1

IX. REGULATORY RECORDKEEPING REQUIREMENTS IX-1

A. Regulatory Recordkeeping Requirements IX-1
B. Record Retention IX-2
C. Method of Storage IX-3

MF Global

X. REPORTING REQUIREMENTS X-1

A. Financial Reports X-1
B. Foreign Futures and Options Reports X-1
C. Large Trader Reports; Speculative Position Limits X-1
1. Large Trader Reporting X-1
2. Speculative Position Limits X-1
D. Miscellaneous Reports X-2
1. Material Affiliated Person Reports X-2
2. NFA Questionnaire X-2
3. Subordinated Loan Agreement Reports X-2
4. Other As-Needed Reports X-2

XI. COMPLIANCE XI-1

A. Trading Review XI-1
1. General XI-1
2. Branch Office and Sales Desk Review XI-1
3. Exchange Floor Manager Review XI-1
4. Compliance Department Review XI-1
5. Operations Department Review XI-2
6. Written Records XI-2
B. Branch Office and Guaranteed IB Inspections XI-2
C. Large Trader and Speculative Position Limits Review XI-2
D. Customer Correspondence and Complaints XI-2
1. Customer Correspondence XI-2
2. Customer Complaints XI-2
E. Litigation and Arbitration XI-3
F. Promotional Materials XI-3
1. Definition of Promotional Materials XI-3
2. Distribution of Promotional Materials XI-3
3. Statement of Opinion XI-4
4. Approval and Recordkeeping XI-4
5. Electronic Mail Communication XI-4
6. MFG Web Sites XI-4
7. Television and Radio Advertisements XI-5
8. Publications and Speaking Engagements XI-5
G. Miscellaneous Compliance Policies and Procedures XI-5
1. Tape Recording of Telephone Conversations XI-5
2. Regulatory Inquiries XI-6
3. Disciplinary Action XI-6
4. National Do Not Call List XI-6
5. Gift Policy XI-6
6. Entertainment Policy XI-6

XII. EMPLOYEES XII-1

A. Employee Trading Policy XII-1
B. Proprietary and Confidential Information XII-1

MF Global

EXHIBITS

EXHIBIT A FUTURES ACCOUNT OPENING CHECKLIST A-1
EXHIBIT B MFG ACCOUNT DOCUMENTATION B-1
EXHIBIT C CROSS TRADE PROCEDURES C-1
EXHIBIT D EFP PROCEDURES D-1
EXHIBIT E BLOCK TRADE PROCEDURES E-1
EXHIBIT F PROCEDURES FOR DIRECT TRANSMITTAL OF ORDERS TO FOREIGN BROKERS AND DIRECT ORDER TRANSMITTAL CLIENT DISCLOSURE STATEMENT F-1
EXHIBIT G PERMISSIBLE INVESTMENTS OF CUSTOMER SEGREGATED FUNDS AND SECURED AMOUNT FUNDS G-1

APPENDICES

APPENDIX I GLOSSARY AI-1
APPENDIX II COMPLIANCE BULLETINS AII-1
APPENDIX III CREDIT DEPARTMENT POLICIES AND PROCEDURES AIII-1
APPENDIX IV GLOBEX COMPLIANCE PROCEDURES AIV-1
APPENDIX V E-CBOT COMPLIANCE PROCEDURES AV-1
APPENDIX VI NYMEX CLEARPORT COMPLIANCE PROCEDURES AVI-1

MF Global

I. INTRODUCTION

This Futures Compliance and Supervisory Procedures Manual ("Manual") sets forth the principles, practices and procedures under which MF Global Inc. ("MFG") conducts its futures business.[1] MFG is registered as a futures commission merchant ("FCM") with the Commodity Futures Trading Commission ("CFTC"), the agency of the United States ("U.S.") government that regulates futures transactions and the U.S. futures contract markets (each, an "Exchange"), and is a member of the National Futures Association ("NFA"). In addition, MFG is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker-dealer.

This Manual is to be used by all MFG personnel involved in the futures business as a guide for compliance with MFG's policies and procedures as well as with the laws, rules and regulations applicable to futures trading activities. MFG's policies and procedures with respect to its security futures activities are set forth in MFG's Security Futures Procedures and Supervisory Manual.

As a general matter, an FCM is an entity that solicits or accepts orders to buy or sell futures contracts and accepts money or other assets from customers to support such orders. As noted above, transactions in futures contracts are regulated by the CFTC and the various Exchanges. The NFA is responsible, in general, for overseeing registration and certain reporting, sales practices, audit and compliance activities.

As a member of all major Exchanges, MFG is required to comply with all applicable Exchange rules and regulations. The CME Group, Inc. ("CME") acts as MFG's designated self-regulatory organization ("DSRO"). As such, MFG will file certain financial reports and other reports with its DSRO, and the DSRO will be responsible for monitoring MFG's compliance with various rules and requirements.

All MFG employees should be aware that the potential penalties for improper actions can be quite severe, including, but not limited to, termination or suspension of employment and/or registration, increased surveillance and supervision, limitations on selling activities, monetary fines and/or cancellation of commissions, expulsion from the futures industry, and even imprisonment. MFG also can be severely sanctioned for violations of applicable laws, rules or regulations committed by its employees. As a result, each employee's commitment to compliance must be permanent, thorough and uncompromising.

MFG recognizes that not all of the policies and procedures established will apply to all MFG employees involved in futures related activities, depending upon the type of customer, type of contract, and type of market. Nevertheless, MFG has decided to adopt this Manual in a single, comprehensive form so that it has in place policies and procedures reasonably designed to detect and prevent violations of applicable laws, rules and regulations. Each employee involved in futures related activities must be committed to abiding by the policies and procedures in this Manual, whether or not they apply directly to such employee's specific activities.

In order to be able to comply with the policies and procedures established in this Manual, each employee engaging in futures related activities must be familiar with the contents of this Manual and, as a condition of his or her continued employment with MFG, agrees to be bound by the policies and procedures contained in this Manual. To that end, MFG's Compliance Department will require each such employee to acknowledge in writing, on an annual basis, that he or she has read, is familiar with and agrees to be bound by the policies and procedures contained in this Manual. Demonstration of a lack of familiarity with this Manual may affect an employee's continued employment with MFG and/or such employee's compensation.

At least one hard copy of this Manual is maintained at each MFG office at which futures related activity may occur, and additional copies are available from the Legal/Compliance Department. In addition, this Manual is available for reference on MFG's Intranet in the Compliance Department section.

---

1 Throughout this Manual, unless the context indicates otherwise, "futures" includes futures and options on futures contracts traded on or subject to the rules of a designated contract market, commodity options, and physical commodities transactions incidental to transactions in futures contracts (e.g., exchange-for-physical ("EFP"), exchange-for-swap ("EFS") and exchange-for-risk ("EFR") transactions or deliveries of the physical commodity underlying a futures contract). References to "options" are to options on futures only. A list of select defined terms and abbreviations used in this Manual is set forth in the Glossary in **Appendix I** to this Manual.

MF Global

MFG personnel involved in futures related activities must cooperate with the Compliance Department and achieve an understanding of all applicable laws, rules and regulations referenced in this Manual. Only in this way will MFG be able to maintain a reputable, high-quality business and a well-informed professional staff.

Any exceptions to the policies and procedures contained in this Manual may be granted only by the written consent of Senior Management and the Compliance Department, in consultation with the Legal Department. Amendments or updates to this Manual will be issued in writing from time to time. In addition, Compliance Communications regarding specific topics that relate to MFG's futures business or the futures business generally may be distributed from time to time and considered a part of these procedures. All employees involved in futures activities must read and immediately adhere to the policies and procedures contained in any such amendments or Compliance Communications. Compliance Communications will be available posted for reference on MFG's internet on the Compliance Communications page.

This Manual is intended to be used as a reference tool for day-to-day procedures and to communicate the tone with which all of MFG's futures business dealings should be conducted. If an employee has any questions with regard to any of the policies or procedures established in this Manual, he or she should contact his or her branch office manager, supervisor or their designees (each, a "Manager") and/or the Compliance Department for clarification.

This Manual constitutes confidential and proprietary property of MFG and must not be shared with anyone outside of MFG without the prior approval of the Legal and Compliance Departments. All paper copies of, or electronic files containing, the Manual must be surrendered upon termination of employment.

MF Global

II. GENERAL CONSIDERATIONS AND DESCRIPTION OF MANAGER SUPERVISORY DUTIES

The activities MFG engages in as an FCM are subject to the Commodity Exchange Act, as amended (the "CEA") and the rules and regulations of the CFTC, NFA, and applicable Exchanges (together, the "Rules"). MFG is required to establish and maintain adequate written supervisory procedures. In addition, MFG is required to supervise compliance with such procedures. This obligation includes the duty to enforce written supervisory procedures and take steps designed to ensure that all of its associated persons ("APs"), as well as all other MFG personnel registered with the CFTC and introducing brokers that are guaranteed by MFG, comply with such procedures and with applicable Rules. Consequently, it is the responsibility of all managers, supervisors, branch office managers and their designees, including persons listed on MFG's Form 7-R as registered principals (collectively, "Managers" or "supervisory personnel"), to supervise diligently the activities of MFG's employees relating to futures trading activities and to monitor and enforce compliance with such procedures. Failure of supervisory personnel to monitor and enforce compliance can result in fines, suspensions from the futures industry and even permanent expulsion from the futures industry for such supervisory personnel, MFG or both.

Implicit in such requirement is that supervisory personnel be experienced, responsible and attentive with respect to their supervisory duties and that they impress on MFG personnel the importance of compliance with the Rules, including MFG requirements. Supervisory personnel must immediately report any violations of this Manual or of the Rules to Senior Management and the Compliance Department. Upon review of the violation or suspected violation and the circumstances relative thereto, MFG, in consultation with Senior Management, the Compliance Department and the respective supervisory personnel, will determine what disciplinary measures, if any, should be imposed. The Compliance Department will promptly investigate, and maintain a written record of all reports of violations or suspected violations. It also will maintain a written record of all disciplinary measures imposed in connection with such violations.

MFG is pledged to ongoing *full compliance* with all applicable requirements with respect to its activities as an FCM and the avoidance of transactions that violate the Rules. Every MFG officer and employee is expected to adhere to such requirements and to principles of good business practice in the conduct of his or her business affairs.

MFG's commitment to full compliance with applicable Rules starts with the individual registered "associated persons" and "principals," as described in **Section III** of this Manual, and also depends on Managers effectively discharging their duties. It is important that MFG's Managers implement and monitor procedures and operations to, among other things:

(a) ascertain that MFG's activities as an FCM comply with applicable Rules;

(b) advise, when necessary, registered personnel and other employees of appropriate action in response to specific situations; and

(c) assist registered personnel and other employees in recognizing certain "red flags" (i.e., circumstances requiring consultation with a designated Manager and/or the Compliance Department).

MFG's ability to meet its objective of ongoing full compliance with applicable requirements is directly dependent on the ability of its Managers not only to supervise responsibly but also to be able to depend on the full cooperation of the registered personnel and other employees under their supervision. Such cooperation is required in all cases, both (a) in response to any requests by the Managers or the Compliance Department and (b) whenever such personnel encounter any *potentially* sensitive situations requiring advice and consultation of a Manager before proceeding or have any questions arising in connection with their activities on behalf of MFG. In sum, full and absolute cooperation is not optional but essential.

A. Description of Manager Supervisory Duties

Each Manager has the affirmative obligation to verify that the branch office or business unit for which he or she has supervisory responsibility complies with the Rules and with the policies and procedures of MFG in order to maintain MFG's high standard of business conduct. As further described below and elsewhere in this Manual (as specifically noted in this **Paragraph A**), the Manager is responsible for the supervision of all futures activity conducted by APs and/or traders in his or her branch office or business unit, as applicable. Adequate supervision at the branch office level and within each business unit is crucial to MFG's successful operation.

1. Supervision of Customer Accounts Generally

The Manager must require APs with active customer futures accounts to review the margin and equity run reports on a daily basis to verify that positions in such accounts are correct, to monitor the trading activity and margin requirements of such accounts, and to verify that customers do not exceed their trading levels.

The activity and profits or losses for all accounts must be reviewed by the Manager.

Please refer to **Sections V.A.2 and XI.A.2** for more information concerning MFG's policies and procedures regarding the supervision of customer accounts generally.

2. Supervision of Accounts with Excessive Activity or Losses

If it is determined that the number, size and/or type of transactions in an account are excessive in view of the customer's knowledge of the markets, financial status and trading objectives, the Manager should take immediate steps to adjust the level of activity in the account or take other appropriate action. In addition, the Manager should promptly review with the AP each account that has sustained a substantial loss or that has had excessive or unusual activity in view of its objectives.

At the discretion of either the Manager, in coordination with Senior Management and/or the Compliance Department, MFG may send a letter to a customer whose account displays excessive activity or that has sustained large losses explaining such fact and summarizing any action taken.

Please refer to **Sections V.A.2 and XI.A.2** for more information concerning MFG's policies and procedures regarding the supervision of accounts with excessive activity or losses.

3. Supervision of Order Tickets

The Compliance Department may periodically review and initial random samples of order tickets to verify that all required information is contained on the order tickets and that the order tickets are time-stamped properly. Periodic third-party audits also will be performed.

In addition, the Manager must require order tickets to be maintained or at a readily accessible location for two (2) years of MFG's five (5) year record retention period; after two (2) years the order tickets may be stored offsite after properly recording the location of such tickets.

Please refer to **Section XI.A.2** for more information concerning MFG's policies and procedures regarding supervision of transactions.

4. Supervision of Employee Accounts

The Manager is responsible for regularly monitoring and pre approving each branch office employee's personal trading so that such trading does not interfere with the performance of the employee's duties. Compliance will conduct reviews to assure the performance of supervisory oversight. No employees may maintain personal futures trading accounts. For limited exceptions to this firm-wide policy, employees may appeal for a waiver, which requires approval by (i) Compliance, (ii) the employee's manager, and (iii) senior management of the firm.

Please refer to **Section XII.A** for more information concerning MFG's policies and procedures regarding the supervision of employee accounts.

5. Supervision of Margin Calls

The Manager is responsible for requiring that APs make timely margin calls to customers when required and that customers promptly satisfy such margin calls.

Please refer to **Section V.B.5** for more information concerning MFG's policies and procedures regarding the supervision of margin calls.

6. Supervision of Deficit Accounts

The Manager must regularly monitor all deficit accounts to verify that APs are making every possible effort to secure payment and that new positions are not established.

Please refer to **Section V.B.14** for more information concerning MFG's policies and procedures regarding the supervision of deficit accounts.

7. Trade Corrections and Other Changes

Please refer to **Section VI.D** for more information concerning MFG's policies and procedures regarding Managers' review and approval of trade corrections and other changes.

8. Promotional Material

All "promotional material," as such term is defined in the NFA Rules, in whatever form, must be reviewed and approved in writing by the Manager and the Compliance Department.

Please refer to **Section XI.F** for more information concerning MFG's policies and procedures regarding the review and approval of promotional material. All promotional material should be submitted for review and approval electronically to the promotional material review email box at promotionalmaterial@mfglobal.com.

9. Publications and Speaking Engagements

APs and other MFG personnel are prohibited from preparing written publications for use outside MFG or participating in outside speaking engagements unless participation in such activities and/or such publications is approved in advance by the Compliance Department. This policy applies whether or not the written publication or outside speaking engagement constitutes "promotional material" under NFA rules. Managers should facilitate the Compliance Department's review of such proposed activities by requiring a copy of the proposed publication or outline of the proposed presentation to be timely forwarded to the Compliance Department for review. Any publications and speaking engagements must be reviewed and approved in writing by the Manager and the Compliance Department prior to use or implementation.

10. Customer Complaints

All customer complaints, whether written or oral, relating to futures, must be handled in accordance with MFG's policies and procedures. Managers must work with APs and the Legal Department to facilitate the timely resolution of all customer complaints.

Please refer to **Section XI.D.2** for more information concerning MFG's policies and procedures regarding the handling of customer complaints.

11. Termination of Employment

MANAGERS MUST ENSURE THAT UPON AN EMPLOYEE'S TERMINATION OF EMPLOYMENT WITH MFG, ALL CUSTOMER LISTS AND FILES, FUTURES ORDER TICKETS AND ANY OTHER FUTURES RELATED MATERIAL (INCLUDING, BUT NOT LIMITED TO, THIS MANUAL) BE RETURNED TO, AND REMAIN AT, MFG. ADDITIONALLY, ELECTRONIC ACCESS TO ALL SYSTEMS AND PLATFORMS MUST BE DISCONNECTED IMMEDIATELY.

III. REGISTRATION

A. Futures Commission Merchant Registration

As indicated above, because MFG solicits or accepts orders to buy or sell futures contracts and accepts money or other assets from customers to support such orders, it must be registered with the NFA as an FCM. Registration as an FCM is accomplished by filing a Form 7-R and applicable schedules with the NFA using the NFA's Online Registration System. The Compliance Department is responsible for filing MFG's and its registered employees' registration forms, and all updates to such forms.

Any change in the information contained on MFG's Form 7-R must be reported promptly to the NFA using the NFA's Online Registration System. MFG's registration as an FCM will continue until it withdraws its registration or such registration is revoked by the NFA. Failure to update its registration records with the NFA and to pay an annual Records Maintenance Fee will be treated by the NFA as a request for withdrawal. The Compliance Department is responsible for maintaining MFG's FCM registration and filing any necessary amendments.

In addition, any officer or employee of MFG acting in the capacity of an "associated person," "principal" or "floor broker" must be registered with the NFA as such, as discussed below.

B. Associated Persons

1. General

The term "associated person" ("AP") is defined under CFTC regulations to include any individual who solicits orders or customers (or who supervises persons so engaged) on behalf of an FCM (i.e., MFG). Registration requirements as an AP apply not only to the person who directly supervises the solicitation of futures orders or customers, but also to any person in the supervisory chain of command. As a result, AP registration is required on the part of each individual dealing directly with customers (except in a purely clerical capacity) in connection with MFG's futures activities, any person who solicits futures orders from customers, and any person supervising employees engaged in such activities. All APs who engage in the foregoing activity must be registered as APs. However, subject to certain limitations (see **footnote** to **Paragraph D** below), an employee or officer of MFG that is registered as a "floor broker" (as defined in **Paragraph D** below) may act in the capacity of an AP without registering as an AP with the CFTC.[1]

UNDER NO CIRCUMSTANCES MAY ANY OFFICER OR EMPLOYEE OF MFG THAT IS NOT REGISTERED AS AN AP OF MFG SOLICIT CUSTOMERS OR CUSTOMER ORDERS, MAKE RECOMMENDATIONS OR PROVIDE ADVICE TO CUSTOMERS, RECEIVE ANY SHARE OF COMMISSIONS GENERATED BY CUSTOMER TRADING OR PROVIDE ANY SERVICES (OTHER THAN IN A PURELY CLERICAL OR MINISTERIAL CAPACITY) TO CUSTOMERS OR CUSTOMER ACCOUNTS.

2. Multiple Associations of APs

MFG APs are prohibited from affiliating with any CFTC or SEC registrant without the prior written approval of Senior Management and the Compliance Department. Pursuant to CFTC and NFA rules, an AP may affiliate with more than one CFTC registrant by submitting a "short-path" Form 8-R via the NFA's Online Registration System. Each sponsoring registrant, however, must agree to supervise the AP and to be jointly and severally responsible for the conduct of the AP. As promulgated by NFA Registration Rule 207, each sponsoring registrant is responsible for supervising the AP. In addition, the new sponsor and each sponsor to whom NFA provides notice of the AP's application for registration with multiple sponsors shall be jointly and severally responsible for the conduct of the AP with respect to any customers common to it and any other sponsor of the AP for the:

(A) solicitation or acceptance of customer orders; solicitation of funds, securities or property for a participation in a commodity pool;

---

1 All references to the term "AP" in this Manual shall be deemed to include registered floor brokers, except as the context may otherwise require.

(B) solicitation of a client's or prospective client's discretionary account;

(C) solicitation or acceptance of leverage customer orders for leverage transactions; and

(D) AP's supervision of any person or persons engaged in any of the foregoing solicitations or acceptances.

Given the potential liability to MFG of dual registered APs, such affiliations require careful scrutiny by MFG and may be permitted or denied in MFG's sole discretion.

C. Principals

The term "principal" is defined under CFTC Regulation 3.1(a) to include, in the case of a corporation, any ten percent (10%) or more stockholder, any director, the president, chief executive officer, chief operations officer, chief financial officer, and any person in charge of a principal business unit, division or function subject to regulation by the CFTC. In addition, any person occupying a similar status or performing similar functions, having the power, directly or indirectly, through agreement or otherwise, to exercise a controlling influence over an entity's activities that are subject to regulation by the CFTC will be considered a principal. It should be noted that principals who are not registered as APs may not solicit customers or customer orders or supervise persons so engaged.

D. Floor Brokers

The term "floor broker" is defined under CFTC regulations to include any person who, on an Exchange floor, purchases and sells futures contracts for any other person. MFG utilizes floor brokers on the Exchanges (who may either be employees or agents of MFG) to execute customer and proprietary orders on behalf of MFG. A registered floor broker may also act as an AP and solicit customer(s) orders without registering as an AP with the CFTC.[2]

E. Branch Offices

The NFA requires that any location, other than the main business address, at which MFG employs persons engaged in activities requiring registration as an AP, be listed as a branch office. This is true even if there is only one person at such location. All branch offices will be disclosed on MFG's Form 7-R. Such disclosure must include the name of each person who serves as a "branch office manager." Each branch office must have a different branch office manager who must be appropriately qualified as described in **Paragraph F.1** below.

F. Individual Registration Procedures

1. Initial Registration and Examination Requirements

The Form 8-R, along with a completed fingerprint card and applicable fees, must be filed with the NFA on behalf of any individual required to register as an AP, floor broker or principal. In addition, individuals registering as APs must have successfully completed the Series 3 National Commodity Futures Examination administered by the National Association of Securities Dealers, Inc. ("NASD") and individuals registering as floor brokers must have been granted trading privileges by an Exchange. Branch office managers must be registered as APs, and also must pass the Series 30 Manager Examination-Futures (or be sponsored by MF Global Inc. and meet the branch office manager requirements of the NASD). An individual who has ceased acting as a branch manager may serve as a Branch Manager for MFG so long as he or she has remained registered with the CFTC during the previous two (2) years as an Associated Person. The Compliance Department will maintain all necessary registration forms and can respond to questions regarding registration requirements and procedures. MFG will maintain registration/employment files for each employee or officer of MFG registered with the CFTC.

---

[2] However, the rules of the Exchanges may limit the extent to which a floor broker may act as an AP on a particular Exchange. For example, under the rules of the Chicago Board of Trade ("CBOT"), a floor broker holding any membership other than a Full membership (i.e., an AM, GIM, IDEM or COM membership) may communicate with non-member customers in the same manner as floor brokers holding Full memberships, but only with respect to the futures contracts permitted to be traded by the particular membership held by the floor broker. Please contact the Compliance Department for information concerning the rules of the other Exchanges. (See also **Section VIII** of this Manual.)

Individuals registered as floor brokers are not required to separately register as an AP of MFG. However, if a floor broker fails to maintain trading privileges on an appropriate Exchange, he or she no longer may engage in solicitation (or receive per trade remuneration) or other activities requiring registration as an AP without registering as an AP of MFG. Floor brokers who fail to maintain their floor trading privileges must promptly notify their Manager of such fact.

2. Updates

All MFG personnel registered as an AP, principal and/or floor broker must notify the Compliance Department promptly upon the occurrence of any event that renders information contained in their Form 8-R, and any amendments to Form 8-R, inaccurate. Such events include, but are not limited to, events or conduct requiring a "yes" answer to the Disciplinary History section of Form 8-R. The Compliance Department will file any necessary updates with the NFA.

3. Termination of Employment

MFG must file an electronic Individual Withdrawal Notice (Form 8-T) with the NFA within twenty (20) days of the termination of any employee registered with the NFA. MFG must promptly provide a hard copy version of the Individual Withdrawal Notice to the terminated employee.

G. Ethics Training

The Compliance Department will tailor ongoing and continuing education for all MFG personnel registered with the NFA to keep them informed of the current legal requirements applicable to their role in the futures industry. MFG personnel registered with the NFA should maintain an up-to-date understanding of their obligations to customers and the public at large under the CEA, the rules of the CFTC, NFA and the Exchanges.

H. Commodity Trading Advisor ("CTA") Registration and Exemptions From Such Registration

A person or entity that renders advice with respect to futures for compensation or profit is required to register with the CFTC as a CTA, unless such person or entity is specifically excluded from the definition of CTA, or is otherwise exempt from CTA registration, by statute, rule or order (see CEA Sections 1a(5) and 4m and CFTC Regulations 1.3(bb) and 4.14). An FCM, or an AP of such FCM, that makes recommendations concerning futures transactions or that provides analysis regarding the futures markets to the FCM's customers in connection with the provision of futures brokerage services to such customers may be deemed to be rendering futures trading "advice," potentially requiring the FCM or AP to register as a CTA. MFG and its APs may rely on the exclusions from the definition of CTA set forth in the CEA and the CFTC regulations, for FCMs and their APs that render futures trading advice that is "solely incidental" to the FCM's futures brokerage business.[3]

However, to the extent that MFG or an AP is deemed to render futures advice for compensation or profit that is not solely incidental to MFG's futures brokerage business, MFG or the AP may be required to register as a CTA. In addition, all APs are prohibited from owning or affiliating with a CTA without the prior consent of Senior Management and the Compliance Department.

[3] See CEA Section 1a(5)(B)(iii) and CFTC regulation 1.3(bb)(iii) (with respect to FCMs); CFTC Regulation 4.14(a)(3) (with respect to APs). In addition, an AP who, within the last twelve (12) months, does not provide futures trading advice to more than fifteen (15) persons and who does not hold him or herself out generally to the public as a CTA would be exempt from registration as a CTA. See CEA Section 4m(1). See also CFTC Regulation 4.14(a)(10) with respect to the counting of "persons" for purposes of this "15 or fewer" determination.

MF Global

IV. ACCOUNT OPENING PROCEDURES

A. Introduction

Before a customer may begin trading through MFG, all required account documentation, as described in this **Section IV.**, must be completed and the prospective customer must be approved by the New Accounts Department and, if applicable, the Credit Department, as set forth in **Paragraph M** below. (Certain types of accounts require special supervisory approval, which are also noted in **Paragraph M.**) Officers and employees of MFG are prohibited from soliciting or accepting any orders from customers prior to the completion of these procedures.

Generally, MFG offers three types of futures transaction services to its customers. First, MFG may act only as the "executing broker" for the customer; second, MFG may act only as the "clearing broker" for the customer; or third, MFG may provide both execution and clearing services to the customer (a "full service" account). If MFG acts solely as an "executing broker," it will not accept money from the customer for futures margin or clear the customer's transactions; rather, it will only receive and execute the customer's order, which will be "given up" to another FCM for clearing (the other FCM will be responsible for ensuring that the customer properly margins, and allocates trades to, its account and otherwise complies with applicable law). MFG is not responsible for complying with the general risk disclosure obligations imposed by the CFTC regulations when the client only uses MFG's execution services and, consequently, the documentation needed to open such an account (a "give-up" account) is reduced. (The procedures relating to opening a give-up account are set forth in **Paragraph N** below.) If, however, MFG acts as a clearing broker or provides both execution and clearing services to a customer, MFG has greater disclosure obligations and all of the account opening requirements generally set forth in **Paragraph C** below are applicable. (In addition, certain types of accounts involve special considerations; such accounts are discussed in **Paragraphs D through L** below.)

MFG PERSONNEL (OTHER THAN APs OR FLOOR BROKERS) ARE PROHIBITED FROM SHARING IN TRADING PROFITS GENERATED BY CUSTOMERS' BROKERAGE ACCOUNTS OR MAINTAINING ANY INTEREST IN SUCH ACCOUNTS. APs AND FLOOR BROKERS MUST OBTAIN PRIOR WRITTEN CONSENT FROM THEIR MANAGERS AND THE COMPLIANCE DEPARTMENT BEFORE ENTERING INTO AN AGREEMENT WITH ANY CUSTOMER REGARDING THE SHARING OF PROFITS OR MAINTAINING ANY OTHER INTEREST IN THE CUSTOMER'S ACCOUNT.

B. Qualification Standards

1. Know Your Customer Requirements

It is a cornerstone of regulation that MFG "know its customer" before opening a futures account for such customer.[1] One of the most important steps in ensuring that MFG "knows its customers" is the process of APs diligently obtaining accurate and complete information from a customer at the beginning of the relationship, when account opening documentation is completed. In addition, the customer is required to notify MFG if any information changes from that previously provided. However, where APs notice trading practices which differ from previous trading or appear to conflict with current customer information, these should immediately be brought to the attention of a Manager.

In addition, MFG's privacy policies set forth in MFG's Annual "Notice Concerning Your Privacy" and MFG's anti-money laundering policies set forth in MFG's "Anti-Money Laundering Policies and Procedures" apply with full force and effect to futures customers.

It also is the responsibility of each AP handling an account to obtain a customer's investment objective in writing. However, MFG personnel are not in a position to monitor specific investment guidelines of institutional customers and should not undertake to assume such responsibility.

---

1 See NFA Compliance Rule 2-30 and the interpretations thereto.

Whenever investment guidelines are received from a prospective customer, they should be forwarded to the Compliance Department immediately. The Compliance Department or the Legal Department will prepare a response to the customer, stating MFG's policy that it cannot assume responsibility for assuring compliance with the customer's investment guidelines. No employee should acknowledge receipt of such guidelines in writing nor indicate in any manner that MFG will adhere to the customer's investment guidelines. However, while it is MFG's position that customers are responsible for monitoring their own investment guidelines, in certain instances in the determination of the Compliance Department or the Legal Department, review of these guidelines may nevertheless be appropriate in meeting MFG's "know your customer" obligations. In such a situation, the Compliance Department or the Legal Department, in consultation with the Credit Department, will be responsible for reviewing the prospective customer's investment guidelines and communicating such findings to the relevant Manager.

2. Financial Requirements

All new accounts must meet general financial standards appropriate to the nature of the customer's business, experience and anticipated futures transactions.

All funds shall be deposited with MFG in accordance with the instructions set forth in the Customer's Account Agreement or other instructions provided by the Credit Department. (See **Section V.B.4** for more information.)

Further information regarding credit limits and margin requirements are set forth in **Section V** of this Manual.

C. Account Opening Documents

The Rules require that customers be provided with certain documents and disclosures prior to the commencement of trading. **Exhibit A** of this Manual sets forth MFG's "Account Opening Checklist," which lists all of the documents to be supplied to, received from, or executed by, the customer for accounts trading through MFG. The Account Opening Checklist must be completed by the AP handling the customer's account and approved by the New Accounts Department. Copies of all current account opening documents are attached as **Exhibit B**.

From time to time the Compliance Department will conduct random inspections of account documentation and risk disclosure documents. All required account documents must be completed and received by MFG before an account can be reviewed for approval. Set forth below are the general procedures to be followed in completing the required documents for all accounts trading through MFG, although these procedures may vary in particular cases.

1. Account Agreement

MFG's Customer Agreement sets forth the basic agreement between the customer and MFG. MFG has two different types of Customer Agreement depending on whether the customer is an individual or entity. Individual customers should complete and sign the Customer Agreement (and other documents, as applicable) contained in MFG's Account Documents for individual, joint, sole proprietorship and IRA accounts. Entity customers should complete and sign the Customer Agreement (and other documents, as applicable) contained in MFG's Account Documents for corporations, LLCs, partnerships, LLPs, trusts and pension plans.

There are certain customer specific ancillary documents that need to be completed, depending upon the nature of the customer. For example, if the account is a pension plan or trust, a Fiduciary Certification must be completed and signed.

MFG personnel opening new accounts on behalf of entities are responsible for determining that the appropriate customer representatives execute the Account Agreement and any required ancillary documents.

MFG should have a reasonable basis to believe that each customer has the authority to engage in its proposed trading activities and that the customer has obtained the corporate and other authorizations necessary to engage in futures transactions. Under no circumstances should any MFG personnel represent or suggest to a customer that MFG is in any way responsible for the customer's compliance with its governing laws, regulations or investment guidelines.

Specifically, with respect to entity customers, the AP handling the prospective customer's account must obtain the applicable entity resolution or authorization in the form appended to the applicable Customer Agreement. Resolutions or authorizations that are in a form provided by the customer may not be used unless approved by the Legal Department or the Compliance Department. In addition, the AP must obtain the entity's organizational documents (e.g., articles of incorporation and by-laws for a corporation, certificate of partnership and partnership agreement for a partnership, trust agreement for a trust, etc.). The resolutions/authorizations must specifically provide that the entity has the authority to trade futures contracts and identify the individuals with authority to conduct such trading activities, and the organizational documents should authorize, or at least must not prohibit, futures trading. Alternatively, if the entity's organizational documents are ambiguous and it is unclear as to whether such documents allow the customer to trade futures, an opinion of counsel acceptable to the Legal Department explaining the authority and capacity of the entity to trade futures should be obtained. In addition, special care should be exercised whenever an employee benefit plan, governmental entity (*e.g.*, a municipality, county or state, or an employee benefit plan sponsored by such entity) or supranational entity (*e.g.*, the World Bank) is a prospective customer. Such entities typically are governed by special laws that could affect, among other things, their legal capacity to effect futures transactions.

APs should bear in mind that, regardless of whether a customer has granted discretionary trading authority over its account to MFG or to another CTA or other third-party account manager, the customer must personally execute all required account documentation (including, but not limited to, the Power of Attorney granting discretionary trading authority to a trading manager) unless the CTA or third-party manager provides MFG with satisfactory documentation evidencing his or her authority to execute account documents on behalf of the customer and the New Accounts Department has approved such documentation. Furthermore, in all cases where a customer has granted discretionary trading authority over its account to MFG, MFG requires that the relevant AP obtain the customer's account investment objectives in writing and provide such account investment objectives to a Manager.

2. Disclosure Documents

MFG must provide customers risk disclosures appropriate to the customer and the particular instruments the customer proposes to trade. MFG's Disclosure Documents must be acknowledged and/or signed by each customer opening an account to be carried directly by MFG or introduced by MFG to another carrying FCM. The New Accounts Department will not approve an account for trading unless all required disclosures have been acknowledged and/or signed.

In providing customers with the required Disclosure Documents, MFG personnel should provide customers with the opportunity to read and understand the content of such Disclosure Documents. APs and employees may not attempt to minimize the disclosures or risks contained therein or modify the terms of the Disclosure Documents in their discussions with customers. Customers should have the opportunity to ask questions regarding their accounts, MFG policies and procedures and the risks of futures trading, and all such questions should be responded to in a satisfactory manner. **UNDER NO CIRCUMSTANCES SHOULD ANY MFG PERSONNEL STATE OR INDICATE TO CUSTOMERS THAT THE DISCLOSURE DOCUMENTS ARE MERE FORMALITIES OR THAT THEY NEED NOT BE READ CAREFULLY.**

D. Hedge Accounts

Customers engaging in bona fide hedging transactions may be allowed, in MFG's discretion, to pay the reduced margin rates applicable to such transactions that are set by the Exchanges. Also, such customers generally will be exempt from speculative position limits pursuant to the Rules provided they have applied for and received a hedge exemption from the applicable Exchange. In order to be eligible for special margin and position limit treatment, hedge positions must be held in a separate account from speculative positions, called a hedge account. In order for hedge margins to be properly applied by MFG, hedging customers must provide a representation, referred to below, that all transactions entered into through their hedge accounts will be for bona fide hedging purposes. In addition, the Credit Department may require additional verification of the customer's hedge qualification through audited financial statements, bank references or other supplied trade references. While the determination of whether a particular customer is actually engaging in hedging activities can be extremely complex, a "bona fide hedging transaction" is defined under CFTC regulations in a manner that is more restrictive than the common usage of the term. Specifically, the CFTC defines a "hedge" to mean a futures position that represents a substitute for transactions to be made or positions to be taken at a later time in a physical marketing channel. Hedges must be economically

appropriate to the reduction of risk for a commercial enterprise and must arise from a change of value of a hedger's current or anticipated assets or liabilities. The CFTC's hedging definition does not ordinarily include transactions entered into for general portfolio risk management. (However, risk management positions in certain circumstances may be eligible for exemption from Exchange speculative position limits.)

MFG generally is not responsible for ensuring that hedging customers limit their activities to bona fide hedging transactions, and as such, MFG may rely without verification on the hedging customer's representation provided to MFG. Nevertheless, an AP must alert the Compliance Department to any instances in which he or she believes that a hedging customer has not limited its activities to bona fide hedging transactions.

All futures accounts that are not designated hedge accounts are considered speculative accounts. Speculative accounts are not entitled to the reduced margins and position limit exemptions generally applicable to hedge accounts.

E. Regulated Entities

Certain types of regulated financial institutions engaged in futures transactions (*e.g.*, banks or trust companies, insurance companies, trustees or named fiduciaries of employee benefit plans, and registered investment companies) could be deemed to be commodity pool operators ("CPOs") if they engage in the trading of futures and options on behalf of a collective investment vehicle (*e.g.*, bank collective funds, insurance company separate accounts, employee benefit plans or mutual funds, respectively). Generally, CPOs are required to be registered as such under CFTC rules unless they are exempted or excluded from such registration pursuant to CFTC Regulations 4.5 or 4.13.[2]

Accordingly, in establishing an account for any of the types of regulated institutions identified above, MFG must have a reasonable basis to believe (which may be based upon written representations of the customer) that all persons responsible for the operation, management, administration or trading of the account are registered with the CFTC and NFA in the appropriate category of registration or are excluded from the CPO and/or CTA definitions (or the institution it advises is excluded from the definition of a commodity pool) and, where applicable, have taken the necessary steps to ensure the availability of the exclusion. In addition, the customer should execute, where applicable, MFG's standard acknowledgment that such account will consist of bona fide hedging transactions within the meaning of CFTC regulations.

F. Commodity Pool (Hedge Fund) Accounts

MFG may engage in brokerage activities on behalf of collective investment vehicles (*e.g.*, "hedge funds") that constitute commodity pools. A commodity pool is an entity that may be organized as a collective investment vehicle, such as a joint account with more than two owners, partnership, limited liability company, trust or corporation, and is established for the purpose of trading futures and options on a pooled basis. MFG, as an NFA member, may not accept orders on behalf of any non-member of the NFA that is required to be registered with the CFTC. Because the entity responsible for directing a pool's trading activities must be registered or exempt from registration as a CPO and an NFA member, the operator of such pool must provide MFG with evidence of such CPO registration or an opinion of counsel or other documentation acceptable to the Compliance Department that it is exempt from registration with the CFTC and is not required to become a member of the NFA. (See footnote on prior page regarding CFTC Rules.)

Accounts established on behalf of commodity pools are treated in the same manner as any other accounts based upon the form of their organization. For example, a commodity pool organized as a partnership will be required to complete the appropriate partnership documentation, which will usually identify the general partner, or representative of the general partner, authorized to sign documents on behalf of the pool. In addition, the documentation should identify clearly the person or persons authorized to enter orders, receive confirmations and statements and otherwise act for or represent the pool's account. Furthermore, the Compliance Department will

[2] The CFTC has adopted amendments to CFTC Regulations 4.13, 4.14 and 4.5 which add and clarify a number of exclusions from the definition of CPO, as well as exemptions from CPO and CTA registration requirements (68 Fed. Reg. 47221, August 8, 2003).

require that a copy of the pool's offering documents be provided prior to the establishment of the pool's account. Therefore, the Compliance Department must be consulted prior to opening an account on behalf of a hedge fund.

G. Discretionary Accounts

1. Account Controller Discretionary Accounts

A third party managing a customer's account on a discretionary basis is required under CFTC regulations to be registered as a CTA, unless it is excluded all together from the CTA definition (*e.g.*, a bank whose advice is "solely incidental" to its banking business) or exempt from registration as such. In the case of third parties that are registered as CTAs, the CTA must provide such customer with a written CTA Disclosure Document and obtain from its customer a signed acknowledgment of the customer's receipt of the document or, in the case of certain high net worth customers that are "qualified eligible persons," as defined under CFTC Regulation 4.7, obtain the consent of such customer to be treated as an "exempt account." NFA Rule 2-8(d) requires MFG to obtain, from each of its customers who have granted discretionary trading authority over their accounts to a CTA, investment adviser or any other third party, whether or not registered or required to be registered as a CTA (an "Account Controller"), a copy of the document granting such trading authority (or a written acknowledgment from the customer of having granted the Account Controller such trading authority).

As noted in **Paragraph C.1** above, a customer whose account is managed by an Account Controller must execute all required account documentation. Copies of all monthly statements and daily confirmations, however, should be provided both to the Account Controller and the customer. MFG may <u>not</u> grant the request of an Account Controller (or customer) that statements not be provided to a customer.

It should be made clear to customers who have retained the services of an Account Controller that all trading decisions regarding their account will be made by that entity and that the customer will be bound by all transactions entered into on its behalf by the Account Controller. It should also be made clear that MFG has not reviewed, and does not undertake to review, the Account Controller's trading strategy or capabilities, and that the customer is responsible for ensuring that the services provided by the Account Controller are satisfactory. Officers and employees of MFG should not make any recommendations to customers regarding the use of a CTA.

2. AP Discretionary Accounts

In the event that an AP of MFG wishes to accept trading discretion over a customer's account, approval must be obtained from the Compliance Department prior to the AP's acceptance of such discretionary authority. In accordance with MFG policy, such approval may not be given unless the AP has been continuously registered as an AP for at least two (2) years, has worked in that capacity throughout such period, and has no relevant disciplinary actions or customer complaints. Any deviation from these qualifications must be stated in writing and signed by a Manager and the Compliance Department.

With respect to each discretionary account carried by MFG that is managed by an AP of MFG, the following procedures will apply:

(a) the customer must execute the Discretionary Trading Authorization/Power of Attorney provided in MFG's account application package evidencing the Customer's grant of trading authority to the AP (such written authority is required for all family members of the AP with certain exceptions, such as a spouse and children);

(b) the New Accounts Department must review and approve in writing all discretionary account documents and such approval must be confirmed by the Compliance Department prior to the commencement of trading;

(c) the Compliance Department will maintain a list of those APs who have been approved for one or more types of discretionary accounts (in addition, written approval of having discretionary accounts will be maintained in each such AP's registration file);

(d) each order initiated by MFG that is made for the account of a customer for whom an AP has been granted discretionary trading authority must be marked "DE" (discretion exercised) or "DNE" (discretion not exercised), whichever is applicable to the order; and

(e) the Compliance Department must undertake a regular and frequent review of the status of and activity in all discretionary accounts.

3. Revocation of Trading Authorization

The trading authorization in a discretionary account is a continuing one and shall remain in full force and effect until it is revoked in writing by the customer or the customer's duly authorized designated agent. In addition, a written notice revoking a trading authorization must be obtained from the customer if the account is closed for any reason (an automatic revocation-upon-termination notice is included in MFG's form of Discretionary Trading Authorization/Power of Attorney, which is part of MFG's account application package set forth in **Exhibit B** of this Manual, and should be executed at the time the customer executes the Discretionary Trading Authorization/Power of Attorney).

When MFG receives a notice of revocation, the Manager must send the notice to the New Accounts Department, which will delete the discretionary account designation from the master file.

4. Advertising Relating to Discretionary Accounts

MFG may not publish any advertisement or permit the use of its name in connection with any published advertisement that solicits discretionary accounts without the prior written approval of the Compliance Department. (See **Section XI.F** for more information.)

H. Proprietary and Non-Customer Accounts

Futures accounts carried in the name of MFG or any directors, officers, APs or employees of MFG, or spouses or family members of such directors, officers, APs or employees, or any family members of such spouses, who share the same residence with any such director, officer, AP or employee (together, "affiliated persons"), are generally regarded under the Rules as "proprietary" or "non-customer" accounts. Proprietary or non-customer accounts must be designated as such on the records of MFG, are subject to certain trading restrictions and are not entitled to certain of the protections afforded customer accounts, such as segregation of funds and securities.

The procedures relating to the opening and operation of proprietary futures trading accounts by MFG employees are set forth in **Section XII.A** of this Manual.

I. Customer Omnibus Accounts

A customer omnibus account is an account carried by MFG in the name of another broker, which other broker (i) is either a registered FCM or a foreign broker (as discussed more fully in **Paragraph K** below in connection with foreign accounts) and (ii) trades through such account on behalf of its customers. MFG's customer with respect to a customer omnibus account is the FCM or foreign broker in whose name the account is carried, and MFG usually will not be aware of the identities of the FCM's or foreign broker's individual customers (unless the account is carried on a "fully disclosed" basis). Subject to certain exceptions outlined below, customer omnibus accounts are generally treated in the same manner as any other customer accounts, and the information obtained with respect to the opening of such accounts will therefore relate specifically to the introducing FCM or foreign broker and not to their customers. Therefore, documents relating to customer omnibus accounts must be executed by an authorized representative of the broker in whose name the account will be carried.

Nevertheless, because an FCM or foreign broker establishing a customer omnibus account will be trading on behalf of its customers, rather than itself, and because the NFA and the Exchanges have adopted regulations with respect to the carrying of customer omnibus accounts, the following additional requirements will be imposed in connection with the handling of such accounts:

(a) the FCM or foreign broker will be required to provide MFG with immediate notice if any of its customers holds a "reportable position," as defined in the Rules and as discussed more fully in **Section X.D** below. In that event, the FCM or foreign broker must also forward to MFG copies of any filings made by such customer and any and all information or documentation requested by MFG with respect to such customer's trading;

(b) as noted in **Section V.B.6** below, all customer omnibus accounts must be margined on a gross basis; and

(c) when a customer omnibus account deposits funds that are not immediately available, notice must be given by MFG to its DSRO.

J. Introduced Accounts

MFG may from time to time establish relationships with introducing brokers ("IBs"), which are separately organized and separately registered entities introducing accounts to FCMs on a fully disclosed basis. No introduced accounts will be accepted from an IB without the prior written approval of the Compliance Department and unless MFG has entered into a clearing agreement with the IB. In addition, MFG may determine to "guarantee" certain IBs with the NFA. Please refer to MFG's "Supervisory Procedures for Guaranteed Introducing Brokers" for further information regarding MFG's responsibility to supervise such guaranteed IBs. See also NFA Rule 2-23.

In the case of introduced accounts, the IB generally will be responsible for the solicitation and handling of the accounts, and for the placement of orders for the customers. MFG must ensure, therefore, that introduced customers have been advised and understand that MFG will accept orders from the IB and that the customer will be bound by any transactions executed on the basis of instructions provided by the IB. Further, APs generally should not become involved in an IB's solicitation of accounts, and any such involvement should be reviewed carefully with the Compliance Department prior to undertaking any direct contact with the customer.

It should be noted that accounts established by MFG on behalf of customers of IBs must be carried on a fully disclosed basis. As a result, all of the procedures set forth above regarding account agreements and disclosure documents will be fully applicable to introduced accounts, and MFG and its personnel are responsible for ensuring that all necessary documentation has been properly completed. The acceptance of an introduced account directly exposes MFG to the credit risks associated with that customer. Accordingly, MFG must obtain all of the same information with respect to an introduced customer that is required from other MFG customers.

IBs are prohibited under CFTC regulations from depositing or carrying customer funds or property. For this reason, all checks or wires received from IBs or introduced customers must be drawn on the account of the customer and must be payable or credited directly to MFG. Under no circumstances will MFG accept funds or securities from an account held in the name of an IB for deposit into a customer account.

IBs generally are compensated by receiving a share of the commissions generated by the trading activity of the introduced accounts. IBs may therefore be paid a portion of customer commissions, as agreed to by MFG in entering into agreements with such brokers, provided that they are properly registered with the CFTC and the NFA or are exempt from such registration by being located outside the United States and not introducing the accounts of any U.S. persons.

K. Foreign Accounts

1. Introduction

Accounts carried by MFG on behalf of foreign customers (including foreign brokers) are subject to all of the procedures and requirements set forth in this Manual. However, a number of additional requirements will apply, which are identified in this **Paragraph K**. Please note that just because an entity is organized or domiciled outside of the United States does not necessarily mean it is a foreign customer. For example, the CFTC takes the position that an offshore commodity pool with 10% or more U.S. investors is a U.S. person and is not a foreign customer. Please contact the Compliance Department if you have any questions regarding the appropriate categorization of a particular customer.

2. CFTC Notices

Under CFTC regulations, an FCM carrying an account on behalf of a "foreign trader" or "foreign broker" is deemed to be the agent of such trader, broker and the customers of such broker (as applicable) for purposes of accepting service of communications from the CFTC or the United States Department of Justice. The CFTC regulations define a "foreign trader" as any person who resides or is domiciled outside the United States trading on behalf of itself or for an account that it controls. A "foreign broker" is defined to mean any person located outside the United States that carries accounts on behalf of other persons and enters into transactions for such persons through an account maintained in the name of such foreign broker with a U.S. FCM. Pursuant to CFTC regulations, MFG is obligated to accept certain requests for information or other communications on behalf of foreign traders or foreign brokers or the customers of such foreign brokers and to ensure that such requests or other communications are transmitted to the account owner.

In addition, the CFTC regulations require FCMs carrying accounts for foreign traders or brokers to notify each such trader or broker of the agency relationship imposed by the CFTC. A foreign broker or trader may, subject to certain requirements, elect to appoint a U.S. agent to receive CFTC communications, which would release MFG from the obligations described in this section. The Compliance Department should be consulted if a client elects to appoint such an agent.

3. Foreign Brokers

MFG may carry either omnibus or fully disclosed accounts from foreign brokers, which are subject to the procedures and requirements set forth in this Manual.

(a) Omnibus Accounts

Foreign brokers generally trade on U.S. markets on behalf of their customers through one or more customer omnibus accounts maintained with an FCM in the name of the broker. As a result, omnibus accounts carried by MFG on behalf of foreign brokers will be treated as customer omnibus accounts to the same extent and in the same manner as customer omnibus accounts carried on behalf of a U.S. FCM. Such accounts therefore must be margined on a gross basis, and the procedures identified above with respect to customer omnibus accounts also will apply. In contrast to FCMs establishing customer omnibus accounts with MFG, however, foreign brokers ordinarily will not be registered with the CFTC in any capacity, due to the fact that they do not solicit or accept orders or accounts from any U.S. persons. Accordingly, any AP or other MFG employee that obtains information indicating that a foreign broker is soliciting or accepting orders from U.S. persons should contact the Compliance Department immediately. Omnibus accounts carried by MFG in the name of non-U.S. affiliates of MFG will be treated as foreign broker accounts (in the case of customer omnibus accounts) or foreign trader accounts (in the case of proprietary omnibus accounts) and will be subject to all of the applicable requirements set forth herein.

(b) Fully Disclosed Accounts

In the case of fully disclosed accounts, the foreign broker generally will be responsible for the solicitation and handling of the accounts, and for the placement of orders for the customers. MFG must ensure, therefore, that introduced customers from foreign brokers have been advised and understand that MFG will accept orders from the

foreign broker and that the customer will be bound by any transactions executed on the basis of instructions provided by the foreign broker. Further, APs generally should not become involved in a foreign broker's solicitation of accounts, and any such involvement should be reviewed carefully with the Compliance Department prior to undertaking any direct contact with the customer.

All of the procedures set forth above regarding account agreements and disclosure documents (**Paragraph C**) are applicable to fully disclosed accounts introduced by foreign brokers, and MFG and its personnel are responsible for ensuring that all necessary documentation has been properly completed. The acceptance of an introduced account from a foreign broker directly exposes MFG to the credit risks associated with that customer. Accordingly, MFG must obtain all of the same information with respect to a fully disclosed customer introduced by a foreign broker that is required from other MFG customers.

Foreign brokers generally are compensated by receiving a share of the commissions generated by the trading activity of the introduced accounts. Foreign brokers therefore may be paid a portion of customer commissions, as agreed to by MFG in entering into agreements with such brokers, provided that they are properly exempt from registration with the CFTC and the NFA by being located outside the United States and not introducing the accounts of any U.S. persons.

4. Information and Financial Requirements

Because foreign traders and foreign brokers are, by definition, outside the jurisdiction of the United States, MFG's recourse against such entities in the event of a default may be more limited. MFG might therefore require more detailed business and financial information with respect to foreign traders or brokers than would be required of U.S. customers. Further, the margin requirements applicable to such entities might be greater than those imposed on U.S. customers, in order to ensure that sufficient assets are available to satisfy any obligations that may be incurred. MFG also might impose more stringent requirements with respect to payments from foreign customers (e.g., requiring all payments to be made on a same day basis and in immediately available funds) than those imposed on U.S. customers. The New Accounts and Credit Departments should be consulted on these issues prior to the establishment of any accounts on behalf of foreign traders or brokers.

L. Transfers of Accounts to MFG

Prospective customers who wish to transfer their futures accounts containing open futures positions and/or funds from another FCM to MFG may do so by providing the Transfer Authorization letter included in the account application package authorizing the transfer of funds and positions from the customer's current clearing firm, along with all other applicable documents as set forth in this **Section IV**. Customers transferring existing accounts to MFG generally must supply all required documentation and be approved by the New Accounts Department (as set forth in **Paragraph M**) before they will be allowed to enter into new, non-liquidating trades through MFG.

M. New Account Processing and Approvals

1. General

All of the required documentation with respect to a new account, as set forth in this **Section IV**. and in **Exhibits A** and **B**, must be obtained by the AP and forwarded to the New Accounts Department. The New Accounts Department will conduct a review of the documentation and will advise the AP if any additional documents or information are required.

The New Accounts Department, in coordination with the Credit Department, will conduct a review of the customer's financial information, approve the account and assign a trading limit and/or margin level. The Credit Department will send the AP and the AP's Manager an e-mail advising of the customer's trading limit and/or margin level.

The AP has the responsibility for determining that good funds are on deposit before the initial transaction is made. In the case of execution only accounts, the AP must ensure a completed and signed give-up agreement is on file.

Any customer-altered documents, documents supplied by the customer or requests to waive documentation require the prior approval of the New Accounts Department (in conjunction with the Credit, Compliance and Legal Departments) prior to the account being allowed to trade.

2. Accounts That Require Special Approval

The following accounts require special prior review and approval, beyond the approvals set forth above. The list is not all inclusive. The New Accounts Department shall consult with the AP and his or her Manager, as appropriate, should questions arise prior to approving any futures account.

- An omnibus futures account for an FCM or foreign broker requires prior approval by the Compliance Department.
- A futures account for a registered investment company (*i.e.*, a mutual fund) requires prior approval by the Legal Department or the Compliance Department.
- A futures account for any entity who alters a standard MFG document requires prior approval by the Legal Department or the Compliance Department.
- A futures account for a trust or an employee benefit plan requires prior approval by the Legal Department or the Compliance Department.
- An AP-managed discretionary futures account requires the prior written approval of the Compliance Department.
- An account seeking to trade security futures requires the prior written approval of a qualified Security Futures Principal.
- A foreign account requires the prior approval of the Compliance Department.

3. Unacceptable Futures Accounts

The following list of persons or entities are prohibited from opening a futures account at MFG. The list is not all inclusive. The New Accounts Department may preclude any prospective customer from opening a futures account when in the judgment of the New Accounts Department a futures account is not appropriate for such prospective customer.

- A minor.
- A person adjudicated mentally incompetent.
- A person or entity (or its principals) that is prohibited by the CFTC, NFA and/or any Exchange from trading futures.
- A person or entity (or its principals) subject to U.S. trade sanctions or restrictions, including any person or entity identified on the Office of Foreign Assets Control (OFAC) list of sanctioned countries, specifically designated nationals and blocked persons. See MFG's "Anti-Money Laundering Policies and Procedures."
- Any non-member of NFA or a suspended NFA member, that is required to be registered with the CFTC in any capacity and required to be a member of the NFA.
- A person or entity that fails to provide essential information or provides unreconciled, inconsistent information when attempting to open the account.

N. Documentation for Give-Up Accounts

If MFG acts solely as an executing broker for a customer, all transactions executed on behalf of the customer must be "given up" to another FCM for clearing. In such instances, MFG is not required to provide the customer with the risk disclosure documents prescribed under CFTC regulations, which should be provided by the clearing broker. In addition, the customer need not execute MFG's standard form of Customer Agreement. The

customer will, however, be required to execute a give-up agreement in the form of the Futures Industry Association's ("FIA") Uniform Brokerage Execution Give-Up Agreement (as amended, as applicable), which is a three party agreement among the customer, MFG as executing broker and the clearing broker carrying the customer's account (or a four party agreement in the case of a customer account advised by an Account Controller). No accounts may be opened, and no transactions may be executed, for a give-up customer until the Give-Up Department has approved the customer for trading. However, in the discretion of Senior Management, MFG may execute transactions for a give-up customer before a give-up agreement is executed, provided that the give-up agreement is executed as soon as practicable thereafter.

O. Limitations on Third Party Safekeeping Accounts

In general, MFG may not deposit, hold or maintain customer margin in "safe-keeping accounts" at third-party custodians. The only exception to the foregoing prohibition is in the event that the customer is a registered investment company ("RIC") pursuant to the Investment Company Act of 1940 and MFG is affiliated with the RIC or with its adviser (and MFG is therefore not eligible to rely on Rule 17f-6 under the Investment Company Act of 1940). In such event, please contact the Compliance Department to determine whether a safe-keeping account may be utilized and the policies and procedures applicable thereto.

P. Commissions and Fees

1. Basic Commission Rates

Ordinarily, customer and proprietary accounts will be charged a basic commission rate per round turn for futures transactions and per half-turn for option transactions. MFG regularly charges an execution fee with respect to orders it executes on behalf of customers and gives up to a customer's clearing FCM. The rates applicable to each account will be established at the time the account is opened or the give-up relationship is established, but are subject to change from time to time.

2. AP Commission Payments

Only APs who are registered APs of MFG will be eligible to share in commissions generated by customer accounts.

UNDER NO CIRCUMSTANCES MAY ANY PORTION OF COMMISSIONS GENERATED BY CUSTOMER ACCOUNTS BE PAID TO ANY OFFICER OR EMPLOYEE OF MFG WHO IS NOT REGISTERED AS AN AP OR AS A FLOOR BROKER. IN ADDITION, UNDER NO CIRCUMSTANCES MAY ANY PORTION OF COMMISSIONS GENERATED BY CUSTOMER ACCOUNTS BE PAID TO ANY PERSON OUTSIDE MFG (WITH THE EXCEPTION OF REGISTERED INTRODUCING BROKERS, FLOOR BROKERS, FUTURES COMMISSION MERCHANTS OR FOREIGN BROKERS AND, WITH THE APPROVAL OF THE COMPLIANCE DEPARTMENT, CTAS AND CPOS, WHERE APPLICABLE).

3. Exchange and NFA Fees

Most Exchanges impose fees for each transaction executed and cleared on the Exchange. Such fees will generally be the responsibility of the customer on behalf of which a transaction is entered into. The current amount of such Exchange fees may be obtained from the New Accounts Department. The NFA also imposes transaction fees on all futures transactions executed on U.S. and foreign Exchanges. Customers should be advised upon the opening of their accounts that they will be responsible for payment of applicable Exchange and NFA fees in connection with all transactions and that those fees are subject to change. In accordance with applicable NFA Interpretive Notices, MFG's customer statements must separately itemize NFA fees from MFG's commission charges or, if the customer is charged an all-inclusive "wrap" fee, MFG's customer statements must indicate the per-trade amount of the NFA fee.

MF Global

V. CREDIT AND MARGIN POLICIES

A. Credit Policy

The Credit Department is responsible for determining that adequate financial information, control and review is maintained for each customer account, whether such account is a "full service" account, "discount" account, clearing account or "give-up" account. The Credit Department has the responsibility for approving (with the New Accounts Department) certain new accounts, and granting temporary and final trading limits for such accounts. The Credit Department has established policies and procedures to monitor credit issues and market exposure, with the ultimate purpose of protecting MFG's assets. The Credit Department also sets MFG's applicable margin requirements, as further set forth in **Paragraph B** below.

1. Determination of Credit Limits

As set forth in the Credit Department's policies and procedures (**Appendix III**), the Credit Department will assign certain new customers a credit limit upon the opening of their accounts. Other customers are limited to the cash balance buying power of their accounts. The setting of a credit limit on a futures account is an attempt by the Credit Department to assess MFG's comfort with the credit risk of a customer's participation in the futures markets. This is accomplished by the review of the financial data and bank references that the customer provides when opening the account. A credit limit imposed on a futures account represents the maximum amount of initial margin or the maximum contract position MFG will allow for that account.

2. Compliance and Ongoing Review

An AP may not knowingly allow a customer to exceed the customer's established credit limits without the prior written approval of the Credit Department. The AP should also be alert to significant changes in non-discount customers' financial status and/or trading patterns and to promptly recommend modifications to a customer's credit limits and/or trading activity where applicable. The AP must promptly report any potential or actual violations of a customer's credit limits to the Manager and the Credit Department. The Manager must monitor on a daily basis all trading activity against an account's credit limit by reviewing the daily margin and equity run reports. Accounts that trade in excess of approved limits will be considered "overextended" by the Credit Department and in accordance with the Credit Department's policies and procedures, appropriate actions will be taken.

Over time, information used to determine a customer's credit limits may change or become outdated since the account was first opened. If an AP decides that a credit limit needs to be increased or decreased, the AP must bring such information to the Manager's attention, and a request to change the customer's credit limits may be made to the Credit Department. All requests will be acted on as quickly as possible, but in no event should the Manager allow an account to exceed an assigned credit limit or not meet a margin call while a request is pending. Requests for higher credit limits must be directed to the Credit Department before an account exceeds its current credit limit.

B. Margin Policy

MFG is responsible for imposing its own margin requirements and monitoring compliance with such requirements, for the full service accounts and clearing accounts that it carries. Summarized below are MFG's margin requirements as set forth in the Credit Department's policies and procedures with respect to such accounts. (Margin requirements with respect to customer give-up accounts with MFG are imposed and monitored by the FCM carrying the customer's account.) MFG requires all applicable MFG employees to be familiar, and comply with, MFG's margin requirements as set forth in the Credit Department's policies and procedures, as amended from time to time (referred to herein as the "Credit Department Margin Policies") as well as MFG's Anti-Money Laundering Policies and Procedures.

1. Overview

Each account will be required to comply with the initial and variation margin requirements imposed by MFG, which will be equal to or greater than the margin requirements established by the Exchange on which customer

transactions are executed and cleared, except as noted in the Credit Department Margin Policies. Ensuring that all accounts are properly margined at all times is critical to MFG's operations because undermargined accounts can threaten the solvency and continued operation of MFG and result in violations of CFTC and Exchange requirements. Officers and employees with responsibility for account supervision must monitor all customer accounts constantly and must obtain all necessary margins from customers when required. In addition, MFG and all personnel are prohibited from agreeing with or providing assurances to customers that margin is not required to be deposited. No account may be carried with margins lower than those set by MFG, except with the permission of the Credit Department.

The Credit Department will establish initial and maintenance margin requirements for each account at the time the account is opened. MFG reserves the right to raise initial and maintenance margin levels at any time.

2. Initial Margin; Maintenance Margin; Permissible Customer Funds

Initial margin is the amount required by MFG to establish a position. Maintenance margin is the minimum amount required by MFG that the customer must maintain in his account. If a customer's account falls below the maintenance margin level, MFG will make a margin call requiring the customer to restore the account to the initial margin level. No positions may be opened for a customer unless amounts sufficient to satisfy the initial margin requirements applicable to such position are deposited in the customer's account or are forthcoming within a reasonable period of time (e.g., a wire transfer for sufficient funds can be confirmed), and all other open positions carried in the account are properly margined. MFG will accept the following types of property in satisfaction of MFG's initial margin requirements:

1. Personal or cashier's checks payable to "MF Global Inc." The issuing institution must indicate the remitter's name on cashier's checks. (Money orders, traveler's checks and third party checks generally are not acceptable);
2. Wired funds;
3. Transfer of cash from a securities account held with MF Global Inc. (see **Subparagraph 9** below); or
4. U.S. Treasury securities of less than one (1) year in maturity, provided that the minimum deposit is $10,000 face value. (U.S. Treasury securities will generally be credited toward original margin requirements at ninety percent (90%) of their maturity value.)

The Credit Department may, in its discretion, consider on a case-by-case basis other forms of original margin acceptable to the applicable Exchange.

3. Variation Margin; Permissible Customer Funds

If at any time a customer is required to deposit additional margin as a result of adverse movements in the value of positions held in such customer's account, a variation margin call must be made promptly. In addition, a deficit variation call will be made when an account that uses U.S. Treasury securities to satisfy original margin requirements goes into cash deficit. Customers must respond to any variation margin calls by depositing additional margin within the applicable time period specified in **Subparagraph 5** below or by liquidation of positions, or both. Variation margin payments may be satisfied by check, wired funds or a transfer of cash from a securities account held with MF Global Inc. or U.S. Treasury securities of the type described in **Subparagraph 2** above only (some margin calls must be satisfied by certified check or bank wire of cash only – see **Subparagraph 5** below). Although such U.S. Treasury securities may be accepted in satisfaction of variation margin requirements (including when an account goes into cash deficit), the AP must advise the customer that interest charges will accrue for any cash deficit in the customer's account.

4. Risk Calls; Permissible Customer Funds

The Risk Department may issue risk calls which must be met same day by wire transfer only. A risk call can be triggered by concentrated positions, credit uncertainty, market uncertainty, or by stressing positions based on the Credit Department's global parameters.

5. Receipt of Customer Funds

Third party checks are prohibited from being deposited directly into a customer's account; as such, branch office and cashiering personnel must examine every check intended for deposit. Upon receipt of any third party check, the AP or Manager should contact the customer and request that the customer send MFG a check drawn in the customer's own name from the customer's own bank, brokerage account or other depository. An exception may be made for a check from a brokerage firm for the benefit of MFG's customer.

U.S. Treasury securities posted as collateral for original margin in futures accounts should be delivered to MFG's custodian bank. The delivery instructions are available through the Margin Department. If U.S. Treasury securities are to be delivered to MFG's custodian bank, the AP or Manager must advise the Margin Department of the amount and maturity date of the securities and the account name and number. If the customer wishes to have securities returned on a specific date, the Margin Department must be advised by the AP or Manager before 12 p.m. New York time on the date of the intended transfer.

6. Margin Call Procedures

The Margin Department monitors customer compliance with applicable margin limits. If the Margin Department determines that a margin call must be made, the Margin Department will notify the AP or Manager of the amount and nature of the margin call no later than the next business day. By the end of business on the day the Manager receives the notice from the Margin Department, the AP must make the margin call to the customer by telephone. When the call is made, the AP should endeavor to determine the manner in which the customer intends to satisfy the margin call. APs are responsible for ensuring that customers promptly meet margin calls. In the event the AP is unavailable or out of the office when a margin call must be issued, it is the Manager's responsibility to communicate the call to the customer directly or direct that another AP communicate the call. A written record should be maintained by the AP of all margin calls, specifying the name of the account, the amount of the call, customer contact, time of the call, the response of the customer, and the identity of the AP making the call.

MFG's procedures for the daily collection of margin are as follows:

- First Business Day – The AP contacts the customer by telephone on the day the AP receives the notice from the Manager that a margin call must be made, and gives the details of the margin call. The AP should obtain from the customer information regarding the method and timing of the customer's intended payment. The AP should contact the Margin Department by telephone to communicate the information received from the customer. The Margin Department or Manager will determine whether the customer will be allowed to carry the under-margined position overnight.

- Second Business Day – If after reasonable attempts the AP is unable to contact the customer or if a definite answer is not received from the customer on the first business day and if the Margin Department or Manager has allowed the customer to carry the under-margined position overnight, a follow-up call should be made on the second business day after the AP receives notice from the Manager of the margin call. All margin calls outstanding two (2) business days or more are reviewed by the Manager on a daily basis.

- Third Business Day – If the AP is still unable to contact the customer after reasonable attempts or if a satisfactory response is not received from the customer by the third business day after the AP receives notice from the Manager of the margin call, the Manager will consult with the Margin Department to discuss the continued status of the customer's account. Accounts with margin calls outstanding after the third business day will be monitored on a daily basis by the Manager and the Margin Department, until the margin call is satisfied or the situation is otherwise remedied.

If, within one (1) business day after a maintenance margin call is issued, favorable movements in the value of the customer's positions result in the equity of the account exceeding the full amount of the maintenance margin requirements without the customer's satisfaction of the margin call, then the margin call may be withdrawn in the discretion of the Margin Department. In such a case, the Margin Department will send a notice to the Manager, which will forward the notice to the AP, who should promptly communicate the decision to the customer. If, within one (1) business day after a maintenance margin call is issued, favorable movements in the value of the customer's positions still result in the equity of the account being less than the full amount of the maintenance margin requirements, then the customer will be required to satisfy the full amount of the margin call as issued, and trading will be restricted to liquidation only. Under no circumstances will favorable market movements result in the withdrawal of an initial margin call.

Margin calls must be satisfied within the applicable time limits as set forth in the Credit Department Margin Policies.

The Margin Department will restrict an account to "No Further Business" on the day an account liquidates to an unsecured deficit balance. (See **Subparagraph 14(b)** for MFG's procedures regarding re-activating closed customer accounts.)

The Margin Department may, in its discretion, apply interest charges to accounts which fail to satisfy margin obligations in a timely manner, or which carry cash deficits for any length of time.

If a margin call is not timely satisfied by the customer, MFG generally has the right, as set forth in MFG's Customer Agreement, to liquidate one or more positions in the customer's account at any time without notice. Notwithstanding this right, MFG generally will adhere to the procedures set forth in the Margin Department Margin Policies with respect to overdue margin calls.

Margin call procedures for employee accounts are set forth in Section XII.A of this Manual.

UNDER NO CIRCUMSTANCES MAY OFFICERS OR EMPLOYEES OF MFG PERMIT A CUSTOMER'S ACCOUNT TO REMAIN UNDERMARGINED IN EXCESS OF THE APPLICABLE TIME LIMITS SET FORTH IN THE CREDIT DEPARTMENT MARGIN POLICY WITHOUT THE CONSENT OF THE MARGIN DEPARTMENT. VIOLATIONS OF THE TIME LIMITS MAY CAUSE AN ACCOUNT TO BE RESTRICTED OR LIQUIDATED, AND COMMISSIONS MAY BE WITHHELD FROM THE AP SERVICING THE ACCOUNT.

7. Special Margin Requirements

As noted in **Section IV.D** above, customers engaging solely in bona fide hedging transactions may be entitled to reduced margins, provided that the hedging representation described above has been furnished by the customer. In addition, customers engaging in spread transactions may be eligible for reduced margins. Finally, pursuant to applicable Rules, all customer omnibus accounts carried by MFG must be margined on a gross (not net) basis.

The Margin Department should be consulted for details with respect to the margining of particular customer accounts or positions.

8. Day Trading Margin Policy

Customers approved for "day trading" (i.e., the practice by which a customer initiates and closes out futures positions on the same trading day) generally must post fifty percent (50%) of the initial margin requirement applicable to the particular contract. Such margin must be on deposit prior to the initiation of the trade. Day trades are not permitted in customer accounts that have a deficit, or in accounts that have an initial and/or variation margin call outstanding. The Margin Department may in its discretion prohibit any account from engaging in day trading, notwithstanding compliance with the foregoing margin requirements.

9. Loans/Extensions of Credit

MFG may make loans to customers or establish lines of credit or other credit facilities for the purpose of enabling such customers to satisfy margin requirements. All such loans or extensions of credit shall be on a secured basis only. For more information, please contact the Credit Department.

10. Transfer of Funds From Securities Account Held with MF Global Inc.

Whenever a customer desires to transfer cash from the customer's securities account held with MF Global Inc. to the customer's futures account held with MFG in order to satisfy margin requirements, the written consent of the customer authorizing the transfer of funds must be on file with the Margin Department prior to such transfer of funds. The Customer may consent to such transfer of funds by initialing the appropriate acknowledgement in MFG's Customer Agreement.

11. Cash Equity Deficit Accounts

When the total equity in a customer account reflects a deficit, the customer must satisfy the deficit with cash, regardless of the value of Exchange-approved collateral on deposit. If a customer does not wish to meet deficit equity calls with a deposit of cash to the customer's account, MFG will liquidate sufficient Exchange-approved collateral to bring the total equity back to the required balance.

12. Restriction of Accounts

If an account is restricted for violation of MFG's margin procedures or any other reason, the following procedures will be followed:

- The Credit or Margin Department will be responsible for notifying the Manager when and why a particular account has been restricted.
- The Manager will be responsible for notifying the AP when an account has been restricted. A current list of all restricted accounts must be maintained by the Manager.
- The Manager may request that the Credit or Margin Department waive, limit or otherwise modify a trading restriction; the Credit or Margin Department will consider such request in its discretion.
- In the Margin Department's discretion, the repeated failure by a customer to timely satisfy margin calls may result in the imposition of more stringent time limits in which the customer must satisfy all further initial or maintenance calls.

13. Foreign Currency Margin

To the extent that MFG engages in futures transactions on behalf of a customer on a non-U.S. Exchange, on a U.S. Exchange where that transaction is denominated in a non-U.S. dollar currency, or for a customer making margin payments in a currency other than U.S. dollars the customer is responsible for all costs related to the conversion of U.S. dollars held by MFG into the applicable foreign currency used to margin the positions and for any losses due to adverse fluctuations in the applicable exchange rate.

14. Return of Excess Margin

Upon a customer's written request, MFG will return any customer funds or assets held by MFG that are in excess of those amounts needed to margin a customer's futures transactions or to satisfy the customer's other obligations to MFG. The customer's AP should receive the customer's request to return funds and promptly send a notice to the Margin Department for approval and processing of the request. In the event that the customer requests that funds be transferred from its account to a recipient other than that named on the account, the customer must specifically make such request in writing.

Special procedures as set forth in the Credit Department Margin Policies apply to customer requests for a Federal Funds transfer. The AP must coordinate closely with the Manager and the Margin Department to ensure timely and prudent processing of such requests.

Further, if a check has been deposited into a customer's account within the preceding five (5) business days, the Manager's special approval must accompany any request for payout of an amount that would draw on the recently deposited funds. Before giving his or her approval, the Manager will verify with the Margin Department that the check will clear the customer's bank.

15. Collection of Deficits

(a) Customer Account Deficits

It is MFG's policy to close out open positions in accounts that have deteriorated into the category of deficit balances unless the customer promptly wires or deposits funds sufficient to satisfy the deficit balance. When a customer advises that he or she is wiring funds to cover a deficit in an account with open positions, the Manager must confirm with the customer's bank that the wire has been made.

If the customer does not send sufficient funds immediately, the Manager will send a reminder notice which will inform the customer that, unless the deficit is paid immediately, MFG will turn the matter over to a collection agency. A copy of the notice must be sent to the Margin Department.

Any unsecured deficit, which remains uncollected after a reasonable period of time, will be charged to the AP against the AP's net before-tax compensation. It is common practice in the industry and MFG's policy to charge APs with uncollected deficits in their customers' accounts. This policy is designed to ensure proper interest in credit control and proper account administration at all levels. The policies set forth in this **Subparagraph 15**, which are designed to protect the customer, the AP and MFG, should pose no problem for those who practice good business judgment in handling customer accounts. In furtherance thereof and in accordance with applicable Rules and MFG policy, MFG requires that each AP "know the customer," monitor the customer's trading activities and discourage overtrading of the customer's account in light of the customer's objectives and risk profile.

The Manager, in coordination with the Credit Department, will determine when uncollected deficits are chargeable to an AP.

When MFG receives payment in full from a customer for a deficit balance which was withheld from an AP's compensation, the AP will receive reimbursement for the full amount withheld. If MFG allows the customer to make monthly payments, the AP may receive payment in the same proportion from the amount originally withheld, with the approval of the Credit Department and the Manager.

For more information regarding the treatment of customer deficits, see the Credit Department Margin Policy.

(b) Re-activating Closed Customer Accounts

When a customer wishes to re-open and trade in an account previously closed due to a deficit charge-off, the AP must receive prior approval from the Credit Department before an order can be placed. Approval will not be granted unless the deficit has been paid and good funds have been deposited in the account to cover the initial margin rates set by MFG for the intended new position.

Trading in accounts that have an unsecured debit balance is prohibited. If an AP allows a customer to violate this policy, the commissions generated by such trading will be withheld from the AP permanently, and the Margin Department may refer the AP to the Compliance Department for appropriate disciplinary action.

(c) AP Trading Account Deficits

If an AP's personal futures trading account incurs a deficit balance, the Manager, in coordination with the Credit Department, may charge such balance against the AP's net after-tax compensation, unless the AP deposits sufficient funds in the account to cover the deficit balance.

MF Global

VI. ORDER ENTRY PROCEDURES AND TRADE PRACTICES

A. Overview

This **Section VI** sets forth the procedures to be followed by an AP or floor staff when taking and placing customer or proprietary orders. Some types of transactions (e.g., cross trades, block trades or exchange for physicals) entail additional procedures that must be followed by APs or floor staff, and these transactions also are discussed below. Additionally, there are a number of practices that are prohibited by the Rules and MFG policy (e.g., wash trades and front running) and these prohibited transactions also are discussed below.

B. Acceptance of Orders and Preparation of Order Tickets

A customer may transmit an order to MFG by contacting the customer's AP, who will in turn relay the order to the appropriate floor staff of either MFG or another executing floor broker or enter the order into an electronic trading system. Currently, customers may transmit orders to the AP only by telephone or facsimile; orders may be transmitted by electronic mail, but only with the prior written consent of the Compliance Department and the Manager.

Pursuant to MFG policy, for security and quality control reasons, APs currently are prohibited from accepting and/or transmitting customer orders to the floor while the AP is physically located outside of MFG's offices or using non-MFG telephone systems, including personal cell phones. In addition, with the approval of the Manager, a customer may also be permitted to place orders directly with MFG's trading floor personnel or through MFG's electronic order routing system. See **Section VI.E** below for more information regarding electronic trading systems.

In all instances, when a customer order is received by an AP or floor staff, or an order is received or initiated by an AP or floor staff for a proprietary account of MFG, a written or electronic order ticket must be prepared (the "Order Ticket"). The requirement to prepare an Order Ticket applies whether or not the order is ultimately executed. In addition, Order Tickets are required for EFPs, EFSs and EFRs (see **Appendix I**, Glossary, for definitions of the foregoing and **Exhibit D** of this Manual), block trades and internal transfers. With respect to paper Order Tickets: (i) all information recorded must be accurate, legible and complete, (ii) if corrections are made, the original information must remain legible, and (iii) the ticket must be preserved in good condition (e.g., it may not be torn or folded). Please see **Section VI.E.3** of this Manual for requirements specific to electronic Order Tickets.

C. Summary of Order Entry and Confirmation Procedures

1. When an AP or floor staff receives (or, in the case of discretionary or proprietary accounts, initiates) an order, an Order Ticket must be completed with the following information:

   (a) Customer account number, name or other identifier specific to the customer and, with respect to execution only accounts, the name or number of customer's give-up clearing FCM;

   (b) Order number;

   (c) Use buy or sell side of ticket as appropriate;

   (d) Number of contracts;

   (e) Name of contract (and, (i) if the contract trades on more than one Exchange, name of Exchange and (ii) if applicable, name of electronic trading system);

   (f) Contract month and year (in the event the contract year is not specified, the AP or floor staff will consider the order to be for the current year) and, in the case of options, put/call and strike price;

   (g) Price;

   (h) Order type indicator (e.g., whether the transaction is a market, limit, stop, or "not held" order (DRT));

(i) Cross trade, block trade, EFP, EFS or EFR should be indicated, if applicable;

(j) Discretionary (DE)/non-discretionary trade (DNE), if applicable;

(k) Unless otherwise specifically prohibited by the relevant Exchange, all orders will be presumed to be day orders unless specified by the customer as an "Open" or "Good-Til-Cancelled" ("GTC") order, in which case a GTC designation must be clearly marked on the order ticket; and

(l) In the event that a mistake is made in recording information on an Order Ticket, as a general rule, the AP or floor staff should draw a line through (but not obliterate) the mistaken information and the ticket should not be discarded.

2. The AP or floor staff is not required to independently verify that the person placing the customer's order is authorized to do so (an "Authorized Person"), and MFG is not required to continuously maintain an accurate list of a customer's Authorized Persons. However, the AP or floor staff receiving a customer order should have a reasonable basis to believe that the person placing the order is an Authorized Person. An AP or floor staff who receives an order from a person who he or she believes is not an Authorized Person (and cannot be confirmed as such) should decline to execute the order and should immediately notify the Manager.

3. The AP or floor staff must repeat back the terms of the order to the customer to assure the accuracy of the order and, after confirming the order, issue the customer an order control number.

4. The Order Ticket must be time stamped upon receipt or initiation of the order by the AP or floor staff and the order control number recorded on the ticket.

5. For orders placed to an Exchange floor, the AP must call the order desk on the floor and read the details of the order from the Order Ticket. The AP must time stamp the Order Ticket again on the front upon transmission of the order to the floor staff. The second stamp must clearly be separated from the first stamp and not on top of one another.

6. The floor staff will read back to the AP (or the customer) the terms of the order. The AP must carefully listen to the floor staff's repetition of the terms of the order to assure the accuracy of the order and must promptly correct any discrepancy. After the AP has confirmed the accuracy of the order, the floor staff will transmit the order for execution by the floor broker.

7. A member of the floor staff will call the AP or customer after execution with the fill by order number. The AP must time stamp the Order Ticket at the time of the fill report and call the customer with the fill by order number. APs and floor staff may <u>not</u> "fill" a customer (i.e., tell a customer he or she is filled) prior to receiving oral or written communication from the pit or electronic trading system confirming the fill. In addition, a member of the floor staff will call the AP or customer if the order was <u>not</u> able to be filled (i.e., "unable") and will time stamp the Order Ticket at such time.

8. Any material changes to resting orders (i.e., changes in quantity, the type of order, contract month, buy or sell, etc.) may be corrected one of two ways, as directed by the Manager. First, a new Order Ticket may be completed and time stamped, in which case the symbols "CXL" (for straight cancellations) or "CXL REPL" (for cancel and replacements) shall be indicated on the new Order Tickets, along with the order number of the Order Ticket that is being canceled and/or replaced. Second, the same Order Ticket may continue to be used, provided that the symbols "CXL" or "CXL REPL" are clearly marked on the ticket, the incorrect information is clearly struck out and the correct information is clearly marked, and the ticket is re-time-stamped. APs and floor staff must familiarize themselves and comply with the policies regarding the methods by which changes to resting orders are to be documented.

9. All unexecuted Open or GTC orders should be confirmed verbally with customers on a daily basis, unless otherwise requested by the customer.

10. All Order Tickets (i.e., upstairs and trading floor Order Tickets) including fills, cancellations, unables and damaged tickets are stored with that trading day's records for at least five (5) years, and at a readily accessible location for at least two (2) years, in accordance with MFG policy.

11. MFG will attempt to execute equally executable customer orders in the order in which they are received.

12. MFG will, to the extent possible, transmit each order received from a customer that is executable at or near the market price before transmitting any order in the same contract for any proprietary account of MFG.

Sales and Trading Desk personnel are reminded to check the accuracy of their time clocks on a daily basis.

All time stamps must clearly be separated from one another and not placed on top of one another.

D. Errors and Adjustments

1. Errors

Errors committed in the handling or execution of transactions must be rectified immediately upon discovery, or as soon as possible at the opening of the next trading session if the error is discovered after the close of a regular trading session. Appropriate corrective action may include adjustments to the price, quantity or account designation with respect to a particular transaction, if such action is warranted under the circumstances and permissible under Exchange rules. In other instances, it might be necessary for MFG to move the position resulting from the error into MFG's error account and to effect a replacement transaction for the customer. MFG may be obligated to compensate customers for errors committed by MFG in the handling, execution or clearance of transactions, or to absorb trading losses resulting from such errors. APs that share in the commissions paid with respect to a customer's account will be allocated any costs incurred by MFG in connection with rectifying any errors in such customer's account.

When errors are made by MFG personnel, the matter must be brought to the immediate attention of a Manager, who, after reviewing the facts, must approve and implement appropriate corrective action immediately. The purpose of this procedure is to identify and correct an error in a timely manner without undue exposure to MFG. Once the error is properly corrected and resolved, an error report must be completed and sent to the back office. When an error occurs during trading hours on any Exchange, the error must be rectified immediately. When an error is discovered after the close of regular trading hours, the error must be rectified as soon as reasonably practicable during the next trading session.

MFG's general policies with respect to the resolution of profitable and unprofitable errors caused by MFG are as follows. If an order is filled at a better price as a result of a MFG error, the customer generally receives the better price. If there is an overbuy or oversell of an order due to a MFG error, the customer is not entitled to the overbought or oversold amount or any profit or loss accruing to such overbuy or oversell, but MFG should take care to ensure that it does not receive a better price than the customer unless it can demonstrate that the customer's fill was obtained prior to MFG's fill.

MFG assumes no responsibility for errors caused by the failure of wire or quotation systems, or Exchange electronic trading systems, or other electronic communications facilities, over which MFG has no control. When such failures occur, Managers should instruct their APs to contact all affected customers and inform the customers of such failure and of MFG's disclaimer of responsibility.

It will be the responsibility of the APs to check out positions with customers (and, in the case of give-up transactions, the customers' clearing FCMs) carefully on a daily basis and to report any discrepancies to the Manager.

2. Adjustments

MFG must document and retain a record of all adjustments made to customer orders, including adjustments received from floor brokers. The documentation must include the following:

(a) the date the adjustment was received;

(b) the name of the AP or floor broker making the adjustment;

(c) the account to which the adjustment was credited;

(d) the amount of the adjustment;

(e) a copy of the order for which the adjustment was made; and

(f) the reason justifying the adjustment.

The Rules impose a duty of due diligence on MFG in its handling of customer orders. Adjustments to customer orders are prohibited unless MFG was negligent or is settling a bona fide dispute regarding negligence. Thus, for example, the mere fact that the market has traded through a customer's limit order does not automatically mean that the customer is owed a fill, absent negligence on the part of MFG. MFG is prohibited from guaranteeing the customer a fill. The price at which an order is actually executed in the pit or electronic trading system is binding. Thus, for example, if a fill on a customer's order is erroneously reported from the pit to MFG at a price of 3, and such price has been duly reported to the customer, but in fact, the customer order was actually executed at a price of 2, the customer must be informed of the correct price and must accept that price so long as that price is consistent with the terms of the customer's order and the prevailing market at the time of execution, as evidenced by time and sales as recorded by the Exchange. No adjustments may be made to the customer in such circumstances, absent evidence of negligence by MFG.

E. Electronic Order Routing and Trading Systems

1. General

MFG may utilize a variety of electronic order routing systems ("front ends") to access the various Exchange trading floors or electronic order execution systems including the CBOT's e-CBOT system, the CME's GLOBEX system and the NYMEX CLEARPORT system (all such Exchange trading systems are referred to herein, collectively, as "electronic trading systems"). MFG's policies regarding the CME, CBOT and NYMEX electronic trading systems are set forth in MFG's GLOBEX, e-CBOT and CLEARPORT Compliance Procedures attached hereto as **Appendices IV, V and VI** respectively.

2. Customer Direct Access

An AP with customers who wish to enter their own orders directly via a front end must contact his or her Manager, who will make a determination as to whether and to what extent such direct access will be granted (e.g., customer access may be limited by an Exchange, types or size of contracts and other credit and risk and management controls). Such approval/determination will be made based on a review of the customer's sophistication, creditworthiness, objectives, and trading practices and strategies. Any customers granted approval to enter orders directly via a front end will be required to complete additional documentation.

3. Orders Entered Into an Electronic Trading System

Employees who are authorized terminal operators may enter orders into an electronic trading system. If an access code is required, terminal operators are required to use their unique identification codes and may not disclose or allow others to use their codes. See **Appendices IV**, **V** and **VI** for procedures specific to the GLOBEX, e-CBOT and CLEARPORT electronic trading systems.

Terminal operators are not required to prepare paper Order Tickets, provided that they immediately enter order information as required by the applicable front end electronic trading system (e.g., account number or designation, commodity, quantity, price or option premium, contract month and year, buy/sell or spread, CTI code, and, for options, strike price, put/call and expiration month).

Terminal operators who receive orders that may not be entered immediately into a front end electronic trading system are required to prepare a paper Order Ticket. (See **Section VI.C** of this Manual.)

F. Confidentiality

Subject to the specific Exchange Rules governing block trades and pre-execution discussions, set forth herein and in the GLOBEX, CLEARPORT and e-CBOT Compliance Procedures, customer orders received by MFG may not be disclosed to any other person, with the exception of trading floor personnel and any other individuals to whom the order must be disclosed solely for purposes of transmitting or facilitating the execution of the order. Once the terms of an order have been announced by open outcry in the pit or displayed on an electronic trading system, the terms of the order may be disclosed, but only to the extent that the terms of such order have been disclosed by open outcry in the pit or electronic trading system. Under no circumstances, however, may the identity of the customer placing the order be disclosed.

G. Order Allocation ("Bunched" Orders)

An Account Controller managing a number of separate accounts may wish to enter "bunched" orders on behalf of such accounts for purposes of operational and administrative efficiencies. In such an instance, the Account Controller may enter a single order for accounts under its management. These transactions are then allocated among the accounts in accordance with either (i) the requirements set forth below under **Section VI.G.I** with respect to pre-determined fill allocation procedures or allocation instructions given at the time the order is placed or (ii) the requirements set forth below under **Section VI.G.2** with respect to post-execution allocation procedures. Such bunched order allocation procedures must be fair and equitable. Ensuring that the allocation has been made properly is primarily the responsibility of the Account Controller, not MFG. Nevertheless, MFG should generally be in a position to identify any allocations that are clearly improper and to identify other abuses of the practice committed by the Account Controller. Any MFG personnel having reason to believe that allocations for a customer may be fraudulent or improper must immediately notify the Compliance Department. MFG has adopted the following procedures in connection with the acceptance of bunched orders:

1. Allocation of Bunched Orders Pursuant to Pre-Filed Allocation Procedures or at the Time the Order is Placed (See Appendix C to Part 1 of the CFTC Regulations)

(a) at the time a bunched order is entered, a "bunched account designation," described in clause (b) below, must be given by the Account Controller to the AP accepting the order and must be written on the Order Ticket;

(b) a "bunched account designation," which is unique to each group of accounts represented in any one bunched order, may be used when the Account Controller has previously given MFG a written, predetermined allocation procedure that includes the accounts to which trades are to be allocated and the quantities to be allocated to each such account (such procedures also must address both "split price fills" and "partial fill" scenarios); and

(c) if a predetermined allocation procedure is not on file with MFG for the bunched order at the time the order is placed, specific account numbers and allocation instructions (which instructions also address "split price fills" and "partial fills") must accompany each order prior to execution – unless such order is eligible for post-execution allocation as set forth below.

2. Post-Execution Allocation of Bunched Orders (See CFTC Regulation 1.35(a-1)(5))

(a) at the time a bunched order is entered, a "P-E bunched account designation" described in clause (b) below, must be written on the Order Ticket;

(b) a "P-E bunched account designation," may be used if the Account Controller submitting the bunched order meets the definition of "eligible account manager" pursuant to CFTC Regulation 1.35(a-1)(5)(i) (i.e., the Account Controller has been granted written investment discretion with regard to participating customer accounts and is either (i) a registered CTA or investment adviser or is excluded or exempt from such registration (except for exempted APs and IBs), (ii) a bank, insurance company, trust company or savings and loan association subject to federal or state regulation, or (iii) a foreign advisor that exercises discretion solely over the accounts of non-U.S. persons);

(c) the Account Controller must provide MFG with written allocation instructions no later than a time sufficiently before the end of the trading day during which the order is executed to ensure that clearing records identify the ultimate customer for each trade (in the case of oral allocation instructions, MFG must create a written record of the Account Controller's instructions) and, in the event a bunched order is only partially filled, the Account Controller's instructions must indicate how the trades will be allocated among the ultimate customers; and

(d) MFG must maintain records identifying each order subject to post-execution allocation and the accounts to which contracts executed for such order are allocated.

3. Average Prices

It is not uncommon for a bunched order to be filled at more than one price. A Manager giving MFG a bunched order may request that MFG report to its customers the average price of the executed trades. In such a case, MFG will use the programs provided by its back-office systems provider to determine the average price of the executed trades or, in the case of trades executed on the CME or COMEX, use those exchanges' systems instead. Regardless of which system MFG uses, all customers will receive a uniform average price. Because the average price may have to be rounded up or rounded down to the nearest tick:

- Buys or purchases will be rounded up to the nearest tick and customers' accounts will be credited in cash for the difference between the average price and the "tick price;" and
- Sales will be rounded down to the nearest tick and customers' accounts will be credited in cash for the difference between the average price and the "tick price."

In addition, only accounts over which a single Account Controller has been granted discretionary trading authority will be permitted to be included in a bunched order. **Under no circumstances may any bunched orders be initiated by APs of MFG for accounts over which they do not have discretionary trade authority.**

H. Cross Trades

1. Crossing Customer Orders

The Rules generally require futures orders to be executed competitively, by open outcry in the trading pit. Nonetheless, many Exchanges allow floor brokers to intentionally cross the orders of two customers, provided the

floor broker first bids and offers the orders openly and competitively by open outcry in the trading pit for a "reasonable period of time" (which some Exchange rules define as making a specified minimum number of simultaneous bids and offers) before matching the orders. (See, e.g., CME Rule 533, CBOT Rule 331.04.) Certain Exchanges also allow MFG to intentionally cross orders on such Exchange's electronic trading system, although some Exchanges impose certain limitations on such transactions. (See e.g., CBOT Rule 9B.16.) Each Exchange rule differs in certain respects; accordingly, before entering into such transactions on any Exchange, MFG personnel must contact the Compliance Department to determine whether such transactions are permissible under such Exchange's rules and, if so, what procedures MFG is required to follow.

2. Crossing MFG Order Against Customer Order

In the context of open outcry trading, the Rules generally prohibit MFG from knowingly trading opposite its customers' order because such transactions may be deemed to violate the prohibition on pre-arranged trading. As a practical matter, if a customer order has been entered into the trading pit and such order has been announced by open outcry, and a MFG proprietary account is interested in taking the opposite side of that trade, MFG may give the proprietary order to a different floor broker than the one representing the customer order, provided that there has not been any impermissible disclosure of the customer order to the proprietary trader or any other pre-trade communication between the customer and proprietary trader.

In the context of electronic trading, however, the Rules of some Exchanges permit MFG intentionally to trade opposite its customers on such Exchanges' electronic trading systems, provided that MFG's terminal operator first enters the customer order into the electronic trading system and then waits a reasonable period of time (which most Exchange rules define as a specified minimum number of seconds, depending upon whether it is a futures or an options order) before entering MFG's opposite order. (See, e.g., CME Rule 531) However, each Exchange rule differs in certain respects, and certain Exchanges prohibit MFG from entering into cross trades with its customers on such Exchange's electronic trading system altogether. Accordingly, before entering into such transactions for the first time on any Exchange's electronic trading system, MFG personnel must contact the Compliance Department to determine whether such transactions are permissible under such Exchange's rules and, if so, what procedures MFG is required to follow.

A summary of pertinent provisions of each of the CBOT, CME, and NYMEX rules regarding cross trades is attached to this Manual as **Exhibit C**.

I. Prohibitions on "Trading Ahead" and Disclosure of Customer Orders and Positions

The Rules require that customer orders be given priority with respect to execution over orders for proprietary accounts, which include accounts carried in the name of MFG and directors, officers or employees of MFG or their family members. Furthermore, orders for proprietary accounts may not be entered on the basis of information regarding customer orders held by any director, officer, AP or employee of MFG, except as may be necessary to facilitate the execution of a customer's order in accordance with the EFP, EFS, EFR, cross trade or block trade rules of an Exchange.

In furtherance of the foregoing, APs are prohibited from discussing any unexecuted orders or customer trading strategies with any person except other MFG personnel servicing that customer. APs may not act on information regarding a customer's account or trading strategies in any manner, including disclosing customer positions or orders, except on behalf of, or at the express direction of, that customer, as may be necessary to facilitate the execution of a customer's order in accordance with the applicable EFP, EFS, EFR, cross trade or block trade rules of an Exchange.

Exchange rules prohibit an AP, or an affiliate of MFG, who has been solicited to participate in a cross transaction through pre-execution discussions, from: (1) disclosing to another person the details of such discussion, or (2) entering an order on an Exchange to take advantage of information conveyed during such discussions unless the AP or the affiliate of MFG has agreed during the pre-execution discussions to participate in the cross transaction in accordance with Exchange rules and the order is entered to implement that agreement.

J. Intermarket Frontrunning Involving Stock Index Futures

The execution of a transaction described below for MFG's proprietary account, any account in which MFG has an interest or over which MFG exercises control in order to take advantage of material non-public information which can reasonably be expected to have an immediate favorable impact on such transaction may constitute intermarket frontrunning in violation of Exchange rules. Depending upon the circumstances, the following practices may constitute intermarket frontrunning:[1]

- A transaction in any stock index futures contract or option on such futures contract when MFG has acquired knowledge of the imminent execution of one or more person's related stock program transaction(s).
- Stock program transactions, when MFG has acquired knowledge of the imminent execution of one or more person's order(s) in related stock index futures contracts or options on such futures contracts.
- A transaction in any stock index option, when MFG has acquired knowledge of the imminent execution of one or more person's order(s) in related stock index futures contracts or options on such futures contracts.

In determining whether a violation has occurred, it is not necessary that another person was disadvantaged. A violation may also occur regardless of whether the other person has given permission for such trading and may share in a portion of the profits.

It will not be a violation for MFG to establish, in a futures market, a bona fide hedge of risk it may have assumed in facilitating the execution of any other person's stock program. The risk to be hedged must result from a position established, or a commitment made to assume a position, and the offsetting hedge transaction must be commensurate with such risk. For example, this means MFG may purchase or sell a stock index futures contract on a futures exchange before buying or selling a basket of stocks replicating the index.

The Exchanges recognize that legitimate proprietary trading strategies may involve "legging in" in different sequences. Therefore, the implementation of a proprietary market strategy involving a stock program and related index futures contracts, or index futures contracts and related stock options, need not be entered in any particular sequence. The execution of a person's transaction in one market which favorably impacts the person's subsequent transaction in a related market may, however, constitute manipulative activity.

Any transaction which could arguably constitute intermarket frontrunning should be avoided. Should a question exist concerning the appropriateness of a proposed transaction, it should be discussed in advance with the Compliance Department.

K. Wash Trading

The Rules strictly prohibit the execution of "wash trades." In general, a wash trade involves a purchase and sale of the same futures contract for the same beneficial owner at or about the same time for approximately the same price with the intent to avoid market risk or a bona fide market position. This prohibition is premised on maintaining the integrity of the marketplace by preventing the use of the market for "fictitious" trading, which results in no market risk or change in beneficial ownership. Therefore, the fact that a wash trade does not result in an injury to customers, or even that it may have a legitimate purpose (e.g., re-establishing an existing long position to reduce the likelihood that the holder will be required to take delivery), is irrelevant to the finding of a violation. APs must immediately notify the Compliance Department of any orders entered by customers that are or appear to be wash trades. The Compliance Department is responsible for determining whether the transaction may be executed or whether additional information is required from the customer.

---

1 Note: This Manual does not specifically address practices with respect to security futures products which could also potentially constitute intermarket frontrunning. See footnote 2 of this Manual.

L. Prearranged Transactions

The Rules prohibit any person from negotiating the material terms of any futures transaction outside of the trading pit (with the exception of certain EFP, EFS or EFR transactions or back-office transfers and certain types of cross trades and block trades). As with the "wash trading" restrictions, this limitation is designed to promote the integrity of the marketplace and is not intended solely as a customer protection mechanism. It therefore is applicable to both customer and proprietary trading.

MFG, therefore, must guard against utilizing any trading technique that gives the appearance of submitting trades to the open market while negating the risk or price competition incident to such a market. Any commitment with respect to price and quantity that is reached outside of the pit likely will constitute a violation of the rule against prearranged transactions. APs may respond, in general terms, to customer inquiries regarding the depth and price of the market. All responses should be couched in terms of market information available from the trading pit. Although APs may provide an indication of the price level at which they think a transaction may be effected, such indications should not be understood to constitute a commitment to undertake a specific transaction. An AP may not, however, agree with a customer, or arrange an agreement between two customers, regarding the price or quantity of a transaction, prior to announcement of an order by open outcry on the floor of the Exchange, or agree that MFG will commit to take the opposite side of a transaction, except as may be provided in the block trade, cross trade, EFP, EFS or EFR rules of certain Exchanges. Furthermore, no discussions regarding a customer's order may be held with another customer prior to announcement of the order in the trading pit by open outcry (except as permitted by the relevant Exchange rules).

Except as provided in the block trade, cross trade, EFP, EFS or EFR rules of the various Exchanges, an AP may not disclose the terms of a customer order to MFG's proprietary traders or other customers of MFG prior to announcement of the customer's order by open outcry in the trading pit. Following such announcement of the customer's order in the trading pit, the AP may disclose the existence of such customer order, but only to the extent that the terms of such order are publicly available in the trading pit. Questions with respect to the foregoing practices should be directed to the Compliance Department.

M. Exchanges of Futures for Physicals, Exchanges of Futures for Swaps and Exchange of Futures for Related Positions

One significant exception to the prearranged trading prohibition set forth in **Section VI.L** of this Manual involves the execution of so-called exchange of futures for physicals ("EFP"), or exchange of futures for swaps ("EFS"), or exchange of futures for Related Positions ("EFRP") transactions. EFP, EFS and EFRP transactions possess three essential elements: (1) an integrally related physical/swap/derivatives transaction and futures transaction whose price and other terms are privately negotiated by the parties rather than on the Exchange floor; (2) a transfer of ownership of the physical commodity or swap or instrument upon performance of the terms of the physical contract, swap contract or derivatives contract, with delivery to take place within a reasonable period of time in accordance with prevailing market practice; and (3) separate parties—that is, the accounts involved in the transaction must have different beneficial ownership. Because EFPs, EFSs and EFRPs are an exception from the general rule requiring competitive execution of futures contracts on the Exchange floor, proper documentation of both the physical/swap/derivatives and futures components is critically important so as to avoid the CFTC or Exchange recharacterizing the transaction as an illegal off-exchange futures contract. In contrast to other types of futures transactions, it is permissible for the parties to an EFP, EFS or EFRP to agree to the terms of the transaction prior to execution of the off-exchange transaction. The critical element of each EFP, EFS and EFRP is that the futures transaction must be completed in conjunction with an actual purchase and sale in the related cash market. EFPs, EFSs and EFRPs on options contracts are generally not permitted.

Moreover, the CFTC and the Exchanges require customers to produce and retain documentation reflecting the cash market, swap or derivative transaction, as applicable. For example, with respect to EFPs in financial instruments, such as U.S. Government securities, the documentation ordinarily consists of bank wires or confirmations reflecting transfers of securities or similar evidence of transfer. The Compliance Department and **Exhibit D** to this Manual should be consulted for further details regarding the types of documentation required in connection with particular types of EFPs, EFSs or EFRPs. The Compliance Department will determine on a case-by-case basis the information needed, if any, to document the cash market transaction.

A "transitory" EFP is an EFP where the parties immediately offset the cash transaction. MFG requires APs to verify both sides of the cash transaction (i.e., confirm that the customer did buy or sell the commodity) prior to executing the EFP, to ensure that the transaction is a bona fide EFP. Transitory EFPs are generally conducted only in the FX and precious metals market because of the simultaneous nature of FX cash transactions. APs should be aware that transitory EFPs, EFSs and EFRPs are prohibited on most other Exchanges. As such, please contact the Compliance Department for more information regarding the propriety of transitory EFPs in any given commodity.

A summary of the pertinent provisions of the CME, CBOT, EUREX U.S., NYMEX, and IDCG EFP, EFS and EFRP rules and procedures is attached to this Manual as **Exhibit D**.

N. Foreign Futures Transactions

Futures contracts on broad-based stock indices traded on non-U.S. Exchanges, and futures on foreign government securities must be approved by the CFTC and SEC, respectively, before being offered to U.S. persons. Before accepting an order for such a contract from a U.S. person, the AP should check with the Compliance Department to determine whether that specific contract has been so approved. Futures contracts on narrow-based stock indices or single-stock futures listed on non-U.S. Exchanges may not be offered or sold to U.S. persons.

O. Block Trades

Block trades are typically large transactions among sophisticated market participants that are privately negotiated and executed outside the public auction market. In general, CFTC Rule 1.38 prohibits all transactions which are deemed to be executed in a non-competitive manner, including cross trades and block trades. However certain "non-competitively" executed trades, including blocks between different principals, are permitted when executed in accordance with rules of the relevant Exchange (trades between accounts of the same principal are never permitted). Set forth in **Exhibit E** is a summary of the relevant block trade procedures of the CME and CBOT (note that NYMEX does not permit any block trades and the CBOT only permits block trades with respect to 10-Year and 5-year Interest Rate Swap Futures).

P. Direct Transmittal of Orders to Foreign Brokers

Provided that certain procedures are complied with, certain qualified U.S. customers of MFG may be allowed to place orders for foreign futures contracts directly with eligible foreign futures brokers with whom MFG maintains customer omnibus accounts, without the foreign firm registering as an IB or FCM or receiving "comparability" relief from the CFTC pursuant to CFTC Regulation 30.10. Such procedures are set forth in CFTC Regulation 30.12, which are summarized in **Exhibit F** to this Manual. APs whose U.S. customers wish to place orders for foreign futures contracts directly with foreign futures brokers should contact the Compliance Department, as all such proposed direct order relationships will require the prior written approval of the Compliance Department.

VII. OPERATIONS

MFG maintains its U.S. futures operations facilities in New York, Chicago and Kansas City. The Chicago office functions as the order processing and clearing facility for all transactions entered into on the Chicago, Kansas City, Minneapolis, Winnipeg and Montreal Exchanges. The New York office functions as the order processing and clearing facility for all transactions entered into on the New York and all other non-U.S. Exchanges. The Information Technology ("**IT**") Department in Chicago is responsible for preparing and disseminating all daily and monthly customer statements and maintaining the futures margin records for all of MFG's futures accounts. The order processing and clearing responsibilities of the Operations Departments are set forth in **Paragraph A** below. **Paragraphs B, C, D, E** and **F** below address the Operations Departments' other responsibilities.

A. Processing, Clearing and Settling Futures Trades

1. Introduction

MFG is presently a clearing member of all major U.S. Exchanges, except the Minneapolis Grain Exchange. As a result, MFG will be directly responsible for clearance and settlement of all customer and proprietary transactions entered into on these Exchanges. Transactions entered into on all other Exchanges of which MFG is not a member will be cleared on an omnibus basis through another entity (including affiliates) that is a clearing member of the relevant Exchange.

As noted above, proprietary and customer omnibus accounts carried by MFG in the names of affiliates of MFG are subject to all of the requirements set forth in these policies and procedures, including those set forth in this **Section VII**. In addition, MFG may execute and clear transactions on non-U.S. exchanges through customer or proprietary or customer omnibus accounts carried in the name of MFG with affiliates of MFG. In such instances, the applicable MFG affiliates will be treated as third party clearing brokers and dealings with such affiliates will be subject to the policies and procedures regarding third party clearing brokers set forth herein.

2. Daily Clearing and Settlement Policies

At the close of business on each day on which the Exchanges of which MFG is a member are open for trading, MFG (through the New York and Chicago Operations Departments) will be responsible for the reconciliation of reports of execution received from the Exchange against MFG's records of orders entered for customer and proprietary accounts during that day. Any discrepancies will immediately be reconciled with personnel from the Operations Departments and Exchange personnel. In addition, the Operations Departments will review the daily runs and reports received from the Exchanges by no later than 9:00 a.m. on the following business day.

At the close of business on each trading day, MFG (through the Operations Department) also will be responsible for the reconciliation of all transactions cleared through other clearing brokers. The same reconciliation procedures will apply, except that MFG will deal only with its clearing brokers and not with the Exchange clearing organizations themselves.

In addition, prior to the opening of the U.S. Exchanges each day, each AP must review his or her customers' Equity and Margin Status Report. If the AP notes a discrepancy in any account in the course of that review, the AP should contact the appropriate Operations Department or trading floor staff. Trade adjustments should be brought to the attention of the Operations Departments or trading floor staff personnel at least one half hour prior to the opening of trading.

3. Liquidation of Offsetting Positions

CFTC Regulations generally require a close-out of a customer's position in the event the account has a long and short futures or options position in the same contract. (See CFTC Regulation 1.46). Unless the customer or the Account Controller has instructed otherwise, where short or long futures or options position in such customer's account immediately prior to such offsetting purchase or sale is greater than the quantity purchased or sold, MFG shall (after first offsetting like transactions, *e.g.*, spreads, etc.) apply such offsetting purchase or sale to the oldest

portion of the previously held short or long position. For example, if a customer with a short position in a particular contract enters an order to purchase such contract, the oldest short position in the customer's account will be liquidated.

However, if the customer or Account Controller (other than MFG or any employee, officer or agent of MFG), so directs MFG, the offsetting transaction shall be specified as directed by the customer. With respect to every such offsetting transaction that, in accordance with such specific instructions, is not applied to the oldest portion of the previously held position, MFG shall clearly show on the statement issued to the customer in connection with the transaction, that because of the specific instructions given by or on behalf of the customer the transaction was not applied in the usual manner (i.e., against the oldest portion of the previously held position). If, however the customer gives MFG specific instructions in writing, then no such special offset statement need be made.

The principal exceptions to the requirement that offsetting positions be closed out relate to omnibus accounts, and purchases and sales relating to "day trades." Other exceptions, generally speaking include: (i) purchases or sales of futures or options constituting "bona fide hedging transaction;" (ii) sales during a delivery period for the purpose of making delivery during such period; and (iii) purchases and sales held in error accounts, including but not limited to floor broker error accounts, and purchases or sales identified as errors at the time they are assigned to an account that contains other purchases or sales not identified as errors and held in that account ("error trades"), provided that: (a) each error trade does not offset another error trade held in the same account; (b) each error trade is offset by open and competitive means or subject to the rules of an Exchange by not later than the close of business on the business day following the day of the error trade or as soon as practicable thereafter; and (c) no error trade is closed out by transferring such an open position to another account also controlled by that same trader.

Following an offsetting transaction on an Exchange, regardless of what is reflected on MFG's internal records, the Exchange or its clearing organization must be notified that the offset has occurred. Please contact the New York or Chicago Operations Department (depending on the market) for more information.

4. Deliveries

Futures contracts may be settled by (i) entering into an offsetting position; (ii) making or taking delivery of the underlying commodity; or (iii) settling in cash when the futures contract contemplates cash settlement. APs are responsible for notifying customers of their settlement obligations and ascertaining their intentions in sufficient time to allow settlement. A "sufficient time" is dependent upon all of the circumstances of the market but will generally be between two (2) and five (5) business days prior to the first notice day if applicable, or such other date depending on the contract specifications, as will give sufficient time. Each AP must coordinate with MFG's Delivery Department to properly effect all deliveries of futures contracts.

5. Pre-Delivery Period Procedures

At least two (2) business days prior to the first notice day with respect to long positions in futures contracts and at least two (2) business days prior to the last trading day with respect to short positions in futures contracts, or at such earlier time as MFG may require, MFG will require that customers with open futures positions (i) furnish evidence of their ability to take or make delivery; (ii) place a liquidating order; or (iii) deposit the full value of the contracts held. Customers should be advised that a failure to provide the necessary documents and/or payment may result in the liquidation of positions and that if the positions cannot be liquidated the customer will remain liable to MFG for any losses incurred. For further information regarding MFG's delivery and pre-delivery policies and procedures, please refer to the Risk Department's Comprehensive Risk/Credit/Margin Policies and Procedures in **Appendix III**.

The Exchanges each have rules regarding giving notice of intention to make delivery. In all instances, the Delivery Department will attempt to notify the AP or the customer of the first notice dates. In addition, the Compliance Department will monitor customer compliance with these notice periods.

6. Taking Delivery

If a customer intends to take delivery, the full amount required to satisfy all payment obligations related to the delivery (including fees and commissions) should be received by MFG, in good funds, in accordance with MFG policy and the rules of the relevant Exchange. For further information regarding MFG's delivery and pre-delivery policies and procedures, please refer to the Risk Department's Comprehensive Risk/Credit/Margin Policies and Procedures in **Appendix III**.

7. Making Delivery

If a customer with a short position intends to make delivery, the Delivery Department must receive the necessary delivery instruments (e.g., warehouse receipts, securities, etc.) in sufficient time to allow settlement. It is imperative that APs ensure that the Delivery Department has in its possession the appropriate instruments bearing ownership in full negotiable form as prescribed under the relevant Exchange rules and approved by the Delivery Department in sufficient time to meet settlement obligations. For further information regarding MFG's delivery and pre-delivery policies and procedures, please refer to the Risk Department's Comprehensive Risk/Credit/Margin Policies and Procedures in **Appendix III**.

8. Exercise of Expiring Option Contracts/Allocation of Exercise Notices

American-style options may be exercised at any time prior to expiration. All in-the-money options are exercised lacking contrary instructions. All at-the-money or out-of-the-money options will expire worthless lacking contrary instructions to the Operations Department which must be in the form of an e-mail or fax. If a customer wishes to exercise a non-expiring option contract, the AP must notify MFG's Chicago Operations Department via fax or e-mail no later than 4:00 p.m. Chicago time or New York's Operations Department no later than 4:15 p.m. New York time for COMEX or NYMEX options, or 4:45 p.m. for NYBOT options. The customer will be assigned a position in the underlying futures contract and will be required to satisfy all initial and variation margin requirements imposed by MFG and the Exchange clearing organization on positions in such contract.

NFA rules require MFG to establish and apply a fair and non-preferential allocation procedure with respect to customers holding short positions in options. (In practice, this requirement may be satisfied by allocating exercise notices randomly.) Any exercise notices received by MFG from a clearing organization or clearing broker will be assigned to customers holding short positions in the particular option series in accordance with this procedure. Short option holders who have been allocated an exercise notice must be notified of such allocation within one (1) business day.

On a daily basis, the Operations Departments will review reports specifying long options due to expire and option assignment allocations, in order to monitor compliance with the foregoing procedures.

9. Give-Ups

As set forth in **Section IV.A** above, a customer may wish to execute futures orders through an FCM other than MFG and have MFG (or its carrying FCM) accept the executed trades from the executing broker for clearing and carrying in the customer's account. In such instances, specific documentation in the form of the FIA's Uniform Brokerage Execution Give-Up Agreement (as amended, as applicable) should be in place before such a "give-up" transaction takes place. Please contact the Chicago Operations Department for more information.

10. Off-Exchange Transfers

CFTC Regulation 1.38 requires that all purchases and sales of futures contracts be executed openly and competitively by open outcry in the trading pits of the Exchanges. However, Regulation 1.38 exempts certain non-competitive, off-exchange transactions (including transfer and office trades) from the foregoing general rule, provided that the Exchange has adopted specific written rules governing the terms of such back-office transactions. Thus, the rules of each Exchange upon which the futures contracts to be back-office transferred will control.

In general, and subject to limitations in the following paragraph, most Exchanges permit transfer trades (or office trades) for the following purposes: (i) to transfer existing trades from one account to another account within the same FCM where no change in ownership is involved; (ii) to transfer existing trades from an account carried at one FCM to an account carried at another FCM where no change in ownership of the accounts is involved, provided that no such transfer may be made for the purpose of evading and avoiding delivery on such trades; (iii) to correct errors on cleared trades; (iv) to engage in EFPs, EFSs or EFRPs; and (v) to transfer "give-ups" from executing brokers to clearing brokers.

Although certain of the Exchanges, such as the CBOT, generally do not restrict transfer trades that result in liquidation of open positions, such Exchanges generally restrict certain transfer trades otherwise permitted when such trades occur during the delivery month and a specified number of days prior thereto. In such event, transfer trades engaged in to offset existing positions where no change in ownership is involved will be prohibited unless the execution date of the position being transferred is the same as the transfer date. The CME, however, prohibits all transfers that would result in a liquidation of open positions.

The Exchanges' off-exchange transaction rules are similar in certain respects, but there are important differences in their substance and application. Please contact the Compliance Department for more information regarding the rules of a particular Exchange.

B. Segregation of Customer Funds

Pursuant to CFTC Regulation 1.20, cash and securities deposited by customers in order to margin or secure futures transactions on a U.S. Exchange must be maintained by MFG in customer segregated accounts with a custodian bank or another FCM. Pursuant to CFTC Rule 30.7, cash and securities deposited in order to margin or secure transactions on a non-U.S. Exchange must be maintained by MFG in customer secured amount accounts with a custodian bank or another FCM.

Customer funds for transactions on U.S. Exchanges are deposited in "segregated accounts," which are clearly identified as holding customer segregated funds. Each such account will be established and maintained under a name clearly describing the nature of funds on deposit (e.g., "FCM Inc. Segregated Account for the Benefit of Commodity and/or Option Customers"). Customer funds for transactions on a non-U.S. Exchange are deposited in "secured amount accounts," which are clearly identified as holding customer secured amount funds. Each such account will be established and maintained under a name clearly describing the nature of funds on deposit (e.g., "FCM Inc. Secured Amount Account for the Benefit of Commodity and/or Option Customers").

THE ASSETS HELD IN SEGREGATED OR SECURED AMOUNT ACCOUNTS MUST BE STRICTLY LIMITED TO THOSE DEPOSITED BY CUSTOMERS. NO FUNDS OR SECURITIES BELONGING TO MFG OR ANY PROPRIETARY ACCOUNT MAY BE DEPOSITED IN MFG'S SEGREGATED ACCOUNTS OR SECURED AMOUNT ACCOUNTS UNDER ANY CIRCUMSTANCES (PROVIDED THAT, PURSUANT TO CFTC REGULATION 1.23, MFG MAY DEPOSIT ITS OWN FUNDS OR UNENCUMBERED SECURITIES AS IT MAY DEEM NECESSARY TO ENSURE THAT ANY SEGREGATED ACCOUNT OR SECURED AMOUNT ACCOUNT DOES NOT BECOME UNDERSEGREGATED OR UNDERSECURED AT ANY TIME). IN ADDITION, MFG MAY NOT COMMINGLE CUSTOMER SEGREGATED AND SECURED AMOUNT FUNDS OR ACCOUNTS.

Pursuant to CFTC Regulation 1.24, funds held in a segregated account by an FCM shall not include: (i) funds invested in obligations or stocks of any clearing organization or in memberships in or obligations of any U.S. futures market or (ii) funds held by any clearing organization which it may use for any purpose other than to purchase, margin, guarantee, secure, transfer, adjust, or settle the futures positions of the FCM's customers (such as an FCM's guarantee fund deposit).

Pursuant to CFTC Regulation 1.25, MFG may invest customer segregated and secured amount funds only in certain types of securities. A summary of the securities that MFG may invest its customer segregated and secured amount funds in is set forth in **Exhibit G** to this Manual.

The Treasury Department will be responsible for ensuring that investments of customer funds, and the use of customer securities, are being conducted in accordance with applicable laws and regulations. Pursuant to CFTC regulations, whenever MFG deposits customer funds in its omnibus account for clearing at another FCM, or deposits

customer funds at any bank or trust company, MFG must obtain a segregation or secured amount acknowledgment letter as applicable, from such FCM, bank or trust company. The Treasury Department will maintain all such segregation and secured amount acknowledgment letters.

Funds deposited by customers should generally come from an account bearing the same name as the customer. In the event a customer requests that funds from an account in the name of someone other than the customer be transferred to the customer's account with MFG, such request must be made by the customer, and consented to by such other account owner, in writing. Moreover, as CFTC regulations prohibit an introducing broker from accepting customer funds or securities, under no circumstances will MFG accept funds or securities from an account held in the name of an introducing broker for deposit into a customer account carried by MFG.

Similarly, disbursements from a customer account should be made only to accounts bearing the same name as the MFG customer account, unless the MFG customer has provided written authorization permitting such disbursement to a different titled account.

C. Customer Daily and Monthly Activity Statements

With the exception of accounts for which MFG acts only as executing broker, MFG must provide a written confirmation to each customer, not later than the next business day, regarding each transaction executed for such customer's account and, must furnish each customer with a monthly statement of the status of the customer's account.[1/] In the case of accounts managed by a CTA or other Account Controller, the person managing the account also must be provided with copies of all daily confirmations and monthly statements. In addition, copies of such confirmations and statements issued in connection with any accounts introduced to MFG by an introducing broker (i) must show that the customer's account was introduced by an introducing broker and identify MFG as the FCM and the applicable introducing broker, and (ii) also should be provided to the introducing broker responsible for the account. Also, a customer may, upon request, have duplicate account statements sent to additional persons in the customer's organization for control purposes. Copies of confirmations and statements must be maintained in accordance with the provisions of **Section IX.B** of this Manual. The Chicago IT Department prepares and disseminates all customer daily and monthly statements.

MFG may, when requested by a customer, transmit to the customer daily and monthly statements and all other communications via facsimile or electronic mail in lieu of or in addition to hard copies of such statements. See CFTC Regulation 1.33(g). APs whose customers inquire about receiving electronic statements should contact the New Accounts Department for more information concerning the availability of this service.

Pursuant to CFTC regulations and MFG policy, MFG will <u>not</u> honor customer requests to "hold all mail." However, subject to approval by MFG's Compliance Department, MFG may accept a customer's written instructions to send correspondence (including customer statements) to an authorized third party to forward such correspondence to the customer, or to accept and review such correspondence on the customer's behalf, but only if the third party does not have discretionary trading authority over the account and is not an employee of MFG.

D. Regulatory Financial Requirements

CFTC regulations impose certain minimum financial requirements on MFG as an FCM. The Finance Department will monitor MFG's accounts on a daily basis to ensure that the applicable capital and segregation requirements are continuously met.

E. Purging Inactive Accounts

MFG has instituted procedures with respect to the disposition of customer accounts carried by MFG that are no longer trading and which are deemed to have been "abandoned." Any customer account carried by MFG in which there has been no futures transactions, or additions to or withdrawals from the account, for a period of one (1) full calendar year may begin receiving one of several notices from MFG inquiring as to the customer's intention regarding

1/ With respect to inactive accounts, MFG will only provide statements on a quarterly basis.

the account. MFG also may charge such dormant accounts a monthly maintenance fee. The Credit Department shall monitor the status of all such dormant accounts. With the approval of the Manager and in consultation with the Credit Department and the Compliance Department, MFG may, with respect to accounts that fail to respond to MFG's notices for a period of six (6) months, close the customer's account and return any remaining balance to the customer via check or wire transfer according to the customer's last known instructions. In the event that MFG is not able to make payment to the customer according to the customer's last known instructions, the Credit Department, with the assistance of the Compliance Department, shall make reasonable attempts to determine the customer's correct payment instructions. Certain state laws may prevent MFG from forfeiting unreturnable funds of customers residing in such states to itself or its affiliates.

F. Business Continuity and Disaster Recovery Plan

Pursuant to NFA Rule 2-38, MFG must establish and maintain a written business continuity and disaster recovery plan that outlines procedures to be followed in the event of an emergency or significant business disruption. The plan must be reasonably designed to enable MFG to continue operating, to re-establish operations, or to transfer its business to another FCM with minimal disruption to its customers, other NFA members, and the Exchanges.

MFG must provide NFA with the name of and contact information for two individuals who NFA can contact in the event of an emergency, and MFG must update that information upon request. These individuals must be authorized to make key decisions in the event of an emergency.

MFG's Business Continuity and Disaster Recovery Plan (the "Plan") addresses the following:

- Establishing back-up facilities, systems, and personnel that are located in one or more reasonably separate geographic areas from MFG's primary facilities, systems, and personnel (e.g., primary and back-up facilities should be located in different power grids and different telecommunication vendors should be used), which may include arrangements for the temporary use of facilities, systems, and personnel provided by third parties;

- Backing up or copying essential documents and data (e.g., general ledger) on a periodic basis and storing the information off-site in either hard-copy or electronic format;

- Considering the impact of business interruptions encountered by third parties and identifying ways to minimize that impact; and

- Developing a communication plan to contact essential parties such as employees, customers, carrying brokers, vendors and disaster recovery specialists.

MFG must update its Plan as necessary to respond to material changes in its operations. The Business Continuity Manager will also periodically conduct and evidence reasonable reviews designed to assess the Plan's effectiveness.

The Business Continuity Manager will be responsible for distributing and explaining the Plan to MFG's key employees and communicating the essential components of the plan to all employees. MFG will also maintain copies of the Plan at one or more off-site locations that are readily accessible to key employees.

MF Global

VIII. EXCHANGE FLOOR PERSONNEL

A. CFTC Restrictions

No floor employee may solicit or accept a futures or futures options order other than in a purely clerical capacity unless registered with the CFTC as an AP, Floor Broker, or Floor Trader.

B. Exchange Limitation on Member Activities

On the CBOT, only a holder of a full exchange membership (or a sub-membership with respect to contracts covered by the sub-membership) may transmit orders (by hand, verbally or in writing) to any pit, or solicit and fill orders for a customer in all contracts traded on the CBOT (except for floor employees of members acting in a purely clerical capacity). As indicated above, to do so, all members must be registered with the CFTC as either an AP, Floor Broker, or Floor Trader.

A holder of a CBOT sub-membership has the privileges of a full member only with respect to contracts covered by the sub-membership ("Permitted Contracts"). For example, on the CBOT a holder of an Associated Membership ("AM") is limited to transactions in futures and futures options contracts in the Government Instruments market ("GIM"); Index, Debt and Energy market ("IDEM"); and Commodities Options market ("COM").

An AM or other sub-membership holder on the CBOT may not transmit or communicate from the floor with a person off the floor, other than in a Permitted Contract. Sub-membership holders may, however, solicit and signal orders entered for bona fide hedging purposes to pits that trade contracts related to the Permitted Contracts.

A CBOT sub-membership holder may, however, act in a non-Permitted Contract in a capacity of a Floor Clerk subject to the restrictions of a Floor Clerk (see **Paragraph C** below), provided he registers in this capacity with the CBOT and wears the special Floor Clerk's badge issued to the holder of a sub-membership.

On the CME, there are four membership divisions: (1) CME Group, Inc. (CME) membership (members have trading access to all products); (2) International Monetary Market (IMM) membership (members have trading access to all products, except agricultural products); (3) Index and Options Market (IOM) membership (members have trading access to all stock indices and all options products); and (4) Growth and Emerging Markets (GEM) membership (members may execute trades in various products, including those related to emerging market countries). A member of the IMM, IOM or GEM Division may not personally execute trades on the floor in products other than those assigned to such member's respective division.

At NYMEX, the privilege of trading NYMEX Division contracts on the floor is limited to members of the NYMEX Division. Similarly, the privilege of trading COMEX Division products on the floor is limited to members of the COMEX Division. A member of either the NYMEX Division or the COMEX Division is automatically eligible for membership in the other division after filing an application and meeting other basic requirements.

C. Exchange and CFTC Limitation on Floor Employee Activities

Under CBOT, CME and NYMEX rules, a non-member floor employee may not solicit or accept a futures or futures options order from a customer other than in a purely clerical capacity. The CBOT does not allow a Floor Clerk to register as an AP. Although the CME permits AP registration of non-member clerical floor employees, CME Rule 501 limits such clerical floor employees to "runners, communicators and clerks," whose remuneration is limited to salaries and normal bonuses, and prohibits their solicitation of customers. CBOT Floor Clerks and CME and NYMEX non-member clerical floor employees (collectively, "clerical floor employees") may, however, communicate freely with other employees of MFG concerning proprietary trading and in response to salespersons with regard to their customer accounts.

Conduct within the "clerical capacity" exception, which applies to clerical floor employees, includes the following administrative and ministerial activities: answering phones; giving market quotations; recording and stamping orders; and taking and relaying order for execution.

Clerical floor employees may also call an existing customer at the customer's direction to report the occurrence of an event previously specified by the customer, for example, when the price reaches a certain level. All communication to the customer must be limited to factual information concerning the market. Unregistered clerical floor employees may not provide trade advice, recommendations or express any opinion conceming the direction of the market or involving a trading decision. A customer requesting opinions, recommendations or direction of any kind regarding trading should be referred to a membership holder permitted to act in the contract which is the subject of the inquiry, or to an off-floor registered salesperson.

MF Global

IX. REGULATORY RECORDKEEPING REQUIREMENTS

A. Regulatory Recordkeeping Requirements

MFG is required by CFTC regulations and its DSRO's rules to prepare and maintain the types of records set forth below:

1. a ledger or other similar records, including supporting documents, of transactions affecting MFG's assets, liability, income, and expense and capital accounts, and formal computations of MFG's adjusted net capital and of its minimum financial requirements as of the close of business each month (CFTC Regulation 1.18);

2. all segregation and secured amount acknowledgment letters (CFTC Regulations 1.20, 1.26, 1.57 and 30.7);

3. a record of investment securities purchased on behalf of customers with customer funds, including the following information: date investment made; name of person through whom investment made; amount of money invested; description of investment; identity of depositories where investment is segregated; date disposition made and amount received therefore; and name of person to or through whom sold (CFTC Regulations 1.27 and 30.7);

4. records of the daily computation of money, securities and property in MFG's segregated accounts and the amounts required to be in such segregated accounts (CFTC Regulation 1.32);

5. records of the daily computation of money, securities and property in MFG's secured amount accounts and the amounts required to be in such secured amount accounts for customers trading in foreign futures (CFTC Regulation 30.7);

6. all customer monthly statements and daily confirmations, and whether the customer account was introduced to MFG by an Introducing Broker and the name of the Introducing Broker (CFTC Regulation 1.33);

7. a monthly "point balance" record of all open customer positions as of the last day of business of each calendar month (CFTC Regulation 1.34);

8. all customer and proprietary orders (filled, unfilled or canceled), trading cards, signature cards, street books, journals, ledgers, canceled checks, confirmations, purchase and sale statements, and all other records, data and memoranda that have been prepared in the course of MFG's futures business, as applicable (CFTC Regulation 1.35);

9. if requested by an Exchange, the CFTC or the United States Department of Justice, MFG shall request from its customers and provide to the requesting regulator, documentation of cash transactions underlying EFPs (for cash commodities or in connection with cash commodity transactions) (CFTC Regulation 1.35(a-2));

10. a record, separately for each customer, of all securities and other property (other than cash), if any, which may be received from customers to margin, purchase, guarantee or secure such customer's futures transactions including a description of the securities and property, name and address of customer, identity of depositories or other places where such securities or property are segregated, the dates of deposits and withdrawals from such depositories, dates received and returned or otherwise disposed of, together with the facts and circumstances of such other disposition (CFTC Regulation 1.36);

11. for each omnibus account carried by MFG, a record of the total open long contracts, total open short contracts, total open put options purchased and sold, and total open call options purchased and sold, as of the close of each business day (CFTC Regulation 1.37);

12. a record for each customer account showing the true name and address of such customer, the customer's principal occupation or business, the name of any person guaranteeing the account, the name of any person exercising trading authority over the account, and the name of the person who solicited and is responsible for the account (CFTC Regulation 1.37);

13. an acknowledgment that each customer has received and understood the Risk Disclosure Statement prescribed by CFTC Regulation 1.55(c), if such receipt and acknowledgement is required of such customer (CFTC Regulation 1.55);

14. such records as are necessary to support certifications required to be filed with the NFA relating to an AP's application for registration as an AP or the reporting of an AP's dual or multiple associations as an AP (CFTC Regulation 3.12);

15. records of materials used by MFG in connection with any ethics training of employees, if any (see CFTC's Statement of Acceptable Practices with Respect to Ethics Training in Appendix B to Part 3 of the CFTC Regulations);

16. a record of transactions for each of MFG's proprietary accounts, if reportable, showing all details of all positions and transactions in futures and related cash transactions (CFTC Regulation 18.05)[1];

17. all "promotional material" (as defined in **Section XI.F.** below) along with a record of its required review and approval (NFA Rule 2-29(f));

18. all promotional material provided to MFG's options customers, as well as the source of authority for the information contained therein (CFTC Regulation 33.8);

19. a daily record with respect to the investment of customer segregated funds pursuant to CFTC Regulation 1.25 showing the type of instrument in which customer funds have been invested, the original cost of the instruments, and the current market value of the instruments (CFTC Regulation 1.25(b)(7));

20. provided that MFG meets certain threshold customer funds and adjusted net capital requirements, (i) all "material affiliated person" organizational charts and (ii) all written financial, operational and risk management policies procedures and systems, if any (CFTC Regulation 1.14) (see **Section X.E.1** of this Manual for more information concerning this requirement); and

21. all documentation required by the USA PATRIOT Act and NFA Rules pertaining to the identification and verification of customer identity.

In addition, the Finance Department will maintain copies of all financial records and other reports made to regulatory or self-regulatory authorities as set forth in **Section X** of this Manual. The Compliance Department is responsible for monitoring compliance with the foregoing recordkeeping requirements.

B. Record Retention

Applicable Rules require most records referred to above to be maintained for a five (5) year period and to be readily accessible during the first two (2) years of the five (5) year period to any representatives of the CFTC or the U.S. Department of Justice. However, pursuant to MFG policy, unless otherwise specifically noted, the records set forth in **Section IX.A** above and elsewhere throughout this Manual must be maintained for a five (5) year period and must be readily accessible during the first two (2) years of such period. If MFG fails to maintain current records it must, on the same day such event occurs, send facsimile notice of such fact to the CFTC and MFG's DSRO and within forty-eight (48) hours after giving such notice must file a written report outlining corrective action taken (CFTC Regulation 1.12(c).)

---

1 In addition, pursuant to CFTC Regulation 18.04, each trader who holds or controls a reportable futures or options position must, if requested by the CFTC, file with the CFTC a "Statement of Reporting Trader" on Form 40.

C. Method of Storage

The CFTC permits required records to be maintained and preserved in hard copy, on "micrographic media" (microfilm, microfiche, or similar medium), or by means of "electronic storage media" (any digital storage medium or system) provided that MFG:

1. has available at all times for examination by the CFTC, SROs and/ or Department of Justice, facilities for immediate, easily readable projection or production of images, and for producing easily readable images;

2. is ready at all times to provide, and immediately provides, any facsimile enlargement which the CFTC, the Department of Justice or their respective representatives may request;

3. stores separately from the original, a duplicate copy of the record on any medium acceptable under the regulation for the time required;

4. organizes and indexes accurately all information maintained on both original and duplicate storage media (at all times MFG must be able to have such indexes available for examination; each index must be duplicated and the duplicate copies stored separately; and original and duplicate indexes must be preserved for the time required for the indexed records);

5. has in place an audit system providing for accountability regarding inputting of records to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby (at all times the results of such audit system must be available for examination by the CFTC, SROs or Department of Justice, and the results must be preserved for the time required for the audited records); and

6. maintains, keeps current, and provides promptly upon request by the CFTC, SROs or Department of Justice, all information necessary to access records and indexes stored on the electronic storage media; or places in escrow and keeps current a copy of the physical and logical file format of the electronic storage media and the source code, together with the appropriate documentation and information necessary to access records and indexes.

With respect to records that are stored solely on electronic media, at least one third party, having access to and the ability to download information from MFG's electronic storage media to any acceptable medium under these regulations, must file with the CFTC undertakings to furnish promptly to the CFTC or the Department of Justice, upon reasonable request, all such information necessary to download information on MFG's electronic storage media to any medium acceptable under the regulation and to take reasonable steps to provide access to information contained on the electronic storage media, including downloading of any records in an acceptable format. (See CFTC Regulation 1.31(b)(4)).

Electronic storage media must preserve the records in a non-rewritable, non-erasable format; verify automatically the quality and accuracy of the recording process; serialize the original and, if applicable, duplicate units of storage, and time-date for the required period of retention the information placed on such media, and be able to readily download indexes and records preserved on the electronic storage media to any medium acceptable under the regulation as required by the CFTC, SROs or Department of Justice.

Under CFTC Regulation 1.31, however, trading cards and customer order tickets of FCMs must be retained in hard copy form for the entire required time period.

MF Global

X. REPORTING REQUIREMENTS

The Rules require MFG to file various financial and other reports with the CFTC, NFA and/or MFG's DSRO. All reports will be prepared and filed by the relevant department of MFG. **Paragraphs A, B, C** and **D** below briefly summarize MFG's reporting obligations.

A. Financial Reports

MFG is required to file with its DSRO unaudited monthly financial reports on CFTC Form 1-FR-FCM within seventeen (17) business days after the end of each month and an audited annual financial report on CFTC Form 1-FR-FCM within ninety (90) calendar days after the end of each fiscal year (MFG's fiscal year ends March 31st). A copy of all financial reports and any other supplemental information filed with the DSRO must also be filed with the CFTC.

B. Foreign Futures and Options Reports

MFG is required to file with the NFA quarterly reports containing information concerning foreign futures and options positions that are carried by MFG on each foreign board of trade. Such reports must be filed within ten (10) business days after the end of each quarter. See CFTC Regulation 30.8.

C. Large Trader Reports; Speculative Position Limits

1. Large Trader Reporting

Under CFTC regulations, MFG is required to file reports whenever any customer account or accounts carried by MFG holds futures positions above certain levels established under CFTC regulations and Exchange rules. In particular, any account holding a reportable "position" must be identified by MFG as a "Special Account" and MFG must file a CFTC Form 102 (Identification of Special Accounts) with the CFTC and its DSRO as well as any other reports required by the Exchange upon which the positions are held disclosing such reportable positions. This requirement applies regardless of whether the account has been established for hedging or speculative purposes. Once MFG files a Form 102, the CFTC generally will request that the customer or person controlling the account identified in the report file a Form 40 (Statement of Reporting Trader) with the CFTC. In the case of any omnibus accounts carried by MFG, MFG will calculate whether the account must be treated as a "Special Account" on a gross (not net) basis. MFG must file a Form 102 only when a Special Account first meets or exceeds the reportable position limit in a particular futures contract (and not each time a Special Account meets or exceeds such limits with respect to the same futures contract).

It should be noted that all accounts owned or controlled by the same person must be aggregated for purposes of determining whether a particular customer holds a reportable position. As a result, for example, where a CTA manages a number of accounts carried by MFG, the positions in the accounts under common control must be aggregated. Under some circumstances, accounts that are commonly owned but separately controlled need not be aggregated. APs should consult the Compliance Department with respect to any accounts that the AP believes may be under common ownership or control.

2. Speculative Position Limits

The CFTC and the Exchanges have established "speculative position limits" which represent the maximum number of contracts that may be held by a speculator. Accounts under common ownership or control must be aggregated for this purpose as well. An account holder will be subject to speculative position limits unless it has filed an application for a hedge exemption with the appropriate Exchange and/or CFTC and the application has been approved. Such applications may be filed by MFG, and in that event it will therefore be necessary for MFG to verify, through appropriate representations and, if necessary, documentation, that the application is accurate and complete. Customers and MFG may not trade in excess of speculative position limits without the approval of the relevant Exchange and/or CFTC.

MFG is also subject to the foregoing reporting requirements and position limits with respect to its proprietary accounts. In addition, accounts of affiliated entities may be required to be aggregated with those of MFG if they are under common control. The Compliance Department will be responsible for determining whether proprietary accounts are required to be aggregated.

The Operations Department will be responsible for reviewing on a daily basis all customer and proprietary positions carried by MFG in accounts reported under common ownership or control on MFG's books, in order to monitor compliance with the foregoing reporting and position limit requirements.

D. Miscellaneous Reports

1. Material Affiliated Person Reports

A clearing FCM holding at least $6,250,000 in customer funds and having adjusted net capital of at least $5,000,000 as of the FCM's last fiscal year is required to file the following documents with the CFTC within sixty (60) calendar days after the effective date of FCM registration and within sixty (60) calendar days after the end of the quarter in which a material change in the information has occurred: (i) a material affiliated person ("MAP") organizational chart and (ii) written financial, operational and risk management policies, procedures and systems, if any (if the FCM has no such written policies, procedures and systems, it must file a statement within the foregoing time period so indicating). Such FCM also must file with the CFTC within one hundred five (105) calendar days after the end of each fiscal year a consolidated balance sheet, income statement and cash flow statement for the highest level MAP within the FCM's organizational structure. MFG will be required to file the foregoing reports for so long as MFG continues to meet the foregoing threshold customer funds and adjusted net capital requirements. MAP reports are prepared and filed by the Finance Department.

2. NFA Questionnaire

MFG must review on a yearly basis a self-audit questionnaire that can be downloaded from NFA's web site at http://www.nfa.futures.org./. The Chief Compliance Officer will review and sign the questionnaire attesting that MFG's procedures comply with all applicable NFA requirements.

3. Subordinated Loan Agreement Reports

Pursuant to CFTC regulations, any proposed subordinated loan agreement to be entered into by an FCM must be filed with, and approved by, its DSRO before it may be deemed satisfactory for net capital purposes. Any amendments to existing subordination agreements also must be submitted to its DSRO for approval. All subordinated loan matters are handled by the Legal Department in New York.

4. Other As-Needed Reports

MFG also is required to make certain reports upon the occurrence of certain triggering events. (For example, MFG is required to report and update any changes to its NFA Form 7-R registration information on an on-going basis.) For information concerning other as-needed reports, please contact the Compliance Department.

In addition, the CFTC, NFA and/or MFG's DSRO may request additional financial or other information or reports as such organizations determine necessary. For example, the DSRO may request information concerning MFG's daily segregated funds and secured funds calculations, although the Rules and the DSRO rules do not require MFG to regularly report such information.

MF Global

XI. COMPLIANCE

A. Trading Review

1. General

The purpose of reviewing trades is to ensure that all trading activity is in compliance with MFG's policies, as well as with the requirements of MFG's regulatory and self-regulatory authorities. Early detection of problems in this area can minimize risk to both MFG and its customers. In addition to the various other reports and records reviewed by the Compliance Department and other Departments as set forth elsewhere in this Manual, all trading activity conducted on behalf of customers will be reviewed according to the following procedures.

2. Branch Office and Sales Desk Review

The Manager must require APs with active customer futures accounts to review the margin and equity run reports on a daily basis to verify that positions in such accounts are correct, to monitor the trading activity and margin requirements of such accounts, and to verify that customers do not exceed their trading levels.

The activity and profits or losses for all accounts must be reviewed by Managers no less than once a month.

If it is determined that the number, size and/or type of transactions in the account are excessive in view of the customer's knowledge of the markets, financial status and trading objectives, the Manager must take immediate steps to adjust the level of activity in the account or take other appropriate action. In addition, Managers must promptly review with the AP each account that has sustained a substantial loss or that has had excessive activity.

At the discretion of either the Manager or the Compliance Department, a Manager may send a letter to a customer whose account displays excessive activity or that has sustained large losses explaining such fact and summarizing any action taken.

In its discretion, the Compliance Department may review selected active accounts.

The Compliance Department will periodically review and initial random samples of order tickets to verify that all required information is contained on the order tickets and that the order tickets are time-stamped properly.

If, during any such reviews it is determined that the requirements under this Manual and/or the Rules have not been satisfied, that errors exist or that MFG is or may be subject to undue financial risk, the Manager, in consultation with other appropriate Departments, including the Compliance Department, should promptly take corrective action.

3. Exchange Floor Manager Review

On a periodic basis, MFG's Exchange floor managers review and initial random samples of Floor Tickets to verify that all required information is contained on such tickets and that such tickets are time-stamped properly. Any discrepancies or deficiencies discovered during the course of such review should be discussed with the floor staff involved and, if necessary, brought to the attention of the Compliance Department.

4. Compliance Department Review

In addition to the other reports reviewed as set forth elsewhere in this Manual, the Credit Department will review various MFG-wide equity and credit status reports, among other reports, on a periodic basis to monitor compliance with the Rules and MFG policies and procedures. The Credit Department will consult with other Departments as necessary and identify and take appropriate corrective action with respect to any problems identified during the course of such reviews.

5. Operations Department Review

On a daily basis, the New York and Chicago Operations Departments shall review various reports designed to monitor the Departments' functions relating to order processing and clearing. The Manager for each branch office shall be responsible for identifying problems with respect to such functions and shall take appropriate corrective action as necessary, in consultation with other relevant Departments.

6. Written Records

A written record must be prepared and kept on file of any inquiries regarding questionable trading activity as well as any action taken in relation thereto. Any such inquiries must immediately be reported to the Compliance Department, and a copy of the written record must be submitted to the Compliance Department.

B. Branch Office and Guaranteed IB Inspections

In accordance with NFA rules and MFG policy, all MFG branch offices and guaranteed IBs will be subject to a comprehensive annual on-site compliance inspection by MFG internal or designated external audit personnel ("auditors"). The auditors will generate a written report indicating their findings, which will be forwarded to the Compliance Department for review.

C. Large Trader and Speculative Position Limits Review

The Operations Department will be responsible for reviewing, on a daily basis, records of all positions carried by MFG in its customer and proprietary accounts in order to monitor MFG's compliance with applicable large position reporting requirements and speculative position limits, as set forth in **Section X.D** of this Manual.

D. Customer Correspondence and Complaints

1. Customer Correspondence

In accordance with the Rules, APs are required to maintain copies of all incoming and outgoing correspondence, including typewritten, word processed and handwritten letters, faxes, newspaper or magazine articles, computer generated printouts and notes, and hard copies of e-mails or other electronic messages in a centralized chronological correspondence file maintained in each MFG office. The chronological correspondence file must be available for a review at any time by a Manager or a member of the Compliance Department. Each Manager will review at least 1% of all outgoing correspondence to confirm that nothing untrue or misleading is being represented to customers. Electronic messages will be archived by MFG's ZANTAZ system. The ZANTAZ system will select 1% of the electronic messages of registered personnel at random for review by the Compliance Department. Any such review will be evidenced by the person conducting the review. Pursuant to MFG policy, copies of all customer correspondence (including the archive of e-mails) will be kept on file for at least five (5) years from their transmittal.

All customer correspondence must be sent through MFG approved systems (e.g., using personal e-mail accounts, instant messaging and/or SMS is not allowed).

In addition, in accordance with NFA rules, all advertisements or sales materials containing recommendations to customers, or any other communication constituting "promotional materials," must be approved by appropriate supervisory personnel before they may be sent to customers. Such procedures are set forth at **Section XI.F** of this Manual.

2. Customer Complaints

All customer complaints must be handled in accordance with MFG's policies and procedures regarding customer complaints generally. With respect to futures-related customer complaints specifically, any AP or employee

of MFG receiving such complaint from a customer, whether written or oral, must immediately notify the Manager. Written customer complaints must be directed to MFG's Legal Department for disposition of the complaint with the assistance of the Compliance Department. The Compliance Department will (i) retain copies of all written complaints and (ii) prepare and retain a record of the date each complaint, oral or written, was received, the AP who serviced the account, a description of the subject matter of the complaint and an explanation of the action taken in response to the complaint. Pursuant to MFG policy, the foregoing written records must be retained for five (5) years from the date when made.

E. Litigation and Arbitration

All correspondence, summons and subpoenas concerning legal action, arbitration or proceedings that involve a customer, the account of a customer, an employee and/or MFG, must be referred to the Legal Department immediately upon receipt. Furthermore, telephone inquiries from customers' attorneys must be referred to the Legal Department before any discussion of a complaint or its settlement takes place. The Legal Department will confer with the Compliance Department as necessary.

Employees also are required to notify the Legal Department, as well as their Manager, immediately in the event any of the following matters occur:

- An investigation, review or proceeding conducted by any regulatory authority (such as the CFTC or NFA) is commenced, including receipt of a request for testimony from any such organization.
- An injunction, censure, fine, suspension, expulsion or other disciplinary action is imposed by any governmental agency or regulatory authority. All such actions must be reported, even if the conduct that prompted the action occurred prior to the employee's association with MFG.
- Any litigation or arbitration in which MFG or any MFG personnel is named is commenced, even if the dispute concerns an employee's actions which occurred prior to the employee's association with MFG.
- The arrest of an employee for fraud, making false statements or omissions, wrongful taking of property, forgery, counterfeiting, extortion, gambling or any action involving investments or an investment-related business.

F. Promotional Materials

1. Definition of Promotional Materials

NFA and Exchange rules impose a number of restrictions with respect to the distribution of promotional materials by a registrant, including MFG and its APs. For purposes of these rules, the term "promotional materials" includes: (a) any text of a standardized oral presentation, or any communication or publication in a newspaper, magazine or similar medium, or for broadcast over television, radio or other electronic medium (including via e-mail transmission or a web site), which is disseminated or directed to the public concerning a futures or option account, agreement or transaction; (b) any standardized form or report, letter, circular, memorandum or publication which is disseminated or directed to the public; and (c) any other written material disseminated or directed to the public for the purpose of soliciting any futures or options account, agreement or transaction.

Any questions about whether a specific communication may constitute "promotional material" should be addressed to the Compliance Department.

2. Distribution of Promotional Materials

MFG personnel may not generate, distribute or use any promotional material that: (a) is likely to deceive the public; (b) contains any material misstatement of fact or a statement that such person knows omits a fact, if such omission makes the promotional material misleading; (c) mentions the possibility of profit unless accompanied by an equally prominent statement of the risk of loss; (d) includes a measurement or description of or makes any reference to hypothetical results which could have been achieved had a particular trading system been employed in the past unless accompanied by the statement identified below; (e) includes any reference to actual past trading profits without mentioning that past results are not necessarily indicative of future results; or (f) includes any specific

numerical or statistic information about the past performance of any actual accounts (including rate of return) unless such information is and can be demonstrated to be representative of the actual performance for the same time period of all reasonably comparable accounts and, in the case of rate of return figures, such figures were calculated as prescribed under CFTC regulations. The statement referred to in (d) above, which must be provided in conjunction with any promotional material that uses hypothetical trading results, is as follows:

HYPOTHETICAL PERFORMANCE RESULTS HAVE MANY INHERENT LIMITATIONS, SOME OF WHICH ARE DESCRIBED BELOW. NO REPRESENTATION IS BEING MADE THAT ANY ACCOUNT WILL OR IS LIKELY TO ACHIEVE PROFITS OR LOSSES SIMILAR TO THOSE SHOWN. IN FACT, THERE ARE FREQUENTLY SHARP DIFFERENCES BETWEEN HYPOTHETICAL PERFORMANCE RESULTS AND THE ACTUAL RESULTS SUBSEQUENTLY ACHIEVED BY ANY PARTICULAR TRADING PROGRAM.

ONE OF THE LIMITATIONS OF HYPOTHETICAL PERFORMANCE RESULTS IS THAT THEY ARE GENERALLY PREPARED WITH THE BENEFIT OF HINDSIGHT. IN ADDITION, HYPOTHETICAL TRADING DOES NOT INVOLVE FINANCIAL RISK, AND NO HYPOTHETICAL TRADING RECORD CAN COMPLETELY ACCOUNT FOR THE IMPACT OF FINANCIAL RISK IN ACTUAL TRADING. FOR EXAMPLE, THE ABILITY TO WITHSTAND LOSSES OR TO ADHERE TO A PARTICULAR TRADING PROGRAM IN SPITE OF TRADING LOSSES ARE MATERIAL POINTS WHICH CAN ALSO ADVERSELY AFFECT ACTUAL TRADING RESULTS. THERE ARE NUMEROUS OTHER FACTORS RELATED TO THE MARKETS IN GENERAL OR TO THE IMPLEMENTATION OF ANY SPECIFIC TRADING PROGRAM WHICH CANNOT BE FULLY ACCOUNTED FOR IN THE PREPARATION OF HYPOTHETICAL PERFORMANCE RESULTS AND ALL OF WHICH CAN ADVERSELY AFFECT ACTUAL TRADING RESULTS.

3. Statement of Opinion

Prior to any statement of opinion being included in any promotional material, including market commentary, the designated supervisory personnel specified in **Subparagraph 4** below must specifically approve the inclusion of such statement of opinion, the statement must clearly be identified as such and a reasonable basis must exist for the statement being made.

4. Approval and Recordkeeping

All promotional materials distributed or provided to customers by a branch office or by any officer, employee or AP of MFG must be submitted to the Compliance Department for initial review and be approved in writing by a member of MFG's executive management prior to distribution. Copies of all promotional material, along with the record of their review and approval must be maintained by the Compliance Department and be available for examination for a period of five (5) years from the date of the last use of such promotional material. **Exhibit G** hereto sets forth MFG's Promotional Material Review Form.

5. Electronic Mail Communication

MFG personnel are reminded that the foregoing standards and supervisory procedures are equally applicable to e-mail and all other forms of electronic communication with customers, provided that such electronic communication otherwise qualifies as promotional material as defined in **Subparagraph 1** above.

MFG personnel should have no expectation of privacy regarding the use of e-mail.

6. MFG Web Sites

Pursuant to NFA Notice to Members I-99-16, an NFA member's Web site generally will be considered "promotional material." As such, all sections of Web sites operated by MFG that contain futures-related material will be reviewed by the Compliance Department before the Web site becomes operational and each time the Web site is updated or otherwise undergoes a substantive change in content or format (in addition to the supervisory review procedures applicable to the content of the promotional material set forth in **Subparagraph 4** above).

The specific procedures for website review are:

- Each proposed website must be made available via hard copy or a hidden web address to the Compliance Department as well as the appropriate Manager for review. The proposed website should be accompanied by MFG's Promotional Material Review Form.
- Once the website has been reviewed by the Compliance Department, approved by a member of MFG's executive management and the Promotional Material Review Form has been completed and approved, the website can be implemented.
- For newly created websites, a hard copy of each approved website page, including all disclaimers, the terms of use agreement and copyright information must be maintained with the Promotional Material Review Form in the appropriate Promotional Material File, which is maintained by the Compliance Department.
- Subsequent changes to the website must be approved prior to use and a record of such approval, including a copy of each changed website page, must be maintained in the manner set forth above.
- The Compliance Department will periodically review from time to time the website to confirm that all changes have received prior written approval.
- Any hyper-link from a MFG website or a website of a guaranteed IB to a third party's website is prohibited unless specifically reviewed by the Compliance Department and approved by a member of MFG's executive management. Similarly, any hyper-link to a MFG or guaranteed IB website from a third party website where MFG or the guaranteed IB is compensated is also prohibited unless specifically reviewed by the Compliance Department and approved by a member of MFG's executive management.

A written record of the Compliance Department's review and approval of MFG's Web site will be maintained for a period of five (5) years from the date of last use of the Web site version to which the review relates.

Pursuant to MFG policy, all MFG personnel are prohibited from constructing their own Web sites to conduct MFG business or any other futures business activities.

7. Television and Radio Advertisements

Pursuant to NFA rules, before an NFA member disseminates a television or radio advertisement that makes any specific futures trading recommendation or refers to or describes the extent of any profit obtained in the past or that can achieved in the future, NFA staff must review and approve such advertisement. To the extent that MFG determines to engage in such advertising, it will be required to comply with such rules. As such, the Compliance Department must be contacted prior to any AP or branch office engaging in any such advertising.

8. Publications and Speaking Engagements

APs and other MFG personnel are prohibited from preparing written publications for use outside MFG or participating in outside speaking engagements unless participation in such activities is approved in advance by the Compliance Department. This policy applies whether or not the written publication or outside speaking engagement constitutes "promotional material" under NFA rules. The Managers should facilitate the Compliance Department's review of such proposed activities by requiring a copy of the proposed publication or outline of the proposed presentation to be timely forwarded to the Compliance Department for review.

G. Miscellaneous Compliance Policies and Procedures

1. Tape Recording of Telephone Conversations

To ensure quality control, MFG may record certain selected telephone lines used in conversations between APs or other MFG personnel and customers, with or without an automatic tone warning device. The Communications Department will maintain all tape recorded conversations according to the following schedule:

Source of Tape	Retention Period

CME Trading Floor	Three (3) days[1]
CBOT Trading Floor	Ten (10) days
Upstairs Trading Desks (except Financial Futures and Treasury Department)	Six (6) months
Financial Futures	Ten (10) days
Treasury Department	Five (5) days

Upon expiration of the stated retention period, the recording may be erased.

2. Regulatory Inquiries

MFG has a policy of cooperating fully with any inquiry by the CFTC, NFA or any appropriate exchange or other governmental or regulatory body. In the usual case, regulators will direct any such inquiry through MFG's Compliance Department. If, however, any employee is contacted directly, he/she should not continue the conversation, but should politely bring the conversation to a close, informing the regulator that all such inquiries will be handled by the Compliance Department. Such employee should promptly notify his/her supervisor, who should contact the Compliance Department. In certain instances, routine requests for documentation, such as copies of order tickets, may be responded to directly after consultation with the Compliance Department.

3. Disciplinary Action

Pursuant to NFA rules, MFG (through the Compliance Department) must provide immediate written notification to the NFA and the DSRO of any disciplinary action taken against MFG or any of its employees or APs by the CFTC or another regulatory or self-regulatory organization. Such reportable disciplinary action may include, but not necessarily be limited to, being subject to an expulsion, fine or other sanction by the CFTC, NFA, SEC or an Exchange through an adverse determination or settlement; being found by a court or regulatory or self-regulatory authority to have violated the CEA or the securities laws; or being charged with, admitting or being found guilty of, any felony.

4. National Do Not Call List

Pursuant to NFA rules, MFG is prohibited from initiating any telephone solicitation to any residential telephone subscriber who has registered his or her telephone number on the national do-not-call registry, for a period of five years from the date the person registered the number, unless there is an established business relationship between MFG and the subscriber. For specific information on what constitutes an established business relationship, contact the Compliance Department.

5. Gift Policy

MFG's current policy regarding gifting is online in the Gift Policy.

6. Entertainment Policy

MFG's current policy regarding entertainment is online in the Entertainment Policy. Supervisors should review the Written Supervisory Procedures (WSP) for client entertainment as noted in the Entertainment Policy.

[1] CME Rules do not require that MFG retain tape recorded conversations for any specific period. However, it is MFG's policy that all tape recorded conversations that took place on the CME Trading Floor be retained for a period of three (3) days.

MF Global

XII. EMPLOYEES

A. Employee Trading Policy

MFG's current policy regarding employee trading is online in the Employee Trading Policy. Supervisors should review the Written Supervisory Procedures (WSP) for employee trading as noted in the Employee Trading Policy.

B. Proprietary and Confidential Information

In the course of employment or engagement by MFG, employees and officers will become aware of information that may have intrinsic value to MFG, its customers or other parties with which MFG has a relationship, or that may provide MFG with a competitive advantage. All such information is regarded as "proprietary." Since such information is also generally not known to the public, it is regarded as "confidential." Directors, officers or employees of MFG are obligated to safeguard and prevent the disclosure of all proprietary and/or confidential information.

MF Global

EXHIBITS

MF Global

EXHIBIT A

FUTURES ACCOUNT OPENING CHECKLIST

ACCOUNT NAME: _____

ACCOUNT # _____

___ A) Customer Account Application

___ B) Customer Agreements (verify that appropriate documents are signed based on whether customer is an entity or individual(s)).

- ____ (1) Customer Agreement (all required acknowledgements and consents must be signed/initialed as follows:)
  - ____ Risk Disclosure Acknowledgment (required)
  - ____ Transfer Authorization (if applicable)
  - ____ Permission to Cross Trades and Engage in Pre-Execution Discussions (if applicable)
  - ____ Consent to Electronic Transmission of Account Statements (if applicable)
- ____ (2) Hedge Account Agreement (if applicable)
- ____ (3) Electronic Trading Authorization (if applicable)
- ____ (4) Discretionary Trading Authorization/Power of Attorney (if applicable)
- ____ (5) Advisor's Agreement (if applicable)
- ____ (6) Employee Benefit Plan Annex (if applicable)
- ____ (7) Fund Prospectus/Offering Memorandum/Investment Management Agreement (if applicable)
- ____ (8) Corporate Resolutions/Articles of Incorporation (if applicable)
- ____ (9) Partnership, LLC or LLP Authorization/Partnership or Operating Agreement (if applicable)
- ____ (10) Fiduciary Certification/Trust Agreement or Pension Plan (if applicable)
- ____ (11) Account Guarantee (if applicable)
- ____ (12) Transfer Authorization (if applicable)

___ C) Approval Form (on page B-3 hereto)

___ D) Taxpayer Information (Forms W-8 and W-9)

___ E) Commission Schedule

___ F) Arbitration Agreement (Optional)

Other Notes: _____

Date: _____

MF Global

APPROVAL FORM
FOR INTERNAL USE ONLY – TO BE COMPLETED BY BROKER

Name of Account Executive: _____

Introducing Broker (if applicable): _____

Office Number: _____ Sales Code: _____ Account # _____

Account Name: _____

Address: _____

_____

_____

E-Mail Address: _____

Customer's Occupation (Please specify in English): _____

Commissions & Fees
(Please enter all round-turn rates)

	Day	Overnight	Spreads	Options
1. All Exchanges				
2. Chicago Exchanges				
3. NY Exchanges				
4. Overseas Exchanges				
5. Other				
6.				
7.				
8.				

9. Futures Commission to be charged ☐ Half In/Half Out OR ☐ Round-Turn (indicate one)
10. Options Commission to be charged ☐ Half In/Half Out OR ☐ Up-front (indicate one)

Fees: (Indicate fees to charge) _____

_____

☐ NFA Only
☐ NFA, Clearing, Exchange & Brokerage
☐ NFA, Clearing & Exchange
☐ Plus per side transaction fee of $ _____

Do you anticipate original margin requirements in excess of US $100,000? ☐ Yes ☐ No

Margins: ☐ Spec ☐ Hedge

Signature of Account Executive: _____

Account Approval: _____

(Signature of IB or FIB Principal) (Signature of Branch Manager)

_____ _____

NO TRADING PERMITTED UNTIL THE ACCOUNT IS APPROVED BY MF GLOBAL INC. THIS APPLICATION CANNOT BE PROCESSED IF THIS FORM IS NOT FULLY COMPLETED

MF Global

EXHIBIT B

MFG ACCOUNT DOCUMENTATION

Available at: https://support.mfglobal.com

MF Global

EXHIBIT C

CROSS TRADE PROCEDURES

MF Global

As of August 8, 2005 and subject to amendment by the Exchanges

CROSS-TRADE PROCEDURES – TRADING FLOOR (CME AND CBOT)

Exchange	Crossing Customer Orders	Crossing Firm Orders Against Customer Order	Reporting Requirements	Other Restrictions
CME (CME Rules 533 and 531)	Pre-execution discussions of pit transactions are prohibited. Parties who have been involved in a pre-execution discussion may not disclose the subject matter of that discussion to other parties, nor may a party place an order in the pit to take advantage of information conveyed in such discussions concerning a forthcoming or potentially forthcoming order. A member in possession of both buy and sell orders for different beneficial owners for the same product and expiration month, and, for a put or call option, the same strike price, may execute such orders for and directly between such beneficial owners provided: In pit trading[*], a member executing such orders shall first bid and offer by open outcry 3 times at the same price, stating number of contracts, and, thereafter, if neither the bid nor the offer is accepted, the orders may be matched in the presence, and with the approval, of a	Pre-execution discussions of pit transactions are prohibited. Parties who have been involved in a pre-execution discussion may not disclose the subject matter of that discussion to other parties, nor may a party place an order in the pit to take advantage of information conveyed in such discussions concerning a forthcoming or potentially forthcoming order. A member in possession of a customer order shall not knowingly enter into a transaction for that order directly or indirectly opposite itself or any other person with whom, or entity in which, the member has a direct or indirect financial interest. The foregoing restrictions shall not apply to EFPs or EBFs (CME Rule 538), Block Trades (CME Rule 526) or trades to resolve *bona fide* out-trades (CME Rule 527). In addition, the restriction shall not apply to transactions meeting the following criteria: (i) the customer has previously consented in writing to such transactions (such consent	The member making a cross-trade shall, by appropriate descriptive words or symbols, clearly identify all such transactions on his trading card or other similar record made at the time of the execution, shall note thereon the exact time of execution and shall present such record to the CME official for verification and initialing.	An FCM cannot direct that a floor broker cross trades during an open outcry session.

[*] If the transaction was board-traded, the member shall first post the bid and offer for a reasonable time prior to crossing the orders in the presence of a CME Official.

MF Global

Exchange	Crossing Customer Orders	Crossing Firm Orders Against Customer Order	Reporting Requirements	Other Restrictions
(Continued below) **(CME continued)**	designated CME official.	shall have been given within 12 months of the transaction and shall *(Continued below)* not have been revoked prior thereto); (ii) the confirmation of the transaction shall clearly denote its character; (iii) if the transaction was pit-traded, the member shall have first bid and offered, for a reasonable time (at least 3 times), by open outcry; and (iv) the member shall properly report such transaction. (CME Rule 531.)		
CBOT ***(CBOT procedures apply to both futures and options contracts)***	Pre-execution discussions of pit transactions are prohibited. Parties who have been involved in a pre-execution discussion may not disclose the subject matter of that discussion to other parties, nor may a party place an order in the pit to take advantage of information conveyed in such discussions concerning a forthcoming or potentially forthcoming order. A broker who receives both buy and sell orders from different account owners for the same commodity and the same delivery month may cross the orders directly, provided that the broker bids and offers the orders by open outcry for a reasonable period of time. The	Pre-execution discussions of pit transactions are prohibited. Parties who have been involved in a pre-execution discussion may not disclose the subject matter of that discussion to other parties, nor may a party place an order in the pit to take advantage of information conveyed in such discussions concerning a forthcoming or potentially forthcoming order. A member shall not take, directly or indirectly, the other side of any order of another person revealed to him by reason of his relationship to such other person except with such other person's prior consent and in conformity with CBOT rules or except to resolve *bona fide* errors or out-trades. (CBOT Rule 350.05(e).)	For orders that are crossed, the following recordation requirements must be met: (a) The executing broker's endorsement must clearly indicate that he is the executing and opposing member to the trade. (b) The executing member must record the time of execution, to the nearest minute, on each of the crossed trades. (c) The orders comprising the cross must be verified and initialed by the CBOT Pit Committee member who witnessed the transaction.	An FCM cannot direct that a floor broker cross trades during an open outcry session.

MF Global

Exchange	Crossing Customer Orders	Crossing Firm Orders Against Customer Order	Reporting Requirements	Other Restrictions
	simultaneous bid and offer must specify the price and number of contracts. The "reasonable time" criterion shall be considered to have been met if the broker has bid and offered the orders at least 3 times in a manner that is open and audible to the pit. If neither the bid nor the offer is accepted, in whole or in part, the orders, or any remaining portion of the orders, may be crossed. All orders that are crossed must be executed in the presence of a CBOT Pit Committee member. (CBOT Rule 331.04.)	A broker may not cross an order with a trade for his personal account or for any account in which he has an interest except with such other person's prior consent and in conformity with CBOT rules or except to resolve *bona fide* out-trades.		

MF Global

As of August 8, 2005 and subject to amendment by the Exchanges

CROSS TRADE PROCEDURES – EXECUTED ELECTRONICALLY (CME, CBOT AND NYMEX)

Exchange	Pre-Execution Communication	Trading Against Customer Orders	Terminal Operator Restrictions
CME (Rule 539.C)	Parties may engage in pre-execution discussions with regard to transactions executed on the GLOBEX platform where one party (the first party) wishes to be assured that a contra party (the second party) will take the opposite side of the order under the following circumstances: 1. Parties to pre-execution discussions shall not (i) disclose to a non-party the details of such discussions or (ii) enter an order through the GLOBEX platform to take advantage of information conveyed during such discussions except in accordance with CME Rule 539.C. 2. A period of 5 seconds shall elapse between entry of the two orders in the case of futures orders or a period of 15 seconds shall elapse between entry of the two orders in the case of option orders. 3. In any transaction involving pre-execution discussions, the first party's order must be entered into the GLOBEX platform first and the second party's order may not be entered into the GLOBEX platform until the above	Customer must give express consent allowing member to engage in pre-trade discussions with potential counterparties and/or trade opposite the customer.	The CME prohibits a terminal operator from disclosing to another terminal operator the details of a pre-trade discussion or from taking advantage of pre-execution trade discussions by entering an order into the GLOBEX system unless such disclosure or order is intended to facilitate the customer's order.

MF Global

Exchange	Pre-Execution Communication	Trading Against Customer Orders	Terminal Operator Restrictions
(Continued below) ***(CME Continued)***	prescribed time period has elapsed. 4. A trade intended for execution pursuant to CME Rule 585 (GLOBEX Call Market *(Continued below)* including the Enhanced Options System) for which there has been a pre-execution discussion shall be initiated with a Request for Cross Trade ("Cross Request") for the specific contract or combination of contracts, with explicit reference to the anticipated order quantity. The order from the initiator of the Cross Request for the contract or combination of contracts must be entered within 3 minutes of the entry of the Cross Request. The opposing order may not be entered until the requisite period of time as stipulated in 2 above has elapsed. Failure to enter the initiating order following the Cross Request within the requisite time shall be considered an abandonment of the pre-execution discussion, and a new Cross Request entry is required to proceed with the transaction.		

MF Global

Exchange	Pre-Execution Communication	Trading Against Customer Orders	Terminal Operator Restrictions
CBOT (Reg. 9B.13)	Pre-execution communications are defined by the CBOT as "communications between two market participants for the purpose of discerning interest in the execution of a transaction prior to the entry of an order on the e-cbot platform." **Pre-execution communications and trans-actions arising from such communications are prohibited in all products during all hours (except as otherwise allowed for Block Trades, CBOT Rule 331.05).** It is permissible to contact other market participants to obtain general market color provided there is no express or obviously implied arrangement to execute a specified trade and no non-public information is communicated regarding an order. Orders initiated without prearrangement by different traders within a proprietary trading group that match in the market are not considered wash trades by the Exchange. CBOT Reg. 9B.14, Good Faith Bids and Offers, requires that all bids and offers entered into the e-cbot system be entered in good faith for the purpose of executing *bona fide* transactions. Note, however that independent orders initiated for the firm's proprietary account by different traders within a proprietary trading	Provided there has been no pre-execution communications, an order may be knowingly entered opposite a customer order entered by the Firm as follows: A member, e-cbot terminal operator or User may knowingly trade opposite an order entered on behalf of a customer, for the member's or User's own account or for the Firm's or its affiliate's proprietary account, provided that (i) the customer order has been entered immediately upon receipt and (ii) the customer order has first been exposed on the e-cbot platform for a minimum of 5 seconds for outright futures contracts and a minimum of 15 seconds for strategies and options contracts. Such transactions that are unknowingly consummated will not be considered to have violated CBOT Reg. 9B.13. Crossing Orders Independently initiated orders on opposite sides of the market for different beneficial account owners that are immediately executable against each other may be entered without delay provided that the orders did not involve pre-execution communications and that each of the orders is immediately entered upon receipt. Opposite orders for different beneficial	The CBOT prohibitions/restrictions on pre-execution communications apply equally to terminal operators.

(Continued below)

(CBOT continued)

MF Global

Exchange	Pre-Execution Communication	Trading Against Customer Orders	Terminal Operator Restrictions
	group may **not** be matched off-exchange and booked as internal transactions. With respect to contracts or strategies for which the bid/offer posted on e-cbot is deemed too wide or insufficiently deep, it is recommended that a Request for Quote (RFQ) be submitted. This action will typically generate additional interest and, in the case of products supported by a market-maker program, market makers are obliged to respond to a specified minimum percentage of RFQs. If there is no response or an inadequate response in terms of the bid/ask or depth, another RFQ should be submitted. With an active RFQ, it is also permissible for the salesperson to contact potential counterparties (i.e., market makers), alert them to the RFQ and ask them to submit a market or to tighten/deepen the existing market. An RFQ is considered active for 60 seconds following submission. To ensure that such communications do not become prohibited pre-execution communications, the salesperson must not disclose the side of market in which he has an interest or any quantity that has not been disclosed via the RFQ.	accounts that are simultaneously placed by a party with discretion over both accounts may be entered provided that one order is exposed on the e-cbot platform for a minimum of 5 seconds for outright futures contracts and a minimum of 15 seconds for strategies and options contracts. An order allowing for price and/or time discretion, if not entered immediately upon receipt, may be knowingly entered opposite a second order entered by the same firm only if the second order has been entered immediately upon receipt and has been exposed on the e-cbot platform for a minimum of 5 seconds for outright futures contracts and a minimum of 15 seconds for strategies and options contracts.	

MF Global

Exchange	Pre-Execution Communication	Trading Against Customer Orders	Terminal Operator Restrictions
NYMEX (Rule 6.23 and 6.40A)	An electronic trader who has entered an order into the NYMEX ACCESS® Matching System which results in him having (immediately or subsequently) the highest bid or lowest offer for a particular futures or options contract resting in the NYMEX ACCESS® Matching System for his personal account, any account in which he has a proprietary interest, a discretionary account for an immediate family member or an account in which his employer or other employee of his employer has an interest shall disclose the facts of the resting order to a customer prior to accepting from such customer any order for the opposite purchase or sale of the same contract Pre-arranged trades are prohibited. (NYMEX Rule 6.61.)	1. An electronic trader may not enter orders for different principals as a cross-trade into the system. Instead, an electronic trader shall enter orders into the system strictly on the basis of time of receipt of the orders. An electronic trader who has entered a buy (sell) order for one principal into the system shall not enter a sell (buy) order for another principal for the same commodity, month and price or for the same option (both puts or calls, with the same underlying contract for future delivery, expiration date and strike price) unless the first order has rested in the NYMEX ACCESS® Matching System for at least 10 seconds. 2. An electronic trader must enter all customer orders available for input into the NYMEX ACCESS® Matching System before entering any order for his own account, an account in which he has a proprietary interest, a discretionary account for an immediate family member, or an account in which his employer or any other employee of his employer has an interest. 3. An electronic trader may not enter an order for his own account, an account in which he has a proprietary interest, a discretionary account for an immediate family member or an account in which his employer or any employee of his	NYMEX ACCESS® Operators are subject to the same restrictions as electronic traders.

MF Global

Exchange	Pre-Execution Communication	Trading Against Customer Orders	Terminal Operator Restrictions
		employer has an interest which reflects the opposite side of a customer order already resting in the NYMEX ACCESS® Matching System, unless the customer order has rested in the NYMEX ACCESS® Matching System for at least 10 seconds.	

MF Global

EXHIBIT D

EFP PROCEDURES

MF Global

AS OF AUGUST 8, 2005 AND SUBJECT TO AMENDMENT BY THE EXCHANGES

EXCHANGE-FOR-PHYSICAL ("EFP")[1] PROCEDURES (CME, CBOT, EUREX U.S. AND NYMEX)

Exchange	Counterparty Requirement	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
CME (Rules 538 and 719)	The two parties to the EFP must be different legal entities (except in circum-stances where the two parties have common ownership but operate completely independently from each other and have separate trading control). Tri-party transactions may be permissible in the context of an EBF (Exchange Basis Facility), which by definition involves interest rate futures, and EFPs that are transacted in currency futures. In a tri-party EBF or EFP, one party facilitates the *direct match* of the futures side of the EBF or EFP between the two parties,	EFPs may be executed for any futures contract listed on the CME. (Note: an EBF (Exchange Basis Facility) is an EFP transacted in the context of interest rate products.) EFPs are NOT permitted in options contracts. In all cases, the cash sides must be comparable with respect to quantity, value or risk exposure to the futures utilized. The following describes both acceptable and unacceptable "cash" commodities/instruments for EFPs. (This is not exhaustive.) Questions regarding the acceptability of commodities/instruments not listed below should be addressed to the Market Surveillance group of the CME Division of Market Regulation: CURRENCY FUTURES: Both currency spot and forward transactions are acceptable. The cash side of an EFP transaction in the CME$INDEX should consist of any single currency or a basket of currencies from within the index with an historical correlation to the index of 80% (R^2 = .80) or greater. Non-deliverable forwards (NDF) are an acceptable form of cash for a currency EFP in the Russia Ruble and Brazilian Real contracts. INTEREST RATE FUTURES: Fixed income instruments with risk	Any price agreed upon by both parties.	For EFPs executed between 7:00 a.m. and 3:45 p.m. CST, firms must submit the trade to the CME clearing system within one hour (60 minutes). For EFPs executed after the Regular Trading Hours (RTH) session, firms have until 8:00 a.m. the next morning to submit the trade to the clearing system. EFPs are not required to be physically posted on the trading floor. Instead, information about EFPs will be electronically captured and displayed on the floor through the CME's MERQUOTE PC/IDS Inquiry system. "As of" EFPs more than	EFPs done pursuant to Rule 719 (i.e., EFP transaction occurs after termination of trading in futures contract) are subject to prior approval by CME President (which has been delegated to the Clearing House) – otherwise, an EFP may be transacted at any time. Documentation evidencing the cash side of the transaction consists of those documents customarily generated in accordance with the cash market practices that demonstrate the existence and nature of the cash transactions, including, but not limited to, contracts, confirmation statements, telex printouts, invoices, warehouse receipts or other

[1] In certain cases, this chart also addresses Exchange-For-Swap ("EFS"), and Exchange for Related Positions ("EFRP") transactions. However, the users of this chart should consult the rules and interpretations of the appropriate Exchange for a full description of how or whether such variations of an EFP transaction may be permitted.

MF Global

Exchange	Counterparty Requirement	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(CME continued)	but acts as *principal* to the cash legs of the transaction. Such parties acting as a principal to the cash leg of the transaction shall do so as a routine part of their ordinary business activities per applicable regulatory requirements.	characteristics and maturities that parallel the instrument underlying the futures contract. With regard to Eurodollars, this could include, but is not necessarily limited to, money market instruments, Treasuries, Agencies, investment grade corporates, forward rate agreements, mortgage instruments including collateralized mortgage obligations, and interest rate swaps. (Under CME rules, allowable spreads would include, for example, a 2-year strip or bundle against a 2-year Treasury note; or a 5-year strip or bundle vs. a comparable over-the-counter (OTC) interest rate swap.) STOCK INDEX FUTURES: Stock baskets must be highly correlated to the underlying index (R^2 = .90 or greater). Further, these stock baskets must represent at least 50% of the underlying index by weight; OR, include at least 50% of the names of the underlying index. The notional value of the basket must be fairly equal to the value of the futures component of the trade. Exchange Traded Funds ("ETF") are acceptable provided that they mirror specific stock index futures products traded on the CME. The following list enumerates the ETF products recognized by the CME as valid in the context of EFPs. (This list is not exhaustive.) **Stock Index Futures** / **Exchange Traded Fund** / **Ticker** S&P 500 Index / Standard & Poor's Depository Receipt (SPDR) Trust / SPY S&P 500 Index / iShares S&P 500 Index Fund / IVV Nasdaq 100 Index / Nasdaq 100 Trust / QQQ S&P MidCap 400 Index / MidCap SPDR Trust / MDY S&P MidCap 400 Index / iShares S&P MidCap 400 Index Fund / IJH Russell 2000 Index / iShares Russell 2000 Index / IWM		one (1) business day old are prohibited. Give-up EFPs are permissible. The carrying firm is responsible for transmitting the trade to the CME for clearing (report via CMTA or EFP Trade Entry System). The executing firm is responsible for providing the carrying firm with the execution information. The EFP must be reported to the CME Clearing House via EFP Trade Entry System. The clearing members and brokers to the transaction shall maintain a full and clear record of the transaction together with all pertinent memoranda. An order ticket must be prepared for each EFP Order. The order ticket must be pre-numbered, and include instructions for executing the futures side of the EFP. An acceptable card or order	documents of title. With respect to EBFs where the relationship of the cash instrument to the future may not be readily identifiable or apparent, users must be ready to provide CME staff with detail sufficient to justify the transaction (e.g., provide the calculation(s) utilized to equate the number of futures contracts in the transaction to the cash). Transitory EFPs Transitory EFPs (where the cash transactions of the EFP are immediately offset) are only permitted in the foreign currencies futures contracts. They are not permitted in connection with the agricultural, stock indexes or interest rate futures contracts. With respect to transitory EFPs in foreign currency futures wherein the parties immediately offset the cash transaction, the CME expects to see confirmation statements issued by the bank/foreign exchange dealer

MF Global

Exchange	Counterparty Requirement	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(CME continued)		Fund S&P/BARRA Growth Index — iShares S&P 500/BARRA Growth Index Fund — IVW S&P/BARRA Value Index — iShares S&P 500/BARRA Value Index Fund — IVE The minimum lot size for such trade is fifty (50) contracts. .e., 50 "standard" S&P 500 futures, fifty (50) "standard" Nasdaq futures, fifty (50) MidCap futures, or fifty (50) of any other stock index futures for which ETFs may be offered. Note that one "creation unit" of 50,000 SPDRs represents 20 standard sized S&P 500 futures; one "creation unit" of 50,000 QQQs corresponds to 12.5 standard Nasdaq futures; and, one "creation unit" of 25,000 MidCap SPDRs corresponds to 20 standard S&P MidCap futures. AGRICULTURAL FUTURES: The "spot" seller must have in its possession the cash commodity to be delivered. For Dairy Products, Live Cattle, Stocker Cattle, Feeder Cattle, Lean Hogs, and Pork Bellies acceptable cash sides are limited to the specific underlying commodities (e.g., Live Cattle for Live Cattle futures); however, they need not be deliverable grades of the particular commodity. In the case of the Exchange's Random Length Lumber futures, the cash side may only be deliverable species dimension lumber with variances for grade/size and tally. Also, with respect to Random Length Lumber, the buyer of the cash commodity must retain ownership of the transferred product for personal use or resale to customers and may not resell the product either directly or indirectly to the original seller.		must be legible and contain the following: (a) the buying and selling firms; (b) the contract and contract month; (c) the quantity; (d) the futures price; (e) date executed; (f) execution time (CST); and (g) account number. (Also, members must use non pre-sequenced cards.) Execution time for an EFP represents the actual time the transaction was concluded by the two parties to the transaction, not the time the trade is reported by the parties to their respective firms (*i.e.*, clearing members must ensure that their customers provide accurate execution times where the clearing member has not acted as either principal or agent in the transaction).	party to the transaction. These confirmation statements should be the type normally produced by the bank/foreign exchange dealer for confirmation of currency deals and should indicate, by name, the identity of the counterparty principal to the transaction. However, in circumstances where the EFP transaction is between a bank/foreign exchange dealer and a CTA, account controller, or other person acting on behalf of a third party (such as a commodity pool or fund), the cash side confirmation statement must identify, at minimum, the name of the third party's carrying clearing member and the third party's account number (or other account specific designation), but need not identify the third party by name.
CBOT (Rule 444)	The exchange of futures	Grains: The following transaction is permitted provided that it is	EFP must be *bona fide*	With respect to the	EFPs must involve a change

MF Global

Exchange	Counterparty Requirement	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
	for cash commodities or in connection with cash commodity transactions or of futures for, or in connection with, swap transactions involving Dow Jones-AIG Commodity Index[sm] futures, 10-Year Municipal Note Index futures, 10-Year Interest Rate Swap futures, 5-Year Interest Rate Swap futures and Long Term and Medium Term (Fannie Mae® Benchmark and Freddie Mac Reference) Note[sm] futures may only occur when the buyer of the futures contracts is the seller of the cash commodity or swap and the seller of the futures contracts is the buyer of the cash commodity or swap. However, Member Firms may facilitate, as principal, the cash commodity component of an EFP on behalf of a customer, provided that the Member Firm can	entered into for the purpose of obtaining inventory financing for an agricultural commodity: Through the medium of an EFP a participant may purchase grain from and sell offsetting futures contracts to a counterparty. Simultaneously with the EFP, the participant may grant to the counterparty the non-transferable right to effect a second EFP on some date certain in the future which will have the effect of reversing the original EFP. Metals: EFPs in 100 oz. Gold and 5,000 oz. Silver contracts are permitted during the hours of 12:25 p.m. to 7:30 a.m. (CST). **EFR: Exchange of Futures For, Or in Connection With, OTC Transactions Involving Corn, Soybeans, Soybean Meal, Soybean Oil, Wheat, Oat and Rice Futures** – An exchange of futures for, or in connection with, an over-the-counter (OTC) derivative transaction (an "Exchange-for-Risk" or "EFR" transaction) consists of two discrete, but related, transactions: an OTC transaction and a futures transaction. At the time such transaction is effected, the buyer and seller of the futures contracts must be the opposing sides to the OTC transaction and have, respectively, the short and long market exposure associated with the OTC transaction. The OTC transaction shall involve the commodity underlying the futures contract (or a derivative, by-product or related product of such commodity). The quantity covered by the OTC transaction must be approximately equivalent to the quantity covered by the futures contracts. The OTC component of an EFR must comply with any applicable regulatory requirements prescribed by the CFTC (e.g., CFTC Regulation 32.13) (CBOT Rule 444.06). **Exchange-For-Swap ("EFS"):** An EFS consists of two discrete, but related, transactions – a swap transaction and a futures transaction	arms length transaction.	futures portion of an EFP, EFS or EFR, clearing firms on opposite sides of the transaction must subsequently approve the terms of the transaction, including the clearing firm (division), price, quantity commodity, contract month and date prior to submitting the transaction to the clearinghouse. EFRs: Each firm clearing an EFR shall submit to the CBOT Market Surveillance Department a memorandum declaring the futures contract exchanged, the contract month, the number of futures contracts, the price and the name of the opposite clearing member. The memorandum must be submitted no later than one business day following the execution of the trade. The memorandum may be sent via email to wlange@cbot.com or	of ownership of the futures and the cash transactions. Independent third party documentation that the cash portion of the transaction changed ownership will be required. In the case where T-Bonds and T-Notes are the cash portion of an EFP, Federal Reserve Wire documentation or a bank confirmation must be used to document the transfer of the securities versus payment. In cases where both parties to a T-Bond or T-Note EFP transaction are included within the same house banking account, a bank confirmation is required. In the case of financial EFPs where the two parties execute an independent cash transaction that would normally be "netted out" against the cash portion of the EFP transaction, the same independent third party documentation that the cash portion of the EFP changed ownership will be required. In the case of grains, copies

MF Global

Exchange	Counterparty Requirement	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(CBOT continued)	demonstrate that the cash commodity transaction was passed through to the customer that received the futures position as part of the EFP transaction. The exchange of futures for, or in connection with, over-the-counter (OTC) derivative transactions (EFRP) involving Corn, Soybeans, Soybean Meal, Soybean Oil, Wheat, Oat and Rice futures may occur only when the buyer and seller of the futures contract are the opposing sides to the OTC transaction and have, respectively, the short and long market exposure associated with the OTC transaction. All such transactions must be submitted to the clearing house by a clearing firm acting on its own behalf or for the beneficial account of a customer who is a party to the transaction. (CBOT Rule 444.01B)	– in which the buyer of the futures is the seller of the swap and vice versa. The swap component of the transaction must involve the commodity underlying the futures contract or a derivative, by-product or related product of the commodity. Additionally, the quantity covered by the swap must be approximately equivalent to the quantity covered by the futures contracts. The CBOT permits EFS transactions in the following futures contracts: ▪ 30-Year U.S. Treasury Bond ▪ 10-Year U.S. Treasury Note ▪ 5-Year U.S. Treasury Note ▪ 2-Year U.S. Treasury Note ▪ 10-Year Interest Rate Swap ▪ 5-Year Interest Rate Swap ▪ 10-Year Municipal Note Index ▪ Dow Jones-AIG Commodity Index℠ Long-Term Fannie Mae® Benchmark and Freddie Mac Reference Note℠ ▪ Medium-Term Fannie Mae® Benchmark and Freddie Mac Reference Note℠ The proper procedures for executing such a transaction is to enter the EFS using the **CME Clearing 21 ® EFP Trade Entry System and the Order Type Indicator "T".** (CBOT Rule 444.04)		svaltierra@cbot.com or sent to 141 W. Jackson, Suite 340A, Chicago, IL 60604.	of warehouse receipts showing the proper endorsements and checks for payment are required if a receipt was used as the cash portion. In the case of cash forwards as the cash portion of the EFP, a copy of the cash contract will be required. Bona Fide Nature of EFPs: EFPs must be independent from all other cash transactions. However, in cases where two parties execute an EFP and an additional economically offsetting cash transaction involving the same cash instrument as the cash portion of the EFP within one day of the execution of the EFP, the participants will be required to show that the EFP and the additional cash transaction were not contingent upon one another. The parties must show that they assumed risk between the execution of the aforementioned transactions and that there was no expressed or implied obligation or understanding

MF Global

Exchange	Counterparty Requirement	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(CBOT continued)	The two parties to the EFP must be different legal entities (except in circumstances where the two parties have common ownership but operate completely independently from each other and have separate trading control). EFPs that involve the same legal entity (i.e., two divisions under independent trading control) cannot be utilized during a delivery month and two business days prior to the first delivery day if the EFP will result in offsetting existing positions (CBOT Rule 444.03).				by either party to execute both transactions. EFPs may only be executed if the cash commodity is reasonably correlated to the futures contract. EFPs After Trading Has Ceased: After trading in contracts for future delivery in the current delivery month has ceased on the last trading day, outstanding contracts for such delivery may be liquidated by executing an EFP. An EFP can be executed after trading has ceased for *liquidation* purposes only for both parties to the trade. An EFP cannot be executed after trading has ceased in the current contract to *establish* positions for either party. Use of EFPs for the establishment of positions after trading ceases is a violation of CBOT Regulations.
EUREX U.S.	EFPs may be arranged	For U.S. Dollar-denominated futures, the Commodity being	The EFP may be	Immediately upon	Upon request by any Eurex

MF Global

Exchange	Counterparty Requirement	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(Rule 416; and see Rule 417 re: EFSs and Rule 418 re: "Vola" trades (exchange of futures for options)).	and executed by a Eurex U.S. Member only through the Eurex U.S. electronic Basis Trading Facility, rather than on the Eurex U.S. Trading System. The EFP must be between two parties wherein one of the parties is the buyer of a Commodity and the seller of a Futures Contract, and the other party is the seller of the Commodity and the buyer of the Futures Contract.	exchanged must have a high degree of price correlation to the Underlying Commodity, so that the Futures contract would serve as an appropriate hedge for that Commodity. For Euro-denominated futures, the Commodity being exchanged must consist of Euro-denominated government debt securities issued by a member state of the European Monetary Union with a minimum size of EUR 2 billion. The quantity of the Commodity being exchanged must correspond with the quantity of the Underlying Commodity of the Futures Contract being exchanged, taking into account any differences in the attributes of the Commodity being exchanged (such as interest rates and maturity dates) and those of the Underlying Commodity and applying hedge ratios as and to the extent appropriate. The purchase and sale of the Futures Contract shall be simultaneous with the sale and purchase of the corresponding Commodity. For Euro-denominated products, EFPs may be transacted with respect to a delivery month for a Futures Contract on any Business Day up to and including the Business Day preceding the last Trading Day in that future. For U.S. Dollar-denominated Futures Contracts that specify physical delivery, EFPs may be transacted with respect to a delivery month for a Futures Contract on any Business Day up to and including the fifth Business Day immediately preceding the last Business Day of the Delivery Month. For U.S. Dollar-denominated Futures Contracts on Stock Indexes, EFPs may be transacted with respect to a Delivery Month on any Business Day prior to and including its final settlement day.	consummated at a price mutually agreed upon by the parties to the EFP; provided, that the price of the futures leg does not exceed the range of the day's high and low by more than the values set forth in Chart 1* below.	agreeing to enter into an EFP, or upon the market's opening (or re-opening) if the transaction is agreed to be entered into by the parties at a time when the market is closed, the Member who is the buyer of the EFP (or whose Customer is the EFP buyer) shall enter the details of the EFP on the screen provided by Eurex U.S.. Within 60- minutes of entry of the details of the EFP on the screen, the Member who is the seller of the EFP (or whose Customer is the EFP seller) shall confirm the EFP. Eurex U.S. shall immediately notify the parties to the transaction the details of the EFP upon confirmation, and immediately update the Online Time and Sales Report to reflect the transaction.	U.S. employee of the Market Supervision or Compliance Departments, Members must produce satisfactory evidence, (including, but not limited to, full documentation relating to the cash leg of the trade and, if the transaction is in the name of an omnibus account or foreign broker, the name of the Customer), that the EFP was arranged in accordance with Eurex U.S. rules. Where a third party was responsible for executing the cash leg of an EFP, any employee of the Market. Supervision or Compliance Departments may require the Member to obtain and confirm the details of the cash leg of the trade and provide copies to Eurex U.S.

MF Global

Chart 1*

List of EFP Permitted EUREX U.S. Contracts	**Acceptable Futures Contract Price Range**
2 Year U.S. Treasury Note Futures (FTNS)	0.05 percent (approximately 5 ticks)
Jumbo 2 Year U.S. Treasury Note Futures (FTN2)	0.05 percent (approximately 5 ticks)
3 Year U.S. Treasury Note Futures (FTN3)	0.05 percent (approximately 5 ticks)
5 Year U.S. Treasury Note Futures (FTNM)	0.1 percent (approximately 5 ticks)
10 Year U.S. Treasury Note Futures (FTNL)	0.1 percent (approximately 5 ticks)
30 Year U.S. Treasury Bond Futures (FTBX)	0.1 percent (approximately 5 ticks)
Russell 1000 Futures (FWR1)	0.2 percent (approximately 5 ticks)
Russell 2000 Futures (FWR2)	0.2 percent (approximately 5 ticks)

Exchange	**Counterparty Requirements**	**Contract Specific Requirements**	**Price At Which Transactions May be Executed**	**Reporting Requirements**	**Cash Documentation and Other Requirements**

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(EUREX U.S. Continued)				2:30 p.m. on the second business day following the last trade date; (ii) for cash-settled natural gas swing contracts, EFP/EFS trans-actions for the expiring contract can be posted until 2:30 p.m. on the business day following the last trade date; and (iii) for cash-settled natural gas index contracts, EFP/EFS transactions for the expiring contract can be posted until 2:30 p.m. on the first business day following the contract month.	
NYMEX				**EFP/EFS Procedures for Futures Contracts Not Listed for Trading on NYMEX but designated as eligible for clearing (i.e. ClearPort Clearing)**:	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(NYMEX continued)				The posting of such EFP/EFS shall be accomplished by submission of reports to the NYMEX Customer Service Center in accordance with its procedures. Such EFP/EFS transactions must be posted no later than the close of the posting period on the last trade date of the expiring contract month; *except that*, EFP transactions in electricity shall be permitted until the close of the posting period of the business day following the last trade date of the regular posting period of an expiring contract month, *provided however*, that an EFP in an electricity contract that establishes a futures position for both the buyer and the seller shall not be permitted on the first business day	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(NYMEX continued)				following the expired contract. **Posting of EFS Transactions** The posting of any Natural Gas or NYMEX Brent Crude Oil EFS transaction shall be given on the NYMEX floor by the Floor Members during the hours of futures trading for such contract and otherwise in accordance with NYMEX Rule 6.90. Each EFS transaction shall be posted, immediately when the relevant swap terms are determined, but in no event later than the earlier of the next business day or the end of the following permissible posting period for EFS transactions (following the expiration of the underlying futures contract): (a) EFS	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(NYMEX continued)				transactions involving the NYMEX Brent contract are permitted until the close of trading on the last trading day in the expiring contract month; and (b) EFS transactions involving the Natural Gas contract are permitted until two hours after trading terminates on the last day of trading in the expiring contract month. A report of EFP and EFS transactions shall be EFP Procedures for Futures Contracts Traded during Regular Trading Hours: The posting of an EFP shall be made during the hours of futures trading and otherwise in accordance with NYMEX Rule 6.90 (Trading Card Procedures). Except as otherwise specified below with respect to certain commodities, each EFP transaction shall be	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(NYMEX continued)				posted, immediately when relevant cash terms are determined, but in no event later than the earlier of the next business day or the end of the permissible posting period for EFPs following the expiration of the underlying futures contract, by the Floor Members. EFP/EFS transactions in PJM electricity futures contracts ("PJM electricity") listed for trading on NYMEX may be posted on the Floor of NYMEX during the hours of futures trading or may be posted by submission of reports to the NYMEX Customer Service Center in accordance with its procedures. EFP/EFS transactions in PJM electricity must be posted on NYMEX within one business day of the EFP/EFS transaction; except that the final deadline for EFPs/EFSs in	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(NYMEX continued)				PJM electricity in an expiring contract month, must be posted no later than the close of the posting period on the last trade date of the expiring contract month. With regard to the final deadline for the NYMEX Brent Crude Oil futures contract, EFP transactions must be posted no later than the close of trading on the last trade date of the expiring contract month. EFP/EFS Procedures for Futures Contracts Listed Only for Trading on NYMEX ACCESS or on an Alternative Electronic Trading System: The posting of such EFP/EFS transactions shall be accomplished by submission of reports to the NYMEX Customer Service Center in accordance with its procedures. Such EFP/EFS transactions	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(NYMEX continued)				must be posted no later than the close of the posting period on the last trade date on the expiring contract month; except that (i) for cash-settled natural gas basis contracts, EFP/EFS transactions for the expiring contract can be posted until submitted to NYMEX by each Clearing Member representing the buyer and/or seller. Such submission shall be made by its inclusion in the daily Large Trader Reporting to NYMEX of each reportable customer, pursuant to NYMEX Rule 9.33, and identified as an EFP/EFS within the Large Trader file format. The reporting of EFP/EFS transactions via Large Trader shall identify the reportable customer who executed the EFP/EFS and the kind and quantity of the futures cleared.	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
(NYMEX continued)				All omnibus accounts and foreign brokers shall submit a signed EFP/EFS reporting agreement in the form prescribed by the NYMEX Compliance Department. Such Agreement shall provide that any omnibus account or foreign broker identified by a Clearing Member (or another omnibus account or foreign broker) on the Large Trader Report as the buyer or seller of an EFP/EFS, shall supply the name of its customer and such other information as NYMEX may require. A report of EFP/EFS transactions shall be submitted to NYMEX by each omnibus account and foreign broker representing the buyer and/or seller by its inclusion in the daily Large Trader Report.	

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
International Derivatives Clearing Group ("IDCG") via the **IDEX SwapDrop Platform**, via an EFS, permits market participants to trade privately negotiated over-the-counter ("OTC") interest rate swaps and other fixed income derivative contracts and **convert the OTC swap contracts into economically equivalent IRS futures** (i.e. "IDEX IRS Futures Contract" or "IDEX Contract") that is cleared by IDCH	Counterparties to the bilateral OTC swap contracts ("Authorized Participants") must be "ELIGIBLE SWAP PARTICIPANTS" as defined by Section 101 of the Commodity Futures Modernization Act.	Notional size and price of the OTC interest rate swap equals notional size and price of the IDEX Contract.	Principal to Principal privately negotiated transactions (see Chapter VI of this Manual).	The Firm's trading desk personnel are responsible for entering the OTC IRS swap transaction to the Exchange's SwapDrop Platform, including (i) identification of the Fixed Rate Buyer, (ii) identification of the Fixed Rate Seller, (iii) maturity date, (iv) name of SwapDrop Platform users; (v) notional amount, and (vi) fixed rate. At the same time, trading desk personnel are responsible for sending e-mail notification to the Firm's Futures and OTC Operations Departments of the details of the swap transaction. Futures Operations email corrections@mfglobal.com OTC Operations email otc.ops.ny@mfglobal.com	NFX Members or Member Organizations must create and maintain documentation relating to OTC swap contracts including OTC swap confirmations (see sample attached) and, if applicable, ISDA Master Agreements, as record of OTC swap contracts. A Voice Broker facilitating transaction of OTC swap contracts may create OTC swap confirmations that may be relied upon by Authorized Participants to fulfill their respective documentation requirements relating to OTC swap contracts. Authorized Participants continue to be responsible for maintaining and producing upon request of a regulatory authority, sufficient record of OTC swap contract component of an EFS (i.e. a cash confirmation) even if the transaction was facilitated by a Voice Broker.

MF Global

Exchange	Counterparty Requirements	Contract Specific Requirements	Price At Which Transactions May be Executed	Reporting Requirements	Cash Documentation and Other Requirements
				IDCG delivers by e-mail, to Futures and OTC Operations, confirmation of the Futures component of the EFS transaction received via the SwapDrop portal. Futures Operations, via GMI processing, generates a daily futures statement and futures trade confirmation, including details of the futures component of the EFS, with an "EFS" indicator. OTC Operations generates a cash trade confirmation, including details of the initial cash IRS transaction. Both futures and cash confirmations referenced above are delivered, by mail or electronic transmission, to the counterparty.	

MF Global

EXHIBIT E

BLOCK TRADE PROCEDURES

MF Global

As of August 8, 2005 and subject to amendment by the Exchanges

BLOCK TRADE PROCEDURES CHART (CME, CBOT AND EUREX U.S.)

Exchange	Counterparty eligibility requirements	Disclosure to customer/ counterparty or authorization from customer/counterparty	Block trading hours	Limitation on contracts that are eligible for block trades	Minimum volume thresholds for contracts eligible for block trading and block trade surcharges	Requirements for pricing block trades and quoting block trade prices	Information to be submitted to the Exchange for block trades	Time limit for submission to Exchange of required block trade information
CME (Rule 526)	To qualify, each party to a block trade must be an "Eligible Contract Participant" ("ECP"). A CTA or Investment Adviser ("IA") with total assets under management exceeding $25M, shall be treated as the party to the block trade and not the CTA's or IA's customers (same rule applies with respect to a foreign person performing a similar role as CTA or IA that is subject to foreign regulation and that has total assets under management exceeding $50M).	Order must be specifically designated as block transaction eligible by customer. In the event a customer directly negotiates block trades with another customer, clearing member should provide disclosure to its customer regarding the importance of reporting accurate execution times and block trade information as clearing member has ultimate responsibility to CME with respect to such reporting requirements.	Block trades in futures and standard options may be executed anytime. Block trades in flex options may be executed only during regular trading hours for stock index products (8:30 a.m. to 3:15 p.m. week days).	Only those futures, options and flex options designated by CME (block trading of flex options is restricted to the extent that the futures contract must be listed and the flex option strike price must be at a valid underlying futures price). See below under this Exhibit, "CME Minimum Block Transaction Quantities" for a list of currently designated contracts.	See below under this Exhibit, "CME Minimum Block Transaction Quantities." The minimum quantities refer to the order size for individual instruments, spreads or combinations. i.e., a unified strategy controlled by a single entity and executed for a single account or group of eligible accounts. Transaction Fee Surcharge: A surcharge of $1.00 per contract side applies to Eurodollar block trades and a surcharge of $1.75 per contract side applies to all other block trade contracts (except in blocked TIIE futures transactions where a	Block trades must be transacted at prices that are "fair and reasonable" in light of the size of the order, prices in related cash, futures and option markets and the circumstances of the participants. Further, the trade price must adhere to the minimum tick and price validation requirements of the market in question.	The seller's clearing firm must submit a Block Trade Report to either the CME price reporting staff (located in Interest Rate quadrant on upper trading floor or Equity quadrant on lower trading floor) or to the Globex Control Center ("GCC") (312-456-2391). Block trades in flex options must be reported to the CME price reporting staff located in the Equity quadrant on lower trading floor. The Report must include: identification of the selling clearing member's firm number, the buying clearing member's firm number, the contract, contract month, transacted price,	5 minutes from the time of execution (except block trades in Eurodollar and Weather futures and options must be reported within 15 minutes from the time of execution). Where GCC is closed and it is impossible to report a block trade during the requisite 5 or 15 minute reporting period – for example during weekends – the Block Trade Report must be made within 5 or 15 minutes, as applicable, from the scheduled recommencement of Electronic Trading Hours – typically 5:30 p.m. on Sundays.

MF Global

Exchange	Counterparty eligibility requirements	Disclosure to customer/ counterparty or authorization from customer/counterparty	Block trading hours	Limitation on contracts that are eligible for block trades	Minimum volume thresholds for contracts eligible for block trading and block trade surcharges	Requirements for pricing block trades and quoting block trade prices	Information to be submitted to the Exchange for block trades	Time limit for submission to Exchange of required block trade information
(CME continued)					$0.25 per contract side surcharge applies).		quantity and time of execution. In the case of an option transaction, the Report must further include identification of whether the option is a put or call, and the strike price. If the trade is to be given-up, the Block Trade Report shall further include identification of the firm numbers of the executing clearing member and the buying and selling clearing members as well as quantities given-up to each clearing firm. Note: block flex option trades are not eligible to be given up due to technical restrictions.	
CBOT (Rule 331.05)	CBOT members may enter into Block Trades outside of the CBOT's central markets provided they satisfy all of the CBOT's conditions. Any non-CBOT Member customer to	Each buy or sell order underlying a Block Trade must state explicitly that it is to be, or may be, executed by means of a Block Trade.	Only between 7:00 am and 4:00 pm Chicago time. Block Trades are not permitted on the last day of trading in an eligible contract.	Currently, pursuant to a pilot program set to expire on 12/31/05, the CBOT has designated as eligible for Block Trades the following contracts: • 10-Year Interest Rate	Each buy or sell order underlying a Block Trade must have minimum size of: • 2,000 contracts if in Interest Rate Swap Futures Orders may not be aggregated in order to	The price at which a Block Trade is executed must be fair and reasonable in light of: • Its size; • The price and size of other trades in the same contract at the relevant time;	The seller's clearing firm must report: • Seller's clearing firm, including clearing number, contact person, and contact person's telephone number • Buyer's clearing	Within 5 minutes of the Block Trade's execution time, the seller's clearing firm must transmit the required information by fax **(312-341-3408)** to the CBOT's Floor Technology Support Department and must confirm by telephone **(312-347-5611)** that the CBOT's Floor Technology Support Department has received the fax.

MF Global

Exchange	Counterparty eligibility requirements	Disclosure to customer/ counterparty or authorization from customer/counterparty	Block trading hours	Limitation on contracts that are eligible for block trades	Minimum volume thresholds for contracts eligible for block trading and block trade surcharges	Requirements for pricing block trades and quoting block trade prices	Information to be submitted to the Exchange for block trades	Time limit for submission to Exchange of required block trade information
(CBOT continued)	a Block Trade must be an "eligible contract participant," subject to the following exception: If any Block Trade is entered into on behalf of customers by a (i) *(Continued below)* CTA registered under the Commodity Exchange Act or (ii) an investment advisor registered as such with the SEC that is exempt from regulation under the Commodity Exchange Act or CFTC Regulations thereunder, or a foreign person performing a similar role or function subject as such to foreign regulation, with total assets under management exceeding $50 million, the individual customers need not so qualify.			Swap Futures • 5-Year Interest Rate Swap Futures To be eligible for a Block Trade, a futures contract expiration month must have previously traded in the CBOT's central markets. (Subject to this restriction, an eligible futures contract expiration month need not have open interest at the time that a Block Trade is executed in it.) A Block Trade can be executed only for an eligible futures contract, or for a calendar spread for which each leg is an eligible futures contract expiration. Block Trades *cannot* be executed for cash-futures basis transactions or for intermarket contract	achieve the minimum Block Trade size. In order for a buy or sell order underlying a Block Trade for a calendar spread to meet the minimum size requirement, the sum of the legs of the calendar spread must equal or exceed the minimum size thresholds. Transaction Fee Surcharge: A surcharge of 50 cents per contract side applies to Block Trades.	and • The price and size of trades in other relevant markets, including (but not limited to) the underlying cash market or other related futures markets, at the relevant time. The price at which a Block Trade is executed shall not affect conditional orders such as limit orders or stop orders, and shall not be used in establishing settlement prices. Further, Block Trade prices shall not constitute or impact daily opening, high, low, or closing prices. Order tickets corresponding to Block Trades must include the following information: • A designation that the trade is a Block Trade	firm, including clearing number, contact person, and contact person's telephone number • Date and time of execution (to the nearest minute) • Contract • Contract expiration month and year • Number of contracts traded • Price of execution	A template form for fax transmission is available at www.cbot.com/cbot/docs/38337.doc.

MF Global

Exchange	Counterparty eligibility requirements	Disclosure to customer/ counterparty or authorization from customer/counterparty	Block trading hours	Limitation on contracts that are eligible for block trades	Minimum volume thresholds for contracts eligible for block trading and block trade surcharges	Requirements for pricing block trades and quoting block trade prices	Information to be submitted to the Exchange for block trades	Time limit for submission to Exchange of required block trade information
				spread transactions (e.g., Treasury-Swap futures spreads, 5-year Swap/10-year swap spreads).		• Contract, expiration month and year • Number of contracts traded • Price of execution • Date and time of execution • Counterparty clearing number • If the Block Trade was executed on behalf of a customer, then relevant details regarding the customer.		
EUREX U.S. (Rule 415)	Block Trades between a Eurex U.S. Member's customers, between a Member (acting for itself or its Customers) and another Member, or between a Member and any Customer or between different profit centers of a Member having separate account numbers may be effected only through the electronic Block Trading Facility	A Member may effect a Block Trade on behalf of a Customer only if the Member has received an order to do so from the Customer. Such order must be recorded and time-stamped with the time the order is placed and the time the order is executed. A Member may not take the opposite side of a Block Trade with a Customer without such Customer's prior	Block trades may be executed at any time.	Block trades may be transacted only in contracts authorized for that purpose by Eurex U.S. (see Chart 1* below for a list of currently authorized contracts).	See Chart 1* below A Member may not aggregate separate customer orders to meet the contract minimums set forth in Chart 1* below except that a Member with total assets under management exceeding $25 million and who is an investment adviser with the SEC, registered as a commodity trading advisor with the CFTC, or exempt from any such registration or a	Each time a Member quotes a Block Trade price, the Member must make clear to the potential counter-party(ies), whether a Member or Customer, that the price being quoted is a Block Trade price and not the traded price prevailing on the Trading System. The transaction may be consummated at a price mutually agreed upon by the parties to the transaction; provided	Members must provide the information as required by Eurex U.S.'s Block Trading Facility. Upon request by any employee of the Eurex U.S. Market Supervision or Compliance Departments, Members must produce satisfactory evidence, including the name of the Customer if the transaction is in the name of an omnibus account or foreign	Immediately upon agreeing to enter into the Block Trade transaction, or upon the market's opening (or re-opening) if the transaction is agreed to be entered into by the parties at a time when the market is closed, the Member who is the Block Trade buyer (or whose Customer is the Block Trade buyer) shall enter the details of the Block Trade on the screen provided by Eurex U.S. With the exception of Block Trades that consist of at least 2500 U.S. Treasury futures contracts, within 15 minutes of entry of the details of the Block Trade on the screen, the

MF Global

Exchange	Counterparty eligibility requirements	Disclosure to customer/ counterparty or authorization from customer/counterparty	Block trading hours	Limitation on contracts that are eligible for block trades	Minimum volume thresholds for contracts eligible for block trading and block trade surcharges	Requirements for pricing block trades and quoting block trade prices	Information to be submitted to the Exchange for block trades	Time limit for submission to Exchange of required block trade information
(EUREX U.S. continued)	provided by Eurex U.S., rather than on the Trading System. A Member may conduct Block Trades only if the Member is an ECP. A Member may not enter into a Block Trade with or on behalf of any Customer unless such Customer is: (i) An ECP; or (ii) Advised in connection with such Block Trade by a Person with total assets under management exceeding $25 million and who is either: (A) Registered as an investment adviser with the SEC, registered as a commodity trading advisor with the	consent, which may be in the form of a blanket consent to all transactions effected after such consent is given.			foreign Person performing a similar role or function and subject as such to foreign regulation may aggregate multiple orders to meet the contract minimums for a Block Trade. In addition, different legs of a futures contract spread may not be aggregated to meet the contract minimums set forth in Chart 1* below.	that, (i) the price for the Futures Contract does not exceed the range of the day's high and low by more than the following values set forth in Chart 2** below; (ii) or, in the case of an option, the price is no more than one-half the maximum applicable quote spread outside of the range of the days high and low derived from a generally accepted theoretical model.	broker, that the Block Trade was arranged in accordance with the rules.	Member who is the Block Trade seller (or whose Customer is the Block Trade seller) shall confirm such Block Trade. For Block Trades that exceed 2500 U.S. Treasury futures contracts, the Member who is the Block Trade seller (or whose Customer is the Block Trade seller) shall confirm such Block Trade within 30 minutes. Eurex U.S. shall immediately notify the parties to the transaction of the details of the Block Trade upon confirmation, and immediately update the Online Time and Sales Report to reflect the transaction.

MF Global

Exchange	Counterparty eligibility requirements	Disclosure to customer/ counterparty or authorization from customer/counterparty	Block trading hours	Limitation on contracts that are eligible for block trades	Minimum volume thresholds for contracts eligible for block trading and block trade surcharges	Requirements for pricing block trades and quoting block trade prices	Information to be submitted to the Exchange for block trades	Time limit for submission to Exchange of required block trade information
	CFTC, or exempt from any such registration; or (B) A foreign Person performing a similar role or function and subject as such to foreign regulation.							
NYMEX (Rule 6.61)	**Block Trades Not Permitted on NYMEX**	N/A	N/A	N/A	N/A	N/A	N/A	N/A

MF Global

Chart 1*

EUREX U.S. Contracts	Minimum Number (7:20 am – 2:00 pm)	Minimum Number
2 Year U.S. Treasury Note Future (FTNS)	1000*	250
Jumbo 2 Year U.S. Treasury Note Future (FTN2)	200*	50
3 Year U.S. Treasury Note Futures (FTN3)	1000*	250
5 Year U.S. Treasury Note Future (FTNM)	1000*	250
10 Year U.S. Treasury Note Future (FTNL)	1000*	250
30 Year U.S. Treasury Bond Future (FTBX)	500*	250
Option on Jumbo 2 Year U.S. Treasury Note Future (OTN2)	100	100
Option on 3 Year U.S. Treasury Note Future (OTN3)	500	500
Option on 5 Year U.S. Treasury Note Future (OTNM)	500	500
Option on 10 Year U.S. Treasury Note Future (OTNL)	500	500
Option on 30 Year U.S. Treasury Bond Future (OTBX)	500	500
Russell 1000 Futures	250	250
Russell 2000 Futures	250	250

MF Global

* See Eurex U.S. Rule 415(h) which requires a minimum of 2500 contracts (500 contracts for Jumbo 2 Year U.S. Treasury Futures) if reported within 30 minutes

Chart 2**

EUREX U.S. Contract	**Acceptable Futures Contract Price Range**
2 Year U.S. Treasury Note Futures (FTNS)	0.05 percent (approximately 5 ticks)
Jumbo 2 Year U.S. Treasury Note Futures (FTN2)	0.05 percent (approximately 5 ticks)
3 Year U.S. Treasury Note Futures (FTN3)	0.05 percent (approximately 5 ticks)
5 Year U.S. Treasury Note Futures (FTNM)	0.1 percent (approximately 5 ticks)
10 Year U.S. Treasury Note Futures (FTNL)	0.1 percent (approximately 5 ticks)
30 Year U.S. Treasury Bond Futures (FTBX)	0.1 percent (approximately 5 ticks)
Russell 1000	0.2 percent
Russell 2000	0.2 percent

MF Global

As of August 5, 2005 and subject to amendment by the CME.

BLOCK TRADE PROCEDURES
CME Minimum Block Transaction Quantities

Product	Futures	Options	Flex Options
Eurodollars executed between the hours of 7:00 AM to 4:00 PM (CST) Mondays – Fridays on Regular Business Days	4,000 contracts – or 1,000 contracts provided that a minimum of 1,000 contracts are transacted in years 6-10 of the contract	4,000 contracts in outright trade; or 4,000 contracts for at least one instrument in a combination trade	Not available
Eurodollars executed during all hours outside of 7:00 AM to 4:00 PM (CST) Mondays - Fridays on Regular Business Days	500 contracts	500 contracts	Not available
T-Bills	100 contracts	100 contracts	Not available
Euroyen	200 contracts	200 contracts	Not available
One-Month Libor	400 contracts	400 contracts	Not available
2-, 5- and 10-year Swap Rates executed between the hours of 6:00 AM to 4:00 PM (CST) Monday-Friday on Regular Business Days	500 contracts	Not available	Not available
2-, 5- and 10-year Swap Rates executed outside of 6:00 AM to 4:00 PM (CST) Monday-Friday on Regular Business Days	100 contracts	Not available	Not available
28-Day Mexican TIIE	2,400 contracts	Not available	Not available
Consumer Price Index (CPI)	50 contracts	Not available	Not available
S&P 500*	Not available	250 contracts	250 contracts
Nasdaq 100*	200 contracts – outrights only	100 contracts	100 contracts
Russell 1000, E-mini NASDAQ Composite Index	50 contracts	Not available	Not available
S&P MidCap 400*, Russell 2000*, S&P 500/Barra Growth, S&P 500/Barra Value, Nikkei 225	50 contracts	250 contracts	250 contracts
S&P 500 Technology SPCTR, S&P 500 Financial SPCTR	200 contracts	Not available	Not available
TRAKRS Indexes	100,000 contracts	Not available	Not available
Goldman Sachs Commodity Index (GSCI)	50 contracts outright –300 contracts for each leg of a spread transaction	Not available	Not available
Foreign Exchange, including Euro FX*, Japanese Yen*, Swiss franc, British pound, Canadian dollar, Mexican peso, Australian dollar, Brazilian real, New	25 contracts – must be executed as a combination trade with foreign exchange options	250 contracts	Not available

MF Global

Zealand dollar, Russian ruble, South African rand, Euro FX/British pound, Euro FX/Japanese yen, Euro FX/Swiss franc and CME$INDEX			
Weather	20 contracts	20 contracts	Not available
Ethanol	20 contracts	Not available	Not available

*NOT applicable to E-mini currencies or E-mini stock indexes except the E-mini NASDAQ Composite Index.

CFTC Proposed Guidance Re: Acceptable Block Trades; Transactions Between Affiliated Parties

Under the CFTC's proposed Guidance concerning designated contract market ("DCM") block trading rules, acceptable block trade rules would require that block trades be "arm's length transactions." The following block trades between affiliated parties will be presumed to be arm's length transactions[1]:

- ◊ There is an "arm's length organizational structure"; i.e., each party has its own separate account controller, with its own responsibility to review and evaluate the terms and conditions and the potential risks and benefits of prospective transactions; or
- ◊ The block trades are (i) executed during the contract's trading hours; (ii) carried out at an arm's length price*; and (iii) executed pursuant to DCM rules that incorporate all of the CFTC's proposed guidance on block trades; including identification on the order ticket and to the DCM of a block trade that was between affiliated parties.

*Arm's length price presumed to exist if**: (a) the price falls within the bid/ask spread on electronic trading systems or prices of contemporaneous related trading floor transactions; or (b) if the contract does not have a bid/ask spread or any floor transactions at the time of the block trade, then the contemporaneous bid/ask spread or price of transactions on related futures or cash markets should be used.

** This proposed price parameter for affiliate block trades is meant to be a narrower subset of the "fair and reasonable" price parameter proposed for block trades between non-affiliated parties.[2]

Firms that execute affiliate block trades outside of the above "arm's length" guidance will be subject to greater scrutiny and accordingly should preserve records (in addition to those they are required to keep in any event) in order to answer any questions regarding the trade.

1 See proposed CFTC Regs. Part 38 Appendix B(9)(b)(2)(ii)(J).

2 Proposed Appendix B(9)(b)(2)(ii)(I) provides that block trades be at a price that is "fair and reasonable," i.e., the price must take into account (i) the size of the block; and (ii) the price and size of other trades in any relevant markets at the applicable time, or the circumstances of the market or the parties to the block trade.

MF Global

EXHIBIT F

PROCEDURES FOR DIRECT TRANSMITTAL OF ORDERS TO FOREIGN BROKERS

Pursuant to CFTC Regulation 30.12, certain qualified U.S. customers of MFG may be allowed to place orders for foreign futures and options on futures contracts directly with eligible foreign brokers with whom MFG maintains customer omnibus accounts, provided that the following procedures are complied with. All such proposed direct order relationships must be approved in writing in advance by the Compliance Department.

I. Authorized Customer: The customer must be an "authorized customer," which is defined as a U.S. customer trading foreign futures or options that:

(1) MFG has authorized to place orders for the account of MFG's foreign futures and options customer omnibus account; and

(2) (a) is an eligible swap participant, as defined in CFTC Regulation 35.1(b)(2) (a summary of such definition follows on **page F-2**), or

(b) whose investment decisions with respect to foreign futures and foreign option transactions are made by a commodity trading advisor subject to regulation under the Commodity Exchange Act (the "Act"), including any investment adviser registered as such with the Securities and Exchange Commission that is exempt from regulation as a commodity trading advisor under the Act or CFTC regulations, or a foreign person performing a similar role or function subject as such to foreign regulation, provided that the commodity trading advisor has total assets under management exceeding $50,000,000 and that the commodity trading advisor places the foreign futures or foreign option order.

II. Foreign Futures and Options Broker: The foreign broker must satisfy the following requirements:

(1) the foreign broker must be a "foreign futures and options broker" ("FFOB"), which is defined as a non-U.S. person that is a member of a foreign board of trade, as defined in CFTC Regulation §1.3(ss), licensed, authorized or otherwise subject to regulation in the jurisdiction in which the foreign board of trade is located; or a foreign affiliate of a U.S. futures commission merchant, licensed, authorized or otherwise subject to regulation in the jurisdiction in which the affiliate is located;

(2) the customer's orders must be executed by the FFOB for or on behalf of the foreign futures and options customer omnibus account of MFG carried at such FFOB or (pursuant to a give-up arrangement) another FFOB; and

(3) the FFOB must not solicit or accept any money, securities or property (or extend credit in lieu thereof) directly from any U.S. foreign futures and options customer to margin, guarantee or secure any trades or contracts that result or may result therefrom.

III. Requirements Applicable to MFG: MFG must satisfy the following requirements:

(1) MFG must possess $20,000,000 in adjusted net capital;

MF Global

(2) MFG must establish control procedures that will serve as guidelines for permitting direct contacts between any authorized customer of MFG and any FFOB, and have in place appropriate risk management procedures to monitor its own risk relative to its authorized customers' risk aggregated across all markets, including, but not limited to, procedures to ensure that each customer given direct access to the FFOB is an authorized customer and to specify the manner in which trades may be executed through its customer omnibus account (Note: in general, such procedures will be set forth in a written agreement between MFG and each FFOB); and

(3) MFG must furnish a written disclosure statement to each such authorized customer advising the customer of the additional risks the customer may be assuming in placing orders directly with the foreign broker (the text of the required disclosure statement follows on **pages F-4 and F-5**).

"Eligible swap participant" means, in general:

(i) a bank or trust company (acting on its own behalf or on behalf of another eligible swap participant);

(ii) a saving association or credit union;

(iii) an insurance company;

(iv) an investment company subject to regulation under the Investment Company Act of 1940 or a foreign person performing a similar role or function subject as such to foreign regulations, provided that such investment company or foreign person is not formed solely for the specific purpose of constituting an eligible swap participant;

(v) a commodity pool formed and operated by a person subject to regulation under the Commodity Exchange Act ("the Act") or a foreign person performing a similar role or function subject as such to foreign regulation, provided that such commodity pool or foreign person is not formed solely for the specific purpose or constituting an eligible swap participant and has total assets exceeding $5,000,000;

(vi) a corporation, partnership, proprietorship, organization, trust, or other entity not formed solely for the specific purpose of constituting an eligible swap participant (A) which has total assets exceeding $10,000,000, or (B) the obligations of which under the swap agreement are guaranteed or otherwise supported by a letter of credit or keepwell, support, or other agreement by any such entity referenced in this subsection (vi)(A) or by an entity referred to in paragraph (i), (ii), (iii), (iv), (v), (vi) or (viii) of this section; or (C) which has a net worth of $1,000,000 and enters into the swap agreement in connection with the conduct of its business; or which has a net worth of $1,000,000 and enters into the swap agreement to manage the risk of an asset or liability owned or incurred in the conduct of its business or reasonably likely to be owned or incurred in the conduct of its business;

(vii) an employee benefit plan subject to the Employee Retirement Income Security Act of 1974 or a foreign person performing a similar role or function subject as such to foreign regulation with total assets exceeding $5,000,000, or whose investment decisions are made by a bank, trust company, insurance company, investment adviser subject to regulation under the Investment Advisers Act of 1940, or a commodity trading advisor subject to regulation under the Act;

(viii) any governmental entity (including the United States, any state, or any foreign government) or political subdivision thereof, or any multinational or supranational entity or any instrumentality, agency, or department of any of the foregoing;

(ix) a broker-dealer subject to regulation under the Securities Exchange Act of 1934 or a foreign person performing a similar role or function subject as such to foreign regulation, acting on its own behalf or on behalf of another eligible swap participant, provided, however, that if such broker-dealer is a natural person or proprietorship, the broker-dealer must also meet the requirements of either subsection (vi) or (xi) of this section;

(x) a futures commission merchant, floor broker, or floor trader subject to regulation under the Act or a foreign person performing a similar role or function subject as such to foreign regulation, acting on its own behalf or on behalf of another eligible swap participant, provided, however, that if such futures commission merchant, floor broker, or floor trader is a natural person or proprietorship, the futures commission merchant, floor broker, or floor trader must also meet the requirements of subsection (vi) or (xi) of this section; or

(xi) any natural person with total assets exceeding at least $10,000,000.

MF Global

Direct Order Transmittal Client Disclosure Statement

This statement applies to the ability of authorized customers[*/] of MF Global Inc. ("MFG") to place orders for foreign futures and options transactions directly with non-U.S. entities (each, an "Executing Broker") that execute transactions on behalf of MFG's foreign futures and options customer omnibus accounts.

Please be aware of the following should you be permitted to place the type of orders specified above.

- The orders you place with an Executing Broker are for MFG's foreign futures and options customer omnibus account maintained with a foreign clearing broker. Consequently, MFG may limit or otherwise condition the orders you place with the Executing Broker.

- You should be aware of the relationship of the Executing Broker and MFG. MFG may not be responsible for the acts, omissions, or errors of the Executing Broker, or its representatives, with which you place your orders. In addition, the Executing Broker may not be affiliated with MFG. If you choose to place orders directly with an Executing Broker, you may be doing so at your own risk.

- It is your responsibility to inquire about the applicable laws and regulations that govern the foreign exchanges on which transactions will be executed on your behalf. Any orders placed by you for execution on that exchange will be subject to such rules and regulations, its customs and usages, as well as any local laws that may govern transactions on that exchange. These laws, rules, regulations, customs and usages may offer different or diminished protection from those that govern transactions on U.S. exchanges. In particular, funds received from customers to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. Before you trade, you should familiarize yourself with the foreign rules which will apply to your particular transaction. United States regulatory authorities may be unable to compel the enforcement of the rules of regulatory authorities or markets in non-U.S. jurisdictions where transactions may be effected

MF Global

EXHIBIT G

PERMISSIBLE INVESTMENTS OF CUSTOMER SEGREGATED FUNDS AND SECURED AMOUNT FUNDS

1. Investment of Segregated Funds

CFTC Regulation 1.25 permits an FCM to invest customer segregated funds only in the following instruments:

(a) Obligations of the U.S. Government:

- U.S. Treasury Bills
- U.S. Treasury Notes
- U.S. Treasury Bonds
- U.S. Treasury Strips

The foregoing need not be rated by a nationally recognized statistical rating organization ("**NRSRO**").

(b) Sovereign Debt

- carrying the highest rating by at least one NRSRO

(c) Municipal Securities

- carrying the highest short-term rating of an NRSRO or one of the two highest long-term ratings of an NRSRO

(d) Government Sponsored Enterprise Securities

- carrying the highest short-term rating of an NRSRO or one of the two highest long-term ratings of an NRSRO

(e) Certificates of Deposit

- carrying the highest short-term rating of an NRSRO or one of the two highest long-term ratings of an NRSRO
- if negotiable, must be able to be liquidated within one business day or, if not negotiable, must be redeemable at the issuing bank within one business day, with any penalty for early withdrawal limited to any accrued interest earned

MF Global

(f) Money Market Mutual Funds

- does not need to be rated by an NRSRO
- must be registered as an investment company under the Investment Company Act of 940, must be sponsored by an approved organization as provided in CFTC Regulation 1.25(c)(2) and must comply with the other requirements of CFTC Regulation 1.25(c).

(g) Corporate Notes or Bonds

- carry the highest short-term rating of an NRSRO or one of the two highest long-term ratings of an NRSRO
- if asset backed, then must carry the highest rating of an NRSRO

(h) Commercial Paper

- carrying the highest short-term rating of an NRSRO or one of the two highest long-term ratings of an NRSRO

In addition to the credit rating requirements noted above, the CFTC Regulations also apply marketability requirements, portfolio duration limits, investment concentration limits, interest rate restrictions and restrictions on the use of derivatives and leverage in connection with permitted investments.

FCMs are also allowed to enter into repurchase and reverse repurchase transactions for all CFTC Regulation 1.25 permitted investments; subject to certain restrictions and conditions set forth in CFTC Regulation 1.25(a)(2) and (3).

2. Investment of Secured Amount Funds

The following are permissible investments of secured amount funds under CFTC Regulation 30.7:

(a) any investment allowed under CFTC Regulation 1.25 (see Section 1 above)

(b) equity and debt securities traded on an established market in the U.S.

(c) commercial paper and other debt instruments rated by one of the top two rating categories by Moody's or S&P

Please contact the Treasury Department for further information regarding the rules and restrictions that apply to the investment of customer segregated and secured amount funds.

MF Global

APPENDICES

MF Global

APPENDIX I

GLOSSARY

The following is a list of selected defined terms and abbreviations used in this Manual:

Account Agreement	MFG's form customer agreements
Account Controller	CTA, investment adviser or other third party granted discretionary trading authority over a customer account
AP	Associated Person
APS	Average Price System
Authorized Person	A person that is authorized by the customer to place an order for the customer's account with MFG
Block Order	Please see the definition of Bunched Order below.
Block Trade	A large transaction that is negotiated off a trading floor or facility and then executed on an exchange's trading facility, as permitted under exchange rules
Branch Office Manager	Registered MFG branch office manager
Bunched Order	A discretionary order entered on behalf of multiple customers
CBOT	Chicago Board of Trade
CEA	Commodity Exchange Act
CFTC	Commodity Futures Trading Commission
CME	CME Group, Inc.
COMEX	Commodity Exchange Inc., a division of NYMEX

MF Global

CPO	Commodity Pool Operator
CTA	Commodity Trading Advisor
DSRO	Designated Self-Regulatory Organization (MFG's DSRO is the CME)
EFP	Exchange of Futures for Physicals
EFR	Exchange of Futures for Risk (i.e., over-the-counter transactions)
EFS	Exchange of Futures for Swaps
Electronic Trading Systems	An Exchange's platform (e.g., the CME's GLOBEX®) and such other electronic order execution systems used by MFG from time to time
ERISA	Employee Retirement Income Security Act of 1974
Exchange	U.S. futures contract market
FCM	Futures Commission Merchant
FIA	Futures Industry Association
FIFO	First-in first-out
Floor Ticket	Written order ticket prepared by MFG floor staff
Futures	Futures contracts, options on futures contracts, options on commodities and physical commodities transactions incidental to futures contracts, unless the context indicates otherwise
IB	Introducing Broker
MFG	MF Global Inc. (and its affiliates engaged in futures business with U.S. persons on U.S. markets)

Manager	Any MFG branch office manager or supervisor or his or her designee
Manual	Futures Compliance and Supervisory Procedures Manual of MF Global Inc.
MAP	Material Affiliated Person
MTrade	MFG's electronic order routing system used to access various Exchange electronic trading systems
NFA	National Futures Association
NYBOT	New York Board of Trade
NYMEX	New York Mercantile Exchange, Inc.
Order Ticket	Written order ticket prepared by an AP off of the trading floor or by floor staff on the trading floor
Rules	The CEA and the rules and regulations of the CFTC, the NFA and the Exchanges
Security Futures	Futures whose underlying instrument is either a single security or a narrow-based security index
Ticket Information	Customer account identification number, order number, all relevant transaction information (e.g., contract, price, quantity, limit vs. market order), time stamps when order received from customer, when transmitted for execution to floor staff and when reported back to customer as filled or "unable"
Unable	Unless they are designated "GTC" (good till canceled) or "open," all orders not filled by the end of a trading day are deemed "unable" and void

MF Global

APPENDIX II

COMPLIANCE BULLETINS

MF Global

APPENDIX III

CREDIT DEPARTMENT POLICIES AND PROCEDURES

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

Comprehensive Risk / Credit / Margin Policies and Procedures

THIS DOCUMENT IS INTENDED FOR INTERNAL DISTRIBUTION ONLY

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

INDEX

1.0 The U.S. Risk Department

1.1 Departmental Responsibilities

1.1.1 Policies & Procedures
1.1.2 Global Risk Parameters
1.1.3 Reports
1.1.4 Distribution and Communication
1.1.5 Limits

2.0 Daily Risk Meeting

2.1 Time
2.2 Representation
2.3 Agenda
2.4 Action
2.5 Structure

3.0 Risk Categories

3.1 Discount

3.1.1 Salesperson
3.1.2 Customer Debits
3.1.3 Margins Level
3.1.4 Order Flow
3.1.5 Buying Power
3.1.6 Order Size
3.1.7 Max Debit
3.1.8 Reassignment

3.2 Retail – Select

3.2.1 Salesperson
3.2.2 Customer Debits
3.2.3 Margins Level
3.2.4 Max Debit

3.3 Commercial / Institutional

3.3.1 Margin Level
3.3.2 Max Debit

3.4 Omnibus

4.0 Limits

4.1 Max Debit
4.2 Stressed Risk
4.3 House Limits

4.3.1 Commercial Accounts
4.3.2 Discount Accounts
4.3.3 Retail Accounts

4.4 Stressed Risk Tolerance Level (SRTL)

4.4.1 SRTL Calculation
4.4.2 SRTL Precedence

5.0 Request for Financial information

5.1 Commercial / Institutional

5.1.1 Opening Deposit
5.1.2 Margin Requirement
5.1.3 Trading Profile

5.2 Retail / Discount / Individual

5.2.1 Opening Deposit
5.2.2 Margin Requirement
5.2.3 Trading Profile

5.3 Concentration / Illiquid Markets
5.4 Renewals

6.0 Visits

6.1 LEP
6.2 Scheduling trips
6.3 Material Risk

7.0 Credit Write up

8.0 Coding & Rating

8.1 Risk Categories
8.2 Legal Structure
8.3 Trading Profile
8.4 Credit Rating
8.5 Group Rating
8.6 Electronic Routing System

9.0 Storage

9.1 Customer Agreements
9.2 Credit File
9.3 Guarantees
9.4 Letters of Credit

10.0 Primary Futures & Securities Reports

10.1 Futures Reports

10.1.1 Comprehensive Risk report (02)
10.1.2 Large Exposure and Position Report (LEP)
10.1.3 Policy Exception Report
10.1.4 Executive Summary
10.1.5 At-Risk-Report
10.1.6 Concentration Report

10.2 Securities Reports

10.2.1 U.S Securities Customers with Margin = $25k
10.2.2 Beta Max Debit
10.2.3 Mutual Fund Timers
10.2.4 Securities Concentration Report

10.3 Stock Borrow / Loan Reports

10.3.1 Exposure Summary Report

10.3.2 Counterparty Summary

10.3.3 Notional limit Exception Report

10.3.4 Breach of Individual Stock Vs Whole Portfolio

10.3.5 Breach of Individual Stock Vs Counterparty

10.3.6 LoanData Without Matching Counterparty

11.0 Margin Policy

11.1 Initial Margin Call
11.2 Maintenance (Variation)
11.3 Issuance of Calls
11.4 Payments
11.5 Call Records
11.6 Regulatory Requirements
11.7 Types of Funds
11.8 Wire Transfers
11.9 Checks
11.10 Third Party Payments
11.11 Risk Calls

11.11.1 Stressing Positions
11.11.2 Concentration
11.11.3 Credit Uncertainty
11.11.4 Fundamental Uncertainty

11.12 Push Limits

11.12.1 Customer Type

11.12.2 Limit Amount

11.12.3 Payments

11.12.4 Credit Review

12.0 Futures Day Trading

12.1 Margins

12.1.1 Largest Open Position
12.1.2 Responsibility to notify Risk

12.2 Duration
12.3 Margin Calls

12.4 Discount

12.4.1 Contracts
12.4.2 Stop Orders
12.4.3 Order Entry
12.4.4 Identification
12.4.5 Rider
12.4.6 Liquidation

12.5 Exceptions

13.0 Naked Option Selling (Retail Discount)

13.1 Approved Options
13.2 Duration
13.3 Execution

13.4 NLV Requirements

13.4.1 NLV < $5,000
13.4.2 NLV = $5,000
13.4.3 Minimum Margin Requirement

13.5 Exceptions

14.0 Deliveries

14.1 Speculators

14.1.1 Approval
14.1.2 Payment
14.1.3 Reporting

14.2 Commercial Accounts

14.2.1 Financing
14.2.2 Reporting
14.2.3 Re-tendering

14.3 IMM / FINEX

14.3.1 Declaration of Intention
14.3.2 Pre approval of Delivery

14.3.3 Mandatory Liquidation or Rolling of Position
14.3.4 Funds on Deposit
14.3.5 Fees & Charges
14.3.6 Reconciliation of Actual to Reported OTP / DTP.

15.0 Give-In Acceptance

15.1 Notification Levels

15.1.1 CBT / MCE
15.1.2 CME / IMM
15.1.3 S&P, NASDAQ

15.2 Notification Procedure

15.2.1 Verification
15.2.2 Incorrect Quantity
15.2.3 Risk Review
15.2.4 Trade acceptance / Rejection

16.0 Debit Collection

16.1 Management Review
16.2 Debit Reporting

16.2.1 Retail
16.2.2 Discount

16.3 House Debits
16.4 Firm K
16.5 Reserve Accounts
16.6 Withholding / Charge-backs

16.6.1 Funding Reserve
16.6.2 Funding House Debits

16.7 House Debit Collection

16.7.1 Immediate Action
16.7.2 30 Days
16.7.3 60 Days
16.7.4 1 Year

16.8 Write – Off of debit

16.9 Account closing

17.0 Customer Funds Withdrawal (Retail)

17.1 Routine Withdrawals

17.1.1 Requests
17.1.2 Notification
17.1.3 Blocking Account

17.2 Closing an Account (Final Withdrawal)

17.2.1 Notification
17.2.2 Disabling
17.2.3 Account closing checklist
17.2.4 Disbursement of funds

18.0 Electronic Order Routing Systems

18.1 Approved (Supported) Systems
18.2 New ETS
18.3 Existing ETS

18.3.1 Forms
18.3.2 Securities
18.3.3 Futures – Customers & IB's
18.3.4 Futures – Trading Desk

18.4 Limits

18.4.1 Review & Release
18.4.2 Fat Finger
18.4.3 Position Limits
18.4.4 Buying Power

19.0 Electronic Execution Only (Give –Up's)

19.1 Documentation

19.1.1 ETS Agreement
19.1.2 Give-Up Agreement

19.2 Payments & Fee's

19.2.1 Payment Structure
19.2.2 Fees
19.2.3 Pass through fees
19.2.4 Payout
19.2.5 Terminal (ETS) cost

19.3 Operations

19.3.1 406 Account
19.3.2 Allocations
19.3.3 Trade Acceptance
19.3.4 Limits
19.3.5 Markets

20.0 Expit Procedures

20.1 Incoming

20.1.1 Detail
20.1.2 Methodology

20.2 Risk Review

20.2.1 New Accounts
20.2.2 Existing Accounts
20.2.3 Outgoing
20.2.4 Methodology
20.2.5 Total Accounts
20.2.6 Partial Accounts
20.2.7 Test account

20.3 Approval of Settlement Exposure

20.3.1 Opposite FCM
20.3.2 Customer

21.0 Stressing Policy

21.1 Global Parameters
21.2 Price History
21.3 Analysis

21.3.1 Smoothed Data

21.3.2 Price Change
21.3.3 Percentage

21.4 Interval or Bucket Calculations

21.4.1 4th Bucket = Armageddon
21.4.2 3rd Bucket = Extreme Move
21.4.3 2nd Bucket = High General Confidence Level
21.4.4 1st Bucket = Absolute Minimum cover.

21.5 Limitations
21.6 Volatility
21.7 Max Debit
21.8 SRTL

APPENDICES

I. Risk Committee

II. MFG Cre dit Approval Short Form III. MFG

Credit Approval Long Form IV. Explanation of Debit

V. Level 1 Collection Letter VI.

Level 2 Collection Letter VII.

Account Closing Checklist

VIII. ETS Evaluation Form - Risk

IX. ETS Evaluation Form - IT

X. Customer / IB ETS Request Form

XI. Desk ETS Request Form

XII. Incoming Expit Authorization Form XIII.

Incoming Variation Settlement Form XIV.

Outgoing Expit Authorization Form XV.

Variation Payout Form

XVI. Day Trading Reduced Margin Approval Form

XVII Policy Exception Write-up

XVIII SRTL Allowance Form

1.0 The U.S. Risk Department

The Risk Department is made up of three areas of expertise: Risk analysis, Credit analysis and Margin Services. Personnel for these areas are located in New York and Chicago.

1.1 Departmental responsibilities

1.1.1 **Policies and Procedures:** The US Risk Department is responsible for the establishment and implementation of Policies and Procedures that are needed to minimize the firm's exposure to customer/counter-party default. Customers include, but are not limited to, stock loan counterparties, bank counterparties, securities customers, clearing houses and external brokers etc. Policies and procedures will be commercially pragmatic, competitive, responsible, and operationally practical. Given the complexity of special situations and extraordinary circumstances, the policies and procedures set forth herein are designed to be reasonably flexible so that on a case-by-case basis, senior management, in cooperation with the Risk Committee, when needed, may modify such policies and/or procedures.

1.1.2 **Global Risk Parameters:** Global parameters will be established in conjunction with the London Risk team. These parameters are designed to protect the firm's best interest by establishing and enforcing risk parameters that will reduce the risk that customers trade outside their financial ability. The Risk Department will ensure that the Global Risk Parameters for those products that the firm is most exposed to are properly scrutinized on a regular systematic basis and that appropriate procedures are in place and adhered to for the establishment and review of all Global Risk Parameters.

1.1.3 **Reports:** Design, produce and / oversee the development of reports needed to properly monitor risk.

1.1.4 **Distribution and Communication:** Establish procedures for the distribution and communication of limits as well as all risk related issues to the account executive ("AE"), introducing broker ("IB") and, where appropriate, directly to the customer.

1.1.5 **Limits:** Establish and maintain soft Limits where appropriate and to make certain that customer exposure vs. the customer's creditworthiness and/or collateral on deposit are within a reasonable range.

2.0 Daily Risk Meetings

The first priority of the Risk Committee is to identify those customers who may have established positions that have resulted in market risk that is beyond their financial means. To this end, the Risk Committee will often meet formally twice throughout the day. The first meeting takes place promptly at 9:00 AM NY. This meeting is a quick briefing of margin calls and important risk and margin issues. Credit issues are also discussed and the Risk Department's focus is determined for the day. Later in the day, after all reports have been thoroughly reviewed, the Risk Department will meet to systematically review the actions taken during the day. The primary purpose of the follow up risk meeting is for the members of the Risk Department to report that they have reviewed the reports for which they are responsible and to discuss their thoughts on any important risk issues. At this time, progress is discussed on outstanding projects as well.

2.1 **Time:** The Risk Committee normally meets daily at 9:00 AM NY Time and has an additional follow up meeting later in the day.

2.2 **Representation:** Credit, Margins and Risk are regular members. When needed, securities representatives and senior business personnel participation is requested. (See Appendix I)

2.3 **Agenda:** The agenda of each Risk Committee meeting may include, but is not limited to, the following: Verbal reports from the Credit, Margins and Risk representative; A line- by- line review of the Large Exposure & Position Report ("LEP Report") and review Executive Summary. Margin summary status of the At-Risk Reports; Periodic review of the Debit report and securities accounts with large debit equities; status and discussions on outstanding projects.

2.4 **Action**: Any action to be taken with respect to customer's breaching their respective limits will be discussed at the daily Risk Committee meeting and appropriate action and responsibilities will be assigned. With regard to any exposure, when the Risk Committee is unable to reach a unanimous consensus on what action should be taken, the issue shall immediately be referred to senior management (CS/DO/JG/JZ)

2.5 **Structure**: The meetings are informal in nature and will not have official minutes recorded. Copies of the LEP Report and Executive Summaries are stored electronically.

3.0 Risk Categories

The Risk categories are hard coded on GMI and are the determining factor in how an account is treated by the Risk Department.

3.1 **Discount Accounts:** These accounts, which also fall into the (D) Discount Risk category, normally have the following characteristics:

3.1.1 **Salesperson:** Discount business does not have a specific sales person assigned. Rather, the orders are handled by any one of several people on the discount order desk.

3.1.2 **Customer Debits:** Customer debits are charged against the discount desk profit center.

3.1.3 **Margin:** Customers are typically placed on exchange minimum margin. Exceptions, however, do exist where such discount customers may be placed on margin above exchange minimum.

3.1.4 **Order Flow:** All order flow must be controlled by a specialized house discount desk that is dedicated primarily to the discount business.

3.1.5 **Buying Power:** Procedures are in place to monitor each customer's order to confirm that the customer has adequate buying power prior to allowing a trade to be effected.

3.1.6 **Order Size** : Open positions are generally small. Depending on the product, they are typically between 1 and 10 lots in any one industry group.

3.1.7 **Max Debit:** The total initial requirements for the account normally do not exceed $75,000 and stressed extreme risk generally does not exceed $75,000.

3.1.8 **Reassignment:** Discount business that fails to comply with the aforementioned characteristics shall be reassigned to a specific sales person.

3.2 **Retail Accounts:** These accounts ,which also fall into the (R) Retail Risk category, normally have the following characteristics:

3.2.1 **Salesperson:** All retail accounts have a specific sales person assigned. Normally, the sales person is the point of contact for the Risk Department.

3.2.2 **Customer Debits:** All customer debits are the responsibility of the salesperson. Debits are charged against the salesperson's reserve account.

3.2.3 **Margin** The customer may or may not be placed on exchange minimum margin.

3.2.4 **Max Debit:** Stressed extreme risk generally does not exceed $250,000.

3.3 **Commercial/Institutional Accounts:** These accounts are legal business entities, regardless of their structure.

3.3.1 **Margin** The customer may or may not be placed on exchange minimum margin.

3.3.2 **Max Debit:** Stressed extreme risk generally does not exceed $500,000.

3.4 **Omnibus:** Individual accounts are traded in the name of and for the risk of the firm's counterparty. Account level financial information is not available. Risk is calculated on the net positions. For clearing and margin purposes, positions are not netted.

4.0 Limits

Limits are established for the Maximum Debit ("Max Debit") that a customer's account(s) may have at any time.

4.1 **Max Debit.** The Max Debit is the net liquidating value ("NLV") of the account(s) less the stressed risk of the position(s).

4.2 **Stressed Risk:** The amount the position will lose after stressing the position based on the global parameters established for the commodity(ies) the customer has traded (see Section 21).

4.3 **House Limits.** All accounts have a limit. Limits that are not based on the financial information of the customer are de facto house limits. House limits are assigned as follows:

4.3.1 **Commercial Accounts:** All Commercial Accounts have de facto Max Debit limits of **$500k**. The Max Debit is normally based on a third bucket move. However, Risk may determine that a fourth bucket will be used to help absorb potential liquidation issues.

4.3.2 **Discount accounts** : All Discount accounts have a $75k de facto Max Debit limit

4.3.3 **Retail accounts:** Selected Retail accounts are allowed up to a $250k Max Debit limit.

4.4 **Stressed Risk Tolerance Levels ("SRTL"):** All customers subject to review by the Credit Department will be assigned a Max Debit limit. These limits are referred to as **Stressed Risk Tolerance Levels ("SRTL"**).

4.4.1 **SRTL Calculation:**
a). An amount will be calculated equivalent to 25% of the customer's net worth. b). An amount will be calculated equivalent to 35% of the customer's liquidity.
(For this calculation, liquidity will not include subordinated debt unless such debt is unsecured and may include committed bank facilities).
c). The amounts calculated in (a) & (b) above will be compared. Generally, the lower amount shall be the limit set for that customer. However, with the consent of either the Global Head of Risk or the Head of the Global Brokerage Credit Committee, exceptions may be made. (See Appendix XVIII.)

4.4.2 **SRTL Precedence:** Although financial information will not generally be reviewed until risk exposure to the firm reaches a certain level (see Section 4.3), once financial information is obtained, the limit established based on that information will have precedence over the house limit even if the new limit is lower. **Clarification:** a commercial account that continuously breaches the
$500k house limit ultimately provides financial information that indicates an SRTL limit of $350k, then that limit will become the SRTL Limit. The house limits are merely thresholds of risk that when breached will result in the firm dedicating the resources necessary to conduct a credit evaluation. Financial information may be requested for other reasons as well. The house limit is not a guaranteed minimum limit.

5.0 Request for Financial information

The risk team, in conjunction with the AP/IB, will determine the most appropriate method of obtaining whatever financial or other information is required so that an appropriate limit can be set for a customer.

5.1 **Commercial / Institutional:** These accounts will be asked to provide supplemental financial information in any of the following cases: Generally, accounts will be asked to provide financial information when they have or anticipate having a Max Debit = $500k in any one industry group. The following indications will initiate a risk review to determine the need for further financial information:

5.1.1 **Opening Deposit:** Accounts with opening deposits of = $500k.

5.1.2 **Margin Requirements:** Anticipated or actual margin requirements = $300k.

5.1.3 **Trading Profile:** If a Risk Department representative determines that the trading profile of the customer warrants further financial information.

5.2 **Retail / Discount / Individual (Select):** By definition, a discount customer is not generally required to provide financial information. A discount customer may, however, become classified as a retail customer. Select customers may be asked to provide financial information when they have or anticipate having a Max Debit = $250k in any one industry group. The following indications will initiate a risk review to determine the need for further financial information:

5.2.1 **Opening Deposit:** Accounts with opening deposits of = $200k.

5.2.2 **Margin Requirements:** Anticipated or actual margin requirements = $200k.

5.2.3 **Trading Profile:** If a Risk Department representative determines that the trading profile of the customer warrants further financial information.

5.3 **Concentration / Illiquid markets etc.** The Risk Department may require Credit to review any account, at its sole discretion, if they consider it prudent.

5.4 **Renewals:** All reviews by the Credit Department must be renewed, at a minimum, of an annual basis. Any customer not falling into any one of the criteria above at the point of the annual review should have their limit reduced to $499,999 (for corporate) or $249,999 (for individuals.)

6.0 Visits

Customers that have been reviewed by credit and assigned an SRTL limit should be evaluated for the need of a visit at least once a year. The Credit quality and risk profile will be considered in prioritizing visit schedules. Regardless of visit status, efforts should be made to establish contact relationships within the management, finance and treasury areas of customers that have established limits.

6.1 **LEP Report:** All Accounts that frequently appear on the **LEP Report** may require an annual customer visit (The LEP Report presents all accounts with Max Debits of $2mil or greater and or 10,000 or more contracts).

6.2 **Scheduling trips:** The US and London credit teams will work together to support each other when scheduling trips outside of their geographical location. Generally, customer visits that are made within the Americas will be made by US staff while those visits required within the European continent will be made by the London staff, regardless of which division carries the account on their books.

6.3 **Material risk:** Any substantial customers based in the Americas that could potentially pose material risk ($30 million Max Debit) to MF Global Inc. will require a visit by the Divisional CFO or the Group CFO unless waved by the CEO or Deputy CEO.

7.0 Credit Write-up

For commercial and retail credit limits (SRTL's) the Credit Department shall complete the first two pages (short form document) of the standard MF Global Inc. Credit Approval Form (Appendix II). For accounts that consistently appear on the LEP Report, the Credit Department will complete the long form report (Appendix III.).

8.0 Coding & Rating

All customers will be coded with a seven character alpha/numeric customer profile that will be used to sort and filter reports for risk analysis purposes. The customer profile is as follows:

8.1 **Risk Categories:** One character in GMI. Normally entered by New Accounts. (See Section 3.0 for a description.)

Discount (D) **Institutional / Commercial (I)** **Personal Acct (P) Retail (R)** **Security Dep. (S)** **Omnibus (O)**

Reserve Accts. ***Classified as Non- Segregated [Y] accounts***

Reserve Customer Debit (V) Reserve
Error (X)

Error Accounts ***(E) will be discontinued and Replaced by, F, B & A***

MFG Fully Responsible (F)
Split Between MFG and A/E, IB, etc. (B) IB / AE Fully Responsible (A)

8.2 **Legal Structure.** One character in GMI. Entered by New Accounts. This is the business structure of our counterparty.

Corporate (C)
Limited Partnership (L)
Limited Liability Partnership (LLP) and Limited Liability Company (LLC) (P)
General Partnership (G) Sole Proprietorship (S) Trust (T)

8.3 **Trading Profile**. One character in GMI. Entered by New Accounts. **Managed Money (M)** Non-CTA. AP may have discretion. **CTA (T)** Registered CTA.

Funds (F) Published Asset value
Hedgers (H)
Speculator (S)

8.4 **Credit Rating.** 5 characters in GMI. Entered by Credit.

Characters 1 & 2. Refer to the date of financial information. (Using standard commodity coding (F=January). A ***Lower Case*** letter will be used for the month to indicate that the Account is being treated as an SRTL allowance.

Character 3. Refers to the quality of financial information.

A = Audited on file.
@ = Unaudited interim from an audited company
U = Unaudited, but professionally prepared
G = Guaranteed by audited parent, no expiration date on guarantee
X = Guaranteed by audited parent, with expiration date on guarantee
W = Written
S = Visit with a review of audited seen but not taken.

R = Visit with a review of unaudited financial information.
O = Info obtained from outside source
B = Received brokerage or bank information
V = Received verbal financial information
P = Based on Audited financials of parent and NO GUARANTEE.
p = Based on Unaudited **interim** financials of the parent, where parent provides audited **annual** statements and NO GUARANTEE.
D = Financials reviewed, limit denied (Limit = 0)
N = No financial info or no signed documentation (Limit = 0)
C = Commercial. due diligence is done. A visit may have taken place. However, no meaningful guarantee or audit information has been provided. Limit is based on reputation and profitability. Must be referred to the Chairman of the Group Credit Committee.
I = Under Credit Review. First date field to indicate date review began

øøøøø= Inactive (no SRTL)

Characters 4 & 5. Refer to the date of last review. (Using standard commodity coding (F=January). A ***Lower Case*** letter will be used for the month to indicate that the Account is being treated as a **Policy Exception** and will show up on the Policy Exception Report.
(g3= Customer was reviewed in Feb of 03 and is being treated as a Policy Exception)

8.5 **Group Rating:** All customers will be rated in accordance with the Group's standard (5 different alpha characters A to E) rating policy

8.6 **Electronic Routing System:** One character will be used to indicate the appropriate system: **PATS (P), TT (T), RanOrder (R) , GTEX (G), Interactive (I), Mtrade (M), Prime Trade (E), Globex (X), Access(A), Various (V)**

9.0 Storage

All original documentation will be scanned. Original documentation will be stored as follows:

9.1 Customer agreements: All customer agreements will be scanned for access via Speedscan with the originals being stored at the Disaster Recovery site in Matteson, Illinois.

9.2 Credit file: All credit files will be scanned for access via Speedscan with the originals being stored at the Disaster Recovery site in Matteson, Illinois. The Credit Department, at its discretion, may keep originals within the department.

9.3 Guarantees: The original Guarantees will be stored with the Chicago Treasury Department.

9.4 Letters of Credit: The original LCs will be stored with the Chicago Treasury Department.

10.0 Primary Futures & Securities Reports

All customer names appearing on any risk, credit or other report must reflect the full legal name of the customer or counterparty and must be checked and verified to the signed legal documentation held in the respective customer/counterparty file. All information recorded on any customer must relate to the legal contractual entity. No comfort can be taken in any assessment, credit grading, placing of limits of any holding company or parent unless a legally binding guarantee is held from that parent. Normally, the following reports are compiled and / or reviewed each day.

10.1 Futures Reports

10.1.1 Comprehensive Risk Report (02): Beginning-of-Day, Intra-Day and End-of- Day Comprehensive Risk Reports will be run to show all Commercial accounts that have No SRTL and Max Debit > than a $500k exposure, Retail accounts that have a MD > $250k , Discount accounts that have a MD > $75k . Also, an 02 report will be run to show all accounts that have an SRTL and show Exposure of > $1k. (Exposure = SRTL – Max Debit). This report is used as a basis for assessing the need for further financial information. Generally, customers appearing on the reports for which no limit (SRTL) has previously been set may be asked to provide further credit information. In cases where the Risk Committee believes that the risk does not require the expenditure of our resources, such as those accounts that are diversified and do not have exposure in any one product or Industry group, further credit information may not be required.

10.1.2 LEP Report (LEP): The LEP Report is an executive summary of significant risk and potential risk within the U.S. Brokerage Division. The LEP Report includes any account that, after being stressed for price movement and changes in volatility (options) in accordance with our global parameters, would lose, at minimum, $2 million over and above the NLV in the account. All of these accounts are included even though they may have been assigned an adequate credit limit to absorb their Max Debit. Also, those accounts that have positions that add up to more than 10,000 Futures contracts are included on this list. Once an account appears on the LEP Report, the Legal Department will review the documentation to make certain that we are within our rights to increase margins at our discretion, the proper documents have been signed and we are using the proper legal name of the entity.

The LEP Report is broken into Industry Groups. The Industry Group with the greatest Stressed Risk will determine the grouping for the account. Accounts that have positions in more than three (3) Industry groups and do not have Exposure in any one group, will be moved to the Diversified section.

The LEP Report includes 3 categories of accounts. Each category is color coded for easy identification:

- ☐ **No Highlight** = These accounts do not appear to be a risk concern. They either have an SRTL that is adequate to cover their Max Debit or they may not have a max debit but have > 10,000 contracts.
- ☐ **Yellow Highlight** = These accounts have issues that need to be resolved. These accounts will have Exposure because they have either violated their SRTL or do not have an SRTL and have a Max Debit > $2mil.
- ☐ **Green Highlight** = Those accounts that when further analyzed by risk prove to be well diversified or properly spread-off will be highlighted in green to indicate *No Risk Concern.*

Blue Highlight = Once an account reaches a point where there is nothing further that can be done by Risk / Credit, it needs to be determined whether or not it makes commercial sense to allow the account to remain with MFG even though the account is unable to be supported by the Credit Risk Policy. A formal **Policy Exception Write-up** will be completed by the Risk Department and presented to the CEO and /or the Deputy CEO. To ensure acknowledgement of the *Exception* Status of each account, an email, fax or other reasonable written formal response affirming acknowledgement should be received from the Deputy CEO or in his absence the CEO within seven business days. .(See Appendix XVII.) These accounts immediately flow to the **Policy Exception Report** (see 10.1.3)

10.1.3 **Policy Exception Report:** This report is designed to allow for a daily review by the CEO / Deputy CEO of those accounts that are Policy exceptions. The report is divided into two sections. The first section being *Risk - based* exceptions and the second section being based on accounts with *inadequate financial information*. The Risk Department will continue to provide daily Risk information on all accounts that appear on this report.

10.1.4 **Executive Summary:** The Executive Summary is a report that is manually compiled to summarize the issues of the day. This Report is designed to focus on the 2nd tier of Risk. Max Debits between $500k and $2 mil. This report is distributed to senior management.

10.1.5 **At-Risk Report:** This report shows those accounts that are on call and the number of days that they have been on call for.

10.1.6 **Concentration Reports.** On a case-by-case basis, these reports show the firm's customer's concentration in any particular commodity or industry group (e.g. position as percentage of total open interest and volume.) All accounts with total contracts over 10,000 will appear on the LEP Report.

10.2 Securities' Reports

10.2.1 US Securities Customers With Over $25,000 Margin. This report shows all securities accounts that are either on call or have margin deficit or margin requirements in excess of 25K.

10.2.2 Beta Max Debit. This report shows all securities accounts that have a Max Debit (Max Risk – NLV) of over $10,000. It is reviewed daily and is sent to the firm's senior management.

10.2.3 Mutual Fund Timers. This report shows the risk exposure of all mutual fund timing accounts. The report is reviewed daily and is sent to the firm's senior management.

10.2.4 Securities Concentration Reports. These reports show all securities accounts with position in excess of 1% of outstanding shares. No accounts can hold any position in excess of 10% of outstanding shares (control issues). The report is reviewed periodically and is sent to the firm's senior management.

10.3 Stock Borrow Loan Reports: This is a series of reports that shows the firm's exposure in the Stock Borrow / Loan business. These reports are reviewed daily and a summary is sent to senior management:

10.3.1 Exposure Summary Report – Lists all SBL counterparties with their ratings and Notional Limits (established by Credit), total value of borrowings and loans per counterparty and the Portfolio Total, Mark to Market adjustments, access or deficit, and any breaches.

10.3.2 Counterparty Summary – High level summary report that lists all counterparties and the values of their borrowing and loan portfolios.

10.3.3 Notional Limit Exception Report – Lists all counterparties that have breached their established Notional Limits.

10.3.4 Breach of Individual Stock Vs Whole Portfolio – Lists any stock positions that are in excess of 10% of the total SBL portfolio value, counterparties that hold the stock, total percentage and values, and percentage access.

10.3.5 Breach of Individual Stock Vs Counterparty – Lists any counterparty that has any stock position in excess of 10% of the counterpart's total portfolio

10.3.6 LoanData Without Matching Counterparty – Shows any out-trades, or positions that do not have corresponding counterparty for them.

11.0 Margin Policy

11.1 **Initial Margin Call.** The deposit required to first establish a position.

11.2 **Maintenance (Variation).** The additional margin required once a position has been established to satisfy a downward movement in the position's value.

11.3 **Issuance of Calls:** All beginning of day and/or intra-day margin calls (margin deficit or debit equity) should be issued on the first day of the call (same day).

11.4 **Payments:** All initial and/or maintenance margin calls should be satisfied same day. Initial margin calls should be satisfied by margin deposits only. Maintenance margin calls may be satisfied by margin deposits or liquidation. It is the responsibility of the salesperson to monitor the customer's use of liquidation to meet margin calls.

11.5 **Call Records:** A detailed record of margin calls and definitive responses should be maintained by the IB, AE or AP.

11.6 **Regulatory Requirements:** Any account with an outstanding margin call without a confirmation of funds remitted (i.e., bank reference numbers, copy of check, etc.) is prohibited from trading unless the trades are risk reducing. Therefore, such accounts are prohibited from:

- ☐ Adding new position
- ☐ Legging out of spreads
- ☐ Day trading

It is the responsibility of the sales person to monitor the customer's trading activity.

11.7 **Types of Funds accepted:** Margin deposits are defined as cash and US T-Bills, Letters of Credit and approved warehouse receipts. (see Section 14.0 - Delivery Policy)

11.8 **Wire Transfers:** All payments for initial/maintenance margins greater than $20,000 should be remitted by wire transfer.

11.9 **Checks:** Checks returned due to insufficient funds will result in a $50.00 charge and the account potentially being switched to a wire transfer only basis.

11.10 **Third Party Payments:** No third party wires or checks will be accepted.

11.11 **Risk Calls:** Risk calls, regardless of the customer's actual margin call (as defined in Sections 11.1 and 11.2 above), should be met the same day that they are issued. Risk calls are based on the continuous analysis of all accounts by the Risk Department. Risk may be based on, but not limited to, the following:

11.11.1 Stressing positions: Stressing positions based on the firm's proprietary global parameters.

11.11.2 Concentration: Due to the illiquidity of certain markets it may be determined that the potential liquidation costs of certain positions may be either too large to be absorbed by the customer's financial ability or inconclusive in estimated cost.

11.11.3 Credit uncertainty: The customer's and/or IB, AE or AP's financial ability to meet extreme market activity.

11.11.4 Fundamental Uncertainty: The markets may be in an extreme state of uncertainty which renders risk projections of limited value.

11.12 Push Limits: Push Limits are generally allowed for a customer in good standing. The purpose of the limit is to minimize the need for a customer to wire relatively small amounts. The following are generally characteristic of the approved account:

11.12.1 Customer Type : Commercial Hedger / Institutional accounts. *Push Limits* are not established for professional traders or spec accounts.

11.12.2 Limit Amount: Generally, the Push Limit greater than $50,000 should not Exceed 200% of NLV.

11.12.3 Payments: If the Push Limit is never hit, the customer must **wire** funds as follows:

- ☐ For Push Limits = $100,000 the funds must be in house on the 4th day.
- ☐ For Push Limits < $100,000 the funds must be in house on the 5th day.

In either case, when the Limit amount is hit prior to the allowed Push Period, the full amount of the call must be wired same day.

11.12.4 Credit Review: For those accounts with Push limits = $100,000 that do not already have an SRTL, Credit will review a 3rd party Credit Report (D & B).

12.0 Futures Day-Trading

Generally, customers in good standing that are properly monitored by the salesperson or desk person are allowed to have open positions during the day without having adequate funds in their account to cover the full margin. General guideline for day-traders are as follows:

12.1 Margins: Generally, day-trading customers must maintain 50% of the margin rate in buying power. Certain electronically matched products may be approved for a lower percentage of margin on a case-by-case basis. (i.e., e-minis). **Large S&P's, NASDAQ and many illiquid contracts must be pre -approved by Risk.** Customers that take

excessive intra-day risk may be required to maintain a Net liquidating value that is greater than Exchange minimum margin requirements on their open intraday positions. (See Approval Form- Appendix XVI).

12.1.1 **Largest Open Positions:** Regardless of agreed upon intraday requirements, the customer must have the financial ability to absorb the risk of their largest open position. Customers that continually liquidate to meet margin calls and/or hold open positions intra-day that are excessive may be required to maintain a Net liquidating value that is greater than Exchange minimum margin requirements on their open intraday positions.

12.1.2 **Responsibility to notify Risk:** It is the responsibility of the Sales person and/or Desk to monitor and notify the Risk department of excessive open, intra-day positions.

12.2 **Duration:** Day-trader's must be flat at the end of the day. Positions that are held overnight must meet the exchange minimum margin requirements.

12.3 **Margin Calls:** Customers may not day trade while on call.

12.4 **Discount** – Additional restrictions.

12.4.1 **Contracts.** Maximum of 5 open contracts.

12.4.2 **Stop Orders:** All open positions must have stop orders in place.

12.4.3 **Order Entry:** All orders must be entered through a MFG Discount order desk or an approved Internet-based system.

12.4.4 **Identification:** Day traders must be indicated in the system for rapid and easy identification. The desk must be able to print on demand the open positions of all approved day traders.

12.4.5 **Rider.** All day traders must sign a day-trading rider.

12.4.6 **Liquidation:** All customers that do not have adequate buying power to support exchange minimum margins and have not closed out their positions at the end of the day will automatically be liquidated by the close.

12.5 **Exceptions**. Due to a lack of liquidity and/or frequent periods of extreme volatility the following products are **not eligible** for reduced day trading margins:

Full S &P	Exotic Currencies (Peso, Rand, Ruble, etc.). Dairy
Full NASDAQ	(Milk, Butter, Cheese.)
Weather	Lumber
	Platinum

13.0 Naked Option Selling Policy (Retail Discount)

13.1 **Approved options:** Only options traded on the CBOT, CME, NYMEX / COMEX and NYBOT may be sold naked.

13.2 **Duration:** Options must not have more than ninety (90) days until expiration.

13.3 **Execution:** All orders must be entered through a MFG Discount order desk.

13.4 **NLV Requirements:**

13.4.1 **NLV< $5,000:** Customers with NLV **< $5,000** must maintain buying power equivalent to exchange minimum margin requirements for each option.

13.4.2 **NLV > $5,000:** Customers with NLV **> $5,000** may trade a maximum of 10 contracts having no more than $25,000 Max Debit at 50% of exchange minimum margins.

13.4.3 **Minimum Margin Requirement:** In cases where the exchange minimum SPAN margin is greater than the 50% futures margin, the higher margin will apply.

13.5 **Exceptions:** Due to a lack of liquidity and / or frequent periods of extreme volatility options on the following products are **not** approved to be sold naked:

Rough Rice	Equity Indices: (S &P, NASDAQ, etc.) Exotic
Weather	Currencies (Peso, Rand, Ruble, etc.) Dairy:
Lumber	(Milk, Butter)
Platinum	Palladium

14.0 Deliveries

14.1 **Speculators:** In general, the firm does not permit speculators to take delivery.

14.1.1 **Exceptions:** The Risk Committee may grant exceptions with prior approval. Details of the customer's request must be provided to Risk and Operations for approval at least 48 hours prior to the first notice day. Unapproved deliveries may result in a direct charge to both the customer and the responsible IB, AE or AP.

14.1.2 **Payment:** All deliveries must be paid in full value of the contract on a timely basis.

14.1.3 **Reporting:** All receipts will be shown in the customer's accounts and haircut accordingly. From time-to–time, it may be necessary to increase the haircuts due to market volatility. All receipts will be shown in the FD balance and valued accordingly.

14.2 **Commercial Accounts:** Commercial accounts may take delivery and re-tender in the month of delivery without prior approval.

14.2.1 **Financing:** The firm will finance no more than 80% of the marked-to-market value of the underlying contract at 2.5% over Prime for commercial deliveries.

14.2.2 **Reporting:** All receipts will be shown in the customer's accounts and haircut accordingly. From time-to–time, it may be necessary to increase the haircuts due to market volatility. All receipts will be shown in the FD balance and valued accordingly.

14.2.3 **Re-tendering:** Commercial accounts that do not intend to re-tender in the month of delivery must be prepared to pay 100% on day of expiration or as required by the applicable exchange.

14.3 **IMM / FINEX**

14.3.1 **Declaration of Intention**: Generally, on the Monday prior to delivery, but not less that 5 business days prior to delivery, the Futures Operation Departments in London and the U.S. will begin contacting all customers or the customer's IBs/AEs that are carrying deliverable positions to request them to state his/her/its intentions as to whether or not they plan on making or taking delivery as required by the applicable exchange. ***Clarification:*** Notification of intention to liquidate does not require immediate liquidation.

14.3.2 **Pre-approval for Delivery:** All deliveries must be pre-approved by both FX Operations and the Margin Department by the close of business (cob) on the Thursday prior to expiration

14.3.3 **Mandatory Liquidation or Rolling of Position:** Any customer that has not received pre-approval for delivery by the cob on the Thursday prior to delivery must then either roll or liquidate his/her/its positions by the cob. on the next day
(i.e., the Friday prior to delivery).

14.3.4 **Funds on Deposit:** Any customer pre-approved to go to delivery must have the funds in their account by the cob on the Thursday prior to delivery. Generally, the customer must have both funds on deposit in the appropriate underlying currency and proper margin excess. Funds on deposit and margin excess will be evaluated by both FX Operations and the Margin Department.

14.3.5 Fees & Charges:
All bank charges, delivery charges, operational charges and exchange charges or fines incurred by the firm will be passed along to the customer. In addition, the following fees will be assessed against the customer:

- ☐ $500 / per lot fee in the event the customer was not pre-approved for delivery. Repeat violation of this policy will result in a customer being charged an increased fee.
- ☐ $500 / per change fee when the firm is required to change Orders To Pay (OTP)/ Directive To Pay (DTP) as a result of rolling a customer position on the Monday following delivery due to the customer's error.

14.3.6 Reconciliation of Actual to Reported OTP / DTP: On the Sunday before delivery, actual house and customer positions will be reconciled with what has been reported to management and the exchanges. All OTPs and DTPs will be prepared for the following Monday.

15.0 Give-In Acceptance

To ensure that large give-in trades are properly monitored before being claimed and to ensure that accounts for which the give-in trades are being claimed for have enough funds to sustain the position risk.

15.1 Notification Levels:

15.1.1 CBT/MCE - over 250 lots

15.1.2 CME/IMM – over 200 lots

15.1.3 S&P, NASDAQ – over 50 lots

15.2 Notification Procedure: Any transactions in excess of the notification levels (see Section 15.1, above) will NOT be automatically claimed. The following steps shall be followed:

15.2.1 Verification: The Data Entry Department will contact the executing firm to verify that the quantity and the account number are correct.

15.2.2 Incorrect Quantity: If the quantity is NOT correct, executing firm will adjust. No further action required, unless the quantity is still over the notification levels.

15.2.3 Risk Review: Operations will contact the Risk Department with the details of the transaction. Risk Department will evaluate the impact of the transaction on the account in question to determine whether there are sufficient funds to cover risk moves.

15.2.4 **Trade Acceptance / Rejection:** Risk Department will notify Operations via e- mail whether the trade can be claimed. Operations will instruct the Data Entry Department as to whether to accept or reject the trade in question.

16.0 Debit Collection Policy

16.1 **Management Review:**
The Margin Department will prepare a debit listing with a disposition on all outstanding debit's to be discussed once a week in the morning risk meetings. On a monthly basis all debits are to be reviewed by the Risk Department with regard to the progress in both properly reserving for debits from the salesperson and collecting the debit from the customer.

16.2 **Debit Reporting:** Generally, the occurrence of a debit will require a formal write-up and explanation by the salesperson or appropriate desk supervisor. The **"Explanation of Debit"** form (Appendix IV) should be completed and submitted to the Risk Department within 24 hours of the occurrence.

16.2.1 **Retail:** All debits greater than $10,000 require a report.

16.2.2 **Discount:** All debits greater than $100 require a report.

16.3 **House Debit** A debit is classified as "House" when there is no financially responsible IB or AP identified with the customer (as is the case with the Retail –Discount customers). In these cases the profit center absorbs the debit.

16.4 **Firm K:** All debit accounts should be moved to firm K (and coded for cash only) on the first day of the month after the occurrence unless the debit is less than 5 business days old or agreed upon by the Risk Committee.

16.5 **Reserve Accounts:** A reserve account will be opened in firm K (on GMI) to record all commission and rebates withheld from IBs, APs and divisions, where applicable.

16.6 **Withholding / Charge-Backs:** The Margin Department will advise the Accounting Department on a monthly basis the amounts to be withheld/charged and credited to the corresponding GMI reserve account. The payback schedule will be agreed upon by the salesperson, the head of the profit center and the Risk Department.

16.6.1 **Funding reserve:** Generally, all IB/AP debits are to be withheld 100% from their monthly payout at a rate that will fully reserve for the debit within a six (6) month period.

16.6.2 **Funding House Debits:** The accounting department will credit the designated reserve account on GMI and charge the appropriate division on the general leader for at house debits.

16.7 House Debit Collection

16.7.1 **Immediate Action:** All accounts with a house debit will be sent a level 1 collection letter (Appendix V) upon being transferred to firm K. All house debits under $10.00 will be forwarded to the Accounting Department to be written off in GMI and charged to the appropriate profit center. All debits =$10,000 will be discussed with the Legal Department to agree upon collection strategy. It may be deemed appropriate for the Risk Committee to refer debits of a lesser amount to the Legal Department for discussion.
Fully Reserved: Generally, if there is no indication of potential collection these debits will be written off within 1 year. Exceptions may be made by the head of the profit center.

16.7.2 **30 Days**: If there is no resolution 30 days after the original debit letter has been sent, the account will be sent a level 2 collection letter (Appendix VI).

16.7.3 **60 Days:** After 60 days all outstanding debits over $1,000.00 will be forwarded to the Legal Department for appropriate action or a Factoring service for 3rd party collection efforts.

16.7.4 **1 Year:** Fully reserved debits with no indication of potential collection after one year will generally be passed on to the profit center with a recommendation to be written off in GMI.

16.8 **Write-off of debit:** The final write off of all debits must be approved by the Risk Committee. Generally, both house and non-house accounts will be written off after 1 year.

16.9 **Account Closing:** Generally, once a debit has been written off in GMI the account will be forwarded to New Accounts to be closed.

17.0 Customer Funds Withdrawal Policy (Retail)

Procedures established that will ensure that the customer will not be able to withdraw funds without the approval of the appropriate IB / AP and to ensure that accounts that are being closed are prohibited from having access to all electronic trading systems.

17.1 Routine withdrawals:

17.1.1 **Requests:** Treasury / Margins Department: will only accept request for wiring funds from IB / AE. Requests that come directly from the customers, that are not

approved by the Margin Department, will be referred back to IB / AE.

17.1.2 **Notification:** The appropriate IB/AE/Order Desk will be informed of all withdrawal requests. For discount business, the Chicago Electronic Trading Help Desk will be notified of any withdrawals of funds and they will insure that the account's limits are adjusted properly or account is blocked completely.

17.1.3 **Blocking Account:** If funds are withdrawn but account stays open, it is the responsibility of the IB/AE/Order Desk to ensure that the account is blocked from all electronic trading platforms until further notice.

17.2 Closing an account (Final Withdrawal)

17.2.1 **Notification**: The appropriate IB/AE/Order Desk, as well as the Chicago Electronic Trading Help Desk, will be notified of all requests to close an account.

17.2.2 **Disabling:** The Chicago Electronic Trading Help Desk will be responsible for disabling access to all electronic trading platforms for the account that is being closed.

17.2.3 **Account Closing Checklist** An account closing checklist that includes all appropriate electronic trading platforms will be completed and signed by all applicable departments after the account has been disabled (Appendix VII).

17.2.4 **Disbursement of Funds:** The firm may hold funds for 24 hours after the request for the disbursement is made. Under exceptional circumstances, funds may be disbursed the same day after all appropriate steps are taken to ensure that the account's access to all electronic trading platforms is disabled.

18.0 Electronic Order Routing Systems

The quality of risk controls and the compatibility of each system are different. Therefore, the appropriate system will depend on the customer's financial and trading profile. The salesperson should consult with IT and Risk prior to recommending a system.

18.1 Firm Approved ETS Systems:

Globex	
	GTEX
TOPS	**R&N (RanOrder)**
ACE	**InterActive Mtrade**
	QuickFills
PATS	**TT**
ILX	**FX Trading**

18.2 **New ETS Systems:** All proposed new Electronic Trading Systems ("ETS") that are to be supported by the firm must be evaluated and approved by the Risk and IT Departments. Generally, all requests must be approved for commercial viability by the appropriate senior management.

18.3 **Existing ETS Systems:** Requesting approval to use an existing ETS. MTrade and ILX "View Only" facility requests should be submitted directly to IT. All other requests must be initially sent to the Risk Department.

18.3.1 **Forms:** Requests for approved ETS facilities will be evaluated once formal request is submitted using the appropriate request form. (Appendix VIII)

18.3.2 **Securities:** (Appendix IX) The requesting salesman should fully complete the first section of the application form. For ILX, a completed BETALink "**Entitlements and Permissions**" form must also be attached. All requests must be approved and countersigned by the relevant head of desk or senior securities management. ILX will generally only be made available to trading desks or IBs. Except in rare instances, IBs will only be provided with the ILX account view facility.

18.3.3 **Futures – Customers and IBs:** (Appendix X) The requesting AE or IB should fully complete the first section of the application form specifying which system is being requested. AE / IB should indicate their requested limits in the "Limits Req." boxes. Limits approved by the Risk Department. (See Section 18.4)

18.3.4 **Futures – Trading Desks:** (Appendix XI) Trading desks requiring access to ETS should submit their request to the Risk Department using the appropriate form. The type of the business being executed (e.g., for retail or professional customers) should also be specified. All desks will be assigned an error (i.e., "Fat Finger") limit, either on an overall basis or by exchange and product. AE should indicate his/her requested limits in the "Limits Req." boxes. Limits approved by the Risk Department will be shown in the "Risk App." Boxes. The Risk Department may restrict the products available for trading.

18.4 **Limits:** The ability to establish limits varies from ETS to ETS.

18.4.1 **Review and Release** All MTrade account orders will be subject to review and release by the applicable trading desk.

18.4.2 **Fat Finger:** All desk customers and IBs will be assigned an error (i.e., "Fat Finger") limit, either on an overall basis or by exchange. Limits are determined by the Risk Department.

18.4.3 **Position Limits:** Customers may also be assigned position limits by exchange and / or by product (if appropriate).

18.4.4 **Buying Power:** Customers will only be able to use available buying power to establish positions.

19.0 Give ups - Electronic Execution Only Business

19.1 Documentation:

19.1.1 **ETS Agreement:** The Trader must sign an Electronic Trading document that indemnifies the firm from any system failures. (CTA's / Traders).

19.1.2 **Give-up Agreement:** The Trader /CTA must sign the Give-Up Agreement.

19.2 Payments & Fees:

19.2.1 **Payment Structure:** ALL Chicago give-ups are to be paid on **GAINS**.

19.2.2 **Fees:** The rate per contract paid to the firm must be stated in the Give-Up Agreement.

Indexes: will be = $1.25/ contract
Other : will be = $1.00/ contract
Exceptions: Must be approved by Executive Management.

19.2.3 **Pass Through fees:** Identify and disclose the costs associated with the Chicago clearinghouses

19.2.4 **Payout:** Establish the payout on the collections. (MFG share/ salesman share).

19.2.5 **Terminal (ETS cost):** Establish who will be paying for the use of the Terminal and the relevant cost.

19.3 Operations:

19.3.1 **406 Account:** Create a 406 account for each relationship. This account will be used to hold the trades for allocation.

19.3.2 **Allocations:** Break down and allocations must be sent to Chicago Operations immediately after the trade is executed. (The trader cannot wait until the end of the day to send allocations).

19.3.3 **Trade Acceptance:** It is imperative that his/her customer accepts the executions immediately and that executions should never remain at the firm overnight. **A handling fee of 50¢ per lot will be assessed on all trades held overnight**.

19.3.4 **Limits:** Fat Finger limits will be established for each user (buying power is not available). Collateral: Trader shall deposit in T-Bills an amount equivalent to his/her fat finger limit multiplied by the margin requirement of the largest contract that they are authorized to trade.

19.3.5 **Markets:** Only electronically matched US markets will be approved.

20.0 Expit Procedures

20.1 **Incoming:** The Expit Department is to send a full copy of the equity run to the Margin and Risk Departments for approval and to provide the information as follows

20.1.1 **Detail:** Trades -Cash-Treasuries that will be transferred in via wire transfer.

20.1.2 **Methodology:** How the trades are proposed to clear through the respective Exchanges.

Futures - Trade Vs Settlement
Options - With or without premium

20.2 **Risk Review:** The Margin and Risk Departments are responsible to review and determine the following:

20.2.1 **New Account:** Confirm that the account is properly margined and is within risk, margin, and credit limits.

20.2.2 **Existing Account:** Confirm that the new trades will not put the account over its risk, margin, and credit limits.

20.2.3 **Outgoing:** The Expit Department is to send a copy of the letter to the Margin and Risk Departments for approval and instruction.

20.2.4 **Methodology:** The Margin and Risk Departments will then determine how the outgoing trades should be cleared through the respective exchanges.

Futures - Trade Vs Settlement
Options - With or without premium

20.2.5 **Total Account:** Confirm that the account is free and clear to be released, and that the clearance of all trades combined with the accounts cash balance will result into a positive balance.

20.2.6 **Partial Account:** Confirm that the request for partial trades-cash-treasuries will not result in putting the account over its risk and or credit limits, and that the account will remain fully margined.

20.2.7 **Test account:** In cases where the size of the proposed position transfer renders it impossible to properly quantify the impact on the risk and / or resulting equity values of the resulting position, the Risk Department will request the Clearing Department to set up a test account to be run with the Far East processing.

20.3 **Approval of Settlement Exposure:** The appropriate approval must be obtained as follows:

20.3.1 **Opposite FCM:** If the final settlement of Cash/Treasuries/Variation is greater than 25% of the other FCM's capital, a detailed Expit Authorization and Variation Forms (Appendix XII, XIII, XIV or XV) must be completed and approved by Senior Management, Risk, Margins and Clearing.

20.3.2 **Customer:** The Head of Global Risk must sign off and approve if the final settlement of Cash/Treasuries to **be received**from the opposite FCM **exceeds** **$1 million.**

21.0 Stressing Policies

The stressing policy has been built around the quantification, limitation and globalization of the methodology we use to establish the Max Debit. As part of an ongoing daily procedure, the Risk Departments in London and the US stress all positions that are held on the firm's books. This is done at the product level as well as the customer level. Stressing is applied to both price and volatility levels for all positions. The risk system generates an analysis, which calculates the P&L at four price points (i.e., buckets) to the upside and four buckets to the downside, plus unchanged, for a total of 9 price points. Each price point is also stressed both up (9 more points) and down (9 more points) for a movement in option volatility. Therefore, each time a position is analyzed, 27 calculations are executed for each position. The amount that is used to stress positions is mandated by our global parameters

21.1 **Global Parameters:** Extreme moves that have actually occurred for each commodity are examined opposite the relative price. The season is considered when appropriate. Whenever possible, a fixed percentage move rather than standard deviations is established for each bucket.

21.2 **Price History.** A complete database of available price history for all significant commodities will be maintained for ongoing analysis. This database will be kept current.

21.3 **Analysis:** An analysis of the historical data is calculated as follows:

21.3.1 **Smooth the Data**- So that the price movements that occur on expiration from the spread value between spot month and the next month (the next month is now spot) do not distort actual price movement, the spread value is automatically taken out and the second month becomes the lead month when primary volume is shifted to the second month. This can also be done on a certain date, such as option expiration.

21.3.2 **Price Change:** This "smoothed" data is then analyzed for extreme price movements on a **price value change.**

21.3.3 **Percentage:** The same data is then analyzed for the largest **percentage** moves.

21.4 **Interval or Bucket Calculations;** Global parameters are established for each of the following buckets (Price Intervals):

21.4.1 **4th Bucket = Armageddon** Either this event has never occurred in the history of the contract or it is unique to an exceptional event (i.e., war). This is an absolute worst case scenario. We will require customers to show financial ability to meet this move only for very illiquid products, such as Dairy, or for large option traders where the liquidation cost can be difficult to quantify even in normally liquid markets.

21.4.2 **3rd Bucket = Extreme Move.** This represents a price movement that the Risk Department believes is a reasonable expectation of an extreme potential market movement. We have either seen this move in the past or based it on a thorough analysis of price and volatility history, as well as the fundamentals when available. The value of this bucket should never be less than 3 **s**.

21.4.3 **2nd Bucket = High General Confidence Level.** This bucket approximates exchange minimum margins (99.5% confidence). As a rule of thumb, the 2nd bucket should cover at least 3 out of 5 of the largest percentage price movements in the last 5 years.

21.4.4 **1st Bucket = Absolute Minimum Cover.** This bucket approximates exchange minimum hedge margins.

21.5 **Limitation:** Notwithstanding good intentions, past history is no guarantee of future price movement. There is a limit to the certainty with which the Risk Department can anticipate price movements. Relative price, the cyclical significance of the product, and the price restraints caused by exchange imposed limits are all contemplated in the estimation of the Global Parameters.

21.6 **Volatility**: This is an annualized quantification of the price movements. Volatility may be based on the actual historical price movement of the underlying future or stock (i.e., 5 day, 30 day, etc.) or it may be implied by the options traded on the underlying
commodity. Changes in implied volatility (Vega) will impact the pricing of the option contracts on futures and stocks. Where possible, the Risk Department will base increases on actual historical increases we have seen on sudden price moves.

21.7 **MaxDebit:** The Max Debit is the amount that the customer will lose if we assume a stressed price and/or option volatility movement. MaxDebit = [NLV-Extreme Move (3rd bucket)]

21.8 **SRTL:** The SRTL refers to the amount of Max Debit that we will allow a customer to establish. In essence, the SRTL is a soft limit that sets an amount of market price and volatility risk that we will let a customer take in his or her account. When breached, the SRTL serves as a red flag to alert the Risk Department and certain senior executives of a potential risk issue.

APPENDIX I.

Risk Committee

The U.S. Risk Committee is comprised of the following people:

James Zamora	Head of U.S. Risk
Steven Hood	Senior Risk Analyst
Alex Panasko	Senior Risk Analyst
Marc Vesecky	Senior Risk Analyst
Dave Earley	Head of U.S.
Margins Monica Rodriquez	Senior Credit
Analyst Kenji Takaki	Senior Credit
Analyst	

The Risk committee may deem it necessary to consult with the Deputy CEO or the Chairman of the Credit Committee when appropriate.

Michael Roseman	Head of Global Risk / Deputy
CEO Derek Over	Credit Committee Chair

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

U.S. BROKERAGE CREDIT EVALUATION SRTL CREDIT REPORT		
APPENDIX II.		
Profit Center:		
Salesperson:	Report prepared by:	
Management Sponsor:	Date:	
Proposal:	Prior:	Renewal: March 04
Company:	Account Number:	
Location:	Country Code:	Country rating:
Ownership:		
Client Profile:	Public Rating:	Global rating:
Spec/Hedge:	Commercial Retail:	
Credit Limits ($ million):	Previous	Current
SRTL:		
% Shareholder Eq. or Liq		
NLV		
Margin Level		
Max Risk		
Max Debit		
Options:		
Credit Support:	Amount:	Expiration Date:
MFI documentation signed:		Date Signed:
Banks Relationship:		
Bank reference:	Date:	
Account Contact:	Name:	
Phone:	Guarantor:	
Confidentiality Agreement		
Signed:	Regulator:	
Auditor:	Ernst & Young:	Last mgmt.
Visit		
Positives:		
Negatives:		
Trading and Risk profile:		
Financial Summary ($ millions):		
Total Assets: Liquid Assets:		
(35%)		
Total liabilities: Shareholder's equity:		
(25%)		
L/T Debt: Net profit/loss (approx):		
Market Capitalization:		
Public Listing & Share Price (High/Low):		

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

TRADING AND RISK PROFILE
RISK
RISK COMMENTARY:
Account numbers/related:
Account commodities traded:
Duration of position:
Total open contracts:
Liquidity issues:
Trading style:
Electronic order entry usage:
MARGIN COMMENTARY:
FIR range (past 90 days)
Payment history:
Wire transfer:
Daily sweep:
Push limit:
COMMISION & UTILISATION
Last 12 months
GMI Gross
Commission: Net
Interest income: YTD
Profitability
Per GMI:
Budget for the next 12 months
Profitability:
Interest Income:
COMMERCIAL SPONSOR COMMENTARY
Provided by:
Requested from:

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

U.S. BROKERAGE CREDIT EVALUATION SRTL CREDIT REPORT		
APPENDIX III.		
Profit Center:		
Salesperson:	Report prepared by:	
Management Sponsor:	Date:	
Proposal:	Prior:	Renewal: March 04
Company:	Account Number:	
Location:	Country Code:	Country rating:
Ownership:		
Client Profile:	Public Rating:	Global rating:
Spec/Hedge:	Commercial Retail:	
Credit Limits ($ million):	Previous	Current
SRTL:		
% Shareholder Eq. or Liq		
NLV		
Margin Level		
Max Risk		
Max Debit		
Options:		
Credit Support:	Amount:	Expiration Date:
MFI documentation signed:		Date Signed:
Banks Relationship:		
Bank reference:	Date:	
Account Contact:	Name:	
Phone:	Guarantor:	
Confidentiality Agreement		
Signed:	Regulator:	
Auditor:	Ernst & Young:	Last mgmt.
Visit		
Positives:		
Negatives:		
Trading and Risk profile:		
Financial Summary ($ millions):		
Total Assets: Liquid Assets:		
(35%)		
Total liabilities: Shareholder's equity:		
(25%)		
L/T Debt: Net profit/loss (approx):		
Market Capitalization:		
Public Listing & Share Price (High/Low):		

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

TRADING AND RISK PROFILE
RISK
RISK COMMENTARY:
Account numbers/related:
Account commodities traded:
Duration of position:
Total open contracts:
Liquidity issues:
Trading style:
Electronic order entry usage:
MARGIN COMMENTARY:
FIR range (past 90 days)
Payment history:
Wire transfer:
Daily sweep:
Push limit:
COMMISION & UTILISATION
Last 12 months
GMI Gross
Commission: Net
Interest income: YTD
Profitability
Per GMI:
Budget for the next 12 months
Profitability:
Interest Income:
COMMERCIAL SPONSOR COMMENTARY
Provided by:
Requested from:

MF Global

Appendix IV

Debit Report To be completed by salesperson for Debits =$1,000. To be completed by Discount Desk Manager for Debits = $10	
Account Name:	Debit $
Account #	Date of Debit Profit Ctr:
Salesperson: Manager:	Office:
Responsibility for Debit	
Person	
Responsible: Reserve Account:	Reserve Account Balance:
Explanation of Debit	
Corrective Action	
Sign-Off	

	Prepared By	Manager	Department Head	Risk Department
Name:				
Initial:				
Date:				

Attach sheet if necessary.

THIS DOCUMENT IS INTENDED FOR INTERNAL DISTRIBUTION ONLY

APPENDIX V.

COLLECTION LETTER LEVEL 1

(Date)

(Name and Address)

Re: Deficit in **(Account #)**

Dear, **(Name of Customer),**

As you are well aware, in _____ (Month and Year) your account incurred a debit balance. The deficit currently stands at **$_____. (Debit Amount)**

DEMAND IS HEREBY MADE UPON YOU for immediate payment in full of the amount of your outstanding balance.

Please know that pursuant to the terms of your Customer Agreement, we will look to you for full payment plus interest and all costs of collection, including attorneys' fees. You should be aware that legal fees and other costs of collection could substantially increase the amount of your obligation if litigation is filed against you. Additionally, you have consented to jurisdiction in Chicago, Illinois. I urge you to contact me in order to avoid additional liability.

I ask that you please contact me at (312) 663-7663 regarding payment.

Sincerely,

Philip Tanzar
Vice President &
Senior Compliance Counsel

cc: Burt Young
Compliance Dept.

APPENDIX VI

COLLECTION LETTER LEVEL 2

(Date)

(Name and Address)

SECOND NOTICE

Re: Deficit in **(Account #)**

Dear **(Name of Customer),**

As you are well aware, in _____ (Month and Year) your account incurred a debit balance. The deficit currently stands at $_____. **(Debit Amount)**

DEMAND IS HEREBY MADE UPON YOU for immediate payment in full of the amount of your outstanding balance.

Please know that pursuant to the terms of your Customer Agreement, we will look to you for full payment plus interest and all costs of collection, including attorneys' fees. You should be aware that legal fees and other costs of collection could substantially increase the amount of your obligation if litigation is filed against you. Additionally, you have consented to jurisdiction in Chicago, Illinois. I urge you to contact me in order to avoid additional liability.

I ask that you please contact me at (312) 663-7663 regarding payment.

Sincerely,

Phil Tanzar
Vice President &
Senior Compliance Counsel

cc: Burt Young
Compliance Dept.

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

CLOSE ACCOUNT/TRANSFER OUT REQUEST FORM

☐ ***Delete Account*** ☐ ***Block Account***

APPENDIX VII.

Check Request		
Office Code:	Account No:	Name:
Amount:		
Wire Transfer Request		
Office Code:	Account No:	Name:
Amount:		
Wire Fee	**Instructions**	
	Name of Bank:	
	City and State:	
	ABA#:	
Amount	Other Info:	
	Credit Customer's Account Number:	
Transfer Out		
Receiving Firm:		
Reason for Close-Out		
Removed From E-Systems		
Mtrade ☐ TT ☐ MTrade Pro ☐ Email ☐ Other ☐		
Waive 24 Hr Period ☐ Open Orders Cancelled ☐ eMIDAS ☐		
Requested By:		
Taken By:		

APPENDIX VIII

ETS Evaluation Form ***Risk Evaluation*** VENDOR			
Controls			Comments
Macro Level Controls	**Exists**	**Development**	
Commodity Limits			
Firm Limits			
Office Limits			
Micro Controls			
Lot Limit: This is the Fat Finger limit			
$ Amount Limits			
Commodity Limits			
Buying Power Controls			
Real time Buying Power Review			
Import MFG Margin Tables			
Change margins by groups			
Day Trading limits			
Position Trading Limits			
Credit Limit Control			
Administrative Controls			
Multi Level administration Functionality			
Administrative access through the Risk Department in New York.			
Activity Reports			
Day Trading Reports			
Position Reports			
Account Status Reports			
Other Considerations			
User Friendly			
Legal			
Legal sign-off on documentation			
Operations			
Operational sign-off			
IT			
IT sign off			

APPENDIX IX

ETS Evaluation Form ***Risk Evaluation*** VENDOR			
Information Technology			Comments
Description of Requirements			
Security	**Exists**	**Development**	
User Profile (Ids, passwords, & Admin)			
Encryption Methods (what is encrypted and how, what is not)			
Does the product require changes to the firewall?			
Architecture Provide a Network Equipment Required			
Inventory of Network Equipment required			
Inventory of Hardware required			
Inventory of Software Components			
Operating Systems			
Database Systems			
Middleware			
Frontend/Client Applications Components			
Admin Applications			
Other Components			
Communications			
Bandwidth Requirements			
Exchange Links Required (Indicated API Version supported)			
Market Data Links Required			
Company Background			
Number of Developers			
Number of Support People			
Number of Installations of the Product			
Number of Users			
Development Budget (last year, this year, next year)			

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

APPENDIX X

A/E IB:		
Firm: E ☐ I ☐ F ☐	Date:	
System Request For: Client ☐ IB ☐		
Name:	Account No.	
Address:	Telephone:	
Fax:	Email:	
City	State:	Zip:
System: GLOBEX ☐ TOPS ☐ MTrade ☐ GTEX ☐ Trad' Tech R&N Order ☐ Interactive ☐ Quick Fills ☐ PATS ☐ Other *(Specify)*		

All clients and IBs will be assigned an error ("Fat Finger") limit, either on an overall basis or by exchange. Clients will also be assigned position limits by exchange and / or by product (if appropriate). AE / IB should indicate their requested limits in the "Limits Req." boxes. Limits approved by the Risk Department will be shown in the "Risk App." boxes. The Risk Department may restrict the products available for trading.

Overall Error Limit		Limits Req			Limits App.			
Exchange / Products	Limits Req.	Risk App.	Exchange / Products	Limits Req.	Risk App.	Exchange / Products	Limits Req.	Risk App.
LIFFE			EUREX			MATIF		
Error Limit			Error Limit			Error Limit		
Position Limit			Position Limit			Position Limit		
Other (Specify)			Other (Specify)			Other (Specify)		
CBOT			CME			NYMEX		
Error Limit			Error Limit			Error Limit		
Position Limit			Position Limit			Position Limit		
Other (Specify)			Other (Specify)			Other (Specify)		
NYBOT			COMEX					
Error Limit			Error Limit			Error Limit		
Position Limit			Position Limit			Position Limit		
Other (Specify)			Other (Specify)			Other (Specify)		

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

Comments: _____

Approved By: Name: _____ Signature: _____

Risk: Approved: ☐ **Rejected:** ☐

Comments: _____

Loss Limit: $ _____ **Approved quantity limits as per page 1**

Name: _____ Signature: _____

Date: _____

IT: **Ref.: FUT___/_____**

Account set-up ☐ **Date _____/_____/ 20_____**

User Name: _____ Password: _____

Comments: _____

Name: _____ Signature: _____

Date: _____

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

APPENDIX XI

A/E:	
Firm: E ☐ I ☐ F ☐	Date:
Business Unit:	Business Type: Retail ☐ Commercial: ☐ Both: ☐
System: GLOBEX ☐ TOPS ☐ MTrade ☐ GTEX ☐ Trad' Tech R&N Order ☐ Interactive ☐ Quick Fills ☐ PATS ☐ Other *(Specify)*	

All clients and IBs will be assigned an error ("Fat Finger") limit, either on an overall basis or by exchange. Clients will also be assigned position limits by exchange and / or by product (if appropriate). AE / IB should indicate their requested limits in the "Limits Req." boxes. Limits approved by the Risk Department will be shown in the "Risk App." boxes. The Risk Department may restrict the products available for trading.

Overall Error Limit		Limits Req			Limits App.			
Exchange / Products	Limits Req.	Risk App.	Exchange / Products	Limits Req.	Risk App.	Exchange / Products	Limits Req.	Risk App.
LIFFE			EUREX			MATIF		
Error Limit			Error Limit			Error Limit		
All Products		Y / N	All Products		Y / N	All Products		Y / N
Other (Specify)			Other (Specify)			Other (Specify)		
CBOT			CME			NYMEX		
Error Limit			Error Limit			Error Limit		
All Products		Y / N	All Products		Y / N	All Products		Y / N
Other (Specify)			Other (Specify)			Other (Specify)		
NYBOT			COMEX					
Error Limit			Error Limit			Error Limit		
All Products		Y / N	All Products		Y / N	All Products		Y / N
Other (Specify)			Other (Specify)			Other (Specify)		
Error Limit			Error Limit			Error Limit		
All Products		Y / N	All Products		Y / N	All Products		Y / N
Other (Specify)			Other (Specify)			Other (Specify)		

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

Comments: _____

_____

_____

_____

Approved By: Name: _____ Signature: _____

Risk: Approved: ☐ **Rejected:** ☐

Comments: _____

_____

_____

_____

Loss Limit: $_____ **Approved quantity limits as per page 1**

Name: _____ Signature: _____

Date: _____

IT: **Ref.: FUT___/_____**

Account set-up ☐ **Date _____/_____/ 20_____**

User Name: _____ Password: _____

Comments: _____

_____

_____

Name: _____ Signature: _____

Date: _____

MF Global

INCOMING EXPIT AUTHORISATION

APPENDIX XII

1 Client Name: _____

2 MFG account number _____

3 Account transfer date _____

4 Total net liquidating value Including Treasury value _____

5 Total initial margin requirement (Not including option value) _____

6 Margin Excess _____

7 C.O.B. Date of latest broker account statement _____

8 Transferring FCM _____

9 FCM contact name & telephone number _____

COMMENTS / ACTION POINTS

Transfer basis : **Please Circle And Delete As Appropriate**

Customer account

Book futures at original trade price or settlement Trade Settlement

Book options with or without premium With Premium No Premium

Clearing House

Futures clear at original trade price or settlement Trade Settlement

Options clear with or without premium Zero Premium With Premium

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

Estimated Settlement

Cash and Treasury value collect for customer account _____

Variation pay or collect with opposite FCM if applicable _____

Other matters (please list) :

AUTHORISING SIGNATURES

	PRINT NAME	SIGNATURE	DATE
Business Introducer :			
Operations Department (T. Vera / J. Crowley)			
Margin Department (D. Stroder/ D. Earley)			
Risk Department (S. Hood)			
Senior Management (J. Zamora)			

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

Appendix XIII
Date: _____

INCOMING
Variation Settlement

CIRCLE THE APPLICABLE

COMEX CUSTOMER	996-COMCV
NYBOT CUSTOMER	996-COTCV
NYMEX CUSTOMER	996-NYMCV
COMEX HOUSE	996-COMHV
NYBOT HOUSE	996-COTHV
NYMEX HOUSE	996-NYMHV

DESCRIPTION & REFERENCE _____

GMI A/C _____

AMOUNT _____

CHECK OR WIRE (Circle One)

RECEIVING FROM (OTHER FCM) _____

CLEARING SIGN-OFF Tom Vera / Dan Schulman _____

MARGIN SIGN-OFF
Dave Earley

MF Global

Appendix XIV

OUTGOING EXPIT AUTHORISATION

1 Client Name: _____

2 MFG account number _____

3 Account transfer date _____

4 Transferring FCM _____

5 FCM contact name & telephone number _____

6 Total net liquidating value Including Treasury value _____

COMMENTS / ACTION POINTS

Transfer basis : Please Circle And Delete As Appropriate

Customer account

Book futures at original trade price or settlement Trade Settlement

Book options with or without premium With Premium No Premium

Clearing House

Futures clear at original trade price or settlement Trade Settlement

Options clear with or without premium Zero Premium With Premium

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

Appendix XV
Date:_____

Variation Settlement
PAYOUT REQUEST
CIRCLE THE APPLICABLE

COMEX CUSTOMER	**996-COMCV**
NYBOT CUSTOMER	**996-COTCV**
NYMEX CUSTOMER	**996-NYMCV**
COMEX HOUSE	**996-COMHV**
NYBOT HOUSE	**996-COTHV**
NYMEX HOUSE	**996-NYMHV**

DESCRIPTION
& REFERENCE _____
GMI A/C _____

AMOUNT

_____

CHECK PAYABLE TO

_____

WIRE INSTRUCTIONS

CREDIT BANK _____

_____

ABA NO. _____
BNF A/C NO _____
BNF NAME _____

_____

REF INFO _____

_____

CLEARING SIGN-OFF _____
Tom Vera / Dan Schulman
MARGIN SIGN-OFF _____
Dave Earley

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

Day Trading Reduced Margin Approval Form

APPENDIX XVI

In accordance with Section 12 of the MF Global Inc. US Risk Department Policy & Procedures an exception may be made from our normal 50% margin requirement for Day Traders.

> ***12.1 Margins:*** *Generally, Day-Trading customers must maintain 50% of the margin rate in buying power. Certain electronically matched products may be approved for a lower percentage of margin on a case by case basis.(i.e., e-mini's).*

This form must be completed and approved by Risk prior to applying a reduced day trading margin.

Account No(s)_____
_____

Product to be traded..... _____
Electronic System..... _____
Reduced Margin..... _____
Lot Limit..... _____

Stipulations understood and accepted by Broker:

I understand and accept the following:

- Customer will only trade _____
- Customer will only use _____(Electronic system)
- If Electronic System is down and I must use the order desk, I will notify the margins department immediately.
- It is my responsibility to ensure that the Customer will be flat at the end of the day.
- It is my responsibility to ensure that the customer understands and accepts the stipulations set forth.

_____
Broker

_____
Risk Approval

_____
Senior Mgmt Approval

MF Global

APPENDIX XVII

U.S. BROKERAGE CREDIT EVALUATION
POLICY EXCEPTION REPORT

Profit Center:
Salesperson:
Senior Commercial Management:

Report prepared by:
Date:
Last Credit/Risk Visit:

Company:	Account Number:	
Location:	Country Code:	Country Rating:
Ownership / Advisor:		
	Public Rating:	Global Rating:
Client Profile:		
Documentation:	Signed:	
Legal Review By:	Legal Code:	

REASON FOR EXCEPTION

TRADING AND RISK CONCERNS

-
-
-
-

Profitability: **YTD:** **$ (see commission section)**

CREDIT PROFILE

Financial Summary ($ millions): **Nothing available**

First year-end:			
Total Assets:			
Liquid Assets:			
(35%)			
Total liabilities:	*No Financial Information is available*		
Shareholder equity:			
(25%)			
L/T Debt:			
Net profit/(loss):			

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

TRADING AND RISK PROFILE

RISK

RISK COMMENTARY:
Account numbers/Related Accts
Commodities traded: Duration
Of position:
Total open contracts:
Liquidity issues:
Trading style:
Electronic Order Entry usage:

MARGIN COMMENTARY:
FIR range (past 90 days)
Payment history:
Wire transfer:
Daily sweep:
Push limit:

COMMISSION

2002 Futures + Interest:
FX Income
Total 2002

YTD Profitability
FX Income
Total YTD

COMMERCIAL SPONSOR COMMENTARY

Provided by:

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

APPENDIX XVIII

U.S. BROKERAGE CREDIT EVALUATION
SRTL Allowance Report

Profit Center:
Salesperson:
Senior Commercial Management:

Report prepared by:
Date:
Last Credit/Risk Visit:

Proposal:	Prior:	Renewal:
Company: **CUSTOMER**	Account Number:	
Location:	Country Code:	Country Rating:
Ownership/Advisor:		
Public Rating:	Global Rating:	
Client Profile		
Documentation:	Signed:	
Legal review by:		

REASON FOR ALLOWANCE

TRADING AND RISK CONCERNS

-
-
-
-

YTD Profitability:

CREDIT PROFILE

Financial Summary ($ millions):

First year-end: **Dec. 31**	**YTD Nov. 30, 2002**	~~**Dec 31, 2001**~~	**Dec. 31, 2000**
Total Assets:			
Liquid Assets: (35%)			
Total liabilities:	*No Financial Information is available*		
Shareholder equity: (25%)			
L/T Debt:			
Net profit/(loss):			

MF Global

U.S. RISK DEPARTMENT
MAY 1, 2003

TRADING AND RISK PROFILE

RISK

RISK COMMENTARY:
Account numbers/Related Accts
Commodities traded: Duration
Of position:
Total open contracts:
Liquidity issues:
Trading style:
Electronic Order Entry usage:

MARGIN COMMENTARY:
FIR range (past 90 days)
Payment history:
Wire transfer:
Daily sweep:
Push limit:

COMMISSION

Last 12 months
GMI Gross
Commission: Net
Interest Income:
YTD Profitability:

COMMERCIAL SPONSOR COMMENTARY

N/A
Provided by:

MF Global

MF Global

APPENDIX IV

GLOBEX COMPLIANCE PROCEDURES

MF Global

For Internal Use Only

MF GLOBAL INC.

CME GLOBEX®

SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

Effective as August 2005

MF Global

MF GLOBAL INC.

CME GROUP, INC.
GLOBEX® SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

ACKNOWLEDGEMENT

The undersigned hereby acknowledges that he/she has reviewed and is familiar with the MF Global Inc. CME Group, Inc. GLOBEX® Supervisory Procedures and Compliance Manual (the "Manual") and all applicable rules and interpretations of the CME Group, Inc. ("CME"), and agrees to adhere to, and be bound by, the provisions of the Manual and such rules and interpretations at all times during his or her association with MF Global Inc. and its affiliates (collectively referred to herein as "MFG"). If the undersigned had or has any questions concerning the material included and the procedures described in the Manual, the undersigned has raised them with the MFG Compliance Department and received satisfactory answers to any such questions.

The undersigned understands that violations of the procedures set forth in the Manual will not be tolerated and may constitute a violation of CME rules. Additionally, such violation may subject the undersigned to disciplinary action by MFG, including termination. The undersigned also acknowledges that the Manual remains the property of MFG and agrees that, upon the termination of the undersigned's employment, he or she will return the Manual to his or her supervisor.

_____
Signature

_____
Name (please print)

_____
GLOBEX User and/or
Operator ID Number

_____
Date

MF Global

TABLE OF CONTENTS

		Page
GLOBEX® SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL		1
A.	Authorized Operators, Users and Supervisors; Recordkeeping	1
B.	Log On/Off and Basic Data Entry Procedures (CME Rule 536.B and 576)	1
C.	Pre-Execution Discussions Procedures Regarding Globex Trades (CME Rule 539.C)	1
D.	Market Making Activities	1
E.	Wash Trading Prohibition	1
F.	GLOBEX Trade Cancellation Policy (CME Rule 588)	1
G.	Supervisory Review	1
H.	Record of Transactions (CME Rules 123 and 536.B)	11
EXHIBIT A	GLOBEX CONTACT LIST	A-1
EXHIBIT B	GLOBEX CANCELLATION POLICY	B-1

MF Global

MF GLOBAL INC.

CME GROUP, INC.
GLOBEX® SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

This CME Group, Inc. ("CME") GLOBEX® Supervisory Procedures and Compliance Manual (the "Manual") sets forth the principles, practices and procedures under which MF Global Inc. and its affiliates (collectively referred to herein as "MFG" or the "Firm"), conducts its activities associated with the use of the GLOBEX electronic trading system for entering orders for futures and/or options on futures contracts ("Contracts") on the CME.[1]

Each MFG employee who has been authorized to trade on GLOBEX to enter orders for Contracts (each such employee is referred to in this Manual as a "User"), and each supervisor of Users (referred to in this Manual as a "Supervisor"), is required to be familiar and comply with the procedures set forth herein. Supervisors have ultimate responsibility for overseeing the procedures set forth herein. MFG's Compliance Department will be responsible for implementing, monitoring compliance with and answering questions regarding, certain aspects of this Manual, as set forth below.

This Manual supplements and should be read and applied together with other MFG compliance policies and procedures, including the MF Global Inc. Futures Compliance and Supervisory Procedures Manual. This Manual is to be used by all applicable MFG employees (including Users and Supervisors) as a guide for compliance with GLOBEX policies and procedures. This Manual does not purport to be a guide to the laws, rules and regulations applicable to the futures industry generally. If you have questions about futures industry-related matters not addressed in this Manual, you should contact the Compliance Department for clarification.

The Compliance Department will require each User and Supervisor to acknowledge that he or she has read, is familiar with, and agrees to be bound by, the principles, practices and procedures contained in this Manual. The Compliance Department may require all or certain Users or Supervisors to provide new Acknowledgements on a periodic basis, or as

---

[1] With respect to the policies and procedures set forth in this Manual, such policies and procedures apply to MFG's use of GLOBEX via a direct connection to the GLOBEX trading host. In the event MFG access to GLOBEX is via a third party provider, such access is additionally subject to and governed by policies and procedures as agreed directly between MFG and such third party provider.

otherwise determined by the Compliance Department in its discretion. The form of such Acknowledgement is attached to this Manual after the title page of this Manual.

A. Authorized Operators, Users and Supervisors; Recordkeeping

MFG will create and maintain at its Chicago offices a current roster of (i) all GLOBEX terminal operators ("Operators"), their GLOBEX terminal operator identification numbers ("Operator IDs"), their office locations and the GLOBEX terminals for which each such Operator is authorized access, (ii) all GLOBEX users that access GLOBEX through the CME's FIX API[2] (together with the Operators, "Users"), their GLOBEX user identification codes ("User IDs"), their office locations and the FIX API identification number for which each User is authorized access, and (iii) all persons responsible for supervising the Users ("Supervisors"), their User and/or Operator IDs, their office locations and the identities of the Users they are responsible for supervising. As required by CME Rule 576, the Firm will provide information regarding the identity of Users and their User and/or Operator IDs to the CME and will promptly inform the CME of any changes in User and/or Operator ID information. To uniquely identify each User, the Firm will register a Workstation Operator Identifier (also known as the "senderSubID" or "FIX TAG 50") for each User. The CME requires and MFG will provide each User's date of birth and country of primary residence and, effective October 1, 2005, the User's e-mail address and the last four digits of the User's social security number.

B. Log On/Off and Basic Data Entry Procedures (CME Rule 536.B and 576)

1. Prior to being provided with access to a GLOBEX terminal, each Operator will be assigned, by the CME, his/her own Operator ID and password and will use only that Operator ID and password. Use of another Operator ID or password, or use of an Operator ID not approved by the Firm and not on file with the Compliance Department and the CME, under any circumstances, is strictly forbidden. (Each Firm GLOBEX terminal will be labeled with a notice stating

[2] The CME FIX API allows MFG's order management system to communicate with the CME's order routing systems, *i.e.*, Users can run the CME FIX API on their computers (rather than using a GLOBEX terminal) to electronically send orders to and receive fills from GLOBEX.

that an Operator must use only his or her individually assigned Operator ID and password.)

2. Prior to being provided with access to GLOBEX through the CME's FIX API, each User will be assigned, by the CME, his/her own User ID and will use only that User ID. Use of another User ID, or use of a User ID not approved by the Firm and not on file with the Compliance Department and the CME, under any circumstances, is strictly forbidden.

3. Before entering an order into a GLOBEX Terminal, each Operator must sign onto the GLOBEX System by inputting his or her assigned Operator ID and password. Before leaving a GLOBEX Terminal, each Operator must sign off of the GLOBEX System completely. Similarly, each User that is placing trades through the CME's FIX API into GLOBEX must include with the order the User's User ID and, before leaving a computer that is logged onto GLOBEX through the CME's FIX API, such User must sign off of the GLOBEX System completely.

4. Each User must input for each GLOBEX order the terms of such order as follows: the price, quantity, product, contract month, customer type indicator ("CTI") code and account designation and, for options, the strike price of the option, whether the option is a put or call, and the relevant expiration month.

C. Pre-Execution Discussions Procedures Regarding Globex Trades (CME Rule 539.C)

1. When the Firm has an order that it wishes to execute through GLOBEX, there may be circumstances where the Firm would like to discuss possible execution of the order with potential counterparties. Pre-arranged trades generally are prohibited under CME Rule 539. However, certain pre-execution discussions conducted in connection with transactions on GLOBEX are permissible, but only under the following circumstances:

   (a) The party for whose benefit the trade is being made must consent to such discussion(s).

(b) In the case of a futures order, a period of at least five (5) seconds must elapse between the entry of the two orders.

(c) In the case of an options order, a period of at least fifteen (15) seconds must elapse between the entry of the two orders.

If the Firm is a party to a pre-execution communication, the Firm must conform to the following in entering the orders on the Enhanced Options System (the "EOS") platform:

(i) Every order entered pursuant to a Pre-Execution Communication must be preceded by the entry of a Request for Cross Trade ("Cross Request") on EOS. This requires the entry of the contract and the quantity.

(ii) The order from the party initiating the trade must be entered **first** and within **three (3) minutes** after entering the Cross Request.

(iii) The opposing order responding to the Cross Request may not be entered until, in the case of a futures order, at least five (5) seconds have elapsed, or in the case of an options order, at least fifteen (15) seconds have elapsed from the time of the entry of the order from the party initiating the trade.

(iv) If an order is not forthcoming within the 3-minute time window, another Cross Request must be sent before the order may be entered.

(v) A GLOBEX or EOS User who solicits, or who has been solicited by, another GLOBEX or EOS user (including another Firm User) to participate in a GLOBEX or EOS transaction through pre-execution discussions may not disclose the details of such communications to another person, or use the

information obtained from such communication other than to participate in such transaction in accordance with the above procedures.

(vi) This requirement ensures that participants alert the market place of interest in a certain strike or combination, which works to guarantee that incoming orders will be exposed to the greatest possible number of potential counterparties.

D. Market Making Activities

Users who engage in GLOBEX market making for a Firm proprietary account should avoid hitting resting orders for the same Firm proprietary account, as doing so could subject the Firm to disciplinary action under CME Rule 432.G (acting as buyer and seller in same transaction). If a market making User discovers that he or she has traded opposite the same Firm proprietary account, he or she should contact the Compliance Department. If, however, the trade is a potential error trade that is eligible to be busted under the CME's GLOBEX Trade Cancellation Policy (discussed in **Section F.** below), the User should contact the GLOBEX Control Center ("GCC") and should then notify the Compliance Department of any error trades that are busted. The GCC also will attempt to inform the Firm of such erroneous trades.

E. Wash Trading Prohibition

Operation of GLOBEX may give rise to issues relating to wash trading. Please see the Firm's Futures Compliance and Supervisory Procedure Manual at **Section VI.K.** for procedures relating to wash trading. If you have questions regarding the wash trading procedures please contact the Compliance Department.

F. GLOBEX Trade Cancellation Policy (CME Rule 588)

1. All Users will periodically review, and familiarize themselves with, the text of the CME's GLOBEX Trade Cancellation Policy (the "Policy") as revised and supplemented (copy attached as Exhibit B to this Manual). A summary of the

pertinent provisions of the Policy follows. However, the Policy is complex, and the summary that follows is not meant to be a substitute for careful review of the text of the Policy. If questions arise, Users should contact the Compliance Department. (*See* Contact List at Exhibit A.)

2. Summary of CME GLOBEX Trade Cancellation Policy

The GCC may review a trade upon request for review by a GLOBEX User or may review a trade based on its analysis of market conditions. **A request for review by a GLOBEX User must be made within eight (8) minutes of the trade occurring.**

The GCC will determine whether the trade price is within the No Bust Range for the contract. (*See* No Bust Range list at **Section F.2.(k)** of this Manual.) Under certain conditions, such as fast market conditions or upon the release of significant news, or in other circumstances in which the GCC deems it is appropriate, the GCC may temporarily double the No Bust Range without prior notice.

(a) Policy for Trades Inside the No Bust Range

Trades inside the No Bust Range will not be busted unless the GCC determines that failure to adjust the price or cancel the trade may have a material, adverse effect on the integrity of the market.

(b) Policy for Trades Outside the No Bust Range

(i) Eurodollar Futures Contracts

Trades involving Eurodollar Futures Contracts with a trade price that falls outside of the No Bust Range will be adjusted to a price that equals the actual or implied market price for that contract at the time of the questioned trade, plus or minus the standard or doubled No Bust Range. The GCC will promptly issue an alert indicating that the prices

of the trades outside the No Bust Range have been adjusted to the No Bust Range limit.

(ii) Eurodollar Futures Contracts – Non-Implied Combination Trades

Non-implied combination Eurodollar trades, such as packs and bundles that are priced outside of the No Bust Range may be busted. The GCC will promptly issue an alert indicating that trades outside the No Bust Range have been busted.

(iii) All Other Futures and Options Contracts

If the GCC determines that the trade price is outside the No Bust Range, the GCC shall bust the trade. The GCC will promptly issue an alert indicating that trades outside the No Bust Range have been busted.

(c) Liability for Losses Resulting from a Price Adjustment or Trade Bust

(i) Eurodollar Futures Contracts – Adjusted Stop Orders

A party responsible for an order that results in a trade price adjustment shall be liable for actual losses incurred by the persons whose stop orders were elected as a result of the order. The compensable loss on each futures contract executed as part of a stop order shall be the difference between the adjusted price and the price in the market at the time the person knew or should have known that his order was erroneously elected.

(ii) Eurodollar Futures Contracts – Adjusted Spread Trades

A party responsible for an order that results in a trade price adjustment shall not be liable to persons whose spread orders were executed and

adjusted unless the adjusted execution price of the spread is less favorable than the market equilibrium spread price for the relevant spread. The liability of the party responsible for an order that results in a price adjustment shall be limited to the difference between the adjusted price and the equilibrium market price, but shall not exceed the relevant No Bust Range.

(iii) Eurodollar Futures Contracts – Other Transactions

A party responsible for entering an order that results in a trade price adjustment shall not be liable for losses incurred by persons whose trade prices were adjusted, except as otherwise provided in the GLOBEX Trade Cancellation Policy.

(iv) All Other Futures and Options Contracts

A party responsible for an order that results in a trade bust may be liable for the reasonable out-of-pocket losses incurred by persons whose trades were busted or persons whose stop orders were elected and not busted. Issues of liability in such cases will be determined based upon all relevant facts and circumstances, including the conduct of the respective parties.

(d) Claims Process

All claims for loss must be submitted to the CME on a CME claim form within five (5) business days of the price adjustment or the election of the stop. The opposing party has ten (10) business days to admit or deny responsibility. The liability for a single incident is limited to $500,000.

(e) Type 8 Transfers

Trades that are outside the No Bust Range but cannot be busted because the trade was not reported within eight (8) minutes of the trade may be transferred between the parties using a Type 8 Transfer, upon agreement of the parties. The transfer must use the original trade price and quantity. A party may, but is not required to, include a cash adjustment to another party to the trade.

Trades within the No Bust Range may not be reversed using a Type 8 Transfer.

(f) Arbitration of Disputes Regarding Type 8 Transfers

If a party does not agree to transfer a position via Type 8 Transfer, any other party to the trade may file an arbitration claim against the member or clearing member representing the other side of the trade. Written notice of such claim must be provided to the CME within five (5) business days of the trade occurring. Failure to file the claim within five (5) business days shall be deemed as waiver of all claims. The arbitration claim will be dismissed by the CME if the owner of the account on the other side of the trade is not a member of the CME or a person otherwise subject to the CME's jurisdiction.

(g) Voluntary Adjustment of Trade Price

When a trade outside the No Bust Range is busted, the parties to the trade may agree voluntarily to reestablish the trade but to adjust its price and make a cash adjustment provided that all of the following conditions are met:

(i) The GCC approves the adjustment.

(ii) The quantity of the position being reestablished is the same quantity of the trade that was busted.

(iii) In the case of a trade below the actual or implied market price, the adjusted price must be the lowest price that traded at or about the time of the trade without being busted. In the case of a trade above the actual or implied market price, the adjusted price must be the highest price that traded at or about the time of the trade without being busted.

(iv) The parties to the adjusted trade must report it to the clearing system using a Type 8 Transfer with a "G" transfer code no later than the close of business on the business day after the trade occurred.

(h) Busting Trades After System Freeze

In the event that the matching engine freezes with live orders in the queue waiting to be matched, such orders may be matched when the system is unfrozen before the GCC can halt the matching engine. The GCC is authorized to bust trades resulting from such matches if the price of such trades is outside of the No Bust Range at the time that a confirmation of the trades was sent.

(i) Schedule of Administrative Fees (CME Rule 588.J)

The party responsible for entering an order into GLOBEX that resulted in a trade bust will be charged an administrative fee by the CME in the amount of $250 for the first five (5) occasions in a calendar year, $500 for the next three (3) occasions within the same calendar year, and $1000 for each subsequent occasion within the same calendar year.

(j) EOS Trade Cancellation Policy

The only difference between the EOS Trade Cancellation Policy and the GLOBEX Trade Cancellation Policy is that error trades on the EOS cannot be busted. The method for handling EOS error trades is

MF Global

via a Type 8 Transfer between the parties. Despite the fact that the end result of an error trade on the EOS will be reversal of the trade via Type 8 Transfer rather than a "bust," the procedure for reporting an EOS error trade to the GCC is identical to the procedure for reporting a GLOBEX error trade for Options and Combination Trades.

The most critical thing to remember when an error trade occurs is that all error trades must be reported to the GCC within **eight (8) minutes** of the trade. The phone number for the GCC is **(312) 456-2391**. Please immediately inform the manager of the Central Order Desk in Chicago via email of each EOS Error Trade called into the GCC to enable them to confirm all Type 8 Transfers.

(k) GLOBEX No Bust Ranges (CME Rule 588.K)

Futures Contract	No Bust Range
Eurodollar	2.5 basis points or less
LIBOR	5 basis points or less
T-Bills	5 basis points or less
Fed Funds "Turn"	50 basis points or less
Agency Notes	16 ticks or less
Swaps	5 basis points or less
TIIE and CETES	30 ticks or less
CPI Futures	5 basis points or less
HICP Futures	5 basis points or less
Currency Futures (except British pound)	20 ticks or less
British Pound Futures	30 ticks or less
S&P 500 and E-mini S&P 500	6.00 index points or less
S&P BARRA Growth	4.00 index points or less
S&P BARRA Value	4.00 index points or less
S&P MidCap 400 and E-mini S&P MidCap 400	3.00 index points or less
S&P SmallCap 600	3.00 index points or less
Russell 2000 and E-mini Russell 2000	3.00 index points or less
E-mini Russell 1000	3.00 index points or less
Nasdaq-100 and E-mini Nasdaq-100	20.00 index points or less
E-mini Nasdaq Composite	20.00 index points or less
Nikkei 225 ($ and ¥)	60.00 index points or less
S&P 500 Technology SPCTR	3.00 index points or less
S&P 500 Financial SPCTR	3.00 index points or less
TRAKRS Futures	10 cents or less

Goldman Sachs Commodity Index	2.50 index points or less
CME Weather	25.00 index points or less
Lean Hogs	$0.0075 per pound or less
Live Cattle	$0.0075 per pound or less
Feeder Cattle	$0.0075 per pound or less
Pork Bellies	$0.0075 per pound or less
NYMEX Light Sweet Crude Oil e-miNY	6 ticks or less
NYMEX Natural Gas e-miNY	16 ticks or less
Urea	$3 per ton or less
DAP	$3 per ton or less
UAN	$3 per ton or less
Ethanol	$0.025 per gallon or less

Option Contract Prices

Interest Rate Options

Below 6 ticks	1 tick
6 through 15 ticks	2 ticks or less
16 thorough 30 ticks	3 ticks or less
31 through 50 ticks	4 ticks or less
51 ticks and above	5 ticks or less

Equity Index Options

Any premium level	20% of premium (up to 3.00 index points with a minimum of 1 tick) or less

Currency Options

Any premium level	20% of premium (up to 10 ticks, with a minimum of 1 tick) or less

All Other Options

Below 6	eligible for busting
6 through 10	3 ticks or less
11 through 20	4 ticks or less
21 through 50	5 ticks or less
51 through 100	7 ticks or less
101 and above	10 ticks or less

Combination Trades

All Eurodollar Combinations	2.5 basis points or less
Intra-Commodity (non-ED) Futures Spreads	5 ticks or less
Inter-Commodity (non-ED) Futures Spreads two	the wider of the No Bust Ranges of the individual legs

For the most up to date No Bust Ranges please refer to CME Rule 588.K.

G. Supervisory Review

The CME rules impose upon MFG, through its supervisory and compliance personnel, the duty to supervise all personnel having access to GLOBEX or EOS. Accordingly, MFG has instituted the following supervisory review and internal control policies:

1. In consultation with the Compliance Department, each Supervisor will monitor on a regular basis the trading activity of all Users to determine compliance with applicable CME Rules, this Manual and other applicable MFG policies and procedures.

2. On a periodic basis, the Compliance Department will review records relating to User and Operator IDs and passwords to verify that all Users and Supervisors are in compliance with MFG's procedures relating to the use of User and Operator IDs and passwords. The Compliance Department also will undertake a review of such other matters relating to MFG's GLOBEX and EOS trading operations as it, from time to time, determines to be necessary or advisable.

H. Record of Transactions (CME Rules 123 and 536.B)

Pursuant to CME and CFTC rules, all written orders (if any) and their original records pertaining to transactions effected through GLOBEX must be retained by MFG for at least five (5) years. For orders entered into via GLOBEX, the data contained in GLOBEX shall be deemed the original records of the transactions.

MF Global

EXHIBIT A

MF GLOBAL INC.

GLOBEX CONTACT LIST

Compliance Department

Contact

Toni Rossetti – Chicago
Tom Cohen – New York

Operations Department

Contact

Tim Mundt - Chicago

Information Technology Department

Contact

Thom Mack - Chicago

Manager

Contact

Bob Stephens – Chicago
Chuck Palumbo – New York

MF Global

EXHIBIT B[1]

588. GLOBEX TRADE CANCELLATIONS

588.A. GLOBEX Control Center Trade Cancellation Authority

The following policy shall be applied to balance the adverse effects on market integrity of executing trades and publishing trade information inconsistent with prevailing market conditions while preserving legitimate expectations that executed transactions will not be cancelled. The Exchange's trade cancellation policy authorizes the GLOBEX Control Center ("GCC") to mitigate market disrupting events caused by the improper or erroneous use of the GLOBEX system or by system defects by adjusting trade prices or canceling ("busting") trades. Notwithstanding any other provisions of this rule, the GCC may also adjust trade prices or cancel any trade if the GCC determines that failure to adjust the price or cancel the trade may have a material, adverse effect on the integrity of the market. The decision of the GCC shall be final.

588.B. Review of Trades

The GCC may review a trade based on its analysis of market conditions or a request for review by a GLOBEX user. A request for review must be made within eight minutes of the trade occurring. The GCC shall promptly determine whether the trade will be subject to review. In the case of illiquid contracts, the GCC may initiate a review up to one hour after the trade occurred. Promptly after deciding to review a trade, the GCC will issue an alert indicating that the trade is under review.

588.C. Trade Price Adjustment and Cancellation Process

The GCC will first determine whether the trade price is within the No Bust Range for the contract pursuant to Section K. During fast market conditions, upon the release of significant news events, or in other circumstances in which the GCC determines it is appropriate, the GCC may temporarily double the published No Bust Range without prior notice. In applying the No Bust Range, the GCC shall determine the actual or implied market price for that contract immediately before the trade under review. The GCC may consider any relevant information, including but not limited to the existing market conditions, the volatility of the market, the prices of related instruments in other markets, the last trade price on GLOBEX, a better bid or offer price, a more recent price in a different contract month, the price of the same or related contract established in open outcry trading, theoretical value of an option based on the current (most recent) implied volatility, and any other factors that the GCC deems relevant.

1. Trade Price Inside the No Bust Range

   If the GCC determines that the price of the trade was inside the No Bust Range, the GCC will promptly issue an alert indicating that the trade shall stand.

2. Trade Price Outside the No Bust Range

   a. Eurodollar Futures Contracts

   If the GCC determines that a trade price is outside the applicable No Bust Range, the trade price shall be adjusted to a price that equals the actual or implied market price for that contract at the time of the questioned trade, plus or minus the standard or doubled No Bust Range, as may be applicable. The GCC will promptly issue an alert indicating that the prices of the trades outside the No Bust Range have been adjusted to the No Bust Range limit.

---

1 CME Rule 588 may change from time to time. Accordingly, it is critical that Users verify with the Compliance Department that this Exhibit B is current. The CME rulebook is available on the CME website at: http://www.cmerulebook.com/.

For example, if the standard No Bust Range for Eurodollars is 2.5 points above and below the market price and the doubled No Bust Range was in effect at the time of the transactions, all trade prices outside the doubled No Bust Range shall be adjusted to the applicable No Bust Range limit, i.e., 5 points above or below the market price.

b. Eurodollar Futures Contracts – Non-Implied Combination Trades

Non-implied combination Eurodollar trades, such as packs and bundles, which are priced outside of the No Bust Range, may be busted. If the GCC determines that the trade price is outside the No Bust Range, the GCC shall bust such combination trades. The GCC will promptly issue an alert indicating that trades outside the No Bust Range have been busted.

c. All Other Futures and Option Contracts

If the GCC determines that the trade price is outside the No Bust Range, the GCC shall bust the trade. The GCC will promptly issue an alert indicating that trades outside the No Bust Range have been busted. Notwithstanding the above, trades consummated pursuant to Rule 585 that are determined by the GCC to be outside the No Bust Range will stand, and a reciprocal trade negating the original trade will be consummated by means of a "type 8 transfer."

3. Liability for Losses Resulting from a Price Adjustment or Trade Bust

a. Eurodollar Futures Contracts – Adjusted Stop Orders

A party responsible for an order(s) that results in a trade price adjustment shall be liable for actual losses incurred by persons whose stop orders were elected as a result of the order(s). The compensable loss on each futures contract executed as part of a stop order shall be the difference between the adjusted price, as determined by the GCC, and the price in the market at the time the person knew or should have known that his stop order was erroneously elected.

b. Eurodollar Futures Contracts – Adjusted Spread Trades

A party responsible for an order that results in a trade price adjustment shall not be liable to persons whose spread orders were executed and adjusted unless the adjusted execution price of the spread is less favorable than the market equilibrium spread price for the relevant spread. The liability of the party responsible for an order that results in a price adjustment shall be limited to the difference between the adjusted price and the equilibrium market price, but shall not exceed the relevant No Bust Range.

c. Eurodollar Futures Contracts – Other Transactions

A party responsible for entering an order that results in a trade price adjustment shall not be liable for losses incurred by persons whose trade prices were adjusted, except as provided in 3.a. and 3.b. above.

d. All Other Futures and Options Contracts

A party responsible for an order that results in a trade bust may be liable for the reasonable out-of-pocket losses incurred by persons whose trades were busted or persons whose stop orders were elected and not busted. Issues of liability in such cases will be determined based upon all relevant facts and circumstances, including the conduct of the respective parties. All claims in connection with such losses must be pursued under the applicable rules of Chapter 6.

588.D.Claim Process

A claim for a loss pursuant to Sections C.3.a. and b. must be submitted to the Exchange, on an Exchange claim form, within five business days of the price adjustment or the election of the stop. The Exchange shall reject any claim that is not permitted by Section C. Such decision shall be final. All claims, which are not rejected by the Exchange, shall

be forwarded to the party responsible for the order(s) that results in a trade bust or a price adjustment and to the clearing member through which the trade was placed. Such party, or the clearing member on behalf of the party, shall within ten business days of receipt of the claim admit or deny responsibility in whole or in part. The liability for losses for a single incident shall be limited to $500,000.

To the extent that liability is admitted, payment shall be made within ten business days. If liability is admitted but the total claims exceed $500,000, the claims shall be reduced pro rata so that the total payment does not exceed $500,000. To the extent that liability is denied, the claims shall be submitted to arbitration in accordance with Rule 618.

588.E. Trade Cancellation or Offset Procedures

Upon a determination by the GCC that a trade shall be busted or that trade prices shall be adjusted, that decision will be implemented. The busted trade price and any price quotes that have been adjusted will be reflected as cancelled in the Exchange's official record of time and sales. Time and sales will reflect the trades at the adjusted price.

If the trade is not busted, the parties to the transaction cannot reverse the transaction by using a "type 8 transfer" except as provided in Section C.2.c. and Section F. Additionally, if the trade is not busted, the parties may not reverse the trade by entering into a prearranged offsetting transaction unless the reversal is effected in accordance with Rule 539.C.

588.F. "Type 8 Transfers"

Positions that result from a trade determined by the GCC to be outside the No Bust Range that cannot be busted because the trade was not reported within eight minutes of the trade occurring may be transferred between the parties using a "type 8 transfer" upon agreement of the parties. The transfer must use the original trade price and quantity. Any party may, but is not required to, include a cash adjustment to another party to the trade. Trades determined by the GCC to be inside the No Bust Range may not be reversed using a "type 8 transfer."

588.G. Arbitration of Disputes Regarding "Type 8 Transfers"

If a party does not agree to transfer a position pursuant to Section F., any other party to the trade may file an arbitration claim against the member or clearing member representing the other side of the trade. Written notice of such claim must be provided to the Exchange within five business days of the trade occurring. Failure to file the claim within five business days shall be deemed a waiver of all claims. The arbitration claim will be dismissed by the Exchange if the owner of the account on the other side of the trade is not deemed a Member as defined in Rule 400 or a person otherwise subject to the Exchange's jurisdiction. If not dismissed, the arbitration claim will be conducted in accordance with the provisions of Chapter 6 of Exchange rules.

In deciding the claim, the Arbitration Committee may consider, among other factors, the reasonableness of the actions taken by each party and what action the party on the other side of the error trade took before being notified that the trade was being questioned.

588.H. Voluntary Adjustment of Trade Price

When a trade outside of the No Bust Range is busted in accordance with this rule, the parties to the trade may agree voluntarily to reestablish the trade but to adjust its price and make a cash adjustment provided that all of the following conditions are met:

1. The GCC approves the adjustment.

2. The quantity of the position being reestablished is the same as the quantity of the trade that was busted.

3. In the case of a trade below the actual or implied market price, the adjusted price must be the lowest price that traded at or about the time of the trade without being busted. In the case of a trade above the actual or

implied market price, the adjusted price must be the highest price that traded at or about the time of the trade without being busted.

4. The parties to the adjusted trade must report it to the clearing system using a "type 8 transfer" with a "G" transfer code not later than the close of business on the business day after the trade occurred.

588.I. Busting Trades After System Freeze

In the event that the matching engine freezes with live orders in the queue waiting to be matched, such orders may be matched when the system is unfrozen before the GCC can halt the matching engine. The GCC is authorized to bust trades resulting from such matches if the price of such trades is outside of the No Bust Range at the time that a confirmation of the trades was sent.

588.J. Schedule of Administrative Fees

When GCC busts a trade, the party responsible for entering the order into GLOBEX that gave rise to the trade bust shall pay an administrative fee to the Exchange in accordance with the following schedule. The fee is $250 for each of the first five occasions in a calendar year where a party's order entry results in a trade bust, $500 for each of the next three occasions within the same calendar year where a party's order entry results in a trade bust, and $1,000 for each subsequent occasion within the same calendar year where a party's order entry results in a trade bust.

If a non-member customer responsible for entering an order into GLOBEX that results in a trade bust fails to pay the fee in accordance with this section, the clearing member carrying the customer's account shall be responsible for payment of the fee.

588.K. GLOBEX No Bust Ranges

Futures Contracts	No Bust Range
Eurodollar	2.5 basis points or less
LIBOR	5 basis points or less
T-Bills	5 basis points or less
Fed Fund "Turn"	50 basis points or less
Agency Notes	16 ticks or less
Swaps	5 basis points or less
TIIE and CETES	30 ticks or less
CPI Futures	5 basis points or less
HICP Futures	5 basis points or less
Currency Futures (except British pound)	20 ticks or less
British Pound Futures	30 ticks or less
S&P 500 and E-mini S&P 500	6.00 index points or less
S&P BARRA Growth	4.00 index points or less
S&P BARRA Value	4.00 index points or less
S&P Midcap 400 and E-mini S&P Midcap 400	3.00 index points or less
S&P Smallcap 600	3.00 index points or less
Russell 2000 and E-mini Russell 2000	3.00 index points or less
E-mini Russell 1000	3.00 index points or less
Nasdaq-100 and E-mini Nasdaq-100	20.00 index points or less
E-mini Nasadaq Composite	20.00 index points or less
Nikkei 225 ($ and ¥)	60.00 index points or less
S&P 500 Technology SPCTR	3.00 index points or less
S&P 500 Financial SPCTR	3.00 index points or less
TRAKRS Futures	10 cents or less
Goldman Sachs Commodity Index	2.50 index points or less
CME Weather	25.00 index points or less

MF Global

Lean Hogs	$0.0075 per pound or less
Live Cattle	$0.0075 per pound or less
Feeder Cattle	$0.0075 per pound or less
Pork Bellies	$0.0075 per pound or less
NYMEX Light Sweet Crude Oil e-miNY	6 ticks or less
NYMEX Natural Gas e-miNY	16 ticks or less
Urea	$3 per ton or less
DAP	$3 per ton or less
UAN	$3 per ton or less
Ethanol	$.025 per gallon or less
Options Contract Prices	
Interest Rate Options	
Below 6 ticks	1 tick
6 through 15 ticks	2 ticks or less
16 through 30 ticks	3 ticks or less
31 through 50 ticks	4 ticks or less
51 ticks and above	5 ticks or less
Equity Index Options	
Any premium level	20% of premium (up to 3.00 index points with a minimum of 1 tick) or less
Currency Options	
Any premium level	20% of premium (up to 10 ticks with a minimum of 1 tick) or less
All Other Options	
Below 6	Eligible for busting
6 through 10	3 ticks or less
11 through 20	4 ticks or less
21 through 50	5 ticks or less
51 through 100	7 ticks or less
101 and above	10 ticks or less
Combination Trades	
All Eurodollar Combinations	2.5 basis points or less
Intra-Commodity (non-ED) Futures Spreads	5 ticks or less
Inter-Commodity (non-ED) Futures Spreads	The wider of the no bust ranges of the two individual legs

MF Global

APPENDIX V

E-CBOT COMPLIANCE PROCEDURES

MF Global

For Internal Use Only

MF GLOBAL INC.

E-CBOT

SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

Effective as of August 2005

MF Global

MF GLOBAL INC.
ACKNOWLEDGEMENT OF REVIEW OF E-CBOT SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

The undersigned hereby acknowledges that he/she has reviewed and is familiar with the MF Global Inc. e-cbot Supervisory Procedures and Compliance Manual (the "Manual") and all applicable rules and interpretations of the Chicago Board of Trade ("CBOT"), and agrees to adhere to, and be bound by, the provisions of the Manual and such rules and interpretations at all times during his or her association with MF Global Inc. and its affiliates (collectively referred to herein as "MFG"). If the undersigned had or has any questions concerning the material included and the procedures described in the Manual, the undersigned has raised them with the Compliance Department and received satisfactory answers to any such questions.

The undersigned understands that violations of the procedures set forth in the Manual will not be tolerated and may constitute a violation of CBOT rules. Additionally, such violation may subject the undersigned to disciplinary action by MFG, including termination. The undersigned also acknowledges that the Manual remains the property of MFG and agrees that, upon the termination of the undersigned's employment, he or she will return the Manual to his or her supervisor.

_____
Signature

_____
Name (please print)

_____
e-cbot User ID Number

_____
Date

MF Global

Table of Contents

		Page
I.	Introduction	1
II.	Access to e-cbot	1
A.	MFG Must Obtain One or More ITMs and Register Responsible Persons With Respect to Such ITMs (CBOT Rule 9B.05)	1
B.	MFG Must Obtain a User ID from the CBOT for Each User (CBOT Rule 9B.05)	2
C.	Unauthorized Access or Other Misuse of e-cbot is Strictly Prohibited (CBOT Rule 9B.12)	2
D.	MFG Must Maintain Accurate Records of Users and Supervisors (CBOT Rule 9B.06)	2
E.	Location of e-cbot Compatible Terminals	2
F.	Use of Automated Price Injection Trading Applications	3
III.	Log On/Log Off Procedures	3
A.	User IDs	3
B.	Log On/Log Off Procedures	3
C.	Sharing of User IDs Prohibited	4
IV.	Basic Order Entry Procedures	4
A.	Required Information and Use of a Suspense Account (CBOT Rule 9B.11(c) and (d))	4
B.	Permitted Types of Order Designations (CBOT Rule 9B.10(a))	4
C.	Permitted Types of Order Modifiers (CBOT Rule 9B.10(b))	5
D.	Strategy Orders and Contingent Multiple Orders (CBOT Rule 9B.10(c))	5
E.	Orders Permitted During Pre-Open Period (CBOT Rule 9B.09)	6
F.	Message Use Policy	6
V.	Trade Practices and Prohibitions	6
A.	Crossing Orders Are Only Permitted in Certain Circumstances (CBOT Rule 9B.13(b))	6
B.	Orders Entered Pursuant to Pre-Execution Communications are Prohibited (CBOT Rule 9B.13(c))	7
C.	CBOT Position Limits and Position Accountability Rules (CBOT Rule 425.01)	7
D.	Users May Not Enter Into Pre-Arranged Transactions Except in Limited Circumstances (CBOT Rule 350.05(f))	7
E.	Block Trades (Wholesale Transactions) Are Only Permitted in Certain Circumstances (CBOT Rule 331.05)	7
F.	Exchanges of Futures for Physicals, Exchanges of Futures for Swaps and Exchanges of Futures for Risk	8
G.	Users Shall Not Violate Any CBOT Rule or Engage in Fraud (CBOT Rule 500.00)	8
H.	Users Are Prohibited From Creating Fictitious Transactions (CBOT Rule 501.00 and 9B.14)	8

MF Global

I. Users Shall Not Engage in Conduct that Results in a Demoralization of the Market (CBOT Rule 502.00) 8
J. Users Are Prohibited From Making Misstatements to the CBOT (CBOT Rule 503.00) 8
K. Users Shall Not Commit Acts Detrimental to the Welfare of the CBOT (CBOT Rule 504.00) 8
L. Other Prohibited Actions (CBOT Rule 509.00) 9
VI. Supervisory Review (CBOT Rule 9B.06) 9
VII. e-cbot Error Trade Policy (CBOT Rule 9B.21) 9
VIII. MFG is Required to Obtain CBOT Approval Before Effecting any Change in its Organization (CBOT Rule 230.17) 10
IX. Record of Transactions (CBOT Rule 9B.18) 11

Exhibits

A. e-cbot Contact List A-1
B. e-cbot Error Trade Policy B-1
C. Tick Breakdown Per CBOT Product C-1

MF Global

I. Introduction

This e-cbot Supervisory Procedures and Compliance Manual (this "Manual") sets forth the principles, practices and procedures under which MF Global Inc. ("MFG") and its affiliates (collectively referred to herein as "MFG"), conducts its activities as a member of the Chicago Board of Trade ("CBOT"), via a direct connection, of the e-cbot electronic trading system for entering orders for futures and/or options on futures contracts ("Contracts") on the CBOT.[1]

Each MFG employee who has been authorized to trade on e-cbot and/or has access to e-cbot to enter orders for Contracts (each such employee is referred to in this Manual as a "User"), and each supervisor of Users (referred to in this Manual as a "Supervisor"),[2] is required to be familiar and comply with the procedures set forth in this Manual. Supervisors have ultimate responsibility for overseeing the procedures set forth herein. The Compliance Department will be responsible for implementing, monitoring compliance with, and answering questions regarding, certain aspects of this Manual, as set forth below.

This Manual supplements and should be read and applied together with the MF Global Inc. Futures Compliance and Supervisory Procedures Manual. This Manual is to be used by all Users and Supervisors as a guide for compliance with CBOT policies and procedures. This Manual does not purport to be a guide to the laws, rules and regulations applicable to the futures industry generally. If you have questions about futures industry-related matters not addressed in this Manual, you should contact the Compliance Department for clarification.

The Compliance Department will require each User and Supervisor to acknowledge that he or she has read, is familiar with, and agrees to be bound by, the principles, practices and procedures contained in this Manual. The Compliance Department may require all or certain Users or Supervisors to provide new Acknowledgements on a periodic basis, or as otherwise determined by the Compliance Department in its discretion. The form of such Acknowledgement is attached to this Manual after the title page of this document.

---

1 With respect to the policies and procedures contained in this Manual, such policies and procedures only apply to MFG's use of e-cbot via a direct connection to the e-cbot trading host. However, in the event MFG accesses e-cbot via a third party provider (e.g., a CBOT clearing member), such access is additionally subject to and governed by policies and procedures agreed directly between MFG and such CBOT clearing member.

2 As used in this Manual, the term "Supervisor" includes MFG's "Responsible Persons" and "Backup Responsible Persons" (*See* **Section II.A.**)

MF Global

II. Access to e-cbot

A. MFG Must Obtain One or More ITMs and Register Responsible Persons With Respect to Such ITMs (CBOT Rule 9B.05)

MFG will request one or more Individual Trade Mneumonics ("ITMs") as needed to accommodate its trading activities on e-cbot. MFG will designate a Responsible Person and one or more Backup Responsible Person(s) for each ITM and register such persons with the CBOT.
Each Responsible Person (or, in his or her absence, a Backup Responsible Person) must:

(i) be reachable via telephone by the CBOT at all times that any of the ITMs assigned to such Responsible Person are in use;
(ii) have the authority, at the request of the CBOT, to modify or withdraw any order submitted under an ITM assigned to such Responsible Person; and
(iii) immediately identify, at the CBOT's request, the source of any order submitted under an ITM assigned to such Responsible Person.

B. MFG Must Obtain a User ID from the CBOT for Each User (CBOT Rule 9B.05)

Each order entered on e-cbot through an ITM must contain an e-cbot User ID that identifies the person who entered the order. Accordingly, each User must obtain from the CBOT, and utilize in connection with each order entered on e-cbot, a unique e-cbot User ID assigned by, and registered with, the CBOT.

C. Unauthorized Access or Other Misuse of e-cbot is Strictly Prohibited (CBOT Rule 9B.12)

All Users and Supervisors must access e-cbot in compliance with all applicable CBOT rules and this Manual. It is a violation of CBOT rules to access e-cbot without authorization, to assist any individual in obtaining unauthorized access to e-cbot, to alter the equipment associated with e-cbot, to intercept or interfere with information provided on or through e-cbot, to interfere with the operation of e-cbot in any way or to use e-cbot in a manner contrary to CBOT rules and regulations.

D. MFG Must Maintain Accurate Records of Users and Supervisors (CBOT Rule 9B.06)

1. The Compliance Department will be responsible for maintaining accurate registration information with respect to each User and

Supervisor. All additions or deletions of Users or Supervisors must immediately be reported to the CBOT. Therefore, all such additions or deletions must be coordinated in writing with the Compliance Department, which will submit the required registration or withdrawal documentation to the CBOT.

2. The Compliance Department must be notified of any change to any of the foregoing information with respect to a User or Supervisor.

E. Location of e-cbot Compatible Terminals

As of the date of this Manual, MFG maintains various computer terminals from which e-cbot may be directly accessed at its offices in Chicago. Users are prohibited from directly accessing e-cbot from any other location or through any other device without the prior approval of the Compliance Department. However, a User may, with the approval of his or her Supervisor, be given remote access to third-party systems for the purpose of accessing e-cbot.

Further, no computer terminal may be configured to allow direct access to e-cbot without the prior written consent of the Compliance Department.

F. Use of Automated Price Injection Trading Applications

Each CBOT member that desires to use an automated price injection model ("APIM") (e.g., software that has the ability to: (i) enter bids/offers on multiple contracts through automatic order submits and cancels of individual legs or outright spreads, (ii) provide automatic input of bid/offer spread in a single contract, (iii) automatically reply to an RFQ, (iv) provide "diming," whereby the front-end automatically improves a price by submitting a minimum price movement within a contract, or (v) provide an "electronic eye" or the ability to calculate the fair market value of a contract using relevant underlying data and automatically submitting a bid an/or offer based on the calculated fair value) must register such APIM with the CBOT to ensure conformance of the APIM with the CBOT's technical standards.

III. Log On/Log Off Procedures

A. User IDs

In order to access e-cbot, each User and Supervisor must input his or her User ID. Users and Supervisors are prohibited from disclosing to any other person his or her User ID, unless authorized in advance by the Compliance Department.

MF Global

B. Log On/Log Off Procedures

1. Two or more Users are prohibited from being logged onto the same e-cbot terminal at the same time using their own individual User IDs, except as permitted by the Responsible Person with responsibility for such e-cbot terminal. The Responsible Person may permit more than one User to be logged on concurrently to the same e-cbot terminal on either a case-by-case basis or pursuant to a general policy in effect at the location for which the Responsible Person has responsibility.

2. Before leaving an active e-cbot terminal for any reason and for any period of time, the User or Supervisor must sign off of e-cbot completely or have in place and utilize functionality that "freezes" access to e-cbot until the terminal is reactivated by the User or Supervisor. Users and Supervisors are prohibited from leaving an active e-cbot terminal on overnight or after the User or Supervisor leaves work for the day.

C. Sharing of User IDs Prohibited

Each User and Supervisor must use only his or her assigned User ID. Use of another person's User ID or use of a User ID not on file with MFG is forbidden. This prohibition extends not only to prohibiting a User or Supervisor from logging onto e-cbot using another person's User ID but also to prohibiting any User or Supervisor from entering orders or inputting other information into an active e-cbot terminal that another User or Supervisor has already logged onto using his or her own User ID. Violation of the foregoing prohibition may be deemed an act detrimental to the interest and welfare of the CBOT and may subject the User, his or her Supervisor and/or MFG to substantial sanctions.

IV. Basic Order Entry Procedures

A. Required Information and Use of a Suspense Account (CBOT Rule 9B.11(c) and (d))

1. Each User or Supervisor entering orders in e-cbot must (i) submit orders under his or her User ID and (ii) input for each order the correct CTI code and the appropriate account designation.

2. A suspense account may be used by a User at the time of order entry provided that:

(i) the User simultaneously prepares a time-stamped, written record of the order containing the correct account designation and maintains such written record for five (5) years (see **Section IX.** below); and

(ii) the correct account designation is entered into the clearing system prior to the end of the trading day.

B. Permitted Types of Order Designations (CBOT Rule 9B.10(a))

An order entered into e-cbot may contain one of the following designations (which are subject to change by the CBOT from time to time):

1. *Market Order* – A market order is executed at the best price or prices available in the order book at the time the order is received until the order has been filled in its entirety. However, a market order will not trade outside of the dynamic price limits and any residual volume from an incomplete market order is canceled. A market order will be rejected if the CBOT is not open for trading.

2. *Market on Open ("MOO") Order* – A MOO order can only be submitted for futures products, including strategies. Such orders will be accepted only during the Pre-Open period designated by the CBOT and are intended for execution at the opening market price. MOO orders will be executed by e-cbot at the opening price calculated after the uncrossing of limit orders in the market when the market opens. If an opening price cannot be calculated for the market when it opens, all MOO orders will be automatically canceled. Any residual MOO orders that are not matched on the opening will be converted automatically to limit orders at the opening price.

3. *Limit Order* – A limit order is an order to buy or sell a stated quantity at a specified price, or at a better price, if obtainable. Unless otherwise specified, any residual volume from an incomplete limit order is retained in the central order book until the end of the day unless it is withdrawn or executed.

4. *Good-Till-Canceled Limit ("GTC") Order* – A GTC order is eligible for execution for the current and all subsequent e-cbot trade sessions until executed, canceled or the expiry month expires. GTC orders can be given an expiry date and are valid until the end of trading on that date.

C. Permitted Types of Order Modifiers (CBOT Rule 9B.10(b))

An order entered into e-cbot may contain one of the following order modifiers (which are subject to change by the CBOT from time to time):

1. *Minimum Volume* – A minimum volume order is executed only if there is at least the designated minimum volume available at the stated price or better. If the designated minimum volume cannot be traded, the order is canceled. Any residual volume from a partially executed minimum volume order is retained in the central order book. A minimum volume modifier may be used with limit orders, GTC limit orders and market orders.

2. *Complete Volume* – A complete volume order is executed only if there is sufficient volume available, at the stated price or better, to execute the order in its entirety. If the order cannot be executed in its entirety, the entire order is canceled. A complete volume modifier may be used with limit orders and market orders.

3. *Immediate & Cancel* – An immediate and cancel order is executed against any existing orders at the stated price or better, up to the volume designated on the order. Any residual volume on the order is canceled. An immediate and cancel modifier may be used with limit orders.

D. Strategy Orders and Contingent Multiple Orders (CBOT Rule 9B.10(c))

1. *Strategy Orders* – e-cbot allows for the creation of recognized strategies, including delta neutral strategies, and for the submission of orders in such strategies.

2. *Contingent Multiple Orders* – A contingent multiple order is an order that contains between two (2) and eight (8) component outright orders in up to two (2) products. The permitted product pairs are pre-defined by the CBOT. Trading of any component order is contingent on all component orders being fully executed. Only one futures component is permitted if any component is an option. Each component order can be a limit order or a market order.

E. Orders Permitted During Pre-Open Period (CBOT Rule 9B.09)

1. During the Pre-Open period designated by the CBOT, Users may enter only MOO orders, limit orders and GTC limit orders for both outrights and strategies. Order modifiers are not permitted on orders entered during the Pre-Open period.

2. Immediately upon the market open, e-cbot will apply an uncrossing algorithm to calculate the price at which the maximum volume will be traded. All orders executed pursuant to the uncrossing algorithm will be executed at a price equal to or better than that at which they were entered. MOO orders are processed immediately after the uncrossing.

F. Message Use Policy

The CBOT has implemented a policy, which provides for a surcharge if an ITM submits a certain number of order messages that do not result in a certain percentage of filled orders. This is referred to as a "Message Usage Policy."

ITMs that submit, for a "Covered Contract" (defined below) on any "Trading Day" (defined below), in excess of (i) 8,000 order messages (i.e., submits, pulls and revised messages sent to e-cbot) which result in less than a 10% fill percentage (defined as the percentage of total messages that result in a matched trade (including partial fills)) or (ii) 1,000 order messages which result in less than a 0.5% fill percentage, are charged a surcharge ranging from $0.01 per message to $0.25 per message depending on the number of messages submitted above the respective message levels. As used herein, (x) "Covered Contract" means CBOT Treasury Complex contracts (i.e., 5, 10 and 30-year Treasury futures and options) excluding 2-year Treasury futures and options and Mini Dow futures and options contracts, and (y) "Trading Day" means the trading period beginning at 7:00 p.m. each night and ending at 4:00 p.m. the following day.

V. Trade Practices and Prohibitions

A. Crossing Orders Are Only Permitted in Certain Circumstances (CBOT Rule 9B.13(b))

1. Independently initiated orders on opposite sides of the market for different beneficial account owners that are immediately executable against each other may be entered without delay provided that the orders did not involve pre-execution communications.

2. A User must not knowingly cause to be entered or knowingly enter into a transaction on e-cbot in which such User takes the opposite side of an order entered on behalf of a MFG customer for a MFG proprietary account unless the customer order has been entered immediately upon receipt and has first been exposed on e-cbot for

a minimum of five (5) seconds for outright futures contracts and a minimum of 15 seconds for strategies and options contracts.

B. Orders Entered Pursuant to Pre-Execution Communications are Prohibited (CBOT Rule 9B.13(c))

1. Pre-execution communications are communications between two (2) market participants for the purpose of discerning interest in the execution of a transaction prior to the entry of an order on e-cbot.

2. Pre-execution communications and transactions arising from such communications are prohibited in all CBOT products during all trading hours except for certain block trade transactions. (*See* **Section V.E.** below.)

C. CBOT Position Limits and Position Accountability Rules (CBOT Rule 425.01)

MFG must comply with CBOT position limits and position accountability rules. Please see the Compliance Department for the specific limits and other details regarding these rules.

D. Users May Not Enter Into Pre-Arranged Transactions Except in Limited Circumstances (CBOT Rule 350.05(f))

Users are prohibited from making any purchase or sale which has been pre- arranged except for so-called exchange of futures for physicals ("EFP"), exchange of futures for swaps ("EFS") or exchange of futures for risk ("EFR") transactions. (*See* **Section V.F.** below.)

E. Block Trades (Wholesale Transactions) Are Only Permitted in Certain Circumstances (CBOT Rule 331.05)

As a general rule, transactions which are deemed to be executed in a non-competitive manner, including block trades, are prohibited. However, the CBOT does permit block trades (wholesale transactions) with respect to Contracts on 10-Year Interest Rate Swap Futures and 5-Year Interest Rate Swap Futures, so long as such trades are executed in accordance with CBOT rules relating to minimum transaction sizes, trade reporting requirements, trading hours, participant eligibility criteria and pricing. (In addition, wholesale transactions are subject to a CBOT surcharge of $0.50 per contract side.) Please see the applicable CBOT rules and the Compliance Department for details regarding block trades.

F. Exchanges of Futures for Physicals, Exchanges of Futures for Swaps and Exchanges of Futures for Risk

One significant exception to the prearranged trading prohibition set forth in **Section V.D.** above involves the execution of an EFP, EFS or EFR transaction. The critical element of each EFP, EFS and EFR transaction is that the futures transaction must be completed in conjunction with an actual purchase and sale in the related cash market (i.e., ownership of an acceptable physical commodity, security or swap (if applicable) must be transferred between the parties to the transaction (with delivery to take place within a reasonable period of time in accordance with prevailing market practice)). Documentation demonstrating the transfer of ownership of the physical commodity, security or swap must be retained and produced upon request by the CFTC or CBOT. "Transitory" or contingent EFPs, EFSs and EFRs are not permitted by CBOT rules. For further details, consult the applicable CBOT rules and the Compliance Department.

G. Users Shall Not Violate Any CBOT Rule or Engage in Fraud (CBOT Rule 500.00)

Users must comply with all CBOT Rules. In addition no User shall engage in fraud, dishonorable or dishonest conduct, or in conduct or proceedings inconsistent with just and equitable principles of trade, or default in the delivery of Contracts.

H. Users Are Prohibited From Creating Fictitious Transactions (CBOT Rule 501.00 and 9B.14)

A User may not knowingly enter, or cause to be entered, bids or offers into e-cbot other than in good faith for the purpose of executing bona fide transactions. In addition, a User may not create fictitious transactions or give an order for the purchase or sale of futures or options the execution of which would involve no change in ownership (*e.g.*, entering a simultaneous buy and sell order with respect to a Contract for the same account or accounts under common beneficial ownership), or execute such an order with knowledge of its character.

I. Users Shall Not Engage in Conduct that Results in a Demoralization of the Market (CBOT Rule 502.00)

Users shall not purchase or sell, or assist any person to purchase or sell, commodities or securities, or offer to purchase or sell commodities or securities, for the purpose of upsetting the equilibrium of the market and

bringing about a condition of demoralization in which prices will not fairly reflect market values.

J. Users Are Prohibited From Making Misstatements to the CBOT (CBOT Rule 503.00)

No User shall make a misstatement upon a material point to the CBOT.

K. Users Shall Not Commit Acts Detrimental to the Welfare of the CBOT (CBOT Rule 504.00)

Users are prohibited from engaging in any act which may be detrimental to the interest or welfare of the CBOT.

L. Other Prohibited Actions (CBOT Rule 509.00)

It is a violation of CBOT rules to:

(i) Attempt extortion;
(ii) Trade systematically against the orders or position of MFG's customers;
(iii) Manipulate prices of or attempt to corner the market in any commodity or security;
(iv) Disseminate false or inaccurate market information;
(v) Trade or accept margins after insolvency;
(vi) Make any trade for the account of or give up the name of any clearing member without authority from such clearing member;
(vii) Trade after being deprived of the privilege of trading under the Commodity Exchange Act;
(viii) Trade for any person deprived of the privilege of trading under the Commodity Exchange Act;
(ix) Accept an order or make a trade for any employees of the Chicago Mercantile Exchange (or any other entity with which the CBOT may enter into an agreement to provide clearing, settlement or any related services) except in the exercise of their official duties; or
(x) Fail to comply with an order or award of the CBOT Committee of Arbitration.

VI. Supervisory Review (CBOT Rule 9B.06)

The CBOT rules impose upon MFG, through its supervisory and compliance personnel, the duty to supervise all personnel having access to e-cbot. Accordingly, MFG has instituted the following supervisory review and internal control policies:

1. In consultation with the Compliance Department, each Supervisor will monitor on a regular basis the trading activity of all Users trading under the ITM assigned to such Supervisor to determine compliance with applicable CBOT Rules, this Manual and other applicable MFG policies and procedures.

2. On a periodic basis, the Compliance Department will review records relating to User IDs to verify that all Users and Supervisors are in compliance with MFG's procedures relating to the use of User IDs. The Compliance Department also will undertake a review of such other matters relating to MFG's e-cbot trading operations as it, from time to time, determines to be necessary or advisable.

VII. e-cbot Error Trade Policy (CBOT Rule 9B.21)

All errors occurring in connection with e-cbot transactions effected by MFG personnel shall be governed by the e-cbot Error Trade Policy, as revised and supplemented (the "Error Trade Policy"). All Users and Supervisors must be familiar and comply with the Error Trade Policy. A summary of the pertinent provisions of the Error Trade Policy follows below. However, the Error Trade Policy is complex, and the summary that follows is not meant to be a substitute for careful review of the text of the Error Trade Policy. A copy of the full text of the Error Trade Policy is attached to this Manual as Exhibit B. If questions arise, Users or Supervisors should contact the Compliance Department.

1. Invoking the Error Trade Policy; Supervisory Reporting

   Whenever a User or Supervisor believes that he or she executed a trade through e-cbot at a price that was in error, he or she must contact e-cbot Market Operations ("e-cbot Operations") at (312) 347-4600 as soon as possible, but in no event more than five (5) minutes after the trade was executed. If an asserted error trade is not brought to e-cbot Operations' attention within such five (5) minute time period, the transaction will stand. Immediately after notifying e-cbot Operations of the asserted error trade, the User must notify a Supervisor. As soon as practicable after receiving notice of the resolution of the asserted error trade pursuant to the Error Trade Policy, the Supervisor must notify the Compliance Department.

2. Trade Price Within the No Bust Range

   The "No Bust Range" established for each Contract is set forth in Appendix 9B-3 to the CBOT Rules and is attached to the Error Trade Policy attached hereto as Exhibit C. As a general rule, asserted error trades in the No Bust Range cannot be canceled by agreement of the parties or by e-cbot Operations.

3. Trade Price Outside the No Bust Range

If the price of the asserted error trade is outside of the No Bust Range, e-cbot Operations will send a broadcast message to the user community indicating that the transaction has been called into question. If the asserted error trade is outside of the specified tick range and involves only two (2) parties, e-cbot Operations will attempt to contact the parties to the transaction. If both parties agree to cancel or re-price the transaction, e-cbot Operations will send a broadcast message to the user community and an alert to the quote vendor network indicating that the trade was canceled or re-priced.

If there is more than one contra-party to the asserted error transaction, e-cbot Operations will gauge the erroneous transaction against the error trade range to determine the final status of the trades.

VIII. MFG is Required to Obtain CBOT Approval Before Effecting any Change in its Organization (CBOT Rule 230.17)

Any change in MFG's organizational structure requires the CBOT's prior approval. Organizational changes include, but are not limited to, (i) changing MF Global Inc.'s form from a corporation to another type of entity or (ii) mergers involving, or acquisitions by, MF Global Inc.

IX. Record of Transactions (CBOT Rule 9B.18)

Pursuant to CBOT and CFTC Rules, all written orders (if any) and any other original records pertaining to transactions effected through e-cbot must be retained by MFG for at least five (5) years. For orders entered into e-cbot immediately upon receipt, the data contained in e-cbot shall be deemed the original records of the transaction.

MF Global

Exhibit A

MF GLOBAL INC.

E-CBOT CONTACT LIST

Compliance Department

Contact

Toni Rossetti – Chicago
Tom Cohen – New York

Operations Department

Contact

Tim Mundt - Chicago

Information Technology Department

Contact

Thom Mack - Chicago

Manager

Contact

Bob Stephens – Chicago
Chuck Palumbo – New York

MF Global

Exhibit B

E-CBOT Error Trade Policy[1]

The CBOT's error trade policy is designed to preserve the integrity of CBOT product markets by striking an appropriate balance between trade certainty and erroneous price discovery. The policy provides a mechanism to promptly address transactions that are executed at obviously erroneous prices substantially inconsistent with the last trade price of the contract or alternative determination of the contract's fair value. This policy does not relieve market participants from potential financial responsibility or liability for the execution of trades that are deemed or asserted to be an "error trade" if their actions caused financial loss to other parties.

1. Invoking the Error Trade Policy

If an e-cbot user believes that he executed a trade through e-cbot at a price that was in error, he must contact e-cbot Market Operations ("e-cbot Operations") at (312) 347-4600 without delay. If e-cbot Operations is not notified within five minutes of the execution time of the asserted error trade, the trade will stand. A third party or e-cbot Operations may also call a trade into question within five minutes of the execution. Trades called into question within five minutes will be evaluated in accordance with sections 2 and 3 of this policy. However, e-cbot Operations has the authority, but not the obligation, to consider trades reported after the five minute deadline provided the trade price in question is grossly (i.e. multiple points) out of line with the last trade price or alternatively determined fair value of the respective contract.

Trades resulting from quantity errors generally will not be called into question.

2. Trade Price Within the "No Bust Range"

If a futures transaction is asserted to be at a price that is in error, the trade shall not be considered for review by e-cbot Operations unless the price of the asserted error trade is greater than the designated number of ticks (as outlined in Appendix 9B-3) from the reference price. The reference price will be the last trade price preceding the entry of the asserted error trade or an alternatively determined fair value of the contract. Fair value for futures contracts may be determined by the last trade price, preceding settlement price, spread relationships and/or other variables deemed relevant by e-cbot Operations. However, during side-by-side hours the reference price on a downside (upside) move will never be higher (lower) than the low (high) of the pit traded price for an equivalent contract during the time period that the prices of the contracts were disjointed. During non-side-by-side hours, the reference price will never be higher (lower) than the low (high) of an equivalently traded contract.

If e-cbot Operations contacts a member user regarding a suspicious order and the user states that the order is entered correctly, the order (if subsequently executed) may only be called into question by a third party.

Trades that are executed outside of the daily price limits will be busted by e-cbot Operations irrespective of whether the trade(s) falls within the "no bust range" established above.

3. Trade Price Outside of the "No Bust Range"

---

[1] The e-cbot Error Trade Policy may change from time to time. Accordingly, it is critical that Users verify with the Compliance Department that this Exhibit B is current. *See also* current version of the e-cbot Error Trade Policy as published on the CBOT website at: http://cbot.com/cbot/docs/rules/48508.pdf.

If the price of the asserted error trade is more than the specified number of ticks from the reference price, e-cbot Operations will send a broadcast message to the user community indicating that the trade has been called into question. If the asserted error trade is outside of the specified tick range and involves only two parties, e-cbot Operations will attempt to contact the parties to the transaction. If both parties agree to bust or re-price the transaction, e-cbot Operations shall send a broadcast message to the user community and an alert to the quote vendor network indicating that the trade was busted or re-priced.

If there is more than one contra-party to the order asserted to have been executed in error, e-cbot Operations will gauge the erroneous transactions against the error trade range to determine the final status of the trades.

4. e-cbot Operations Authority to Halt Markets

e-cbot Operations shall have the authority to halt markets in any contract during extraordinary circumstances where there has been a major market movement without any apparent economic or fundamental basis for movement to have occurred.

5. Decisions of e-cbot Operations

A. e-cbot Operations will review the circumstances surrounding an asserted error trade to determine whether it should be deemed an error trade and busted. However, subject to the mutual agreement of both parties, the trade may be re-priced in line with the contract's fair value. If the trade is repriced to a level that is below a sell limit price or above a buy limit price, and the customer rejects the trade, the trade must be placed in the error account of the customer's clearing firm. Parties to these transactions are permitted to make cash adjustments to settle losses that occur as a result of an asserted error trade or an actual error trade. Should parties to a disputed transaction be unable to mutually resolve financial disputes arising from such transactions, arbitration facilities are available through the Exchange. The Arbitration Committee may hold the party who entered the order that resulted in an asserted error trade or an actual error trade financially responsible for losses that occur as a result of the busted trade(s).

Trade certainty and the timely resolution of asserted error trades are critical objectives of this policy. Therefore, if parties to a disputed transaction do not agree to the terms of resolution, e-cbot Operations reserves the final authority to determine the disposition of the questioned transaction.

During side-by-side trading hours, e-cbot Operations shall, unless impracticable, make its determination within 10 minutes of the broadcast message regarding the asserted error trade. During non side-by-side trading hours, e-cbot Operations shall, unless impracticable, make its determination within 15 minutes of the broadcast message regarding the asserted error trade. The decisions of e-cbot Operations shall be final, and e-cbot Operations shall send a broadcast message and an alert to the quote vendor network indicating whether the trade was busted, repriced or allowed to stand.

B. In making its determination, e-cbot Operations may consider relevant factors including, but not limited to: market conditions immediately before and after the transaction; the prices of related contracts; whether one or more parties to the trade believe the trade was executed at a valid price; the extent to which the transaction

appeared to trigger contingency orders and other trades; information related to the e-cbot Operations by third parties.

6. Procedures for Correcting Error Trades

In the event a trade is busted, the parties to the transaction must reverse the transaction through applicable clearing house procedures. e-cbot Operations will notify OIA regarding any situation where a party fails to claim or misclear trades in a timely manner. Such failure may be deemed a violation of Rule 504.00, Acts Detrimental to the Welfare of the Exchange.

Under no circumstances shall the parties to an asserted error trade be permitted to reverse the error by entering into a prearranged transaction.

If the asserted error trade is determined not to be an actual error trade, the parties to the trade are permitted to mutually agree upon cash adjustment or to arbitrate the matter. Any cash adjustment must be reported to e-cbot Operations.

Spreads

Because of the autoleg feature of the e-cbot system, spreads may be executed such that one leg of the spread is determined to be an error trade and the other leg is deemed to have been executed at a good price. In such circumstances, the party who enters an outright order that causes an error trade on an autolegged spread will be deemed to be the counterparty to the good leg of the spread (see Appendix 9B-4). The parties to the transactions will reverse and claim the transactions as indicated through the applicable clearing house procedures.

If an option trade is asserted to be at a price that is in error, the trade shall not be considered for review by e-cbot Operations unless the price of the asserted error trade conforms to the following guidelines:

7. Determination of Option Error Trades

CBOT Market Operations will identify error trades by one of two means:

1. Notification of market participants within five minutes of the execution time of the asserted error trade.

2. Determining that the price of an option or option strategy is greater than the designated number of ticks (as outlined in Table 1) from the fair value.

Table 1:

Products	Ranges-Potential Errors
U.S. Treasury	3 ticks
30 Day Fed Funds	6 ticks
CBOT Dow & mini-sized Dow	10 ticks
Commodity	6 ticks

MF Global

Determining Average Bid and Offer

CBOT Market Operations will calculate a bid price or an offer price in order to determine whether the potential error trade should be considered an error. If the trade is determined to be an error trade, CBOT Market Operations will also use the bid or offer price to determine the price adjustment of the error trade.

CBOT Market Operations will determine the bid or the offer of an option or an option strategy by using as many as four procedures:

1. Market Operations will observe the bid and the offer prices prior to the potential error occurring.

2. Market Operations will submit RFQs using delta neutral strategies with futures at the same level prior to the execution of the potential error.

3. Market Operations will attempt to contact at least three market makers that were not involved in the potential error trade in order to determine their bids and offers prior to the potential error occurring.

4. During regular trading hours (which are defined as the hours of open auction), Market Operations may also obtain bid and offer prices from the open auction platform using delta neutral strategies with futures at the same level prior to the execution of the potential error.

CBOT Market Operations will determine the average bid or offer price based upon the size of the error trade and the market depth. The average price will be calculated by:

1. Determining the true average (weighted average) bid or offer price.

2. Rounding the true average to the nearest tick value, up for buy orders and down for sell orders.

If the depth of the market in response to the first RFQ is less than the size of the order, CBOT Market Operations will submit a second RFQ for the size of the error trade. CBOT Market Operations will calculate the average bid or offer price based upon the size of the error trade. If the depth of the response to the second RFQ is less than the size of the trade, CBOT Market Operations will calculate an average bid or offer based upon the depth of the market.

Identifying an Error Trade

CBOT Market Operations will consider an option trade an error if it determines one of the following:

1. The trade has been executed at a price at least two ticks below the determined bid price in the case of a sell error.

2. The trade has been executed at a price at least two ticks above the determined offer price in the case of a buy error.

Determining an Adjustment for Option Error Trades

Option error trades **may not be resolved through a busting of the disputed transactions**. They may **only** be resolved via a price adjustment based on the price which is one tick less than the determined bid price in the case of a sell error or one tick greater than the determined offer price in the case of a buy error.

8. Arbitration Procedures

In CBOT Arbitrations involving actual error trades or asserted error trades, a notice of intention to arbitrate must be filed within ten business days after the date of the error trade. The party that caused the error may be held responsible for realized losses incurred by parties as a result of the error.

9. Error Trade Fees

The party responsible for the error must pay a $1,000 fee for each of the first two error trades, $3,000 for the 3rd error trade, and $5,000 for each subsequent error trade within a calendar year. 08/01/05.

MF Global

Exhibit C

TICK BREAKDOWN PER CBOT PRODUCT

Product	Symbol	Minimum Tick Increment	"No Bust Range"*	Tick Increment of "No Bust Range"	Dynamic Price Limits	Daily Price Limit
U.S. T-Bond	ZB	1/32	96 ticks	3 points	30/32nds	N/A
U.S. T-Bond Options	OZB	1/64	N/A	N/A	20/64ths	N/A
10 Yr. T-Note	ZN	(1/2)/32	192 ticks	3 points	15/32nds	N/A
10 Yr. T-Note Options	OZN	1/64	N/A	N/A	20/64ths	N/A
5 Yr. T-Note	ZF	(1/2)/32	192 ticks	3 points	15/32nds	N/A
5 Yr. T-Note Options	OZF	1/64	N/A	N/A	20/64ths	N/A
2 Yr. T-Note	ZT	(1/4)/32	384 ticks	3 points	7.5/32nds	N/A
2 Yr. T-Note Options	OZT	(1/2)/64	N/A	N/A	10/64ths	N/A
Muni-Note Index	ZU	1/32	20 ticks	20/32nds	20/32nds	N/A
30-Day Fed Funds	ZQ	1/2 Basis Point	20 ticks	10 Points	10 Points	N/A
30-Day Fed Funds Options	OZQ	1/4 Basis Point	N/A	N/A	5 points	N/A
10 Yr. Interest Rate Swaps	SR	1/32	20 ticks	20/32nds	20/32nds	N/A
10 Yr. Interest Rate Swaps Options	OSR	1/64	N/A	N/A	20/64ths	N/A
5 Yr. Interest Rate Swaps	SA	(1/2)/32	20 ticks	10/32nds	10/32nds	N/A
5 Yr. Interest Rate Swaps Options	OSA	1/64	N/A	N/A	20/64ths	N/A
Bund	GBL	.01 of 1 Point	20 ticks	.20 of 1 point	.20 points	N/A
Bobl	GBM	.01 of 1 Point	20 ticks	.20 of 1 Point	.20 points	N/A
Schatz	GBS	.01 of 1 Point	20 ticks	.20 of 1 Point	.20 points	N/A
Dow AIG Commodity Index	AI	0.1 Points	40 ticks	4 Points	4 points	N/A
DJIA ($10)	ZD	1 Point	250 Points	250 Points	40 points	10%, 20% and 30% Circuit Breakers
DJIA Options	OZD	1/2 Point	N/A	N/A	20 points	10%, 20% and 30% Circuit Breakers
mini-sized Dow ($5)	YM	1 Point	250 Points	250 Points	40 points	10%, 20% and 30% Circuit Breakers
mini-sized Dow Options	OYM	1 Point	N/A	N/A	40 points	10%, 20% and 30% Circuit Breakers

MF Global

Product	Symbol	Minimum Tick Increment	"No Bust Range"*	Tick Increment of "No Bust Range"	Dynamic Price Limits	Daily Price Limit
mini-sized Eurodollar	YE	1/2 Basis Point	10 ticks	5 Points	5 points	N/A
100 oz. Gold	ZG	10 cents	40 ticks	$4.00	$4.00	N/A
mini-sized Gold	YG	10 cents	40 ticks	$4.00	$4.00	N/A
5,000 oz. Silver	ZI	1/10 cent	80 ticks	8 cents	8 cents	N/A
mini-sized Silver	YI	1/10 cent	80 ticks	8 cents	8 cents	N/A
Ethanol	ZE	1/10 cent	40 ticks	4 cents	4 cents	15 cents
Corn	ZC	1/4 cent	40 ticks	10 cents	10 cents	20 cents
Corn Options	OZC	1/8 cent	N/A	N/A	21/2 cents	20 cents
Wheat	ZW	1/4 cent	40 ticks	10 cents	10 cents	30 cents
Wheat Options	OZW	1/8 cent	N/A	N/A	21/2 cents	30 cents
Oat	ZO	1/4 cent	40 ticks	10 cents	10 cents	20 cents
Oat Options	OZO	1/8 cent	N/A	N/A	21/2 cents	20 cents
Rough Rice	ZR	1/2 cent	40 ticks	20 cents	20 cents	50 cents
Rough Rice Options	OZR	1/4 cent	N/A	N/A	5 cents	50 cents
South American Soybeans	ZK	1/4 cent	80 ticks	20 cents	20 cents	50 cents
Soybeans	ZS	1/4 cent	80 ticks	20 cents	20 cents	50 cents
Soybean Options	OZS	1/8 cent	N/A	N/A	5 cents	50 cents
Soybean Meal	ZM	10 cents	80 ticks	$8.00	$8.00	$20
Soybean Meal Options	OZM	5 cents	N/A	N/A	$2.00	$20
Soybean Oil	ZL	1/100 cents	80 ticks	.80 cents	.80 cents	2 cents
Soybean Oil Options	OZL	5/1000 cents	N/A	N/A	.20 cents	2 cents

*Option products are shown in this chart to indicate the greatest number of ticks defined as the "No Bust Range".

MF Global

APPENDIX VI

NYMEX CLEARPORT COMPLIANCE PROCEDURES

MF Global

For Internal Use Only

MF GLOBAL INC.

NYMEX CLEARPORT[sm]

SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

Effective as of August 2005

MF Global

MF GLOBAL INC.

NEW YORK MERCANTILE EXCHANGE, INC.
CLEARPORT[sm] SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

ACKNOWLEDGEMENT

The undersigned hereby acknowledges that he/she has reviewed and is familiar with the MF Global Inc. New York Mercantile Exchange, Inc. ClearPort[sm] Supervisory Procedures and Compliance Manual (the "Manual") and all applicable rules and interpretations of the New York Mercantile Exchange, Inc. ("NYMEX"), and agrees to adhere to, and be bound by, the provisions of the Manual and such rules and interpretations at all times during his or her association with MF Global Inc. and its affiliates (collectively referred to herein as "MFG"). If the undersigned had or has any questions concerning the material included and the procedures described in the Manual, the undersigned has raised them with the MFG Compliance Department and received satisfactory answers to any such questions.

The undersigned understands that violations of the procedures set forth in the Manual will not be tolerated and may constitute a violation of NYMEX rules. Additionally, such violation may subject the undersigned to disciplinary action by MFG, including termination. The undersigned also acknowledges that the Manual remains the property of MFG and agrees that, upon the termination of the undersigned's employment, he or she will return the Manual to his or her supervisor.

_____
Signature

_____
Name (please print)

_____
ClearPort[sm] Account ID Number

_____
Date

MF Global

TABLE OF CONTENTS

Page

A. Authorized Users and Supervisors; Recordkeeping 2

B. Log On/Off and Basic Data Entry Procedures (NYMEX Rules 11.32, 11.35 and 11.59) 2

C. Permitted Types of Order Designations (NYMEX Rule 11.54) 3

D. Pre-Execution Discussions Procedures Regarding ClearPort Trades (NYMEX Rules 11.57 and 11.57A) 3

E. Wash Trading Prohibition 4

F. Order of Trades (NYMEX Rule 11.57) 4

G. ClearPort Error Trade Procedures (NYMEX Rule 11.63) 4

H. Supervisory Review 8

I. Notification of Significant Events (NYMEX Rules 2.42 and 11.34) 8

EXHIBIT A CLEARPORT CONTACT LIST A-1

EXHIBIT B NYMEX ERROR TRADE PROCEDURES B-1

MF Global

MF GLOBAL INC.

NEW YORK MERCANTILE EXCHANGE, INC.
CLEARPORT[sm] SUPERVISORY PROCEDURES AND COMPLIANCE MANUAL

This New York Mercantile Exchange, Inc. ("NYMEX") ClearPort[sm] Supervisory Procedures and Compliance Manual (the "Manual") set forth the principles, practices and procedures under which MF Global Inc. and its affiliates and their respective employees, as applicable (collectively referred to herein as the "Firm" or "MFG"), conducts its activities associated with the use of the ClearPort electronic trading system for entering orders for futures and/or options on futures contracts ("Contracts") on NYMEX.

Each MFG employee who has been authorized to trade on ClearPort to enter orders for Contracts (each such employee is referred to in this Manual as a "User"), and each supervisor of Users (referred to in this Manual as a "Supervisor"), is required to be familiar and comply with the procedures set forth herein. Supervisors have ultimate responsibility for overseeing the procedures set forth herein. MFG's Compliance Department will be responsible for implementing, monitoring compliance with and answering questions regarding, certain aspects of this Manual, as set forth below.

This Manual supplements and should be read and applied together with the MF Global Inc. Futures Compliance and Supervisory Procedures Manual. This Manual is to be used by all applicable MFG employees (including Users and Supervisors) as a guide for compliance with ClearPort policies and procedures. This Manual does not purport to be a guide to the laws, rules and regulations applicable to the futures industry generally. If you have questions about futures industry-related matters not addressed in this Manual, you should contact the Compliance Department for clarification.

The Compliance Department will require each User and Supervisor to acknowledge that he or she has read, is familiar with, and agrees to be bound by, the principles, practices and procedures contained in this Manual. The Compliance Department may require all or certain Users or Supervisors to provide new Acknowledgements on a periodic basis, or as otherwise determined by the Compliance Department in its discretion. The form of such Acknowledgement is attached to this Manual after the title page of this Manual.

MF Global

A. Authorized Users and Supervisors; Recordkeeping

The Firm will create and maintain at its New York offices a current roster of (i) each ClearPort user for whom a registration form has been filed with NYMEX to allow such user to access ClearPort ("Users"), their ClearPort user identification codes ("User IDs"), user profiles[1] and their office locations, and (ii) all persons responsible for supervising the Users ("Supervisors"), their User Profiles, Account IDs, their office locations and the identities of the Users they are responsible for supervising. The Firm will provide information regarding the identity of Users and their User IDs to NYMEX as required and will promptly inform NYMEX of any changes in User information, as required pursuant to NYMEX Rules 2.42 and 11.32(D).

B. Log On/Off and Basic Data Entry Procedures (NYMEX Rules 11.32, 11.35 and 11.59)

1. Prior to being provided with access to ClearPort, each User will be assigned by NYMEX his/her own User ID and password and will use only that User ID and password. No person may disclose or knowingly permit the use by another of the User ID or password assigned by NYMEX. Use of another User ID (or password), or use of a User ID (or password) not approved by the Firm and not on file with the Compliance Department, under any circumstances, is strictly forbidden. (NYMEX Rule 11.59)

2. Each User must sign onto ClearPort by inputting his or her User ID and password. Before leaving a computer that is logged onto ClearPort, such User must sign off of the ClearPort System completely.

3. Each User must input for each ClearPort order the terms of such order as follows: commodity, contract month, purchase or sale, customer account number, quantity, limit price (and stop price if applicable), clearing member, strike prices, put or call (for options when available), and customer type indicator ("CTI") code. (NYMEX Rules 11.35 and 11.36)

C. Permitted Types of Order Designations (NYMEX Rule 11.54)

---

1 "User Profiles" include the following information for each User: User name, telephone number, alternative telephone number, e-mail address, mother's maiden name, birth date, the last four digits of the User's Social Security number, and role.

MF Global

An order entered into ClearPort may contain one of the following designations (which are subject to change by NYMEX from time to time):

1. Limit Order: A limit order is an order to buy or sell a stated number of Contracts at a specified price, or at a better price, if obtainable.

2. Stop Limit Order: A stop limit order to buy becomes a limit order at or below the limit price if, after the order is received, a transaction in the Contract occurs at or above the specified price. A stop limit order to sell becomes a limit order executable at or above the limit price when a transaction in the Contract occurs after the order is received at or below the stop price.

D. Pre-Execution Discussions Procedures Regarding ClearPort Trades (NYMEX Rules 11.57 and 11.57A)

1. When the Firm has an order for its own account that it wishes to execute through ClearPort, there may be circumstances where the Firm would like to discuss possible execution of the order with potential counterparties. Pre-arranged trades generally are prohibited under NYMEX Rule 6.61. However, certain pre-execution discussions conducted in connection with transactions for the Firm's proprietary account are permissible in connection with ClearPort, but only under the following circumstances:

   (a) In the case of all orders, the customers must have consented to allow pre-execution discussions with other market participants; and

   (b) The parties must wait a "reasonable period of time," in all such cases no less than ten (10) seconds, before entering the opposite side of such order.

2. A ClearPort User who solicits, or who has been solicited by, another ClearPort User (including another Firm ClearPort User) to participate in a ClearPort transaction through pre-execution discussions is prohibited from:

   (a) disclosing to another ClearPort user (including other Firm Users) the details of such discussions; and

(b) entering an order through ClearPort to take advantage of information conveyed during such discussions, unless the User has agreed during the discussions to participate in the transaction in accordance with NYMEX Rules and the order is entered to implement that agreement.

E. Wash Trading Prohibition

Operation of ClearPort may give rise to issues relating to wash trading. Please see the Firm's Futures Compliance and Supervisory Procedure Manual at **Section VI.K** for procedures relating to wash trading. If you have questions regarding the wash trading procedures please contact the Compliance Department.

F. Order of Trades (NYMEX Rule 11.57)

No trades shall be withheld or withdrawn for the convenience of another.

G. ClearPort Error Trade Procedures (NYMEX Rule 11.63)

1. All Users will periodically review, and familiarize themselves with, the text of the NYMEX's ClearPort Error Trade Procedures (the "Procedures") as revised and supplemented (copy attached as Exhibit B to this Manual). A summary of the pertinent provisions of the Procedures follows. However, the Procedures are complex, and the summary that follows is not meant to be a substitute for careful review of the text of the Procedures. If questions arise, Users should contact the Compliance Department. (*See* Contact List at Exhibit A.)

2. Summary of NYMEX ClearPort Error Trade Procedures

The NYMEX Customer Service Call Center ("NCSCC") may review a trade upon request for review by a ClearPort User or may review a trade based on its analysis of market conditions. **A request for review by a ClearPort User must be made within ten (10) minutes of the trade occurring.**

The NCSCC will determine whether the trade price is less than the number of ticks set forth in the Procedures away from the fair market value as determined by the NCSCC. (*See* Error Trade Range list below.) In determining the fair

market value, the NCSCC will consider the notional settlement price, the actual settlement price, the last traded price, a better bid or offer price, or any other information the NCSCC staff deems relevant.

(a) Procedures for Trades Inside the Error Trade Range

Trades inside the Error Trade Range will stand.

(b) Procedures for Trades Outside the Error Trade Range

If the NCSCC determines that the trade price is outside the Error Trade Range, the NCSCC shall attempt to contact the parties to the trade to determine whether all parties to the trade consent to the cancellation of the trade. The NCSCC will promptly issue an alert indicating that the trade may be an error.

(i) If both parties consent to the cancellation of the trade within ten (10) minutes after the alert is sent, and no third party objects within ten (10) minutes of the alert, the trade will be canceled.

(ii) If (i) a third party contacts the NCSCC within ten (10) minutes of the alert objecting to the cancellation of the trade, (ii) the NCSCC is unable to contact all parties to the trade, or (iii) both parties do not consent to the cancellation of the trade within ten (10) minutes, the trade will be reviewed by NYMEX's Electronic Trading Review Committee.[2]

(iii) If a trade is canceled pursuant to NYMEX error procedures, the NCSCC may also cancel any and all trades that were executed, and bids or offers posted, as a result of contingent orders having been elected by the error trade.

[2] The Electronic Trading Review Committee shall consist of at least two (2) members of such Committee, and the Electronic Trading Review Committee will review the circumstances surrounding the transaction and will determine whether the transaction was an error and, if so, whether such trade should be canceled. Any decision reached by the Committee shall be final.

(c) Written Notice to NCSCC

The party requesting that a trade be canceled must submit to the NCSCC a completed NYMEX form documenting in writing the reasons for the request no later than two (2) hours after the end of the applicable trading session.

(d) Error Trades Reported Outside of 10 Minutes

If a potential error trade is brought to the attention of the NCSCC later than ten (10) minutes after the trade occurs, the trade will stand. However, the NCSCC may assign both sides of the transaction to the account of one of the parties to the trade under certain circumstances.

(e) Clearly Erroneous Trades

If a clearly erroneous trade is brought to the attention of the NCSCC, the NCSCC is authorized to assemble NYMEX's Electronic Trading Review Committee for the purpose of determining whether to cancel such trade regardless of whether the notification occurred outside of the ten (10) minute notification period.

The most critical thing to remember when an error trade occurs is that all error trades must immediately be reported to the NCSCC via telephone at 1-800-438-8616 or via email at NYMEXClearPort@nymex.com. In addition, Users must immediately notify their Supervisor of errors.

(f) ClearPort Error Trade Range

Contract Outrights	Ticks From Market	Minimum Tick Size	$/tick
CL	10 ticks or less	0.01	10.00
SC	10 ticks or less	0.01	10.00
HO	25 ticks or less	0.0001	4.20
HU	25 ticks or less	0.0001	4.20
GR	4 ticks or less	0.25	25.00
NG	20 ticks or less	0.001	10.00
PN	25 ticks or less	0.0001	4.20
PL	20 ticks or less	0.10	5.00

PA	10 ticks or less	0.05	5.00
QL	10 ticks or less	0.01	15.50
GC	10 ticks or less	0.10	10.00
SI	4 ticks or less	0.005	25.00
HG	10 ticks or less	0.0005	12.50
AL	5 ticks or less	0.0005	22.00
JM	12 ticks or less	0.05	42.00
RS	4 ticks or less	0.25	25.00
RN	2 ticks or less	25.00	250.00
Intra-Commodity Spreads	Ticks From Market	Minimum Tick Size	$/tick
CL	4 ticks or less	0.01	10.00
HO	10 ticks or less	0.0001	4.20
HU	10 ticks or less	0.0001	4.20
NG	5 ticks or less	0.001	10.00
PN	10 ticks or less	0.0001	4.20
PL	10 ticks or less	0.10	5.00
PA	5 ticks or less	0.05	5.00
QL	10 ticks or less	0.01	15.50
GC	5 ticks or less	0.10	10.00
SI	10 ticks or less	0.001	25.00
HG	2 ticks or less	0.0005	12.50
AL	5 ticks or less	0.0005	22.00
JM	12 ticks or less	0.05	42.00
Inter-Commodity Spreads	Ticks From Market	Minimum Tick Size	$/tick
CL/HO	5 ticks or less	0.01	10.00
CL/HU	5 ticks or less	0.01	10.00
HO/HU	25 ticks or less	0.0001	4.20

Product (Unit Size)	Ticks From Market
Crude Oil and Crude Products (1000 Barrels)	10 ticks or less
Crude Oil and Crude Products (42,000 Gallons)	24 ticks or less
Natural Gas	16 ticks or less
Electricity	30 ticks or less

H. Supervisory Review

The NYMEX rules impose upon MFG, through its supervisory and compliance personnel, the duty to supervise all personnel having access to ClearPort. Accordingly, MFG has instituted the following supervisory review and internal control policies:

1. In consultation with the Compliance Department, each Supervisor will monitor on a regular basis the trading activity of all Users to determine compliance with applicable NYMEX Rules, this Manual and other applicable MFG policies and procedures.

MF Global

2. On a periodic basis, the Compliance Department will review records relating to User IDs and passwords to verify that all Users and Supervisors are in compliance with MFG's procedures relating to the use of User IDs and passwords. The Compliance Department also will undertake a review of such other matters relating to MFG's ClearPort trading operations as it, from time to time, determines to be necessary or advisable.

I. Notification of Significant Events (NYMEX Rules 2.42 and 11.34)

MFG, its Users and individual NYMEX Members must immediately notify NYMEX of:

1. any unauthorized disclosure or use of passwords;

2. any unauthorized access to ClearPort; and/or

3. any need to deactivate passwords as a result of MFG, its Users and individual NYMEX Members and/or their agents' loss or disclosure of passwords, any unauthorized use of passwords, or any change in agents.

MF Global

EXHIBIT A

MF GLOBAL INC.

CLEARPORT CONTACT LIST

Compliance Department

Contact

Toni Rossetti – Chicago
Tom Cohen – New York

Operations Department

Contact

Tim Mundt - Chicago

Information Technology Department

Contact

Thom Mack - Chicago

Manager

Contact

Bob Stephens – Chicago
Chuck Palumbo – New York

MF Global

EXHIBIT B[1]

NYMEX ERROR TRADE PROCEDURES

11.63 Electronic Trading Error Trade Procedures

(A) Whenever an Electronic Trader or Authorized Terminal User believes that he or she executed a trade through NYMEX ACCESS® or through an Alternative Electronic Trading System in error as a result of an error ("Error"), the Electronic Trader or Authorized Terminal User or a representative of the firm that is a party to the trade must contact the NYMEX Customer Service Call Center ("NCSCC") immediately. For the purposes of this rule, the term "Alternative Electronic Trading System" shall mean any electronic trading system other than NYMEX ACCESS® on which NYMEX Division or COMEX Division products are traded, but not including GLOBEX®.

(B) Except as provided in Section (F) below, if a potential user Error is observed by or brought to the attention of the NCSCC within ten (10) minutes after the trade occurs, the following procedures will apply:

(1) The NCSCC staff will determine whether the trade price is less than the number of ticks set forth below away from the fair market value as determined by the NCSCC. In determining the fair market value, the NCSCC will consider the notional settlement price, the actual settlement price, the last traded price, a better bid or offer price, or any other information the NCSCC staff deems relevant. If the trade price is within the relevant range, then the trade will stand.

Contract Outrights	# Ticks From Market	Minimum Tick Size	$ per Tick
CL	10	0.01	10.00
SC	10	0.01	10.00
HO	25	0.0001	4.20
HU	25	0.0001	4.20
GR	4	.25	25.00
NG	20	0.001	10.00
PN	25	0.0001	4.20
PL	20	0.10	5.00
PA	10	0.05	5.00
QL	10	0.01	15.50
GC	10	0.10	10.00
SI	4	0.005	25.00
HG	10	0.0005	12.50
AL	5	0.0005	22.00
JM	12	0.05	42.00
RS	4	0.25	25.00

1 The NYMEX Error Trade Procedures may change from time to time. Accordingly, it is critical that Users verify with the Compliance Department that this Exhibit B is current. See also current version of policy as published on the NYMEX website at: http://www.nymex.com/rule_main.aspx?pg=10#11.63.

MF Global

RN	2	25.00	250.00

Intra-Commodity Spreads	# Ticks From Market	Minimum Tick Size	$ per Tick
CL	4	0.01	10.00
HO	10	0.0001	4.20
HU	10	0.0001	4.20
NG	5	0.001	10.00
PN	10	0.0001	4.20
PL	10	0.10	5.00
PA	5	0.05	5.00
QL	10	0.01	15.50
GC	5	0.10	10.00
SI	10	0.001	25.00
HG	2	0.0005	12.50
AL	5	0.0005	22.00
JM	12	0.05	42.00

Inter-Commodity Spreads	# Ticks From Market	Minimum Tick Size	$ per Tick
CL / HO	5	0.01	10.00
CL / HU	5	0.01	10.00
HO / HU	25	0.0001	4.20

Products Traded on an Alternative Electronic Trading System (categorized generically by commodity and by unit size)

Product (Unit Size)	# Ticks From Market
Crude Oil and Crude Products (1000 Barrels)	10
Crude Oil and Crude Products (42,000 Gallons)	24
Natural Gas	16
Electricity	30

(2) Upon determining that the trade price is outside the relevant range indicated above, the NCSCC immediately will initiate an alert over the relevant trading system and to the quote vendor network indicating that the trade may be an Error and will attempt to contact the parties to the transaction to determine whether all parties to the trade consent to the cancellation of the trade.

(3) If both parties consent to void the trade within ten (10) minutes after the alert is sent, and no third party objects to the cancellation of the trade within ten (10) minutes of the alert, the trade will be cancelled.

(4) If a third party contacts the NCSCC within ten (10) minutes of the time the system alert and the alert to the quote vendor network set forth in Subsection (B)(2) were sent, objecting to the cancellation of the trade, the NCSCC will not immediately cancel the trade and the transaction will be reviewed by the Electronic Trading Review Committee.

(5) If the NCSCC is unable to contact all parties to a transaction or both parties do not consent to cancel the trade within ten (10) minutes after the NCSCC is notified of a potential user Error then the transaction will be reviewed by the Electronic Trading Review Committee, which shall be comprised of Exchange employees in accordance with Exchange Rule 3.46.

(6) (a) If a transaction is to be reviewed by the Electronic Trading Review Committee, a Panel of at least two (2) members of the Committee shall be convened to review circumstances surrounding the transaction and determine whether the transaction was an Error and, if so, whether such trade should be cancelled. The panel may, at its discretion, consult with Electronic Traders, Authorized Terminal Users or market participants and consider market information provided by those sources in rendering its decision.

(b) The factors that may be considered by the Committee include:

(i) the market conditions before and after the transaction occurred, including, but not limited to, current bids and/or offers or transactions in other contract months;

(ii) whether one or more parties to the trade believe the trade was at a valid price or quantity, as applicable;

(iii) whether there is any indication that the transaction in question triggered stops or resulted in the execution of a spread transaction as a result thereof;

(iv) whether a third party relied on the price; and

(v) any other factors that the Committee deems relevant.

(c) The Panel shall make its decision as soon as practicable after being convened. The decision of the Panel shall be a final decision.

(7) Once the Panel has reached a decision, the NCSCC shall send a system notice indicating whether the trade will be cancelled and shall also directly contact the parties to the trade in this regard.

(8) In addition, the NCSCC will initiate an alert to the quote vendor network indicating whether the trade will be cancelled.

(9) If a trade is cancelled subject to these error procedures, the NCSCC may also cancel any and all trades that were executed, and bids or offers posted, as a result of contingent orders having been elected by the Error trade. NCSCC shall consider the factors indicated in subsection (6)(b), above, in determining whether to cancel such additional trades and shall take the actions required under subsection (B)(7) and (B)(8) of this rule in connection with such cancelled trades.

MF Global

(C) The party requesting that the trade be cancelled must submit to the NCSCC no later than two (2) hours after the end of the applicable trading session, a completed Exchange form documenting in writing the reasons for the request that previously had been provided verbally to the NCSCC.

(D) A fee for each Error trade cancelled in accordance with this rule shall be charged to the party responsible for such Error trade as follows:

(1) $250 for each of the first three (3) instances within one calendar year;

(2) $500 for each of the next five (5) instances within one calendar year; and

(3) $1000 for each instance thereafter within one calendar year.

Notwithstanding the above, there shall be no fee charged in connection with any Error Trade cancelled for any product traded on an Alternative Electronic Trading System, i.e., NYMEX ClearPort[sm] Trading.

(E) Except as provided in Section (F) below, if a potential user Error is brought to the attention of the NCSCC by one of the parties to the potential Error trade later than ten (10) minutes after the trade occurs, the trade will stand. However, NCSCC staff will assign both sides of the transaction to the account of one of the parties if:

(1) The trade would otherwise qualify for treatment as an Error in accordance with section (B)(1) of this rule;

(2) the NCSCC staff, using its best efforts, is able to contact the opposite party to the transaction; and

(3) both parties to the transaction agree to the assignment.

The party reporting the Error and requesting the assignment under this section shall be charged an Error fee in accordance with section (D) of this rule.

(F) Clearly Erroneous Trades Brought to the NCSCC Attention Outside 10-Minute Window. If any transaction is brought to the attention of or is otherwise identified by NCSCC Staff as clearly erroneous and thus inconsistent with the maintenance of overall integrity in the marketplace, Staff shall be authorized to assemble an Electronic Trading Review Committee for the purpose of determining whether to cancel or bust such transaction regardless of whether the notification occurred outside the prescribed 10-minute notification period.

Appendix 15

MF Global

Securities Compliance and Supervisory Procedures Manual

The contents of this Manual are confidential and proprietary to MF Global Inc. ("MFG"). This Manual is intended for the exclusive use of MFG and its employees and should not be circulated to persons outside of MFG.

Member FINRA/CBOE/SIPC

FOR INTERNAL USE ONLY

Updated January 2010

SECURITIES COMPLIANCE AND SUPERVISORY PROCEDURES MANUAL	TABLE OF CONTENTS

Page

Chapter 1 INTRODUCTION 1-1

I. INTRODUCTION 1-1

II. DISTRIBUTION 1-2

III. DEFINITIONS 1-2

IV. PROPRIETARY INFORMATION 1-3

Chapter 2 OVERVIEW 2-1

I. INTRODUCTION 2-1

II. THE SECURITIES AND EXCHANGE COMMISSION 2-1

III. THE 1933 ACT 2-1

IV. THE 1934 ACT 2-1

V. USA PATRIOT ACT OF 2001 2-2

VI. STATE SECURITIES LAWS 2-2

Chapter 3 STANDARDS OF SUPERVISION 3-1

I. INTRODUCTION 3-1

II. SUPERVISION UNDER THE SECURITIES EXCHANGE ACT OF 1934 3-1

III. SUPERVISION UNDER THE RULES OF FINRA 3-1

IV. DESIGNATION OF CHIEF COMPLIANCE OFFICER 3-2

V. SUPERVISORY RESPONSIBILITIES 3-2

VI. OFFICES OF SUPERVISORY JURISDICTION 3-2

VII. SUPERVISION OF BRANCH OFFICES 3-3

VIII. ASSIGNMENT OF ASSOCIATED PERSONS TO SUPERVISORS 3-3

IX. SPECIAL SUPERVISION PROCEDURES 3-3

Chapter 4 ANNUAL COMPLIANCE REVIEW AND SUPERVISION CERTIFICATION 4-1

I. ANNUAL COMPLIANCE REVIEW 4-1

II. ANNUAL CERTIFICATION 4-1

Chapter 5 SUPERVISORY CONTROL SYSTEM 5-1
I. REVIEW AND MONITORING OF PRODUCING MANAGERS 5-1
II. INTERNAL INSPECTIONS 5-3
III. ADDITIONAL MISCELLANEOUS CONTROL PROCEDURES 5-5

Chapter 6 REGISTRATION AND QUALIFICATION 6-1
I. EMPLOYMENT 6-1
II. EMPLOYMENT RECORDS 6-1
III. FINGERPRINTING 6-1
IV. REGISTRATIONS 6-1
V. TERMINATION OF REGISTRATION 6-3
VI. ACTIVITIES OF UNREGISTERED PERSONS 6-4
VII. DUAL REGISTRATION 6-5
VIII. COMPLIANCE TRAINING 6-5

Chapter 7 STANDARDS OF CONDUCT FOR ASSOCIATED PERSONS 7-1
I. PROHIBITED BUSINESS CONDUCT 7-1
II. GIFT POLICY 7-3
III. ENTERTAINMENT POLICY 7-3

Chapter 8 INSIDER TRADING POLICY AND PROCEDURES 8-1
I. OVERVIEW 8-1

Chapter 9 EMPLOYEE ACTIVITIES 9-1
I. OUTSIDE SECURITIES ACCOUNTS 9-1
II. PRIVATE SECURITIES TRANSACTIONS 9-1
III. OUTSIDE BUSINESS INTERESTS 9-2

Chapter 10 PUBLIC OFFERINGS OF SECURITIES AND EXEMPTIONS FROM REGISTRATION 10-1
I. PUBLIC OFFERINGS OF SECURITIES 10-1
II. FINRA RULE 5130 10-1
III. PRIVATE PLACEMENTS 10-2
IV. RULE 144 UNDER THE SECURITIES ACT 10-4

Chapter 11 CUSTOMER ACCOUNTS 11-1

I. NEW CUSTOMER POLICY 11-1
II. SUITABILITY; KNOW YOUR CUSTOMER 11-1
III. SPECIFIC SUITABILITY ISSUES FOR INSTITUTIONAL CUSTOMERS 11-2
IV. UNACCEPTABLE ACCOUNTS 11-3
V. TYPES OF ACCOUNTS 11-4
VI. ACCOUNT TYPE CODING 11-5
VII. CUSTOMER REFUSAL TO PROVIDE INFORMATION 11-5
VIII. RESPONSIBILITY OF REGISTERED REPRESENTATIVES 11-5
IX. CUSTOMER'S ADDRESS 11-6
X. DEATH OF A CUSTOMER 11-6
XI. APPROVAL OF PRINCIPAL 11-6
XII. CUSTOMER ACCOUNT REVIEWS 11-6
XIII. CUSTOMER ACCOUNT CHANGE PROCEDURES 11-6

Chapter 12 CASH AND MARGIN ACCOUNTS 12-1

I. EXTENSION OF CREDIT TO CUSTOMERS; CREDIT REGULATION (REGULATION T) 12-1
II. CASH ACCOUNTS 12-1
III. PROHIBITED ARRANGEMENTS 12-1
IV. MARGIN ACCOUNTS 12-1
V. MARGIN REQUIREMENTS 12-2
VI. SHORT SALES 12-2
VII. MARGIN CALLS 12-3
VIII. MARGIN BALANCES 12-3
IX. EXTENSIONS OF TIME FOR PAYMENT BY CUSTOMERS 12-3
X. REGULATION T EXTENSIONS 12-4
XI. MEETING PAYMENT BY LIQUIDATION 12-4

Chapter 13 OPTION ACCOUNTS 13-1

I. GENERAL 13-1
II. ACCOUNT OPENING 13-1
III. SUITABILITY 13-3
IV. DISCRETIONARY ACCOUNTS 13-3

V. UNCOVERED (SHORT) OPTION ACCOUNTS 13-3
VI. POSITION LIMITS AND EXERCISE LIMITS 13-4
VII. ALLOCATION OF EXERCISE NOTICES 13-5
VIII. AUTOMATED EXECUTION SYSTEMS 13-5
IX. PROHIBITIONS AGAINST ACTING AS A MARKET MAKER 13-6

Chapter 14 OPTIONS SUPERVISION 14-1
I. RESPONSIBILITIES OF SENIOR OPTIONS EXECUTIVES 14-1
II. RESPONSIBILITIES OF DESK SUPERVISORS AND BRANCH MANAGERS FOR OPTIONS 14-2
III. RESPONSIBILITIES OF COMPLIANCE DEPARTMENT FOR OPTIONS SUPERVISION 14-3

Chapter 15 MUNICIPAL SECURITIES 15-1
I. MUNICIPAL SECURITIES TRANSACTIONS 15-1
II. ADMINISTRATION AND OPERATIONS 15-1
III. NEW ISSUES 15-1
IV. SALES PRACTICES 15-1
V. DISCLOSURE OF MATERIAL EVENTS – SEC RULE 15c12-12 15-3
VI. POLITICAL CONTRIBUTIONS – MSRB RULE G-37 15-4
VII. USE OF CONSULTANTS – MSRB RULE G-38 15-5

Chapter 16 MUTUAL FUNDS 16-1
I. OVERVIEW 16-1
II. SUITABILITY 16-1
III. DISCLOSURE AND DOLLAR AMOUNT LIMITS ON CLASS B AND CLASS C SHARE PURCHASES 16-1
IV. BREAKPOINTS 16-3
V. PERFORMANCE INFORMATION 16-3
VI. SWITCHING 16-4
VII. MUTUAL FUND MARKET TIMING AND LATE TRADING 16-5
VIII. PROHIBITION AGAINST REMUNERATION 16-6
IX. SELLING DIVIDENDS 16-7
X. ADVERTISING AND SALES LITERATURE 16-7

Chapter 17 PRIME BROKERAGE 17-1
I. INTRODUCTION 17-1

Chapter 18 FIXED INCOME 18-1
I. GOVERNMENT SECURITIES 18-1
II. CORPORATE FIXED INCOME SALES AND TRADING 18-5
III. COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs) 18-9
IV. FINANCING TRANSACTIONS 18-14

Chapter 19 STOCK LENDING 19-1
I. AUTHORIZED BORROW/LOAN PERSONNEL 19-1
II. BORROWING SECURITIES 19-1
III. LENDING SECURITIES 19-1
IV. AGENCY LENDING DISCLOSURE OF PRINCIPAL ("ALDOP") 19-2
V. LOCATES-STOCK AVAILABILITY 19-3
VI. MANDATORY CLOSE-OUTS FOR THRESHOLD SECURITIES 19-4
VII. ELECTIVE PROCEDURE LOAN RECALL 19-4
VIII. RECONCILIATION OF BETA AND LOANET SYSTEMS 19-4
IX. BORROW/LOAN DEFICITS 19-5
X. COLLATERAL-MARK TO MARKETS 19-5
XI. REBATES/BILLING AND CONFIRMS 19-5
XII. RISK CONTROL 19-6

Chapter 20 DIRECT MARKET ACCESS (SPONSORED PARTICIPANT) PROCEDURES 20-1
I. GENERAL SUPERVISORY RESPONSIBILITIES 20-1
II. GENERAL DMA DESK PROCEDURES REGARDING LOCATES 20-2
III. DOCUMENTATION OF SUPERVISORY REVIEWS 20-2
IV. ONGOING PROCEDURES - SUPERVISION 20-3

Chapter 21 COMMUNICATIONS WITH THE PUBLIC 21-1
I. OVERVIEW 21-1
II. APPROVALS REQUIRED AND RETENTION REQUIREMENTS 21-2
III. COMMUNICATIONS WITH THE PUBLIC 21-2
IV. OPINIONS, PERFORMANCE DATA AND PROJECTIONS 21-3
V. ADVERTISEMENTS AND SALES LITERATURE 21-3

VI. INDEPENDENTLY PRODUCED REPRINTS 21-4
VII. TELEMARKETING SCRIPTS AND TELEPHONE VOICEMAIL MESSAGES 21-4
VIII. PUBLIC APPEARANCES 21-4
IX. NEWSPAPER AND MAGAZINE ARTICLES 21-5
X. MASS MAILINGS 21-5
XI. OPTIONS COMMUNICATIONS WITH THE PUBLIC 21-5
XII. CORRESPONDENCE WITH CUSTOMERS 21-8
XIII. ELECTRONIC COMMUNICATIONS 21-9
XIV. SUPERVISION OF ELECTRONIC COMMUNICATIONS 21-9

Chapter 22 CUSTOMER COMPLAINTS; LEGAL AND REGULATORY INQUIRIES 22-1
I. CUSTOMER COMPLAINTS 22-1
II. REPORTING CUSTOMER COMPLAINT INFORMATION 22-2
III. REGULATORY INQUIRIES 22-2
IV. LITIGATION AND ARBITRATION 22-2
V. INITIATING CONTACT 22-2

Chapter 23 PRIVACY AND INFORMATION SHARING 23-1
I. BACKGROUND 23-1
II. INITIAL AND ANNUAL NOTICES 23-1
III. SAFEGUARDING CUSTOMERS INFORMATION 23-1

Chapter 24 REPORTING REQUIREMENTS 24-1
I. DISCLOSURE EVENT REPORTING REQUIREMENTS 24-1
II. REPORT OF DISCLOSURE EVENTS TO CHIEF COMPLIANCE OFFICER 24-3

Chapter 25 FINANCIAL AND OPERATIONAL POLICIES AND PROCEDURES 25-1
I. NET CAPITAL REQUIREMENTS 25-1
II. FINANCIAL/OPERATIONS PRINCIPAL RESPONSIBILITIES 25-1
III. FIDELITY BOND COVERAGE 25-2
IV. EARLY WARNING NOTIFICATION 25-2

Chapter 26 RECORDKEEPING REQUIREMENTS 26-1
I. RECORDS TO BE MAINTAINED 26-1

Chapter 27 CUSTOMER FUNDS AND SECURITIES 27-1
I. INTRODUCTION 27-1
II. CASHIERING FUNCTIONS 27-1
III. SECURITIES RECEIPT FUNCTIONS 27-1
IV. SUPERVISION OF CASHIERING AND SECURITIES RECEIPT FUNCTIONS 27-2

Chapter 28 ORDER AUDIT TRAIL SYSTEM REPORTING REQUIREMENTS 28-1
I. COMPLETING AND TRANSMITTING ORDERS 28-1
II. RECORDING OF ORDER INFORMATION 28-1
III. ORDER TRANSMITTAL 28-3
IV. OTHER MODIFICATIONS AND CANCELLATIONS 28-4
V. SUPERVISORY REVIEWS OF OATS PROCEDURES 28-5
VI. SYNCHRONIZATION PROCEDURES 28-6
VII. RECORDKEEPING REQUIREMENTS 28-6

Chapter 29 TRACE REPORTING 29-1
I. GENERAL 29-1
II. TRACE WEB REPORTING SYSTEM 29-1
III. REPORTING TRANSACTIONS TO THE TRACE SYSTEM 29-1
IV. INFORMATION SUBMITTED TO THE TRACE SYSTEM 29-3
V. MODIFIERS 29-4

Chapter 30 OFF EXCHANGE TRADE REPORTING 30-1
I. GENERAL 30-1
II. REPORTING TRADES TO FINRA TRF SYSTEMS 30-1
III. PARTIES REQUIRED TO REPORT TRADES TO A FINRA TRF 30-2
IV. INFORMATION REQUIRED TO BE SUBMITTED 30-2
V. LATE TRADES 30-3
VI. REGULATION NMS ISSUES 30-4
VII. REPORTING AFTER HOURS TRADES 30-4
VIII. "RISKLESS PRINCIPAL" TRANSACTIONS 30-5
IX. AGGREGATION OF ORDERS (BUNCHING) 30-5
X. OTHER TRADE MODIFIERS 30-6
XI. SUPERVISORY REVIEWS 30-6

Chapter 31 SEC REGULATION SHO POLICY **31-1**
I. SHORT SALES 30-1

Chapter 32 ODD LOTS POLICIES AND PROCEDURES **32-1**
I. GENERAL 30-1
II. PROCEDURES 30-1

Chapter 33 ORDER EXECUTION AND ROUTING DISCLOSURES **33-1**

Chapter 34 DUTY OF BEST EXECUTION **34-1**

Chapter 35 TRADING AHEAD **35-1**
I. HANDLING OF MARKET ORDERS 35-1
II. TERMS AND CONDITIONS 35-1
III. PRICE IMPROVEMENT STANDARD 35-1

Chapter 36 LETTER OF DIRECTION PROCEDURES **36-1**
I. LETTER OF DIRECTION DUE DILIGENCE PROCEDURES 36-1

Chapter 37 DISASTER RECOVER/BUSINESS CONTINUITY PLAN **37-1**
I. DISASTER RECOVERY/BUSINESS CONTINUITY PLAN 37-1

Exhibits

A. Designation of Chief Compliance Officer
B. Reviewing Supervisors
C. Breakpoint Acknowledgement Letter
D. Switching Authorization Letter
E. DMA and SP Trading – Supervisory Chart
F. DMA Supervisory Procedures

I. INTRODUCTION

This Securities Compliance and Supervisory Procedures Manual ("Manual") sets forth the principles, practices and procedures under which MF Global Inc. ("MFG") conducts its securities business. It is to be used by all firm employees as a guide for compliance with MFG's policies and procedures as well as with the laws, rules and regulations applicable to the securities industry.

MFG is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), the Chicago Board Options Exchange ("CBOE") and all principal U.S. exchanges except the New York Stock Exchange. MFG's principal offices are located at 440 South LaSalle Street, 20th Floor, Chicago, Illinois, 60605.

The responsibility for following the policies and procedures in this Manual lies with each individual. In addition, all Associated Persons ("APs") are charged with knowing and abiding by all applicable federal, state and local laws, rules and regulations, as well as the rules and regulations of the exchanges and our SRO's (FINRA and CBOE). Failure to adhere to the policies and procedures contained in this Manual or applicable laws, rules and regulations may result in disciplinary action against an employee by federal, state or local agencies, regulatory authorities or MFG. In the event of such failure, MFG may impose fines, reduce or withhold commissions or compensation, place the employee on special supervision, or suspend or terminate the employee.

While every attempt has been made to address the compliance issues that may arise for an AP of MFG, no compliance manual or program can anticipate all such issues in a dynamic work environment like that of MFG. Accordingly, when an employee: (i) encounters an issue that is not addressed in this Manual; or (ii) has a question regarding this Manual, the permissibility of their conduct or contemplated conduct, or the permissibility of another employee's conduct or contemplated conduct, it is such employee's responsibility to immediately direct all such questions or concerns to their supervisor and/or the Compliance Department. An employee shall not be excused for a violation of any policy or procedure or requirement of any law, rule or regulation described herein by claiming that the employee did not know that their conduct was violating such policy or requirement.

Requests for any exceptions to the policies or procedures set forth in this Manual should be discussed with the employee's manager and the Compliance Department. The Manual will be reviewed regularly by the Compliance Department and updated as necessary to reflect any significant changes to rule or regulation of a federal, state or local governmental agency, an industry regulatory

authority, or MFG policies and procedures. All employees are responsible for complying with MFG's policies and procedures set forth in this Manual.

II. DISTRIBUTION

All employees are required to read, be familiar with and comply with all applicable policies and procedures contained in this Manual, which is maintained and available for access via the MFG intranet ("GX").

All new employees receive a link to access the Manual and should sign an acknowledgment certifying that they have read the Manual and will comply with the applicable policies and procedures set forth herein and all applicable laws, rules and regulations.

Updates to the Manual will be communicated by the Compliance Department with a timely Compliance Communication email containing an embedded link to the updated Manual as posted to GX.

On an annual basis, employees will be asked to review and acknowledge understanding of the applicable policies and procedures comprised within this Manual.

III. DEFINITIONS

For purposes of this Manual, the following terms shall have the following meanings:

Associated Person ("AP"). "Associated Person" means every person engaged in the securities business who is directly or indirectly employed by a FINRA member firm such as MFG, which includes all FINRA registered and non-FINRA registered employees.

Registered Representative ("RR"). "Registered Representative" means a registered employee (i.e. Series 7) who is engaged in the solicitation or handling of accounts or orders for the purchase or sale of securities, or other similar instruments for the accounts of customers of MFG or in the solicitation or handling of business in connection with investment advisory or investment management services furnished on a fee basis by MFG.

Registered Principal ("RP"). "Registered Principal" means an RR who has successfully completed the appropriate Principal examination (i.e. Series 24), who functions in the capacity of a manager, a supervisor of a business activity or unit, and/or a manager of an Office of Supervisory Jurisdiction, which includes the functions of supervision, solicitation of business, and training of persons associated with MFG for any of these functions.

Registered Options Principal ("ROP"). "Registered Options Proncipal" means a registered employee (i.e. Series 4) of a FINRA member firm such as MFG, that is responsible for supervising options' exposure and the trading activities on options within client accounts. The ROP acts between the client making the order and the exchange member who executes the order.

Registered Options and Security Futures Principal ("ROSFP"). "Registered Options and Security Futures Principal" means a registered employee of a FINRA member firm such as MFG, that is responsible for supervising security futures and has completed a firm-element continuing education program on security futures.

Chief Compliance Officer ("CCO"). "Chief Compliance Officer" means the person that has primary compliance responsibility and acts as the primary advisor to MFG on its overall compliance scheme, and the policies and procedures that the MFG has adopted.

Registered Person. "Registered Person" means a RR, a RP, or any other employee of MFG who is FINRA registered.

Supervisor. "Supervisor" means any individual having the authority, in the interest of MFG, over a particular department or employee(s).

PAIB. "Proprietary Account – Introducing Broker"

Branch Office. "Branch Office" means any location where one or more Associated Persons of a member firm regularly conducts the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any securitiy, or is held out as such.

Non-Branch Office. "Non-Branch Office" means any location not definied as a Branch Office.

IV. PROPRIETARY INFORMATION

Please note that this Manual is the property and proprietary information of MFG and should not be shared with external parties without the permission of the Compliance Department. Each individual who receives a copy of this Manual should either return it or destroy it upon the termination of their relationship with MFG.

I. INTRODUCTION

The following material provides an overview of the law and regulation applicable to the securities industry generally. Any questions which arise regarding these materials should be directed to the Compliance Department.

II. THE SECURITIES AND EXCHANGE COMMISSION

The SEC was established by the Securities Exchange Act of 1934 (the "1934 Act"). The SEC oversees all aspects of the securities industry and is headquartered in Washington, D.C., with regional and branch offices throughout the United States. The primary responsibility of the SEC is administering federal securities laws including the Securities Act of 1933 (the "1933 Act") and the 1934 Act.

III. THE 1933 ACT

The 1933 Act is intended to ensure full and fair disclosure of material information relating to securities sold in interstate commerce and to prevent fraud in their sale. This disclosure is primarily achieved through requirements for the filing of a registration statement and the use of a prospectus. The SEC does not endorse any security or any dealer in securities, nor does it approve any offering materials filed with it. Rather, the 1933 Act and the regulations promulgated thereunder merely provide a framework intended to ensure full, fair, and honest disclosure of the material aspects of any security offering.

IV. THE 1934 ACT

The 1934 Act provides for the registration and regulation of securities exchanges and securities industry professionals, the registration of securities listed on such exchanges, and the registration of certain securities traded over-the-counter. The 1934 Act also establishes financial and other reporting requirements for issuers of securities registered under the Act, regulation of proxy solicitations, and requirements with respect to trading by directors, officers, and principal security holders of publicly traded companies.

Also included are provisions that prohibit fraudulent, deceptive, and manipulative acts and practices on the exchanges and in the over-the-counter markets, and authorization for the Federal Reserve Board to regulate the use of credit in securities transactions (the source of the Fed's authority to set margin rates). The purpose of these statutory requirements is to ensure the maintenance of fair and honest markets in securities transactions on the organized exchanges and in the over-the-counter markets.

V. USA PATRIOT ACT OF 2001

In October 2001, the USA PATRIOT Act of 2001 ("Patriot Act") was enacted. Among the provisions of the Act which impact MFG are:

1. The application of many Bank Secrecy Act provisions to broker-dealers, including in particular the duty to file Suspicious Activity Reports;

2. The requirement that broker-dealers adopt and implement an anti-money laundering program and appoint an anti-money laundering compliance officer;

3. Imposition of stringent requirements relating to many types of foreign accounts; and

4. The development and implementation of a risk-based Customer Identification Program.

VI. STATE SECURITIES LAWS

Most states have enacted laws regulating the sale of securities and the activities of broker-dealers in securities and their representatives who transact business in such state. These laws are commonly known as "Blue Sky Laws," and in most states provide:

1. That no securities dealer or securities salesperson may sell securities in that state unless both MFG and the salesperson are registered under state law; and

2. That no security may be sold in that state unless the security is registered or qualified for sale (in both cases unless a specific exemption applies).

Registration with the states is coordinated with the federal registration process by requiring registration in each jurisdiction through a process of filing Form U4 and/or Form BD (or amendments to these Forms) through FINRA's on-line Central Registration Depository ("CRD") system.

I. INTRODUCTION

MFG, through its RPs and officers, has an obligation to properly supervise its business activities under federal and state securities laws and regulations, as well as the rules and regulations of its SRO's (FINRA and CBOE) and the various exchanges of which MFG is a member.

II. SUPERVISION UNDER THE SECURITIES EXCHANGE ACT OF 1934

The SEC has held that a violation of federal securities laws committed by officers or employees of a broker-dealer acting within the scope of their employment is a violation by MFG itself, and that the degree of fault of MFG is a factor to be considered in determining the sanction to be imposed.

The SEC may also choose to proceed separately against the broker-dealer, its officers, and its supervisory employees for failure to adequately supervise any actual wrongdoers. In this connection, the SEC has stated that:

> . . . no person shall be deemed to have failed reasonably to supervise any person, if: (i) there were established procedures and a system for applying such procedures, which could reasonably be expected to prevent and detect, insofar as practicable, any such violation by such other person; and (ii) such person has reasonably discharged the duties and obligations incumbent upon him or her by reason of such procedures and system without reasonable cause to believe that such procedures and system were not being complied with.

MFG, its officers, and its RPs must enforce reasonable supervision over MFG's securities activities with a view toward preventing violations of the federal securities laws and regulations and the other rules and regulatons to which it is subject. The importance of adequate compliance procedures is self-evident and cannot be over emphasized. The duty of a broker-dealer to maintain and enforce adequate standards of supervision extends to every aspect of its activities.

III. SUPERVISION UNDER THE RULES OF FINRA

Every FINRA member is required to establish and maintain a system for supervising the activities of its RRs and APs (NASD Rule 3010(a)), and to develop written supervisory procedures in order to assure compliance by all broker-dealer personnel with applicable law and regulation. (NASD Rule 3010(b)). This Manual and the policies and procedures set forth in it are intended to meet this requirement.

IV. DESIGNATION OF CHIEF COMPLIANCE OFFICER

MFG has designated the RP identified on Exhibit A as its CCO, who is generally responsible for, among other things, the establishment, maintenance, and enforcement of supervisory control procedures that: (a) test and verify that MFG's supervisory procedures are reasonably designed to achieve compliance with applicable securities laws and regulations, and (b) amend or create additional supervisory procedures where necessary.

V. SUPERVISORY RESPONSIBILITIES

MFG has designated a RP with authority to carry out supervisory responsibilities for each type of business in which it is engaged. Reasonable efforts must be made to determine that all supervisory personnel are qualified by virtue of experience and/or training to carry out their assigned responsibilities. Such persons must be knowledgeable with respect to regulatory requirements and product lines, experienced in the activities which they are to supervise, and capable of exercising authority over subordinates. Any disciplinary history of such persons should be taken into account in making supervisory designations. Supervisory designations will be based upon a review of each individual's employment application and experience, and through successful completion of an appropriate examination or examinations.

Designated RPs are permitted to delegate supervisory responsibilities to other qualified persons over whom they have direct supervisory authority, so long as such delegation is set forth in writing. Delegated authority does not alleviate the supervisory responsibilities of the RP.

VI. OFFICES OF SUPERVISORY JURISDICTION

An Office of Supervisory Jurisdiction ("OSJ") is any office at which one or more of the following occurs: (i) order execution and/or market making; (ii) structuring of public offerings or private placements; (iii) maintaining custody of customer funds and/or securities; (iv) final acceptance (i.e., approval) of new accounts; (v) review and approval of customer orders; (vi) final approval of advertising or sales literature for use by APs; or (vii) responsibility for supervising the activities of APs at another branch office. One or more appropriately RPs should be designated for each OSJ and branch office with authority to carry out supervisory responsibilities for that OSJ or branch. The Compliance Department maintains a list of MFGs current OSJ locations.

VII. SUPERVISION OF BRANCH OFFICES

A "Branch Office" generally includes any location identified by any means to the public, or to customers, as a location at which a broker-dealer conducts its investment banking or securities business, other than a location at which no advertising or signage is present, but at which a RR may occasionally make appointments.

Branch offices are required to be designated as such and registered with FINRA if the location publicly displays signage, performs any function of an OSJ, operates from public areas of buildings, such as bank branches, even when such locations are temporarily staffed, or advertises an address in any public medium. In addition, each branch office will have a branch office manager ("Branch Manager") designated who will be responsible for the supervision of the activities at that branch.

The Compliance Department maintains a list of MFGs current branch locations.

VIII. ASSIGNMENT OF ASSOCIATED PERSONS TO SUPERVISORS

All APs are required to be under the direct supervision of a RP who shall be responsible for supervising the activities of such persons. The CCO will maintain a current listing of the specific Designated Supervisors per business. The Human Resources ("HR") Department will maintain the current lists of who is assigned to each Designated Supervisor.

IX. SPECIAL SUPERVISION PROCEDURES

It is the responsibility of the Compliance Department to identify APs of MFG who may require special supervision. The Compliance Department will use the following criteria to determine whether special supervision is required: (i) three or more customer complaints, including written and oral complaints, arbitrations and other civil actions, alleging sales practice abuses within the past two years; (ii) a complaint filed by a regulator; (iii) an injunction in connection with an investment-related activity; (iv) termination from a prior employer where the termination involves a significant sales practice or regulatory violation; or (v) employment with three or more broker-dealers within the past five years.

When the Compliance Department has identified an AP for special supervision, a member of the Compliance Department must discuss the situation with the AP's supervisor. If a determination is made that special supervision is not warranted, the Compliance Department shall prepare a written memorandum stating why the existing supervision of the AP is adequate. If a determination is made that special supervision is warranted, the Compliance Department shall prepare a

written plan outlining the special supervision to be conducted, including the methods of supervision, their frequency, the time period during which such supervision will be applied, and the manner of documenting the special supervision. Special supervision may involve imposing limits on the APs' activities or on the types and sizes of transactions he or she may handle, prior written approval of all their communications with customers, tape recording their telephone calls, monitoring their emails, remedial training and/or physically locating the person near their supervisor. The AP who is the subject of the special supervision and their supervisor must sign the special supervisory plan.

I. ANNUAL COMPLIANCE REVIEW

The CCO is responsible for ensuring that the annual compliance review is conducted by the close of each fiscal year of MFG. This review shall include (i) an on-site inspection of each of MFG's offices (see Chapter 5 Supervisory Control System); (ii) a review of customer complaints, regulatory inquiries, arbitrations, litigation, and other disciplinary procedures to identify trends in non-compliance; (iii) discussion with the RPs regarding problems they have identified during the past year, including but not limited to the areas of supervision, operations, training of personnel, detection of money laundering, and insider trading; and (iv) any other areas of inquiry deemed appropriate by the CCO.

The CCO shall prepare a written report of their findings and present it to MFG's senior management. The report shall contain (i) a description of the review; (ii) the results of that review, including a summary of the test results arising from MFG's internal inspections; (iii) the CCO's assessment of the adequacy of MFG's policies and procedures in preventing and detecting violative conduct; (iv) any additional or amended supervisory procedures created in response to the results of the review and testing; (v) a discussion of new and proposed regulatory and legislative changes that may require the adoption of new policies and procedures or the modification of current policies and procedures; and (vi) a description of new businesses that MFG intends to conduct and a proposal for the adoption of policies and procedures applicable to those business areas. A copy of the written report of the annual compliance review, dated and signed by the CCO, shall be given to MFG's senior management. A copy of the report shall also be placed in MFG's files and shall be made available to FINRA and the CBOE upon request.

The annual compliance review, including the testing and verification detailed below, shall be conducted independent of any business considerations that are countervailing to full compliance with applicable laws, regulations and rules.

II. ANNUAL CERTIFICATION

Following completion of the annual compliance report, the CCO shall meet with MFG's Chief Executive Officer or their delegate to review the report. Other parties may be invited to participate in this meeting, including other RPs and employees of MFG, outside consultants, and/or MFG's lawyers or accountants. At this meeting, the CCO and the Chief Executive Officer shall (i) discuss and review the adequacy and effectiveness of MFG's compliance policies and supervisory procedures; (ii) identify and address significant compliance problems; and (iii) identify and address MFG's plans for new business endeavors.

At the conclusion of the annual meeting between the CCO and the Chief Executive Officer, the Chief Executive Officer shall execute a certification substantially in the following form:

Annual Compliance and Supervision Certification

The undersigned is the Chief Executive Officer of MF Global Inc. (the "Member"). As required by FINRA Rule 3130, the undersigned makes the following certification:

1. The Member has in place processes to:
   - Establish, maintain and review policies and procedures reasonably designed to achieve compliance with applicable FINRA rules, MSRB rules and federal securities laws and regulations, and the applicable rules of any other self-regulatory organizations having jurisdiction over the Member;
   - Modify such policies and procedures as business, regulatory and legislative changes and events dictate; and
   - Test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with FINRA rules, MSRB rules and federal securities laws and regulations, and the applicable rules of any other self-regulatory organizations having jurisdiction over the Member.
2. The undersigned Chief Executive Officer has conducted one or more meetings with the CCO in the preceding 12 months, the subject of which satisfy the obligations set forth in Rule 3130.
3. The Member's processes, with respect to paragraph 1 above, are evidenced in a report reviewed by the Chief Executive Officer, the CCO, and such other officers as the Member may deem necessary to make this certification, and submitted to the Member's managing members and audit committee at the earlier of their next scheduled meetings or within 45 days of the date of execution of this certification.

I. REVIEW AND MONITORING OF PRODUCING MANAGERS

A. "Producing Manager" Defined

For purposes of this chapter, a "Producing Manager" includes any Branch Manager, sales manager, regional or district sales manager, or any person performing a similar supervisory function who is responsible for conducting any customer account activity (each a "Producing Manager").

B. Designation of Reviewing Supervisors

MFG has assigned to the qualified supervisory personnel identified on attached Exhibit B (the "Reviewing Supervisors") responsibility for reviewing and supervising the customer account activity of MFG's Producing Managers. MFG attempts to have its offices supervised by non producing managers. Each such supervisor identified on Exhibit B must be senior to, or otherwise independent of, the Producing Manager(s) for whom he or she is responsible. "Senior to" means that the individual does not report to the Producing Manager, the individual's compensation is not determined (even in part) by the Producing Manager, the individual is not in the same chain of authority as the Producing Manager and the individual has the authority to oversee, direct and correct the activities of the Producing Manager. Similarly, an "otherwise independent" person: (a) may not report directly or indirectly to the producing manager under review; (b) must be situated in an office other than the office of the producing manager; (c) must not otherwise have supervisory responsibility over the activities being reviewed (including not being directly compensated based in whole or in part on the revenues accruing for those activities); and (d) must alternate such review responsibility with other qualified persons every two years or less.

C. Review and Supervision of Producing Managers' Customer Account Activity

Each Reviewing Supervisor is responsible for the supervision of the customer account activities of the Producing Manager(s) to whom he or she is assigned. This is accomplished by reviewing the Daily Trade Count, Discretionary Trade, Concentration, Large Options Positions, Daily Commission Activity, Option level Trade Level Override, and Trade Cancellation Reports for the accounts managed by such Producing Manager(s). The Reviewing Supervisor or his/her delegate should evidence their review by initialing, dating and maintaining a copy of all records reviewed. The Reviewing Supervisor or delegate should identify

any transactions that require follow-up, note the issue raised by their review directly on the record in question or some other record, and further note the resolution of their inquiry either directly on the record or in a separate memorandum filed with it.

D. Heightened Supervision for Certain Producing Managers

To the extent that any Producing Manager is responsible for generating 20% or more of the revenue generated by the business units supervised by the Producing Manager's Reviewing Supervisor, MFG will adopt heightened supervisory review procedures relative to such Producing Manager; however, if the Reviewing Supervisor responsible for the Producing Manager in question is "otherwise independent" (as described above) of the Producing Manager, heightened supervisory reviews are unnecessary even if the 20% threshold is met. MFG will calculate the 20% threshold on a rolling twelve-month basis.

When calculating the 20% threshold, all of the revenue generated by or credited to a given Producing Manager or the Producing Manager's office shall be attributed as revenue generated by the business units supervised by the Producing Manager's supervisor.

The particular heightened procedures adopted in each instance will be determined by the CCO, or their appropriately licensed designee, based upon the specific facts and circumstances present and will be designed to avoid conflicts of interest that serve to undermine effective supervision because of the economic or financial interests that the Reviewing Supervisor holds in the production of the Producing Manager. Heightened supervisory reviews may include such elements as unannounced supervisory reviews, an increased number of supervisory reviews by different reviewers within a certain period, a broader scope of activities reviewed and/or having one or more RPs approve the supervisory review of the Producing Manager in question. Any such heightened review procedures adopted will be documented by the CCO, or their appropriately licensed designee.

II. INTERNAL INSPECTIONS

A. Inspection Cycles

MFG has adopted the following inspection cycles for its various locations:

1. Annually for OSJs and for branch offices.
2. Currently MFG does not have any non-branch locations. For any future non-branch locations, the inspection cycle will be at a minimum once every three years. MFG will evaluate all non-branch locations taking into consideration the nature and complexity of the securities activities and the nature and extent of contact with customers and will adjust its inspection schedule accordingly.

MFG will retain a written record of the dates upon which each review and inspection is conducted.

B. Scope of Inspections

Each inspection shall include, at a minimum, the testing and verification of MFG's policies and procedures, including supervisory policies and procedures, in the following areas:

- Safeguarding customer funds and securities;
- Maintaining books and records;
- Supervising customer accounts serviced by branch managers;
- Transmitting funds between customers and RRs and between customers and third parties;
- Validating customer address changes; and
- Validating changes in customer account information.

If MFG does not engage in any of the activities listed above, it must identify such activities in the written inspection report (discussed below) and document in the report that supervisory policies and procedures for such activities must be in place before MFG can engage in them.

The specific testing and verification procedures to be employed shall be determined in advance of the inspection by the designated inspector(s) in coordination with the CCO or their appropriately licensed designee.

C. Qualifications to Conduct Inspections

The CCO, or their designee, is responsible for assigning appropriately qualified supervisory personnel to conduct each required office inspection. An office inspection cannot be conducted by the Branch Manager or any person within the office in question who has supervisory responsibilities or any individual who is supervised by such persons.

D. Heightened Inspection Requirements

A "heightened inspection"[1] is required of MFG's offices if two conditions are met: (a) the individual conducting the inspection reports to the Branch Manager's supervisor or works in an office supervised by the branch manager's supervisor; and (b) the Branch Manager generates 20% or more of the revenue of the business units supervised by the Branch Manager's supervisor. In calculating the 20% threshold, MFG must look at all revenue generated by or credited to the producing manager or the producing manager's office, which amount shall be included as part of the overall revenues of the business units supervised by the producing manager's supervisor irrespective of MFG's internal allocation of revenues. This number should be calculated on a rolling twelve-month basis.

E. Written Inspection Report

The individual inspector(s) shall detail each office inspection in a written report, which MFG will keep on file for a minimum of three years.[2] Such written report must describe the scope of the review, including in particular the testing and verification of MFG's policies and procedures in the areas identified in Section II.B above.

1 "Heightened inspection" means inspection procedures designed to avoid conflicts of interest that serve to undermine complete and effective inspection because of the economic, commercial, or financial interests that the branch manger's supervisor holds in the APs and businesses being inspected. These procedures may include such elements as unannounced office inspections, increased frequency of inspections, a broader scope of activities inspected, and/or having one or more RPs review and approve the office inspections. The CCO shall determine, and document, the appropriate scope of any "heightened inspections."

2 To the extent that the inspection cycle for any non-branch office is longer then three years, MFG must keep the report on file at least until the next inspection report has been written.

III. ADDITIONAL MISCELLANEOUS CONTROL PROCEDURES

A. Procedures Relative to Certain Disbursements of Securities and Funds

A written request from the customer is required for any request for the transmittal of funds or securities:

- From a customer account to a third-party;
- From a customer account to an outside entity;
- From a customer account to a location other than a customer's primary residence (i.e., post office box, an "in care of" account, alternative address, etc.); or
- From a customer account to a RR, including the physical delivery/hand delivery of a check.

Any such request must be approved by a RP prior to processing. The RP will evidence their approval by initialing and dating the written request. For any of the foregoing requests, in addition to a request for a transmittal from a customer account to an account at another financial institution in the same name (e.g., a bank, investment company, etc.), MFG will generate a letter identifying the type and available details of the delivery or disbursement. The letter will be sent to the customer at the customer's address of record.

B. Address Changes

Any customer address change request must be in a writing signed by all account owners of record and approved in advance of processing by a RP who will initial and date such request. MFG will send confirmation of the change to both the old address and new address of record.

C. Changes of Customer Investment Objectives

Any change in a customer's investment objectives should be documented by completion of an updated new account form and approved in advance by a RP. Such approval will be promptly confirmed in writing to the customer's address of record.

D. Order Ticket Name Change

Before a customer order is executed, the account name or designation must be noted upon the ticket. Any changes in account names or designations thereafter must be approved in advance by a RP. Prior to approving such a change, the RP must document the essential facts relied upon in approving the change, and MFG will maintain the record in a central location for a period of three years, with the first two years in an easily accessible place.

E. Holding of Customer Mail

MFG will hold customer mail only upon advance written request from the customer. The written request must set forth the reason for the request, and MFG may hold the customer's mail for no more than two months if the customer is on vacation or traveling, or three months if the customer is going abroad.

F. Time and Price Discretionary Authority

MFG may exercise time and price discretion on orders for the purchase or sale of a definite amount of a specified security without prior written authorization from the customer or prior written approval by MFG. This discretion is limited to the day it is granted, absent written authorization to the contrary, and such exercise of time and price discretion must be reflected on the customer order ticket. This restriction does not apply to institutional accounts[3] pursuant to valid good-till-cancelled instructions issued on a "not held" basis.

3 For these purposes, an "institutional account" means the account of: (a) a bank, savings and loan association, insurance company, or registered investment company; (b) an investment adviser registered either with the Securities and Exchange Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or agency or office performing like functions); or (c) any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least $50 million.

I. EMPLOYMENT

Prior to the employment of any FINRA Registered Person for a position, the candidate must evidence their signature on the Pre-hire Background Check Authorization Form so that the firm can obtain the prospective applicant's consent to obtain the employee's records via CRD. Before registrations can be transferred or activated at MF Global Inc., each Registered Person applicant will be required to review and complete a Form U4*. MFG will attempt to contact the applicant's employers for the last three (3) years and may contact other references. In addition, the applicant must be fingerprinted for the purposes of a criminal background check.

*Every time a Registered Person signs an original or amended Form U4, MFG must give her or him a written statement regarding the dispute resolution process for the handling of customer complaints and employment discrimination claims.

II. EMPLOYMENT RECORDS

Copies of the Form U4, fingerprint records, and other documents ancillary to the registration and criminal background review process will be maintained by the Compliance Registration Department.

Copies of other pre-hire documentation will be maintained within the Human Resources Department, which includes a questionnaire or application for employment.

III. FINGERPRINTING

All employees, regardless of registration status, are required to be fingerprinted. Supervisors must ensure that newly hired employees are fingerprinted as soon as possible, but no later than 30 days after the employee's start date. Fingerprint cards will be forwarded by the Compliance Registration Department to FINRA for further FBI criminal history processing. Evidence that fingerprint cards have been filed with FINRA, and the final status of the FBI's processing of the fingerprint cards will be maintained by the Compliance Registration Department.

IV. REGISTRATIONS

Employees of MFG who solicit securities transactions from customers, accept or handle orders for the purchase or sale of securities from customers, provide investment advice or research to customers, sell or trade government securities or supervise any such employees must be registered with FINRA and appropriate state regulatory authority.

The following registration requirements apply to all employees:

- An RR who solicits transactions in securities either verbally or in writing, accepts or handles customers securities orders, provides investment advice or research to customers or trades government securities in the United States must successfully complete the Series 7 - General Securities Representative Examination and the Series 63 - Uniform State Agent Examination.
- All RPs and supervisory personnel of MFG including supervisors located outside the United States are required to successfully complete the Series 24 - General Securities Principal Examination.
- All equity traders and assistant equity traders, and those who supervise equity traders, must successfully complete the Series 7 - General Securities Representative examination and the Series 55 - Equity Trader Limited Representative examination in order to engage in equity trading activities on behalf of MFG or its customers.
- Registration approval must be obtained in all states in which a RR's customers reside or in which a RR conducts business or solicits customers or potential customers. MFG does not allow an RR to act as an agent in a given state until such time as the individual is fully registered under all applicable state rules and regulations. It is the responsibility of the RR to ensure that he or she has obtained the necessary registration prior to undertaking any activities which would require registration.
- Depending upon their activities for MFG, certain other employees may be required to complete other examinations. Such employees will be notified by the Compliance Department.

No activities that require registration may be undertaken by any employee until the Compliance Registration Department has notified the registrant and their supervisor that the appropriate examinations have been successfully completed. In addition, if any examinations were completed prior to an employee's association with MFG, no such activities are permitted until the employee's registrations are transferred from the previous employer and confirmed by the Compliance Registration Department.

During the term of registration with MFG, each Registered Person is responsible for informing the Compliance Registration Department and their supervisor of any change in the information provided on the Form U4, including, but not limited to, changes in name or address and the occurrence of any event that may require disclosure. Such disclosure events include:

- Receipt of a communication or personal visit from any person associated with any federal, state or local governmental agency or industry regulatory authority;
- Receipt of a summons, subpoena, complaint or other inquiry from such regulators or from any court;
- Receipt of an oral or written complaint from a customer; or
- Becoming the subject of any litigation, bankruptcy, arrest, indictment or conviction (other than for minor traffic violations). It is the responsibility of the Compliance Department to determine whether any such disclosure event is reportable on Form U4.

MFG will register principals and representatives who are, or intend to be, actively engaged in MFG's securities business or function as a RR or RP of MFG, except for those individuals in certain support capacities, which includes but is not limited to the following departments: Legal, Compliance, Operations, Middle Office, Risk, Operational Risk, Internal Audit, Marketing, Credit, Margins, Finance, Accounting, Treasury, IT, etc.

V. TERMINATION OF REGISTRATION

Upon the termination of any Registered Person for any reason (whether or not such termination is voluntary) such person's supervisor must promptly notify the Human Resources Department of the date of such termination as well as the reason therefore. If the termination was not voluntary (i.e., "termination for cause" or "permitted to resign"), the supervisor will provide the Human Resources Department with a summary of the reason for the termination.

The Human Resources Department must notify the Compliance Registration Department of all terminations, regardless of cause, and the Compliance Registration Department will prepare appropriate termination notices and will respond to compliance information requests from all regulatory authorities. The Compliance Registration Department will file with FINRA a Form U5 within 30 calendar days of the termination of any Registered Person. Concurrently, the terminated person will be provided with a copy of the Form U5, and a copy will be retained in the terminated person's registration file.

In the event MFG learns of facts or circumstances causing any information set forth in the U5 to change, the Compliance Registration Department will file an amended U5 with FINRA within 30 days of learning of such facts or circumstances. Concurrently, a copy of the amended U5 will be provided to the terminated person.

VI. ACTIVITIES OF UNREGISTERED PERSONS

Under no circumstances will an employee who is not a RR with MFG be permitted to function, in any manner that would bring him/her under FINRA's definition of a "Registered Representative." Any RR or supervisor who permits an unlicensed person to act as a RR will be subject to disciplinary action.

Secretaries and other support personnel are not required to be registered. In addition, operations (or "back office") personnel engaged in clerical activities and who do not have contact with customers need not be registered. However, if any such persons are not registered, they may not:

1. Accept orders for securities transactions from customers, including customers who are family members;
2. Solicit prospective or existing customers;
3. Provide investment information or advice whether orally or in writing (including telephone reports or research information);
4. Comment in any way on the securities and/or commodities markets;
5. Receive transaction-based commissions or other compensation including referral or finder's fees;
6. Solicit securities business by the use of business cards representing themselves as a RR; or
7. Engage in any activity that is generally performed only by a RR or could bring them within the FINRA definition or a Representative.

VII. DUAL REGISTRATION

A Registered Person afilliated with MFG may not maintain a registration with any other securities firm unless:

1. Such dual registration has been approved in writing by a RP and the CCO; and
2. MFG has received written consent of the other securities firm to such arrangement; and

Any necessary consent is received from regulatory authorities. Such approval will be granted only in very limited circumstances

VIII. COMPLIANCE TRAINING

FINRA rules require that all Registered Persons complete certain Continuing Education ("CE") requirements. The CE requirement consists of four elements: Regulatory-Element CE; Firm-Element CE; Anti-Money Laundering Training; and the Annual Compliance Meeting.

A. Regulatory-Element CE

The Regulatory-Element CE requires that all Registered Persons participate in certain online training hosted by FINRA and administered by a FINRA-approved proctor. The Regulatory-Element must be completed within 120 days of the second anniversary of the Registered Person's initial registration and every three years thereafter.

In addition, a Registered Person will be required to retake the Regulatory Element and satisfy all of its requirements if such person:

1. Is subject to any statutory disqualification; or
2. Is subject to suspension or to the imposition of a fine of $5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding; or
3. Is ordered as a sanction in a disciplinary action to retake the Regulatory Element by any securities governmental agency or self-regulatory organization.

The Compliance Registration Department will monitor the Regulatory-Element CE calendar for Registered Persons and will notify them in writing when their required training "120-day training window" is available. The Compliance Registration Department will monitor and track Registered Persons Firm-element CE to ensure completion prior to their window end date. If a Registered Person fails to complete the Regulatory-Element CE training by the required end date, FINRA deems their registration status as inactive, and therefore the Registered Person shall not be permitted to engage in any functions as a RR nor will they be permitted to receive compensation for such activities (see above section VI. Activities of Unregistered Persons).

B. Firm-Element CE

In accordance with FINRA rules, all covered persons are required to participate annually in a Firm-Element CE program. Failure to comply with the annual Firm-Element CE program may result in the loss of registration, regulatory action, and other sanctions as determined by MFG.

The Firm-Element CE program requires, at a minimum, that covered persons complete one product course. This requisite can be fulfilled by participating in courses prepared by the Compliance Education Group or by attending outside industry conferences, provided such conferences are preapproved by the Compliance Education Group or are offered by an approved vendor such as Reg Ed.

It is the responsibility of the Compliance Education Group to develop an annual training needs analysis, and develop, implement and monitor the program. The training plan will consider factors such as the regulatory landscape, relevant policy issuances, employee surveys and the performances of the covered persons in the Regulatory-Element CE.

C. Anti-Money Laundering Training

Refer to the Anti-Money Laundering Training section of the MF Global Inc. Anti-Money Laundering Compliance Program Manual.

D. Annual Compliance Meeting

All Registered Persons (RRs and RPs) must attend a mandatory Annual Compliance Meeting. The training should be used to:

1. Communicate regulatory developments;
2. Review compliance issues relevant to the persons activities; and
3. Provide each Registered Person with an opportunity to ask any questions they may have concerning Compliance policies and procedures.

Supervisors are responsible to ensure that each of their Registered Persons attend an Annual Compliance Meeting. For each meeting, the Compliance Education Group will record the date, location, attendees, and maintain a copy of the subjects discussed. If a Registered Person cannot attend the meeting, an alternative meeting (or videotaping of the meeting for subsequent viewing) may be arranged.

I. PROHIBITED BUSINESS CONDUCT

Persons associated with MFG are specifically prohibited from engaging in the following acts:

A. Profits Interest/Guarantees. Sharing in customer profits or losses, guaranteeing customers against losses or guaranteeing investment returns (profits) or otherwise having an interest in a customer's account is prohibited.

B. Commission Splitting. Splitting with or rebating to, directly or indirectly, any person or entity any part of the compensation received as a RR is prohibited.

C. Prohibited Loans. No employee may borrow or lend funds or securities from or to any customer.

D. Holding Customer's Funds. Holding a customer's funds or securities is prohibited.

E. Joint Accounts. Employees are prohibited from maintaining a joint account with a customer without prior approval of a RP.

F. Arranging Financing. Arranging financing for any person, group, or company to purchase securities is prohibited.

G. Tax or Legal Advice. Rendering tax or legal advice to a customer is prohibited. Customers should be referred to their own attorneys or tax consultants.

H. Disclosing Confidential Customer Information. Employees are prohibited from disclosing confidential information, including financial information, of a customer or discussing the affairs of a customer with other firm personnel, except in the ordinary course of business. A customer's affairs should never be discussed with outside lawyers, accountants and other third parties without the consent of the customer, even if such persons claim to represent the customer. Any requests by regulatory authorities, self-regulatory organizations and government bodies for information should be referred to the CCO.

I. Disclosing or Using Non-Public Information. Disclosing any non-public information, including any information about MFG and its personnel, to any person not authorized to receive such information is prohibited. In addition, employees are prohibited from using any such information for their benefit or the benefit of others.

J. Improperly Settling Customer Disputes or Claims. Settling customer claims, errors or disputes or responding to customer complaints without the prior written approval of a RP is prohibited (see Chapter 21, Section I)

K. Rumors. Soliciting an order on the basis of a rumor is prohibited. Employees also are prohibited from circulating rumors.

L. Order Entry. Entering any order for a customer without the prior approval of the customer is prohibited. Withholding the placing of an order by a customer also is prohibited.

M. Suitability. Making recommendations of securities that are unsuitable for the customer or are inconsistent with the customer's investment objectives is prohibited (see Chapter 11, Section II).

N. Distribution of Material. Employees are prohibited from reproducing and giving to customers research materials marked "for internal use only" or "for broker/dealer use only."

O. Research Reports. Preparing research reports of any nature without prior approval of MFG is prohibited.

P. Agreements with Customers. Employees are prohibited from agreeing to repurchase at some future time a security from a customer for the employee's own account or for any other account.

Q. Promise of Future Offerings. Encouraging a purchase of securities by promising the customer securities in an upcoming offering or placement is prohibited.

R. Illegal Sales Solicitation. Soliciting or selling any security in a state in which the employee or MFG is not properly registered or soliciting or selling any security type for which the employee or MFG is not properly licensed is prohibited.

S. Deliveries Other than to the Customer's Address. Forwarding funds, confirmations or statements to any other person or entity or to other than the official post office address of the customer is prohibited, unless the customer has expressly authorized MFG in writing to make deliveries to another address.

T. Opening an Unacceptable Account. Employees are prohibited from opening an account for those customers that are deemed unacceptable unless proper documentation or authorization has been obtained.

II. GIFT POLICY

MFG's current policy regarding gifting is online in the Gift Policy.

III. ENTERTAINMENT POLICY

MFG's current policy regarding entertainment is online in the Entertainment Policy. Supervisors should review the Written Supervisory Procedures (WSP) for client entertainment as noted in the Entertainment Policy.

I. OVERVIEW

The Insider Trading Policy sets forth the general standards for all members of the Board of Directors, officers and employees of MF Global Inc. and its subsidiaries with respect to engaging in transactions in MF Global's securities of other publicily-traded companies.

MFG has adopted the policy and procedures to (i) ensure the propriety of employee trading activity; (ii) protect and segment the flow of material, non-public and other confidential information; (iii) avoid possible conflict situations; and (iv) identify trades that may violate the prohibitions regarding insider trading and tipping and other manipulative and deceptive devices contained in the federal and state securities laws and the rules thereunder. Each Registered Person must sign a acknowledgement certifying that he or she has read the Insider Trading Policies and Procedures and will comply with the policies and procedures set forth herein and all applicable laws, rules and regulations.

Click here to view the complete version of the Insider Trading Policy.

I. OUTSIDE SECURITIES ACCOUNTS

Reference the Employee Trading Policy for prohibitions and requirements of employees as it pertains to outside accounts.

II. PRIVATE SECURITIES TRANSACTIONS

Prior to purchasing or selling a security in a transaction not accomplished through a broker-dealer (private securities transaction or private placements), employees must provide information regarding the proposed transaction in writing to their supervisor. The employee must describe the transaction in detail, indicating their role and whether any compensation will be received.

If selling compensation will be received, the employee may not participate, directly or indirectly, unless the Office of the CEO Designee and the CCO approves the transaction, in which case the transaction shall be recorded on MFG's books and records and the superviosr shall supervise the employee's participation. If no selling compensation will be received, the supervisor, in its sole discretion, may approve the participation and may impose conditions to be complied with by the employee.

Employees are not permitted to purchase securities for their own personal accounts from MFG customers or to sell any MFG customers securities from their personal investment portfolio.

Information regarding private securities transactions must be provided whenever a new employee joins MFG. This information must be updated as necessary and before the empoyee engages in a private securities transaction not previously reported to MFG.

Employees are prohibited from purchasing any new equity issues (i.e., initial public offerings) for an employee or employee-related account. Questions about participation in any public offering should be directed to the Compliance Department.

Employees should note that there are no current requirementr for pre-approval, by either the employee's Supervisor or the Compliance Department of private securities transactions. However, MFG retains the right to require an employee to rescind or reverse any transaction which is considered to have been improper, or which appears improper in light of subsequent developments, even though proper when made.

III. OUTSIDE BUSINESS INTERESTS

Employees must disclose to the Compliance Department and obtain preapproval before before engaging in any of the following outside business interests ("OBI"):

1. Serving as a director or officer in any corporation.
2. Participating in an investment club.
3. Serving as an expert witness in any legal proceeding or arbitration.
4. Accepting appointments as a trustee, administrator, executor (except for immediate family members) or to a committee or organization that will cause a conflict of interest or require a substantial amount of time.
5. Non-firm related teaching, public speaking, broadcasting, or writing. This includes seminars, sales meetings, brochures and any form of advertising products, services or companies.
6. Beginning employment in any business or engaging in any outside activity for compensation other than MFG. This includes activities as a partner, sole proprietor, AP or independent contractor.
7. Obtaining or maintaining a license in real estate, insurance, or as an investment advisor.
8. Arranging financing for any person, group or company.

Registered Persons should disclose all outside business activities to the Compliance Registration Department to ensure that their U4 is updated as necessary.

I. PUBLIC OFFERINGS OF SECURITIES

A public securities offering must be registered with the SEC pursuant to Section 5 of the Securities Act by filing a registration statement which complies with the applicable provisions of, and rules and regulations under, the Securities Act. The purpose of the registration statement is to disclose all the information required by the average investor in determining whether to purchase the securities being offered. The pertinent information as set forth in the registration statement and in the company prospectus must be delivered to investors in connection with a purchase of the offered securities.

II. FINRA RULE 5130

FINRA Rule 5130, which replaced FINRA's Free-Riding and Withholding Interpretation, imposes certain restrictions on sales of equity securities in an initial public offering (a "Covered IPO"). The Rule is intended to prevent practices that could have a manipulative effect on the price of a securities offering or cause securities to be distributed in a discriminatory manner.

The Rule generally prohibits an FINRA-member firm from selling a Covered IPO to any account in which a "Restricted Person" has a beneficial interest. Covered IPOs do not include the following types of offerings: secondary offerings; offerings of debt securities; various private offerings; offerings of exempted securities; offerings of securities of a commodity pool operated by a commodity pool operator as defined under Section Ia(5) of the Commodity Exchange Act; right offerings, exchange offerings, or offerings made pursuant to a merger or acquisition; offerings of investment grade asset-backed securities; offerings of convertible and preferred securities; offerings of securities of an investment company registered under the Investment Company Act of 1940; and offerings of securities (in ordinary form or ADRs registered on Form F-6) that have a pre-existing market outside of the United States and are not part of a global initial public offering.

MFG may not sell Covered IPOs to any account unless within the previous twelve (12) months it has in good faith obtained a written representation from either:

1. The beneficial owners of the account, or a person authorized to represent the beneficial owners of an account, that the account is eligible to purchase Covered IPOs in accordance with Rule 5130; or

2. Certain conduits (such as a bank, foreign bank, broker/dealer, or investment adviser) that all purchases of Covered IPOs are in compliance with the Rule.

Prior to being able to participate in a Covered IPO, the account must complete, sign, and return an IPO Certification Form, which may be obtained from the CCO. RRs are responsible for notifying customers of this requirement and obtaining and submitting the completed Form. The completed Form should be submitted to the Branch Manager who in turn will forward to the CCO to record the date received and confirm that the form has been properly completed. If the account has indicated on the Form that it is a Restricted Person, the RR must ensure that such account does not participate in a Covered IPO.

III. PRIVATE PLACEMENTS

From time to time, MFG will make available to RRs information concerning securities which are offered as private placements. The sponsors of these offerings or the issuers of securities thereunder often rely on certain exemptions from the registration requirements of the 1933 Act. Specifically, these offerings are structured to be exempt under either Regulation D or Section 4(2) of the 1933 Act. In addition, these offerings are designed to conform to the rules governing private placements in each of the states in which the securities are offered.

Each RR must be familiar with the requirements of Regulation D or the other exemptions from registration applicable to an offering (such as Section 4(2)) prior to selling any securities which are offered as private placements. The requirements of Regulation D are summarized below. RRs should contact the CCO for a summary of the requirements of other exemptions, including Section 4(2).

Regulation D is a series of rules (Rules 501 through 508) which establish three non-exclusive, safe-harbor, transactional exemptions from the registration requirements of the 1933 Act for private placements of securities by an issuer.

A. Accredited Investors. The rules require that an exempt issue can be sold to an unlimited number of "accredited investors" and to no more than 35 "non-accredited" investors. Prior to any solicitation concerning a private placement, a customer must be qualified as an "accredited investor" and otherwise be a suitable investor. This determination must be made by the Vice President of Trading. An "accredited investor" is

1. A natural person: (i) whose individual net worth, or joint net worth with the person's spouse, at the time of purchase exceeds $1,000,000, or (ii) who has had individual income in excess of $200,000 in each of the two (2) most recent years or joint income with that person's spouse in excess of $300,000 in each of those years and who reasonably expects an income in excess of such amounts in the current year;

2. A bank or savings and loan association, whether acting in an individual or fiduciary capacity;
3. A registered broker or dealer;
4. An insurance company;
5. A registered investment company;
6. A Small Business Investment Company:
7. Any plan established by a state or municipal agency or government for the benefit of its employees, with total assets in excess of $5,000,000;
8. Certain employee benefit plans (within the meaning of ERISA) with total assets in excess of $5,000,000;
9. A private business development company;
10. A charitable organization, corporation, business trust, any trust whose purchase is directed by a person with knowledge and experience in financial and business matters, or partnerships, not formed to acquire the securities offered, with total assets in excess of $5,000,000: or
11. An entity in which all of the equity owners are accredited investors.

B. Suitable Investors. A "suitable investor" is a person who meets the specific requirements set forth in the offering circular (i.e., a private placement memorandum or offering memorandum) and the state law requirements of their state of residence. Additionally, a RR must determine that any recommendation to invest in a Private Placement is suitable for that particular investor. RRs must ensure that a recommendation is suitable for a specific customer by examining (1) the customer's financial status, (2) the customer's tax status, (3) the customer's investment objectives, and (4) such other information used or considered to be reasonable in making recommendations to the customer. Confirmation of an investor's status as an accredited investor does not, by itself, satisfy a RR's obligations under the suitability rule. No RR may promote a private placement or solicit an investment in a private placement to any potential investor unless that potential investor is known to the RR and the RR knows that such potential investor is a suitable investor with respect to the investment in question.

C. Advertising Restrictions. Regulation D prohibits general solicitations. Private offerings are therefore not a prospecting tool. Each RR must keep a record of customers with whom the offering is discussed or to whom the offering materials are sent in order to ensure that the number of customers does not exceed the number permitted in connection with private placements under both federal and state law (e.*g.*, if the offering is being made pursuant to Regulation D, Rule 505 or 506, sales up to only 35 non-accredited investors are permitted; the laws of certain states may be stricter). The CCO will coordinate maintenance of a firm-wide record of offerees.

Customers may be sent only material that has been approved for distribution by the CCO. Such material should be mailed or provided only to existing customers or lawyers, accountants or investment advisers known personally, but not to their clients who are not known personally. No cold calling is permitted and no advertisement, article, notice or other communication can be published in any newspaper, magazine, newsletter or similar media or broadcast on television, radio or cable.

No seminars or meetings may be held with regard to any current private offering unless each invitee is known and qualified in advance. However, generic informational meetings on the general subject of limited partnerships and tax advantages of investments are permissible. Prior approval for such informational meetings must be obtained from the CCO. No mention of any specific offering or past performance may be made at such generic seminars.

IV. RULE 144 UNDER THE SECURITIES ACT

Rule 144 under the 1933 Act provides an exemption from the registration requirements of the 1933 Act for the sale of restricted stock by affiliates and non-affiliates. "Restricted stock" refers to stock acquired in a transaction not involving a public offering. Rule 144 also provides an exemption for sales by affiliates of securities that are not restricted, including shares purchased in the open market ("control stock"). With respect to sales of control stock, all provisions of Rule 144 apply, except for the provisions governing the required holding period (there is no holding period with respect to such sales). Compliance with Rule 144 constitutes a "safe harbor" for all such sales, but is not the sole manner by which such securities may be sold without registration.

A. Basic Conditions of Rule 144

In order to effect a sale of securities pursuant to Rule 144, the following conditions must be met:

1. *Current Public Information.* Adequate current public information with respect to the issuer must be available to the public.
2. *Holding Period.* Subject to certain conditions contained in the rule, at least one (1) year must have elapsed between the later of the date of acquisition of the restricted securities from the issuer, or from any affiliate thereof, and the subsequent resale of the securities. Restricted stock held for two (2) years or more (computed in accordance with Rule 144(d)(1)) may be sold pursuant to Rule 144(k) by a person who is not an affiliate at the time of the sale and has not been an affiliate during the three (3) month period preceding the sale, without complying with any of the restrictions and procedures of Rule 144.
3. *Volume Limitation.* The amount of shares sold in each three-month period cannot exceed the greater of 1% of the outstanding securities of that class or the average weekly reported exchange volume of trading during the four-week period prior to the sale.
4. *Manner of Sale.* Restricted stock must be sold through a broker-dealer in so-called "broker's transactions" or to a market maker, although the broker dealer is prohibited from soliciting sell orders in such securities from the customer. A market maker may not solicit a buy order for the securities prior to the time the market maker acquires the securities.
5. *Filing Form 144.* Three (3) copies of Form 144 must be filed with the SEC in connection with all such sales at the time an order is placed or executed.

B. Restricted and Control Stock Procedures

The Manager of Transfers is responsible for the proper processing of all Rule 144 transactions. The Manager of Transfers must obtain the following documents:

- Form 144, completed and signed by the customer;
- Rule 144 Seller's Letter signed by the customer;
- A Broker's Representation Letter;
- The endorsed stock certificate (if shares are certificated);
- A letter from the issuer stating that it is current in its filings (if it is a reporting company), or that information is publicly available about the issuer;

- If required by the Compliance Department, an opinion of counsel.

The Manager of Transfers will review the documents and contact the CCO to approve the transaction. Once the CCO has approved the sale, the Manager of Transfers will be instructed to forward a copy of the Form 144 to the customer notifying the customer to send three copies of the completed Form 144 to the SEC and one copy to the exchange where the security is listed. There is a 90-day period from the date of the Form 144 filing with the SEC in which the stock is to be sold. If no stock is sold within the 90 days, the remaining shares will retain the restrictive legend. Copies of all documentation will be retained by MFG in a separate Rule 144 file maintained by the Manager of Transfers and in the applicable customer account file.

Restricted stock may not be transferred merely to have legends removed. A customer must have bona fide intent to sell before a 144 procedure will be started. Stock that has been cleared under Rule 144 is restricted in street name. If a customer decides not to sell stock that has been cleared, the stock must be re-registered in customer's name with restrictive legend, then delivered out.

C. Disclosures to Customers Selling Under Rule 144

In many cases, an issuer will not authorize the transfer of restricted shares until after the sale has been completed. A customer selling restricted securities under Rule 144 should be advised that MFG will not remit proceeds of the sale or permit the reinvestment of such proceeds until the transfer process has been completed.

I. NEW CUSTOMER POLICY

MFG is under no obligation to accept every customer and only accepts suitable customers. New customers will not be accepted without the completion of all required documentation and written approval by the designated RP. If a new customer is employed by MFG, an affiliate of MFG, another financial institution or otherwise in the securities industry, special rules apply in handling such a customer. The RR must obtain the proper written approval from a Series 24 RP and necessary documents to accept such a customer.

Prior to opening a new account, the RR must learn the essential facts about the customer. To facilitate this inquiry, a New Account Form must be completed for each new customer.

II. SUITABILITY; KNOW YOUR CUSTOMER

FINRA rules require that each brokerage firm, its supervisors, and RRs "know its customers," in order to (i) determine the individual needs and objectives of the customers and (ii) ascertain which products or investments are suitable given such needs and objectives. In addition, MFG employees must use due diligence to learn the essential facts relative to every customer, order, or account accepted or carried by MFG and every person holding power of attorney over any account with MFG.

At MFG, those requirements translate into procedures designed to elicit pertinent information about each customer to permit MFG, its supervisors, and its RRs to determine whether securities bought or sold are suitable investments for each such customer. FINRA rules provide that, in recommending to a customer any transaction in securities, the firm and its registered personnel must have a reasonable basis for believing that the recommendation is suitable for such customer on the basis of facts disclosed by the customer concerning the customer's investment objectives, financial position and needs, ability and willingness to accept risks, other securities positions, sophistication and prior investing experience, age and other relevant factors bearing upon an investment decision. When dealing with individual customers, it is particularly important that RRs obtain such information to determine the suitability of a given product or investment strategy for that customer.

When opening a new account, it is the responsibility of each RR to inform the prospective customer that (i) certain documents concerning the customer must be submitted to MFG for review and (ii) certain documents will be sent to the customer and the prompt completion, execution, and return of those documents to MFG is required prior to the acceptance of the customer's account. The RR is fully responsible for seeing that all required documents are sent out and received by MFG.

The customer is responsible for contacting MFG if any account information is changed, revised, or otherwise altered in a material nature. However, RRs should bear in mind that the obligations imposed by the "Know Your Customer" rules are continuing obligations and do not end with the completion of the new account forms. RRs should endeavor to remain aware of, and amend the new account forms to reflect, changes in name, handling instructions, marital status, trading authorizations, investment objectives, employment status, annual income, net worth, death of a customer, and other events that may bear upon the customer's investment objectives. Any change in investment objectives must be approved by the Branch Manager and written confirmation of such change must be sent to the customer's address of record.

Additional information about a new customer may be needed to enable the RR to assess the risk of money-laundering in the customer's account. Each RR is required to be familiar with these procedures.

III. SPECIFIC SUITABILITY ISSUES FOR INSTITUTIONAL CUSTOMERS

Some of MFG's customers are institutional investors. Although such investors tend to be sophisticated and experienced, RRs nevertheless have certain suitability obligations when making recommendations to such customers. Even when making securities recommendations to institutional customers, FINRA rules require that the RR determine, based upon available information, the customer's ability to evaluate investment risk independently and the extent to which the customer is exercising independent judgment in evaluating the recommendation. In some cases, the customer may not have the ability to make independent investment decisions in general. In other cases, the customer may have the general ability to make investment decisions, but may not be able to understand a particular investment or its risk (particularly if the investment involves a new product or one that is either extremely complex or volatile).

A determination of suitability under these circumstances should take into consideration the following factors:

- The customer's use of one or more consultants, investment advisers or bank trust departments;
- The general level of experience of the customer in financial markets and specific experience with the type of security being recommended;
- The customer's ability to understand the economic features of the security involved;

- The customer's ability to independently evaluate how market developments would affect the security; and
- The complexity of the security or securities involved.

A determination that a customer is making independent investment decisions will depend upon the nature of the relationship that exists between the RR and the customer. Relevant considerations could include:

- Any written or oral understanding that exists between the RR or MFG and the customer regarding the nature of the relationship between them and the services to be rendered by MFG;
- The presence or absence of a pattern of acceptance of the RR's recommendations;
- The use by the customer of ideas, suggestions, market views and information obtained from other broker dealers or market professionals, particularly those relating to the same type of securities; and
- The extent to which MFG has received from the customer current, comprehensive portfolio information in connection with discussing recommended transactions or has not been provided important information regarding its portfolio or investment objectives.

The above factors are merely guidelines to be utilized by the RR in fulfilling applicable suitability obligations. In all cases, RRs should seek to provide the customer with all relevant information about the product or investment strategy being recommended, and also should seek to confirm that the customer understands the product or investment strategy being recommended and understands and accepts the attendant risks.

IV. UNACCEPTABLE ACCOUNTS

Certain accounts and customers are unacceptable and may not be opened unless proper documentation is received and the account first is approved in writing by the Compliance Department. The following are considered unacceptable accounts or customers:

1. Incompetent Persons. An account may not be opened unless a court appointed conservator or guardian is appointed and current appointment paperwork is obtained.

2. Minors. The age of majority is usually 18. Some states have a higher age of majority. The laws of the state where the prospective customer resides governs whether the customer is a minor or adult.

3. Agents or other persons acting on behalf of a third person. An account may not be opened unless trading authorization or current power of attorney paperwork is submitted prior to opening the account.

4. Fictitious or nominee accounts. Under no circumstances shall an account of this nature be opened.

5. Employees of other broker-dealers. Written approval must be granted by the employer before such account may be opened.

V. TYPES OF ACCOUNTS

The following types of accounts may be opened on behalf of customers of MFG:

- Account Executive
- Banks or Trust Companies
- Broker/Dealer
- Corporation
- Discretionary
- Employee of Firm
- ERISA (Investment Advisory Use Only)
- Estate
- Foreign Individuals
- Foreign Institutions
- Individual
- Insurance Company
- Internal Accounts
- ARO (Account Records Only) *used for underwriting*
- Investment Club
- IRA Account
- Joint Account
- Mutual Fund
- Non-profit Foreign Insitution
- Numbered Account
- Officer of Firm
- Outside IRA/KEOGH
- Partnerships (Customer)/ Government (Dealer)
- Pension, Profit Sharing, Retirement Fund, Trusts
- Personal Trust
- Religious, Fraternal, Charitable, Non-profit
- Uniform Gift for Minor

In addition to the new account forms, additional documents or signatures are required for various types of accounts noted above. The RR and the New Accounts Department should ensure required documentation is provided.

VI. ACCOUNT TYPE CODING

Each new account will be assigned an account code indicating whether the account is customer, non-customer, or PAIB ("Proprietary Account – Introducing Broker"). When reviewing new accounts, compliance and/or supervisory personnel will ensure that a correct code has been assigned for each account.

Every customer must be classified with the correct code by the New Accounts Department. The account type codes differ for the Beta and Phase 3 systems. In addition, Beta has a sub-category code to further categorize the account type. Account type codes and definitions are available in each system.

VII. CUSTOMER REFUSAL TO PROVIDE INFORMATION

As a general rule, accounts will not be accepted or approved if all required information is not provided by the customer. Any exceptions to this rule must indicate the customer's declination in writing on the account application and must be approved and documented by the Branch Manager and the Compliance Department.

VIII. RESPONSIBILITY OF REGISTERED REPRESENTATIVES

The RR is responsible, at a minimum, for the following with respect to their accounts:

1. Confirming that new account forms have been properly completed with all required information.
2. Confirming that all necessary supporting documentation, including any documentation required by the firm's Anti-Money Laundering Policies and Procedures, is provided.
3. Confirming that all signatures are obtained.
4. Reporting any suspicious activity to the firm's Anti-Money Laundering Compliance Officer as described in detail in the firm's Anti-Money Laundering Policies and Procedures.
5. Monitoring on a regular basis their customer accounts and reviewing each customer order in light of each customer's investment objectives and investment position in the account.
6. Obtaining and maintaining current information on, and knowledge of, the customer's investments and investment objectives, and regularly assessing such customer's investments in light of their objectives, financial resources and ability to invest.

Once an account has been approved, the RR is responsible for updating the account information as it changes.

Supervisors are required to oversee that RRs perform these functions, and that on a periodic basis, perform reviews of the accounts being serviced by RRs.

IX. CUSTOMER'S ADDRESS

A current residence and mailing address (if different) must be on file at all times for all customers to facilitate the mailing of statements and other correspondence. Any customer address change must be in writing signed by all account owners of record and approved in advance by a designated RP as evidenced by initialing and dating the request. In addition, confirmation of the address change must be sent to both the old address and the new address of record.

If a customer is set up for email, then changes to the email address may be made with an email or phone instruction from the customer. This is allowable as the email is not the means by which a customer receives statements and confirms. Customer statements and confirms are obained by the customer's use of and access to the firm's website. Customer passwords changes must be made through the customer's secure website.

X. DEATH OF A CUSTOMER

Upon learning of the death of a customer, the Branch Manager should notify the Compliance Department immediately. All open orders are to be canceled. No further action is to be taken on a deceased customer's account unless MFG receives the authorization from the proper individual representing the estate of the deceased. Proper authorization includes a copy of a death certificate and letters of testamentary. All documents should be filed in SpeedScan.

XI. APPROVAL OF PRINCIPAL

Prior written approval of a RP is required for the following transactions:

1. Trade corrections or modifications altering the account number or any material terms of an order or any other cancel and correction or rebill.
2. All corrections made after the settlement date require Branch Manager approval.

XII. CUSTOMER ACCOUNT REVIEWS

The Branch Manager of each branch shall conduct periodic reviews of customer account activity to detect potential sales practice problems and abuses. If the review procedures reveal suitability issues or other potential problems, the Branch Manager should promptly inform the Compliance Department.

At the end of the quarter, the Compliance Department will review PAIB accounts with the Regulatory Officer of the Accounting Department and review all correspondent relationships. The Compliance Department will review the correspondents to confirm that they are still registered as a broker-dealer. If an entity is no longer registered as a broker-dealer, then its proprietary account will be treated as a customer.

XIII. CUSTOMER ACCOUNT CHANGE PROCEDURES

Once a customer account has been established, certain changes to the account cannot be processed without written consent. Client initiated changes requiring written consent include:

- Name Change (due to marriage or divorce)
- Mailing or Legal (Physical) Address Change/Correction
- Phone Number Change/Correction (Home, Business, or Cell)
- Email Address Change/Correction (change via email is permissible)
- Employer and Occupation Change
- Associate Person Change (FINRA or Exchange)
- Financial Change (Annual Income, Net Worth)
- Investment Objective Change

Consent should be evidenced from <u>all</u> of the authorized parties named to the account via one of the following:

1. Letter of Authorization ("LOA"),
2. Completion of a MF Global Form (i.e. Change of Address Form), or
3. Completion of the Client Account Information Summary acknowledgment (distributed every three years for each account).

Note: Name, Address and Investment Objective changes may need additional information.

I. EXTENSION OF CREDIT TO CUSTOMERS; CREDIT REGULATION (REGULATION T)

Regulation T of the Federal Reserve Board and the rules of FINRA govern MFG's extension of credit to customers. In addition, the clearing firm may in some cases impose more restrictive limitations on customers than Regulation T or FINRA rules. The following sets forth MFG's general policies and procedures with respect to the extension of credit to customers and credit regulations that must be followed by all APs.

II. CASH ACCOUNTS

Where securities are purchased in a cash account, funds sufficient to cover the purchase must be in the account, or MFG must believe the customer will make full cash payment as soon as possible, but in any event not later than three business days after the trade date (the "Settlement Date" or "T+3") or the next business day in the case of options. Similarly, when securities are sold by a customer, they should be received by MFG within T+3. Where securities are to be delivered or received against payment ("DVP"), the customer must promptly, and in any event prior to T+3, give instructions to their bank to receive and pay for or deliver the securities. As a general policy, MFG's practice is not to afford DVP privileges to accounts of individuals.

In a cash account, a customer only may sell a security the customer already owns. The security must be either long in the customer's account, in the customer's possession, or in the possession of a third party and free for prompt delivery to MFG. A security may be sold long where a security convertible into it is in the customer's account at MFG and the customer has given MFG instructions to exchange it.

III. PROHIBITED ARRANGEMENTS

It is a violation of Regulation T for any officer or employee, either for their own account or for the account of any customer, to make or assist in making credit arrangements in connection with securities transaction other than with MFG.

IV. MARGIN ACCOUNTS

Before a margin account may be opened, a truth-in-lending statement, margin agreement, and loan consent must be completed and submitted by the customer. The designated RP will review and approve each margin account.

V. MARGIN REQUIREMENTS

The minimum equity required for a margin account is determined by MFG and must be in cash or marginable securities. When a margin trade is executed, the customer must have in the account at the time of the trade the greater of the minimum equity requirement or the margin requirement of the purchase. MFG's margin requirements may fluctuate as market conditions warrant. In addition, maintenance requirements may be increased for a particular security or account based on market and individual circumstances.

Initial margin requirements, set by Regulation T and FINRA, are calculated at the end of the business day. All transactions on the same day are combined to determine the Regulation T requirement. A deposit of cash, margin securities or exempted securities in any combination may be used to meet initial margin requirements.

Maintenance margin requirements also are calculated at the end of the business day. Since buying power is based on the preceding day's end-of-the-day margin calculations, customers may not be granted additional buying power based on intra-day sales. However, intra-day margin calculations may be used for risk assessment purposes, such as the issuance of margin calls. As with initial margin requirements, a deposit of cash, margin securities or exempted securities in any combination may be used to meet maintenance margin requirements.

VI. SHORT SALES

The initial margin requirement for short sales is 150%, of which 100% may come from the sales proceeds, with the customer depositing the remaining 50%. The maintenance margin requirement for short sales is the greater of $5 per share or 30% of the current market value.

A short sale "against the box" is treated as a long sale for Regulation T purposes (no initial margin requirement) but there is a maintenance margin requirement equal to 5% of the current market value of the long position. However, if the account making the sale is not long the same number of shares of the same security, or even if a cross-guaranteeing account is long the security, the sale cannot be treated as a short sale "against the box" and will be subject to initial margin requirements of 150%.

The customer is responsible for ensuring that the securities will be available on settlement date or thereafter.

VII. MARGIN CALLS

The Margin Department monitors collateral value daily, or more frequently in periods of market volatility. Minimum Equity Margin calls must be met within 48 hours by any of the following actions:

- Deposit cash in the amount of the call;
- Deposit securities with a maintenance value equal to the amount of the call; or
- Liquidate securities with a maintenance value equal to the amount of the call.

However, a liquidation to meet an initial margin maintenance call is a violation of Regulation T.

VIII. MARGIN BALANCES

On a monthly basis, the Margin Department will review margin balances as part of a monthly customer account review, however the Branch Manager will be notified of any outstanding margin calls on a daily basis.and should confirm their review in writing. Any transactions that appear to be in contravention of any of regulatory or firm rules or policies, or represent a capital risk to MFG, will be investigated and monitored by the Branch Manager.

IX. EXTENSIONS OF TIME FOR PAYMENT BY CUSTOMERS

Under Regulation T, MFG is able to grant an extension of time for payment when it is satisfied that the creditor is acting in good faith in making the application, and the exceptional circumstances warrant such action. In determining whether to grant a request for an extension, the Branch Manager and the Margin Department will consider whether the circumstances are, in fact, exceptional; whether such circumstances were foreseeable at the time of the trade; and the customer's history of previous requests for extensions. Requests may be denied for the following reasons:

- The request is not received on time;
- The reason for the request in unacceptable to MFG; or
- The history of the customer's previous requests for extensions indicates abuse of the extension privilege.

A customer is limited to five extensions within a 12-month period. Where a customer frequently makes payment after settlement date, MFG may no longer be able to assume that this customer will promptly pay for future transactions. The Branch Manager will keep adequate records to identify such accounts so that the continued granting of extensions is avoided.

X. REGULATION T EXTENSIONS

Regulation T authorizes FINRA to grant an extension of time when it is satisfied that MFG is acting in good faith in making an application for an extension and that exceptional circumstances warrant such action. No customer is entitled to an extension. Applications will be made by the margin clerk and approved by the Operations Manager and the RR will be notified. It is then the responsibility of the RR to contact the customer to collect the funds due.

Unless an extension has been granted by FINRA, if payment has not been received by the close of business on the fifth business day after trade date, the position must be closed out. It is the general policy of MFG that extension requests be kept to a minimum and only be requested in good faith for sufficient reasons. If securities that were sold by the customer are not received within five business days from the settlement date of the sale, a notice will be sent to the customer scheduling a "Buy In" of that sale on the tenth business day following the settlement date.

XI. MEETING PAYMENT BY LIQUIDATION

A customer may not make a practice of paying for securities or meeting margin calls by liquidating the same or other securities. Such practices as noted by the Margin Department will result in a 90 day freeze on the cash account or even termination of the account by MFG.

I. GENERAL

Each exchange and FINRA require member firms that deal in options to develop, implement and enforce written procedures for the supervision and review of customer options accounts and the transactions in those accounts. In addition, MFG must appoint appropriately qualified RPs to act as Registered Options and Security Futures Principals ("ROSFPs"). MFG's ROSFPs will be responsible for supervising the MFG's options activities.

II. ACCOUNT OPENING

Before entering an initial option order for a customer, the customer must complete the New Account Form including the options agreement, which provides the information necessary to determine whether options transactions are suitable for the account. This information includes:

1. Investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);
2. Employment status (name of employer, self-employed, including nature of self-employment, or retired);
3. Estimated annual income from all sources;
4. Estimated net worth (exclusive of family residence);
5. Marital status and number of dependents;
6. Age of natural person; and
7. Investment experience and knowledge (e.g., number of years, frequency and type of transactions for options, stocks and bonds, futures, other).

Even if an account has been previously approved for other types of security transactions, it must be reevaluated and specifically approved for options transactions prior to accepting an options order from the customer. The account documentation must be filled out and executed completely and approved by the ROSFP prior to entry of the initial order.

The following information also must also be included in the account opening documents:

1. Source of background and financial information, including the basis for any estimates made by MFG;
2. The date the OCC disclosure document was furnished to the customer;
3. The nature and types of transactions for which the account has been approved;
4. Name of the RR handling the account;
5. Name of the ROSFP approving the account;
6. Date of the ROSFP approval; and
7. Dates of verification of current account information, if required.

MFG is required to obtain customer verification of the background and financial information used to determine the customer's suitability for options trading. This verification must be performed within 15 days after the customer has been approved for options trading. However, if the customer completes or signs the application himself or herself, no additional suitability verification is required.

The customer must sign the new account agreement, and by signing, the customer agrees in writing, that they have received a copy of the OCC disclosure document entitled "Characteristics and Risks of Standardized Options" at or prior to the time the account is approved for options trading, to adhere to the rules of the options exchanges and the OCC, agrees not to exceed the position and exercise limits, and verifies the information contained on the new account form. The supervisor initials the form to verify that the customer has acknowledged receiving a copy of the OCC disclosure document. In addition, if the customer has been approved for trading uncovered option contracts, the supervisor must initial the form to verify that the customer has acknowledged receiving a copy of the Special Statement for Uncovered Option Writers, which is part of the account opening documents.

Should the RR become aware of any material change in a customer's financial situation, the customer must be sent an amended New Account Form under the auspices of the Supervisor within 15 days of learning such change.

III. SUITABILITY

In general, the suitability rules of the options exchanges provide that any time a person at a member firm recommends an option transaction to a customer, he or she must have reasonable grounds for believing that the recommended transaction is not unsuitable for the customer. Without limiting this general requirement that applies to all recommended options transactions, these rules also provide that no recommendation of an opening transaction in any option contract may be made unless the person making the recommendation has a reasonable basis for believing that the customer has such knowledge and experience in financial matters that he or she may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the option contract.

Determinations of suitability must be based upon information obtained in response to the inquiry of the customer concerning their investment objectives and financial situation, and other information actually known by the person making the recommendation. This information must be recorded on the New Account Form. Based upon this information, the designated ROSFP will determine the applicable option product and activity level for each customer account.

IV. DISCRETIONARY ACCOUNTS

RR's may not exercise discretionary authority in a customer's account for options.

V. UNCOVERED (SHORT) OPTION ACCOUNTS

Any account wishing to engage in uncovered options transactions must be approved by a ROSFP. Such accounts generally must have a minimum annual income of $250,000 and net worth (i.e., net worth excluding residence and insurance) of $1,000,000 to write uncovered calls and a minimum annual income of $35,000 and net worth (i.e., net worth excluding residence and insurance) of $25,000 to write uncovered puts. Further, any new account requesting such approval should have previously engaged in other types of option activity for a minimum of two years for puts and three years for calls or otherwise demonstrate knowledge of options trading. Any exceptions to these requirements must be made in advance and in writing by a ROSFP.

All accounts engaging in short options will be required to have and maintain a minimum net equity of $100,000 for calls and $10,000 for puts. When determining whether the account has met the standards, the account equity will be computed as actual liquidating equity. Additional equity will be required when the net equity falls below the above standards. Any deficiency must then be

satisfied within 5 business days or appropriate remedial action will be taken by MFG (e.g., MFG may prohibit withdrawals or further short option positions and/or close out existing short option positions). Any exceptions to the net equity requirements must be approved in advance and in writing by a ROSFP.

Special Statement for Uncovered Option Writers

For those clients who are uncovered option writers, the Special Statement for Uncovered Option Writers will be provided in the new account packet.

All RRs of uncovered option writer clients should determine that the client understands the risks of such trading. There are special risks associated with uncovered option writing, which exposes the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all customers approved for options transactions.

VI. POSITION LIMITS AND EXERCISE LIMITS

No customer may directly or indirectly control or be obligated with respect to an aggregate position in excess of the position limits set forth by the exchanges and FINRA. These limits are reviewed and changed from time-to-time. If a RR has any questions regarding the limits for any specific underlying security or index, such questions should be directed to a ROSFP.

With regard to exercise limits, no customer shall exercise a long position in any option contract if the customer has or will have exercised within any five (5) consecutive business days aggregate long positions in excess of applicable exercise limits. In addition, index options may have other applicable exercise limits.

FINRA Rule 2360(b)(5)(A)(i)(b) requires member firms to electronically file a report (the "Large Option Position Report," or "LOPR") on each business day following the establishment of long and/or short positions of 200 or more option contracts of the put class and the call class on the same side of the market in the same underlying security in each customer account. Positions of 200 or more contracts, long or short, of the same class, not just the same series, must be reported. A report must be filed in each of the following situations:

1. A long and/or short position of 200 or more contracts of the put class and the call class on the same side of the market is established in a customer's account;
2. An increase in a previously reported position (e.g., from 250 contracts to 275 contracts); or

3. A decrease in a previously reported position to a position less than 200 contracts (e.g., from 250 contracts to 199 contracts). Once a position has been reduced to less than 200 contracts, no subsequent position report has to be filed until the account once again established a long and/or short position of 200 or more contracts of the put class and the call class on the same side of the market.

The Operations Department oversees MFG's nightly electronic filing of LOPRs. MFG's LOPR reports will be reviewed on a daily basis by The Compliance Department. Compliance will escalate any LOPR reporting, position limit or exercise limit issues to the appropriate ROSFP(s).

VII. ALLOCATION OF EXERCISE NOTICES

Rules concerning the allocation of exercise notices to customers are intended to ensure that the methods used by firms to allocate exercise notices to short options positions in individual customer accounts are fair and nondiscriminatory. Allocations must be made either by an approved method of random selection or by utilizing a "first in, first out" method. A ROSFP will review the method of allocation used by MFG from time to time to be certain that it conforms to the requirements of these rules. MFG utilizes an automated random selection process at the present time. MFG must inform all of its options customers, in writing, of what that method is and what, if any, are the consequences to customers of the method selected. If MFG changes the chosen method, it must inform FINRA and receive approval for the proposed method of allocation and re-notify its options customers of the allocation method. MFG sends this information to its customers with the OCC disclosure document at the time the account is first approved for options. MFG must retain for not less than three years sufficient records and work papers to document precisely how exercise notice allocation is handled.

VIII. AUTOMATED EXECUTION SYSTEMS

Orders may be routed electronically to order routing and execution systems on each of the options exchanges ("Automated Systems") for automatic execution. Each options exchange imposes limitations on the use of its Automated System. The rules governing the Automated Systems, as well as eligibility for use of the systems and order size limitations, are subject to frequent change. Generally, the exchanges maintain current information with respect to eligibility and order size on their websites. Some of the current limitations and the characteristics of the Automated Systems are summarized below.

Eligibility—some of the options exchanges limit access to their Automated Systems to non-broker/dealer customer orders.

Electronic generation of orders—the American Stock Exchange prohibits members from entering, or permitting the entry of, orders that are created and communicated electronically without manual input if such orders are eligible for automatic execution.

IX. PROHIBITIONS AGAINST ACTING AS A MARKET MAKER

It is a violation of the rules of all of the options exchanges for anyone, other than a market maker, to enter limit orders such that one is holding oneself out as a market maker. MFG may not enter on any exchange, as principal or agent, limit orders in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the exchanges will consider, among other things: (i) simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract; (ii) the acquisition and liquidation of positions in the same options series during the same day; and (iii) the entry of limit orders at different prices in the same options series.

X. ORDER REPRESENTATION

All listed option orders must be represented appropriately to the exchange (e.g. Customer, Professional Customer, Broker-Dealer Customer, Broker-Dealer Firm, Firm, Market Maker. As noted in the CBOE Regulatory Circular RG-02-62, each exchange uses different codes to represent each client type. The CBOE codes are as follows:

- **b** For the account of the broker-dealer, including foreign BDs, even though the account may clear in the customer range at OCC.
- **c** For non-broker-dealer customer account orders.
- **f** For OCC clearing member firm proprietary account orders.
- **m** For member market maker account orders.
- **n** For orders in the account of a market maker or specialist on another options for exchange.
- **y** For orders in the account of a specialist registered in the underlying stock at the primary exchanfe for trading the stock.

XI. WASH SALES

It is a FINRA violation to simultaneously execute a buy and sell order in the same security for the same beneficial owner.

XII. OPTIONS EXERCISE NOTICES

Option holders have until 5:30pm Eastern Standard Time ("EST") on the business day immediately prior to the expiration date or, in the case of a Quarterly Options Series, on the expiration date, to make a final decision to exercise or not exercise an expiring option. For customer accounts, the firm may not accept exercise instructions after 5:30pm EST but have until 6:30pm EST to submit a Contrary Exercise Advice. For non-customer accounts, members and member organizations may not accept exercise instructions after 5:30pm EST but have until 6:30 pm EST to submit a Contrary Exercise Advice if the firm employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. The firm is required to submit a Contrary Exercise Advice by 5:30pm EST for non-customer accounts if the firm is not employing an electronic submission procedure with time stamp for the submission of exercise instructions by option holders.

In the event a firm employee makes a final exercise decision after the exercise cut-off time pursuant to an exception the firm employee shall notify their supervising ROSFP and or Compliance promptly and no later than 12:00 noon the next business day. The firm employee will assist the supervising ROSFP and Compliance draft a memorandum setting forth the circumstances regarding such exception and file a copy of the memorandum with the options exchange Market Surveillance Departments no later than 12:00 noon on the first business day following the respective expiration.

I. RESPONSIBILITIES OF THE SUPERVISING ROSFP

The firm has designated an ROSFP for specific lines of businesses to be responsible for supervising the monitoring of customer options accounts for designated lines of business. The ROSFP shall have overall authority and responsibility for establishing appropriate procedures of supervision and control of the lines of business they have been designated as the supervising ROSFP. The ROSFP may delegate responsibility and authority for supervision and control of each trading desk and branch office handling options transactions to appropriately qualified ROSFPs so long as it is set forth in writing. Delegated authority does not alleviate the supervisory responsibilities of the ROSFP.

Please note: For each supervisory review discussed below, the review must be evidenced in writing, either by initialing and dating the document(s) reviewed or by completing, dating and initialing a supervisory review checklist, as appropriate. Such documents must be retained for a period of three (3) years from the date of the review, the first two (2) in an easily accessible place.

The daily responsibilities of the supervising ROSFP include the following:

1. Review and approve customer options accounts that intend to engage in uncovered options trading, and review and approve or delegate daily position reports with respect to such accounts.
2. Coordinate with the Compliance Department and the Operations Department to verify that the firm's options trade reporting obligations are being met.

The as-needed responsibilities of the supervising ROSFP include the following:

1. Assist the Compliance Department in responding to options-related customer complaints.
2. Review and approve all options worksheets to be used in connection with options communications to customers and the public.
3. Assist the Compliance Department in establishing and implementing recordkeeping procedures for required records of options accounts, options transactions and supervisory reviews.
4. Assist the Compliance Department in developing and implementing options educational and training materials and presentations (including appropriate Firm Element-Continuing Education programs).

II. RESPONSIBILITIES OF DESK SUPERVISORS AND BRANCH MANAGERS FOR OPTIONS

Each supervising ROSFP is directly responsible for the supervision and control of options related activities within each trading desk or branch office in the line of businesses they have been designated as the supervising ROSFPs.

Please note: For each supervisory review discussed below, the review must be evidenced in writing, either by the ROSFP initialing and dating the document(s) reviewed or by the ROSFP completing, dating and initialing a supervisory review checklist, as appropriate. Such documents must be retained for a period of three (3) years from the date of the review, the first two (2) in an easily accessible place.

Each ROSFP's responsibilities include the following:

1. Review and approve each new customer custody account and confirm that all required information is included in the new account documentation.
2. Confirm that each new customer has been sent the OCC options disclosure document and, if applicable, the "Special Statement for Uncovered Option Writers" by confirming that the date on which such documents were forwarded to the customer is indicated on the new account form.
3. Coordinate with the Compliance Department and Client On-Boarding that each customer has received all amendments to any options disclosure document that are issued subsequent to the time the account is opened.
4. For each new options account, determine suitability and the applicable option product and activity level for the customer options account based upon the information contained in the required account documents in relation to the customer's stated investment objectives and financial standing.
5. Approve any change in previously approved option product and activity levels.
6. Review and approve all errors of personnel assigned to the ROSFP.
7. On a weekly basis, review a reasonable sampling of option order tickets for accuracy and completeness, and evidence such review.
8. Review and monitor options accounts for compliance with applicable rules and regulations and MFG's policies.

Each supervising ROSFP should review activity in customer accounts on a monthly basis for the following: (a) activity inconsistent with approved trading level; (b) concentration of low priced opening transactions; (c) excessive trading losses; (d) excessive commissions; and (e) potential issues concerning position limits. For these purposes, the supervising ROSFP should review the daily option trade run for all personnel assigned to a line of business supervised by such ROSFP.

Each ROSFP is responsible for expanded review for customer transactions in uncovered or short options transactions. A daily review of uncovered or short options transactions in customer accounts should be conducted to determine whether financial requirements for uncovered or short options transactions are being met. Based on the amount of activity in uncovered or short options transactions in the account, it may be necessary to conduct a profit and loss summary. Any exceptions should be brought to the attention of the Compliance Department.

III. RESPONSIBILITIES OF COMPLIANCE DEPARTMENT FOR OPTIONS SUPERVISION

The Compliance Department has no sales functionalities; the Compliance Department is responsible for reviewing and proposing appropriate action to secure compliance by MFG and its personnel with applicable laws, rules and regulations and with the MFG's internal policies with respect to its options business. An individual in the Compliance Department, or someone affiliated with Compliance functions, will be designated responsibility for conducting the options-related supervisory reviews below.

The responsibilities of the designated Compliance Department Principal include the following:

1. Review reports regarding open option positions for compliance with position limits.
2. Coordinate with the Operations Department to verify that the firm's options trade reporting obligations are being met.
3. Review the Monthly Active Account Report for retail customers (Beta Report PR17200-A).

I. MUNICIPAL SECURITIES TRANSACTIONS

Because MFG conducts business in municipal securities, it must comply with various rules of the Municipal Securities Rulemaking Board (the "MSRB"). MFG's Municipal Securities Principals ("MSP") are responsible for monitoring all municipal securities activities for compliance with MSRB rules and MFG's policies and procedures.

II. ADMINISTRATION AND OPERATIONS

No AP shall effect any transaction to induce or attempt to induce the purchase or sale of any municipal security unless they are qualified in accordance with the rules of the MSRB. In particular, no AP shall perform any of the following functions (except in a strictly clerical or administrative capacity) unless he or she is a duly qualified Municipal Securities Representative ("MSR") or hold a Series 7 registration:

1. Underwriting, trading or sale of municipal securities;
2. Financial advisory services in connection with the issuance of municipal securities;
3. Research or investment advisory duties; or
4. Direct or indirect communication with customers concerning municipal securities.

New APs not previously qualified as MSRs can function as an MSR for at least 90 days, provided they do not transact business with any member of the public and are not compensated for transactions. No AP shall continue to provide service for a period greater than 180 days unless he or she qualifies as an MSR.

III. NEW ISSUES

MFG does not generally engage in the sale of new issue municipal securities. If MFG chooses to engage in such activity in the future, the Manual will be revised accordingly.

IV. SALES PRACTICES

In selling municipal securities to the investing public, MFG adheres to the following policies and procedures:

1. In accordance with MSRB Rule G-30, to the extent that MFG purchases municipal securities from a customer for MFG's account or sells to a customer from MFG's account, any such transaction must be at an aggregate price (including any mark-downs or mark-ups) that is fair and reasonable in light of the following factors:

- MFG's best judgment as to the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction;
- The expense involved in effecting the transaction;
- The fact that MFG is entitled to a profit; and
- The total dollar amount of the transaction.

2. In accordance with MSRB Rule G-30, to the extent that MFG purchases or sells municipal securities as agent for a customer for a commission, such commission must be fair and reasonable in light of all relevant factors, including:
   - The availability of the securities involved in the transaction;
   - The expense of executing or filling the customer order;
   - The value of the services rendered by MFG; and
   - The amount of any other compensation received by MFG in connection with the transaction.

3. MFG will ensure that purchasers are provided the issuer's final official statement by settlement date with respect to any purchase of a new issue municipal security. The underwriter also must provide a copy to the MSRB.

4. MFG will disclose to the customer the existence of a control relationship with the issuer before a trade is entered. A "control relationship" exists if MFG or a person associated with MFG controls, is controlled by, or is under common control with the issuer of the security or a person other than the issuer who is obligated, directly or indirectly, with respect to debt service on the security.

   MFG also is required to confirm the control relationship, in writing, at or before the completion of the transaction. This written notification is normally made on the confirmation for the transaction that is sent to the customer.

   No MSP may exercise discretionary authority with respect to a transaction in the securities of an issuer with whom MFG has a control relationship unless the customer first specifically authorizes transaction after being advised of the control relationship.

5. All correspondence pertaining to the solicitation or execution of transactions in municipal securities must be reviewed and approved by a MSP.

V. DISCLOSURE OF MATERIAL EVENTS – SEC RULE 15c12-12

Pursuant to SEC Rule 15c2-12, neither MFG nor its MSRs may recommend the purchase of a municipal security in the secondary market unless MFG or such MSR has a reasonable assurance that MFG or such MSR has received prompt notice of any of the following events with respect to such security:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities;
11. Rating changes; and
12. Failure to provide annual financial information.

In order to obtain such information, when a MSR receives an inquiry from a customer regarding the purchase of a municipal security, the MSR should contact one of MFG's Municipal Bond Principals and request assistance in obtaining the necessary information regarding the security about which the customer has inquired. The Principal will obtain information on material events from one of the various Nationally Recognized Municipal Security Information Repositories ("NRMFGSIRs"), including, but not necessarily limited to, Bloomberg, J.J.Kenny, and Munifacts.

The MSR must record in writing the following information: (i) the MSR's name, (ii) the name and account number of the customer, (iii) the details regarding the security, (iv) the date of the inquiry, and (v) the response, including the copy of the material event, if any. The completed form must then be forwarded to the CCO who will initial and date the inquiry.

VI. POLITICAL CONTRIBUTIONS – MSRB RULE G-37

Neither MFG nor any of its executive officers,[4] nor any political action committee controlled by MFG, shall participate in any of the following political activities without the prior written approval of the CCO:

1. Providing gifts, subscriptions, money, loans or anything of value to any public official or political candidate;
2. Soliciting contributions, money, gifts, loans or anything else of value for, or on behalf of, any public official or political candidate;
3. Coordinating or participating in fundraising activities on behalf of any public official or political candidate;
4. Causing a political contribution to be made through any political action committee controlled by him or her;
5. Requesting, causing or unduly influencing any other person or entity (including members of their family or other MFG employees) to participate in the activities prescribed above; or
6. Volunteering activities in which expenses are incurred by the officer or the resources of MFG are used.

Contributions to, the solicitation of contributions for, or related political activities on behalf of officeholders or candidates are permitted with prior written approval of the CCO for:

1. The President or members of the U.S. Congress (except as to candidates who currently serves in any capacity with any state or local unit of government);
2. Political candidates for the state legislature (except as to candidates who currently serve in any capacity with any state or local unit of government);

4 These prohibitions also apply to municipal financial professionals. However, because MFG does not engage in a "municipal securities business," as that term is defined by the MSRB, MFG does not have any "municipal securities professionals," as that term is defined.

3. Any judicial post (expect as to candidates who currently serve in any non-judicial capacity with any state or local unit of government);
4. Any other public office which, in the opinion of the CCO, has no authority to directly or indirectly influence the hiring of broker-dealers for the purpose of engaging in municipal securities business;
5. Political contributions of $250 or less per election to any public official or candidate for office with respect to whom the donor is permitted to vote for; or
6. Political contributions of $25 or less per political party per year.

MSRB Rule G-37 defines the term "contribution" as any gift, subscription, loan, advance or deposit of money or anything of value made: (i) for the purpose of influencing any election for a federal, state or local office, (ii) for payment of debt incurred in connection with any such election, or (iii) for transition or inaugural expenses incurred by the successful candidate for state or local office.

In order to ensure compliance with these procedures, all RRs are required to represent and warrant on a quarterly basis that they have made no political contributions in excess of $250 during that quarter. Any individual who is, or believes he or she will be, unable to make this representation during a given quarter must contact the CCO immediately. The CCO will then determine whether reporting of the subject contribution is required.

VII. USE OF CONSULTANTS – MSRB RULE G-38

In accordance with MSRB Rule G-38, the firm is prohibited from providing or agreeing to provide, directly or indirectly, payment to any person (other than an affiliated person of the firm) for a solicitation of municipal securities business on behalf of the firm. Under Rule G-38, the term "solicitation" means a direct or indirect communication by any person with an issuer for the purpose of obtaining or retaining municipal securities business. The term "affiliated person" means any person who is a partner, director, officer, employee or registered person of the firm or of an affiliated company of the firm, and the term "affiliated company" means any entity directly or indirectly controlling, controlled by, or under common control with the firm whose activities with respect to the firm or with respect to any other affiliated company of the firm are not limited solely to the solicitation of municipal securities business.

MSP personnel should be aware of the interpretations regarding the solicitation of municipal securities per the MSRB Notice 2005-59 that was issued on December 7, 2005.

I. OVERVIEW

Due to the development in recent years of more complex mutual fund products and the increasing variety of applicable sales and service charges, regulators have become concerned that investors may not understand the differences between such products and the ramifications of the various charges and fee structures. The following is a summary of a RR's obligations and responsibilities regarding transactions involving mutual fund shares.

II. SUITABILITY

In accordance with FINRA Rule 2310 and MFG's policies regarding recommendations to customers, RRs must have reasonable grounds for believing that each recommendation is suitable for the particular customer. Thus, RRs should be able to demonstrate the rationale for recommending a particular fund (and class of shares) based upon documented information obtained from the customer and based upon the attributes of the particular fund (and class of shares) recommended. Accordingly, RRs are required to be familiar with the prospectus for each mutual fund offered to customers. Any statement to a customer that is inconsistent with the information contained in the prospectus is strictly prohibited.

In recommending mutual funds, RRs should match the customer's objectives with the stated investment strategy of a particular fund and the appropriate time horizon for a given class of shares. RRs must pay particular attention when recommending mutual funds to elderly, retired or first time investors to confirm that the recommendation is appropriate.

An added concern relative to mutual funds having multiple fee structures is not only matching the type of fund to the customer's objective, but also recommending the appropriate fee structure. In this regard, RRs must recommend the most suitable mutual fund, based upon the investment objectives and financial status of the investor, without being influenced by incentive arrangements.

III. DISCLOSURE AND DOLLAR AMOUNT LIMITS ON CLASS B AND CLASS C SHARE PURCHASES

FINRA has stated that merely determining that an investment is suitable for a particular customer does not relieve RRs of their disclosure obligations. Material facts must be disclosed to investors when recommending the purchase of a mutual fund. RRs must attempt to obtain information sufficient to determine the suitability of the recommendation for the customer and to evaluate whether factors

concerning the mutual fund might be material to the customer. In this regard, material facts may include, but are not limited to:

- The fund's investment objective;
- The fund's portfolio, historical income or capital appreciation;
- The fund's expense ratio and sales charges;
- The risks of investing in the fund relative to other investments; and
- The fund's hedging or risk management strategies.

In multi-class funds, each class of the fund participates in the same underlying portfolio but may have different expenses, levels of service and other options. Thus, each class generates a different share price and performance record, and appears as a separate fund in the newspaper fund listings. Customers should be advised of the difference among a front-end load, a back-end load, and a level-load and about why one type of fee may be higher or lower than another. These expense ratios should be explained and compared with those of other mutual funds and/or the different share classes available. In order to compare the expenses associated with each type of share class, RRs may use FINRA Mutual Fund Analyzer available on the FINRA website.

Another important disclosure relates to explaining how various factors affect a customer's overall costs. Such factors include the amount invested, the rate of return, the amount of time the customer remains in the fund and the fund's conversion features and charges. Although prospectuses disclose many of the details of these products, RRs must provide sufficient information for customers to understand and evaluate the structure of multi-class funds. Also, regulators have noted that oral representations that contradict disclosures in the prospectus or sales literature may nullify the effect of written disclosures, and RRs and/or MFG may be liable for resulting investor costs or losses.

With respect to tax issues, RRs should remind customers where appropriate that distributions of interest, dividends and capital gains are subject to federal income tax even though funds may be reinvested. Also, RRs should remind customers that a high portfolio turnover generates higher transaction costs and may affect taxes, and should advise customers to consult with their own accountant or tax advisor with respect to the consequences to them of different mutual fund investments and transactions.

In offering funds that invest in financial derivatives, RRs must make clear to customers the risks involved. For example, funds that use repurchase agreements, purchase mortgage-related securities on a "when issued" basis or purchase or sell securities on a "forward commitment" basis all involve special risks which are material to a customer's decision as to whether the fund is a suitable investment.

IV. BREAKPOINTS

A breakpoint is a reduction in sales charges based upon the dollar volume of a purchase exceeding a certain minimum. The sale of mutual fund shares in dollar amounts just below the breakpoint where the sales charge is reduced on quantity transactions, to share in the higher sales charges applicable on sales below the breakpoint is strictly prohibited. If a proposed fund offers breakpoint discounts, each RR is responsible for disclosing the existence of breakpoints to their customers and confirming that customers receive the breakpoint discount when a breakpoint is reached and the discount is applicable.

In addition, the RR must be aware and advise the customer, if applicable, that the customer may become entitled to receive breakpoints by using Letters of Intent and Rights of Accumulation. A Letter of Intent enables an investor to purchase shares of a mutual fund and receive the breakpoint discount without initially investing the total dollar amount necessary to receive the breakpoint discount. By signing a Letter of Intent, the customer states that he or she will pay the remaining investment dollar amount to meet the breakpoint within the next 13 months. Discounts also may be available to the customer due to a Right of Accumulation, pursuant to which previous investments with the same fund family or several related accounts when linked together entitle the customer to receive a breakpoint discount on additional purchases.

FINRA has noted that recommending diversification among several funds with similar investment objectives (known as "spreading") may not be in the customer's best interest, particularly if the purchases occur at prices just below the applicable breakpoints of one or more of the funds. If an investor buys funds from different fund families and the total amount is over a breakpoint, the RR should take special care to document why this allocation was in the customer's best interest.

If the purchase is 90% or more of the breakpoint requirement, a Breakpoint Acknowledgement Letter (see Exhibit C) must be obtained from the customer and the Branch Manager must approve the mutual fund purchase order.

V. PERFORMANCE INFORMATION

When recommending mutual funds to customers, RRs should confirm that the customers understand the concept of total return (*i.e.*, overall performance of a mutual fund), as opposed to current yield (which is based only upon interest or dividend income received by the fund). Also, where appropriate RRs should advise customers of the difference between return of principal and return <u>on</u> principal.

Furthermore, SEC rules require that a yield quotation in an advertisement relative to mutual funds be restricted to current yield based on the SEC formula and the quotation must be accompanied by information regarding total return. Thus, when presenting information regarding distribution rates, RRs must fully explain the difference between distribution rates and current yield.

VI. SWITCHING

Open-end mutual funds, unit investment trusts ("UITs") and variable annuities generally are intended as long-term investments and usually have sales charges incorporated in them based upon this intention. Consequently, frequent trading or switching raises serious questions regarding suitability and the possibility of the appearance of churning. Switching from one loaded product to another is not, in itself, a violation of applicable rules, provided that the RR has a sound and reasonable basis for the switch and it is to the customer's benefit.

Prior to the entry of any orders in a switching transaction, the RR must obtain a Switching Authorization Letter (see Exhibit D) from the customer. The purpose of a Switch Letter is to confirm that the customer understands that a switch is being made and that they may be paying or a new sales charge or incurring an additional contingent deferred sales charge liability in connection therewith.

When recommending that a customer liquidate or switch out of a loaded product, the RR should consider the following:

- RRs should evaluate any recommendation to switch mutual funds/UITs/variable annuities with regard to the <u>net investment advantage to the customer</u>.
- Switching among certain fund types may be difficult to justify if the financial gain or investment objective to be achieved by the switch is undermined by the transaction fees associated with the switch.
- Many funds with a contingent deferred sales charge also may apply asset-based sales charges. Thus, RRs must disclose that a customer who holds the fund long term may pay more than the economic equivalent of a front-end sales charge.
- When considering whether a switch is appropriate, the RR should consider the following issues:
  - How long has the loaded product been held?
  - Are the performance and/or expectations disappointing? If so, why?
  - Does the product no longer meet the customer's objectives?

- Has the RR explored the availability of a no-load exchange within the same fund family?
- Will the switch clearly benefit the customer, after considering new sales charges, tax consequences, liquidity, current yield, etc.?
- Is there good reason to believe that the product proposed for re-investment will meet the customer's investment objectives and needs?

RRs should be prepared to document their reasons for switching a customer from one fund to another and must not recommend a switch based upon the amount of compensation received by the RR for effecting the switch.

Mutual fund purchases and sales do not necessarily need to occur on the same day to constitute a switch. FINRA examiners consider the sale of mutual fund shares in one fund and a subsequent purchase of shares of another mutual fund to be a switch (regardless of how much time lapses in the interim) unless it can be substantiated that the funds for the purchase came from another source. The customer's depositing a check for the purchase could demonstrate such proof. The burden of proof rests with the RR.

The Branch Manager will monitor for evidence of switching during the daily review of trading activity in all customer accounts. Such review will be documented by initialing the trade blotter or other similar record.

VII. MUTUAL FUND MARKET TIMING AND LATE TRADING

Unlike individual stocks, mutual fund securities are priced only once per day, after the close of the market. Market timing is the attempt to time the purchase and sale of mutual fund shares in such a manner as to take advantage of pricing inefficiencies relating to the once-per-day pricing of mutual fund shares (*i.e.*, to exploit "stale" prices not yet updated within a mutual fund's net asset value). Market timing also includes frequent in-and-out mutual fund trades that would be contradictory to a fund's prospectus, or other information the fund has provided, that outlines how fund shares are to be offered.

Late trading refers to knowingly or recklessly effecting mutual fund transactions that are based on a net asset value ("NAV") that is computed prior to the time the order to purchase or redeem was received from the customer. Investment Company Act Rule 22c-1(a) generally requires that redeemable securities of investment companies be sold and redeemed at a price based on the NAV of the fund computed **after** the receipt of orders to purchase.

In general, MFG prohibits both the use of market timing for mutual fund trading and after-close mutual fund transactions. These activities include, but are not limited to:

- Frequent purchases and redemptions in a mutual fund for related accounts;
- Trading conducted in excess of the amounts stipulated in the funds prospectus;
- Mutual fund trading solely on the basis of foreseen pricing inefficiencies;
- After-close trading on the basis of information released after the NAV has been calculated;
- Any market timing or late trading that is connected to an agreement, written or verbal, to pay other parties, including the mutual fund itself, in reference to such transactions or methodology;
- Any marketing, sales communication or other correspondence that promotes or otherwise suggests or solicits investors to engage in such activities;
- Any trading done in conjunction with, or with the acquiescence of, a mutual fund sponsor, investment advisor, fund administrator, underwriter or any other affiliated person, where those parties acted contrary to a fund's representations made pursuant to which the mutual fund shares are offered; and
- Knowingly or recklessly acting in conjunction with, or with the acquiescence of, the fund and/or its affiliated persons to undertake, effect, or facilitate a market timing transaction.

Legitimate orders placed close to or at the close of business but entered after the market's close in certain circumstances are allowed; however, RRs must be able to substantiate that such orders were not conducted so as to effect a late trade as defined above. The Branch Manager will review these orders before they are placed.

VIII. PROHIBITION AGAINST REMUNERATION

RRs are strictly prohibited from recommending mutual fund transactions on the basis of the compensation to be received by the RR or MFG with respect to such transactions. Accordingly, RRs are prohibited from agreeing to recommend or recommending transactions in any given mutual fund or fund family in return for a promise of compensation in any form from such mutual fund, fund family or any

third party. Should any RR be approached by a mutual fund or fund distributor with an offer of compensation or special consideration for recommending or otherwise steering customers to transactions in a given mutual fund or fund family, such RR should promptly report the matter to their Branch Manager and to the Compliance Department.

IX. SELLING DIVIDENDS

FINRA requires that in recommending mutual funds RRs may not state or imply that the purchase before an ex-dividend date is advantageous to the customer unless there are specific, clearly described tax or other advantages to the customer. Such a purchase generally is not in the customer's best interest because he or she may receive taxable income immediately and the value of the shares is decreased by the amount of the dividend. In addition, no representation may be made that distributions of long-term capital gains by an investment company are or should be viewed as part of the income yield from an investment in such company's securities.

X. ADVERTISING AND SALE LITERATURE

Fund sponsors, dealers and wholesalers often use "internal use only" materials to educate sales personnel about the benefits of a particular fund and to provide marketing ideas. This material has not been filed with FINRA as Sales Literature or Advertising (all mutual fund Sales Literature or Advertising designed for use with the public must be filed with FINRA) and thus may not be provided or distributed, or used in connection with oral presentations, to customers.

Additionally, these same rules apply to communications with the public sent electronically via computer, regardless of whether such communications are sent to network subscribers, including bulletin boards, or personalized messages sent directly to targeted individuals or groups.

I. INTRODUCTION

Prime brokerage is a service provided to certain institutional and large retail customers who are active traders. MFG may function as either the prime broker or the executing broker in any given transaction. Where MFG is the prime broker, the customer opens a prime brokerage account with MFG. When MFG is an executing broker, the customer opens a DvP/RvP account with MFG.

Prime brokerage permits consolidation of all trading activities on the books of one "prime" broker. The customer selects one prime broker and executes trades at a number of brokerage firms ("executing" brokers), in the name of the prime broker, for the benefit of the customer. On the trade date, the customer notifies the prime broker of the trade done through the executing broker, and transaction is recorded in the customer's account at the prime broker, and in a prime broker dealer account on the prime broker's books. The executing broker confirms the transaction with the prime broker through the Depository Trust & Clearing Corporation's ("DTCC") Institutional Delivery ("ID") System. The prime broker affirms the trade if the information in the ID System matches the information it has from the customer. All trades, therefore, of a customer are ultimately handled by the prime broker, thus giving the customer one set of reports.

To participate in prime brokerage, the Operations Department must notify its Designated Examining Authority that it intends to act as a prime broker, and has done so. MFG must maintain net capital of at least $1,500,000 to act as an executing broker or, to clear prime broker trades on behalf of an executing broker, net capital of at least $1,000,000. Customers must maintain a minimum net equity of at least $500,000 in cash or securities with a ready market, unless the account is managed by a registered investment adviser in which case the requirement is $100,000. If net equity falls below these amounts, a "Fed Call" is issued by the Margin Department which must be met by noon on the fifth business day following or prime brokerage privileges for that customer are lost.

Before commencing activity, there must be a contract between the prime broker and the executing broker's clearing firm defining the obligations and responsibilities of each. An introducing executing broker must have a similar contract with its clearing firm. These contracts are to be reviewed by the Compliance Department.

The customer must sign an agreement with the prime broker and each executing broker. In addition, if the customer uses a registered investment adviser, MFG must receive a copy of the Advisory Agreement and a complete list of that registered adviser's clients who have prime brokerage accounts with MFG. MFG

must execute a Primary Brokerage Agreement, Form 150, and Schedule A (list of the brokers a customer intends to execute through and the accounts numbers of the customer at such brokers) with each executing broker for each customer account. The customer may add or delete executing brokers at any time by written request at least 48 hours prior to any trading with that executing broker.

With respect to short sales, the executing broker is responsible for:

1. Adherence to any tick tests;
2. Marking the sell ticket long or short; and
3. Determining that shares can be borrowed to make delivery.

The prime broker is responsible for:

1. Recording the transaction as a short sale in the customer's margin account; and
2. Collecting the appropriate margin.

No later than the morning of the first business day after a trade, both customer and the executing broker must inform the prime broker of :

1. The account number at the prime broker;
2. Contract amount;
3. The security (including CUSIP, if any);
4. The number of shares or units;
5. The price;
6. The commission;
7. Whether the trade was a purchase, a long sale, or a short sale;
8. The executing broker's name and DTC#; and
9. The customer's account number at the executing broker.

The prime broker is responsible for settling any confirmed trades. For any trade not disaffirmed, the prime broker must treat the customer as its own for Reg T purposes. If the prime broker disaffirms a trade, that transaction becomes the responsibility of the executing broker.

I. GOVERNMENT SECURITIES

A. Sales

The general sales practice procedures included in the sections titled Accounts and Orders apply to the sales of government securities. Also refer to the section titled Collateralized Mortgage Obligations (CMOs) for specific policies affecting CMOs.

B. Government Sponsored Enterprise (GSE) Distributions

1. Trading Tickets – An order ticket will be created for each order entered. The order records will include the date and time the order was entered and when the order was executed. It will be reviewed by the Trading Desk Supervisor.
2. No Assurance Of Execution – There is no assurance that an order submitted to purchase a GSE security in distribution will be executed. At the time orders are entered, customers should be advised, if they are not already familiar with GSE distribution orders, that there is no assurance their order will be executed.
3. Selling Group – The Supervisor of the Government Securities Department will confirm that MFG and its registered employees comply with the terms of the selling group agreement in the event MFG participates in a selling group.
4. Distribution Report – The Operations Department will prepare a distribution report identifying the allocation of orders and purchasers.
5. Delivery Of Offering Materials – MFG's procedures regarding delivery of offering materials will conform to the Guidelines On Delivery Of Offering Materials Relating To Securities Of Government-Sponsored Enterprises as developed by the GSEs and the Bond Market Association (BMA now SIFMA)
6. Prospectuses – Should MFG participate in a distribution (whether as underwriter or selling group member), the Operations Department will request, prior to settlement date, prospectuses from the issuer or principal dealer in an amount sufficient to provide to purchasers or others who request prospectuses. Prospectuses will be provided with the customer's confirmation. If prospectuses are not included with confirmations, confirmations will bear the notation: Offering documentation will follow or a similar notation. For all new issues of REMICs, whether or not MFG participates in

the underwriting, MFG will provide purchasers with prospectuses for the period up to 120 days after settlement. This includes secondary market transactions in the new issue for the 120-day period. A record of to whom and what date prospectuses were sent will be retained by the Designated Supervisor.

7. Distribution Periods – Distribution periods differ depending on the security. Refer to industry guidelines for an explanation of distribution periods.

8. Master Agreements – In the event it acts as underwriter, MFG will require other dealers with whom MFG effects transactions in GSE securities during distribution periods to execute a Master Agreement whereby the dealer agrees to provide offering documents in accordance with the Guidelines. The Designated Supervisor is responsible for identifying dealers from whom Master Agreements are required and maintaining copies of signed Agreements.

9. Single Class TBAs – Confirmations sent by the Operations Department during the distribution period for single class TBAs should include a notation that Additional pool information is available to each purchaser by telephoning the issuer.

C. Trading

1. Fair Prices – Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

2. Mark-Ups And Mark-Downs – The Designated Supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades in government securities on a daily basis and documenting the results of his review. In determining fair and equitable mark-ups or mark-downs for customer government securities transactions, relevant factors may include:

   - The best judgment of MFG as to the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction based on the prevailing market price of the securities for its contemporaneous cost. This cost could be affected by changes in interest rates, credit quality of the security and current news. If there are not current prices, the firm should review interdealer trades involving similar securities or account dealer transactions involving similar securities or qualifying quotations;

- The expense involved in effecting the transaction;
- Total dollar amount of the transaction;
- Availability of the security;
- The price or yield of the security;
- The maturity of the security;
- Resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market;
- Risk to MFG in handling the transaction; and
- Any other relevant facts at time of execution.

Note: Mark-up (mark-down) reviews in debt securities other than government or municipal securities shall be done in accordance with the factors described below in Section II.

3. Commissions On Agency Transactions – The Designated Supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:
   - The expense of executing and filling the customer's order.
   - The value of the services rendered by MFG.
   - The amount of any other compensation received by MFG in connection with the transaction.
   - Factors considered in principal transactions.
   - Any other relevant factors at the time of execution.
4. Inventory Positions – MFG has established guidelines for maintaining inventory positions. The designated Middle Office Manager is responsible for monitoring positions daily to ensure limits are maintained.
5. Traders' Personal Accounts – Reference the Employee Trading Policy for prohibitions and requirements of Traders as it pertains to their personal accounts.
6. Review Of Transactions – The Designated Supervisor is responsible for daily review of transactions executed in government securities trading area(s).

D. U.S. Treasury Auction Policy

The Treasury has established rules governing the auction process for U.S. Treasury Securities. MFG and its affiliates should adhere to these Rules to help safeguard the firm's reputation and ensure business is processed expeditiously. MFG employees should refer to the U.S. Treasury Auctions Policy to familiarize themselves with the requirements and prohibitions. Additionally, supervisors responsible for the Treasury auctions should familiarize themselves with the Written Supervisory Procedures (WSP).

E. U.S. Treasury Securities Trading and Financing Policy

MF Global is committed to conducting its U.S. Treasury Securities business in a manner that helps support the integrity and liquidity of that market and is consistent with the requirements of applicable laws, rules and regulations. MFG's activities should promote market making and overall price transparency and support market liquidity. MFG should avoid pricing practices that do not have an objective of resulting in a transaction. Supervisors are expected to be aware of and understand all trading strategies undertaken by the trading desks.

To that end, MFG has developed the U.S. Treasury Securities Trading and Financing Policy for the management of its cash and financing positions in U.S. Treasury Securities. MFG employees should refer to the Policy to familiarize themselves with the requirements and prohibitions.

F. Transaction Records (GSA Section 103; Exchange Act Section 15C[d][3])

Records of government securities transactions will be provided to the SEC or other appropriate regulator upon request by the Compliance Department in a form acceptable to the regulator. A record will be retained of transaction information provided to regulators.

G. Large Position Reporting (GSA Section 104; Exchange Act Section 15C[f])

Periodically, the Treasury Department asks government securities dealers to provide information on large positions in specific issues of government securities. The Designated Supervisor (or someone delegated by the supervisor) is responsible for compiling the information and submitting it to the Treasury Department by the date due. Records of all reports filed will be retained in the supervisor's files. A sample of the Large Position Report is available on the Treasury Department website.

H. Prohibited Activities

1. Inside Information – Traders are prohibited from acting on, passing on, or discussing any inside information. Any knowledge of such information must be brought to the attention of the Designated Supervisor and the Compliance Department. No firm proprietary account or employee account may effect a transaction based on material non-public information about the issuer of that security. Refer to the MFG Insider Trading Policy for more detail.

2. Financial Arrangements – Traders are prohibited from entering into financial arrangements with customers (*i.e.*, sharing in profits or losses, sharing in commissions, rebating commissions, *etc.*).

3. Market Manipulation – No purchase or sales order shall be entered that is designed to raise or lower the price of a security or to give the appearance of trading for purposes of inducing others to buy and sell.

4. Parking Securities – No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner (or his agent) at the agreed upon time at essentially the same terms. An example would be a person engaged in an attempted takeover of a public company, and, to avoid reporting requirements, arranges for another party to purchase securities on their behalf. The second party agrees to later transfer or re-sell the securities to the person attempting the takeover.

5. Secret Profits – A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

6. Adjusted Trading – Adjusted trading is a prohibited practice where a broker-dealer is involved in a swap transaction with a customer at prices not reasonably related to the current market value of the securities. An example is a customer sale to a broker-dealer at a price below market value and the simultaneous purchase and booking of a different security at a price above the current market value. The purpose of an adjusted trade is to assist one party in avoiding, disguising, or postponing losses.

The Designated Supervisor should review transactions to identify dual transactions for the same customer or other entity were execution prices are not reasonably related to the current market value.

II. CORPORATE FIXED INCOME SALES AND TRADING

A. Fair Prices

Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

B. Mark-Ups and Mark-Downs

The Designated Supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades on a daily basis and documenting the results of his review. In a debt security transaction with a customer, the firm's mark-up (mark-down) must be calculated from the prevailing market price of that security. Presumptively, the prevailing market price of a debt security is the firm's contemporaneous cost (or, in a sale, the firm's contemporaneous proceeds). The firm may seek to overcome the presumption that its contemporaneous cost (proceeds) is indicative of the prevailing market price in any of three events:

- Interest rates changed after the firm's contemporaneous transaction to a degree that such change would reasonably cause a change in debt securities pricing;
- The credit quality of the debt security changed significantly after the broker-dealer's contemporaneous transaction; or
- News was issued or otherwise distributed and known to the marketplace that had an effect on the perceived value of the debt security after the firm's contemporaneous transaction.

If the firm has no contemporaneous transaction or any of the three events above have occurred, the Designated Supervisor may consider the following three factors (in order) when reviewing for the reasonableness of the firm's mark-ups (mark-downs):

- Contemporaneous interdealer transactions in the same security; qualifying contemporaneous institutional account-dealer trades in the same security; qualifying contemporaneous quotations;
- Pricing information for "similar" securities (i.e., any security sufficiently equivalent to the subject security such that it would serve as a reasonably fungible alternative investment), considering, among other things, the credit quality of both securities, ratings, collateralization, spreads, general structural similarities, the size of the issue, float, recent turnover and transferability or other restrictions;

- Pricing information derived from an economic model taking into account measures such as credit quality, interest rates, industry sector, time to maturity, call provisions and any other imbedded option, coupon rate and face value, and all applicable pricing terms and conventions (e.g., coupon frequency and accrual methods).

C. Commissions on Agency Transactions

The Designated Supervisor is responsible daily for reviewing the reasonableness of commissions on agency transactions and indicate his review. Relevant factors in determining the reasonableness of commissions may include:

- The expense of executing and filling the customer's order
- The value of the services rendered by MFG
- The amount of any other compensation received by MFG in connection with the transaction
- Factors considered in principal transactions
- Any other relevant factors at the time of execution

D. Errors

All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account. Errors in customer accounts are documented on the Cancel & Rebill/Error Report form, or via email, which requires a designated RPs approval.

E. Cancels and Rebills

Cancellations and rebills in customer accounts are documented on the Cancel & Rebill/Error Report form, or via email, which requires a Designated Supervisor's signature.

F. Extended Settlements; Delayed Deliveries

Extended settlements or delayed deliveries are transactions that should be reviewed by the designated trading supervisor. Variances from normal settlement or delivery should be available only to those customers where the supervisor is reasonably confident regarding the customer's ability and willingness to pay or deliver securities on a timely basis.

Any pattern of extended settlements or delayed deliveries with a particular RR or client could indicate a credit problem, potential unauthorized trading or other improper activity and should be investigated.

G. Traders' Personal Accounts

Reference the Employee Trading Policy for prohibitions and requirements of Traders as it pertains to their personal accounts.

H. TRACE

Refer to Chapter 29 for the TRACE Reporting Procedures.

I. Prohibited Activities

1. Inside Information – Traders are prohibited from acting on, passing on, or discussing any inside information regarding any fixed income security issues, including any material non-public information regarding, for example, a credit-rating change, default or advance refunding. Any knowledge of such information must be brought to the attention of the Designated Supervisor and the Compliance Department. No firm proprietary account or employee account may enter a transaction in a security based on material non-public information about that security. Refer to the MFG Insider Trading Policy for more detail.

2. Financial Arrangements – Traders are prohibited from entering into financial arrangements with customers or issuers (*i.e.*, sharing in profits or losses, sharing in commissions, rebating commissions, *etc.*).

3. Market Manipulation – No purchase or sales order shall be entered or executed that is designed to raise or lower the price of a security or to give the appearance of trading for purposes of inducing others to buy and sell. No purchase or sale order shall be entered or executed with the intent to corner a market or create a squeeze in a security.

4. Frontrunning – No firm proprietary or employee account may trade a security while in possession of material information about an imminent block-sized transaction in that security or a derivative security.

5. Parking Securities – No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner (or his agent) at the agreed upon time at essentially the same terms. Legitimate repurchase or repo transactions, usually entered into as financing transactions, are not included in this prohibition if they are not entered for a manipulative purpose.

6. Secret Profits – A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

7. Adjusted Trading – Adjusted trading or overtrading is a prohibited practice that involves the sale of a security by a customer for a price above the prevailing market price and the simultaneous purchase of a different security at a price lower than the prevailing market price. The purpose of an adjusted trade usually is to assist a customer in avoiding, disguising, or postponing losses.

   Other scenarios of adjusted trading include:

   - Permitting a customer to sell a security at an inflated price and re-selling the security to another customer at the inflated price.
   - Interpositioning the broker-dealer between two customers where the broker-dealer acts as a conduit allowing the two customers to swap losing positions by paying an inflated price for each other's securities.

All transactions must be executed at prices reasonably related to current market prices and all books and records of MFG must show an accurate price for securities purchased or sold.

J. Review of Transactions

The Designated Supervisor is responsible for daily review of transactions executed in the fixed income trading area(s) to identify transactions or patterns that may violate regulatory requirements or firm policies. Particular attention should be given to cancellations and rebills, error accounts, extended settlements and any transaction that would constitute a prohibited activity. The supervisor should investigate any questionable transaction and inform Compliance as appropriate.

K. High Yield Debt Securities

1. Suitability – Since high yield debt securities generally involve a higher degree of risk, it is important that the RR recommend such securities only to customers willing to risk loss of principal. Supervisors reviewing daily transactions should consider the suitability of recommended purchases of high yield debt securities in relation to the customer's investment objectives and other investments.

2. Underwriting And Investment Banking – Currently, MFG does not engage in underwriting or investment banking activities.

3. Research – Currently, MFG does not issue research reports on high yield debt securities.

4. Creditors' Committee – Any employee that anticipates serving on the creditors' committee should notify Compliance prior to accepting the position. The following will be considered in determining whether the employee should serve on the committee:

   - Whether access to inside information would unduly restrict MFG from issuing research or trading the issuer's securities
   - Whether adequate information barrier procedures are in place to permit unrestricted activities in other business areas of MFG while the employee serves on the creditors' committee
   - Whether disclosure of the employee's role should be included in footnotes on any research reports on the issuer's securities

III. COLLATERALIZED MORTGAGE OBLIGATIONS (CMOS)

A. Introduction

CMOs are identified in this separate section because of certain special requirements under the rules. CMOs may be government, municipal, or corporate securities.

B. Suitability

The Designated Supervisor is responsible for reviewing CMO transactions for suitability where the RR recommends the purchase or sale of CMOs to a customer. In such situations, the supervisor should, in particular, identify customers purchasing more risky types of CMOs (inverse floaters, IOs, POs) and more risky tranches. Purchases of the more risky CMOs by retail customers, in particular, should be reviewed for suitability by the retail OSJ supervisor.

C. Ginnie Mae REMICs

Ginnie Mae REMICs may be sold to retail investors with the exception of classes Ginnie Mae designates as "Increased Minimum Denomination" classes, which are subject to a $100,000 minimum purchase denomination. Suitability must be considered when recommending Ginnie Mae REMICs to customers.

D. Required Education Material

Prior to the sale of a CMO to a customer other than an institutional investor, the customer must be provided with educational material about CMOs. FINRA has stated that the Bond Market Association (BMA, now SIFMA) publication *An Investor's Guide To Collateralized Mortgage Obligations (the BMA brochure)* satisfies those disclosure requirements.

The Branch Manager is responsible that BMA brochures are provided to all retail purchasers of CMOs prior to the first purchase. The Branch Manager will retain a record of customers who have received the BMA brochure and the date it was provided.

E. Communications with The Public

1. Bids – When bids are provided to customers in written form, the following disclosure should be included on the bid sheet or list:

> "Prices on bonds are obtained from various sources including pricing services which may use mathematical matrixes and other methods of estimating value. These prices are estimates only, are subject to change, and do not represent prices at which these bonds may actually be purchased or sold."

2. Disclosures – Communications (including advertising, sales literature, and correspondence) regarding CMOs must include the following disclosures and may not include certain statements. Because the requirements are extensive, all written communications about CMOs must be reviewed by the Branch Manager who will forward to Compliance prior to sending:

   - Communications must include, within the name of the product, the term "Collateralized Mortgage Obligation;"
   - CMOs must not be compared to CDs, treasury bonds, or other securities with fixed interest rates and stated maturities;
   - Communications must disclose, as applicable, that a government agency backing applies only to the face value of the CMO and not to any premium paid;
   - Communications must disclose that a CMO's yield and average life will fluctuate depending on the actual rate at which mortgage holders prepay the mortgages underlying the CMO and changes in current rates;

- There should be no assurance that the CMO will prepay principal at the current assumed rate; timing may vary significantly.

In addition to the above, FINRA has established standards for communications that promote a specific security or contain yield information. These requirements are complex and Compliance should be consulted when preparing this type of communication.

1. Radio/Television Advertisements – FINRA rules specify oral disclaimers that must be included in any radio or television advertisements about CMOs. Compliance should be consulted prior to creating or committing air time for such advertisements.

2. Bloomberg And Other Financial Services – When providing Bloomberg or other comparable reports to customers regarding CMOs, the report should show, at minimum, PSAs at 200 basis points above and below current interest rate levels. Copies of Bloombergs or comparable reports provided to customers should be reviewed and retained by the Designated Supervisor.

F. Trading

1. Fair Prices – Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

2. Mark-Ups And Mark-Downs – The Designated Supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades in CMOs on a daily basis and documenting the results of his review. CMOs that are classified as government securities or municipal securities should be reviewed based on the factors set forth in the mark-up (mark-down) reviews described in Section I.C of this chapter. CMOs that are classified as corporate securities should be reviewed with the factors described in Section II.B of this chapter.

3. Commissions On Agency Transactions – The Designated Supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

   - The expense of executing and filling the customer's order
   - The value of the services rendered by MFG

- The amount of any other compensation received by MFG in connection with the transaction
- Factors considered in principal transactions
- Any other relevant factors at the time of execution

4. Inventory Positions – MFG has established guidelines for maintaining inventory positions. The Middle Office Manager is responsible for monitoring positions daily to ensure limits are maintained.

5. Errors – All errors in customer orders must be resolved immediately when discovered. No overnight positions should be maintained in the error account. Errors in customer accounts are documented on the Cancel & Rebill/Error Report form (or via email), which requires a designated RP's approval.

6. Cancels and Rebills – Cancellations and rebills in customer accounts are documented on the Cancel & Rebill/Error Report form (or via email), which requires a Designated Supervisor's signature.

7. Traders' Personal Accounts – Reference the Employee Trading Policy for prohibitions and requirements of Traders as it pertains to their personal accounts.

G. Prohibited Activities

1. Inside Information – Traders are prohibited from acting on, passing on, or discussing any inside information. Any knowledge of such information must be brought to the attention of the Designated Supervisor and Compliance. No firm proprietary account or employee account may effect a transaction based on material non-public information about the issuer of that security. Refer to the MFG Insider Trading Policy for more detail.

2. Financial Arrangements – Traders are prohibited from entering into financial arrangements with customers or issuers (*i.e.*, sharing in profits or losses, sharing in commissions, rebating commissions, *etc.*).

3. Market Manipulation – No purchase or sales order shall be entered that is designed to raise or lower the price of a security or to give the appearance of trading for purposes of inducing others to buy and sell.

4. Parking Securities - No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner (or his agent) at the agreed upon time at essentially the same terms. An example would be a person engaged in an attempted takeover of a public company, and, to avoid reporting requirements, arranges for another party to purchase securities on their behalf. The second party agrees to later transfer or re-sell the securities to the person attempting the takeover.

5. Secret Profits -A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

6. Adjusted Trading - Adjusted trading is a prohibited practice where a broker-dealer is involved in a swap transaction with a customer at prices not reasonably related to the current market value of the securities. An example is a customer sale to a broker-dealer at a price below market value and the simultaneous purchase and booking of a different security at a price above the current market value. The purpose of an adjusted trade is to assist one party in avoiding, disguising, or postponing losses.

   The Designated Supervisor should review transactions to identify dual transactions for the same customer or other entity were execution prices are not reasonably related to the current market value.

H. Review of Transactions

Designated Supervisors are responsible for daily review in writing of transactions in CMOs for RRs under their supervision.

I. Confirmations

Operations is responsible for establishing procedures for including the required disclosures on CMO confirmations. Rule 10b-10 requires that the confirmation include a statement that actual yield of the CMO may vary according to the rate at which the underlying receivables or other financial assets are prepaid, and a statement of the fact that information concerning the factors that affect yield (including, at a minimum, estimated yield, weighted average life, and the prepayment assumptions underlying yield) will be furnished upon the written request of the customer. MSRB Rule G-15(a)(i)(D)(2) includes a similar provision for municipal CMOs.

IV. FINANCING TRANSACTIONS

A. Repurchase and Reverse Repurchase Transactions

1. Agreements - Repurchase and reverse repurchase agreements will be documented by a written agreement adopted by MFG. The signed agreement is required prior to engaging in the transaction.

2. Hold-In-Custody Repurchase Transactions - Designated Supervisors are responsible to comply with SEC Rule 15c3-3(b)(4) including:

   - Having RRs disclose that SIPC coverage does not apply to repurchase agreement participants; and
   - Establishing a system for possession or control of securities subject to hold-in-custody repurchase agreements, where required (handled in conjunction with Accounting and Operations).

3. Confirmations – The Operations Department will use a System generated confirmation or other written notification that will be sent when the following occurs:

   - When a transaction is initiated
   - When a substitution occurs, the confirmation will identify the specific securities subject to the repurchase agreement
   - On all open financing transactions, when a new repo rate is negotiated

   Confirmations will include identification of the securities collateralizing the loan, including the CUSIP numbers and mortgage pool numbers.

4. Collateral - When MFG enters into a reverse repurchase transaction for its own account, the Designated Supervisor will approve the transaction and determine that the securities subject to the agreement are in the possession and control of MFG and outside the control of the counterparty to ensure allowable asset treatment under Rule 15c3-1.

   The Designated Supervisor and the Operations Department will code customer accounts for use of permissable securities to collateralize their transactions.

5. Deficits And Margin Calls - MFG's Margin Supervisor (or designee) will monitor deficits for net capital (or liquid capital) with counter-parties and margin calls when a deficit arises.

6. Mark To Market - Repurchase and reverse repurchase transactions will be marked to market daily using pricing from MFG's trading department(s).

7. Dollar Rolls - Dollar rolls will be recorded at market value. Designated Supervisors at trading desks are responsible for review of transactions to identify any that are priced away from the market.

8. Order Records - Order records for repurchase and reverse repurchase agreements will be completed and system time stamped at the time of execution. The Designated Supervisor of the appropriate trading desk is responsible for review of daily order records. See procedures noted under Record above.

9. Repurchase Transaction Rates - Changes in rates on open transactions will be recorded in MFG's records. On the Government Desk, input is handled by the sales and trading staff and monitored by a Desk Supervisor.

10. Credit Approval - Repo and reverse repo transactions are subject to MFG's regular credit approval processes.

B. Bonds Borrowed and Loaned Transactions

1. Agreements - Prior to engaging in any bonds borrowed agreements with counterparties, MFG's agreement must be signed by the counterparties and executed by the Designated Supervisor on behalf of MFG.

2. Collateral - Prior to final approval of the agreement, the Designated Supervisor is responsible for ensuring the agreement is properly collateralized and in a lien-free location. The securities that may be used as collateral include the following:

   - Cash
   - U.S. Government securities, or
   - Comparable collateral

3. Mark To Market - Bonds borrowed and loaned transactions will be marked to market daily using pricing from MFG's trading department(s) which is monitored by the Desk Supervisor.

4. Credit Approval - Bonds borrowed and loaned transaction are subject to MFG's regular credit approval processes.

I. AUTHORIZED BORROW/LOAN PERSONNEL

Stock loan and borrow are handled in the Stock Loan area of Securities Operations, however the Stock Loan Manager reports to Series 24 Supervisor on the business side of the company. The person or persons designated by the Stock Loan Manager, who are required to be registered, are the only personnel authorized to initiate a loan or borrow transaction. In the absence of a designated person, the Securities Lending Manager may substitute an alternative registered individual

II. BORROWING SECURITIES

Stock borrow transactions may be initiated under the following circumstances:

1. Request by short seller such as a trader/customer;
2. Request by delivery clerk to make good on a fail to deliver less than 30 days old or for which a buy-in is in executable;
3. To cover customer short security positions as the result of short stock sales or options that are exercised/assigned;
4. To cover a segregation deficit due to a security position with insufficient shares (such action to be taken no later than the following business day);
5. To replace loaned securities that have been recalled by MFG or another lender to MFG;
6. In the event of a fail to receive on a stock loan recall initiated by MFG and for which a buy-in request has been issued;
7. Acting as a finder-borrower and lender for another broker with whom MFG has a signed stock loan agreement.

When borrowing securities, the Loanet System must be updated to include the date of borrow, number of shares, and the price. When a security no longer needs to be borrowed, Loanet automatically prints out securities to return on a daily basis. It is important that the borrow/loan be set up properly to include all required information, such as the rebate rate and mark to market details. These details are available on the Loanet System and in Loanet reports.

III. LENDING SECURITIES

Stock loans may be initiated at the request of another broker/dealer with whom MFG Securities has a written loan agreement. The Loan Availability Report lists all security positions, as of the prior day's close, that are available for loan. The

on-line stock record (Beta-SPOS, SEGA) and delivery needs must, however, be checked by an indiidual on the desk under the supervision of the Stock Loan Manager prior to making any loan. In the event of insufficient availability of stock, the Desk may act as a finder and borrow from a third party. If during the life of a house loan, a segregation deficit (insufficient shares for the loan) occurs or a third party borrow is recalled, the Operations Department will notify the Desk who may either initiate a new borrow and/or recall existing loans. When lending securities, the Loanet System must be set up to include similar data as for borrows.

IV. AGENCY LENDING DISCLOSURE OF PRINCIPAL ("ALDOP")

The Regulators have required that stock borrowers, when transacting business with specific entities more than likely will deal with these entities through an agency lender. An agency lender is a large financial instiitution which acts as a conduit for the loans between the small entity (e.g. hedge fund, pension plan, corporation) and broker dealers. The rules provide that the transaction is between the broker-dealer (MFG) and the underlying legal entity with the agency lender providing background information on the underlying principal and transmitting securities and funds between the underlying principal and the broker-dealer. In order to comply with these rules the following procedures have been established which involves several different departments of MFG:

1. Stock Loan Manager – This person will recommend agency lenders to be used by MFG. The desk will do transactions with agency lenders but the desk will not be permitted to know the underlying principals of the agency lenders. In the event there are areas of concern concerning transactions, the Stock Loan Manager will communicate with the Agency Lender who will act as a transmitter of information for the underlying principal.

2. Compliance Department – This Department will act as negotiator of contracts with Agency Lenders.

3. Credit Department – This Department will review the credit standing of all underlying principals. If any principal does not meet the standards of MFG, then the Chief Credit Officer or delegate must advise the Agency Lender that MFG will not deal with that principal. Credit must not advise the name of any underlying principal to the Stock Loan Desk. Credit will provide limits for exposure for underlying principals and will advise the Agency Lender if the principal has exceeded the approved limit, thereby limiting further loans until the underlying principal is within the approved limit standard.

4. Operations Department – This Department will continue to monitor transactions using the services of Loannet and Sungard in terms of delivery, corporate actions, money flows and arranging for appropriate settlements.

5. Accounting Department – This Department, which reports to the FINOP, will monitor reports from Loannet and Sungard to determine that all capital computations are completed daily and all required financial reports are filed timely with the regualors.

V. LOCATES-STOCK AVAILABILITY

Upon receiving a request for a stock borrow, the following details must be entered into the Stock Loan/Borrow log book maintained by the Desk:

1. Date;
2. Name of initiator;
3. Number of shares;
4. Description of security; and
5. Time of request.

Calls are then placed with outside brokers or agent lenders with which MFG has written loan agreements. Once the stock has been located, or it has been determined that the shares are not available for borrow, the initiator of the request must be contacted and informed, and the following information entered into the Stock Lending log:

1. Location of shares available for borrow; and
2. Name of contact person and firm.

Securities may be borrowed on the same day as the locate for hard-to-borrow securities and must be borrowed on the same day for "threshold securities." A "threshold security" is a registered equity security that for five consecutive settlement days has an aggregate fail position of 10,000 shares or more, which is at least ½ of 1% of the issuer's total shares outstanding, and which is included on a daily list published by the self-regulatory organizations. When MFG has been informed that the short sale has been executed, the loan can be effected the same day for hard-to-borrow securities or threshold securities or left until settlement date for very liquid securities as defined by Reg SHO.

The following business day, the short sale report must be investigated in order to determine whether all short sales were covered by prior day locates and/or borrows. All improper short sales must be referred to the Branch Manager, with notification to the Law Department, for buy-ins. If the securities are no longer available to borrow by settlement date, written notice must be sent by Operations to the party that requested the locate.

VI. MANDATORY CLOSE-OUTS FOR THRESHOLD SECURITIES

Any fail in a threshold security that remains open for 13 consecutive settlement days (10 days after normal settlement) the position must be closed out by having the Desk purchase securities of like kind and quantity.

Until the fail is closed out, the customer is prohibited from effecting further short sales in the threshold security without borrowing or entering into a bona-fide arrangement to borrow it. This does not apply to positions established prior to the security becoming a threshold security; but, if a security subsequently becomes a threshold security and a fail thereafter is reduced below the level of the position at the time the security became a threshold security, the exception will only apply to the smaller quantity.

VII. ELECTIVE PROCEDURE LOAN RECALL

Should borrowed securities be recalled, Operations should prepare written notice to be sent to the short interest parties advising them of possible buy-in if the securities are not delivered and/or covered. Efforts should also be made by the Desk to borrow replacement securities from another source.

VIII. RECONCILIATION OF BETA AND LOANET SYSTEMS

The Loanet system must be balanced to DTC final settlement figures at the end of each day. On a daily basis, Operations will use the BETA Stock Loan reconciliation report to resolve any out of balances between the Loanet System and the BETA system. Any monies in the BETA suspense accounts must be accounted for and posted to the correct accounts. In addition, any Loanet suspense monies must be resolved daily. Further, as part of the balancing process, all exceptions on the Loanet exception report (contract compare) must be resolved on a daily basis as well. In some cases, this will involve contacting the contra party to correct their records.

IX. BORROW/LOAN DEFICITS

With BETA's inability to accommodate more than one DTC number, the following procedure must be implemented when engaging in finder's business in order to avoid possession and control violations. Before making a loan, the Stock Loan staff must determine that a segregation deficit does not exist. Insufficient shares for the delivery will create a segregation deficit. If a deficit does exist, it must be resolved before any loans in the particular security may be made.

Also on a daily basis, an assigned person from the Stock Loan area will review the Stock Loan deficit and segregation report. Efforts must be coordinated between this area, the Margin Department and the Receive/ Deliver area in order to ensure that every effort is made to make deliveries on time without creating segregation deficits.

As previously stated, for those positions in a segregation deficit, the person reviewing the reports for the Operations Department will issue a Stock Loan recall notice for the securities on loan and also attempt to cover the deficit by borrowing the stock. If the stock cannot be borrowed and the loaned stock is not returned, buy-in procedures will be initiated by the Buy-In Department.

Reports, such as CNS Projection, Borrow for Needs, Fail to Receive and Deliver, should all be utilized in this effort.

X. COLLATERAL-MARK TO MARKETS

Positions will be updated daily to market prices. The Loanet mark to market system is used for marking contra parties to the market. Where applicable, the Loanet LAMS system will be used. This allows brokers who are both users of Loanet to update market prices of all positions automatically. Note that positions with the Options Clearing Corporation are marked to the market overnight daily with cash settlement at the Options Clearing Corporation rather than the Depository Trust. Should the Stock Loan area not collect enough collateral, the Accounting Department will calculate the proper capital/haircut charge.

XI. REBATES/BILLING AND CONFIRMS

Copies of the Loanet Account Summary, Income Analysis and Estimated Rebates will be made available to the Accounting Department on a daily basis. Final billing figures will be given to the Accounting Department as soon as they are available. Currently, Stock Loan personnel will collect the Stock Loan billing monthly, and the Accounting Department will verify collection.

The Stock Loan area will send out confirmations monthly of all open positions to all borrowers and lenders. Stock Loan confirmations will be returned to the Branch Manager.

XII. RISK CONTROL

On a daily basis, the Operations Department will send Stock Borrow spreadsheets to Risk Management. These reports include total balances, total credit limits, and concentration limits that are reviewed by credit/risk control and the Chief Risk Officer. The Stock Borrow area is notified if any limit breaches have occurred.

I. GENERAL SUPERVISORY RESPONSIBILITIES

The Supervisor has direct supervisory responsibility for all Direct Market Access ("DMA") and Sponsored Participant ("SP") client activities. The Supervisor's primary supervisory objective is to make certain that all activity subject to their supervision is conducted in full compliance with applicable legal and regulatory requirements and MFG's internal policies and procedures.

The Supervisor should actively assist in identifying and resolving potential regulatory issues and should also take appropriate steps to ensure those to whom supervisory responsibilities have been delegated perform these duties appropriately.

All review activity relating to individual customer orders must be performed by or, in certain permissible instances, at the specific instructions of, appropriately registered personnel. The review, undertaken by or at the direction of a principal, constitutes a supervisory review as well as serves as the day-to-day oversight of customer activities. The Supervisor should:

- On a daily basis monitor the flow of orders from the client for any potential problems. This may be accomplished through the review of exception reports and alerts.
- Be ultimately responsible for the capture and retention of information referenced above, including all relevant order ticket information
- Be charged with oversight of regulatory reporting.
- Be available to accept (and if appropriate, to handle) complaints or inquiries from the client or the ECN/exchange.
- With respect to SP business, be responsible for ensuring that appropriate agreements are executed and required operational aspects (e.g., "drop copies" of trading activity are set up) are taken prior to initiating a SP relationship.

If an issue or problem comes to the Supervisor's attention, the Supervisor should determine whether it is necessary to consult the Compliance Department or senior management of the firm. However, merely identifying an issue or problem to senior management and the Compliance Department does not relieve the Supervisor of responsibility for following up on the issue. The Supervisor must see to it that the issue or problem is investigated and resolved promptly, and that appropriate steps are taken to prevent a reoccurrence of any improper activity, which should be documented in a file memorandum.

II. GENERAL DMA DESK PROCEDURES REGARDING LOCATES

DMA desk reviews should include, but are not limited to:

- Daily, the DMA DESK will review the list of securities the customer would like to trade.
  - The customer list is compared to the Easy to Borrow list. Securities that are not on the Easy to Borrow list are sent to Securities Lending Dept for locates.
  - There are securities that may not be on the Easy to Borrow list but still could be easy to locate / borrow. Those that are "easy" are communicated to the DMA desk as "good locates."
  - For the securities that are not on the Easy to Borrow list, and are not easy locates, the DMA Desk must pre-borrow to allow the customer to trade this security.
- The DMA Desk will communicate the pre-borrows with the customer to obtain the number of shares the customer will limit their open position to throughout the day.
  - Specifically, the customer will set their system to restrict the open short position in any given name so that they do not short more than the borrowed amount.
  - The DMA Desk will obtain a written description of how the customer is monitoring these positions.
  - The DMA Desk will review the positions throughout the day on the Studio system to monitor the size of the open short position. Studio is an internal system, maintained by our Operations / IT groups into which all trades are delivered.
  - Any violation, when the customer shorts a greater amount than the amount communicated, will be addressed with the customer and the Compliance Department.
- The positions viewed throughout the day will be saved to a folder on the shared drive, and all client communications will be saved to an Outlook Archive folder.

III. DOCUMENTATION OF SUPERVISORY REVIEWS

Exhibit E is the DMA and SP Trading Supervisory Chart and Exhibit F contains specific procedures to be followed for monitoring DMA and SP activity. The procedures should be carried out in accordance with the frequency stated in each procedure. The Designated Supervisor or Branch Manager should document the response to any problems that he or she detects or that are brought to their attention. This applies not only to situations where action is taken, but also where the Designated Supervisor or MFG decides that no action is warranted.

Supervisory logs and other documentation evidencing supervisory activities must be maintained for three (3) years, the first two (2) in an easily accessible location.

III. ONGOING PROCEDURES - SUPERVISION

Reviews should be conducted with a view toward identifying inappropriate trading behavior, including but not limited to:

- Wash sales
- Trading activity that marks the close
- Unusual trades or trading patterns, particularly near the open or close
- Improper use or entry of odd lot orders
- Improper use of market on close and market on open orders.
- Provide training pursuant to REG NMS rules as to Locked and Crossed Markets

A. Credit Department Review of SP Relationships

Prior to initiating a SP relationship with a client, the Supervisor should ensure that MFG's Credit Department has reviewed the proposed arrangement and approved the client for SP business. The Supervisor is responsible for ensuring that any applicable limitations imposed on a client are implemented from an operational standpoint.

B. Specific Requirements and Procedures

Order tickets – MFG is required to record all client order information – terms and conditions, as well as execution information – as per SEC Rule 17a-3(a)(6) and 17a-4(b)(1) and as further described by FINRA rules. Whether or not the ticket is an "electronic" order ticket does not affect the content requirements. The required information typically includes:

- Client name/number
- Responsible firm RR name/number
- Stock name and/or symbol
- Quantity
- Buy / sell / sell short / sell short exempt
- Order type (for example: not held, market, limit)
- Changes to the terms of original order (modification or cancellation of, for example, quantity or order type), with times
- Stock borrow locate (for short sales)
- Order entry time
- Order execution time(s), price and quantity

The record must be in a format compatible with MFG's recordkeeping system. Note that an order ticket need not be a single record, but rather may consist of more than one component, all of which taken together contain the required information. The supervisor, or a qualified designee, must review and assure that the system used to capture order information contains all of the above types of information including unfilled orders and that such information is accurately captured for trade processing and record retention purposes.

With respect to DMA business, most firm systems capture transaction information for purposes of business reporting or for OATS reporting. One significant exception is an affirmative determination of the availability of shares to borrow to facilitate a short sale. With respect to SP business, MFG must establish a mechanism to receive appropriate "drop copies" of client transaction activity on a timely basis. Please consult the Compliance Department for acceptable methods of capturing and preserving the required information.

C. Confidentiality

Client confidentiality with regard to client strategy must be maintained. Information specific to a client's trading should not be shared with other clients.

D. Authorized Traders

Any employee who wishes to become an Authorized Trader must receive approval from the Branch Manager and the Compliance Department before being permitted to trade on an electronic exchange.

I. OVERVIEW

The SEC and FINRA have promulgated detailed rules governing the use of advertising and sales literature by broker-dealers.

For purposes of this section, the term "advertisement" means any material (other than an independently prepared reprint and institutional sales material) that is published, or used in any electronic or other public media, including any Web site, newspaper, magazine or other periodical, radio, television, telephone or tape recording, videotape display, signs or billboards, motion pictures, and telephone directories (other than routine listings).

The term "sales literature" means any written or electronic communication (other than an advertisement, independently prepared reprint, institutional sales material and correspondence), that is generally distributed or made generally available to customers or the public, including circulars, research reports, market letters, performance reports or summaries, form letters, telemarketing scripts, seminar texts, reprints (that are not independently prepared reprints) or excerpts of any other advertisement, sales literature or published article, and press releases concerning a firm's products or services.

The term "correspondence" means any written letter or electronic mail message distributed to (a) one or more of MFG's existing retail customers; and (b) fewer than twenty-five (25) prospective retail customers within any 30 calendar-day period.

The term "institutional sales material" means any communication that is distributed or made available only to institutional investors.

The term "public appearance" means participation in any seminar, forum (including an interactive electronic forum), radio or television interview, or other public appearance or public speaking activity.

The term "independently prepared reprint" means reprints or excerpts of articles issued by a publisher that is independent of MFG, independent of any underwriter or issuer of any security mentioned on the reprint and, in a reprint concerning any mutual fund, independent of such mutual fund. MFG may not materially alter the reprint's or excerpt's contents except as necessary to make it consistent with applicable regulatory standards or to correct factual errors.

II. APPROVALS REQUIRED AND RETENTION REQUIREMENTS

Prior to publication or use, all advertisements, sales literature and independently prepared reprints must be approved by a RP, who will sign or initial and date each advertisement or piece of sales literature. MFG is required to maintain an Advertising and Sales Literature file with evidence of such approvals for a period of three (3) years from the date of last use.

In addition, advertisements and sales literature should be submitted prior to use for Compliance Department review and approval to ensure all regulatory requirements have been met, and to file with FINRA if necessitated. Submissions should be done electronically through the Marketing and Promotional Materials Submission Form that is accessible on the Compliance Forms page of GX.

III. COMMUNICATIONS WITH THE PUBLIC

All communications with the public must be based on principles of fair dealing and good faith, must be fair and balanced and provide a sound basis for evaluating the facts offered therein. With respect to any particular security or securities or any services described in the communication, no material fact or qualification may be omitted if the omission would cause the communication to be misleading.

All public communications must meet the standards of good taste and accuracy and should fairly represent the products or services in question. Promissory, exaggerated or false statements, as well as language inferring guarantees, are not permitted. No employee may publish, circulate or distribute any public communication that the individual knows or has reason to know contains any untrue statements or is otherwise false or misleading.

Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.

Communications with the public may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast. If any testimonial in a public communication concerns a technical aspect of investing, the person making the testimonial must have the knowledge and experience to form a valid opinion.

In judging whether a communication or a particular element of a communication may be misleading, the following factors shall be considered: (i) the overall context in which the statement is made; (ii) the audience to which the communication is directed; and (iii) the overall clarity of the communication.

Public communications may indicate that MFG is a FINRA member but may not state or imply that FINRA, or any other regulatory authority, endorses, indemnifies or guarantees MFG's business practices or any product or service offered. Refer to the MFG Corporate Communications and Disclosure Policy for more complete information on all components of communication with the public.

IV. OPINIONS, PERFORMANCE DATA AND PROJECTIONS

In addition to the foregoing general guidelines, the following more specific guidelines apply to opinions, performance data, projections and testimonials.

1. Opinions must not be stated as facts, must be reasonable and clearly labeled as opinions, and must state the underlying assumptions.
2. Past records, charts, tables or other material cannot be used implicitly or explicitly to promise future profits or income from investments.
3. No public communication may predict or project performance, imply that past performance will recur or make any exaggerated claim, opinion or forecast. Further, performance related communications must indicate that the past performance is not indicative of future performance.
4. Testimonials may not be utilized in any public communications.
5. Hedge clauses (i.e., cautionary statements or caveats) should be consistent with statements made in the body of the sales and investment literature.

V. ADVERTISEMENTS AND SALES LITERATURE

Advertisements and sales literature must comply with certain standards regarding content. In particular, any comparison in advertisements or sales literature between investments or services must disclose all material differences between them, including (as applicable) investment objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, and tax features.

Additionally, advertisements and sales literature must prominently disclose the name of MFG. Any relationship between MFG and any non-FINRA member or individual who is also named should be reflected. Finally, if the material includes the names of other firms or individuals, it must accurately reflect which products or services are being offered by MFG.

References to tax-free or tax-exempt income in advertisements and sales literature must indicate which income taxes apply, or which do not, unless income is free from all applicable taxes. For example, if income from an investment company investing in municipal bonds is subject to state or local income taxes, this fact must be stated, or the illustration must otherwise make it clear that income is free only from federal income tax.

All advertisements and sales literature (including promotional materials and letters soliciting interest in specific transactions) that refer to a particular security or issuer must include an appropriate disclaimer.

MFG's name must be included on all advertising and sales literature regarding products or services offered by MFG (i.e., "blind" ads, other than those used for employee recruiting, are not permitted).

VI. INDEPENDENTLY PRODUCED REPRINTS

Independently produced reprints, including but not limited to those intended for re-publication with the name of MFG or an AP listed thereon, require the prior approval of a RP as discussed above. Where materials are provided by investment companies and research department service providers, appropriate disclaimers shall be used with the material. A copy of the approved item, including the approval and date of approval, shall be included in the Advertising and Sales Literature file kept by Compliance.

VII. TELEMARKETING SCRIPTS AND TELEPHONE VOICE MAIL MESSAGES

The terms telemarketing and telephone solicitation mean the initiation of a telephone call or message for the purpose of encouraging the purchase or rental of, or investment in, property, goods, or services, which is transmitted to any person.

In accordance with NASD Rule 2212, APs may not initiate any telemarketing or telephone solicitation to any residence of a person before the hour of 8:00AM or after 9:00PM (local time at the called party's location), unless the member has an established business relationship with the person pursuant to the rule parameters, or if the member has received that person's prior express invitation or permission, or if the person called is a broker or dealer. In addition, APs may not initiate telemarketing or telephone solicitation to any person listed on the National Do-Not-Call list or Firm-Specific Do-Not-Call lists.

All scripts for telemarketing calls and telephone voice mail messages should be reviewed and approved by the RP.

VIII. PUBLIC APPEARANCES

Before accepting a speaking engagement or other public appearance, including on any television or radio program, an AP must obtain the approval of a RP. At a minimum, such approval shall include the RP's prior review and written approval of an outline which reasonably summarizes the contents of the proposed presentation. In addition, no AP may sponsor, promote, advertise or endorse any

sales and/or investment-related seminar conducted by third parties (e.g., product sponsors, wholesalers, etc.) without the prior knowledge and approval of a RP.

The general content standards applicable to public communications set forth above apply to public appearances as well. Additionally, APs should not comment about ongoing or threatened litigation or customer complaints during public appearances.

IX. NEWSPAPER AND MAGAZINE ARTICLES

APs are required to obtain the written approval of a RP prior to any newspaper or magazine article(s) being photocopied and sent to a customer or prospective customer.

X. MASS MAILINGS

Any mass mailings (i.e., any mailing or transmission, including emails and facsimiles, that will be sent or transmitted to twenty five (25) or more customers or potential customers) must be submitted to an RP for approval prior to being sent or transmitted. Such approval will be evidenced by the RP initialing and dating the proposed mass mailing.

XI. OPTIONS COMMUNICATIONS WITH THE PUBLIC

In addition to the foregoing restrictions on communications with the public, the options exchanges and FINRA have promulgated specific rules governing the use of advertising and sales literature concerning options. These rules use the following defined terms:

"Advertisement" means any material concerning options, other than an independently prepared reprint and institutional sales material, that is published, or used in any electronic or other public media, including any Web site, newspaper, magazine or other periodical, radio, television, telephone or tape recording, videotape display, signs or billboards, motion pictures, or telephone directories (other than routine listings).

"Sales literature" means any written or electronic communication concerning options, other than an advertisement, independently prepared reprint, institutional sales material and correspondence, that is generally distributed or made generally available to customers or the public, including circulars, research reports, performance reports or summaries, form letters, telemarketing scripts, seminar texts, reprints (that are not independently prepared reprints) or excerpts of any other advertisement, sales literature or published article, and press releases concerning a member's products or services.

A. Approvals Required and Retention Requirements

Prior to publication or use, all options advertisements, sales literature (except completed worksheets) and educational material must be approved by the RP, who will sign or initial and date each advertisement or piece of sales literature. MFG is required to maintain these materials in its Advertising and Sales Literature file with evidence of such approvals for a period of three (3) years from the date of last use.

Certain advertising and educational material pertaining to options is subject to approval by FINRA and must be submitted at least ten days prior to use. APs should contact the RP regarding the procedures for obtaining approval.

B. Options Communications with the Public

Employees may not utilize any options communication which: (i) contains any untrue statement or omission of a material fact or is otherwise false or misleading; (ii) contains promises of specific results, exaggerated or unwarranted claims, opinions for which there is no reasonable basis or forecasts of future events which are unwarranted or which are not clearly labeled as forecasts; or (iii) contains hedge clauses or disclaimers which are not legible, which attempt to disclaim responsibility for the content as well as the opinions expressed in the communication, or which are otherwise inconsistent with such communication.

In addition, any communications that discuss the uses or advantages of options should reflect the special risks attendant to options transactions and the complexities of certain options investment strategies, and should include a warning to the effect that options are not suitable for all investors. Statements regarding potential opportunities or advantages of options must be balanced by a statement of the corresponding risks.

Advertisements pertaining to options must be limited to general descriptions of the option being offered and of its issuer and must state the name and address of the person from whom a current options disclosure document(s) may be obtained. Such advertisements may not use recommendations or past or projected performance figures, including annualized rates of return.

Educational material, including advertisements, pertaining to options must meet the following requirements:

a. The potential risks related to options trading generally and to each strategy addressed are explained;
b. No past or projected performance figures, including annualized rates of return are used;

c. No recommendation to purchase or sell any option contract is made;
d. Subject to certain exceptions, no specific security is identified; and
e. The material states the name and address of a person or persons from whom a current options disclosure document(s) may be obtained.

C. Projected Performance

Sales literature pertaining to options must state that supporting documentation for any claims, comparisons, recommendations, statistics or other technical data will be supplied upon request. Projected performance figures may be included as long as the following conditions are met:

1. All such communications regarding standardized options are accompanied or preceded by the options disclosure document;
2. There is no suggestion of certainty of future performance is made;
3. Parameters relating to such performance figures are clearly established;
4. All relevant costs, including commissions, fees and applicable interest charges are disclosed to reflect the projections;
5. Projections are plausible and intended as a source of reference or a comparative device;
6. All material assumptions made in such calculations are clearly identified;
7. The risks involved in the proposed transactions are also disclosed; and
8. Annualized rates of return are not based upon any less than a 60-day experience; any formulas used in making calculations are clearly displayed; and a statement is included to the effect that the annualized returns cited might be achieved only if the parameters described can be duplicated and that there is no certainty of doing so.

D. Use of Records and Statistics

Options communications may include records and statistics that portray the performance of past recommendations or of actual transactions, as long as certain very specific conditions are met. These conditions are intended to portray the information in a clear and balanced manner. Personnel should contact the RP prior to using such records or statistics to determine the applicable conditions.

E. Option Programs and Worksheets

Sales literature that discusses an options program must disclose the cumulative history or unproven nature of the program and its underlying assumptions. In addition, standard forms of options worksheets must comply with the requirements applicable to sales literature and must be uniform within MFG. If MFG has adopted a standard form of worksheet for a particular options strategy, nonstandard worksheets for that strategy may not be used.

XII. CORRESPONDENCE WITH CUSTOMERS

All incoming mail for registered personnel must be opened and reviewed by the Branch Manager prior to distribution. In the absence of a Branch Manager, a designated RP is authorized to approve mail. Such review shall be evidenced by initialing the correspondence. All incoming checks must be immediately transmitted to the Treasury Department, and incoming securities to the Margin Department for prompt handling.

All written instructions authorizing a securities transaction shall be date stamped upon receipt and, after review by the Branch Manager, promptly relayed to the addressee and/or other appropriate person.

All MFG personnel must arrange to have all personal (i.e., non-business) mail sent to an address other than their offices. Only mail related to MFG's business is to be addressed to MFG 's offices. Personal mail received at MFG's offices, even if marked "personal and confidential" will be opened before delivery to the addressee.

The Branch Manager is responsible for ensuring that each item of mail to RRs is distributed to the appropriate individual or department.

A certain percentage of all outgoing written correspondence, whether written or by email or facsimile must be reviewed by the Branch Manager or other designated RP. Handwritten correspondence is prohibited unless a copy is retained by the Branch Manager. Handwritten correspondence must be approved prior to sending. The Branch Manager (or other appropriate RP) must note approval of outgoing correspondence by written endorsement, signature, or initial on an internal record, such as a copy of the document, and must date their approval.

Copies of all incoming and outgoing correspondence must be kept for a period of three years. A copy of all incoming and outgoing correspondence must be placed in a chronological correspondence log, which includes faxes. Regarding email, incoming and outgoing email may be reviewed and archived electronically. Similarly, all incoming correspondence (including faxes and email) must be reviewed by the receiving RP, and initialed if in hard copy, copied for the chronological log, distributed, if applicable, to the appropriate personnel, and the original placed in the customer's or correspondence file.

Under no circumstances is mail to be left unattended in a RR's mailbox. If the addressee is not available, the mail should be distributed to the Branch Manager for handling.

The above procedures do not apply to inter-office mail dealing with internal firm matters.

XIII. ELECTRONIC COMMUNICATIONS

APs may not, under any circumstances, communicate with customers on their personal computers.

APs may not maintain personal web pages in which they discuss securities or commodity futures, or investments therein, or in which they disclose their association with MFG.

APs may not participate in on-line chat rooms, bulletin boards or other such electronic media in which securities or commodity futures, or investments therein, are discussed or in which they disclose their association with MFG.

No AP may engage in communications with the public from any computer or other electronic device which which does not forward copies for surveillance.

XIV. SUPERVISION OF ELECTRONIC COMMUNICATIONS

Copies of all incoming and outgoing electronic communcations of RRs will be automatically forwarded to the Branch Manager or other Designated Supervisory personnel. Such supervisory personnel shall engage in a random spot review of electronic communications on a weekly basis.

I. CUSTOMER COMPLAINTS

A "customer complaint" is any written grievance by any person other than a broker or dealer with whom MFG has engaged, or sought to engage, in securities activities, involving MFG or an AP. Although FINRA rules only cover written complaints, oral or electronic complaints, if any, are to be reduced to writing by the Branch Manager in the event that the client does not, and treated as if they were received as written complaints. The Compliance Department maintains a log and a file containing all complaints made by its customers at its main office, as well as copies of all responses to complaints. In addition, the RP maintains separate logs and files of all options customer complaints, if any. The central customer complaint log or file must contain at a minimum: the name of the complainant, the date received, the name of the RR servicing the account, a general description of the complaint, and a record of the action taken, if any. All such logs and files must be kept for at least three years. In the case of the complaint files themselves, the file should be kept for three years from the resolution of the complaint. In addition each Branch Manager shall maintain complaint and option complaint files for his/her respective branch office.

Customer grievances, oral or written, must be brought to the immediate attention of the CCO. Any written complaints received in a branch office must be forwarded to the CCO immediately (i.e. within 30 days) by the Branch Manager. Oral complaints must be reduced to written form and handled in the same manner as written complaints. Under no circumstances are RRs or other APs to answer or settle any complaint directly with a customer. Upon receipt of a complaint, the CCO or member of the Legal Department shall:

1. Investigate the complaint and obtain written information in response to the customer's allegations from the customer's RR and any others persons who may be knowledgeable of the facts.
2. Promptly (i.e. within 10 days from their receipt of the complaint) respond to the customer in writing, with either a resolution of the complaint or an acknowledgement that the complaint has been received and is being investigated. If the complaint involves a municipal security, an MSRB Investor Brochure will be provided to the customer.
3. Promptly respond to the customer when the analysis is complete.
4. Retain all documentation relating to the complaint in the customer's account file and in a central complaint file maintained in the Compliance Department.

Pursuant to NASD Rule 3230(b), the CCO must forward any written customer complaint received by MFG regarding an introducing broker or its APs related to functions and responsibilities allocated to the introducing broker under its clearing agreement directly to such introducing broker and to the introducing broker's designated examining authority or other appropriate regulatory authority. The CCO or a member of the Legal Department must also notify the customer that MFG has received the complaint and that it has been forwarded to the introducing broker and the appropriate regulatory authorities.

II. REPORTING CUSTOMER COMPLAINT INFORMATION

Within the first 15 calendar days of the end of each calendar quarter, the CCO must file information regarding customer complaints with FINRA electronically. This requirement does not eliminate MFG's responsibility to promptly file any required amendments to Forms BD, U4, and U5 which arise out of the same occurrences.

III. REGULATORY INQUIRIES

MFG policy is to cooperate fully with any inquiry of a regulatory authority that has supervisory authority over MFG. Generally, such regulators will contact the CCO directly. If, however, any AP is contacted by such a regulator, he or she should discontinue the conversation and inform the regulator that such inquiries are handled by the CCO. The AP should then immediately notify the CCO and his/her supervisor of the incident. In addition, any correspondence received by an AP directly from a regulatory authority should immediately be forwarded to the CCO.

IV. LITIGATION AND ARBITRATION

All correspondence, summonses and subpoenas concerning legal action, arbitration or proceedings involving a customer, a customer account, an AP and/or MFG must be referred to the CCO immediately upon receipt. The same procedures apply to telephone inquiries from outside attorneys, unless directed otherwise by the CCO. Under no circumstances may any AP other than a member of the Legal Department or the CCO respond to a lawsuit, subpoena or other form of legal process.

V. INITIATING CONTACT

APs should not initiate contact with a regulator/regulatory or government body (i.e., SEC, FINRA, U.S. Attorney, etc.) without consulting with the Compliance Department first. In no event is any information to be given to any regulatory body without the prior approval of the Compliance or Legal Department.

I. BACKGROUND

The Gramm-Leach-Bliley Act ("GLBA") requires all "financial institutions," defined to include broker-dealers, to establish procedures and systems to assure privacy of customer personal and financial information.

GLBA requires that a financial institution respect the privacy of its customers and protect the security of "non-public personal information," defined as personally identifiable financial information provided by a customer, obtained as a result of a transaction with a customer or obtained otherwise. Regulation S-P, adopted by the SEC to implement the privacy provisions of GLBA, treats any personally identifiable information as "financial" if the financial institution received the information in connection with providing a financial product or service to a consumer.

II. INITIAL AND ANNUAL NOTICES

Regulation S-P requires broker-dealers to provide notice to "customers" about the institution's privacy policies and practices. The initial notice must be provided to an individual when the "customer relationship" is established. Thus, the initial notice should be given to the customer at the time an account is opened. An annual notice (which should be identical to the initial notice unless such notice has been subsequently revised) must be given once in each twelve-month period. Both notices will be provided by the Operations Department in mailings.

Both the initial and annual notices must set forth, among other things: a general description of MFG's policies and procedures to protect customers' non-public information; categories of non-public personal information, if any, that are disclosed; and categories of affiliates or non-affiliated third parties, if any, that may receive the information.

III. SAFEGUARDING CUSTOMERS INFORMATION

MFG maintains safeguards that comply with federal standards to protect customer information, restrict access to the personal and account information of customers to those APs who need to know that information in the course of their job responsibilities and require that third parties with which MFG shares customer information must agree to follow appropriate standards of security and confidentiality.

MFG's physical office space is secure and accessible only by authorized personnel who have keys and/or electronic access cards. To assist APs in

understanding their obligations with respect to non-public personal financial information of customers, the CCO will:

- Inform personnel regarding MFG's confidentiality and security standards for handling customer information by giving them a copy of this Manual.
- Instruct personnel to take basic steps to maintain the security, confidentiality and integrity of customer information.
- Limit access to customer information to personnel who have a business reason for such access.
- Retain access to computer files containing customer information restricted by password.
- Inform personnel not to leave open files that hold customer information on the computer while they are not at their desk.
- Keep back-up computer files locked at alternate sites allowing access only to authorized persons.
- Work with the Information Technology Department to determine that reasonable steps are used to select and retain service providers that are capable of maintaining appropriate safeguards and requiring service providers to agree contractually to implement and maintain such safeguards.
- Evaluate and adjust the information security program in light of results of testing and monitoring performed by the Information Technology Department, any material changes to MFG's operations or business arrangements or any other circumstances that would impact MFG's information security program.
- Impose disciplinary measures for any breaches.

Outside service providers, including MFG's attorneys, auditors and administrators, may be given access to non-public personal financial information concerning MFG's individual customers in connection with the provision of services to MFG.

MFG's information technology personnel will maintain the security of its information systems by:

- Storing electronic customer information on a secure server that is accessible only with a password and is kept in a physically secure area.
- Maintaining secure backup media and keeping archived data secure by storing it off-line or in a physically secure area.

- Providing for secure data transmission when MFG collects or transmits customer or information.
- Disposing, when necessary and permissible, of customer information in a secure manner by, as applicable:
  - Supervising the disposal of records containing non-public personal information;
  - Erasing all data when disposing of computers, diskettes, magnetic tapes, hard drives or any other electronic media that contain customer information;
  - Effectively destroying the hardware if necessary for obsolete or replaced hardware; and
  - Otherwise promptly disposing of outdated customer information.
- Using appropriate oversight to detect the improper disclosure or theft of customer information.

I. DISCLOSURE EVENT REPORTING REQUIREMENTS

NASD Rule 3070(a) set forth procedures for reporting certain so-called "disclosure" events. Pursuant to those Rules, MFG through its CCO must report in writing the occurrence of any of the events listed below to FINRA promptly and in no case more than ten business days after MFG knows or should have known of such occurrence. In addition, each AP, RR, approved person, or allied member who knows or should know of such an event relating to himself or herself is required to promptly report it to the Compliance Department. These requirements do not eliminate MFG's responsibility, or such individual's responsibility, to promptly file, or cause to be filed, any required amendments to Forms BD, U4, and U5 which may arise out of the same occurrences or the requirement that MFG and its APs respond promptly and fully to any inquiry from FINRA or exchanges regarding such occurrences.

1. Securities Law, Rule, or Regulation Violation. Member or person associated with the member has violated any provision of any securities law or regulation, or rule or standard of conduct of any governmental agency, self-regulatory organization, or business or professional organization, or engaged in conduct which is inconsistent with just and equitable principles of trade, and the member knows or should have known that any of the aforementioned events have occurred.
2. Customer Complaint. Member or person associated with the member is the subject of any written customer complaint involving allegations of theft, misappropriation of funds or securities, or of forgery.
3. Regulatory or Self-regulatory Proceeding. Member or person associated with the member is named as the defendant or respondent in any proceeding brought by a regulatory or self-regulatory organization alleging the violation of any provision of the 1934 Act, or any other federal or state securities, insurance, or commodities statute, or of any rule or regulation thereunder, or of any agreement with, or of any provision of FINRA By-Laws, rules or similar governing instruments of any securities, insurance, or commodities regulatory or self-regulatory organization.
4. Regulatory or Self-regulatory Membership. Member or person associated with the member is denied registration or is expelled, enjoined, directed to cease and desist, suspended, or otherwise disciplined by any securities, insurance, or commodities industry regulatory or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member or member organization of any such self-regulatory organization.

5. Criminal Offense. Member or person associated with the member is indicted, or convicted of, or pleads guilty to, or pleads no contest to, any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military, or foreign court.

6. Association with Investment Company. Member or person associated with the member is a director, controlling stockholder, partner, officer, or sole proprietor of, or an AP with, a broker, dealer, investment company, investment adviser, underwriter, or insurance company which was suspended, expelled, or had its registration denied or revoked by any agency, jurisdiction, or organization or is associated in such a capacity with a bank, trust company, or other financial institution, which was convicted of or pleaded no contest to, any felony or misdemeanor.

7. Civil Litigation or Arbitration. Member or person associated with the member is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration that has been disposed of by judgment, award, or settlement for an amount exceeding $15,000. However, when the member organization is the defendant or respondent, then the reporting to FINRA shall be required only when subject judgment, award, or settlement is for an amount exceeding $25,000.

8. Damages Claim. Member or person associated with the member is the subject of any claim for damages by a customer, broker, or dealer which is settled for an amount exceeding $15,000. However, when the claim for damages is against a member or member organization, then the reporting to FINRA shall be required only when such claim is settled for an amount exceeding $25,000.

9. Statutory Disqualification. Member or person associated with the member is associated in any business or financial activity with any person who is subject to a "statutory disqualification" as that term is defined in the 1934 Act, and the member knows or should have known of the association. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification.

10. Disciplinary Action. Member or person associated with the member is the subject of any disciplinary action taken by the member against any person associated with the member involving suspension, termination, the withholding of commissions or imposition of fines in excess of $2,500, or otherwise disciplined in any manner which would create significant limitations on the individual's activities on a temporary or permanent basis.

II. REPORT OF DISCLOSURE EVENTS TO CHIEF COMPLIANCE OFFICER

Each AP shall promptly report any of the foregoing events to his/her supervisor and the CCO. In addition, each AP must notify the CCO if they ever were, are, or in the future become, the subject of:

1. Any investigation, disciplinary action or similar proceeding by any governmental or securities industry self-governing body, including any requests for testimony before such bodies;
2. Any injunction, inquiry, visit, censure, fine, suspension, expulsion or other disciplinary action by any governmental or securities regulatory authority;
3. Customer complaints or a disciplinary action by another broker/dealer;
4. Any investment or securities industry related litigation or arbitration;
5. Any allegation of conduct violating just and equitable principles of trade, any securities law, any agreement with an exchange, FINRA, the SEC or any other regulatory authority;
6. Any bankruptcy or contempt proceeding, cease or desist order, injunction or civil judgment as a party defendant;
7. Any arrest, summons, subpoena, arraignment, indictment or conviction for a criminal offense (other than minor traffic violations); or
8. Any contact whatsoever with any attorney or other representative of any party involved in an investment or securities industry related civil or criminal litigation. This includes AP-initiated contact, which is against firm policy.

In the event that one of the above proceedings occurs while an AP is employed by MFG, he or she shall notify the CCO within ten days of the occurrence of the event, give a copy of all documentation regarding the event to the CCO and assist in amending their Form U4 to disclose the event or proceeding. Failure to notify a RP or the CCO of any of the foregoing events can result in the AP being terminated for cause.

In addition, certain of the foregoing events must be reported electronically to FINRA within ten days of their occurrence.

I. NET CAPITAL REQUIREMENTS

Pursuant to Rule 15c3-1 under the 1934 Act, MFG must maintain minimum net capital of the greater of $250,000 or 2% of aggregate debit items, although the exchanges of which it is a member have imposed higher minimum capital. It is the responsibility of the Financial/Operational Principals and the Chief Financial Officer to ensure that MFG maintains compliance with all financial and capital requirements to which it is subject.

In addition, MFG must maintain net capital of at least 5% of the aggregate debit items to be in compliance with its minimum requirements at all times and avoid being subject to the early warning requirements of SEC Rule 17a-11 (see Section IV.)

MFG's Financial/Operations Principal(s) must be aware of MFG's minimum requirement at all times and advise senior management if MFG's minimum net capital requirement changes for any reason.

II. FINANCIAL/OPERATIONS PRINCIPAL RESPONSIBILITIES

MFG's Financial/Operations Principal(s) are responsible for the following:

1. Ensuring that net capital is computed in accordance with the provisions of Rule 15c3-1 and that MFG is and has been in capital compliance during all hours in which business was being conducted;
2. Establishing, maintaining, and verifying that all accruals are posted properly and in compliance with generally accepted accounting principles;
3. Analyzing allowable and non-allowable assets periodically, and at a minimum, at least monthly;
4. Conducting reviews of secured demand notes, if any, carried by MFG to make certain collateral value, after appropriate "haircuts" are applied, equals or exceeds face value of notes;
5. Establishing procedures which will allow all reconciliations and analyses to be completed in time for the prompt preparation and filing of monthly FOCUS Reports within 17 business days of the end of each month;
6. Reviewing all bank reconciliations on a monthly basis and ensuring that all unreconciled material items are properly accounted for;
7. Making certain that all books and records are properly prepared and posted on a current basis;

8. Reconciling bank balances on a timely basis and posting all necessary adjustments to appropriate records;
9. Verifying the accuracy of the month-end trial balance and ascertaining that it agrees with the corresponding balances in the general ledger;
10. Ensuring that relevant subledger balances agree with general ledger balances; and
11. Preparing FOCUS Reports Parts I and IIA and reviewing to confirm their accuracy and timely filing;
12. Verifying that financial statements of MFG are supplied to customers and the SEC, in compliance with paragraph (m) of Rule 17a-5;
13. Ascertaining that any reports required to be filed under SEC Rule 17a-11 have been filed by telegram or facsimile promptly (within 24 hours of MFG's knowledge of such condition) and that the cause for filing such has been corrected; and
14. Filing the required annual audited statements with the appropriate regulatory authorities within 60 calendar days of year-end.

III. FIDELITY BOND COVERAGE

MFG must maintain a blanket Fidelity Bond (FINRA Rule 3020). It will be the responsibility of the Financial/Operations principals to ensure such coverage is adequate and in compliance with applicable law and regulation. The CCO will, in cooperation with the Chief Financial Officer, review MFG's bond coverage annually (FINRA Rule 3020(c)).

IV. EARLY WARNING NOTIFICATION

If the firm's net capital declines below the minimum amount required pursuant to Rule 15c3-1, the firm shall give notice of the deficiency that same day. The notice shall specify the firm's net capital requirement and its current amount of net capital. If the firm is informed by its designated examining authority or the Commissin that it is, or has been, in violation of Rule 15c3-1 and the firm has not given notice of the capital deficiency, the firm will give notice of the deficiency.

1. The firm must send notice within 24 hours to the Commission and to the firm's DEA after one of the following events:
    - If the firm's aggregate indebtedness is in excess of 1,200 percent of its net capital under Rule 15c3-1; or

- If the firm's net capital is less than 5 percent of aggregate debt items computed in accordance with Rule 15c3-3a exhibit A: Formula for Determination Reserve Requirement of Brokers and Dealers under Rule 15c3-3; or
- If the firm's total net capital is less than 120 percent of the firm's required minimum net capital; or
- The occurrence of the fourth and each subsequent backtesting exception under Rule 15c3-1f(e)(1)(iv) during any 250 business day measurement period.

2. Whenever the firm discovers, or is notified by an independent public accountant, pursuant to Rule 17a-5(h)(2) or Rule 17a-12(2) of the existence of any material inadequacy as defined in Rule 17a-5(g) or Rule 17a-12(e)(2), the firm shall:
   - Give notice of the material inadequacy within 24 hours of such discovery or notification; and
   - Transmit a report within 48 hours of the notice stating what the firm has done or is doing to correct the situation.

I. RECORDS TO BE MAINTAINED

SEC Rules 17a-3 and 17a-4 under the 1934 Act identify certain books and records that must be prepared and retained by broker-dealers. These rules specify the time periods for which such books and records must be retained (generally ranging from three (3) to six (6) years). The FINOP is responsible for the maintenance of the firm's books and records, though the following persons are resposible for specific items: Branch Manager for branch records; AML Officer for Anti-Money Laundering issues; and the Human Resources Director for personnel records. In addition, FINRA rules impose other books and records preparation and retention requirements. Set forth below are the applicable periods for records retention.

The following records must be retained for at least six years, the first two years in an easily accessible place:

- Blotters or other records of original entry showing purchases/sales of securities, trade dates, receipts/deliveries of securities and cash, other debits/credits, accounts for which transactions were effected, customers' names and purchase/sales prices.
- Ledgers reflecting assets/liabilities, income, expense and capital accounts.
- Individual ledgers kept for each customer, showing each customer's purchases/sales, receipts/deliveries of securities and all other debits/credits to the account.
- Ledgers reflecting long/short positions carried by MFG.
- Records relating to Suspicious Activity Reports.

The following records must be retained for a period of at least three years, the first two years in an easily accessible place:

- Ledgers reflecting securities in transfer, dividends and interest received, securities and monies borrowed/loaned, failures to receive/deliver, long/short record differences and repurchase and reverse repurchase agreements.
- Memoranda containing information with respect to each order given/received for purchase/sale of securities, execution/cancellation of orders.
- Memoranda of each purchase/sale of securities showing the price and time of execution.

- Copies of all confirmations regarding purchases/sales of securities, including repurchase and reverse repurchase agreements and copies of all other debits and credits for securities, cash and other items.
- Records as to each cash and margin account maintained by MFG.
- Records of puts, calls, spreads, straddles and other options in which MFG has any direct or indirect interest or has granted or guaranteed.
- Records indicating proofs of money balances and aggregate indebtedness and net capital computations pursuant to Rule 15c3-1 of the 1934 Act.
- Checks, checkbooks, bank statements, bills receivable and payable.
- Originals of all mail and other communications received, and copies of all mail and other communications sent relating to MFG's securities business.
- All trial balances, computations of aggregate indebtedness and net capital (accompanied by working papers in connection therewith), branch office reconciliations (if applicable), financial statements, and internal audit working papers relating to MFG's securities business.
- All guarantees of accounts, powers of attorney and other evidence of the granting of any discretionary authority, and copies of resolutions empowering an agent to act on behalf of a corporation (if any).
- All written agreements entered into by MFG relating to its securities business, including agreements with respect to any account.
- Records that contain the information in support of amounts included in the FOCUS Reports.
- Records and reports relating to missing, lost, counterfeit or stolen securities.

Applications and questionnaires relating to any AP including basic personal information, employment history, information relating to provisions of Rule 252(c) and (d) of the 1933 Act and fingerprinting records must be retained at least three (3) years after termination of employment.

I. INTRODUCTION

Rule 15c3-3 of the 1934 Act sets forth requirements applicable to broker-dealers holding customer funds and securities. To comply with these requirements, MFG has established the following policies and procedures.

II. CASHIERING FUNCTIONS

The Treasury Department is responsible for fulfilling the following Beta related functions:

1. Receiving all customer funds.
2. Preparing the daily deposit into the appropriate MFG bank account(s).
3. Disbursing funds to customers from MFG bank account(s)

The Operations Department is responsible for fulfilling the following functions involving Phase 3 accounts.

1. Receiving all customer funds.
2. Preparing the daily deposit into the appropriate MFG bank account(s).
3. Disbursing funds to customers from MFG bank account(s).

III. SECURITIES RECEIPT FUNCTIONS

The Operations Department under the ultimate supervision of the Operations Manager is responsible for fulfilling the following functions:

1. Receiving all customer securities.
2. Reviewing all customer securities received in physical form to ensure that the certificates are in good delivery. If not in good delivery, certificates must be promptly returned to the delivering party.
3. Booking all customer securities received.

IV. SUPERVISION OF CASHIERING AND SECURITIES RECEIPT FUNCTIONS

The following functions are under the supervision of the following: FINOP, Treasury Department Supervisor, or Operations Department Supervisor who shall ensure that the following acts are performed:

1. On a daily basis, review the balance of net receipts and disbursements into and out of MFG bank account(s) with the appropriate back office system activity. The Treasury Department will review Beta activity and the Operations Department will review Phase 3 activity.

2. At a minimum on a monthly basis, the FINOP or appropriate delegate will review the MFG bank account reconciliation(s) and investigate all open items.

3. Review reports showing all securities booked into either MFG system. Each day's securities receipts must be reviewed by use of exception reports by delegates of the Operations Manager.

4. Review the work of all Treasury personnel to the extent necessary to ensure that such personnel complete transactions expeditiously and properly direct the flow of customer's funds and securities. This function will be reviewed by the Treasury Department Supervisor or approved delegate.

5. Regularly verify that all funds received are promptly deposited to the appropriate MFGSI bank account(s). The Treasury Department will review Beta system accounts and the Operations Department will review Phase 3 accounts.

All such reviews shall be evidenced by the reviewer or delegate by initialing and dating the relevant documents.

FINRA Rules 7400 through 7470 (the "7400 SERIES") require MFG to electronically capture specific information related to orders for any Nasdaq securities, including convertible bonds, SmallCap Securities and National Market Securities ("Nasdaq Securities"), record this information to the hour, minute and second, and electronically report this information to FINRA's Order Audit Trail System ("OATS"). OTC Bulletin Board, OTC Pink Sheets, mutual funds and listed securities may not be reported to OATS. In addition, MFG is required to synchronize its business clocks to a source designated by FINRA.

I. COMPLETING AND TRANSMITTING ORDERS

An order ticket, whether electronic or physical, must be completed for each order placed with MFG to buy or sell securities. An order ticket is required for each instruction from a customer to purchase or sell securities, whether the order is executed or not. Order tickets must be time stamped at the time the order is received and again when the order is executed or "filled." The order ticket must include all of the following information:

- Full security name or symbol
- CUSIP number (if applicable)
- Price, commissions, clearing fees, etc.
- In the case of orders for bonds or other debt securities, maturity dates and interest or coupon rates (in addition to price)
- Quantity
- Trade date
- Customer name and account number (if any)
- RR number or initials

Depending upon the security to which the order ticket relates and the type of transaction involved, certain additional information also may be required on the order ticket. Such information may include:

- Any specific execution instructions or conditions (if the order is not a market order);
- Whether the transaction was solicited or unsolicited, and in the case of sales, whether the transaction is a liquidation, long or short or short exempt;
- The availability of the certificates for delivery (i.e., the RR must determine in good faith that their customer owns the security to be sold, where the security is located, that the security is in good deliverable form and that it will be delivered by settlement date);
- Whether the transaction is the first transaction for a new account;

- The exchange on which the transaction will be effected (or OTC, if applicable); and
- For option trades, certain additional information (such as whether the transaction involves the opening or creation of a position or the closing of a position and whether the position is covered or uncovered).
- The tickets should be reviewed by the appropriate supervisor.

II. RECORDING OF ORDER INFORMATION

In addition to any other information which is required to be recorded pursuant to this Manual, MFG must record a variety of information, as required under the OATS Rules, whenever an order for a Nasdaq Security is originated, including the following:

- The identification symbol of the security to which the order applies;
- MFG's market participant symbol;
- The identification number of the department with MFG that originates the order;
- The identification of the Transmitting Firm (defined below) which reports to OATS on behalf of MFG;
- The number of shares to which the order applies;
- The designation of the order as a buy or sell order;
- The designation of the order as a short sale order;
- The designation of the order as a market order, limit order, stop order or stop limit order;
- Any limit or stop price prescribed in the order;
- The date on which the order expires, and, if the time in force is less than one day, the time when the order expires;
- The time limit during which the order is in force;
- Special handling requests;
- The date and time the order is originated;
- An identification of the order as related to a Program Trade[5] or an Index Arbitrage Trade[6]; and
- The type of account (i.e., proprietary, employee, etc.) for which the order is submitted.

5 FINRA Rule 7410 defines a Program Trade as a trading strategy involving the related purchase or sale of a group of 15 or more securities having a total market value of $1 million or more, as further defined in NYSE Rule 132B.

6 FINRA Rule 7410 defines an Index Arbitrage Trade as an arbitrage trading strategy involving the purchase or sale of a "basket" or group of securities in conjunction with the purchase or sale, or intended purchase or sale, of one or more cash-settled options or futures contracts on index stock groups, or options on any such futures contracts in an attempt to profit by the price difference, as further defined in NYSE Rule 132B.

III. ORDER TRANSMITTAL

In addition to the information specified below, MFG must record the following information for all orders for a Nasdaq Security that it either receives or executes:

- The identity of each Registered Person who receives the order directly from a customer;
- The identity of each Registered Person who executes the order; and
- If the order is originated by MFG and manually transmitted to a department within MFG, the identity of the originating department.

Internal. When MFG transmits an order in a Nasdaq Security to a department within MFG, it must record the following information:

- The order identifier assigned to the order by MFG;
- MFG's market participant symbol;
- The date the order was first originated or received by MFG;
- The name and nature of the department to which the order was transmitted;
- The date and time the department received the order;
- The number of shares to which the transmission applies.
- Any special handling requests.

Electronic (Non-ECN). When MFG transmits an order for a Nasdaq Security electronically to another FINRA member for execution (other than to an Electronic Communications Network (ECN)), MFG through its FINOP and his/her delegate must record, in addition to any other information which may be required to be recorded pursuant to this Manual, a variety of information, as required under the OATS Rules, including the following:

- The order identifier assigned to the order by MFG, and the routed order identifier, if different (which MFG also must provide to the other FINRA member);
- MFG's market participant symbol;
- The market participant symbol of the FINRA member to which the order was transmitted;
- The date the order was first originated or received by MFG;
- The date and time the order is transmitted to the other FINRA member; and
- The number of shares to which the transmission applies.

Electronic (ECN). When MFG electronically transmits an order for a Nasdaq Security for execution on an ECN, MFG must record, in addition to the information required above, the fact that the order was transmitted to an ECN.

Manual. When MFG manually (i.e., by telephone) transmits an order for a Nasdaq Security to another FINRA member or to an ECN, MFG must record, in addition to the information required above, the fact that the order was transmitted manually, and, if applicable, the bunched order route indicator assigned to the bunched order by MFG. The Desk Supervisor should monitor that the order was so noted.

Non-Member. When MFG transmits an order to a non-FINRA member, including to a national securities exchange, MFG must record, in addition to the information required above for an order transmitted electronically to another FINRA member, the fact that the order was transmitted to a non-member, the identity of the non-member, the order identifier required by the non-member receiving the order and, if applicable, the bunched order route indicator assigned to the bunched order by MFG.

IV. OTHER MODIFICATIONS AND CANCELLATIONS

When MFG modifies the terms of an order in a Nasdaq Security, it must record, in addition to the information that would apply if the modified order were originated at the time of the modification (including a new order identifier), the order identifier of the order prior to such modification, the date and time of such modification and the date the order first originated.

When MFG cancels an order for a Nasdaq Security, in whole or in part, it must record the order identifier of the order and MFG's name, the date the order was first originated, the date and time the cancellation was originated and the number of shares cancelled.

For any orders that MFG executes, in whole or in part, it must record the following information:

- The order identifier assigned to the order by MFG;
- MFG's market participant symbol;
- The date the order was first originated or received by MFG;
- MFG's number assigned for purposes of identifying transactions in the FINRA Market Center, ADF (as defined below), TRF (as defined below), or other system or service designated by FINRA (as applicable);
- Whether the order is fully or partially executed;
- If partially executed, the number of shares executed and the number of shares unexecuted;
- The date and time the order is executed;

- The execution price;
- The capacity in which MFG executed (e.g., agent, principal, riskless principal);
- The securities exchange or alternate facility to which the trade was reported.

V. SUPERVISORY REVIEWS OF OATS PROCEDURES

On a daily basis, the designated person, who reports to a Desk Supervisor shall review the OATS transmission from the previous day for any rejections or errors. This designated person shall have a login and password for the OATS site. If the designated person is unavailable, an alternate person in the Compliance Department shall have a login and password to conduct the review. The review shall consist of the following steps:

1. Go to https://oats.nasdr.com/
2. Click on firm (under "Entering OATS")
3. Change the "Begin Date" to the previous day's date
4. Click on "FORE Status Notification"
5. Print
6. Click "Back"
7. Click on "Firm Reporting Statistics"
8. Print
9. Click "Back"
10. Go to ROE Rejections by FORE
11. Select the previous day's date
12. If any events exist, click on Firm Fore ID
13. Click on "Rejection Reason"
14. Click on "Event Type"
15. Print
16. Change the fields which are highlighted in red
17. Click on "Repair"
18. Repeat steps 12 –17 if necessary
19. Once all Rejected ROES are repaired, they must be resent.
20. Print page showing all Repaired ROES.
21. Click on "Send" for each Repaired ROE to be resent.
22. Click on "Submit All Checked Values."
23. Initial and date all print-outs to document review
24. File all print-outs in OATS folder.

In addition to the foregoing procedures, on a annual basis the designated person shall review the OATS reporting system of the third party reporting agent used by MFG, to verify that the system's codes, designations and indicators are set properly and to verify the system's and MFG's compliance with applicable OATS reporting rules and procedures, and also shall review all default fields and codes to confirm the accuracy of the OATS data that MFG has transmitted. The designated person shall document the findings of such review in a signed or initialed memorandum addressed to the CCO. The designated person also shall maintain a copy of the memorandum in the OATS folder.

VI. SYNCHRONIZATION PROCEDURES

MFG, through its Technology Department has synchronized its business clocks that are used for purposes of recording the date and time of any event that MFG is required to record, with reference to a source within three seconds of the National Institute of Standards and Technology standard (the "NIST"), as designated by FINRA. MFG also is required to maintain the synchronization of such business clocks to the NIST. In this regard, business clocks are re-synchronized, if necessary, at pre-determined intervals throughout the day (i.e., 6:00 a.m., 12:00 noon and 6:00 p.m Central Time.). Firm personnel must use only MFG's business clocks to record the time of any security transaction required to be recorded or reported to FINRA, and the time recorded must be expressed in terms of hours, minutes and seconds.

Additionally, MFG will print and maintain daily a log of the times when MFG's business clocks are synchronized and the results of the synchronization process, including notice of any time a clock drifts more than three seconds. In this regard, the designated person supervised by the FINOP shall review and initial this log on a daily basis as evidence of the review.

VII. RECORDKEEPING REQUIREMENTS

The FINOP or his/her delegate shall maintain and preserve records of the information required to be recorded under the OATS Rules, either in paper, micrographic media or electronic storage media format, for a period of at least three years, the first two years in an easily accessible place.

I. GENERAL

FINRA Rules 6700 through 6760 (the "TRACE Rules") require the firm to report its secondary market transactions in certain fixed income securities to FINRA's Trade Reporting and Compliance Engine (the "TRACE System"). The firm is required to report to the TRACE System all secondary market transactions in TRACE-Eligible Securities (as defined in FINRA Rule 6710), except transactions:

- That are part of a primary distribution by an issuer;
- In securities that are listed on a national securities exchange, when such transactions are executed on, and reported to, such exchange and the transaction information is disseminated publicly;
- In convertible debt securities that are Nasdaq Securities, when such transactions are reported to FINRA and the transaction information is disseminated publicly; or
- Where the parties have agreed to trade at a price substantially unrelated to the current market for the TRACE-Eligible Security (e.g., to allow the seller to make a gift).

In addition to reporting its own transactions in TRACE-Eligible Securities, the firm also will report transactions executed by the firm for the benefit of customers of certain unaffiliated broker-dealers. The firm will not report transactions for such unaffiliated broker-dealers and their customers if such transactions were executed away from the firm or at other broker-dealers.

II. TRACE WEB REPORTING SYSTEM

The firm reports transactions to the TRACE System through FINRA's web-based TRACE reporting application ("TRACE Web Reporting System"). The firm has entered into a TRACE Participation Agreement with FINRA, including the TRACE Web Access Addendum, and has designated certain firm employees "TRACE Principal (and delegates)" as authorized users of the TRACE Web Reporting System and has designated a firm employee as the firm's "Security Administrator" of the TRACE Web Reporting System. The firm has entered into agreements with outside vendors to report transactions to TRACE.

III. REPORTING TRANSACTIONS TO THE TRACE SYSTEM

Each transaction in a TRACE-Eligible Security executed by the firm that is required to be reported must be reported to the TRACE System by a firm authorized user through the TRACE Web Reporting System within fifteen (15)

minutes of the time of execution, except as provided below. Time of execution for a transaction in a TRACE-Eligible Security means the time when the parties to the transaction agree to all of the terms of the transaction that are sufficient to calculate the dollar price of the trade.

A. Booking and Reporting TRACE-Eligible Corporate Bonds:

1. Once the trader executes a trace-eligible bond trade, there is an automatic submission to TRACE via the Bloomberg Toms system within the 15 minute timeframe.
2. If the situation arises, where the security cusip is not set-up in the front office/back office system, trader will contact middle office to set-up the security cusip.
3. Once the trade is submitted to TRACE, the Middle Office will check on Trace's Real Time Trade Monitoring ("RTTM") whether the trade is allotted a TRACE control number.
4. The Middle Office will check the TRACE platform every thirty minutes to verify any rejects, bad submissions or any additional reporting needs and will alert the trader.

B. Cancel/Correction of TRACE Submission:

1. On the trade date, concel and connects are handled by the trader.
2. When a modification on a trade submission to TRACE is needed, trader will submit a written explanation to the Middle Office and state the reason for the correction or cancellation of the trade on T+1.
3. Middle Office will make the appropriate correction in Bloomberg Toms.

C. End Of Day Reconciliation of TRACE:

1. The Middle Office will print out a screen capture of the RTTM screen.
2. The Middle Office will verify that the all trades with TRACE control numbers on RTTM are also on TRACE's Trade Report.
3. The Middle Office will verify that all trades that were cancelled are also cancelled on TRACE's Trade Report.
4. The Middle Office will verify that MF Global does not have any trade errors on TRACE's Alert Report.
5. The Middle Office will alert the trader of any alerts or errors. The Middle office will also book the necessary modifications needed on TRACE's Alert Report.
6. The Middle Office will utilize an individual to prepare and another individual to review the end of day printouts and to file the reports.

IV. INFORMATION SUBMITTED TO THE TRACE SYSTEM

The firm must include the following information with respect to each TRACE-Eligible Securities transaction reported:

A. CUSIP number or FINRA symbol.

B. The actual number of bonds traded, with $1,000 par value equal to 1 bond. If a bond has a par value of less than $1,000 or the par value is not an even multiple of $1,000, the fractional portion of $1,000 shall be reported in decimals.

C. The price of the transaction. For principal transactions, price must include the mark-up or mark-down. For agency transactions, the price must include the commission. The commission also must be reported in points per bond, with 1 point equal to $10.00 per bond. For either a principal or an agency transaction, if the price field is unavailable, the contract amount and the amount of accrued interest must be reported.

D. A symbol indicating whether the transaction is a buy or a sell.

E. The date of execution, with respect to as/of trades only.

F. The contra-party's identifier.

G. The capacity in which the firm acted, i.e., principal or agent. With respect to an in-house cross transaction, the firm must report two transactions, the purchase transaction and the sale transaction.

H. The time of trade execution.

I. The reporting side executing broker as "give-up" (if any).

J. The contra side introducing broker in case of "give-up" trade.

K. The stated commission.

L. Such trade modifiers as required by either the TRACE rules or the TRACE users guide.

M. The lower of yield to call or yield to maturity.

V. MODIFIERS

Special Price Modifier. If a transaction is not executed at a price that reflects the current market price, the modifier "special price" modifier must be selected. If the TRACE Web Reporting System provides a "special price memo" field, the firm must state why the transaction was executed at other than the current market price in such field.

Settlement Modifier. If a transaction is to be settled other than regular way, the firm must report the settlement terms by selecting the appropriate modifier. If the parties agree to settlement on the same day the transaction is executed (i.e., cash settlement), ".c" must be entered as the modifier. If the trade will be settled on the next day, ".nd" must be entered as the modifier. If a trade will be settled other than on the trade date, the next day, or T+3, ".sNN," must be entered as the modifier with the appropriate number of days (e.g., for a trade settled in five (5) business days, the modifier ".s05" must be used).

Weighted Average Price Modifier. If the price of the transaction is determined using a weighted average price method, ".w" must be used as the modifier. If one of the settlement modifiers and the weighted average price modifier apply to the same transaction, ".w" must be entered as the modifier and the applicable settlement modifier shall not be included.

The TRACE Principal shall maintain records of daily filings and contact Compliance when there is an issue.

I. GENERAL

Each FINRA Trade Reporting Facility ("TRF") provides FINRA members with a mechanism for the reporting of transactions effected otherwise than on an exchange. Trades in exchange-listed securities executed otherwise than on an exchange may be reported to a FINRA TRF. FINRA TRFs provide systems that (1) compare trade information entered by participants; (2) report transactions to the tape within the ninety (90) seconds as required by FINRA rules; and (3) submit "locked-in" trades to the National Securities Clearing Corporation ("NSCC") for clearance and settlement. All transactions in listed securities traded in the OTC market, as well as all OTC equity securities that are cleared through the NSCC, must be reported to a TRF, including executions of less than one round lot (if such trades are to be compared and locked-in).

The rules governing each TRF provide that a FINRA member may agree to allow a TRF participant to report and lock-in trades on its behalf if both parties have completed an agreement to that effect (a "give up agreement") in a form specified by FINRA (i.e., the Uniform Trade Reporting Facility Service Bureau/Executing Broker Agreement). A give up agreement also is required to establish an "on behalf of" reporting relationship on FINRA's Alternative Display Facility ("ADF") and the OTC Reporting Facility ("ORF"). Currently, the firm has in place relationships with other TRF participants to report and lock-in trades on its behalf through FINRA TRF.

The RPs will confirm that transactions are being properly reported in accordance with the review procedures described below.

II. REPORTING TRADES TO FINRA TRF SYSTEMS

Trade reports must be submitted to a FINRA TRF within ninety (90) seconds of execution. There are four ways trade information may be submitted:

Trade by Trade Match: Both parties to the transaction enter trade information and FINRA TRF performs the on-line match.

Trade Acceptance: The party required to report the trade enters the trade information within ninety (90) seconds and the contra-party reviews the report using the "Browse" function and must accept or decline the trade within twenty (20) minutes. An accepted trade is locked-in while declined trades are purged from the system at the end of trade date processing.

Aggregate volume match: The system performs a batch-type comparison at the end of the trade date, matching any previously uncompared trades.

T+1 processing: At the end of T+1 matching, all trade reports remaining open from the previous day (neither accepted nor declined by the contra-party) are treated as locked-in.

III. PARTIES REQUIRED TO REPORT TRADES TO A FINRA TRF

Participants are required to report trades in accordance with the following provisions:

1. For transactions between a market maker and an "Order Entry Firm" (i.e., a non-market making FINRA member), the market maker must report the trade. The Order Entry Firm must confirm or deny the trade.
2. For transactions between two (2) market makers, the seller must report to FINRA TRF. The buyer must confirm or deny the trade.
3. For transactions between two (2) Order Entry Firms, the seller must report the trade. The buyer must confirm or deny the trade.
4. For transactions between a FINRA member and a customer, the member must report.

IV. INFORMATION REQUIRED TO BE SUBMITTED

The following information is required to be submitted to a FINRA TRF in connection with each transaction:

1. Security identification symbol ("SECID");
2. Number of shares;
3. Unit price, excluding mark-up/mark-down or commission;
4. Time of execution;
5. Symbol indicating whether the party submitting the report is a market maker or an Order Entry Firm;
6. Symbol indicating whether the trade is a buy, sell or cross;
7. Symbol indicating whether the trade is done as principal, riskless principal or agent;
8. The identity of the contra-party; and
9. Any clearing broker, executing broker as "give up," or any contra-side introducing broker in the case of a "give up" trade;

10. For any transaction in an order for which the firm has recording and reporting obligations under FINRA OATS Rules, the trade report must include:
    - An identifier assigned to the order, meeting FINRA-prescribed parameters, that uniquely identifies the order for the date it was received; and
    - The time of the execution, in hours, minutes, and seconds, regardless of whether reported within ninety (90) seconds.

Order Tickets

Separate order tickets containing the required information described in this Section must be prepared for each transaction and must be properly time stamped at the time of entry and execution for each transaction.

Time of Execution

The time of execution for a transaction executed otherwise than on an exchange (and which the firm has the responsibility to trade report) shall be deemed to be when final agreement is reached on the stock, price, and size of the trade. Documentation must be generated simultaneously with the time of execution and not be subject to retrospective alteration. Upon execution of an order, the time of execution shall be documented as follows. If the trader is using a paper ticket, the trader will manually time stamp the current time on a paper order ticket. All order tickets are numbered and the trader will note any order tickets that are out of sequence and the reason why. If the trader is using an electronic ticket, the trader will promptly input order information into the firm's automated order ticket system (which maintains a record of all inputs). Proper documentation of the time of execution is critical for purposes of demonstrating compliance with the SEC's Order Protection Rule (i.e., showing that the execution price does not trade through any protected quotations with a prices superior to the trade price).

V. LATE TRADES

If a trade is reported beyond the ninety (90) second parameter it must be reported as a late trade by the inclusion of the code ".SLD".

Please note that a pattern of ".SLD" reports can be considered a violation of just and equitable principles of trade, and subject the firm to disciplinary action by FINRA.

Transactions that are reported on a timely basis but relate to an obligation to trade that arose earlier in the trading day or that refer to a prior reference price are *not* considered to be late trades, but late executions, and must be reported as ".PRP." This modifier applies to transactions in OTC Bulletin Board Securities, but does *not* apply to exchange-listed securities traded in the Third Market.

VI. REGULATION NMS ISSUES

FINRA TRFs are venues for over-the-counter trade reporting only and are neither trading centers nor SRO trading facilities, as defined by SEC Regulation NMS. Accordingly, they will never be the target or transmitter of any electronic notifications indicating the invocation of the self-help exception to the SEC Regulation NMS Order Protection Rule. Therefore, SRO trading facilities and other trading centers should direct self-help notifications to trading centers utilizing FINRA TRFs and "cc" FINRA. Trading centers utilizing FINRA TRFs should "cc" FINRA on any self-help notifications directed to any SRO trading facilities or other trading centers.

Currently, the firm routes all orders it receives in NMS stocks (as defined in SEC Rule 600(b)(46)) to another broker-dealer for execution and, therefore, does not have Regulation NMS obligations with respect to the execution of such orders. However, with the adoption of Regulation NMS, additional trade reporting fields have been added including: (1) a field to address the SEC Rule 611 Exception/Exemption Trade-Through Flag; and (2) a field to indicate the specific SEC Rule 611 exception or exemption applicable to any particular transaction. In most cases the firm's trading systems will determine the trade reporting default values, however, firm personnel need to be aware of the new modifiers in the event a trade is manually reported and to ensure the systems are working properly. There is a Regulation NMS Trade Reporting Modifier Chart that provides detailed information on current trade reporting modifier formats post-Regulation NMS.

VII. REPORTING AFTER HOURS TRADES

Trades executed between 8:00 and 9:30 a.m. (EST) must be designated ".T" and reported within ninety (90) seconds. The time of execution must be included if the trade is not reported within ninety (90) seconds. Any such transactions not reported before 9:30 a.m. shall be reported after 4 p.m. and before 8:00 p.m.

Trades executed between 4:00 and 8:00 p.m. (EST) must be designated ".T" and reported within ninety (90) seconds. The time of execution must be included if the trade is not reported within ninety (90) seconds. Any such transactions not reported before 8:00 p.m. shall be reported on an "as/of" basis the following day between 8:00 a.m. and 8:00 p.m.

Trades executed between 8:00 p.m. and midnight (EST) shall be reported on the next business day (T+1) between 8:00 a.m. and 8:00 p.m. and be designated "as/of" trades. All such trade reports must include the time of execution.

Trades executed between midnight and 8:00 a.m. (EST) must be reported between 8:00 a.m. and 9:30 a.m. (EST) of the same day and designated ".T". Any such transactions not reported before 9:30 a.m. shall be reported after 4 p.m. and before 8:00 p.m. All such trade reports must include the time of execution.

Paper Form T should be used only in the event electronic reporting in accordance with the above rules is not available (e.g. systems failure, the ticker symbol for the security is no longer available or a market participant identifier is no longer active). Any transactions reported on Form T must be reported as soon as practicable.

VIII. "RISKLESS PRINCIPAL" TRANSACTIONS

FINRA permits firms to report "riskless" principal transactions in one of two ways: either as a single trade report, or with two (2) separate reports (first if the firm is the party with the trade reporting obligation, as discussed above, and second to report the offsetting, riskless portion of the transaction with the customer). This report will be either a non-tape, non-clearing report (if the firm is not obligated to submit clearing information) or a clearing only report. In either case, the trade report must be marked as a "riskless principal" transaction. Because this is not a last sale report, it is not required to be submitted within ninety (90) seconds after the transaction is executed, but should be submitted as soon as practicable thereafter, but in no event later than 8:00 p.m. (EST).

In a riskless principal transaction where a firm purchases or sells a security on an exchange to satisfy a customer's order, the order will be reported by the exchange. A firm may, however, submit to a FINRA TRF a clearing only report or a non-tape, non-clearing report for the "riskless" leg of a riskless principal transaction where the initial leg has been reported on or through an exchange.

IX. AGGREGATION OF ORDERS (BUNCHING)

FINRA TRF rules prohibit the aggregation of transactions. This prohibition only applies to the aggregation of separate, multiple executions, for transaction reporting purposes, into a single transaction report submitted to the a FINRA TRF. The prohibition does not apply to the matching of multiple buy and sell orders in a single execution (e.g., through the facilties of an alternative trading system) or to transactions that are designated as .W (i.e., exchange-for physicals, volume-weighted average-price trades or another special pricing formula). Thus, the firm may report a cross as one transaction.

X. OTHER TRADE MODIFIERS

The following additional trade modifiers may apply from time to time:

1. ".C": Cash Trade is to be used for cash transactions reported within ninety (90) seconds.
2. ".ND": Next Day is to be used for next day settlement transactions reported within ninety (90) seconds.
3. ".S##": Extended is to be used for extended settlement transactions. Add ".S" and the number of business days in which the trade will settle (e.g., ".S08" for eight (8) business days settlement, ".Sl2" for twelve (12) business days settlement).
4. ".PRP": Prior Reference Price modifier to be used to identify trnasactions executed at a price different from the current market price when the price is based on a prior reference point in time and is not reported within ninety (90) seconds of that prior reference point.
5. ".W": Weighted Average Price modifier to be used for exchange-for physicals, volume-weighted average-proce trades or other special pricing formulas.
6. ".RA": Away From the Market Sales modifier to be used for reports of transactions where the buyer and seller have agreed to trade at at price substantially unrelated to the current market for the security – may be entered as clearing or non-clearing.
7. ".RX": Exercises of OTC Options modifier to be used for reports fo transactions effected pursuant to the exercise of an OTC option – may be entered as clearing or non-clearing.

XI. SUPERVISORY REVIEWS

The New York Equity Department ("NYED") and the Chicago Equity Department ("CED") will be responsible for conducting the following reviews related to the firm's trade reporting practices:

1. Daily NYED Desk Reviews. A designated RP or their designee will conduct the following reviews on a daily basis:
    a. Review the Nasdaq workstation or WebAct using the "scan" function every twenty minutes each trading day for the purpose of identifying any unmatched trades.

b. Review the Nasdaq workstation or WebAct using the "scan" function on a daily basis for the purpose of reviewing the previous day's locked in trades for the firm's MPID and, in the discretion of the desginated RP, the MPIDs of the firm's correspondents.

c. Review all trade reporting activity associated with the firm's MPID and, in the discretion of the designated RP, with MPIDs associated with the firm's correspondents. These reviews will be for the purpose of ensuring general trade reporting compliance and will include, for example, a review to detect apparent patterns or practices of late trade reporting or incorrect use of trade modifiers.

d. Review a random sample of transactions effected in connection with QSR relationships the firm has in place with other firms to ensure such counteparties are appropriately "locked in" on daily basis.

If any exceptions are noted during the course of the reviews described above, the exceptions will be brought to the attention of the RP designated responsibility for the firm's trade reporting (the "ACT Principal"), who will notify the Compliance Department and will be responsible for taking appropriate follow-up action. The results of each such review will be documented by initialing and dating a copy of the documents reviewed.

2. Daily CED Desk Reviews. A designated RP or their designee will conduct the following reviews on a daily basis:

a. Review the Nasdaq workstation or WebAct using the "scan" function perioidically throughout each trading day for the purpose of identifying any unmatched trades.

b. The designated RP will review a random sample of transactions on a weekly basis to ensure such transactions are properly reported to the "tape" as required by applicable rules.

If any exceptions are noted, the exceptions will be brought to the attention of the ACT RP who will notify the Compliance Department and will be responsible for taking appropriate follow-up action. The results of each such review described above will be documented by initialing and dating a copy of the documents reviewed.

In addition, the Compliance Department will conduct the following reviews related to the firm's trade reporting practices:

3. Compliance Reviews for Unmatched Trades. Staff in the Compliance Department will be responsible for utilizing the "scan" function on the Nasdaq workstation or WebAct to review for unmatched trades (T + 1) on a

daily basis. This review will include activity associated with the firm's MPID and may also include, in the discretion of the ACT RP, the MPIDs of correspondent firms. If any exceptions are noted, the exceptions will be brought to the attention of the ACT RP who will be responsible for taking appropriate follow-up action. The results of all such daily reviews will be documented by initialing and dating a copy of the documents reviewed.

4. Compliance Reviews for Trade Reporting Accuracy. Staff in the Compliance Department will be responsible for reviewing, on a weekly basis, a random sample of transactions that have been printed to the tape by the firm. Staff will compare the tape reports with the firm's internal trade blotters for the purpose of ensuring the firm has made accurate public trade reports. If any exceptions are noted, the exceptions will be brought to the attention of the ACT RP who will be responsible for taking appropriate follow-up action. The results of all such daily reviews will be documented by initialing and dating a copy of the documents reviewed.

I. SHORT SALES

The Securities and Exchange Commission ("SEC") Rule 204, Regulation SHO, sets forth short sale rules and regulations. The Rule details firm delivery and close-out requirements for sales of equity securities.

In general, in the case of every sale of an exchange-traded security, the firm must:

- Ascertain whether the sale is long or short for purposes of SEC rules;
- Comply with the SEC's "locate" rules regarding these sales; and
- Document compliance with the above and, if an exception is available, maintain a record of the exception relied on.

Additional guidance and FAQs on Reg SHO are found on the SEC website.

Further, as a participant of the National Securities Clearing Corporation ("NSCC"), the firm is required to close out all fails to deliver by purchasing or borrowing securities of like kind and quantity within required timeframes.

A. Short Sales Defined

A short sale is any sale of a security which

- The seller does not own, or
- Is consummated by the delivery of a security borrowed by, or for the account of, the seller.

A person is deemed to own a security if the person:

- Has title to it (or the person's agent has title to it);
- Has purchased it or entered into a binding contract to purchase it, but has not yet received it;
- Owns a security convertible into or exchangeable for it and has tendered such security for conversion or exchange;
- Has an option to buy it and has exercised the option;
- Has rights or warrants to subscribe to it and has exercised them, or;
- Has a security futures contract to purchase it and has received notice that the position will be physically settled and the person is irrevocably bound to receive it.

Sellers with multiple accounts must net all of their positions in the security being sold to determine whether the sale is long or short. If the position is net short or flat, the sale is a short sale.

B. Marking Sale Order Tickets

All equity sell orders must be marked "long" or "short." If a sell order is not marked correctly it should be rejected.

A sale may be marked "long" if the seller owns the security (see above) and the broker-dealer has physical possession or control of the security, or reasonably expects to by settlement.

If a customer owns the security but does not reasonably believe it will be in the possession or control of the broker-dealer before settlement, the sale must be marked "short."

C. Affirmative Determination Rule

The firm may not accept a short sale order in an equity security, or effect a short sale for its own account, unless it:

- Borrows or enters into an arrangement to borrow the security for delivery by settlement date; or
- Has reasonable grounds to believe that the security can be borrowed so that it can be delivered on the date delivery is due.

Among other things:

- The locate must be made even if the short position will be closed on the same day.
- A broker-dealer may use an "Easy-to-Borrow" list, provided the information used to generate the list is less than 24 hours old and any "threshold securities" (discussed below) are not included on such list.
- A broker-dealer may show "reasonable grounds" by obtaining assurance from a customer that the customer can obtain the securities from another identified source in time to settle the trade (unless a customer's prior assurances have resulted in fails).

All affirmative determinations must be documented. Where the firm relies on a customer's assurance to satisfy this requirement, the source of the securities and the name of the individual at the customer providing such information must also be documented.

Exceptions

A broker-dealer executing a short sale is not subject to the affirmative determination rule in certain circumstances including when it:

1. Receives the order from a registered broker-dealer that is required to comply with the rule (unless it has contractually agreed to make the affirmative determination, or knows that the broker-dealer sending the order did not make an affirmative determination); or
2. Is a market-maker and is executing the sale in connection with bona fide market making activities.

D. Rules Regarding Mandatory Close-Outs for Fails to Deliver

Equity securities are subject to a mandatory "Hard T + 3" close out requirement. The firm is obligated to settle sales of equity securities that clear through a registered clearing agency by delivering shares by the close of business on settlement date (that is, T + 3). If the firm has a fail to deliver, such fail must be closed by purchasing or borrowing securities of like kind and quantity in a timely manner. The close-out purchases or borrow must occur no later than the beginning of trading on the day after settlement date (that is, T + 4). If the firm can demonstrate that any fail was the result of a long sale, the firm will have until the beginning of trading on the third day after the settlement date (that is, T + 6) to make close out purchases or borrows.

The firm may rely on its net delivery obligation as reflected in its notification from NSCC regarding its securities delivery and payment obligations in determining its close-out obligations, provided that such notification is received prior to the beginning of regular trading hours on the T + 4 close-out date.

The Pre-Borrow "Penalty" Box

If, for any reason, a fail to deliver is not closed out in a timely manner, the firm would be required to borrow the security or enter into bona fide arrangements to borrow the security before effecting any subsequent short sales in such security for any customer (that is, enter the pre-borrow "penalty box"). In such circumstances, the firm would be subject to the pre-borrow "penalty" until it makes a covering purchase of securities and the transaction clears and settles. When the firm has a fail that has not been closed out in a timely manner, it will be required to provide notice to all of its correspondent firms that it is subject to the pre-borrow penalty.

As well, the firm is required to provide notice to correspondents when it subsequently makes a covering purchase that has cleared and settled (thereby removing the firm from the pre-borrow penalty box).
The new rules include a number of exceptions from the general Hard T + 3 close out and pre-borrow penalty box requirements.

Allocating Fails to a Correspondent and No Fail Certification by a Correspondent

If the firm is able to identify the particular correspondent firm to which the fail to deliver is attributable, then it may "allocate" the close-out obligation for such fail to that correspondent.. This allocation would mean that the firm would be entitled to limit the pre-borrow penalty box to the particular correspondent firm. The decision to make such an allocation must be reasonable under the circumstances and the firm must have sufficient documentation to substantiate the allocation decision.

Further, a correspondent firm that would otherwise be subject to the pre-borrow penalty because the firm generally becomes subject to the pre-borrow penalty box can avoid the borrowing penalty if it provides the firm with a timely certification that it has not incurred a fail to deliver position in the security on the settlement date or, alternatively, has established that it qualifies for sufficient "pre-fail credit," as discussed below.

Pre-Fail Credit Exception

The SEC's close-out rules include exceptions from the close-out and penalty box provisions in circumstances where a broker-dealer can establish "pre-fail credit" for purchases made before the end of trading on T + 3 that effectively close out open short positions. To qualify for "pre fail credit," a broker-dealer must make a purchase of securities before the start of regular trading hours on T + 4 to close out an open short position that meets the following conditions:

- The purchase is bona fide;
- The purchase is executed on or after trade date, but no later than the end of regular trading hours on settlement date;
- The purchase covers the entire amount of the open short position; and
- The firm must be able to demonstrate through its books and records that it has a net long or net flat position on the settlement day for which it is seeking to show that it has purchased shares to close out its open short position.

Market Maker Exception

There is an exception in the Hard T + 3 close out rules that apply to firms that are registered market makers, options market makers or other market makers obligated to quote in the over-the-counter market (collectively, "Market Makers"). The exception does not apply to block positioners. Under the exception, the firm is not required to close-out fails attributed to Market Makers in connection with their the bona fide market making activities until the beginning of regular trading on the morning of the T + 6. Further, a Market Maker correspondent firm may be excepted from the pre-borrow penalty provisions provided that such Market Maker can demonstrate to the firm that it does not have an open fail to deliver position at the time of any additional short sales.

Exception for Rule 144 Securities

There is an extended timeframe before the pre-borrow penalty box is applied for fails in Rule 144 securities. Fail to deliver positions resulting from sales in Rule 144 securities must be closed out before the beginning of the 36th consecutive settlement day following the original settlement date.

E. Federal Reserve Regulations

Regulation T permits the firm to arrange to borrow securities from another business entity for the purpose of making delivery of the securities in the case of short sales, failure to receive securities required to be delivered, or other similar situations—but not otherwise. This purpose requirement has been interpreted as permitting the firm to borrow securities to meet a delivery requirement in connection with a specific transaction that has already occurred or a transaction that is in immediate prospect. Thus, if the firm reasonably anticipates that it will effect a short sale, it may borrow the securities necessary to make delivery on the short sale up to (three) 3 business days in advance of the trade date. If the firm does not have a reasonable basis to believe that the trade will be executed, or if the (three-) 3-day period expires and the trade is not executed, the firm must return the securities.

F. Supervisory Procedures Regarding Short Sale Compliance

The firm's systems have been designed to include a number of automated features to assist compliance with the requirements of Regulation SHO. For example, the system has been designed to reject an order that is sent to the firm if the order does not have a valid "locate" attached to it. A "locate" source will be considered to be valid for any particular symbol if the symbol is on the then-current "Easy-to-Borrow" list that the firm has loaded into the system at the time the firm receives the order.

The Designated Supervisor will conduct the following reviews related to the firm's short sale practices:

1. A daily review of short sale transactions effected by the firm to ensure that a valid "locate" source was included with the order when it was received by the firm. Evidence of the review should be maintained and available for review.
2. A daily review showing short sale transactions effected by the firm that resulted in a fail to deliver to ensure that a valid "locate" source was obtained by the firm when the order was accepted. Evidence of the review should be maintained and available for review.
3. A weekly review of a random sample of instances where clients obtained "locates" for short sale transactions "away" from the firm to ensure appropriate sources were included for short sale orders received by the firm. Compliance should be notified of all such instances. Evidence of the review should be maintained and available for review.
4. A daily review of the firm's net delivery obligation as reflected in the notification it receives from NSCC regarding its securities delivery and payment obligations to determine whether the firm is required to buy-in any securities and, if so, whether it did so in a timely manner. Evidence of the review should be maintained and available for review.
5. A daily review of any instances where the firm has a fail to deliver position that has persisted past the timeframes discussed above for mandatory close-outs (that is, the firm has not closed out a fail by the beginning on T+4) to make sure the firm has, when appropriate, properly allocated such fail to a broker-dealer correspondent firm or, when applicable, has restricted lending in such securities (that is, has effectively entered the "penalty box"). Evidence of the review should be maintained and available for review.

6. A review of the short interest reports submitted by the firm, compared against the firm's records, to ensure that the reports were prepared in an accurate manner and were filed on a timely basis. After filing, the Designated Supervisor should contact Compliance indicating that the filing has been submitted to FINRA. Evidence of the review should be maintained and available for review.

In the event any exceptions are noted during the course of one of the reviews listed above, the reviewer shall bring the exception to the attention of the CCO who will determine what, if any, appropriate follow-up action should be taken. Such follow-up action shall include, in appropriate circumstances, termination of client access.

The results of each review described above should be reflected in a signed and dated written record which will be maintained in a separate file.

G. Short Interest Reporting Procedures Performed by the Middle Office

The Middle Office will print out the short interest position report for the two back office systems: Phase3 and Beta.

Phase3:

1. Identify custody accounts that have short positions and then;
2. Go to the position page of the individual account to review for any offsetting securities, which are long in the same account.
3. If found, then those items will not be included in the short interest filing.

Beta:

1. Stock record will be reviewed by the Middle Office.

After performing the above functions, all reports will have been verified and then initialed by the Middle Office and then brought to the attention of the Head of Operations, who will then evidence his review.

NOTE: All records will be stored in the Middle Office and be available upon request.

Compliance will conduct a quarterly audit, and then review any open issues with the Head of Operations.

I. GENERAL

The NYSE ARCA has rules, which restrict the use of odd lot orders (any order consisting of 99 shares or less). NYSE ARCA prohibits certain types of odd lot orders that are deemed by the Exchange to affect market flow. These prohibitions include:

- Combining odd lot orders given by different customers into a round lot order.
- Unbinding round lots for the purpose of entering odd lot limit orders.
- Failing to aggregate odd lot orders when such orders are for the same customer.
- Entering both buy and sell odd lot limit orders in the same stock before one of the orders is executed.

II. PROCEDURES

On a daily basis the procedures described below will be utilized to monitor odd lot activity on NYSE ARCA:

- The Branch Manager reviews the TAG Odd-Lot Report, evidencing his daily review on the monthly supervisory checklist, and will research any abnormalities that have occurred. The Report reflects trades on T+1 activity.
- The Compliance Department reviews the TAG Odd-Lot Report and will review any abnormalities with the Branch Manager. Both the Branch Manager and the Compliance Officer will initial and date the Report. Evidence of the review should be maintained and available for review.
- Any items that will require additional research will be brought to the attention of the trader.

The reviews will encompass the following areas:

- Orders at the open and at the close
- Algorithmic trading patterns
- Pairs strategies
- Large amount of cancel and corrected trades

In accordance with SEC Rule 606, the firm is required to make publicly available to its customers information concerning the firm's order routing practices. Within one month after the end of each calendar quarter the firm will post on its web site the information required in SEC Rule 606. The Rule requires the firm to provide a quantitative description of its order routing. The report should be divided into four sections:

1. Securities listed on the New York Stock Exchange
2. Securities listed on the Nasdaq Stock Market;
3. Securities listed on the AMEX and all other exchanges;
4. NMS securities that are option contracts.

For each section, the report should include

- The percentage of cusomer orders that were non-directed and the percentage of non-directed orders that were market orders, limit orders, or other orders;
- The ten (10) venues to which the largest number of non-directed orders for the category were routed for execution, as well as any venue to which five percent (5%) or more of non-directed orders were routed.

In addition, the firm is required to discuss the material aspects of its relationship with each venue identified in each category of the report, including a description of any payment for order flow arrangement or profit-sharing relationship relating to the type of securities discussed.

The CCO or his/her delegate is responsible for the Rule 606 report.

The firm, upon the request of a customer, is required to disclose to the customer the identity of the venue to which the customer's orders were routed for execution in the six (6) months prior to the request, whether the orders were directed orders or non-directed orders, and the time of execution, if any, that resulted from the orders. To alert customers to the availability of individual order routing information, the Rule also requires the firm to notify customers at least annually of their option to request this information. The FINOP or delegate is reponsible for these communications.

DUTY OF BEST EXECUTION

The SEC and FINRA have defined certain order-handling practices that must be performed to satisfy the duty of best execution. In general, this requires the firm to seek the most advantageous terms reasonably available under the circumstances for all customer orders. A broker-dealer must carry out a regular and rigorous review of the quality of market centers to evaluate its best execution policies, including the determination as to which markets it routes customer order flow.

Execution price and speed of execution are not the sole relevant factors in obtaining best execution of investor orders. Other factors may be relevant, such as (1) the size of the order, (2) the trading characteristics of the security involved, (3) the availability of accurate information affecting choices as to the most favorable market center for execution and the availability of technological aids to process such information, and (4) the cost and difficulty associated with achieving an execution in a particular market center.

In connection with satisfying MFG's best execution obligations, the firm has formed a "Best Execution Committee" composed of the Head of Securities (NY), Head of Equities (Chicago) and the Floor Manager for Options (Chicago). Compliance representatives also attend the meetings and serve in an advisory role.

The Best Execution Committee, chaired by the senior ROP, meets on a monthly basis to discuss, review and analyze various best execution issues, including the different types of executions available in competing markets. The Best Execution Committee reviews the SEC Rule 605 reports generated by the other execution venues representatives. MFG has retained the service of an outside transaction auditing vendor that, among other services, monitors the quality of the firm's trade executions and compares them to industry benchmarks. Compliance prepares a summary of the information contained in the reports provided by the outside vendor as well as various Compliance Report Cards that are provided to member firms by FINRA.

At these meetings, minutes are taken describing the Committee's reviews, conclusions and approvals, and are approved by the Committee at the following meeting. Compliance maintains the approved meeting minutes for a period no less than three years.

Under FINRA Rules, traders are prohibited from trading ahead of customer limit and market orders. A trader may not accept and hold a customer limit order in a security and continue to trade that security for the firm's own account at prices that would satisfy the customer's market or limit order.

If the firm executes a trade for a security in its own account in violation of its obligation, the firm must execute affected customer market orders and limit orders (at their limit prices) within 60 seconds of the triggering principal execution.

I. HANDLING OF MARKET ORDERS

The firm must make every effort to execute a customer market order that it receives fully and promptly. If the firm is holding a customer market order that has not been immediately executed, it must make every effort to cross the order with any market order, marketable limit order, or non-marketable limit order priced better than the best bid or offer received by the member on the other side of the market up to the size of the order at a price that is no less than the best bid and no greater than the best offer at the time that the subsequent market order, marketable limit order or non-marketable limit order was received, consistent with the terms of the orders.

II. TERMS AND CONDITIONS

The prohibition does not require a trader to accept a customer limit order and does not effect a trader's right to attach terms and conditions on the acceptance of limit orders from institutional customer or the acceptance of large limit orders from any customer, so long as the terms and conditions are made clear to the customer when the order is first accepted.

An institutional customer is a bank, mutual fund or any entity with total assets of at least $50 million. A large order is an order for at least 10,000 shares and at least $100,000 in value.

III. PRICE IMPROVEMENT STANDARD

FINRA requires that the minimum amount of price improvement necessary in order for the firm to execute an incoming order on a proprietary basis in a security trading in decimals when holding an unexecuted limit order in that same security, and not be required to execute the held limit order is:

- For a customer limit order priced at or inside the best inside market displayed in Nasdaq, the minimum amount of price improvement required is $0.01; and
- for customer limit orders priced outside the best inside market displayed in Nasdaq, the firm must price improve the incoming order by executing the incoming order at a price at least equal to the next superior minimum quotation increment in Nasdaq ($0.01).

I. LETTER OF DIRECTION DUE DILIGENCE PROCEDURES

Before accepting any Letter of Direction ("LOD") from a customer directing the firm to act as the customer's agent in implementing a trading system, newsletter, advisory service or program offered by a third party provider ("TPP"), the RR is responsible for obtaining information from the customer and the TPP as noted below. No RR may begin to implement a customer's LOD/TPP until after such information has been obtained and the RR's supervisor and the Compliance Department have approved the LOD/TPP.

Set forth below are the procedures that must be followed.by the RR.

1. If the RR takes a LOD from a customer to trade the TPP system, the relationship may not provide for any discretion on the part of the RR – the system must be followed exactly. If a RR uses discretion it may trigger a requirement that the RR be registered as an Investment Advisor. Similarly, if the TPP alters any trading direction for any customer or engages in any other activity that suggests that the TPP is not following the system exactly, the TPP may be acting in a direct or indirect advisory capacity to its customers. In this event, you should discuss the situation with your supervisor, who, in turn, will consult with the Compliance Department. They will determine whether the TPP should be registered or whether to request an opinion of counsel from reputable counsel as to why registration is not required. In those cases where it has been determined that a TPP has crossed the line from providing generalized signals for all customers to particularized advice to certain customers and where the TPP refuses to become registered or provide an acceptable opinion of counsel, the firm will not do business with customers utilizing that TPP's "system".
2. The TPP may charge the customer a flat fee for using the system, and the RR may charge the customer a per-trade commission, as with any other customer account. There can be no additional compensation, however, to the TPP, as payments based on the number of trades or profitability of the system, etc., may trigger additional registration requirements.
3. RRs may provide to customers contact information about TPPs that have been approved by Compliance. However, RRs should provide such information for multiple TPPs and these TPPs must be listed in alphabetical order. It must be made clear that the firm is not recommending one TPP over the other. RRs may also indicate that they have customers trading that system (if true) and that the firm can execute a letter of direction for the customer to trade that system if the customer chooses.

4. The firm will avoid any agency relationship, express or implied, with TPPs. There should be no express or implied agreement or understanding by the firm to act in any capacity for a TPP, including, but not limited to, exclusive relationships (customers should be free to choose any firm); involvement with preparing or distributing promotional materials, mutual or joint advertising or participating in seminars.
5. Promotional materials of TPPs should be submitted to Compliance for its initial and generalized perusal. This should continue on an ongoing periodic (quarterly) basis. RRs should not use a TPP's performance information – hypothetical or actual (see #4 above), and should not indicate that the firm has reviewed or approved of the TPP performance data.
6. There are to be no links by the firm or its brokers to a TPP's website and vice versa. The RR whose customers are utilizing a TPP is responsible for checking periodically to insure that there are no links to or from the TPP's website to a firm website.
7. The firm will not share performance data with TPPs unless specifically authorized by the customer to do so.
8. Contacts between the firm and a TPP should be minimized, but can include requests to the TPP for confirmation that the customer can receive signals from the TPP (the TPP fees have been paid) and/or to question trade recommendations if not understandable.
9. RRs are not permitted to recommend any specific TPP to any customer or potential customer, or solicit any customer or potential customer for any specific TPP.
10. If all of the foregoing checks out affirmatively, then the firm may, for trade execution purposes only, sign up customers who utilize TPPs, BUT on condition that Letters of Direction for individuals are forwarded to and executed by those customers and that the additional risk disclosures as mandated by Compliance are sent to those customers.
11. The RR must abide by all current regular account opening procedures for opening any customer account.

I. DISASTER RECOVERY/BUSINESS CONTINUITY PLAN

MFG has adopted a Disaster Recovery/Business Continuity Plan, which can be found online along with regional contacts and plans. The FINOP shall be responsible for Disaster recovery at both the home office and the branches.

DESIGNATION OF CHIEF COMPLIANCE OFFICER

MFG has designated Tracy Whille as MFG's CCO and as the individual responsible for the establishment, maintenance, and enforcement of supervisory control procedures that (a) test and verify that MFG's supervisory procedures are reasonably designed to achieve compliance with applicable securities laws and regulations, and (b) amend or create additional supervisory procedures where necessary.

EXHIBIT B

REVIEWING SUPERVISORS

Primary Reviewing Supervisor: Daniel Caputo, Senior Vice President

BREAKPOINT ACKNOWLEDGEMENT LETTER

Dear Investor:

MF Global Inc. ("MFG") is committed to serving its customers' investment needs. Because every customer has a unique set of financial goals and means of achieving these goals, it is important that your MFG Registered Representative understand your needs and advise you of all material circumstances involving specific investments and transactions.

Investors purchasing mutual funds are entitled to receive quantity discounts on the sales charge when the dollar amount invested into a mutual fund exceeds certain levels. These levels are called "breakpoints." The sales charges for most mutual funds are reduced at the "breakpoints" for single large purchases, for purchases within a 13-month period pursuant to a Letter of Intent or on a Rights of Accumulation basis, which considers current holdings in determining the sales charge for new purchases. MFG is responsible for ensuring that its customers are advised of these "breakpoints" before investing their money.

INFORMATION FOR INVESTORS PURCHASING SHARES OF ONE MUTUAL FUND:

Name of Mutual Fund: _____

Dollar Amount to be Invested: _____

Sales Charge (%): _____

Next B.P. Dollar Amount: _____

Sales Charge (%) at B.P.: _____

INFORMATION FOR INVESTORS PURCHASING TWO OR MORE MUTUAL FUNDS:

Investors wishing to diversify their funds among more than one mutual fund must be aware that their investment, if concentrated in one fund, would entitle them to a discounted sales charge.

Funds Being Purchased:	_____	_____	_____
Dollar Amount:	_____	_____	_____
Sales Charge (%):	_____	_____	_____
Next B.P. Dollar Amount:	_____	_____	_____
Sales Charge (%) at B.P.:	_____	_____	_____

Before our Registered Representative may execute a transaction on your behalf where a breakpoint may be in question, MFG requests that you sign below to certify your understanding of the breakpoints, which apply to this transaction.

Customer's Signature	Date	Joint Customer's Signature	Date
MFG Account Number		MFG Account Number	
Principal's Signature	Date		

SWITCHING AUTHORIZATION LETTER

Dear Investor:

MF Global Inc. ("MFG") is committed to serving its customers' investment needs. Because every customer has a unique set of financial goals and means of achieving these goals, it is important that your Registered Representative understand your needs and advise you of all potential risks associated with specific investments and transactions.

Selling one investment product with a load in order to purchase another such investment product is called "switching" and is a transaction which is permissible only if it is consistent with your stated investment objectives and you are aware of the following important consequences:

1. "Switching" or from one investment product to another, or to multiple other products, may constitute a taxable transaction which will initially result in less of your investment capital at work for you.

2. "Switching" may further diminish your capital through the imposition of an additional sales charge or charges, detail of which will be set out in the product(s) which you are seeking to purchase. You should measure these additional costs against whatever advantage you expect to achieve by making the switch.

Before our Registered Representative may execute a "switching" transaction on your behalf, MFG requires that you certify your understanding of the potential consequences disclosed above by signing this letter in the space provided below.

Name of Product(s) Sold: _____

Sales Charge:
(actually incurred) _____

Name of Product(s) Purchased: _____

Sales Charge:
(Actual or Potential - circle one) _____

_____ _____
(Signature of Account holder) (Date)

_____ _____
(Signature of Account holder) (Date)

Approved by:

_____ _____
(Signature of Principal) (Date)

DMA and SP TRADING – SUPERVISORY CHART

Overall Department Supervisory Responsibility	Vaughn Tredwell, Executive Vice President ("EVP")

Specific Delegated Supervisory Review Responsibility	**Designated Supervisor**
Registration of Delegated Supervisors for DMA and SP Trading	Vaughn Tredwell, EVP
Designation of Supervisory Personnel for DMA and SP Trading	Mark Peppin, Branch Manager ("BM")
Short Sale Locate Exception Review for DMA and SP Trading	Mark Peppin, BM
MOC Cancels Review for DMA Trading	Mark Peppin, BM
Direct Plus Order Entry Review for DMA Trading	Mark Peppin, BM
OATS Reporting Verification for DMA Trading	Mark Peppin, OATS Principal
"Marking The Close" Review for DMA and SP Trading	Mark Peppin, BM
Wash Trade Review for DMA and SP Trading	Mark Peppin, BM

DMA SUPERVISORY PROCEDURES

1. SUPERVISORY PROCEDURE – REGISTRATION, LICENSING AND RELATED REQUIREMENTS – REGISTRATION AND FORM U4

Subject of Review: Registration and Form U4

Reviewed By: Executive Vice President ("EVP")

Frequency of Review: Annually

Review Procedure:
The EVP shall ensure that all Designated Supervisors are appropriately registered as Series 24 – RP or have their work directly reviewed by a Series 24 – RP.

If a new employee or transferee has not previously been registered, or if change of duties requires new/additional registrations, the employee and Designated Supervisor will work with Registration to determine what licenses/registrations are required (BM or Executive VP should notify Compliance of changes to Exhibit E). The Designated Supervisor will ensure that required licenses/registrations are obtained before the employee performs the registerable function.

Designated Supervisors will ensure that their employees complete and submit to the Registration Department a Form U4.

On an annual basis, the EVP will:

A. Use a regularly updated supervision organizational chart to review each employee's licensing and registration requirements and compare them to their current licenses and registrations. If a deficiency is identified (a) the employee should be instructed via email to immediately cease performing functions requiring the deficient registration(s) and (b) a plan for remedying the deficiency (with a scheduled exam date).

B. Review disclosable information with employees to determine if updates are needed. Designated Supervisors will ensure that updates are immediately submitted to the Registration Unit.

How Review is Documented:

- Registration - CRD printout of supervised employees' current registration records initialed by Designated Supervisor against supervision org chart.
- Form U4 – Copies of current Forms U4 initialed by Designated Supervisor.

Follow-up Procedures:
Designated Supervisors will discuss possible violations with Legal and/or Senior Management to determine: whether a violation has occurred; action to be taken to rectify the violation; and measures to be taken with regard to the employee involved.

2. SUPERVISORY PROCEDURE – DELEGATION OF DUTIES REVIEW

Subject of Review: Delegation of Duties for DMA and SP Business

Designated Supervisor: Branch Manager

Frequency of Review: Per occurrence

Review Procedure:
The Designated Supervisor may delegate certain supervisory duties pursuant to a documented plan of delegation subject to the approval of senior management. Where a supervisory duty is delegated, the Designated Supervisor must ensure that the person to whom the duty has been delegated understands their delegated obligations. The Designated Supervisor must thereafter meet on a regular basis with such person, to monitor their performance, and to assure that he or she is completing the assigned task in a diligent and timely manner.

How Review is Documented:
The Branch shall continuously maintain a Supervisory Chart showing the name of the supervisor with overall compliance supervisory responsibility, together with the names of the persons to whom he/she has delegated the specific supervisory review functions. The Supervisory Chart shall also specify the dates during which each person was responsible for such supervisory functions. The current Supervisory Chart is Exhibit E in this manual.

Follow-up Procedures:
The Designated Supervisor continues to remain ultimately responsible for the timely and thorough performance of these obligations and may be held liable in a regulatory or internal disciplinary proceeding for failing to meet those obligations.

3. SUPERVISORY PROCEDURE – SHORT SALE LOCATE EXCEPTION REVIEW

Subject of Review: Short Sale Locate Exception for DMA and SP Trading

Designated Supervisor: Branch Manager

Frequency of Review: Daily

Review Procedure:
End of Day Review. The Designated Supervisor is responsible for (1) reviewing order tickets generated by the firm's systems on a daily basis (on T+1) for all DMA business regarding all short sales to determine if Stock Loan has a locate for the security; and (2) reviewing drop copies of SP trading activity on a daily basis (on T+1) for all short sales to review for compliance with the locate requirements.

How Review is Documented:
All exceptions' resolution should be recorded by the Branch Manager.

Follow-up Procedures:
The Designated Supervisor is responsible for bringing all patterns or practices of improper shorting without locates and all questionable explanations to the attention of the Compliance Department.

4. SUPERVISORY PROCEDURE – MOC CANCELS REVIEW

Subject of Review: MOC Cancels

Designated Supervisor: Branch Manager

Frequency of Review: Daily

Review Procedure:
The Designated Supervisor is responsible for reviewing daily (on T+1) Market on Close (MOC) cancellation reports.

How Review is Documented:
The Designated Supervisor should evidence his review and should attach any supplementary information deemed relevant.

Follow-up Procedures:
The Designated Supervisor also is responsible for bringing all instances of potentially violative MOC cancellation to the Compliance Department.

5. SUPERVISORY PROCEDURE – DIRECT PLUS ORDER ENTRY REVIEW

Subject of Review: Direct Plus Order Entry

Designated Supervisor: Branch Manager

Frequency of Review: Daily

Review Procedure:
The Designated Supervisor is responsible for reviewing daily (on T+1) transactions that show the entry without waiting 30 seconds after an earlier execution of a same-side order of subsequent orders.

How Review is Documented:
The Designated Supervisor should evidence his review and should attach any supplementary information deemed relevant.

Follow-up Procedures:
The Designated Supervisor also is responsible for bringing all instances of potentially violative sub-30 second order entry to the attention of the Compliance Department.

6. SUPERVISORY PROCEDURE – OATS REPORTING VERIFICATION REVIEW

Subject of Review: OATS Reporting Verification

Designated Supervisor: OATS Principal

Frequency of Review: Daily

Review Procedure:
The Designated Supervisor is responsible for reviewing daily emails by referring to the OATS web page showing (i) the file acceptance status at OATS for DMA instances and (ii) Reportable order event (ROE) rejections by OATS for DMA instances.

How Review is Documented:
The Designated Supervisor should track resolution and obtain supporting evidence from the OATS website support to evidence appropriate corrective action. The Designated Supervisor should evidence his review and should attach any supplementary information deemed relevant.

Follow-up Procedures:
The Designated Supervisor also is responsible for bringing all patterns of potentially violative OATS reporting to the attention of the Compliance Department.

7. SUPERVISORY PROCEDURE – "MARKING THE CLOSE" REVIEW

Subject of Review: Marking The Close Review for DMA and SP Business

Designated Supervisor: Branch Manager

Frequency of Review: Daily

Review Procedure:
The Designated Supervisor is responsible for reviewing daily (on T+1) transactions (both DMA and SP) which show the entry of orders with the potential intent to "mark the close."

How Review is Documented:
The Designated Supervisor should evidence his review and should attach any supplementary information deemed relevant.

Follow-up Procedures:
The Designated Supervisor is responsible for bringing all instances of potentially manipulative activity in this regard to the Compliance Department.

8. SUPERVISORY PROCEDURE – WASH TRADE REVIEW

Subject of Review: Wash Trade Review for DMA and SP Trading Designated Supervisor

Designated Supervisor: Branch Manager

Frequency of Review: Daily

Review Procedure:
The Designated Supervisor is responsible for reviewing trading activity for patterns that would indicate potential Wash Sales. Any activity identified as potentially problematic or violative should be brought to the attention of the Compliance Department.

How Review is Documented:
The Designated Supervisor should evidence their review on a monthly checklist and should attach any supplementary information deemed relevant.

Follow-up Procedures:
The designated supervisor is responsible for bringing all instances of potentially manipulative activity in this regard to the Compliance Department.

MF Global

Policy Name: **Gift Policy**
Owner: MF Global Compliance Department
Effective Date: January 15, 2010
Applicability: All U.S. Based Employees

I. Policy Statement

MF Global's Gift Policy prohibits the firm's employees from:

- collectively giving gifts and gratuities in excess of $100 to any person in any calendar year,
- receiving gifts and gratuities in excess of $100 from any person in any calendar year, and
- giving or receiving gifts of cash and money orders.

This Policy pertains to persons with whom you have a direct or indirect business or potential business relationship including customers, intermediaries (i.e. introducing brokers and trading advisors), principals, proprietors, vendors, consultants, employees, agents or representatives of another entity.

In addition, employees are prohibited from giving or receiving any gift to/from any employee of an exchange, a self-regulatory agency (i.e. FINRA, CME, FSA, etc.) or governmental agency that regulates the business of any MF Global company.

Avoiding or otherwise attempting to circumvent this policy through use of un-reimbursed personal funds constitutes a violation of the policy. Failure to follow this policy may subject an employee to discipline by the firm, up to and including termination.

II. Background

The MF Global Gift Policy is consistent with applicable regulatory rules. This Policy prohibits gift-giving or gift-receiving for the purpose of influencing the business conduct of the recipient. Consequently, MF Global employees may not under any circumstances give or receive a gift as a "quid-pro-quo" for the firm's business.

Certain departments may have gift policies that are more restrictive than those set forth herein. Employees are expected to review their department policies and adhere to any rules pertaining to gifts that are more restrictive than this Policy.

III. Definitions

"*Gift*": defined as anything of value that is acquired without payment by the recipient:

- A gift of any kind is considered a gratuity.
- Compensation for services rendered is not considered a gift.
- In the case of gifts for events (i.e. sporting event or concerts), this Policy applies to any situation where the payee of the gift is not in attendance (when the payee is in attendance, the event is considered "Entertainment" and therefore does not fall within the Gift Policy requirements).
- MF Global promotional and marketing items of nominal value, less than $25.00, that are emblazoned with a company logo (i.e. pen, coffee mug, umbrella, hat, key chain, etc.) are not considered gifts and need not be reported.

"*Gift Value*": defined as the cost of the gift given or approximate cost of the gift received. For purposes of determining gift value, taxes and shipping costs should not be considered.

"*Close Family Members*": defined as an employee's spouse, children, siblings, parents, aunts, uncles, cousins and in-laws.

IV. Policy Exceptions

A. Close Family Members

This policy does not apply to gifts exchanged between close family members who work for an entity that does business with MF Global.

Employees may not request reimbursement from MF Global for gifts that fall within the Close Family Members exception and these gifts do not have to be disclosed to the firm.

B. Close Friends

Gifts given to or received from a person with whom an employee has a close personal relationship and whom the employee knows to be a client or someone who works for an entity that does business with MF Global are outside of the $100 per year limit, so long as the gift is given or received for purposes unrelated to the recipient's business or job duties. For example, gifts given to or received from a close friend who also happens to be a client of MF Global in connection with a life event such as a wedding, the birth of a child, a christening, or a bar/bat mitzvah are outside the scope of the $100 per year limit. It is expected that any gift falling under the "Close Friends" exception will be appropriate for the occasion and comparable in value to a present given to a close friend who does not do business with MF Global.

Any employee who avails himself/herself of this exception may be obligated to provide details to substantiate that a non-work-related personal relationship exists. Any questions regarding whether a gift to a close friend falls within this exception should be discussed with your Manager or a Compliance Officer.

Employees may not request reimbursement from MF Global for gifts that fall within the Close Friend exception and these gifts do not have to be disclosed to the firm.

V. Gift Disclosure Requirements

Industry rules require the firm to supervise the giving and receiving of employee gifts and to ensure that the firm's employees in aggregation have not gifted in excess of $100 to any one person in a calendar year. To this end, the following disclosure procedures should be followed by all employees:

A. When an Employee is Giving a Gift

Prior to giving a gift to someone who works for a client or an entity that does business with MF Global (as previously defined in the Policy Statement); employees should:

1. Complete the online Gift Reporting Form with all required information prior to giving the gift and click [SAVE], which submits the form directly to the Compliance Department for review.

2. Obtain Compliance approval, which will be sent to the requestor via email upon completion of the Compliance review. Compliance review entails aggregating the gift amount with all other gifts given to the same individual collectively by employees of the firm within the calendar year.

   If the request is not approved, the requestor will be notified via email and should not give the gift.

3. Submit a copy of the Compliance approval email with the T&E reimbursement process in order to have reimbursement approved.

B. When an Employee is the Recipient of a Gift

Immediately upon receipt of a gift from a client or entity that does business with MF Global (as previously defined in the Policy Statement); employees should:

1. Complete the online Gift Reporting Form with all required information upon receipt of a gift and click [SAVE], which submits the form directly to the Compliance Department for review.

2. Obtain Compliance approval, which will be sent to the requestor via email upon completion of the Compliance review. Compliance review entails aggregating the amount of the received gift with all other gifts an individual employee has received from the same person or entity within the calendar year.

   If the request is not approved, the requestor will be notified via email and should either return or donate the gift to charity. For gifts donated to charity, an email from the employee should be sent to the Gift Reporting mailbox indicating the name of the charity to which the gift was donated.

VI. Questions

Questions regarding this Policy, the propriety of any gift, or whether or not a gift falls within the scope of this Policy, should be discussed with your Compliance Officer or sent to Compliance via email at Gift Reporting.

MF Global

Policy Name: **Entertainment Policy**
Owner: MF Global Inc. Compliance Department
Effective Date: May 1, 2009
Applicability: All MF Global Ltd. Employees

I. Policy Statement

The MF Global Entertainment Policy prohibits the firm's employees from improperly inducing business or giving the appearance of improper inducement through frequent or excessive business entertainment.

This Policy pertains to persons with whom you have a direct or indirect business or potential business relation including customers, intermediaries (i.e. introducing brokers and trading advisors), principals, proprietors, vendors, consultants, employees, agents or representatives of another firm.

Avoiding or otherwise attempting to circumvent this policy through use of un-reimbursed personal funds constitutes a violation of the Policy. Failure to follow this Policy may subject an employee to discipline by the firm, up to and including termination.

II. Background

Business entertainment can be an important way to foster relationships with clients, to understand their needs, and to educate them about services that MF Global can provide. However, a client's decision to do business with MF Global should be grounded in considerations based upon price and value offered by the firm, not the frequency or amount of entertainment.

Employees must personally host and attend an event with a client for it to be considered business entertainment. Thus, in situations where an employee is unexpectedly unable to attend the event together with his/her client, the employee should contact his/her manager/supervisor ("supervisor") to arrange for a suitable replacement, reschedule the event, or contact the Compliance Department for further guidance. If an MF Global employee is not present with the client at the venue or during the activity, the entertainment is considered a gift, which falls into the Gift Policy requirements.

Certain Departments or Regions may have entertainment policies that are more restrictive than those set forth herein. Employees are expected to review their department policies and adhere to any rules pertaining to entertainment that are more restrictive than this policy.

III. Guidelines

Employees are expected to exercise due care and sound judgment and guard against excessive, lavish or improper business entertainment. As it is impracticable to list all improper

forms of entertainment, the firm's Policy is to consider the frequency and cost of the entertainment, as well as the influence the entertainment may have or may appear to have on a client. Employees should consider the appropriateness of the venue, and not provide entertainment that is illegal, exclusionary or inappropriate (gentlemen/strip clubs, bachelor/bachelorette parties, etc.).

A. Client Pre-Approval Requirements

Supervisor Pre-Approval for Client Entertainment

The following forms of business client entertainment are permitted only with the written pre-approval of the employee's Supervisor:

- Any proposed entertainment that will cost more than US$650 (or the equivalent thereof) per client per event (excluding firm-sponsored conferences, which have a separate firm approval process).
- Use of air travel for clients to get to an event (commercial or private air transportation).
- Overnight hotel accommodations for clients.
- Client events that extend past two nights.
- Client overnight events that do not include an educational component.

Office of the CEO Approval for Client Entertainment

The following form of business client entertainment is permitted only with the written pre-approval from the appropriate designee of the Office of the CEO:

- Any proposed entertainment that will cost more than US$1,300 (or the equivalent thereof) per client per event (excluding firm-sponsored conferences, which have a separate firm approval process).

Written pre-approval may be evidenced through the use of the Client Entertainment Request Form or via email, provided that the email contains the same information that is required to be entered on the form.

B. Client Entertainment Reimbursement

In order to be reimbursed for client entertainment expenses greater than US$650 (or the equivalent thereof) per client per event, employees must submit a copy of the written pre-approval together with their T&E reimbursement report for processing. When applying the dollar thresholds, the entire cost of the event (meals, tickets, travel, fees, etc.) should be considered and submitted on the same T&E reimbursement report. Individual components of an event may not be considered as separate events so as to circumvent the monetary limits.

C. Documentation

Regardless of the whether pre-approval is required, employees must provide full documentation for all client entertainment including a list of attendee names, titles, company names, business email addresses, and detailed business purpose. The business purpose should refer to the specific business topics being discussed so as to document that the entertainment is ordinary and reasonable under regulatory requirements. Documentation

may not be backdated. Employee expenses may be tracked and reported by individual employee of a client and reported back to the clients as well as to regulatory authorities.

D. Record Retention

Employees and their supervisor are required to maintain copies of all approved Client Entertainment Request Forms, or equivalent documentation. The records must be retained for a period of at least three years; the first two years in an easily accessible place.

E. Considerations When Being Entertained

Firm policy does not require pre-approval when employees are being entertained by clients, prospective clients or industry counterparts. However, it is important to remember that irresponsible or improper employee conduct erodes client confidence in the firm. As firm representatives, it is the responsibility of all employees to avoid all impropriety and even the appearance of impropriety when interacting with clients and industry counterparts.

IV. Policy Exceptions

If unanticipated costs or circumstances arise during the course of a business entertainment for which pre-approval would not ordinarily have been required, and those costs or circumstances could not have been reasonably anticipated by the employee, it is nevertheless the employee's responsibility to submit the Client Entertainment Request Form or a substantially similar document to his/her supervisor and the Office of the CEO, as is applicable, for post-review and approval.

V. Questions

Questions regarding this Policy should be discussed with your Regional Chief Compliance Officer.

MF Global

Policy Name: **Written Supervisory Procedures: Entertainment Policy**
Owner: MF Global Inc. Compliance Department
Effective Date: May 1, 2009
Applicability: Supervisors/Managers

I. Overview

Business entertainment can be an important way to foster relationships with clients, to understand their needs, and to educate them about services that MF Global can provide. However, a client's decision to do business with MF Global should be grounded in considerations based upon price and value offered by the firm, not the frequency or amount of entertainment.

Employees must personally host and attend an event with a client for it to be considered business entertainment. Thus, in situations where an employee is unexpectedly unable to attend the event together with his/her client, the employee should contact his/her supervisor/manager ("supervisor") to arrange for a suitable replacement, reschedule the event, or contact the Compliance Department for further guidance. If an MF Global employee is not present with the client at the venue or during the activity, the entertainment is considered a gift, which falls into the Gift Policy requirements.

II. Client Entertainment Approval Considerations for Supervisors and Managers

Supervisors and/or Business Managers ("supervisor"), and if applicable, a designee from the Office of the CEO, are responsible for approving and supervising business client entertainment. Current regulatory rules do not identify specific dollar thresholds for expenses related to business client entertainment. Instead, the proposed rules are principle based and place the responsibility on management to approve or disapprove the request based upon the totality of the circumstances. The intention of the rule is to prevent the transference of anything of value to a client that is intended or designed to cause, or would be reasonably judged to have the likely effect of causing, such employee to act in a manner that is inconsistent with the best interests of the customer.

In order to assist supervisors in the approval process for business client entertainment, please consider the following factors to aid you in the decision making process.

Would the venue and cost of the client entertainment be considered ordinary and usual for your business line?

Business client entertainment varies greatly across the various business lines within the firm. What is considered appropriate for one business will not necessarily be deemed appropriate across all business lines. Supervisors should consider whether the proposed business client entertainment is consistent with the type of venue and cost that is typically provided to clients within their business and line, in accordance with the firm's guidelines relating to this issue.

Would the venue and cost of the entertainment be considered ordinary and usual for the client being entertained?

Supervisors should consider whether the venue and cost would be considered ordinary and usual for the client being entertained. This analysis should include whether the proposed business client entertainment would be considered ordinary and usual given the size of the client, city in which the client is located, past practices and whether the client is acting in a fiduciary capacity.

Is the venue so lavish or excessive in nature that a client would likely feel compelled to act in a manner inconsistent with the interests of his or her employer?

This is a subjective question that is based upon the client's perception and not that of the firm's employees. Therefore, as in the above analysis, it is necessary to consider the client (e.g. size, location) and whether the venue or cost could create an appearance of impropriety.

Is the frequency in which the client entertained likely to create an environment in which the client feels compelled to act in a manner inconsistent with the interests of his or her employer?

This is a subjective question that is based upon the client's perception and not that of the firm's employees. Therefore, as in the above analysis, it is necessary to consider the client (e.g. size, location) and whether the frequency in which that client is entertained could create an appearance of impropriety. Thus, while it may be appropriate to occasionally entertain a client over dinner, it may not be appropriate for the client to be taken out to dinner on a weekly basis if that frequency would be inconsistent with industry practices.

Will there be an educational component to the business client entertainment?

When considering whether to approve business client entertainment, supervisors should consider whether there will be an educational component. Although the existence of an educational component does not itself create an automatic safe harbor to approve all types of related business client entertainment, it may provide an acceptable business benefit to the client and his or her employer that can be rationalized when considering the cost of the entertainment. Obviously, the quality of the educational content must be weighed against the venue and cost; and business client entertainment with only nominal educational content would not necessarily justify an excessively lavish venue.

Does the business client entertainment include the cost of family or friends of the client?

Business client entertainment that includes the expense of family or friends of a client requires a higher level of scrutiny by management. The analysis should consider the extent and cost of the entertainment being bestowed upon the family

and friends (e.g. meals, entertainment, travel expenses, overnight accommodations, etc.). Although there may be instances where it could be appropriate to pay for a client's spouse to accompany a client to a dinner or show/event, careful scrutiny should be applied to overnight entertainment where a spouse is included. This would not include a firm sponsored event which does not include spouses, but where the client elected to bring along their spouse at their own expense.

What should I consider in approving transportation associated with business client entertainment?

The same considerations identified above for evaluating the appropriateness of business client entertainment should be utilized when considering whether to approve a particular mode of transportation associated with an event. Thus, you should consider client size, location and appropriateness of the mode of transportation versus the treatment other clients within your business line receive. You should also consider whether a firm employee traveling for business purposes would be afforded the same or different travel accommodations as is being requested for the client. Additionally, when calculating the reasonableness of the cost of business client entertainment, it is necessary to include the cost of the transportation as part of the overall cost analysis.

III. Record Retention

Supervisors are required to maintain copies of all approved Client Entertainment Request Forms. The records must be retained for a period of at least three years, the first two years in an easily accessible place.

IV. Questions

Questions regarding supervision of employee entertainment should be discussed with your Regional Chief Compliance Officer.

MF Global

MF GLOBAL LTD.
INSIDER TRADING POLICY
AMENDED AND RESTATED AS OF JUNE 22, 2009

Purpose. This insider trading policy (the "***Policy***") sets forth the general standards for all members of the Board of Directors, officers and employees of MF Global Ltd. and its subsidiaries (collectively, "***MF Global***") with respect to engaging in transactions in MF Global's securities and securities of other publicly-traded companies.

Under the U.S. federal securities laws, it is generally illegal for any person, either personally or on behalf of others, to trade in securities on the basis of material, non-public information. It is also illegal to communicate or "***tip***" material, non-public information to others so that they may trade in securities on the basis of that information. These illegal activities are commonly referred to as "***insider trading***".

The guidelines set forth in this Policy are designed to help protect you from violating this Policy. This Policy reflects MF Global's commitment to maintain compliance with the securities laws, by setting forth and confirming its policies on the subject. This Policy is designed to prevent insider trading or allegations of insider trading, and to protect MF Global's reputation for integrity and ethical conduct.

Violation of these restrictions could carry criminal, as well as civil penalties.

Application of Policy. This Policy applies to all members of the Board of Directors, officers and employees of MF Global. In addition, each of the applicable restrictions set forth in this Policy also apply to all members of a director's, officer's and employee's "***immediate family,***" as well as any account under the control of the director, officer or employee or his or her immediate family members or any partnership, trust or other entity controlled by the director, officer, employee or his or her immediate family members. An "immediate family" member of a director, officer or employee includes any children, stepchildren, parents, stepparents, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of such director, officer or employee, as well as any person (other than a tenant or employee) sharing the household of such director, officer or employee.

Company Assistance. If you have any doubt about a contemplated action or inaction or a specific question, you should contact the Office of the General Counsel and abstain from the conduct in question until you have been informed that the contemplated conduct is permissible. The contact information

for these persons is provided at the end of this Policy under the heading "Questions about Insider Trading".

Hindsight – 20/20. Because the securities laws are highly technical, comprehensive, far-reaching and constantly evolving, this Policy does not attempt to deal with all of the considerations which may be applicable to securities transactions. Remember, anyone scrutinizing your transactions will be doing so after the fact, with the benefit of 20/20 hindsight. As a practical matter, before engaging in any transaction, you should carefully consider how enforcement authorities and others might view the transaction in light of that perfect hindsight. It is ultimately your responsibility to understand and comply with this Policy.

I. GENERAL POLICY

Prohibition Against Insider Trading

No director, officer or employee of MF Global, who is aware of material, non-public information relating to MF Global or its securities, may:

- purchase or sell MF Global's securities, including its common shares, preference shares, any debt securities it issues or guarantees, or any "***derivative security***" relating to any MF Global security;
- gift MF Global securities;
- engage in stock option exercises (except as provided elsewhere in this Policy);
- engage in any other action to take advantage of that information, or
- pass (or "***tip***") that information on to others or recommend to anyone the purchase or sale of the relevant securities, including family and friends

In addition, no director, officer or employee may engage in any transaction involving the purchase and sale of any of the securities of another company, directly or indirectly, if the director, officer or employee is aware of material, non-public information about that company, including any information the employee or director obtained in the course of the employment with or serving as a director of MF Global.

The above prohibition against insider trading applies to all transactions in MF Global securities, whether done in the open market or otherwise and whether the relevant securities were originally acquired from MF Global or in the open

market. For example, an employee who acquires shares issued under an MF Global benefit plan may not resell them in the open market when in possession of material, non-public information. Similarly, an employee in possession of such information may not buy shares in the open market or resell shares previously purchased in the open market.

Certain Exceptions.

For purposes of this Policy, MF Global considers the following transactions exempt from the Policy:

- award payouts by MF Global under any equity-based compensation plans
- any purchase or sale of MF Global's securities made pursuant to an agreement or plan that complies with SEC rule 10b5-1; provided that the director, officer or employee was not aware of material, non-public information at the time he or she entered into or adopted the agreement and plan, and the agreement or plan has been approved in advance by the General Counsel
- the exercise of stock options for cash (but not the sale of any shares received upon exercise, including the cashless exercise of an option through a broker)
- the exercise of tax withholding rights pursuant to which the employee elects to have MF Global withhold shares to satisfy tax withholding requirements
- automatic payroll deductions, pursuant to a contribution election made when the employee was not aware of material, non-public information, to purchase MF Global securities pursuant to an employee stock purchase plan

Certain Definitions.

Derivative Security. Any security with a value that depends, to a material extent, on the value of a MF Global security. Examples include futures, put and call options, forward contracts, equity swaps and other derivatives, such as spread bets, binary bets, and contracts for differences (CFDs), relating to MF Global shares, whether the derivative is issued by MF Global or any other person.

Material Information. Information is material if there is a substantial likelihood that a reasonable investor would consider it important in deciding whether to buy, hold or sell a security – for example, MF Global's shares. Any information that could reasonably be expected to affect the price of the security is

material. Material information can be positive or negative. Examples of potentially material information include:

- quarterly and year-end earnings and significant changes in financial performance, outlook or liquidity
- changes in debt ratings
- estimates, projections or any other guidance about future performance
- events regarding a company's securities (such as, defaults on senior securities, calls of securities for redemption, repurchase plans, stock splits, public or private securities offerings, or changes in dividend policies or amounts)
- significant developments involving corporate relationships
- news of a pending or proposed merger or other acquisition or disposition
- actual or threatened major litigation or developments relating to or the resolution of such litigation
- events having a significant regulatory effect or involving significant regulatory intervention
- events that may result in the creation of a significant reserve or write-off or other significant adjustment to MF Global's financial statements
- significant changes in the board or senior management

When in doubt, directors, officers and employees should treat non-public information as material and consult with the Office of the General Counsel prior to engaging in a securities transaction. The contact information for these persons is provided at the end of this Policy under the heading "Questions about Insider Trading".

Non-public Information. Non-public information is information that is not generally known or available to the public. Information becomes public when disclosed to achieve broad dissemination to the investing public generally, without favoring any special person or group, and there has been adequate time for the public to digest that information. Examples of broad dissemination include press releases, filings with the Securities and Exchange Commission, and meetings, conference calls or webcasts that are open to the public. Merely telling the counterparty to a securities trade does not suffice.

Pre-Clearance and Blackout Procedures

To help prevent inadvertent violations of the federal securities laws and to avoid even the appearance of trading on the basis of inside information, MF Global has adopted procedures set forth in the attached addendum to this Policy, which applies to our board of directors, executive officers and certain other designated employees of MF Global who may have access to material, non-public information (this group of individuals is referred to as the "***Designated Persons***"). MF Global will notify you if you are subject to such additional procedures. A list of these individuals is maintained by the Office of the General Counsel.

The addendum generally prohibits persons covered by it from trading in MF Global's shares during quarterly blackout periods (beginning on the 15th day of the third month of each fiscal quarter of MF Global and ending one full trading day after MF Global publicly issues its earnings release for such fiscal quarter (or fiscal year in the case of the fourth fiscal quarter) and during certain event-specific blackouts. This same group of people must also pre-clear all transactions in MF Global's securities.

Penalties

Potential penalties for insider trading violations include imprisonment and criminal or civil fines. In addition, if MF Global fails to take appropriate steps to prevent illegal insider trading, MF Global may be subject to civil or criminal sanction for a trading violation. Failure to comply with this Policy may also subject the employee to company-imposed sanctions, including dismissal, whether or not your failure to comply with this Policy results in a violation of law.

II. SPECIFIC PROHIBITED TRANSACTIONS

In addition to the above, no director, officer or employee may engage in the following actions, which are prohibited by MF Global:

- ***Short Sales***. Short sales of MF Global's securities evidence an expectation on the part of the seller that the securities will decline in value, and therefore signal to the market that the seller has no confidence in MF Global or its short-term prospects. In addition, short sales may reduce the seller's incentive to improve MF Global's performance. For these reasons, no director, officer or employee shall, directly or indirectly, sell any MF Global equity security if the employee or director selling the security (1) does not own the security sold (a "***short sale***"), or (2) if owning the security, does not deliver it against such sale (a "***short sale against the box***").

- ***Options and other Derivatives***. A transaction in options is, in effect, a bet on the short-term movement of MF Global's shares and therefore creates the appearance that the director, officer or employee is trading based on inside information. Transactions in options also may focus the individual's attention on short-term performance at the expense of MF Global's long-term objectives. Accordingly, no director, officer or employee may engage in transactions in derivative securities, on an exchange or in any other organized market. Examples of derivative securities include futures, put and call options, forward contracts, equity swaps and other derivatives, such as spread bets, binary bets and CFDs, relating to MF Global shares, whether the derivative is issued by MF Global or any other person.

- ***Hedging***. Certain forms of hedging or monetization transactions, such as zero-cost collars and forward sale contracts, allow a director, officer or employee to lock in much of the value of his or her share holdings, often in exchange for all or part of the potential for upside appreciation in the shares. These transactions allow the director, officer or employee to continue to own the covered securities, but without the full risks and rewards of ownership. When that occurs, the director, officer or employee may no longer have the same objectives as MF Global's other shareholders. Therefore, MF Global prohibits directors, officer or employees from engaging in such transactions.

- ***Pledging and Margin Accounts***. Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. Because a margin sale or foreclosure sale may occur at a time when the pledgor is aware of material, non-public information or otherwise is not permitted to trade in MF Global securities, directors, officers and employees are prohibited from holding MF Global securities in a margin account or pledging MF Global securities as collateral for a loan. An exception to this prohibition may be granted where a person wishes to pledge MF Global securities as collateral for a loan (not including margin debt) and clearly demonstrates the financial capacity to repay the loan without resort to the pledged securities. Any person who wishes to pledge MF Global securities as collateral for a loan must submit a request for approval to the General Counsel at least two weeks prior to the proposed execution of documents evidencing the proposed pledge.

III. OTHER IMPORTANT MATTERS

Other Trading Policies

All employees may be subject to additional policies and procedures governing their personal trading in securities of other companies. In addition, employees may be subject to other policies set by MF Global. All such persons must comply with both this Policy and the other policies of MF Global to which they are subject. This includes MF Global policy requiring that employees arrange for the providing of copies of all monthly account statements, trade confirmations and the like to enable MF Global to monitor trading activity in non-MF Global accounts.

Post-Termination Transactions

This Policy continues to apply to transactions by an employee or director in MF Global securities even after termination so that if an employee or director is aware of material, non-public information when the employment or service relationship terminates, the employee or director may not trade in MF Global securities until that information has become public or is no longer material.

Reporting of Violations

Any director, officer or employee who becomes aware of a violation of this Policy should promptly report the violation by contacting the General Counsel's office or using an employee hotline provided by MF Global.

Exceptions

Exceptions to this Policy may be granted by the General Counsel.

Copies of the Policy

A copy of this Policy can be found on MF Global's intrasite (GX) under the 'policies' tab, as well as on MF Global's corporate website. You can also call the Office of the General Counsel for a copy.

Updating the Policy

This Policy has been updated as of [date] and supersedes any previous company policy concerning insider trading. The Office of the General Counsel will review this Policy from time to time and ensure that a current copy of this Policy is maintained both on GX and on the corporate website. Directors, officers and employees will be notified via email of any material changes to this Policy.

Questions about Insider Trading

If you have a question regarding this Policy, you should contact the Office of the General Counsel and abstain from trading or disclosing the information in question until you have been informed that the information is not material or has been sufficiently disclosed to the public.

Laurie Ferber
General Counsel
(212) 589-6235

Jacqueline Giammarco
Assistant General Counsel
(212) 935-4743

James Ho
Counsel
(212) 589-6467

MF GLOBAL LTD.

To: Directors, Officers and other Designated Persons

From: General Counsel

Re: Addendum to Insider Trading Policy – Pre-Clearance and Blackout Procedures

Date: as of June 22, 2009

To help prevent inadvertent violations of the federal securities laws and to avoid even the appearance of trading on the basis of inside information, MF Global has adopted this addendum to its Insider Trading Policy. This addendum applies to MF Global directors, executive officers and certain other designated employees who have access to material, non-public information (this group of individuals is referred to as the "***Designated Persons***"). Designated Persons will be notified by the Office of the General Counsel that they have been designated as such persons. A current list of Designated Persons is maintained in the General Counsel's office.

This addendum is in addition to and supplements MF Global Insider Trading Policy.

Directors and executive officers are also subject to additional procedures designed to address the two-day Form 4 filing requirement under Section 16. These procedures are covered in a separate memorandum

Pre-Clearance

The Designated Persons, together with their family members and other members of their household, may not engage in any transaction involving MF Global's securities (including an option exercise or a gift) without first obtaining pre-clearance of the transaction from the Office of the General Counsel. Pre-clearance requests may be made in the form of an email submission to a member of the Office of the General Counsel. A trade will not be considered pre-cleared unless and until such member communicates an approval to the Designated Person, which may also be in the form of an email reply. Pre-clearance of a transaction is valid only for a 48-hour period. If the transaction order is not placed within that 48-hour period, pre-clearance of the transaction must be re-requested. MF Global is under no obligation to approve a trade submitted for pre-approval, and may determine not to permit the trade for any reason. If clearance is denied, the fact of such denial must be kept confidential by the person requesting such clearance. The General Counsel may not trade in MF Global securities unless the Chief Executive Officer of the Company has approved the transaction(s) in accordance with these procedures. See "Rule 10b5-1 Plans" below for certain exceptions.

Blackout Procedures

Quarterly Blackout Periods. This Policy prohibits trading in MF Global securities by the Designated Persons during a blackout period. The blackout period begins on the 15th day of the third month of each fiscal quarter of MF Global and ends one full trading day after MF Global publicly issues its earnings release for such fiscal quarter (or fiscal year in the case of the fourth fiscal quarter). For these purposes, "***full trading day***" after an earnings release means at least one full-day trading session on the New York Stock Exchange shall have elapsed after the public issuance of such earnings release.

Event-Specific Blackouts. MF Global may on occasion issue potentially material information by means of a press release, SEC filing on Form 8-K or other means designed to achieve widespread dissemination of the information. You should anticipate that trading will be blacked out while MF Global is in the process of assembling the information to be released and until the information has been released and fully absorbed by the market.

Even if a blackout period is not in effect, at no time may you trade in MF Global securities if you are aware of material, non-public information.

Rule 10b5-1 Plans

Trades by Designated Persons in MF Global securities that are executed pursuant to a 10b5-1 plan are not subject to the prohibition on trading on the basis of material, non-public information contained in the Insider Trading Policy or to the restrictions set forth above relating to pre-clearance procedures and blackout periods.

Rule 10b5-1 provides a defense from insider trading liability under SEC Rule 10b-5. To be eligible for this defense, an insider may enter into a "***10b5-1 plan***" for trading in company shares. In general a 10b5-1 plan must be entered into only at a time when you are not aware of material, non-public information. Once the plan is adopted, you must not exercise any influence over the amount of securities to be traded, the price at which they are to be traded or the date of the trade. The plan must either specify (including the formula) the amount, pricing and timing of transactions in advance or delegate discretion on those matters to an independent third party.

MF Global requires that all 10b5-1 plans be approved in writing in advance by the Office of the General Counsel. 10b5-1 plans generally may not be adopted during a blackout period and may only be adopted at a time when the person adopting the plan is not aware of material, non-public information.

Certification of Compliance

To ensure compliance with this Policy and the addendum, all Designated Persons are required to execute and deliver an annual statement to the Company's

General Counsel, certifying their understanding of and intent to comply with the Policy and the addendum. The General Counsel will notify you when such certification is due.

Questions about Insider Trading

If you have a question about these procedures, you should contact:

Office of the General Counsel

Laurie Ferber
General Counsel
(212) 589-6235

Jacqueline Giammarco
Assistant General Counsel
(212) 935-4743

James Ho
Counsel
(212) 589-6467

MF Global

Policy Name: **Employee Trading Policy**
Owner: MF Global Inc. Compliance Department
Effective Date: June 11, 2009
Applicability: All U.S. Based Employees

I. Policy Statement

MF Global's Employee Trading Policy requires the firm's employees to:

- Disclose all Employee and Covered (as defined in the Definitions section of this Policy) securities and futures accounts held internally or away from MF Global ("Outside Accounts") to the Compliance Department on the Employee Account Disclosure Form.
- Obtain prior written trade approval from the employee's manager/supervisor ("supervisor") before any transaction is executed in an Employee or Covered account. Certain transactions exempt from pre-approval are described in Section IV, Exempt Transactions. Written approval must be evidenced on the Employee Trading Pre-Approval Request Form (approvals are only good for the trading day on which they are received).
- Hold positions for a period of at least 30 calendar days (the "Holding Period") from the time of the most recent transaction in the security.

  The Holding Period may be reduced to seven (7) calendar days from the date of the last transaction only if the security has a loss greater than or equal to 20% since the last transaction. Positions with a gain must be held at least 30 calendar days before realizing the gain. Certain transactions exempt from a Holding Period are described in Section IV, Exempt Transactions.

In addition, the Employee Trading Policy **prohibits** the following:

- Employee's maintaining and trading in futures accounts, except accounts managed by an advisor with full discretion, where there are no communications (directly or indirectly) between the advisor and the employee with regard to investment decisions.
- Employee Over-the-counter ("OTC") derivative trading.
- Employee Foreign Exchange Currency trading (except for trading that is solely for currency conversion, which is permitted).
- Employee Spread Betting and Binary Betting.
- Employee trading Contracts for Difference ("CFDs").
- Employee investments with clients and in sectors covered by the employee (with the exception of US Treasuries and US Agencies). For example:
  - An energy sales person covering Exxon may not purchase the stock, bonds or derivatives of Exxon.
  - A mortgage or rates department employee may not trade any ABS, MBS, CDO or the debt or equity of Fannie Mae or Freddie Mac.

- Engaging in the following MF Global security transactions (see the MF Global Ltd. Insider Trading Policy for more information):
  - Short Sales.
  - Options and other Derivatives.
  - Hedging.
  - Holding MF Global securities in a margin account or pledging MF Global securities as collateral for a loan.

Failure to follow the Employee Trading Policy may subject an employee to discipline by the firm, up to and including termination. However, employees will be afforded a reasonable amount of time from the Policy Effective Date to realign their investment portfolios in accordance with the parameters of this Policy.

II. Background

Regulatory requirements create an affirmative obligation to establish, maintain and enforce written policies and procedures reasonably designed to prevent misuse of material, non-public corporate or market information. In an effort to meet these requirements as well as ensure adequate employee trading supervision, employees are required to notify the firm of existing and new Employee and Covered accounts, provide copies of statements and confirmations, and pre-approve their trading activity.

Employees are expected to manage their accounts prudently for investment purposes, as opposed to short-term trading or speculative purposes, and in accordance with the restrictions noted in this Policy.

III. Definitions

"Covered Accounts": defined as:

- spouse or domestic partner, or
- minor children of the employee or their domestic partner, or
- any other family member whose principal residence is the same as the employee's residence, or
- any other person who has an account in which the employee has a financial interest or over which the employee has control or discretion, regardless of the residence of that person (i.e., Trust Account), or
- any person with whom the employee has a joint account, or
- any person to whom the employee provides financial support of more than 50% of his/her annual income, or
- any person to whom the employee claims as a dependent.

"Securities Accounts held away from MF Global" ("Outside Accounts"): defined as any account established at another financial institution (including but not limited to broker-dealers, investment advisors, banks, insurance companies, trust companies, and credit unions) where transactions in securities can be executed. Accounts that cannot hold/trade individual securities are not considered Outside Accounts and therefore are exempt from this Policy. Examples of exempt accounts include 529 accounts, 401(k) accounts that cannot trade individual securities, bank checking accounts, etc.

IV. Policy Exemptions

A. Exempt Transactions

The following transactions do not require managerial pre-approval and are exempt from the 30 calendar day Holding Period:

- Transactions in Money-market Funds.
- Transactions in Mutual Funds.
- Transactions in Exchange Traded Funds and Options on Exchange Traded Funds.
- Transactions in Certificates of Deposit.
- Transactions in U.S. Treasury obligations and debt securities issued by state and municipal governments and government agencies in the United States.
- Transactions in broadly based index options, securities linked to a broadly based index or other diversified basket of securities (such as SPDRs). An index is considered "broadly based" if no component has a weighting of greater than 25% in the index.
- Transactions in fully managed accounts, provided that
  - the account is managed by an advisor; and
  - no communication (directly or indirectly) between the advisor and the employee with regard to individual investment decisions.
- Transactions in Employee and Covered accounts that are estate or trust accounts in which the employee has a beneficial interest, but no power to affect or ability to control or influence investment decisions, provided no communication (directly or indirectly) between the person(s) with investment discretion and the employee with regard to the transaction is permitted to occur prior to execution.
- Transactions in accounts of a spouse or domestic partner who has an independent source of income or assets and in which the employee has no financial interest (e.g., is not a joint owner) and no ability to control or influence investment decisions, provided that no communication (directly or indirectly) between the person(s) with investment discretion and the employee with regard to the transaction is permitted to occur prior to execution.

B. Holdings Exemption

Newly hired employees will be afforded a reasonable amount of time from their Start Date to realign their investment portfolios in accordance with the parameters of this Policy.

V. Procedures

A. Account Disclosure

The Employee Trading Policy requires the firm's employees, including new employees upon joining MF Global, to disclose all Employee and Covered securities and futures accounts held internally or away from MF Global to the Compliance Department on the Employee Account Disclosure Form.

On an ongoing basis, employees are required to notify the Compliance Department if any additional accounts are opened or if any existing accounts are closed. Furthermore, employees are required to attest annually that all Employee and Covered internal and outside accounts have been disclosed.

It is the employee's responsibility, in conjunction with the Compliance Department, to ensure that statements and confirmations are made available and received by the Compliance Department.

B. Pre-Approval

The Employee Trading Policy requires the firm's employees to obtain prior written approval from the employee's direct supervisor before any transaction is executed in an Employee or Covered account. Written approval must be evidenced on the Employee Trading Pre-Approval Request Form.

The completed form should set forth all the material terms of the proposed transaction and should be approved by the employee's supervisor. Only upon written approval from the supervisor may the transaction be effected. Approvals are only good for the trading day on which they are received.

Copies of completed Employee Trading Pre-Approval Request Forms must be forwarded to the Compliance Department and retained by the employee's supervisor.

C. Reduced Holding Period

With supervisor pre-approval, the Holding Period can be reduced from 30 calendar days to 7 calendar days when an employee can show that the last transaction undertaken in his/her Employee or Covered account has recorded a loss in value greater or equal to 20%.

To request a reduced Holding Period for any transactions sought after the 7th calendar day and before the 30th calendar day dated from the last transaction, the following procedure should be followed:

1. The employee should submit a completed Employee Trading Pre-Approval Form, indicating the percentage loss, last trade date, and price in the Employee Attestation section, to his/her supervisor to obtain pre-approval.
2. The supervisor may approve or deny the request. If approved, the supervisor certifies that the requested transactions have recorded a loss in value greater or equal to 20% by signing the Form.
3. The supervisor should send copies of approved Forms to the Compliance Department. Copies of denied Forms should be sent to the employee.

VI. Questions

Questions regarding this Policy should be discussed with your Compliance Officer or emailed to the Compliance Department at Personal Trading.

MF Global

Policy Name: **U.S. Treasury Auctions Policy**
Owner: MF Global Compliance Department
Effective Date: January 21, 2010
Applicability: All U.S. Based Employees

I. Policy Statement

The U.S. Department of the Treasury ("Treasury") has established rules (the "Rules") governing the auction process for U.S. Treasury Securities. MF Global and its affiliates ("MFG") should adhere to these Rules to help safeguard MFG's reputation and ensure business is processed expeditiously.

The purpose of this U.S. Treasury Auctions Policy ("Policy") is to familiarize MFG employees involved in the Treasury auction process with the requirements of the Treasuries Rules and MFG procedures. Employees should review MFG's market chatter guidelines and the Confidentiality and Communication of Information Communication in conjunction with this Policy to avoid misinterpretation.

Prohibited Pre-Auction Communications
MFG employees may not act in concert with any other person, firm or entity with respect to formulating or submitting bids in any Treasury auction. MFG employees may discuss general auction information and market color but may not have discussions or other communications with any other person, firm or entity *at any time* regarding:

- The yields or rates at which MFG or any of its customers plan to bid in any upcoming Treasury auction;
- The amount of securities for which MFG or any of its customers plan to bid in any upcoming Treasury auction;
- The specific investment strategy that MFG or any of its customers plan to follow with respect to any auctioned Treasury security; and
- The size of any Treasury security positions that MFG or any of its customers currently holds, has held at any time, or plans to acquire.

Internal Communications
Traders involved in the process of formulating or submitting MFG's proprietary bids in any Treasury auction may not consider information regarding the Net Long Positions, or bids, of MFG's customers in formulation of MFG's bids, nor may this information be provided to other traders for this purpose.

Permitted Communications
In the course of performing its normal advisory services for customers, MFG may provide customers with published information regarding the auction (e.g., economic releases or auction announcements), general market "color" on a security and economic information on "best guess" impressions regarding the yield or rates at which the securities in question are likely to be auctioned. If information of the latter sort is provided, however, MFG employees must clearly specify that it is solely "best guess" information, and not information regarding the specific rates or yields at which MFG or any customer intends to bid.

II. General Overview

A bid is an offer to purchase a stated par amount of securities in auction. A person or entity (as defined below) who submits a bid is defined as a bidder. Bidders are categorized as follows:

Single Bidder

- A corporation and all Affiliates.
- A partnership for which the IRS has issued a tax-identification number, its general partners and all Affiliates.
- A trust or other fiduciary estate that can be identified by specific reference to the document creating the trust or fiduciary estate.
- A person, his or her spouse, and any children under the age of 21 living at the same address.
- Any persons or entities that intentionally act together with respect to bidding in an auction.

Based on their relationship or their actions, two or more persons or entities may be considered a single bidder for the purposes of participating in an auction. In such cases, their bids should be aggregated and they should be viewed as a single bidder for the purposes of maximum award limitations, non-competitive bidding limitations as well as any reporting obligations, if applicable.

Separate Bidder

A "major organizational component" or "affiliate" may apply to Treasury for recognition as a separate bidder "Separate Bidder Status" if it meets certain criteria. If a customer claims a Separate Bidder Status, the salesperson must obtain evidence of the customer's single bidder status before accepting the bid.

MFG Affiliates

MFG will submit to Treasury a certification that addresses the relationship (in context of Treasury auctions) of its affiliates that are merchant banking portfolio companies. If an affiliate becomes aware of any facts that would prevent MFG from making this certification, MFG will either require the affiliate to either obtain Separate Bidder Status or the affiliate will pass a Board of Directors resolution prohibiting the affiliate from purchasing and holding U.S. Treasury securities. Special bid requirements pertain to MFG Affiliates as follows:

- Affiliates are not permitted to submit non-competitive bids, and
- Affiliates may only bid in a Treasury auction through MFG.

III. Bidding Process

Bids are either competitive or non-competitive. A bidder may not bid both competitively and non-competitively for its own account in the same auction.

A. Competitive Bids

A competitive bid is made to purchase a stated par amount of securities at a specified yield or discount rate. General provisions are as follows:

Competitive Bid Requirements

Each customer's competitive bid is to be recorded by MFG's salesperson on a Competitive Auction Bid Ticket ("CABT"). The CABT should include:

- Salesperson name and RR number
- Date
- Security description

- Par amount (must equal or exceed bid minimum)
- Yield or discount rate
- Customer account number
- Bidder ID (if any)
- Customer's **full legal name,** name of the customer's contact person and phone number
- Customer's net long position "NLP"; if applicable (see Net Long Position Reporting Requirements below)
- Salesperson's initials if the bid meets confirmation notice requirements (see Customer Confirmation Notice section below)

If depository institution or dealer (an "Intermediary") is placing an order through MFG for one of its customers, the CABT should reflect the full legal name of, and other information relating to, the customer as well as the name of the Intermediary.
For a trust or other fiduciary estate, the CABT should reflect the full legal name or title of the trustee or fiduciary, with specific reference to the document creating the trust or fiduciary estate with the date of execution, and the employer identification number of the entity. The bid amount may not exceed 35% of the offering amount.

The CABT should be submitted no less than 30 minutes prior to auction close with all information completed except for par bid amount and yield/discount rate to allow ample processing time. Unless otherwise stated in the offering announcement, the time deadline for the submission of competitive bids to Treasury is 12:59:59 pm (EST) for Notes and Bonds and 11:29:59 am (EST) for Bills. Any tender submitted after this time is late and will not be accepted.

Par and Yield/Discount Rate

The bid par amount and the yield/discount rate should be submitted to Government Trade Support no less than 5 minutes prior to the auction close.

Treasury bills: the discount rate bid must be expressed in three decimals in .005 percent increments. The third decimal must be either a zero (0) or a five (5), e.g., 5.320 or 5.325.

Treasury notes and bonds: the yield bid must be expressed in three decimals in .001 increments, e.g., 4.173.

Treasury inflation-indexed securities: the real yield bid must be expressed in three decimals in .001 increments, e.g., 3.070.

If the third decimal place is omitted, Treasury will treat the missing digit as a zero (0), e.g. 5.32 will be treated as 5.320.

Net Long Position ("NLP") Reporting Requirements

Each competitive bidder should calculate its NLP as it may meet the reporting requirements set by Treasury. Treasury uses NLP reporting to limit the amount that will be awarded to any one bidder in an auction. For each auction, Treasury will define a net long position threshold "Threshold" (generally 35% of the public offerings). If the total of the NLP and the bid(s) is greater than or equal to the stated auction threshold, the bidder should report the NLP to Treasury. It is not an auction violation to submit a bid at a particular yield in excess of the Threshold. However, the amount awarded will be reduced by the excess amount. The NLP should be calculated one-half hour prior to the designated reporting time, usually 12:30 pm (EST) and submitted with the competitive bid.

The NLP is determined by adding the par amounts of securities viewed as comparable to the auctioned securities including:

- Holdings of outstanding securities with the same CUSIP number as the security being auctioned;
- Positions in the auctioned security, in "when issued" trading, futures contracts that require delivery of the specific security being auctioned[1] (does not include futures contracts for which one of several securities may be delivered, or cash settled futures) or forward contracts that require delivery of the specific security being auctioned or of the STRIPS principal component of that security[2]; and
- Holdings of STRIPS principal components of the auctioned security, including "when issued" positions of such principal components (356.13(c)).

MFG's salesperson should inform any customer who submits a competitive bid of $100 million or more that if the customer's NLP reaches the Threshold and it is bidding solely through MF Global, its NLP should be submitted with the tender through MF Global. If the customer is bidding through several dealers or Intermediaries, the customer should select one Intermediary to submit its NLP as the NLP should only be reported only once per auction to Treasury.

Re-openings

A re-opening occurs when the Treasury auctions an additional amount of an outstanding Treasury security. A bidder who participates in the re-opening must count the amount of the security already held by it in determining its NLP. Because a bidder's award could be substantially reduced as a result of its holdings in outstanding securities, the Treasury allows for the application of an optional exclusion amount stated in the auction announcement.

The optional exclusion amount will generally be about 35% of the security outstanding prior to the re-opening, less the amount of the outstanding security held by the Federal Reserve for its own account. MFG does not generally apply the NLP exclusion available for a reopening.

Investment Discretion

Any person (including a salesperson, investment advisor or bank trust department ("Advisor") that exercises investment discretion or control over managed accounts should combine the competitive bids and NLPs of managed accounts with its own positions to when determining its NLP. However, an Advisor may exclude any non-proprietary managed account if the account's NLP is less than $100 million and the account is not bidding competitively. If the Advisor excludes the non-proprietary managed account, the NLP of all non-proprietary managed accounts not being bid for with net short positions of less than $100 million may also be excluded from the Advisor's NLP calculation.

Under no circumstances may an MF Global employee submit information on behalf of a customer that the employee knows to be false or misleading.

[1] As of the date of this Policy, there are no futures contracts being traded that meet these criteria.
[2] As of the date of this Policy, there are no forwards contracts being traded that meet these criteria.

B. Non-Competitive Bids

A non-competitive bid is a bid to purchase securities at the weighted average yield of the discount rate of awards to competitive bidders.

Non-Competitive Bid Requirements
The deadline for the submission of a non-competitive bid is one hour prior to the auction time, generally, 11:59:59 am (EST) for notes and bonds and 10:59:59 am (EST) for bills on the day of the auction, subject to any change noted in the relevant auction announcement. Non-competitive bids are placed without a specific yield or rate. All non-competitive bids will be accepted by Treasury. Since a "single price" method is used, non-competitive bidders pay the same price as competitive bidders.

Limitations:

- A bidder may not bid non-competitively for more than $5 million in a bill, note or bond auction.
- Non-competitive bids may not be submitted if the bidder holds a "when issued," futures or forward position in the auctioned security between the date of the offering announcement and the official announcement by Treasury of the auction results.[3]
- A non-competitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the securities it is acquiring in the auction until the announcement of the auction results by Treasury.
- MFG affiliates are not permitted to submit a non-competitive bid.

An advisor that exercises investment discretion or control over a customer account and submits a non-competitive bid on behalf of such managed account in its own name (rather than in the name of the managed account) is to combine non-competitive bids for itself and such accounts when calculating non-competitive bidder limitations. If the advisor submits bids in the names of the managed accounts, it may bid for each account up to the non-competitive maximum amount listed above.

Each customer's competitive bid is to be recorded by MFG's salesperson on a Non-Competitive Bid Ticket ("NCBT"). The NCBT should include:

- Salesperson name and RR number
- Date
- Security description
- Full legal name of the customer
- Customer account number
- Quantity (must equal or exceed bid minimum)

If the bid is for a trust or other fiduciary estate, the NCBT is to reflect the full legal name or title of the trustee or fiduciary with specific reference to the document creating the trust or fiduciary estate with the date of execution, and the employer identification number of the entity.

[3] For purposes of this restriction on non-competitive bidding, futures contracts include those: (i) that require delivery of the specific security being auctioned, (ii) for which the security being auctioned is one of several securities that may be delivered and (iii) that are cash-settled.

IV. Post Auction Process

A. Non-Competitive Bids

The Salesperson is responsible for notifying customers of auction results for non-competitive bids. MFG should monitor non-competitive bidding activity on a regular basis to identify patterns of customers bidding the maximum bids.

B. Competitive Bids

Customer Confirmation Notices
Customers who are awarded $2 billion or more are required to send written confirmation to Treasury no later than 10am on the next business day after the amount is awarded. MFG's salesperson should inform any customer who submits a competitive bid of $2 billion or more of confirmation notice obligations. Should the amount be awarded, the salesperson should remind the customer of the obligation upon confirming the order. A Sample Confirmation Letter may be provided to the customer to assist them in their filing obligations. MFG's Salespersons should acknowledge on the CABT that the conversations occurred.

Proration of Awards at Stop-Out Rate
When the total amount of bids at the highest accepted yield or discount rate exceeds the amount of the public offering remaining after acceptance of non-competitive bids and competitive bids at the lower yields or discount rates, a percentage of the bids received at the highest accepted yield or discount rate will be awarded. This proration is performed for the purpose of awarding a par amount of securities close to the public offering amount. The percentage is derived by dividing the remaining par amount needed to fill the public offering by the par amount of the bids recognized at the high yield or rate and rounding up to the next hundredth of a percentage point. In this case, MFG is responsible for prorating awards for its customers at the same percentage as that announced by Treasury.

MFG should maintain records pertaining to each auction for six years, the first two of which should be in an easily accessible location.

V. Questions

Please contact your Compliance Officer with any questions about this Policy. In addition, the Uniform Offering Circular (31 CFR Part 356 through Appendix A) can provide additional information.

MF Global

Policy Name:	**Written Supervisory Procedures: U.S Treasury Auctions Policy**
Owner:	MF Global Inc. Compliance Department
Effective Date:	January 21, 2010
Applicability:	Supervisors/Managers of U.S. Based Employees

I. Overview

The U.S. Department of the Treasury ("Treasury") has established rules (the "Rules") governing the auction process for U.S. Treasury Securities. As such, MF Global ("MFG") established the U.S. Treasury Auctions Policy ("Policy") which details the firm's obligations under these Rules. Adherence to this Policy is necessary to help safeguard MFG's reputation and ensure business is processed expeditiously.

Furthermore, MFG has an affirmative obligation to establish, maintain and enforce written supervisory policies and procedures reasonably designed to ensure adherence to these Rules. The supervisory procedures described below have been developed to help ensure the firm and its employees comply with its obligations under the Rules.

II. Supervision of the Treasury Auction Process

Pre-Auction Preparation

1. **Auction Announcement and Coverage** – Middle Office will distribute an auction calendar on a weekly basis detailing the upcoming auctions to personnel involved in the process. On the day of each auction, Compliance will confirm via email the individuals assigned responsibilities to ensure adequate coverage.
2. **Prohibited Communications** – Supervisors on the Sales and Trading Desks should be cognizant of employees' conversations and activity to help ensure that they do act in concert with any other person or entity with respect to submitting bids as well as ensure that traders responsible for the firm's proprietary bids do not consider customer bid information during the process. Additionally, Compliance will compare customer and firm bids on an ongoing basis for similarities.
3. **Calculation of the Firm's Net Long Position ("NLP")** – Middle Office will calculate the firm's NLP for the security approximately ½ hour prior to the auction's closing. A Middle Office Officer or Manager will review and approve. Compliance will obtain attestations from non-participating affiliates.

Auction Submission

1. **Firm Bids** – The Head Trader will be review the NLP and approve the submission of firm bid(s).
2. **Customer Bids** – Compliance will review customer bid tickets for accuracy and completion as well as ensure that Salesperson initialed acknowledging customer notifications of NLP reporting and/or confirmation requirements, if applicable.
3. **Bid Entry** – Middle Office and Compliance will observe the entry and verification of bids to help ensure business is processed accurately and sign-off on submissions.

Post-Submission

1. **Award Booking** – Middle Office will record the award amount and rate. Middle Office and Compliance will observe customer and firm bookings of awards.
2. **Documentation** – Middle Office and Compliance will review to the auction file to ensure supporting documentation is maintained acknowledging their review on the Auction Review Checklist. Middle Office will maintain files.
3. **Maximum Bidder Review** – Compliance will periodically review bid submission for patterns of maximum bidding.

III. Questions

Please contact your Compliance Officer with any questions about the U.S. Treasury Auctions Policy or WSPs.

MF Global

COMPETITIVE AUCTION BID TICKET ("CABT")

- **THIS BID MUST BE SUBMITTED AT LEAST 30 MINUTES PRIOR TO AUCTION CLOSE.**
  (For new customers, please ensure they are established in system prior to submission.)
- **ALL REQUESTED INFORMATION MUST BE PROVIDED.**
  (Except for the bid amount and discount rate/yield, which must be provided at least 10 minutes prior to auction close.)[1]

DATE: _____ **SECURITY:** _____

MATURITY: _____ **CUSIP:** _____

CUSTOMER ACCOUNT INFORMATION

Legal Entity Name: _____ **Bidder ID:** _____

Firm Account Number: _____ **Reportable Net Long Position[2 3]:** _____

CUSTOMER CONTACT INFORMATION

Full Name: _____

Phone Number: _____

	Bid Quantity	Bid Yield[4]
1.		
2.		
3.		
4.		
5.		
	CUSTOMER TOTAL _____	[Note if > $100 Million and/or $2 Billion, see required customer notifications and Salesperson's acknowledgements below]

COMPLETE IF CUSTOMER'S TOTAL BIDS ARE $100 MILLION OR MORE

The salesperson certifies that he/she informed the customer of its obligation to report its net long position, if any, to the Federal Reserve Bank of New York (FRB). The customer is required to report the position either through MF Global or any other dealer or depository institution through which the customer is bidding. **INITIAL BELOW.**

Yes: _____ **No:** _____

COMPLETE IF CUSTOMER'S TOTAL BIDS ARE $2 BILLION OR MORE

The salesperson certifies that he/she (a) informed the customer of its obligation to provide a written statement to the FRB if the customer is awarded $2 billion or more at auction and (b) will remind the customer of this obligation in the event the customer receives such an award. The customer statement must be delivered to the FRB no later than 10:00am (EST) on the next business day after the auction, must confirm that the bid was authorized by the customer and must indicate whether, at the time of the bid, the customer had a reportable net long position and, if so, the amount of the position and the name of the dealer through which the position was reported. **INITIAL BELOW.**

Yes: _____ **No:** _____

Salesperson's Name _____ **RR#** _____

Salesperson's Signature _____ **Date** _____

[1] Any bid submitted not in accordance with these requirements will be processed on a best efforts basis.
[2] If the customer chooses to report its net long position (NLP) through MF Global, the following should be reported:
Record Customer's Position: If the customer's NLP or combination of bids and NLP equal or exceed the threshold specified in the Treasury's offering announcement (35% of the offering amount in each auction).
Record "0": if the customer's NLP is zero or short and its aggregate bids equal or exceed the applicable threshold.
Record Customer's Position or Leave Blank: if the customer's NLP is zero or short and aggregate bids are less than the applicable threshold.
[3] Salespersons are prohibited from submitting bids if they are aware that the customer's net long position is incorrect.
[4] The discount rate or yield bid for each respective Treasury security must be expressed as follows:

TBills and Cash Management Bills:	3 decimals, in increments of .005
Treasury Notes and Bonds:	3 decimals, in increments of .001

MF Global

NON-COMPETITIVE BID TICKET ("NCBT")

- **THIS BID MUST BE SUBMITTED AT LEAST 30 MINUTES PRIOR TO AUCTION CLOSE.**
  (For new customers, please ensure they are established in system prior to submission.)
- **ALL REQUESTED INFORMATION MUST BE PROVIDED[1].**

DATE: _____ **SECURITY:** _____

MATURITY: _____ **CUSIP:** _____

CUSTOMER ACCOUNT INFORMATION

Legal Entity Name: _____ **Bidder ID:** _____

Firm Account Number: _____

CUSTOMER CONTACT INFORMATION

Full Name: _____

Phone Number: _____

Bid Quantity

1. _____
2. _____
3. _____
4. _____
5. _____

CUSTOMER TOTAL _____ *

* Must not exceed $5 million. Affiliates may not submit non-competitive bids.

Salesperson's Name _____ **RR#** _____

Salesperson's Signature _____ **Date** _____

[1] Any bid submitted not in accordance with these requirements will be processed on a best efforts basis.

MF Global

SAMPLE CONFIRMATION LETTER

For Customers Awarded $2 Billion or More in a Treasury Auction

DISCLAIMER and INSTRUCTIONS:

MF Global and its employees do not provide legal advice to its customers. This sample letter is being provided merely as an accommodation only. Customers should consult with their counsel to ensure that the letter meets the necessary requirements. The letter should be sent on the Bidding Entity's Letterhead and must be received by the Treasury no later than 10:00 am (EST) on the day following the auction.

[DATE]

[NAME OF BIDDER]

[BIDDER ADDRESS]

To: Federal Reserve Bank of _____

Tender Processing Area [FAX NUMBER OR ADDRESS]

This letter is to confirm that [NAME OF BIDDER] bid the [SECURITY TYPE] Treasury auction on [DATE] as indicated below:

[PAR BID] [RATE] [PAR AWARD] Submitted through MF Global

[Note: Bids of the same yield submitted through different entities should be listed separately]

[NAME OF BIDDER] [did/did not] have a reportable net long position as defined by Section 356.13 of the Department of the Treasury Circular, Public Debt. Series No. 1-93 (31 CFR Part 356). [If a position was reportable, include the following sentence, otherwise omit]. The amount reported was [$_____] and it was reported through [NAME OF DI/DEALER SUBMITTER OR INTERMEDIARY THAT THE NLP WAS REPORTED THROUGH].

_____ _____

[Authorized Representative] [Print Name]

_____ _____

[Title] [Date]

_____

[Telephone Number]

MF Global

Policy Name: **U.S. Treasury Securities Trading and Financing Policy**
Owner: MF Global Compliance Department
Effective Date: January 22, 2010
Applicability: All U.S. Based Employees

I. Policy Statement

MF Global Inc ("MFG") is committed to conducting its U.S. Treasury Securities ("Treasuries" or "securities") business in a manner that helps support the integrity and liquidity of that market and is consistent with the requirements of applicable laws, rules and regulations. To that end, MFG has developed this U.S. Treasury Securities Trading and Financing Policy ("Policy") for the management of its cash and financing positions in U.S. Treasury Securities. This Policy is designed to help MFG monitor its Treasuries activity and positions in an effort to detect and prevent any situations that could possibly lead to disruption of supply and demand dynamics in the market. This Policy may be modified or supplemented regionally to comply with local law and regulations.

This Policy applies to all MFG employees who are involved in Treasuries activity, supervise such activity, or are in control functions supporting such activity. The Senior Fixed Income Compliance Officer is responsible for maintaining and updating this Policy.

This Policy should be read in conjunction with policies and procedures applicable to all employees of MFG, policies and procedures applicable to MFG employees located or doing business in the U.S., policies and procedures applicable to MFG employees in the Fixed Income Division, and applicable desk policies and procedures.

II. General Overview

MFG's activities should promote market making and overall price transparency and support market liquidity. MFG should avoid pricing practices that do not have an objective of resulting in a transaction.

Supervisors are expected to be aware of and understand all trading strategies undertaken by the trading desks. Supervisors should review the firm's overall trading activity in the Treasury market to ensure that trading behavior in the aggregate, as well as along individual business lines, is appropriate.

Indicators of Adverse Impact on Liquidity

MFG employees who are directly involved in Treasuries activity, supervise such activity, or are in control functions supporting such activity should be alert to patterns, activity or positions of the firm that may adversely impact liquidity in the Treasuries market. Types of activity that may prompt further review include, but are not limited to:

- A large concentration of holdings in the floating supply of a particular security ("floating supply" for purposes of these guidelines is defined as the amount of the security originally issued less the amount that has been stripped into zero-interest instruments);
- Elevated delivery or receive fails in a particular security and/or the presence of particular trades that persistently fail to settle;
- Persistent and deep "specialness" of a security;
- An appreciable or unusual amount of market turnover in a particular security;
- Unusual patterns of either profits or losses;
- Changes in MFG's normal securities lending or borrowing patterns in a security in which the firm has a large position, and
- When securities are trading "special", placing a substantial percentage of floating supply in general collateral funding arrangements, such as GCF or tri-party repo, an apparent increase in such financing over time, or placing large blocks of collateral with select counterparties that typically do not recirculate collateral.

III. Prohibitions and Requirements

A. Prohibited Activities

MFG prohibits trading strategies that intentionally hinder market clearance. Examples of prohibited activities include, but are not limited to:

- Those that cause or exacerbate settlement fails;
- Those that inhibit the provision of liquidity by other; or
- Those that restrict the floating supply of a particular issue in order to generate price movements in that security or related markets.

B. Reporting Requirements

Any employee that become aware of any of the activities described within this Policy above should immediately notify his or her supervisor and line of business Compliance Officer for review and follow-up.

IV. Managing Large Positions

From time to time, MFG may amass a large position, long or short, in a particular Treasury security. While such a position may not necessarily be problematic, MFG should manage that position with heightened vigilance, mindful of the need to support market liquidity and avoid market disruptions. All employees should be aware of the following guidelines:

- MFG should avoid trading strategies that create or exacerbate settlement fails. Extra attention should be given when a large position results primarily from proprietary trading activities.

- When MFG has a large position in a particular security that is trading deeply special, a good faith attempt must be made to lend the security into the specials market rather than financing large portions of this collateral in relatively more expensive funding arrangements. If a trader is intending to use such financing, he or she should consult their manager and the Compliance Department once they have obtained prior approval from senior divisional management.
- When MFG has a large short position in an issue, a good faith attempt should be made to borrow needed securities in an effort to make timely delivery. MFG should not sell a security short in the repo market at rates that imply little expectation of being able to make timely delivery.
- When entering into trading strategies involving large positions, MFG should take care that sudden changes in those strategies do not adversely affect the liquidity or settlement of the issue in the marketplace. Senior divisional management and the Compliance Department should be made aware of any significant changes to Treasuries trading strategies.

V. Market Clearing

MFG should avoid practices that intentionally inhibit the efficient clearing of the Treasuries market. In particular, MFG prohibits the practice of "Slamming the Wire" (i.e., holding back deliveries of a particular security until immediately before close of the securities wire with the intention of causing settlement fails in the market).

All requests that significantly deviate from normal Treasuries settlement practice should be reviewed by the desk manager and the Compliance Department.

Any request to hold settlement of an executed Treasury trade beyond the normal settlement period ("holding the box") should be reviewed and approved in advance by line of business supervision, in consultation with the line of business Compliance Officer, and may only be appropriate in extremely limited circumstances (e.g., to ensure a futures contract delivery obligation). Absent exceptional circumstances, repeated or systematic use of holding the box for a particular security is strictly prohibited.

All traders and salespersons should enter trades promptly into MFG's trading system so that such trades may be made available to the Operations Department to promote efficient settlement.

Incoming securities from counterparties that are to be delivered to other counterparties should be turned around quickly to minimize fails and promote market clearing settlement.
MFG should be diligent in addressing persistent settlement fails. Protracted settlement fails inhibit market efficiency and can reduce market participation.

A. Settlement and Clearing Process

The cutoff time for deliveries of securities is 3:00 PM EST. For same-day settlement trades entered very late in the trading session, deliveries should be processed as expeditiously as possible.

Incoming securities from counterparties that are to be delivered to other counterparties should be turned around quickly to minimize fails and promote market clearing and settlement.

VI. Fails Charges

From time to time delivery or settlement failures involving Treasuries may occur. A delivery failure is defined as a situation in which one party fails to deliver Treasuries to another party by the delivery date previously agreed to by the parties.

A. Delivery Failure Procedures

MFG has adopted these procedures as recommended by the Treasury Market Practices Group ("TMPG") in accordance with "Fails Charge Trading Practice" published and maintained by the Securities Industry and Financial Markets Association ("SIFMA") on its website to deal with situations in which a counterparty fails to deliver to it Treasuries by the relevant delivery date, which is referred to herein as a "Delivery Failure."

1. At the time a financing counterparty relationship is established, the client agreement will indicate MFG's policy relative to Delivery Failures.
2. Each confirmation of transaction involving Treasuries will include MFG's policy relative to Delivery Failures.
3. In the event of a Delivery Failure (MFG's fail to receive), MFG reserves the right to impose a fails charge on the counterparty (a "Fails Charge"). Notwithstanding the foregoing, a counterparty will not be subject to a Fails Charge with respect to a Delivery Failure: (i) in respect of any transaction settling through a clearing agency (as that term is defined in Section 3(a)(23)(A) of the Securities Exchange Act of 1934) where the rules of such clearing agency subject such party to a fails charge in respect of such transaction; or (ii) if the Fails Charge (calculated as described below) over the life of such Delivery Failure is less than or equal to $500. For purposes of clause (ii), when a transaction is executed by an investment manager or other agent on behalf of multiple principals and the allocation of the transaction to such principals is disclosed to their counterparty in the ordinary course, the $500 threshold will be applied separately to the Fails Charge calculated for each principal.

For the avoidance of doubt, a Delivery Failure does not exist: (i) where the counterparty is not required under the terms of the relevant transaction to make delivery (e.g., due to a default by MFG); or (ii) in respect of any transaction where delivery is not against the payment of funds or the transfer of securities (i.e., where there is a "free delivery," such as where a party is to deliver or deposit Treasuries for margin purposes).

Failure by MFG to enforce a Fails Charge in any one transaction or in multiple transactions does not constitute a waiver of any right of MFG with regard to any other transactions, and the Fails Charge as a remedy is without prejudice to any other rights or remedies of MFG under the agreement governing the transaction or under applicable law, and does not constitute a waiver of MFG's right to exercise any other remedy.

Additionally, we are a member of the Fixed Income Clearing Corporation ("FICC") and as such, the FICC subjects each of its members to a substantially similar fails charge in the event such member fails to deliver Treasuries in respect of a transaction settling through FICC.

B. Calculations of Fails Charges

Upon a Delivery Failure, the Fails Charge accrued on each calendar day in the period from and including the date of such Delivery Failure to but excluding the date the Delivery Failure is resolved (by delivery of the Treasuries or otherwise) is calculated according to the formula as recommended by the TMPG (Treasury Market Practices Group) in accordance with "Fails Charge Trading Practice" published and maintained by SIFMA on its website:

$$C = n/360 * .01 * \max(3 - R, 0) * P$$

where:
C = claim amount, in dollars,
n = number of calendar days to the following business day, or to the last calendar day of the month, whichever comes first,
R = TMPG reference rate at the close of business on the business day preceding the fail, in percent per annum, and
P = total proceeds due from buyer, in dollars.

Claims will be cumulated over the course of a calendar month and submitted by the tenth business day of the following month.

C. Payment of Fails Charges

All Fails Charges accrued over the life of a Delivery Failure become due and payable upon resolution of the Delivery Failure (by delivery of the Treasuries or otherwise). Following such resolution, the counterparty must make full payment of all such charges to MFG no later than the last business day of the month following the month in which the resolution occurs.

In the event that the counterparty fails to make a Fails Charge payment when due and payable, it will be liable to MFG for interest on any Fails Charges still owed to the firm, from the date it becomes liable for such Fails Charges until such Fails Charges are paid in full.

VII. Questions and Escalation Issues

All employees are expected to immediately direct all questionable practices or trading activities to their supervisor and line of business Compliance Officer for review and follow-up. Please contact your Compliance Officer with any questions about this Policy.

Appendix 16.A

MF Global

Anti-Money Laundering Compliance Program Manual

The contents of this Manual are confidential and proprietary to MF Global. This Manual is intended for the exclusive use of MFG and its employees and should not be circulated to persons outside of MFG.

FOR INTERNAL USE ONLY

Created: December 2007
Revised: January 2010

TABLE OF CONTENTS

1. MF Global Anti-Money Laundering Policy 5
   - 1.1 Introduction 5
   - 1.2 Policy Statement 5
   - 1.3 AML Requirements Applicable to Clearing Arrangements with Introducing Brokers ("IBs") in Commodities and Securities IBs 6
   - 1.4 What is Money Laundering? 6
   - 1.5 The Importance of this Policy to the Individual Employee or Registered Person 7
2. AML Compliance Officer Designation and Duties 8
3. Know Your Customer ("KYC") Policy, Including the Customer Identification Program 10
4. The Customer Identification Program 12
   - 4.1 Definitions 12
   - 4.2 Required Information 13
   - 4.3 Verifying Information 14
   - 4.4 Notice to Customers 18
   - 4.5 CIP Documentation and Recordkeeping 18
   - 4.6 Additional Documentation for Certain Customers 19
   - 4.7 Risk-Based Assessments for Certain Account Types 19
   - 4.8 Intermediary Accounts 22
   - 4.9 Transferred Accounts 22
   - 4.10 Suspicious Activity During Account Opening Phase 23
   - 4.11 MF Global – CIP in Give-Up Arrangements 23
   - 4.12 MF Global – Agency Lending Relationship 24
   - 4.13 Customers Who Refuse To Provide Information 24
   - 4.14 Reliance on Another Financial Institution 24
   - 4.15 Comparison With Government Lists 25
5. OFAC Policy 26
   - 5.1 Procedures for Rejecting Transactions or Blocking Property 27
   - 5.2 Continuous Monitoring of the OFAC List 28
6. U.S. Treasury Department's Designation of Areas of "Primary Money Laundering Concern" 29

7. Special Requirements for Foreign Financial Institutions 30
7.1 "Correspondent accounts" with Foreign Banks 30
7.2 Prohibition Against Maintaining Accounts for Foreign "Shell" Banks 30
7.3 Record of Owners and Agents of Foreign Banks with "Correspondent Accounts" 30
7.4 Foreign Bank Certifications 31
7.5 Law Enforcement Access to Foreign Bank Records 33

8. Due Diligence for Certain "Correspondent Accounts" for Foreign Financial Institutions and Enhanced Due Diligence ("EDD") for Certain Foreign Banks 34
8.1 Due Diligence for Certain "Correspondent Accounts" for Foreign Financial Institutions 34
8.2 EDD for Certain Foreign Banks 35
8.3 When Due Diligence or EDD Cannot be Adequately Performed 37
8.4 "Correspondent Accounts" involving Give-Up Arrangements 37
8.5 "Correspondent Accounts" Introduced by IBs - MF Global 37
8.6 "Correspondent Accounts" Introduced By Securities IBs – MF Global Securities 38

9. Private Banking Accounts and Senior Foreign Political Figures ("SFPFs")/Politically Exposed Persons ("PEPs") 39
9.1 When Due Diligence Cannot be Adequately Performed 40
9.2 Introduced Private Banking Accounts 40

10. Suspicious Activity/BSA Reporting 40
10.1 Suspicious Activity Reporting 41
10.2 What is Suspicious Activity? 41
10.3 Detecting Suspicious Activity 41
10.4 "Red Flags" – Indicators at the Account Opening Stage 42
10.5 "Red Flags" – Indicators Related to Account Activity 43
10.6 Responding to "Red Flags" and Suspicious Activity 46
10.7 Review of Suspicious Activity as the result of Grand Jury Subpoenas, Third Party Subpoenas or Civil Litigation, 314(a) request or National Security Letter 46
10.8 Monitoring for Suspicious Activity 47
10.9 Suspicious Activity Reporting – Clearing Arrangements with U.S. IBs and Securities IBs 48
10.10 Suspicious Activity Reporting for MF Global's Guaranteed Introducing Brokers 48

10.11 Suspicious Activity Reporting – Clearing Arrangements with Non-U.S. Introducing Brokers 49
10.12 Filing of SARs 49
10.13 Exceptions from SAR-SF Filing Requirements 49
10.14 Retention of SAR Records/Supporting Documentation 50
10.15 Handling of Accounts with SARs Filed/Request from Law Enforcement to Maintain Account 50
10.16 Requests for SARs, Supporting Documentation and Confidentiality of Reports 51
10.17 "Safe Harbor" Protection from Civil Liability 51
10.18 Subpoena Requests for SARs 52

11. Federal Trade Commission ("FTC") Identity Theft Rules and Red Flags 52

12. Information Sharing – PATRIOT Act Section 314 55
12.1 Providing Information to Federal Law Enforcement Agencies – Section 314(a) 55
12.2 Sharing Information with Other Financial Institutions – Patriot Act Section 314(b) 57

13. Other BSA Reporting Requirements 60
13.1 Cash Transactions and Currency Transaction Reports 60
13.2 Transportation of Currency or Monetary Instruments Into or Outside of the United States 61
13.3 Foreign Bank and Financial Accounts Reports 62
13.4 Transfers of $3,000 or More under the Joint and Travel Rules 62

14. Hiring Overview 64

15. Anti-Money Laundering Training 64
15.1 New Hire Training 64
15.2 Ongoing Training 64

16. General AML Recordkeeping 66

17. Annual Audit of AML Program 67
17.1 Monitoring and Supervision of MF Global Guaranteed Introducing Brokers and Branch Offices 67

18. Additional Resources 69

19. Clearing Arrangements with Introducing Brokers 70

19.1 MF Global – Anti-Money Laundering Procedures for IBs and GIBs - Generally 70

19.2 Introducing Brokers – CIP Responsibilities – Generally 70

20. Consequences of Failure by the Firm's Introducing Broker and Securities IB To Comply with the Firm's Procedures - Generally 73

21. Accounts of Employees and Associated Persons 73

22. Confidential Reporting of AML Non-Compliance 73

23. Senior Management Approval 73

Exhibits

Exhibit 1 – Financial Action Task Force ("FATF") Member Approved Countries List 74

Exhibit 2 – List of Prohibited/Sanctioned Countries 75

Exhibit 3 – EDD Form for Foreign Financial Institutions and Foreign Banks 76

Exhibit 4 – EDD Form for Politically Exposed Person (Domestic Clients) 85

Exhibit 5 – EDD Form for Senior Foreign Political Figures 91

Exhibit 6 – Agreement Relating to Allocation of Customer Identification and Verification Procedures - MF Global Inc 97

Exhibit 7 – Introducing Broker Adoption Letter - MF Global Inc 100

Exhibit 8 – Anti-Money Laundering Procedures Resources and References 102

Exhibit 9 – Foreign Bank Certification Form 103

Exhibit 10 – Foreign Bank Recertification Form 107

Exhibit 11 – Approval/Adoption of Anti-Money Laundering Compliance Manual Form 109

Exhibit 12 – Customer Identification Program ("CIP") – Account Opening Guidance 110

1. MF Global Inc. Anti-Money Laundering Policy

1.1 Introduction

In the global marketplace, the attempted use of financial institutions to launder money is a significant problem that has caused great concern in the international and domestic community. This heightened awareness has resulted in the passage of strict laws and increased penalties for money laundering activities worldwide.

MF Global Inc., a registered futures commission merchant ("FCM") with the Commodity Futures Trading Commission ("CFTC"), and National Futures Association ("NFA") member and a registered broker-dealer with the Securities and Exchange Commission ("SEC"), the Chicago Board Options Exchange ("CBOE") and Financial Industry Regulatory Authority ("FINRA") member, **MF Global Market Services, LLC, MF Global FX Clear, LLC** and **MF Global Trade FX, LLC** (which will be referred to herein as "MF Global" or "the Firm"), and its senior management are firmly committed to compliance with all laws and regulations relating to combating money laundering activity, including those rules and regulations requiring the reporting of currency transactions, certain monetary instruments and suspicious activity.

The Bank Secrecy Act ("BSA"), as amended by the USA PATRIOT Act ("PATRIOT Act"), requires financial institutions registered under the Commodity Exchange Act ("CEA"), including stand-alone futures commission merchants ("FCMs") and introducing brokers in commodities, and broker-dealers registered under the Securities Exchange Act ("BDs"), including securities introducing brokers, to establish anti-money laundering ("AML") compliance programs, which include internal policies, procedures and controls designed to detect and prevent money laundering and terrorist financing. The requirements include enhanced "know your customer" obligations (*e.g.*, verification of customer identity pursuant to a Customer Identification Program), monitoring and reporting suspicious transactions, special due diligence checks for certain customers, ongoing employee training, record keeping and independent audits to test the programs.

This Manual ("the Manual") establishes governing principles and standards to protect MF Global and its businesses from being used to launder money. All Firm employees and registered persons, wherever located, must be vigilant in the fight against money laundering and must not allow the Firm to be used for money laundering activities. The Firm's policies and procedures as set forth in this Manual have been approved by Senior Management.

1.2 Policy Statement

It is the policy of the Firm, to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. The Firm's businesses, employees, affiliates and futures and securities introducing brokers ("Introducing Brokers" or "IBs") must take a proactive approach to:

- Protect the Firm from being used as a vehicle for money laundering;
- Adhere to the Customer Identification Program policies and procedures;
- Take appropriate action once suspicious activity is detected and make reports to government authorities in accordance with applicable laws; and
- Comply with applicable money laundering laws, regulations and Firm policies and procedures.

1.3 AML Requirements Applicable to Clearing Arrangements with Introducing Brokers ("IBs") in Commodities and Securities IBs

MF Global acts as a clearing firm for U.S. and non-U.S. IBs (including guaranteed introducing brokers ("GIBs")) and securities IBs. Each U.S. registered IB (including each GIB) and securities IB is subject to its own AML obligations and CIP responsibilities under the PATRIOT Act. Many non-U.S. IBs and securities IBs are also subject to AML laws in their own jurisdictions. As part of the Firm's general AML program, the Firm will consider the money laundering risks posed by the Introducing Broker, including any information the Firm acquires about the account base of the Introducing Broker.

The Firm's policies set forth in the Manual describe the AML responsibilities that may be shared with or delegated to U.S. IBs (including GIBs) and U.S. securities IBs of MF Global, in accordance with applicable AML laws and pursuant to agreement. The Manual addresses, among others, customer identification and verification procedures (See Section 19 below), joint filing of suspicious activity reports (See Section 10, below), enhanced due diligence for correspondent accounts (See Sections 8.5 and 8.6, below) and for private banking accounts (See Section 9.2), as well as the voluntary sharing of information pursuant to Section 314(b) of the PATRIOT Act (See Section 12.2, below). The Manual also addresses how MF Global will perform its AML obligations when a non-U.S. IB or securities IB is involved.

In addition, it is the Firm's policy to ensure that customer accounts introduced by IBs (including GIBs) and securities IBs (both U.S. and non-U.S.) are not prohibited pursuant to any law, regulation, or Executive Order administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"), including the List of Specially Designated Nationals and Blocked Persons *(See Section 5.0 below for a full discussion of the Firm's OFAC policy)*. However, the Firm and each U.S. registered IB (including GIBs) and securities IB, is legally responsible for its OFAC obligations.

Further, pursuant to a guarantee agreement with MF Global, GIBs are allowed to adopt and implement MF Global's AML procedures into their firm's operations. By doing so, GIBs must follow all the policies and procedures contained within this Manual. *(See Section 19.1 below for the procedures relating to a GIB's adoption of the AML policies of MF Global)*. Also, all IBs (including GIBs) are required to sign the Agreement Relating to Allocation of Customer Identification and Verification Procedures *(see Exhibit 6)*.

1.4 What is Money Laundering?

Money laundering is not just the attempt to disguise money derived from the sale of drugs. Rather, money laundering is the involvement in any transaction or series of transactions that seek to conceal or disguise the nature or source of proceeds derived from illegal activities, including drug trafficking, terrorism, organized crime, fraud, and many other crimes.

Money laundering does not need to involve cash. Any transaction conducted with a financial institution might involve money laundering. Trading accounts that are carried by FCMs or securities BDs are vehicles that can be used to launder illegally derived funds. For example, a trading account could be used to execute financial transactions that help obscure the origin of the funds.

Generally, the money laundering process involves three stages:

- Placement

  Physically disposing of funds derived from illegal activity. One way to accomplish this is by placing criminal proceeds into traditional financial institutions or non-traditional financial institutions such as currency exchanges, casinos, or check-cashing services.

- Layering

  Separating the proceeds of criminal activity from their source through the use of layers of financial transactions. These layers are designed to hamper the audit trail, disguise the origin of funds, and provide anonymity.

- Integration

  Placing the laundered proceeds back in the economy in such a way that they re-enter the financial system as apparently legitimate funds.

A financial institution may be used at any point in the money laundering process. The degree of sophistication and complexity in a money laundering scheme is virtually infinite and is limited only by the creative imagination and expertise of criminals.

The Firm's businesses must protect themselves from being used by criminals engaged in placement, layering or integration of illegally derived funds.

1.5 The Importance of this Policy to the Individual Employee or Registered Person

In adhering to this Policy, as with every aspect of its business, the Firm expects that its employees, registered persons and affiliates will conduct themselves in accordance with the highest ethical standards. The Firm employees, registered persons and GIBs who adopt this AML program, shall not knowingly provide advice or offer assistance to individuals who attempt to violate or avoid money laundering laws or this Policy.

Money laundering laws apply not only to criminals who try to launder their ill-gotten gains, but also to financial institutions and their employees who participate in those transactions, if the employees know that the property is criminally derived. "Knowledge" includes the concepts of "willful blindness" and "conscious avoidance of knowledge." Employees of a financial institution whose suspicions are aroused, but who then deliberately fail to make further inquiries, wishing to remain ignorant, may be considered under the law to have the requisite "knowledge." The Firm's employees, registered persons and GIBs who suspect money laundering activities should refer the matter to their supervisor and the relevant Anti-Money Laundering ("AML") Compliance Officer *(See Section 2.0 below)*.

Failure to adhere to this Policy may subject Firm employees and registered persons to disciplinary action, up to and including termination of employment and/or registration, or termination of the guaranteed agreement with the GIB. Violations of anti-money laundering laws carry potential civil and criminal penalties for the Firm and employees, as well as possible forfeiture of assets. Association with money laundering could also cause significant and long-term harm to the Firm's reputation.

2. AML Compliance Officer Designation and Duties

John Brand is designated as the AML Compliance Officer for MF Global Inc and MF Global Market Services, LLC. Joseph Pucci is designated as the AML Compliance Officer for MF Global Capital, LLC, MF Global FX Clear, LLC and MF Global Trade FX, LLC. The AML Compliance Officer's duties and responsibilities include:

- Reviewing and updating the Firm's AML and OFAC policies and procedures consistent with any new statutes, regulations, or regulatory and industry guidance, including making appropriate recommendations regarding new procedures or requirements which would strengthen and enhance the Firm's existing procedures;
- Developing and implementing appropriate customer identification and verification procedures, which include providing appropriate notice, as required by law;
- Arranging for the performance of due diligence, and, where appropriate, enhanced due diligence, on customers pursuant to section 312 of the PATRIOT Act;
- Responding to Treasury designations of jurisdictions as being of "primary money laundering concern" and to any special measures imposed on these jurisdictions, pursuant to section 311 of the PATRIOT Act;
- Establishing and implementing procedures for obtaining certifications/recertifications, where required, from non-U.S. banks and confirming that such certifications/re-certifications have been received;
- Coordinating the handling of information requests from employees regarding AML issues and employee reports of suspicious activity;
- Coordinating investigations into potentially suspicious or criminal activity, including reporting the findings of such investigations to senior management or other supervisory personnel;
- Coordinating SAR reporting with those personnel responsible for filing regulatory forms, such as 8-Rs, 8-Ts, U-4s and U-5s;
- Establishing SAR procedures and arranging for the maintenance of copies of all CTRs, CMIRs and SARs and underlying documentation;
- Reporting transactions involving terrorist financing or ongoing money laundering to FinCEN via the Financial Institutions Hotline (1-866-556-3974), in addition to the timely filing of SARs, where appropriate;
- Assisting in developing and coordinating the Firm's monitoring procedures for both AML and OFAC regulations;
- Assisting the MF Global Training Officer in coordinating training of all authorized personnel;
- Establishing adequate recordkeeping procedures;
- Assisting the MF Global Internal Audit Department in coordinating the review and response to the annual AML audit;
- Acting as principal Firm liaison with law enforcement officials, government regulators, SROs, internal or external auditors, service providers, or any other persons regarding any information requests or issues related to the Firm's AML

programs, including filing any required notices with SROs and responding to specific information requests from FinCEN;

- Coordinating with those responsible for third party subpoenas, including grand jury subpoenas, as well as for civil litigation, to determine whether a SAR is required to be filed in connection with any such matter;
- Coordinating the handling of subpoenas from law enforcement or third parties relating to money laundering inquiries or SARs; and
- Filing an annual Notice for purposes of sharing information with other financial institutions, as necessary, and establishing procedures for the use, disclosure and security of information shared

The Firm's AML Compliance Officer(s) will report all material AML issues to Dennis Klejna, the Chief Compliance Counsel, Thomas Cohen, the U.S. Director of Compliance, or other supervisory personnel.

In the event the Firm's AML Compliance Officer is unable to perform AML related duties (*i.e.* sickness, vacation or leave of absence), the Firm has determined that all Compliance Officers currently employed in the Compliance Department are qualified to temporarily assume AML Compliance Officer duties during such absences.

3. Know Your Customer ("KYC") Policy, Including the Customer Identification Program

The Firm's KYC policy, including its CIP, is focused on the clients with whom the Firm transacts business and is intended to enable authorized personnel who act on behalf of the Firm to obtain information about its clients in order to verify their identities and to better assess their legitimacy and the legitimacy of the transactions conducted with the Firm. This KYC policy, including the CIP, is designed to enhance the Firm's ability to maintain compliance with all applicable statutes and regulations, including the reporting of suspicious activity. There are four components to the Firm's KYC policy:

- Use of reasonable efforts to obtain each customer's identification information, to verify the customer's identity and to conduct additional due diligence of customers where the Firm determines a customer presents a higher risk of money laundering;
- Creation of a base of information with respect to each customer;
- Monitoring of activity for unusual or suspicious transactions; and
- The documentation of due diligence.

The establishment of the Firm's relationship with the customer presents the best opportunity for the Firm to develop a comprehensive knowledge of the customer. In addition, based on the identification information and verification of customer identification, the Firm must form "a reasonable belief that it knows the true identity of each customer." The KYC policy, including the CIP, is aimed at gaining sufficient knowledge of the Firm's customer, so that the Firm can be in a better position to evaluate whether it knows the true identity of the customer and whether any particular transaction is suspicious. The amount of information needed will vary based upon the Firm's assessment of the potential risks associated with a particular client or transaction. Such a risk assessment may depend on how well the Firm already knows the client and whether the client is an individual, public, private, domestic or foreign corporation, a financial or non-financial institution, or an account involving intermediaries. In assessing the risk associated with a particular client or transaction, employees should also consider the following factors:

- Whether the client has been an existing client for a significant period of time;
- How the client became a client of the Firm;
- Whether the business of the client, or the particular type of account, is the type more likely to be involved in illicit activity (*e.g.*, cash intensive businesses);
- Whether the client's home country is an Approved Financial Action Task Force ("FATF") member[1] *(see Exhibit 1)* or whether the client is otherwise subject to adequate anti-money laundering controls in its home jurisdiction;
- Whether the client is incorporated in or operates from a jurisdiction with secrecy laws, or one which has been identified as a high-risk country by FinCEN, the Organization for Economic Cooperation and Development ("OECD"), the U.S.

[1] The FATF is an inter-governmental body established by G-7 whose purpose is the development and promotion of policies to combat money laundering worldwide. In establishing a risk-based approach for its AML program, the Firm has classified certain FATF jurisdictions as high risk for money laundering based on publicly available data (such as the International Narcotics Control Strategy Report ("INCSR"), which is an annual report issued by the U.S. Department of State that assesses the money laundering risks of various countries and jurisdictions). For a list of Approved FATF-member countries, refer to Exhibit 1, herein.

Department of State's annual International Narcotics Controls Strategy Report ("INCSR") or other multilateral expert groups; and

- Whether the client is from a jurisdiction that has been designated as being of "primary money laundering concern" or is subject to special measures or is a non-cooperative jurisdiction in the fight against money laundering by FATF (see Exhibit 2).

4. The Customer Identification Program

The PATRIOT Act – Section 326 requires all FCMs registered with the CFTC under the CEA and all BDs registered with the SEC under the Securities Exchange Act of 1934 to implement a Customer Identification Program ("CIP") that includes risk-based procedures designed to obtain identifying information from any customer who opens an account at the Firm and to verify, to the extent reasonable and practicable, the customer's identity. These procedures apply to new customers who open accounts at the Firm or who are added to existing accounts.

The Firm must maintain records of the information used to verify a customer's identity and determine whether a customer appears on government lists of known or suspected terrorists or terrorist organizations, or other sanctioned persons or entities. The methods and types of information used by the Firm to verify a customer's identity may vary depending on the nature, location, and type of account *(see below)*. The Firm will consider on an ongoing basis whether additional information and methods are appropriate in light of the risks associated with its business operations.

The CIP requirements are in addition to any other obligation of an FCM or BD, including the rules and regulations of the CFTC and SEC, and the rules and regulations of the NFA, CBOE and the FINRA (hereinafter "SROs"), and are only a part of the Firm's overall due diligence.

4.1 Definitions

The Firm's CIP applies to all new customers opening accounts with the Firm. "Account" is broadly defined to include a formal relationship with:

- An FCM established to effect transactions in contracts of sale of commodities for future delivery, options on any contract of sale of commodity for future delivery, or options on a commodity.
- A BD established to effect transactions in securities, including, but not limited to, the purchase or sale of securities and securities loaned and borrowed activity, and to hold securities or other assets for safekeeping or as collateral.

"Account" does not include:

- An account that the Firm acquires through any acquisition, merger, purchase of assets, or assumption of liabilities;
- An account opened for the purpose of participating in an employee benefit plan established under the Employee Retirement Income Security Act of 1974; or
- A give-up arrangement, where MF Global is acting as an executing broker, as described in Section 4.11 below.

"Customer" means:

- A person that opens a new account. The term "person" includes both individuals and non-natural persons (*i.e.*, corporations, limited liability companies, partnerships, trusts, cooperatives, and estates, as well as entities that do not have a legal identity, such as associations, civic groups and other types of informal organizations ("Informal Organizations"); and
- An individual who opens a new account for: (1) an individual who lacks legal capacity; or (2) an Informal Organization.

"Customer" does not include:

- A financial institution (*i.e.*, U.S. broker-dealers, banks, savings associations, certain credit unions, FCMs, and mutual funds) regulated by a Federal functional regulator (*i.e.*, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the SEC or the CFTC), or a bank regulated by a state bank regulator;
- A department or agency of the United States, of any State, or of any political subdivision of any State;
- Any entity established under the laws of the United States, of any State, or of any political subdivision of any State, or under an interstate compact between two or more States, that exercises governmental authority on behalf of the United States or any such State or political subdivision;
- Any public company, other than a bank, (*i.e.*, a company whose common stock or analogous equity interests are listed on the NYSE or the AMEX or whose common stock or analogous equity interests have been designated as a NASDAQ National Market Security listed on the NASDAQ Stock Market, except stock or interests listed under the separate "NASDAQ Small-Cap Issues" heading) to the extent of its domestic operations; or
- A person that has an existing account with the Firm, provided the Firm has a reasonable belief that it knows the true identity of the person.

"U.S. person" means:

- A United States citizen; or
- An entity (such as a corporation, partnership or trust) that is established or organized under the laws of a State or the United States.

"Non-U.S. person" means:

- An individual that is not a citizen of the U.S., or
- An entity that is established or organized under the laws of a non-U.S. jurisdiction

Such persons are referred to as "non-U.S. persons" in this CIP.

4.2 Required Information

In addition to the information the Firm collects under regulations and rules issued by the CFTC, the SEC, and the SROs, the Firm must obtain the following customer identification information from all prospective customers:

- Name;
- Date of birth, for an individual;
- Address, which shall be:
  - for an individual, a residential or business street address and mailing address, if different;

- for an individual who does not have a residential or business street address, an Army Post Office ("APO") or Fleet Post Office ("FPO") box number, or the residential or business street address of a next of kin or another contact individual;
- for a person other than an individual (such as a corporation, partnership or trust), a principal place of business, local office or other physical location, and mailing address, if different.

And

- Identification number, which shall be:
  - for a U.S. person (*i.e.*, individuals or entity), a taxpayer identification number (social security number ("SSN") or employer identification number ("EIN"));
  - for a non-U.S. person, (individual or entity), one or more of the following: a taxpayer identification number; a corporate registration number, a passport number and country of issuance; an alien identification card; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard;
  - for a foreign business or enterprise that does not have an identification number, alternative government-issued documentation certifying the existence of the business or enterprise must be requested.

The Firm may not open an account for a U.S. customer who does not currently have a taxpayer identification number unless, the customer has demonstrated to the Firm's satisfaction that the customer has filed a proper application with the Social Security Administration or Internal Revenue Service for a social security number ("SSN") or an employer identification number ("EIN").

If the customer can adequately demonstrate that a SSN or EIN has been applied for, the account can be opened with the authorization granted by the Firm's Compliance Department. Within a reasonable period of time after the account has been established, generally 30 days, the Firm will obtain the newly issued SSN or EIN from the customer and record the identification number in the customer file.

If after a reasonable amount of time, the customer fails to provide a SSN or an EIN, the matter must be referred to the AML Compliance Officer. The AML Compliance Officer will determine both if the account should be closed and if the occurrence constitutes suspicious activity, and take appropriate action.

4.3 Verifying Information

Verifying a customer's true identity is essential in implementing an effective anti-money laundering program and is required under the PATRIOT Act. In addition to obtaining the required minimum identification information above, the Firm will verify the identity of each customer, including the information obtained from additional account holders for accounts of two or more persons or entities, within a reasonable time period before the customer's account is established, except to the extent that the Firm relies on another financial institution or entity pursuant to a Reliance Agreement as described in Section 4.14, below.

The Firm has determined to use both documentary and non-documentary methods to confirm, to the extent reasonable and practicable, the true identity of potential customers. *(See Sections 4.3(a) and 4.3(b) below for a description of these methods)*. The nature and extent of verification procedures will be determined based on the perceived risk involved in the Firm's entering into the customer relationship. Additionally, the Firm will attempt to resolve any logical inconsistencies it perceives in the information obtained from a potential customer.

The Firm has implemented the following parameters to determine when to use documentary methods, non-documentary methods or some combination of both, during the customer identity verification process. Considering the Firm uses a risk-based approach in executing the CIP program, the implementation of documentary and non-documentary methods may be adjusted where appropriate. These parameters will be followed both for retail accounts and for institutional (non-retail) accounts:

a. Account Types for which the Firm may Use Documentary Verification

When conducting documentary verification, the Firm may use any of the following documentary means to verify customer identity:

- For non-U.S. individuals, the Firm will generally verify identity through documentary methods. In the case of an on-line application submitted by an individual who is a non-U.S. citizen, the Firm has determined to use documentary methods to confirm customer identity as well. Exceptions may be made by the AMLCO when it is deemed reasonably appropriate.

- For U.S. entities, the Firm will generally verify identity through documentary methods. Exceptions may be made by the AMLCO when it is deemed reasonably appropriate.

- For non-U.S. entities, the Firm will generally verify identity through documentary methods. Exceptions may be made by the AMLCO when it is deemed reasonably appropriate.

b. Documents Obtained During Documentary Verification

- For natural persons, an unexpired government-issued identification evidencing nationality or residence and bearing a photograph or similar biometric safeguard (e.g., driver's license, passport, alien registration card, or similar identification).

- For entities, identifying documentation will be requested (e.g., certificate of incorporation, a government-issued business license, partnership agreements, corporate resolutions, prospectuses, operating agreements, or similar charter documents, etc.).

- Where appropriate, a financial statement, bank statement, or a utility bill.

- Please note that for other AML purposes for foreign (non-U.S.) banks, the current Treasury Dept. model certification form must also be obtained. (See Section 7.4 below for the requirements for foreign bank certifications/recertification.)

The Firm is not required to take steps to determine whether the documentation presented for identity verification has been validly issued. If, however, the Firm determines that a document shows some obvious form of fraud, the Firm must determine whether such fraud can prevent the Firm from forming a reasonable belief that it knows the customer's true identity, and whether to file a SAR. The AML Compliance Officer should be consulted concerning instances in which a customer's identity cannot be verified through documentary methods, as provided by these procedures.

In light of the increased occurrence of fraud, as noted above, the Firm may supplement the use of documentary methods by using the non-documentary methods where appropriate, as described below.

c. Account Types for which the Firm may use Non-Documentary Verification

When conducting non-documentary verification, the Firm may use any of the following non-documentary means to verify customer identity[2]:

- For U.S. individuals, the Firm will generally verify identity through non-documentary methods.
- Some prospective customers choose to open accounts electronically using the Firm's on-line application system. Only natural persons may open an account in this manner; corporations and other entities may not. When customers complete the Firm's on-line application, the system generates a customer application form, containing an electronic signature. The application form is received by the Firm's New Accounts Department for additional review. In the case of an on-line application submitted by an individual who is a U.S. citizen, the Firm has determined to use non-documentary methods to confirm customer identity. If the customer information can be adequately verified and does not generate any "red flags," the account will be opened. However, in the event the non-documentary method results in the customer information not being adequately verified or generating a "red flag," the Firm will perform additional review through the use of documentary methods.

d. Documents Obtained during Non-Documentary Verification Efforts

For U.S. Individuals, the Firm will independently verify the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database or other source. Such screening could include, but is not limited to, the following:

- For natural persons who are U.S. citizens, certain elements of the customer's information, including some of the following: the customer's name, address, social security number, date of birth and telephone number, are compared for identity verification and for derogatory information and bad debts against various vendor databases, as appropriate. As discussed below, the customer's name and address also will be compared against the Treasury Department's OFAC List *(See Section 5.0 below)*.

[2] When non-documentary verification is used, sufficient records should be kept to establish which non-documentary methods were used and the results obtained.

- For natural persons who are not U.S. citizens and for U.S. citizens living abroad, the customer's name and foreign address, and SSN, if available, are compared for identity verification and for derogatory information and bad debts via various vendor databases. As discussed below, the customer's name and address will also be compared against the OFAC List *(See Section 5.0 below).*
- For all entities (U.S. and non-U.S.), the entity's name and address are compared for identity verification through various vendor databases and against the OFAC List. If a potential match is received, the Compliance Department will conduct additional due diligence, as well as compare names of the entities' officers or directors or both, against informational databases.
- For all entities, when documentary verification is not available or the AML Compliance Officer or his/her designee determines that it is not sufficient, the Compliance Department will also compare the entity's name with information available from various vendor databases.
- For accounts of foreign banks in high-risk jurisdictions, an Internet-based investigative search is also conducted to verify the bank's identity, location, board of directors and management, if available

In appropriate circumstances, checking references with other financial institutions; and

The Firm may also choose to supplement documentary efforts using non-documentary methods to verify customer identity in the following situations:

- An individual is unable to present an un-expired government-issued identification document that bears a photograph or similar safeguard;
- The documents the customer presents for identity verification are unfamiliar to the Firm;
- The account is opened without obtaining documents;
- The customer opens the account without appearing in person at the Firm; or
- Where the Firm is otherwise presented with circumstances that increase the risk that it will be unable to verify the true identity of a customer through documents

The above list of non-documentary verification methods is not exhaustive.

e. Transactions During the Customer Verification Efforts

As outlined above, the Firm will verify customer information prior to account opening. Therefore, generally during the customer identifying process, limited account transactions may take place. Prior to identity verification, the following types of transactions, among others, are prohibited:

- The customer is prohibited from placing an order to buy or sell futures and/or options contracts.
- The customer is prohibited from placing an order to buy or sell securities and/or engaging in stock loan activities.

- The customer is prohibited from transferring open positions maintained in an account held at another financial institution into the pending futures or securities trading account.

Once the Firm has appropriately verified the customer, the account may be approved and opened. Exceptions to this policy may be made by the AML Compliance Officer. Where such exceptions are permitted, verification of the customer's identity must be made within a reasonable period of time after the account is opened (usually 15 days). Please consult the AML Compliance Officer regarding any questions.

f. Lack of Verification

Suspected irregularities in a prospective customer's documentation or representations must be promptly discussed with the AML Compliance Officer. Generally, the Firm will not establish an account if the documentation required for identity verification cannot be obtained prior to opening the account. Where the Firm is unable to verify a prospective customer's true identity or form a reasonable belief that it knows the customer's true identify, and attempts to verify the customer's identity have failed after a reasonable period of time (usually 15 days) after the opening of the account, the Firm will close the account. The Firm's AML Compliance Officer must be notified of such circumstances so that the Firm can determine whether to file a Suspicious Activity Report *(See Section 10, below).*

Further, the Firm will also conduct additional verification where it is not familiar with the documents presented or where the Firm is otherwise presented with circumstances that increase the risk that it will be unable to verify the true identity of the customer through documents and database screening. Under such circumstances, the approval of senior management or the AML Compliance Officer will be required to establish the account.

4.4 Notice to Customers

Prior to account opening, the Firm will provide notice to each new customer that the Firm is requesting information to verify their identity, as required by Federal law The Firm will provide notice in various ways, including, where appropriate, on its website and on the account opening documentation. The notice to customers will include language, or similar language to, the sample notice provided by the U.S. Treasury Department.[3]

4.5 CIP Documentation and Recordkeeping

The Firm or its designee (e.*g.* a vendor) will retain records relating to the documents, methods used and results of any measures undertaken to verify the identity of the customer, including identifying information obtained about a customer from third-party databases, and records relating to the resolution of each substantive discrepancy discovered when verifying the identifying information obtained, for five years after the record is made.

Records pertaining to the identifying information about customers (specifically, a record of the customer's name, DOB, address and TIN) will be retained for five years after the customer relationship is terminated. In all other respects, the records will be maintained as required by Section 4g of the CEA and Section 17(a) of the Exchange Act and Rule 17a-4 thereunder, and the Firm's record retention policies and procedures.

[3] *See* for example Title 31 CFR § § 103.122(b)(5)(iii) and 103.123(b)(5)(iii).

4.6 Additional Documentation for Certain Customers

In accordance with applicable CFTC and SEC regulations and SRO rules, it is the Firm's policy and practice to collect additional identifying information concerning new customers, as described below. This information will also be evaluated as appropriate for purposes of ensuring compliance with the Firm's AML obligations.

Individual Accounts – The Firm will exercise due diligence to obtain additional personal information concerning the customer, including, among other things, occupation and employment status, such as the name of the customer's employer, as well as the customer's home and mailing address, tax status, annual income, net worth, investment experience and trading objectives.[4]

Corporate Accounts – The Firm will exercise due diligence to obtain additional information concerning, among other things, the nature of the entity's business, the entity's date and state of incorporation, the entity's income and/or revenue, net worth, investment experience and trading objectives, and the names of its principal officers, as well as the identity and authority of its designated business representative.

4.7 Risk-Based Assessments for Certain Account Types

A summary of the standard documentation requirements for the identification and verification of new customers and the additional information required by the Firm to process an application is contained in Exhibit 12.

However, certain customers, including the customer types described below and customers with addresses in high-risk countries and jurisdictions (see jurisdiction risk ranking list maintained under separate cover), may present a higher risk of money laundering or terrorist financing. Recognizing that different types of customers and accounts pose different customer identification and money laundering risks, the Firm will require additional verification information for the category of accounts described below and will also scrutinize relationships with customers in high risk countries or jurisdictions.

During the account opening process for non-U.S. and other high risk accounts, as discussed below, documentation will be collected by the New Accounts Department and forwarded to the Compliance Department. The Compliance Department will review the documentation for the high risk accounts enumerated below. In addition, accounts for Foreign omnibus accounts or Foreign Banks, which will be reviewed by the AML Compliance Officer.

For the account opening process for securities accounts, the Client Services Department will collect the documentation for the following non-U.S. accounts; Foreign Financial Institutions and Foreign Banks, as well as for the other high risk accounts discussed below, and will forward the information to the AML Compliance Officer, who will review the documentation.

The New Accounts Department and the Client Services Department (collectively "Accounts Department"), will facilitate the collection of the customer identification information.

[4] NFA Rule 2-30, Customer Information and Risk Disclosure; and FINRA Rule 2310, Recommendations to Customers (Suitability). Also, where the individual customer trades in security futures products, the Firm will obtain the marital status and number of dependents of the customer, as specified in NFA Rule 2-30(c)(9).

The AML Compliance Officer or the Compliance Department for MF Global (collectively "Compliance Department"), is responsible for approving accounts brought to their attention.

(1) Individual accounts for non-U.S. Citizens – MF Global will record the customer's passport number or a description of the government document used and will verify the customer's identity through documentary methods. Where available and appropriate, MF Global may also use various vendor databases for customer verification. The customer will also be required to provide proof of address, such as a copy of a utility bill, a lease or land deed. Additionally, MF Global will obtain additional identifying information for foreign persons or entities authorized to trade the account. The Compliance Department may inquire more fully regarding the customer's background depending on a number of factors, such as the country of origin of the account holder and the source of funds deposited into the account.

(2) Private Investment Companies (for U.S. and non-U.S.) – In the case of accounts for private investment companies ("PICs") or similar investment vehicles (other than trusts, as described in part (5), below), for purposes of verification, the Accounts Department will obtain formation documents, such as a certificate of incorporation, operating agreements, or similar documents. In addition, the Accounts Department will obtain identifying information for all principals,[5] or entities authorized to trade for the account, and require verification, where appropriate. The Accounts Department will also obtain the same customer identification information for all beneficial owner(s) of the PIC, as it requires for individual account holders under Section 4.2, where available, and will verify the beneficial owner's identity in accordance with the procedures set forth in Section 4.3, above. Where appropriate, the Compliance Department may require additional identifying information of the PIC (e.*g.* bank references).

(3) Non-U.S., including Offshore Entities – Non-U.S. entities (other than non-U.S. PICs, Trusts and publicly held companies, as discussed in part (4), below), will be required to produce formation documentation, such as a certificate of incorporation, a government-issued business license, partnership agreements, corporate resolutions, prospectuses, operating agreements, or similar documents. The MF Global will obtain additional identifying information for the persons or entities authorized to trade the account, as it requires for account holders under Section 4.2, where available, and will verify the beneficial owner's identity in accordance with the procedures set forth in Section 4.3, above, for any beneficial owner(s) with more than a 10% interest of an entity. The Compliance Department will also consider the entity's country of incorporation and location to determine whether additional identifying information is necessary and available.

(4) Non-U.S. Publicly Held Companies, Foreign Financial Institutions – The Compliance Department will verify the identity of a non-U.S. publicly held company or Foreign Financial Institution through the use of databases, to confirm its regulation or listing (e.*g.*, the Financial Services Authority ("FSA") for UK companies, D&B, and other relevant databases), and where such data is not sufficient, will require the customer to produce formation documents. *(See Section 8 below, for a description of enhanced due diligence for certain "correspondent accounts" for Foreign Financial Institutions).* Accounts for foreign banks will be required to timely submit the current Treasury Department model certification form *(See Section 7.4, below).*

(5) Trust Accounts (for U.S. and non-U.S. Trusts) – For purposes of verification, the Accounts Department will obtain a trust agreement/deed (alternatively, the first and last page of

[5] Principals include officers, partners or directors exercising executive responsibility (for example, a Chief Executive Officer, a Chief Operations Officer, a General Partner), or other authorized persons who transact business for the entity.

the agreement plus signature page, notarized; the investment powers section; and the provision that relates to amending the trust, if applicable), or for U.S. trusts only, a trust certificate and a copy of the investment powers.

The Compliance Department will identify the trustee(s), grantor(s) (in particular for living trusts) and/or settlor(s), and the identity and authority of the Trust's representative to act on its behalf (if other than the trustee).

In the case of an individual trustee, the identifying information sought will include the trustee's name and home address.

Additionally, if the trust does not expressly permit trading futures, commodities or securities, Compliance will do one of the following: (1) where the trust is amendable, request that the Settlor(s)/Grantor(s)/ Trust-maker(s) amend the trust to expressly permit futures or securities, where appropriate, which may be done by using an amendment form (provided by the Firm); (2) where the trust is irrevocable, Compliance may request that the Settlor(s)/Grantor(s)/Trust-maker(s) and all beneficiaries sign a release (provided by the Firm); or (3) Compliance may decline the account.

(6) Accounts Originating from Non-Cooperative Countries and Territories – **The Firm will not open accounts for customers that are located in Non-Cooperative Countries and Territories ("NCCT"), as identified by FATF.** During the new account opening process and on an ongoing basis, the Firm will check to ensure that a customer does not reside in or is not organized in a country listed on the FATF NCCT list. As the FATF NCCT list is updated periodically, the Firm will consult the list on a regular basis. As of June 1, 2007, there currently are no countries or jurisdictions on the NCCT list. The Firm's AML Compliance Officer must be notified by the Accounts Department of all attempts to open an account by individuals or entities originating from an NCCT jurisdiction.

(7) Bearer Share Companies - The Financial Action Task Force ("FATF") issued a Consultation Paper regarding the FATF Forty Recommendations which noted that while there are legitimate uses for bearer shares, the high level of anonymity of such shares provides opportunities for misuse. Specifically, FATF stated that with respect to bearer shares, financial assets can be acquired without the purchaser being identified. In such cases, bearer shares can be used to hide ownership of assets to avoid financial responsibilities, such as court judgments in favor of creditors, spousal or child support payments, or to hide ownership of assets from tax authorities. FATF also noted the concern that companies issuing bearer shares may be owned and controlled by persons who cannot be identified. As a general practice, the Firm will offer bearer share company clients two options for dealing with the risks associated with bearer shares: (i) registration of bearer shares memorialized by a corporate resolution or other similar documented corporate action, or (ii) immobilization of physical shares with a pre-approved custodian. Evidence that the company has performed either option should be reviewed by the AMLCO.

(8) Money Service Business ("MSB") – MSBs (*also known as money exchange centers, money changers, money remitters, money exchange offices, MSB's, bureaux de change and casas de cambio*) are generally known "high risk" businesses. These businesses are generally used to: (a) buy and sell foreign currencies, as well as to consolidate small denomination bank notes into larger ones; (b) exchange financial instruments such as traveler's checks, personal checks and money orders into cash; and (c) conduct wire transfers. Applications received for all

MSBs should be opened only with the permission of the relevant AML Compliance Officer, in consultation with the Chief Compliance Counsel or supervisory personnel.

(9) Senior Foreign Government Officials – The Accounts Department will identify accounts of senior foreign political figures ("SFPFs") and politically exposed persons ("PEPs") to enable the Firm to detect and report transactions that could involve the proceeds of foreign corruption. *(See Section 9, below, "Private Banking Accounts & SFPFs/PEPs")*. Such accounts will be opened only with the permission of the relevant AML Compliance Officer, in consultation with the Chief Compliance Counsel or supervisory personnel

(10) Delivery Versus Payment ("DVP") and Receive Versus Payment ("RVP") – Refer to the listing of required documents for DVP and RVP relationships maintained within the matrix maintained under separate cover.

4.8 Intermediary Accounts

In the case of an omnibus account with undisclosed sub-accounts established by financial intermediaries, the Firm is not required to look through the intermediary to the underlying beneficial owners, if the intermediary is identified as the accountholder. In that case, the identities of the underlying owners, investors, or participants do not need to be verified. In addition, based on Treasury, SEC and CFTC guidance, even if the Firm has some information about the beneficial owner of the assets in an omnibus account or a sub-account, the financial intermediary, not the beneficial owner, should be treated as the customer for purposes of the CIP if each of the following conditions is satisfied:

- The omnibus account or relationship is established on or behalf of a financial intermediary for the purpose of executing transactions that will clear or settle at another financial institution, or the omnibus accountholder provides limited information to the firm solely for the purpose of delivering assets to the custody account of the beneficial owner at another financial institution;
- The limited information given to the Firm about the beneficial owner is used primarily to assist the financial intermediary with recordkeeping or to establish sub-accounts that hold positions for a limited duration to facilitate the transfer of assets to another financial institution;
- All transactions in the omnibus account or sub-accounts at the Firm are initiated by the financial intermediary; and
- The beneficial owner has no direct control over the omnibus account or sub-accounts at the Firm. FinCEN and CFTC Guidance (FIN-2006-G004) and SEC Guidance have further information.

For intermediaries in high risk jurisdictions, utilizing a risk-based assessment, the Compliance Department may request additional information during the account opening process for intermediary accounts. Such information may include: (a) whether the institution is located in a bank secrecy haven or a non-cooperative country; (b) the regulation of the institution by its home country; (c) whether the firm is a well recognized institution; and (d) whether the intermediary has developed and implemented an AML program and the length and nature of the Firm's experience with the institution. The Compliance Department may also ask for an attestation, if appropriate.

4.9 Transferred Accounts

The Firm is not required to verify the identity of a customer whose account is transferred to the Firm, if the customer does not initiate the transfer, as where, for example, the Firm begins clearing trades on behalf of existing customers of a new IB. However, transfers may fall within the broader scope of the Firm's AML program. Therefore, the Firm will consider situations where it would be appropriate to verify the identity of customers associated with transferred accounts, including, for example, and procedures of the institution from which the account was transferred. The Firm will also consider whether the risks of a particular transferred account, such as the high risk accounts described above, require that it obtain and verify information concerning the customer's identity.

4.10 Suspicious Activity During Account Opening Phase

With respect to all prospective new accounts, the Firm must monitor for suspicious activity during the account opening process. If a potential customer demonstrates any of the behaviors outlined in Section 10.4 below *("'Red Flags' – Indicators at the Account Opening Stage")*, the matter must be immediately forwarded to the Firm's AML Compliance Officer. The AML Compliance Officer will make the determination as to whether the account will be opened or denied.

In the event a Firm employee, account executive, or affiliate detects suspicious activity, he or she must notify the AML Compliance Officer who will make the determination whether to investigate the matter further. The AML Compliance Officer may gather additional information internally or from third-party sources, contact the government or freeze the account. The AML Compliance Officer, together with the Chief Compliance Counsel or other supervisory personnel, will ultimately decide if filing a SAR *(See Section 10 below for a discussion on Suspicious Activity Reporting)* is appropriate.

If a SAR is filed and the AML Compliance Officer determines to keep the account opened, the account will be subject to additional monitoring. Where applicable, these monitoring activities will be conducted in coordination with the Firm's IBs or securities IBs and the Firm's Compliance Department. The parameters used to identify and monitor suspicious activity are outlined in Sections 10.5 and 10.8, below.

4.11 MF Global – CIP in Give-Up Arrangements

MF Global regularly enters into give-up arrangements with customers and other clearing institutions, whereby MF Global executes trades on behalf of a customer for which MF Global does not perform the clearing function. In this circumstance MF Global acts as the executing broker and "gives up" the trade to the customer's clearing institution. Pursuant to a give-up arrangement where the clearing institution is a U.S. financial institution subject to CIP rules, the clearing institution will establish the account for the customer, and conduct the appropriate customer identification and verification for purposes of CIP. MF Global will only be performing CIP functions in give-up arrangements if it is the clearing firm, not the executing broker. However, even though the customer in a give-up arrangement has not established an account with MF Global, employees who engage in give-up arrangements are responsible for identifying orders executed for the customer that pose money laundering risks. Suspicious activities or transactions detected should be immediately reported to the individual's supervisor and to the AML Compliance Officer. The AML Compliance Officer will determine whether to file a SAR-SF.

In the event that a customer's clearing institution does not accept an order transmitted to it by MF Global, MF Global may enter into an agreement with the customer for purposes of clearing

the executed trade and establish an account for the customer. In this situation, MF Global will conduct the appropriate customer identification and verification for purposes of CIP.

4.12 MF Global Securities – Agency Lending Relationship

MF Global regularly borrows securities from U.S. banks or other broker-dealers ("Agent Lenders"). In this circumstance, a customer of the Agent Lender agrees to make the securities available to be loaned through the Agent Lender's securities loan program. Based on FinCEN guidance, when MF Global borrows securities, the Agent Lender, not the Agent Lender's customer who is the beneficial owner of the securities, will be the customer of MF Global for purposes of CIP if each of the following conditions is satisfied:

- The Agent Lender's customer does not initiate the transaction;
- The Agent Lender determines the securities that will be used to fulfill the borrower's request;
- MF Global records the loan transaction in an account in the name of the agent lender; and
- The information about the lender's customer is generally provided to MF Global after the fact and principally for the purposes of determining credit risk and reporting regulatory capital. FinCEN Guidance (FIN-2006-G007) has further information.

4.13 Customers Who Refuse To Provide Information

Should a potential or existing customer, including investment advisors, either refuse to provide required information as described above, or appear to have intentionally provided false or misleading information, the Firm will not open a new account (or accept the investment advisor) and, after reviewing the circumstances, will consider closing any existing account.

In either case, the Firm's AML Compliance Officer will be notified so that the Firm can determine whether a Suspicious Activity Report should be filed *(See Section 10 below)*.

4.14 Reliance on Another Financial Institution

The Firm may, under certain circumstances, rely on the performance by another financial institution with which it shares an account relationship to undertake any of the procedures necessary to comply with all the requirements of the Firm's CIP. Reliance is permitted if a customer of the Firm is opening, or has opened, an account or has established a similar relationship with the other financial institution to provide or engage in services, dealings or other financial transactions, provided that:

- Such reliance is reasonable under the circumstances;
- The other financial institution is subject to a rule implementing the AML compliance program requirements and is regulated by a federal functional regulator; and
- The other financial institution enters into a contract with the Firm requiring it to certify annually to the Firm that it has implemented an AML Program and will perform (or its agent will perform) the specified requirements of the Firm's CIP.

Pursuant to certain no-action letters[6], the Firm may also rely on a Registered Investment Advisor ("IA") and Registered Commodity Trading Advisor ("CTA") to perform CIP requirements prior to such advisor becoming subject to an AML Program Rule, provided that, in compliance with the requirements above, (1) the IA or CTA is regulated by a Federal Functional Regulator *(See Section 4.1 for the definition of a Federal Functional Regulator)*; (2) such reliance is reasonable under the circumstances; and (3) the investment adviser enters into a contract requiring it to certify annually to the Firm that it has implemented an AML Program and that it will perform specified requirements of the Firm's CIP. This includes Delivery Versus Payment ("DVP") and Receive Versus Payment ("RVP") customers introduced to the Firm through an IA.

Appropriate managerial compliance personnel must approve all such agreements. The Firm will utilize such reliance agreements between affiliates, as appropriate.

Notwithstanding the foregoing, if any Firm employee has any reason to believe that the AML procedures of a financial institution with which the Firm has a reliance agreement, are deficient or lacking, the employee must contact the AML Compliance Officer immediately. Upon the receipt of such information, the AML Compliance Officer shall, if necessary, request from the financial institution any and all documentation (e.*g*. AML manuals, additional representations, etc.) needed in order to determine whether the AML policies and procedures of the financial institution are sufficient, and shall undertake a review of such documentation to determine the sufficiency of such policies and procedures. At the discretion of the AML Compliance Officer, such review may be documented in writing. If the financial institution refuses to provide any information when requested, the Firm will consider whether the account should be opened.

4.15 Comparison with Government Lists

At such time as the Federal government issues any such list, the Firm will use an outside vendor or other automated check to ensure that customers do not appear on any list of known or suspected terrorists or terrorist organizations issued by any Federal government agency and designated as such by Treasury. This determination will be made within a reasonable time after an account is opened, or earlier if required by another Federal law, regulation, or directive issued in connection with the applicable list. If a match is detected, the Firm will follow all Federal directives issued in connection with such lists.

[6] The SEC No-Action Letter will be withdrawn without further action upon the earlier of (1) the date upon which an AML rule for Investment Advisors ("IAs") becomes effective or (2) January 12, 2012. The CFTC No-Action Letter will be deemed to be withdrawn automatically, without further action with respect to CTAs registered with the CFTC and IAs registered with the SEC, upon the earlier of (a) the date upon which the AML Program Rules for CTAs and IAs become effective or (b) 30 days after FinCEN publicly announces that it will not issue AML Program Rules for CTAs and IAs.

5. OFAC Policy

The Office of Foreign Assets Control ("OFAC") of the U.S. Treasury Department is responsible for administering the U.S. economic Sanctions Programs, which are designed to further U.S. foreign policy and national security objectives. OFAC promulgates regulations implementing asset blocking and other sanctions against hostile countries and groups and their specially designated nationals.[7]

All U.S. citizens and permanent resident aliens, wherever they are located, entities and organizations located in the U.S., and overseas branches and subsidiaries of U.S. companies, are subject to OFAC's jurisdiction and must comply with the OFAC Sanctions Programs. Depending upon the particular OFAC Sanctions Program, non-U.S. affiliates owned or controlled by U.S. persons may also be subject to the Sanctions Programs. Even where the laws of a foreign country permit certain transactions, or are in conflict with OFAC's Sanctions Programs, the prohibitions contained in the Sanctions Programs may still apply to any U.S. person located within that foreign country.

The identity of those countries subject to OFAC's Sanctions Programs changes according to the current political climate and U.S. policy regarding existing global threats and hostilities. Some countries have been subject to sanctions for many years, while others have been targeted for a relatively short period of time. In addition, changes also are made frequently to the nature of the sanctions imposed on a particular country and, consequently, to the restrictions imposed on U.S. persons through the Sanctions Programs.

OFAC's Sanctions Programs also apply, depending on the particular program, to transactions with the sanctioned countries, their nationals, agencies, representatives and controlled entities of sanctioned countries, and to persons located within the territories of such countries. Further, the OFAC Sanctions Programs also apply to OFAC's Specially Designated Nationals and Blocked Persons List (the "OFAC List"), which includes prohibited foreign governments, entities, and persons.

OFAC's Sanctions Programs generally prohibit the Firm and its employees from engaging in any transfer or transaction involving an account or property of any person or any entity on the OFAC Lists or an OFAC-sanctioned country (which, in most cases, includes governmental agencies, businesses and individuals in the sanctioned country). Depending upon the Sanctions Program at issue, the regulations prohibit all transactions with a national of a sanctioned country, regardless of where he or she is located, or only prohibit transactions on behalf of nationals of a sanctioned country when he or she physically is present in the that country.

Upon opening an account, the Firm will check that its customer and a customer introduced by an IB (including a GIB) or a securities IB does not appear on the OFAC Lists and that the Firm is not otherwise prohibited from dealing with the individual or entity based upon one of the OFAC Sanctions Programs. However, separately, each U.S. registered IB (including GIBs) and securities IB, is legally responsible for its own OFAC obligations.

[7] See Exhibit 2 for a list of OFAC-sanctioned countries and territories. Summaries of the most recent list of OFAC Sanctions Programs are available from the U.S. Treasury website.

In the event that the Firm determines that a customer or someone for whom the customer is acting appears on the OFAC Lists, or that the Firm is prohibited from doing business with such person based upon one of the OFAC Sanctions Programs, the Firm will block the customer's assets (if held at the firm) or reject the transaction as required by the relevant Sanctions Program. The Firm will report the matter to appropriate authorities and may also call the OFAC Hotline at 1-800-540-6322 to confirm that a customer is on the OFAC list. Further, the AML Compliance Officer must determine whether to file a Suspicious Activity Report with respect to the account. *(See Section 10).*

Because of the complexity of the OFAC requirements, it is important that any such transactions be referred to the AML Compliance Officer. Failure to comply with the sanctions administered by OFAC can result in severe consequences for both individual employees and the Firm, including civil monetary penalties, criminal fines and/or imprisonment. In addition, forfeiture of assets to the U.S. Government may result if they are the subject of such violation.

5.1 Procedures for Rejecting Transactions or Blocking Property

If a prohibited individual or entity is identified, depending on which sanctioned country is involved in the transaction, the Firm is obligated to either (a) reject the transaction or (b) block the property and payment involved in the prohibited transaction. Firm personnel must notify the AML Compliance Officer of all transactions and accounts required to be rejected or blocked pursuant to the OFAC Sanctions Programs. All required forms are to be filed by the AML Compliance Officer.

- Rejected Transactions

In situations where the Firm is required to reject a transaction based upon a particular OFAC Sanctions Program, the Firm will file a Rejected Transaction Form with OFAC within 10 days of rejecting such a transaction.

- Blocked Property

The Firm will not engage in any transaction involving blocked property, *i.e.*, securities or futures in which prohibited countries, governments, entities or individuals have an interest. Blocked property includes the following but is not limited to:

- Securities issued from OFAC-sanctioned countries and governments;
- Securities registered or inscribed in the name of a Cuban national;
- Sovereign debt securities representing obligations of the governments of targeted countries, including Cuba, Iran, Burma and Sudan; and
- Debt or equity securities representing obligations of companies located in Cuba or companies appearing on the OFAC List

Assets required to be blocked must be placed in a blocked account so that no funds may be withdrawn. Debits to blocked accounts are prohibited, although credits are authorized. Cash balances in customer accounts must earn interest at commercially reasonable rates. Blocked securities may not be paid, withdrawn, transferred (even by book transfer), endorsed, guaranteed, or otherwise dealt in. If the transaction is a deposit, the Firm will accept the funds and immediately place them in a blocked account. If the transaction is a transfer of funds (by, through, or to the Firm), the Firm will accept the funds, but rather than transferring them, put them into a blocked account. The Associated Person ("AP") or Registered Representative ("RR") for MF Global responsible for the account will be notified when an account is blocked and should be instructed to cancel all open orders for the blocked account. The AP or RR must

consult with the AML Compliance Officer regarding whether the customer(s) may be notified about the blocked account. Blocked accounts and securities must be reported to OFAC's Compliance Division within 10 days of the blocking action.

- Specific License

The customer whose funds have been blocked may apply to OFAC for a specific license to have the funds released. If the Firm decides to facilitate the possible release of blocked funds, the Firm may also apply to OFAC for a specific license. The AML Compliance Officer must be consulted regarding any such application by the Firm.

- Annual Report of Blocked Property

OFAC requires the filing of a comprehensive annual report on blocked property held as of June 30 by September 30 of that same year on Form TDF 90-22.50. The AML Compliance Officer or his designee shall be responsible for this annual filing.

5.2 Continuous Monitoring of the OFAC List

On an ongoing basis, the Firm, through the use of various third-party vendors, will check that a customer does not appear on the OFAC Sanctions Programs or OFAC Lists. The vendors will perform the screening on a regular basis, including a nightly automated process of checking futures and securities accounts against the OFAC list. Because the OFAC Sanctions Programs and the OFAC Lists are updated frequently, the vendors will also screen the accounts against updated lists when they occur. In both instances, the vendors will notify the Firm of potential matches. The Firm will document its reviews, both at the opening of the account and at the time of the updates.

6. U.S. Treasury Department's Designation of Areas of "Primary Money Laundering Concern"

Under Section 311 of the PATRIOT Act, the Firm is required to take certain "special measures" with respect to any foreign jurisdiction, institution, class of transactions or type of account designated by the Treasury Department to be of "primary money laundering concern." The measures that can be imposed include requiring additional recordkeeping and reporting of certain financial transactions, obtaining and retaining information relating to beneficial ownership of accounts opened by a foreign person, identifying and obtaining information on customers permitted to use the account or whose transactions are routed through the account for certain correspondent and other accounts, and prohibiting the opening or maintenance of certain types of accounts. For instance, Treasury has designated Burma as being of "primary money laundering concern," and has also designated the Commercial Bank of Syria and VEF Bank in Latvia as financial institutions of "primary money laundering concern." *(See Exhibit 2 for the complete list)*. The Firm will comply with all special measures that may be imposed.

The AML Compliance Officer is responsible for implementing procedures for screening all new account applications to determine whether any new account would be subject to any of the existing special measures. Such screening will be performed by outside vendors prior to account opening. The screening will be conducted by the Firm for all accounts, including introduced accounts. If detected, the Firm will take steps to close accounts subject to the special measures. With respect to introduced accounts, the Firm will work with the IBs to close the accounts, as required.

The AML Compliance Officer is also responsible for monitoring to determine whether Treasury has issued any orders imposing additional special measures against a jurisdiction, financial institution, class of transaction, or type of account. If any new special measures are issued, the AML Compliance Officer is responsible for arranging for the prompt review of the Firm's records to determine whether it maintains accounts for an institution named in the order, conducts business with entities located in a jurisdiction subject to special measures, or maintains the types of accounts subject to the special measures.

The AML Compliance Officer is also responsible for arranging for providing of notice to designated customers, as required by applicable special measures.

7. Special Requirements for Foreign Financial Institutions

7.1 "Correspondent accounts" with Foreign Banks

The PATRIOT Act contains several measures that impose additional requirements for U.S. financial institutions that maintain "correspondent accounts" for foreign financial institutions, including banks. The Treasury currently defines "correspondent account" as a foreign account established to receive deposits from, make payments or other disbursements on behalf of a foreign financial institution, or handle other types of financial transactions related to such institutions.[8]

7.2 Prohibition Against Maintaining Accounts for Foreign "Shell" Banks

Section 313 of the PATRIOT Act prohibits certain U.S. financial institutions, including BDs, from establishing, maintaining, administering or managing a "correspondent account" in the U.S. for, or on behalf of, a prohibited shell bank, *i.e.*, a foreign bank that does not have a physical presence[9] in any country, and is not a regulated affiliate.[10] Although these prohibitions, at present, apply to BDs and not to FCMs, MF Global, as a matter of policy, will not do business with a prohibited shell bank.

Any known relationship with a prohibited shell bank must be terminated immediately or as soon thereafter as it is identified. Such relationships should be brought to the immediate attention of the AML Compliance Officer. Reasonable efforts must also be undertaken to ensure that a foreign bank customer is not being used to provide banking services indirectly to a prohibited shell bank.

For purposes of this Section, and for Sections 7.3, 7.4 and 8.2 below, the Firm will ascertain whether there are "correspondent accounts" for foreign banks through information contained on the new account documentation, which indicates the nature of the customer's business. The Firm will also conduct periodic inquiries to determine whether all such foreign banks have been identified. The AML Compliance Officer will also determine whether to file a Suspicious Activity Report *(See Section 10)* in any situation in which the Firm discovers or suspects that it is maintaining an account for a prohibited foreign shell bank or for another entity that is being used to provide services to such a shell bank.

7.3 Record of Owners and Agents of Foreign Banks with "Correspondent Accounts"

Pursuant to Section 319 of the PATRIOT Act, the Firm must maintain the following information for any "correspondent account" maintained in the United States for a foreign bank:

---

[8] For purposes of this definition, "account" means, "any formal relationship (i) established with a broker or dealer in securities to provide regular services to effect transactions in securities, including, but not limited to, the purchase or sale of securities and securities loaned and borrowed activity, and to hold securities or other assets for safekeeping or as collateral; or (ii) established with an FCM to provide regular services, including, but not limited to, those established to effect transactions in contracts of sale of a commodity for future delivery, options on any contract of sale of a commodity for future delivery, or options on a commodity." 31 C.F.R. § 103.175(d)(2)(ii)-(iii).

[9] "Physical presence" is defined as "a place of business that: (1) [i]s maintained by a foreign bank; (2) [i]s located at a fixed address (other than solely an electronic address or a post office box) in a country in which the foreign bank is authorized to conduct banking activities, at which location the foreign bank: (i) [e]mploys 1 or more individuals on a full-time basis; and (ii) [m]aintains operating records related to its banking activities; and (3) [i]s subject to inspection by the banking authority that licensed the foreign bank to conduct banking activities." 31 C.F.R. § 103.175(n).

[10] A "regulated affiliate" is defined as (i) an affiliate of a depository institution, credit union, or foreign bank that maintains a physical presence in the U.S. or a foreign country, as applicable, and (ii) is subject to supervision by a banking authority in the country regulating such affiliated depository institution, credit union, or foreign bank.

- The identity of the owners of a foreign bank whose shares are not publicly traded;
  - An exception to the ownership recordkeeping requirement is provided for any foreign bank that is required to file its ownership information with the Federal Reserve on Form FR Y-7; and
- The name and address of a person who resides in the United States who is authorized and has agreed to be an agent to accept service of legal process for records regarding the "correspondent account."

7.4 Foreign Bank Certifications

In order to avail itself of the safe harbor provision under Sections 313/319 of the PATRIOT Act, the Firm will obtain a certification and re-certification form from each foreign bank that maintains a "correspondent account" with the Firm. The certification is completed by a foreign bank to certify that its clients are not prohibited shell banks and that it is not being used to indirectly service prohibited foreign shell banks. The Firm will use the Model Certification/Recertification Forms issued by the U.S. Treasury Department,[11] or may also obtain a foreign bank's certification and/or recertification from the foreign bank's website, if available. The AML Compliance Officer or his designee is responsible for sending the certification or recertification, as applicable, to the Firm's foreign bank account holders for completion. The Firm will also obtain a foreign bank certification from an IB (including a GIB) or securities IB that is a foreign bank. MF Global will work with the GIB to obtain a copy of a completed certification or recertification from foreign bank clients introduced by GIBs. The Firm may also obtain a copy of a completed certification or recertification from any IB or securities IB that introduces a foreign bank to the Firm, unless otherwise indicated in guidance from FinCEN.

a. Recertification Requirements

Accounts of foreign banks are required to provide a new certification or recertify every three years, or at any time the firm has reason to believe the information is no longer accurate. Upon receipt of the completed certification or re-certification, or if the Firm downloads the relevant form from the foreign bank's website (if available), the AML Compliance Officer or his designee will review the form to ascertain that all required information is included, and shall seek to obtain any information that is missing from the certification or re-certification. The Firm will may also require that the IBs or securities IBs obtain the certification/recertification for introduced customers. The AML Compliance Officer will also review the certification or re-certification to determine whether the information provided is internally consistent. Facsimile copies are acceptable as originals.

b. Interim Verification

If at any time the Firm knows, suspects or has reason to suspect, that any of the information contained in a certification or re-certification provided by a foreign bank, or otherwise relied upon by the Firm for purposes of this regulation, is no longer correct, the Firm will request that the foreign bank verify or correct such information, or shall take other appropriate measures to ascertain the accuracy of the information or to obtain correct information, as appropriate.

[11] See Exhibits 9 and 10 for a copy of the model forms. The model forms can also be obtained on the Treasury's website for the Foreign Bank Certification and for the Recertification.

c. Closure of "Correspondent Accounts"

The Firm will obtain the model certification form from the foreign bank within thirty (30) days of the date the account is opened and a re-certification form on or before the three-year anniversary of the execution of the initial or previous certification.[12] Accounts that do not recertify at or before the end of the three-year period will be closed. The Firm shall close all "correspondent accounts" with such foreign bank within a commercially reasonable time, and shall not permit the foreign bank to establish any new positions or execute any transaction through any such account, other than transactions necessary to close the account.

- Interim Verification of Previously Provided Information

In the case of a foreign bank with respect to which the Firm has sought interim verification of the information previously provided *(See Paragraph (b) of this Section, above)*, the Firm must obtain verification of this information or must receive corrected information from the foreign bank within 90 calendar days after the date of undertaking the verification. If 90 calendar days have passed prior to the Firm receiving either verification of the information or corrected information from the foreign bank, the Firm will close all "correspondent accounts" with such foreign bank within a commercially reasonable time, and will not permit the foreign bank to establish any new positions or execute any transactions through such account, unless necessary to close the account.

- Re-establishment of Closed Accounts and Establishment of New Accounts

The Firm shall not re-establish any account closed pursuant to the above circumstances, and shall not establish any other "correspondent account" with the concerned foreign bank, until it obtains from the foreign bank the certification or re-certification, as appropriate.

- Limit on Civil Liability

If the Firm follows the procedures above, the Firm may not be liable to any person in any court or arbitration proceeding for terminating a "correspondent account" in accordance with these requirements.

d. Recordkeeping Requirement

The Firm must retain the original of any document provided by a foreign bank, and the original or a copy of any document otherwise relied upon by the Firm, for purposes of this requirement, for at least 5 years after the date that the Firm no longer maintains any "correspondent account" for such foreign bank. The Firm will retain such records with respect to any foreign bank for a longer period as directed by the Secretary of the Treasury. The Firm may retain documents it relies upon for purposes of this requirement, other than those provided to it by the foreign bank, in hard copy or in an electronic format. The hard copies will be stored in a manner retrievable by the AML Compliance Officer or designee and the electronic copies shall be stored in a manner retrievable by an authorized employee of the Firm, including the AML Compliance Officer.

[12] The recertification time is the period of time between the execution date noted on the previous certification form and the date on which the recertification is received by the Broker-Dealer (by reference to date stamp or other dating technique).

7.5 Law Enforcement Access to Foreign Bank Records

Pursuant to Section 319(b) of the PATRIOT Act, the Secretary of the Treasury or the Attorney General may issue a summons or subpoena to any foreign bank that maintains a "correspondent account" in the United States and may request records related to such "correspondent account," including records maintained outside of the United States relating to the deposit of funds into the foreign bank. The summons or subpoena may be served in the United States if the foreign bank has a representative in the United States, or in a foreign country pursuant to any mutual legal assistance treaty, multilateral agreement, or other request for international law enforcement assistance. Upon receipt of a request from a Federal law enforcement agency for information on a foreign bank's certification form, MF Global shall provide the information requested within seven (7) days. MF Global will consult with the Chief Compliance Counsel or other supervisory personnel, as to whether to comply with such a request and any additional steps to be taken.

Additionally, MF Global is required to and will terminate any correspondent relationship with a foreign bank within ten (10) business days of receiving notice from the Treasury Department or the U.S. Attorney General that the foreign bank failed to either comply with a summons or subpoena or to contest it in a U.S. court. MF Global will consult with the Chief Compliance Counsel or other supervisory personnel if it receives such notice from Treasury.

Failure to terminate the relationship after such notice may subject MF Global to a civil penalty of up to $10,000 per day until the account is terminated. MF Global will not be liable to any person in any court or arbitration proceeding for terminating a correspondent relationship in accordance with this requirement.

8. Due Diligence for Certain "Correspondent Accounts" for Foreign Financial Institutions and Enhanced Due Diligence ("EDD") for Certain Foreign Banks

Section 312 of the PATRIOT Act sets forth due diligence requirements for "correspondent accounts" maintained by the Firm for foreign financial institutions in the U.S., which includes appropriate, specific, risk-based, and, where necessary, enhanced policies, procedures and controls that are reasonably designed to enable the Firm to detect and report, on an ongoing basis, any known or suspected money laundering activity conducted through or involving any such "correspondent account." The due diligence requirements are applicable to both existing and new correspondent accounts established by the Firm. Accounts for the following "foreign financial institutions" are subject due diligence:

- Foreign bank, *i.e.*, a bank organized under foreign law;
- Foreign branch or office of a U.S. securities broker or dealer;
- Foreign branch or office of a U.S. FCM or a U.S. IB registered, or required to be registered, with the CFTC;
- Foreign branch or office of a U.S. mutual fund;
- Non-U.S. entity that, if located in the U.S., would be a:
  - Securities BD
  - FCM or IB registered, or required to be registered, with the CFTC;
  - Mutual Fund; and
- Non-U.S. entity that is engaged in the business of, and is readily identifiable as, a currency dealer or exchanger or a money transmitter.

8.1 Due Diligence for Certain "Correspondent Accounts" for Foreign Financial Institutions

At a minimum, the due diligence procedures must include the following policies, procedures, and controls:

- Determining whether the account is subject to EDD;
- Assessing the money laundering risk posed by the "correspondent account." Depending on the nature of the foreign financial institution, although the list is not exhaustive, the risk factors may include some or all of the following:
  - The nature of the foreign financial institution's business and the markets it serves;
  - The type, purpose and anticipated activity of the "correspondent account";
  - The nature and duration of the Firm's relationship with the foreign financial institution (and, if relevant, with any affiliate of the foreign financial institution);
  - The AML and supervisory regime of the jurisdiction that issued the charter or license to the foreign financial institution, and, to the extent reasonably available, of the jurisdiction in which any company that is an owner of the foreign financial institution is incorporated or chartered; and
  - Any information known or reasonably available about the foreign financial institution's AML record

- Applying risk-based procedures and controls to each "correspondent account" reasonably designed to detect and report known or suspected money laundering activity;
- Periodically reviewing "correspondent account" activity to determine consistency with information obtained regarding the type, purpose and anticipated activity of the account; and
- Developing procedures addressing what the Firm should do where appropriate due diligence cannot be performed, including when the Firm should refuse to open the account, suspend transaction activity, file a suspicious activity report, or close the account.

In order to assure that the Firm meets its obligations under Section 312, the Firm will use the Enhanced Due Diligence ("EDD") Form for FFIs *(See Exhibit 3)*. The EDD Form for FFIs should be completed by either the AP or RR at the time of account opening. This EDD Form will help the Firm capture the information needed to determine whether to open the account and, if the account is opened, the correct level and frequency of review that should be imposed on the account.

When the EDD Form for FFIs has been completed, the Compliance Department will perform a background check on the FFI and may require additional information from the FFI. This may include, but is not limited to, information regarding the FFI's own AML program and/or passports and background checks of owners and traders of the FFI.

Once the FFI account is opened, it will be reviewed annually for the ongoing purpose of determining money laundering risk, including a review of trading and money movements in and out of the account. Depending on the level of money laundering risk, more frequent reviews may be conducted on the FFI account. For example, accounts that are designated as high risk may require a semi-annual review. The greater risk will usually occur when the account is new, privately owned, trading for other accounts (for example: a foreign broker dealer) or is located in a jurisdiction that does not maintain a robust anti-money laundering program. Generally, accounts requiring annual review will include low risk accounts, usually a publicly traded entity, trading proprietary accounts and accounts located in a jurisdiction with well established anti-money laundering regulations.

Please note that foreign banks must still complete the Treasury Department's Foreign Bank Certification during the new account opening process. *(See Section 7.4 above)*.

8.2 EDD for Certain Foreign Banks

Section 312 of the PATRIOT Act also requires U.S. financial institutions to perform EDD for "correspondent accounts" established, maintained, administered, or managed for certain foreign banks. The EDD requirements are applicable to both existing and new correspondent accounts established by the Firm.[13] The Firm will perform EDD on banks operating under one of the following types of banking licenses:

[13] On August 2, 2007, the Treasury Department issued a final rule implementing the EDD provisions for correspondent accounts under Section 312 that is not yet effective. The EDD provisions will apply to all new correspondent accounts established on or after 180 days from the date of publication in the Federal Register ("180 day date"), and for all existing accounts that were established prior to the 180 day date, the EDD provisions will be applicable 270 days from the date of publication in the Federal Register. In light of the fact that the EDD requirements will be applicable to all of the Firm's existing correspondent accounts, the Firm will apply these EDD procedures to both new and existing accounts as of the effective date of this Manual.

- an "offshore" banking license (*i.e.*, a license that prohibits the foreign bank from conducting business with the citizens of, or in the local currency of, the jurisdiction that issued the bank's license);
- a banking license that has been issued by a foreign country or jurisdiction that has been designated as non-cooperative in the fight against money laundering by an international body, such as the Financial Action Task Force ("FATF"),[14] of which the U.S. is a member and with which designation the U.S. representative to the group or organization concurs (e.*g.* NCCT jurisdictions); or
- a banking license that has been issued by a foreign country that has been designated by the Secretary of the Treasury as warranting special measures due to money laundering concerns. *(See Section 6, above, for discussion of Section 311 special measures).*

The EDD procedures include taking reasonable steps to:

- Conduct enhanced scrutiny of the "correspondent account" to guard against money laundering and to report suspicious activity;
- the Firm will, when appropriate, based on its risk assessment, obtain and consider information relating to the foreign correspondent bank to assess the risk of money laundering presented by such bank's correspondent account;
- the Firm will, as appropriate, monitor transactions to, from or through the "correspondent account" in a manner reasonably designed to detect money laundering and other suspicious activity;
- through the reception of the foreign bank certification, ascertain whether the foreign correspondent bank provides "correspondent accounts" to other foreign banks that use in any way the "correspondent account" established or maintained by the Firm to process transactions, and, if so, conduct appropriate due diligence with regard to such other foreign banks; and
- Identify the owners of the foreign bank if the foreign bank's shares are not publicly traded (for purposes of the enhanced due diligence requirements, "owner" means a person who directly or indirectly owns, controls or has the power to vote 10% or more of any class of shares of the foreign bank).

Utilizing the EDD Form *(See Exhibit 3)*, the New Accounts Department, together with the Compliance Department, is responsible for determining whether any new or existing customer is a foreign bank by reviewing the information obtained from the customer during the account opening process and through independent research concerning the foreign bank. The AML Compliance Officer may also make this determination. For any foreign bank customer that is subject to the EDD requirements, the Compliance Department will assess the nature of the money laundering risk posed by the foreign bank based upon the relevant factors, including, as appropriate: its status as a regulated entity; its location; the AML risks associated with a bank's home jurisdiction; whether the bank provides services to third parties; whether the bank is a subsidiary of a parent in an approved FATF jurisdiction; the geographic markets served by the banks; the expected wire activity; and the identity of the bank's owners. Using a risk-based approach, the AML Compliance Officer or his designee will periodically review the account

[14] See Exhibit 3 for the relevant list of countries and financial institutions designated of primary money laundering concern.

activity of such foreign banks and will determine whether additional procedures should be implemented to limit or monitor the foreign bank's transactions.

In addition, the foreign bank must also complete a Foreign Bank Certification form, as described in Section 7.4, above.

8.3 When Due Diligence or EDD Cannot be Adequately Performed

If the Firm is unable to obtain adequate information regarding a "correspondent account" for a foreign financial institution, as described above, or is unable to take reasonable steps to detect and report possible instances of money laundering, the AML Compliance Officer or his designee shall be contacted immediately. The AML Compliance Officer, after a review of the circumstances, will then determine whether to refuse to open the account, suspend trading activity, file a SAR, or close the account.

8.4 "Correspondent Accounts" involving Give-Up Arrangements

In give-up arrangements, FinCEN guidance provides that it is the responsibility of the clearing firm to conduct the due diligence required for "correspondent accounts." Therefore, where MF Global acts as the executing broker in a give-up arrangement and executes trades on behalf of a customer for which MF Global does not perform the clearing function, the clearing institution will establish the account for the customer and conduct the appropriate due diligence required under the correspondent account rule. Unless it is the clearing institution, MF Global will not be performing the due diligence functions in any give-up arrangements for "correspondent accounts" of customers that are foreign financial institutions. However, even though the customer in a give-up arrangement has not established an account with MF Global, employees who engage in give-up arrangements are responsible for identifying any orders executed for the customer that pose any money laundering risks. Suspicious activities or transactions detected should be immediately reported to the individual's supervisor and to the AML Compliance Officer. The AML Compliance Officer will determine whether to file a SAR-SF.

In the event that a customer's clearing institution does not accept an order transmitted to it by MF Global, MF Global may enter into an agreement with the customer for purposes of clearing the executed trade and establish an account for the customer. In this situation, MF Global will conduct the appropriate due diligence required under the correspondent account rule.

8.5 "Correspondent Accounts" Introduced by IBs - MF Global

Under the "correspondent account" rule, where MF Global enters into a clearing arrangement with an IB (including a GIB), MF Global will perform the required EDD on each introduced account and will follow the procedures set forth in Section 8, above. In these circumstances, although the IB (including a GIB) is not responsible for performing EDD on the introduced account, each IB (including each GIB), is separately responsible for complying with its own general AML obligations, which include monitoring and mitigating the money laundering risks posed by introduced customers, including FFIs.

However, if an IB or a GIB performs additional services beyond the soliciting and accepting of orders, such as administering or managing the correspondent account for the introduced customer, the IB or a GIB would also be required to perform EDD on the introduced account.

If suspicious activity related to FFIs is detected at the IB or at the GIB level, the activity must be reported to MF Global's AML Compliance Officer, who will determine whether to file a SAR. *(See also Sections 10.9 and 10.10 for SAR Reporting by U.S. IBs and GIBs).*

8.6 "Correspondent Accounts" Introduced By Securities IBs – MF Global

Generally, under the "correspondent account" rule, MF Global is not required to perform EDD on FFI customers introduced pursuant to a clearing agreement with a securities IB, since the U.S. IB will perform the required EDD as the U.S. securities IB has the suitability obligation with respect to the introduced customer. However, if MF Global establishes a relationship with the introduced customer such that MF Global must make a suitability determination in order to recommend the purchase, sale or exchange of any security, MF Global will follow the EDD procedures described above in Section 8, for these introduced customers.

9. Private Banking Accounts and Senior Foreign Political Figures ("SFPFs")/Politically Exposed Persons ("PEPs")

The PATRIOT Act sets forth due diligence requirements applicable to private banking accounts[15] for non-U.S. persons. This requirement applies to all such accounts, regardless of when they were opened.

As a matter of policy, the Firm does not maintain "private banking accounts" for its customers. In the event, however, that the Firm decides to offer private banking accounts, the Firm will follow the more extensive procedures required for such accounts under Section 312 of the PATRIOT Act and its implementing regulations, as set forth below, including procedures for private banking accounts maintained for or on behalf of SFPFs,[16] or PEPs,[17] their immediate family members and/or close associates, or entities controlled by SFPFs or PEPs or in which SFPFs or PEPs have a beneficial interest,[18] (collectively referred to as "SFPF/PEP").

Such due diligence shall, at a minimum, include the following:

- Ascertaining the identity of the nominal and beneficial owners of the account;
- Ascertaining the source of funds deposited into the account and the purpose and expected use of such account;
- Ascertaining whether any such holder may be a SFPF/PEP; and
- Reporting, in accordance with applicable law and regulation, any known or suspected violation of law conducted through or involving the account.

The Firm will, however, voluntarily apply the due diligence required under Section 312 to all accounts maintained for or on behalf of non-U.S. persons who are SFPFs/PEPs either directly or through accounts in the name of privately held companies ("PHCs"), as discussed above in Section 4.7(2). Accordingly, accounts requested or maintained for or on behalf of SFPFs/PEPs, and corporate entities through which they act, *e.g.*, PHCs, require enhanced scrutiny and must be approved by senior management or the AML Compliance Officer.

The Firm will take reasonable steps to determine whether the beneficial owners of any accounts are SFPFs/PEPs, including, but not limited to, reviewing public information available in internet databases.

---

[15] A "private banking account" is defined as an account or combination of accounts that (1) requires a minimum in aggregate deposit of funds or other assets of not less than $1,000,000 (2) is established on behalf of one or more non-U.S. individuals who have a direct or beneficial ownership interest in the account, and (3) is assigned to or administered by an officer, employee or agent of a financial institution acting as a liaison between the financial institution and the owner of the account.

[16] A "senior foreign political figure" is defined as (a) a current or former senior official in the executive, legislative, administrative, military or judicial branches of a non-U.S. government (whether elected or not), a current or former senior official of a major non-U.S. political party, or a current or former senior executive of a non-U.S. government-owned commercial enterprise; (b) a corporation, business, or other entity that has been formed by, or for the benefit of, any such individual; (c) an immediate family member of any such individual; and (d) a person who is widely and publicly known (or is actually known) to be a close associate of such individual. For purposes of this definition, a "senior official" or "senior executive" means an individual with substantial authority over policy, operations, or the use of government-owned resources; and "immediate family member" means a spouse, parents, siblings, children and spouse's parents or siblings.

[17] A "politically exposed person" is a term used for individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves. Refer to the FATF 40 Recommendations Glossary for details.

[18] For purposes of this Manual, "beneficial interest" includes a person who possesses an ownership interest of 10% or more.

If the Firm discovers information indicating that a particular account holder may be a SFPF/PEP and upon taking additional reasonable steps to confirm this information, the Firm determines that the individual is, in fact, a SFPF/PEP, the Firm will conduct EDD to detect and report transactions that may involve the proceeds of foreign corruption.

Using the Firm's EDD Form for SFPFs/PEPs *(See Exhibits 5 and 4, respectively)*, the Firm will consider the purpose and use of the account, location of the account holder(s), source of funds in the account, type of transactions engaged in and through the account, and jurisdictions involved in such transactions. The degree of scrutiny the Firm will apply depends on various risk factors, including, but not limited to, whether the jurisdiction the SFPF/PEP is from is one in which current or former political figures have been implicated in corruption and the length of time that the political figure has been in office. Depending on the risk factors, the Firm's EDD might include: probing the account holder's employment history, scrutinizing the account holder's source of funds, monitoring transactions to the extent necessary to detect and report proceeds of foreign corruption, and reviewing the monies coming from government, government controlled, or government enterprise accounts. Additional guidance can be found at the U.S. Treasury Website.

9.1 When Due Diligence Cannot be Adequately Performed

If the Firm is unable to take reasonable steps to detect and report possible instances of money laundering or to obtain information relating to an account or an account maintained for or on behalf of a SFPF/PEP, the AML Compliance Officer shall be contacted immediately. The AML Compliance Officer, after a review of the circumstances, will then determine whether to refuse to open the account, suspend trading in the account, file an SAR, or close the account.

9.2 Introduced Private Banking Accounts

Generally, the Firm will not be required to perform due diligence under the private banking account rule for accounts introduced by an IB (including a GIB) or a securities IB, where the Firm does not offer or maintain a private banking account for the introduced customer. As part of its assessment of the money laundering risks posed by the IB (including a GIB) or the securities IB, as applicable, the Firm will consider whether or not the IB (including a GIB) offers private banking accounts.

Depending on the relationship between MF Global and the IB, where the IB offers a private banking account, the IB will perform the due diligence required under the private banking rule on the introduced customer.

With respect to GIBs of MF Global, if a GIB offers or maintains a private banking account for an introduced customer, by the nature of the guaranteed relationship between MF Global and the GIB, both MF Global and the GIB will perform the required due diligence under the private banking account rule, on the introduced customer.

As part of MF Global's obligations under the private banking rule, MF Global will follow the procedures set forth above in Section 9 for private banking accounts.

10. Suspicious Activity/BSA Reporting

The Firm takes a variety of measures to identify, detect, prevent and mitigate identify theft. The Firm is required by the Securities and Futures Industries to file a Suspicious Activity Report on

FinCEN Form 101 ("SAR-SF" or "SAR") concerning suspicious transactions relating to possible money laundering and other suspected criminal activity. Further, under the BSA, the Firm is required to file various reports with the government regarding such matters as receipt of currency, international transportation of monetary instruments, and ownership of foreign financial accounts.

10.1 Suspicious Activity Reporting

All personnel authorized to act on behalf of the Firm should endeavor to keep their knowledge and understanding of the Firm's customers up-to-date so that the Firm can better assess particular transactions undertaken with that customer. Firm personnel should therefore continue to exercise due diligence in all dealings with its customers and be sensitive to new information that affects the customer's integrity, such as media accounts, rating agency reports, and industry references, or that indicates a deviation from the business activity in which the customer normally engages.

All employees must report any potential suspicious activity immediately upon detection, to their supervisor, and/or relevant AML Compliance Officer. Upon receiving information regarding potentially suspicious activity, the AML Compliance Officer or his designee will conduct a thorough review of the activity and provide the information to the Chief Compliance Counsel or other supervisory personnel. The AML Compliance Officer, in consultation with the Chief Compliance Counsel or other supervisor personnel, will be responsible for making the final determination with respect to the filing of a SAR-SF. SARs may be periodically reported to supervisory personnel.

Employees shall not, under any circumstances, inform any client that the Firm is investigating suspicious transactions or activity in their account or that a SAR has been filed. The AML Compliance Officer or his designee will document any review of potentially suspicious activity. If no SAR is ultimately filed, the records maintained concerning such review must include the reason(s) a SAR was not filed.

10.2 What is Suspicious Activity?

A transaction must be reported through the filing of a SAR-SF if it was conducted or attempted by, at or through the Firm, it involves or aggregates funds or other assets of at least $5,000, and the Firm knows, suspects, or has reason to suspect that the transaction:

- Involves illegally derived funds or is intended to hide or disguise illegally derived funds;
- Is designed to evade federal transaction reporting requirements;
- Has no business or apparent lawful purpose and for which the firm knows of no reasonable explanation after examining the available facts; or
- Involves use of the Firm to facilitate criminal activity.

The Firm may also voluntarily report known or suspected criminal activity even if it falls below the $5,000 threshold.

10.3 Detecting Suspicious Activity

A determination of whether any transaction or series of transactions is suspicious will depend on the customer and the particular transaction(s), compared with the customer's normal business activity. Unusual or questionable transactions, sometimes referred to as "red flags," may include those that appear to involve secrecy, lack a reasonable economic basis or recognizable strategy based upon what the Firm knows about the customer. Suspicious activity can occur either at the outset of the client relationship or long after the relationship has been established.

If you spot any of the red flags described below or any other questionable circumstances, **DO NOT KEEP YOUR OBSERVATIONS TO YOURSELF**. Rather, **always** report findings immediately to your supervisor and/or the AML Compliance Officer or Chief Compliance Counsel. The AML Compliance Officer or his designee will conduct further inquiry, including whether there is a reasonable commercial explanation for the activity, and determine, in consultation with the Chief Compliance Counsel or other supervisory personnel, whether the conduct or activity has to be reported to FinCEN.

10.4 "Red Flags" – Indicators at the Account Opening Stage

Although by no means exhaustive, the following is a list of potential indicators of suspicious activity at the account opening stage, which, if unexplained, may evidence an intent to engage in money laundering activity:

- A customer exhibits an unusual concern regarding the Firm's compliance with government reporting requirements, particularly with respect to his or her identity, type of business and assets, or is reluctant or refuses to reveal any information that the Firm requires to comply with the BSA, or furnishes unusual or suspect information or business documents;
- A customer wishes to engage in transactions that lack business sense, apparent investment strategy, or are inconsistent with the customer's stated business/strategy;
- A customer (or a person closely associated with the customer) has a questionable background;
- A customer (or a person/entity closely associated with a customer) has a questionable background or is the subject of news reports indicating possible criminal, civil or regulatory violations;
- A customer appears to be acting as the agent for another entity, but declines, evades or is reluctant, without legitimate commercial reasons, to provide any information in response to questions about that entity;
- A customer purports to represent a company but provides only general, boilerplate data about that entity and cannot provide evidence of ongoing and legitimate business activity;
- A customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry;
- A customer has requested to open an account in which several persons have been given signature authority and these individuals have no apparent familial or business relationship with the customer;
- A customer provides information that is determined to be false;

- A customer attempts to use bribery, coercion, undue influence, or other inappropriate means to induce the Firm to open an account;
- A customer, upon request, cannot provide bank references from known and reputable institutions and fails to provide other credible references;
- A customer is introduced by another institution or customer from a country where illegal drug production and/or money laundering is believed to be prevalent;
- A customer implies or suggests that he/she does not wish his/her identity revealed to regulatory authorities in the country where the account is carried;
- A customer exhibits unusual concern about the secrecy of his/her transactions or requests information regarding how to conceal transactions from government authorities where the account is carried;
- A customer appears to be controlled by a SFPF/PEP;
- A customer is a non-U.S. bank that declines to provide information regarding ownership;
- A customer makes a misrepresentation to the Firm that his or her name does not appear on an OFAC list but the name is discovered during the due diligence review process; or
- A customer opens a number of accounts under one or more names and indicates intent to make regular inter-account transfers without apparent legitimate business or commercial purpose.

10.5 "Red Flags" – Indicators Related to Account Activity

Although by no means exhaustive, the following is a list of potential indicators of suspicious account or transactional activity, which if unexplained, may evidence money laundering activity:

- A customer attempts to make frequent or large deposits of currency, insists on dealing only in cash equivalents or asks for exemptions to the Firm's policies relating to cash and cash equivalents;[19]
- A customer engages in transactions involving cash under $10,000 or cash equivalents or other monetary instruments that appear to be structured to avoid government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds and/or are sequentially numbered;
- A customer seeks to change or cancel a transaction after being informed of reporting requirements or recordkeeping requirements relevant to the transaction;
- A customer attempts to or engages in multiple transfers of funds or wire transfers to and from accounts located in countries that are considered bank secrecy or "tax havens" that have no apparent business purpose, or are otherwise considered by the Firm to be high-risk (*see jurisdiction rank list maintained under separate cover*), or countries or jurisdictions listed on FATF's NCCT list or the OFAC Lists (*see Exhibit 2*);

[19] See Section 13.1 for policies on cash disbursements for MF Global Inc.

- A customer's account has patterns of transactions seemingly structured so that each transaction falls just below a reporting threshold;
- A customer's account has inflows of funds beyond customer's resources;
- A customer's account has sudden bursts of unexplained or extensive wire transfers;
- A customer engages in extensive wire transfer activity with little or no corresponding long-term investment in the account;
- A customer engages in wire transfers that do not include the normal identifying information or suggest attempts to hide the identity of the originator or recipient;
- A customer makes deposits followed by an immediate request for withdrawal or transfer of funds to a third party, or to another Firm, without any apparent business purpose;
- A customer makes a funds deposit, for the purpose of purchasing a long-term investment, followed shortly thereafter by a request to liquidate the position and a transfer of the proceeds out of the account for reasons that are suspicious or make little sense;
- For no apparent reason, a customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers;
- A customer engages in excessive journal entries between unrelated accounts without any apparent business purpose;
- A customer requests that a transaction be processed in such a manner so as to avoid the Firm's normal documentation requirements;
- A customer transmits or receives funds transfers without normal identifying information or in a manner that indicates an attempt to disguise or hide the country of origin or destination or identity of the customer sending the funds or the beneficiary to whom the funds are sent;
- A customer exhibits a total lack of concern regarding risks, commissions or other transaction costs or offers to pay charges higher than the normal cost in order to secure secrecy;
- A customer's lifestyle is inconsistent with known, legitimate sources of income, or customer possesses large sums of money not consistent with known income sources;
- A customer uses multiple Post Office boxes or changes addresses on a frequent basis;
- A customer attempts to or engages in a transaction using multiple monetary instruments, especially if instruments are sequentially numbered or just below reporting or logging thresholds;
- A customer engages in wash commodities or securities trades or other fictitious or non-bona fide transactions in violation of the CEA or the Securities Exchange Act;
- A customer attempts to use bribery, coercion, undue influence, or other inappropriate means to induce the Firm to proceed with a transaction;

- A customer has difficulty describing the reason for frequent transfers to bank accounts or jurisdictions outside the customer's home country;
- A customer asks to make payments in cash or cash-equivalents (Please note that the Firm does not accept cash);
- A customer requests settlements through means outside a recognized clearing system (Such means may include bearer securities, third party checks or other instruments);
- A customer's transaction is inconsistent with the customer's known legitimate business;
- A customer's transaction is inconsistent with account opening documents or the normal pattern of investments for that type of customer;
- A customer seeks to deposit or invest the securities or funds of a third party with which there is no commercial, familial or fiduciary relationship;
- A customer requests the transfer of funds or investments to third parties, unrelated to any commercial, familial or fiduciary purpose;
- A customer buys and/or sells securities, commodities or currency with no discernable economic purpose, or for the benefit of a third party with whom there is no commercial, familial or fiduciary relationship;
- A customer account receives in, and transfers out, large amounts of funds without engaging in much or any trading or investment activity;
- A customer knowingly offers gifts or gratuities in excess of the Firm's gift policies;
- A customer conducts business under unusual circumstances, at irregular hours, or from unusual locations;
- A customer attempts to engage in or appears to be engaging in activity that violates the law;
- A customer account experiences a large number of securities and/or futures transactions across a number of jurisdictions;
- The customer engages in transactions involving certain types of securities, such as penny stock, Regulation S stocks, and bearer bonds, which although legitimate, have been used in fraudulent schemes and money laundering activity, such as:
    - A customer states that he or she was awarded restricted stock as a consultant;
    - A customer engages in large sales of securities, particularly penny stocks, followed by a wiring out of the proceeds of the transactions to third parties, particularly when no other investments are intended;
    - A customer trades just before or just after announcing news about a company, moving the price of the securities or other evidence of manipulative trading; or
    - A customer appears to be engaging in prearranged, wash or fictitious trading.
- A customer account has unusual wire transfer activity including:
    - Wire transfers or other money movement to or from locations not typically associated with the customer's business;

- Wire transfers or other transactions in amounts not typically associated with the customer's business;
- A customer only provides a registered agent's address, or raises other address-related inconsistencies;
- A customer exceeds the anticipated wire transfers in a given period;
- Payments by multiple wire transfers, if such payment is inconsistent with the customer's typical business;
- Collection of funds by multiple wire transfers from different sources, followed by outgoing wire transfers;
- Transfers to and from numbered accounts, bank secrecy havens or countries associated with money laundering; and/or
- Frequent and large-scale usage of wire transfers, including wire transfers to or from locations outside the United States, from an account with only nominal futures activity.

10.6 Responding to "Red Flags" and Suspicious Activity

Suspicious activities or transactions should be immediately reported to the individual's supervisor and/or to the relevant AML Compliance Officer. The AML Compliance Officer will advise and be responsible for determining whether the transaction, attempted transaction or account activity warrants further investigation. This may include gathering additional information internally or from third party sources, contacting the government and/or freezing the account. The AML Compliance Officer, in consultation with the Chief Compliance Counsel or other supervisory personnel, will determine whether to file a SAR-SF.

10.7 Review of Suspicious Activity as the result of Grand Jury Subpoenas, Third Party Subpoenas or Civil Litigation, 314(a) request or National Security Letter

Where the Firm has received a grand jury subpoena, third party subpoena, or a complaint in a civil litigation alleging criminal or other fraudulent activity (including arbitration or reparation claim), but has not filed a SAR regarding the subject customer of the investigation or pending lawsuit, the receipt of such a subpoena may not by itself require the filing of a SAR. However, the AML Compliance Officer, in consultation with the Chief Compliance Counsel or senior management, will conduct a risk assessment of the subject customer and also review its account activity to determine whether to elevate the risk profile of the customer and whether to file a SAR-SF. If the Firm determines to file a SAR relating to the information contained in a grand jury subpoena, the Firm shall not reference the receipt of the grand jury subpoena in the SAR.

In addition, where the Firm becomes aware, either through a 314(a) request, National Security Letter, or other similar communication, that an account is under law enforcement review, the AML Compliance Officer, in consultation with the Chief Compliance Counsel or senior management, will also review the account to determine whether to file a SAR.

If the Firm determines to file a SAR relating to the information contained in a National Security Letter, the Firm will not reference the receipt or existence of such letter in the SAR-SF or supporting documentation, nor will the Firm disclose to any person that a government authority or the FBI is seeking or has obtained access to records of an account.

Further, if the Firm receives a 314(a) request regarding the account that is under review, the AML Compliance Officer will follow the 314(a) procedures described in Section 12, below, including not disclosing to any person, other than FinCEN or the federal law enforcement agency on whose behalf FinCEN has requested the information, that the account is under review, except to the extent necessary to comply with such an information request. In addition, if the Firm determines to file a SAR, the Firm will not reference the receipt of a 314(a) request in the SAR-SF or supporting documentation.

The Firm will handle issues relating to accounts under review by law enforcement in accordance with the procedures described below. *(see Section 10.15).*

10.8 Monitoring for Suspicious Activity

Generally, the Firm will monitor account activity to detect illegal, unusual or potentially suspicious account activity. Account activities subject to monitoring include, but are not limited to, the flow of money into and out of an account, the types, amount and frequency of different financial instruments deposited into and withdrawn from the account and journal entries between related and unrelated accounts. All employees, and in particular APs and RRs, that work in areas susceptible to money laundering activities must play an active role in the monitoring of account activity. All such employees must monitor account activity to aid in the detection and identification of unusual size, volume, pattern or type of transaction. All such employees must be cognizant of geographic factors, including whether countries or jurisdictions of high risk are involved, or are prohibited because they are designated as either NCCT, subject to special measures, or included on the OFAC lists. Further, all employees should monitor account activity for the "red flags" identified in Sections 10.4 and 10.5 above.

The Firm will monitor customer wire transfer activity in order to identify any unusual volume or amount, pattern or type of transactions, geographic factors and any of the "red flags" identified in Sections 10.4 and 10.5 above, and will bring any identified activity to the attention of the AML Compliance Officer. APs and RRs, as appropriate, will also review customer activity for suspicious transactions. In addition, the following departments may also monitor account activity: Operations, Sales, Client Services, Margins and Treasury, as appropriate. Suspicious activity must be brought to the attention of the Firm's AML Compliance Officer.

The extent of transaction monitoring required for customers in the same or similar categories may vary depending on the risk associated with particular customers and transactions. If suspicious activity is detected, the employee must report the findings to a supervisor immediately and/or the AML Compliance Officer. Supervisors will look at transactions in the context of historical account activity, funds movements, and trading patterns to determine if a transaction or series of transactions lacks financial sense, or is suspicious because it is an unusual strategy or transaction for that customer. Supervisors must promptly bring such activity to the attention of the AML Compliance Officer. The AML Compliance Officer or designee shall be responsible for obtaining and maintaining the necessary records of the suspicious activity and, where necessary, reporting such activities to the appropriate authorities, in consultation with the Chief Compliance Counsel or other supervisor.

When an employee detects suspicious activity, he or she may be requested to investigate further under the direction of the Firm's AML Compliance Officer. This may include gathering additional information internally or from third-party sources, or freezing the account. During the course of gathering this information, the employee must be careful not to disclose to the customer the fact that the Compliance Department is considering filing a SAR. (*See Section 10.16, below, Confidentiality of a SAR*).

a. Clearing Arrangements – Monitoring for Suspicious Activities – Generally

The Firm will monitor the account activity of customers introduced by U.S. IBs (including GIBs) and U.S. securities IBs. In addition, pursuant to their own AML obligations, U.S. IBs (including GIBs) and U.S. securities IBs are separately required to monitor customer activity for suspicious transactions of introduced accounts, including identifying and detecting any unusual size, volume, patterns or types of transactions. The Firm may provide U.S. IBs (including GIBs) and U.S. securities IBs, where applicable, access to various systems to monitor the activities of the introduced account. The Firm is responsible for monitoring the activities of accounts introduced by non-U.S. IBs and securities IBs.

Suspicious activity detected at the U.S. IB (including a GIB) or securities IB level, will be reported to the Firm's AML Compliance Officer, as discussed below.

10.9 Suspicious Activity Reporting – Clearing Arrangements with U.S. IBs and Securities IBs

Where the Firm and a U.S. IB or a securities IB have participated in the same transaction, the Firm and the U.S. IB or securities IB, as applicable, are each obligated to report and identify the suspicious transaction, but only one SAR-SF needs to be filed, provided that the report includes all relevant facts concerning the transaction. Depending on the agreement and to the extent permitted by law, the Firm and the U.S. IB or securities IB, will communicate with each other about a suspicious transaction to determine which entity will file the SAR-SF. Where suspicious activity is detected at the U.S. IB or securities IB level, the U.S. IB or securities IB will communicate and cooperate with the Firm and provide the Firm's relevant AML Compliance Officer with all the relevant facts for the purposes of jointly filing the SAR-SF. The Firm will also contact the U.S. IB or securities IB about a suspicious transaction for purposes of sharing information about the transaction, unless the Firm believes that the relevant U.S. IB or securities IB itself may be engaged in the suspicious activity or the Firm is otherwise prohibited by law from sharing information with the U.S. IB or securities IB about the transaction. Upon request, the Firm will provide the U.S. IB or securities IB with relevant information in the possession of the Firm that they may need in order to file various required reports, and will provide further assistance as may be required in the filing of such reports. Where a joint SAR-SF has been filed by the Firm, upon request, the Firm will provide the U.S. IB or securities IB (*where applicable*), with a copy of the filed SAR. If the U.S. IB or securities IB has filed the SAR, the Firm will request a copy of the filed SAR.

10.10 Suspicious Activity Reporting for MF Global's Guaranteed Introducing Brokers

Where MF Global and a GIB have participated in the same transaction, both MF Global and the GIB are obligated to each report and identify the suspicious transaction, but only one SAR-SF needs to be filed, provided that the report includes all the relevant facts concerning the transaction. Pursuant to agreement, MF Global will undertake the responsibility for filing the SAR-SF. As noted above in Section 10.1, MF Global's AML Compliance Officer will be responsible for reviewing any identified suspicious activity and determining whether a SAR-SF should be filed. Therefore, in the event suspicious activity is detected at the GIB level, the activity must be reported by the GIB's AML Compliance Officer to MF Global's AML Compliance Officer.

The GIB will cooperate with MF Global and provide MF Global's AML Compliance Officer with all the relevant facts so that the AML Compliance Officer can determine whether to recommend filing a SAR-SF. A GIB should always consult with MF Global before filing its own SAR-SF with regard to a customer of MF Global or transaction in an introduced account. MF Global must be provided with a copy of the SAR-SF filed by the GIB.

10.11 Suspicious Activity Reporting – Clearing Arrangements with Non-U.S. Introducing Brokers

The Firm will file a report for all suspicious activity in a customer account introduced by a non-U.S. Introducing Broker. The non-U.S. Introducing Broker will be responsible under the laws of its own jurisdiction and pursuant to agreement with the Firm, to identify and report suspicious activities and to provide the Firm with information so it can file a report. In the event suspicious activity is detected by the non-U.S. Introducing Broker, the non-U.S. Introducing Broker is expected to cooperate with the Firm and provide the appropriate AML Compliance Officer with all the relevant facts so that the AML Compliance Officer can determine whether to file a SAR-SF. The Firm will not share copies of SARs or information indicating that a SAR was filed with the non-U.S. Introducing Broker.

10.12 Filing of SARs

SAR-SFs shall be filed with the Financial Crimes Enforcement Network ("FinCEN"), a bureau of the U.S. Treasury, within thirty (30) calendar days of discovery of the suspicious activity. If the Firm is unable to identify a suspect on the date the suspicious transaction is initially detected, the regulations provide the Firm with an additional 30 calendar days to identify the suspect before filing a SAR-SF. However, the suspicious transaction must be reported within 60 calendar days after the initial detection, whether or not the Firm is able to identify a suspect. The time for filing starts when the Firm, in the course of its review of the account activity, reaches the conclusion where it either knows, or has reason to suspect that the activity under review constitutes suspicious activity that must be reported. In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, the AML Compliance Officer, after consultation with the Chief Compliance Counsel or other supervisory personnel, shall immediately notify, by telephone, appropriate law enforcement authorities, in addition to filing the SAR-SF.

Violations of law that are reported to the CFTC, SEC or the SROs may also be reported to the local U.S. Attorney, as appropriate. SARs may be periodically reported to the Firm's supervisory personnel with the advice to maintain the confidentiality of the SAR.

10.13 Exceptions from SAR-SF Filing Requirements

The SAR rules contain exceptions from the reporting requirements. The Firm is not required to file a SAR in connection with the following:

- Cases of lost, missing, counterfeit or stolen securities with respect to which MF Global files a report under existing SEC rules;
- A robbery or burglary committed or attempted at the Firm that is reported to an appropriate law enforcement authority; or
- A violation appropriately reported to the SEC, CFTC or an SRO, including, as applicable;[20]

[20] An FCM dually registered as a BD can rely on the exception from SAR filing by reporting the violation to either an appropriate securities or futures regulator or SRO. Similarly, a BD that is dually registered as an FCM can rely on the exception by reporting the violation to the CFTC or a registered futures association or registered entity.

- Violations of the federal securities laws or SRO rules by the Firm or any of its officers, directors or employees, (*e.g.* U-4, U-5 or RE-3) other than a violation of applicable currency and foreign transaction reporting and recordkeeping regulations; or

- Violations otherwise required to be reported under the CEA, the regulations of the CFTC or the rules of the NFA (*e.g.* Forms 8-R, or 8-T) by the Firm or any of its officers, directors, employees or associated persons, other than a violation of the BSA.

10.14 Retention of SAR Records/Supporting Documentation

The Firm must maintain copies of SARs it has filed and the original or business record equivalent of any supporting documentation for a period of 5 years from the date of filing the SAR-SF. Supporting documentation is to be made available to FinCEN, the CFTC, SEC, other appropriate law enforcement authorities, or an SRO registered with the CFTC or the SEC for purposes of examining the Firm's compliance with this rule. Copies of required forms such as 8-R, 8-T, U-4, or U-5, or any other similar form concerning the transaction, must also be maintained for this purposes, where applicable. Copies of SAR filings and supporting documentation will be segregated from the Firm's other books and records to avoid the potential of disclosing a SAR filing. The AML Compliance Officer or his designee shall maintain physical copies of SAR filings and, once available, such documentation will be stored electronically in a secure third party system. In all cases, the documentation will be stored in a manner retrievable by the AML Compliance Officer or his designee.

10.15 Handling of Accounts with SARs Filed/Request from Law Enforcement to Maintain Account

If a SAR has been filed, the Firm may determine to take other actions that may be appropriate, such as terminating its relationship with the customer that may be the subject of the filing. If the Firm determines to keep the account opened, the AML Compliance Officer or his designee will periodically review the activity in any account for additional suspicious activity. Any and all continuing suspicious activity will be reported on a new SAR-SF within 90 days of discovery of such activity.

If the Firm receives a request by law enforcement to maintain an account for a customer for whom a SAR has been filed or who law enforcement alleges is involved in potential money laundering or terrorist financing activity, the AML Compliance Officer, in consultation with the Chief Compliance Counsel or senior management, may choose to maintain the customer account. Before the Firm chooses to keep the account open, the Firm will request that the law enforcement agency provide a written request, as applicable, from (i) a supervisory agent or an attorney from the U.S. Attorney's Office or Department of Justice; or (ii) a supervisor of a state or local law enforcement agency or from an attorney within a state or local prosecutor's office. The written request shall specify that the account should be maintained, the purpose and the duration of the request, not to exceed six months.

If the Firm determines to close an account as a result of a subpoena, a 314(a) request, a National Security Letter, or similar communication, the Firm will notify law enforcement of its decision prior to closing the account.

If the Firm determines to keep the account open, it will maintain documentation of the request for five (5) years. In addition, the Firm will comply with the recordkeeping requirements *(as described in Section 15)* and reporting requirements, including the filing of SARs *(as described in Sections 13 and 10, respectively).*

10.16 Requests for SARs, Supporting Documentation and Confidentiality of Reports

The Firm will keep SAR-SFs and any supporting documentation confidential. It is a violation of federal law to reveal to any person involved in the transaction that a SAR has been filed. Where the Firm has filed a SAR-SF, or otherwise reported suspected or known criminal violations or suspicious activities to regulatory agencies or law enforcement authorities, employees and registered persons are prohibited from notifying any person outside the Firm who may be involved in the transaction or any person who is the subject of a SAR-SF or other report of suspicious activity that the transaction has been reported.

The SAR regulations specifically prohibit persons filing SARs from disclosing, except to FinCEN, the SEC, the CFTC, another appropriate law enforcement or regulatory agency, or an SRO registered with the SEC or the CFTC conducting an examination of a BD or FCM for compliance with the regulations, that a report has been filed or from providing any information that would disclose that a report has been prepared or filed.

Upon a request to provide supporting documentation regarding the filing of a SAR-SF, the Firm will verify that the person requesting such information is a representative of either FinCEN, or an appropriate law enforcement or supervisory agency, by, among other things, reviewing the requester's credentials, requiring the person to put the request in writing on official letter head, and independently confirming requester's employment with the field office.

However, as noted above (*See Sections 10.9 and 10.10*), this regulation does not prohibit the Firm, if it is involved in a joint SAR filing, from discussing with its U.S. IBs (including GIBs), or U.S. securities IBs, suspicious activity relating to a transaction in a shared introduced account, and the determination of who will file the SAR in such a case, unless such activity involves the Introducing Broker. For additional protection, the procedures required under Section 314(b) of the USA PATRIOT Act should also be followed. (*See Section 12.2 below*).

In addition, the Firm may share a SAR with its parent, subject to a confidentiality agreement, in order to enable its parent to meet its oversight responsibilities with respect to enterprise-wide risk management and compliance with applicable laws and regulations.

FinCEN, in consultation with the securities and futures regulators, is currently considering whether a securities BD or FCM may share a SAR with both U.S. and non-U.S. affiliates. Until such time as guidance is issued, the Firm will not share SARs with non-parent entities, unless subject to a Section 314(b) request.

10.17 "Safe Harbor" Protection from Civil Liability

The Bank Secrecy Act contains a "safe harbor" provision that protects the Firm from civil liability for its reporting of suspicious activity and for not notifying the customer that a SAR has been filed. Should a customer learn that a SAR has been filed and contact a Firm employee about the filing, the employee, without admitting or confirming that a SAR was filed, should immediately notify the Firm's AML Compliance Officer.

10.18 Subpoena Requests for SARs

In the event that the Firm receives a subpoena requesting disclosure of a SAR-SF or SAR-SF information from anyone other than an appropriate law enforcement, regulatory agency, or SRO, the Firm will decline to produce such information or to provide any information that would disclose that a SAR has been prepared or filed, and will immediately notify FinCEN of the subpoena and the Firm's response to the subpoena. Any subpoena or other request for disclosure of a SAR or the information contained in a SAR must be directed to the AML Compliance Officer, who will consult with the Chief Compliance Counsel or other supervisory personnel regarding such a subpoena. No other Firm employee may respond to such a request directly. The AML Compliance Officer, in conjunction with the Chief Compliance Counsel or other supervisory personnel, will handle all subpoenas or other requests for SARs.

The above procedures apply regardless of whether the Firm receives a subpoena for such information in any criminal or civil litigation, reparation claim or arbitration, for such information.

11. Federal Trade Commission ("FTC") Identity Theft Rules and Red Flags

The FTC requires any creditor or financial institution with covered accounts to develop and implement a written program to prevent, detect, and mitigate identity theft in connection with the opening of new accounts and the operation of existing ones. The FTC recognizes that many companies already have programs and procedures implemented to combat identity theft and related fraud, and therefore, can utilize those procedures that have proven effective to adhere with the Red Flags Rule.

The Firm's reporting and escalation procedures, and identification of certain red flags referenced in Chapter 10, provide guidance for the identification and detection of identity theft that may occur and be detected in the Firm's day-to-day operations. The procedures in Chapter 10 describe how to respond to the detected red flags and mitigate harm.

In addition to the red flags referenced in Chapter 10, the following list is illustrative of additional red flags that may be detected in the Firm's Covered Accounts, which, if unexplained, may evidence identity theft. The applicability of these red flags depends on the nature of the Firm's Covered Accounts. Consequently, these red flags may only apply to certain Covered Accounts held by the Firm.

a. Alerts, notifications or warnings received from consumer reporting agencies or service providers

- A fraud or active duty alert is included with a consumer report.
- A consumer reporting agency provides a notice of credit freeze in response to a request for a consumer report.
- A consumer reporting agency provides a notice of address discrepancy, as defined in Section IV, "Address Discrepancy Rules," below. (see 16 C.F.R. § 681.1(b))
- A consumer report indicates a pattern of activity that is inconsistent with the history and usual pattern of activity of an applicant or customer, such as:
    - A recent and significant increase in the volume of inquiries;
    - An unusual number of recently established credit relationships;

- A material change in the use of credit, especially with respect to recently established credit relationships; or
- An account that was closed for cause or identified for abuse of account privileges by the Firm.

b. The presentation of suspicious documents

- Documents provided for identification appear to have been altered or forged.
- The photograph or physical description on the identification document(s) is not consistent with the appearance of the applicant or customer presenting the identification.
- Other information on the identification document(s) is not consistent with information provided by the person opening a new Covered Account or customer presenting the identification.
- Other information on the identification document(s) is not consistent with readily accessible information that is on file with the Firm, such as a signature card or a recent check.
- An identification document appears to have been altered or forged, or gives the appearance of having been destroyed and reassembled.

c. The presentation of suspicious personal identifying information

- Personal identifying information provided is inconsistent when compared against external information sources used by the Firm. For example:
  - The address does not match any address in the consumer report; or
  - The Social Security Number ("SSN") has not been issued, or is listed on the Social Security Administration's Death Master File.
- Personal identifying information provided by the customer is not consistent with other personal identifying information provided by the customer. For example, there is a lack of correlation between the SSN range and date of birth.
- Personal identifying information provided is associated with known fraudulent activity as indicated by internal or third-party sources used by the Firm. For example:
  - Personal identifying information provided is of a type commonly associated with fraudulent activity as indicated by internal or third-party sources used by the Firm.
  - The SSN provided is the same as that submitted by other persons opening an account or other customers.
  - The address or telephone number provided is the same as or similar to the account number or telephone number submitted by an unusually large number of other persons opening accounts or other customers.
  - The person opening the Covered Account or the customer fails to provide all required personal identifying information on an application or in response to notification that the application is incomplete.
- Personal identifying information provided is not consistent with personal identifying information that is on file with the Firm.

d. The unusual use of, or suspicious activity related to, the Covered Account

- Shortly following the notice of a change of address for a Covered Account, the Firm receives a request for the addition of authorized users on the account.
- A Covered Account is used in a manner that is not consistent with established patterns of activity on the account. There is, for example:
  - Nonpayment of fees when there is no history of late or missed payments;
  - A material change in electronic fund transfer patterns in connection with a Covered Account; or
- A Covered Account that has been inactive for a reasonably lengthy period of time is used (taking into consideration the type of account, the expected pattern of usage and other relevant factors).
- Mail sent to the customer is returned repeatedly as undeliverable although transactions continue to be conducted in connection with the customer's Covered Account.
- The Firm is notified that the customer is not receiving paper account statements.
- The Firm is notified of unauthorized transactions in connection with a customer's Covered Account.

e. Notice from customers, victims of identity theft, law enforcement authorities, or other persons regarding potential identity theft in connection with Covered Accounts

- The Firm is notified by a customer, a victim of identity theft, a law enforcement authority, or any other person that it has opened a fraudulent account for a person engaged in identity theft.

The AML Compliance Officer or his or her delegee should ensure that procedures are in place to comply with the red flags and procedures set forth in Chapter 10 and in this Chapter 11, and that those procedures have been approved by the Firm's Board of Directors upon the initial implementation of them. In addition, the AML Compliance Officer or his or her delegee should review and update the procedures at least annually and ensure that employees as trained as necessary. Employees who have received anti-fraud prevention training may not need to be retrained.

12. Information Sharing – PATRIOT Act Section 314

Section 314 permits the Firm to share information with regulatory authorities, law enforcement, and financial institutions, including U.S. Introducing Brokers with respect to individuals, entities and organizations engaged in or reasonably suspected to be engaged in terrorist acts or money laundering activities, as set forth.

12.1 Providing Information to Federal Law Enforcement Agencies – Section 314(a)

Pursuant to Section 314(a) of the USA PATRIOT Act, a Federal law enforcement agency investigating terrorist activity or money laundering may request that FinCEN solicit, on the investigating agency's behalf, certain information from a financial institution or a group of financial institutions, including whether the Firm maintains or has maintained an account for, or has engaged in a transaction with, any specified individual, entity or organization.

FinCEN publishes bi-weekly information requests to FCMs and securities BDs (and other financial institutions under the BSA) listing individuals, entities or organizations that are suspected of engaging in money laundering or terrorist financing. In accordance with Section 314(a), the Firm is required to perform a search of its customer records and inform FinCEN of any matches to the subjects identified on the lists.

FinCEN utilizes a secure Web-based delivery and reporting system for its 314(a) information requests that replaced the e-mail delivery system that was formerly used. The Firm uses the web-based system. Each FCM's and securities BD's point of contact ("POC") is responsible for accessing the Web site, downloading the most recent known and suspected terrorist list and conducting the required searches. POCs also use the web-site to report positive and inconclusive hits to FinCEN.

The designated AML Compliance Officers for MF Global will each serve as the POC, respectively, for the purposes of entering the FinCEN system and reviewing the bi-weekly report. The AML Compliance Officers have registered on FinCEN's 314(a) Web page and each will maintain access to the 314(a) lists. Where applicable, MF Global will promptly notify FinCEN of any changes to such information.

a. Record Search

Using the bi-weekly report published on the web-site, the Firm's Compliance Department will expeditiously search its records through automated or manual means, as applicable, to determine whether the Firm has engaged or intends to engage in any transaction with an individual, entity or organization named in the information request. The Firm may contact the federal law enforcement agency named in the information request by FinCEN with any questions relating to the scope or terms of the request. Pursuant to regulations implementing Section 314(a), except as otherwise provided in the information request, the Firm is required to search its records for:

- Any current account maintained for a named suspect;
- Any account maintained for a named suspect during the preceding twelve months; and
- Any transaction conducted by or on behalf of a named suspect, or any transmittal of funds conducted in which a named suspect was either the transmittor or the recipient, during the preceding six months, that is required under law or regulation to be recorded by the financial institution or is recorded and maintained electronically by the institution.

Treasury has issued guidance narrowing the scope of records, which must be searched pursuant to a Section 314(a) request. (*See Frequently Asked Questions (FAQs) Concerning the 314(a) Process, dated December 17, 2004*). Updated FAQs issued by FinCEN concerning the 314(a) process can be accessed by the POC through the 314(a) information request system.

b. Report to FinCEN

If the Firm identifies an account or transaction with any individual, entity, or organization named in the request from FinCEN, the Firm will notify FinCEN within two weeks, or sooner if otherwise requested by FinCEN, and report the following information:

- The name of such individual, entity, or organization;
- The number of each such account, or in the case of a transaction, the date and type of each such transaction; and
- Any Social Security number, taxpayer identification number, passport number, date of birth, address, or other similar identifying information provided by the individual, entity or organization when each such account was opened or each such transaction was conducted.

No response to FinCEN is necessary if the Firm does not identify any matching of accounts or transactions of an individual, entity or organization named in the request. In addition, unless otherwise indicated in the information request from FinCEN, the Firm is not required to report on future account opening activity or future transactions.

FinCEN's contact information is as follows:

- Web-site: http://www.fincen.gov
- E-mail: sys314a@fincen.gov
- Fax: 703-905-3660
- Questions: 314 Program Office at 1-800-949-2732, Option 2

c. Use and Confidentiality of the Information Requested

The Firm is not permitted to use the information provided by FinCEN pursuant to a 314(a) information request for any other purpose than:

- To report matching information to FinCEN;
- To determine whether to establish or maintain an account, or to engage in a transaction; or
- To assist the Firm in complying with any requirement of 31 C.F.R. Part 103.

The Firm is not permitted to disclose to any person, other than FinCEN or the federal law enforcement agency on whose behalf FinCEN is requesting information, the fact that FinCEN has requested or has obtained information pursuant to such an information request, except to the extent necessary to comply with such an information request. The closing of an account, or the refusal to open an account for, or to conduct a transaction with, any individual, entity, or organization listed in an information request shall not be treated as a prohibited disclosure.

The Firm must maintain adequate procedures to protect the security and confidentiality of requests from FinCEN for information. The Firm will satisfy this requirement by applying to such information requests the procedures the Firm has established to satisfy Section 501 of the Gramm-Leach-Bliley Act (15 U.S.C. § 6801), and its implementing regulations, with regard to the protection of its customer's nonpublic and personal information. The Firm will not disclose

to any party outside the Firm, except authorized vendors subject to a confidentiality agreement, the fact that it has received a Section 314(a) information request.

With respect to introduced accounts, each IB (including GIBs) or securities IB is legally responsible for complying with the requirements under Section 314(a) of the PATRIOT Act.

d. Other Actions with Respect to the Account as a Result of a 314 (a) Request

The Firm is not required to take any action, nor to decline to take any action, with respect to an account established for, or a transaction engaged in with, an individual, entity, or organization named in an information request from FinCEN, or to decline to establish an account for, or to engage in a transaction with, any such individual entity, or organization. In such cases where the Firm is required to report on future account opening and future transactions, FinCEN will also explicitly indicate whether the list of suspects included with an information request has been designated as a "government list" for purposes of The Firm's CIP requirements. Further, although the Firm is not required to file a SAR simply as result of a 314(a) request, the AML Compliance Officer, in consultation with the Chief Compliance Counsel or senior management, will review the account to determine whether to elevate the risk profile of the customer and/or whether it is appropriate to file a SAR.

12.2 Sharing Information with Other Financial Institutions – Patriot Act Section 314(b)

Provided the Firm complies with the procedures below, the Firm may, under the protection of the safe harbor described below, transmit, receive or otherwise share information with another financial institution or association of financial institutions regarding individuals, entities, organizations and countries for purposes of identifying and, where appropriate, reporting activities that the Firm suspects may involve possible terrorist activity or money laundering. The AML Compliance Officer will determine whether to share information voluntarily with another financial institution under Section 314(b) of the PATRIOT Act.

a. Notice Requirement

MF Global has filed a Notice pursuant to Section 314(b) of the PATRIOT Act relating to the voluntary sharing of information with other financial institutions for the purpose of identifying and, where appropriate, reporting activities that the Firm or another financial institution suspects may involve possible terrorist activity or money laundering. MF Global will submit a Notice annually if it determines to continue to share information with financial institutions,[21] and will follow the confidentiality procedures set forth above in Section 10.16.

i. Notice Requirement for U.S. IBs of MF Global

U.S. IBs (including GIBs) and U.S. securities IBs of MF Global are required to file Notices pursuant to Section 314(b) of the PATRIOT Act, and to provide MF Global with copies of such Notices, pursuant to an Agreement, so that the Firm and GIBs may more easily share information with each other.

b. Verification Requirement

[21] Completed notices may be submitted to FinCEN via FinCEN's website (http://www.fincen.gov/fi_infoappb.html) or by mailing the notice to FinCEN (P.O. Box 39, Mail Stop 100, Vienna, VA 22183).

Prior to sharing information pursuant to Section 314(b), the Firm must take reasonable steps to verify that the other financial institution or association of financial institutions with which the Firm intends to share information has submitted the required notice to FinCEN. The Firm may satisfy this requirement by confirming that the other financial institution or association of financial institutions appears on a list that FinCEN will periodically make available to financial institutions or associations of financial institutions, generally on the FinCEN website, that have filed a notice with FinCEN, or by confirming directly with the other financial institution or association of financial institutions that the requisite notice has been filed.

c. Use and Security of the Information

Information received by the Firm through such sharing may not be used for any purpose other than:

- Identifying and, where appropriate, reporting on money laundering or terrorist activities;
- Determining whether to establish or maintain an account, or to engage in a transaction; or
- Assisting the Firm in complying with any requirement of 31 C.F.R. Part 103.

The Firm will maintain adequate procedures to protect the security and confidentiality of the shared information. The Firm will satisfy this requirement by applying to such information requests the procedures the Firm has established to satisfy Section 501 of the Gramm-Leach-Bliley Act (15 U.S.C. § 6801), and its implementing regulations, with regard to the protection of its customer's nonpublic and personal information. In addition, while the Firm may be authorized to share information under certain limited circumstances pursuant to Section 314(b) of the PATRIOT Act with another financial institution concerning an individual, entity, or organization named in a request for information from FinCEN, the Firm may not disclose the fact that FinCEN has requested information concerning such individual, entity or organization pursuant to Section 314(a).

The AML Compliance Officer will ensure compliance with all requirements concerning the use, disclosure, and security of information shared under Section 314(b) of the PATRIOT Act. All requests for information from other financial institutions must be brought to the immediate attention of the AML Compliance Officer.

d. Safe Harbor from Civil Liability

The Firm must comply with the above requirements related to notice and use and security of shared information in order to be eligible for the safe harbor from civil liability provided by the regulations implementing Section 314(b) of the PATRIOT Act.

e. Obligation to File SARs Related to Information Sharing

None of the above sharing provisions affects the Firm's obligation to file a SAR in accordance with applicable regulations or to contact directly a federal agency concerning individuals or entities suspected of engaging in terrorist activity or money laundering. If, as a result of information sharing with another financial institution or association of financial institutions, the Firm knows, suspects, or has reason to suspect that an individual, entity, or organization is involved in, or may be involved in terrorist activity or money laundering, the Firm will file a SAR in accordance with applicable regulations.

In situations involving violations requiring immediate attention, such as when a reportable violation involves terrorist activity or is ongoing, the Firm shall immediately notify, by telephone, an appropriate law enforcement authority and financial institution supervisory authorities, in addition to filing timely a SAR. The contact numbers the Firm will use to report situations requiring immediate attention are as follows: FinCEN's Financial Institutions Hotline (1-866-556-3974), local U.S. Attorney's Office (312-353-5300-Chicago, IL), (212-637-2600-NYC) and local FBI Office (312-421-6700-Chicago, IL), (212-384-1000-NYC), the local SEC Office (312-353-7390-Chicago, IL) or local CFTC Office (313-596-0700-Chicago, IL), (646-746-9700-NYC). Use of the Financial Institutions Hotline is voluntary and does not affect the Firm's responsibility to file a SAR in accordance with applicable regulations.

13. Other BSA Reporting Requirements

13.1 Cash Transactions and Currency Transaction Reports

Federal law imposes reporting requirements for certain transactions involving cash or currency, which is defined as coin or paper money of the U.S. or any other country. A transaction in currency does not include a transfer of funds by means of bank check, bank draft, wire transfer or other written order that does not involve the physical transfer of currency. In general, transactions involving the deposit, withdrawal or exchange of currency or other payment or transfer, by, through, or to the Firm, which involves a transaction in currency of more than $10,000 in a day, must be reported to FinCEN by filing a Currency Transaction Report (FinCEN Form 104 or "CTR"). Additionally, multiple currency transactions are treated as a single transaction if they (1) are by or on behalf of the same person, and (2) total more than $10,000 either in currency received (cash in) or currency distributed (cash out) during any one-business day. These occurrences must be reported through the filing of a CTR.

A violation of this reporting requirement can result in the imposition of substantial civil and criminal penalties.

As a matter of policy, the Firm does not permit the receipt of cash from customers, or other instruments in cash. If a customer attempts to deposit cash, the employee or registered person receiving the deposit is responsible for refusing the deposit. Likewise, the Firm's policy does not generally permit customers to withdraw their funds in cash. If a Floor Broker customer attempts to make a cash withdrawal, the Floor Broker should be told that such disbursements are no longer permitted pursuant to New York Mercantile Exchange Rule 4.07.

In the unusual event that currency has been received or withdrawn, the Firm will file a CTR for transactions involving currency that exceeds $10,000. CTRs must be filed with the I.R.S. within 15 calendar days. A violation of this reporting requirement can result in the imposition of substantial civil and criminal penalties.

The Firm may voluntarily report transactions that fall below the $10,000 threshold if it involves known or suspected criminal, terrorist or corrupt activity. If a currency transaction exceeds $10,000 and is suspicious, the Firm will file both a CTR and a SAR. However, if a currency transaction is $10,000 or less and is suspicious, the Firm will only file a SAR. The Firm will maintain appropriate records in each case.

Employees and registered persons cannot accept cash from a client to purchase a cashier's check (or similar instrument) for that client, or advise clients on how to avoid currency reporting requirements. Employees and registered persons cannot arrange with another financial institution for a client to exchange cash for a different form of payment.

Employees should also be aware of the "structuring" of transactions. Structuring involves conducting or attempting to conduct one or more transactions in currency, in any amount, at one or more financial institutions, on one or more days, in any manner, for the purpose of evading the CTR filing requirement. **Personnel should be aware that the structuring of a transaction in such a manner so as to avoid the CTR reporting requirement is illegal and strictly prohibited.** Whenever patterns of structuring are identified, the AML Compliance Officer should be notified for purposes of determining whether a SAR should be filed.

Before concluding a transaction for which a CTR must be filed, the Firm employee shall (1) verify and record the name and address of the individual presenting the transaction; and (2) record the identity, account number, and the social security or taxpayer identification number, if

any, of any person or entity on whose behalf such transaction is to be effected. If the individual is not a U.S. citizen or resident, the Firm must verify his or her identity with a passport, alien identification card, or other official document evidencing nationality or residence. For others, the Firm may verify identity by examining a driver's license or other government-issued photo identification. If documents verifying an individual's identity were previously examined and recorded, the Firm may rely on that information when completing the CTR. However, the specific identifying information used to verify identity must always be recorded on the CTR. Statements such as "known customer" or "documentation on file" are insufficient for form completion. All questions relating to the verification of identity should be addressed to the AML Compliance Officer.

13.2 Transportation of Currency or Monetary Instruments Into or Outside of the United States

Any transaction or attempted transaction involving the physical transportation, mailing or shipment of currency or other monetary instruments, in an aggregate amount exceeding $10,000 at one time into or outside of the United States from any place outside the United States, as well as the receipt in the United States of currency or other monetary instrument in an aggregate amount exceeding $10,000 at one time which has been transported, mailed or shipped in person from outside the United States must be reported to the Commissioner of Customs by filing a Report of International Transportation of Currency or Monetary Instruments (FinCEN Form 105 or "CMIR").

Monetary instruments include:

- Coin or currency of the United States or of any other country;
- Traveler's checks in any form;
- Negotiable instruments (including checks, promissory notes, and money orders) that are either in bearer form, endorsed without restriction, made out to a fictitious payee, or otherwise in such form that title passes upon delivery;
- Incomplete instruments (including checks, promissory notes, and money orders) that are signed but on which the name of the payee has been omitted; and
- Securities or stock in bearer form or otherwise in such form that title passes upon delivery.

Monetary instruments do not include:

- Checks or money orders made payable to the order of the person which have not been endorsed or which bear a restrictive endorsement;
- Warehouse receipts; or
- Bills of lading.

A violation of this reporting requirement can result in the imposition of substantial civil and criminal penalties.

Such reports are not required by a securities BD with respect to currency or other monetary instruments mailed or shipped through the postal service or by common carrier, or by a person who is not a citizen or resident of the U.S. in respect to currency or other monetary instruments mailed or shipped from abroad to a securities BD through the postal service or by common carrier. These exceptions are not available to FCMs or IBs.

Personnel should also be aware that the structuring of a transaction in such a manner so as to avoid the CMIR reporting requirement is illegal and strictly prohibited. All questions about CMIR reporting – including those types of transactions that are exempt from the reporting requirement – should be directed to the AML Compliance Officer.

As a matter of Firm policy, employees and registered persons are prohibited from transferring or receiving any cash or monetary instruments into or outside of the United States for clients. In the event the relevant AML Compliance Officer makes an exception to this procedure, the Firm will file a CMIR with the Commissioner of Customs if the Firm mails or ships currency or monetary instruments, on or before the date of transportation, or if the Firm receives cash or monetary instruments, within 15 calendar days of the date of receipt. The AML Compliance Officer will maintain copies of CMIR filings for a period of five years from the date of the report, in accordance with existing BSA requirements.

Any questions regarding this policy should be directed to the AML Compliance Officer.

13.3 Foreign Bank and Financial Accounts Reports

The Firm is required to report any financial interest in, or signature authority over, any financial accounts in a foreign country if the aggregate value of the accounts exceeds $10,000 at any time during the calendar year. The Report of Foreign Bank and Financial Accounts ("FBAR") is filed with the IRS on an annual basis. The Firm's Treasury Department will file the FBAR with the IRS for any such accounts. The Treasury Department will maintain copies of FBAR filings for a period of five years.

13.4 Transfers of $3,000 or More under the Joint and Travel Rules

When the firm transfers funds of $3,000 or more, it will record on the transmittal order at least the following information:

- the name and address of the transmittor;
- the account number of the transmittor (if used);
- the amount of the transmittal order;
- the execution date of the transmittal order;
- the identity of the transmittor's financial institution;
- any payment instructions received from the transmittor with the transmittal order;
- the identity of the recipient's financial institution;
- any form relating to the transmittal of funds that is completed or signed by the person placing the transmittal; and
- as many of the following items as are received with the transmittal order:
  - the name and address of the recipient or beneficiary
  - the account number of the recipient or beneficiary; and
  - any other specific identifying information of the recipient or beneficiary.

Transmittal orders will be retained for at least five years and such information will be retrievable by reference to the names and account numbers belonging to the Firm customer involved in the

transfer. The Firm shall also ensure that all records are retrievable by reference to the name of the transmittor/recipient or beneficiary and by account number of the transmittor/recipient or beneficiary.

The rules do not apply to funds transfers in which the transmittor's transmittal instruction states a condition to payment to the recipient, other than the time of payment. For example, transactions involving a funds transfer to a customer's DVP account would be excluded from the Funds Transfer Rules because the funds transfer is conditional on the purchase of the requested securities.

14. Hiring Overview

The Firm recognizes that a successful AML Program is only as effective as the people who perform its functions. Therefore, the Firm's Human Resources Department and/or the Compliance Department have implemented hiring procedures that require an in-depth background check of all W-2 employees. This includes RRs and registered APs and individuals that work in areas susceptible to money laundering activities.

15. Anti-Money Laundering Training

The Firm shall conduct anti-money laundering training programs on a periodic basis. This training will be based on the firm's size, its customer base, and its resources. Training programs will review U.S. anti-money laundering laws, how to recognize and report suspicious transactions, and firm policies and procedures designed to prevent and detect potential money laundering. Training will be provided to all employees involved with customer accounts, including new hires and newly registered persons, as well as ongoing training for existing personnel.

A copy of the firm's current AML Program will be disseminated to all Firm employees. Each such Firm employee will be required to sign a certification attesting that he or she has received and read a copy of the AML Program.

Participation in these training sessions is a mandatory component of continued employment, and as such, Firm policy requires that all training be documented. The AML Compliance Officer will maintain a list of all appropriate personnel, including the required level of training, as well as their attendance at the required training. The AML Compliance Officer will periodically re-evaluate which Firm employees require AML training and update the list accordingly. The AML Compliance Officer may distribute additional guidance, as appropriate, when there are changes to laws and/or regulations or the Firm' policies or practices.

15.1 New Hire Training

All newly registered persons and non-registered new hires in critical areas (*e.g.*, new accounts, operations, wire operators, sales, margin and credit) will receive training as soon as possible after their start date to ensure they are familiar with the Firm's AML Policy. Delivery of the training will require, at a minimum, that the individual receive a copy of the firm's current AML Program and provide the certification described in Section 15.

The Firm's Compliance Department will maintain records evidencing that newly registered and newly hired individuals have completed a suitable AML training program.

15.2 Ongoing Training

Ongoing training shall be provided to all registered persons at least once per year and may be delivered through publications, live presentations, Compliance Bulletins, self-directed training modules, or educational videos that highlight anti-money laundering issues. Additional training may be offered, as appropriate, to other authorized personnel, as determined by the AML Compliance Officer. Currently, the Firm's preferred annual AML training provider is RegEd, a financial services compliance consulting Firm. RegEd's training program is web-based and is

accessible through the following website: www.reged.com. The Firm's training program will address, at a minimum, the following pertinent topics:

- A highlight of recent developments in anti-money laundering laws;
- Techniques or money laundering trends identified by the various government agencies such as FinCEN and FATF, as well as the CFTC, SEC and SROs;
- How to identify red flags and signs of money laundering;
- What to do once the risk is identified;
- The respective roles in the Firm's compliance efforts of Firm employees, including APs and RRs, and of employees of the GIBs of MF Global;
- The Firm's record retention policy; and
- The disciplinary consequences (including civil and criminal penalties) for non-compliance with the PATRIOT Act.

For annual training programs (presentations, video, self-directed programs, etc.), an attendance list or other record shall be kept by the AML Compliance Officer, which will include the names of participants, and dates and method of the training. The Firm's Compliance Department will maintain records evidencing that newly registered and newly hired individuals have completed a suitable AML training program.

16. General AML Recordkeeping

The Firm will comply with the recordkeeping and retention requirements of Section 4g of the CEA and 17 C.F.R. § 1.31 (*for FCMs*) and Section 17(a) of the Exchange Act and 17 C.F.R. § § 240.17a-3, 17a-4 and 17a-8 (*for securities BDs*).

The Firm will also maintain SAR-SFs and their accompanying documentation for at least five years pursuant to 31 C.F.R. § § 103.17(d) and 103.19(d) of the BSA regulations. (*see also Retention of SAR Records, Section 10.14, above*).

As part of its AML program, the Firm may also create CTRs, CMIRs, FBARs, and other relevant documentation on customer identity and verification, funds transfers and transmittals, as well as any records related to customers listed on the OFAC list. Such documents will be kept as follows:

- *CTR Recordkeeping.* The AML Compliance Officer or his designee will maintain a copy of each CTR filed for a period of five (5) years from the date of the report.
- *FBAR Recordkeeping.* A copy of each FBAR Form filed with the IRS will be maintained by the Firm for a period of five (5) years.
- *CMIR Recordkeeping.* The AML Compliance Officer or his designee will maintain a copy of each CMIR filed for a period of five (5) years from the date of the report.

Designated Firm personnel responsible for AML related functions (e.*g.*, AML Compliance Officer, New Accounts (*see CIP Documentation and Recordkeeping, Section 4.5, above*) and Operations) shall ensure that AML records within their control are maintained, as required.

17. Annual Audit of AML Program

The AML Compliance Officer is responsible for arranging for the performance of an annual independent audit to evaluate the firm's anti-money laundering policies and procedures to determine whether (i) the Firm is operating in compliance with the requirements of the BSA; and (ii) the Firm's AML policies and procedures are being followed.

The independent audit will assess those individuals and departments that have responsibilities with respect to the Firm's AML Compliance Program, and will include testing of the following: (i) overall effectiveness of the Firm's AML Program, including meeting the requirements of the BSA and the regulations administered by the Office of Foreign Assets Control ("OFAC"), discussed in Section 5.0, above; (ii) the customer identification and verification process; (iii) compliance with reporting requirements; (iv) recordkeeping; (v) the Firm's AML training program; and (vi) responses to issues raised in prior audits.

The audit will be performed by an independent third party (*e.g.* internal auditor, outside accountants, outside counsel, officer of the Firm, other than the AML Compliance Officer) qualified in AML examinations, audit procedures, and is familiar with the purpose of the Firm's AML program.

The final written audit report will be sent to the AML Compliance Officer and the Chief Compliance Counsel and other supervisory personnel, and responded to by the AML Compliance Officer and other relevant departments. Once approved by both the AML Compliance Officer and the Chief Compliance Counsel or other supervisory personnel, any relevant recommendations of the independent audit will be incorporated into the Firm's policies and procedures. The final written audit report and the Firm's response will be maintained by the relevant AML Compliance Officer for the Firm's records.

17.1 Monitoring and Supervision of MF Global Guaranteed Introducing Brokers and Branch Offices

NFA Compliance Rule 2-9 imposes a direct duty on MF Global to supervise the activities of their GIBs and branch offices. This requirement encompasses obtaining assurances that each GIB, as well as each branch office, has implemented and is adhering to MF Global's AML procedures.

To ensure that each GIB and branch office has established and implemented internal controls reasonably designed to assure compliance with AML requirements, MF Global has retained Compliance Supervisors, Inc., to perform an annual on-site AML review of each GIB and each branch office location. The annual AML review will check that each GIB and branch office has:

- Established and implemented policies, procedures and controls that could reasonably be expected to prevent, detect, and cause the reporting suspicious transactions;
- Implemented an effective customer identification program to the extent required to do so;
- Employed personnel that are adhering to MF Global's established AML policies and procedures for monitoring of day to day operations;
- Designated an appropriate AML Compliance Officer; and
- Provided ongoing AML training to appropriate personnel.

MF Global has requested that copies of all GIB and branch office reports be forwarded to MF Global's AML Compliance Officer. If any material inadequacies are noted in the report, the MF Global Compliance Department will ensure corrective action is taken to all items.

18. Additional Resources

Any questions relating to the Firm's anti-money laundering efforts shall be referred to the Firm's AML Compliance Officer. The AML Compliance Officer shall take the appropriate steps to answer all inquiries and assist in the investigation of suspicious activities. Where necessary, the Firm's senior management, Chief Compliance Counsel, and governmental authorities, including law enforcement, shall be consulted on specific anti-money laundering issues.

On rare occasions, there will be a legitimate need to approve exceptions for a given client. The first line supervisor and the AML Compliance Officer, Chief Compliance Counsel or other supervisory personnel must approve any exception or deviation from the standards set forth in this Policy. Records of exceptions to this Policy, if any, will be maintained by the supervisor and the AML Compliance Officer.

19. Clearing Arrangements with Introducing Brokers

In addition to the discussions within the manual above *(e.g.*, filing of suspicious activity reports *(See Sections 10.9 and 10.10)*, enhanced due diligence for correspondent accounts *(See Sections 8.5 and 8.6)* and private banking accounts *(See Section 9.2)*, as well as the voluntary sharing of information pursuant to Section 314(b) of the PATRIOT Act *(See Section 12.2)*, the following procedures apply to clearing arrangements.

19.1 MF Global – Anti-Money Laundering Procedures for IBs and GIBs - Generally

NFA Compliance Rule 2-9(c) requires registered IBs to develop and implement written AML procedures. IBs that operate pursuant to a guarantee agreement with MF Global are allowed to adopt and implement MF Global's AML procedures into their firm's operations. By doing so, GIBs must follow all the policies and procedures contained in the AML Program provided by MF Global. All GIB personnel are required to read and become familiar with MF Global's AML policies and procedures. MF Global's AML procedures will be provided to the GIB by the MF Global Compliance Department at the time the new business relationship is established.

Each GIB may execute an AML adoption letter (*see Exhibit 7*), adopting the policies and procedures set forth in MF Global's AML program as its own. Additionally, each GIB must appoint its own AML Compliance Officer. Please note that simply adopting MF Global's AML procedures will not guarantee that a GIB meets the requirements of the PATRIOT Act and NFA rules.

In the event a GIB elects to develop its own AML procedures instead of adopting MF Global's AML procedures, the GIB is required to submit the AML procedures to MF Global's AML Compliance Officer for review and approval.

All IBs (including GIBs that elect to develop their own AML procedures), are required to sign the Agreement Relating to Allocation of Customer Identification and Verification Procedures (*see Exhibit 6*).

19.2 Introducing Brokers – CIP Responsibilities – Generally

To the extent permitted by law, and pursuant to a reliance agreement, the Firm may delegate or share, where appropriate, CIP responsibilities with registered U.S. Introducing Brokers (including IBs, GIBs and securities IBs), provided they comply with the conditions set forth in Section 4.14, above. With respect to non-U.S. Introducing Brokers, the Firm will be responsible for identifying and verifying introduced customer accounts by non-U.S. Introducing Brokers.

a. U.S. IBs and Securities IBs – Division of CIP Responsibilities

Pursuant to an agreement between MF Global and a U.S. IB (including a GIB) a U.S. securities IB, *(See the Agreement Relating to Allocation of Customer Identification and Verification Procedures, Exhibit 6)*, and to the extent permitted by law, the Firm may share or delegate, as applicable, the responsibility to perform certain agreed upon CIP requirements, including obtaining customer identification information for customers introduced to the Firm by the U.S. IB (including a GIB) or securities IB.

At the time of the opening of a new account, the Firm requires the U.S. IB (including a GIB) and securities IB, where applicable, to obtain all information from its customers sufficient to complete

the new account form (e.*g.*, name, address, social security number, date of birth, etc.), and to satisfy itself that opening the account would not violate the provisions of any AML laws or regulations. This includes all information required to be requested and obtained from the customer under the Firm's CIP as described in Section 4, above. The U.S. IB (including a GIB) and securities IB, where applicable, will also obtain all documents from the customer necessary to perform documentary verification procedures as required by the Firm's CIP as described in Section 4.3(a), above. The U.S. IB (including a GIB) and securities IB, where applicable, will provide the Firm with all identifying information and documents obtained from the customer.

The Firm requires GIBs and expects U.S. IBs or securities IBs, where applicable, to immediately notify the relevant AML Compliance Officer if a customer refuses at any point to provide the U.S. IB (including a GIB) or securities IB with required information or documents, provides information or documents that the U.S. IB (including a GIB) or securities IB believes is or may be false, misleading, suspicious or contradictory, or exhibits any of the other "red flags" identified in Section 10.4 or Section 10.5 above.

As part of its AML Program, the Firm will, for its own protection, perform all non-documentary verification through database searches, with respect to introduced accounts, as required by the Firm's CIP. The Firm will evaluate the identifying information and documents provided by the U.S. IB (including a GIB) and securities IB, where applicable, for purposes of documentary verification with respect to an introduced customer. This will include providing customer identification information to various vendors for comparison against various databases as described in Section 4.3(b), above.

MF Global will be responsible for performing the OFAC screening for customers introduced by the GIB. MF Global will also use various vendors to perform OFAC screening for customers introduced by U.S. IBs and securities IBs, respectively. **Separately, each U.S. IB (including the GIB) and securities IB is legally responsible for its own OFAC obligations.** The Firm and the U.S. IB (including a GIB) and securities IB, where applicable, will interact with OFAC to the extent necessary to resolve any issues concerning potential name matches against the OFAC list. The Firm will file its own reports with OFAC, and will follow procedures set forth in Section 5.0. The U.S. IB (including a GIB) or securities IB, where applicable, will cooperate with the Firm as necessary, to obtain additional information or documents from the customer and to resolve any open issues.

The Firm maintains sole discretion whether to open an account for a customer introduced by a U.S. IB (including a GIB) or securities IB.

b. GIBs – Agreement Relating to Allocation of Customer Identification and Verification Procedures

Each GIB must acknowledge the division of responsibilities of identification and verification procedures by executing an Agreement Relating to Allocation of Customer Identification and Verification Procedures (*Exhibit 6*). The Agreement must be executed by a listed Principal of each GIB. Once executed, the original must be sent to the Man Compliance Department, Attention John Brand, 440 South LaSalle Street, 20th Floor, Chicago, IL 60605. Each GIB must maintain a copy for its records. As required by the implementing regulations for Section 326 of the PATRIOT Act, MF Global will renew this agreement on an annual basis with its GIBs.

It is the responsibility of MF Global's AML Compliance Officer to ensure that these requirements are satisfied in the case of each GIB on which MF Global relies for any CIP, including the receipt of the required annual certification from the GIB.

c. Non-U.S. Introducing Brokers –CIP Responsibilities

At the time of the opening of a new account, the Firm requires that the non-U.S. Introducing Broker obtain information from its customers sufficient for the Firm to complete the new account form. Depending on the Firm's risk assessment of the non-U.S. Introducing Broker, including the country of origin of the non-U.S. Introducing Broker (e.*g*. UK Introducing Brokers), the Firm may rely on the non-U.S. Introducing Broker, without the safe harbor protection, to obtain the CIP information and to verify the customer's documents. Alternatively, the Firm may choose not to rely on the non-U.S. Introducing Broker and will instead itself verify the identification of customers introduced by non-U.S. Introducing Brokers.

The Firm will also use various vendors to perform OFAC screening for customers introduced by the non-U.S. Introducing Broker. The Firm will interact with OFAC to the extent necessary to resolve any issues concerning potential name matches against the OFAC list. The Firm will be responsible for filing the report with OFAC and will follow the procedures set forth above in Section 5.0.

20. Consequences of Failure by the Firm's Introducing Broker and Securities IB To Comply with the Firm's Procedures - Generally

In the event an Introducing Broker (including a GIB), Securities IB and/or employee or registered person of an Introducing Broker or Securities IB fails to adhere to this Policy, the Firm may consider the termination of the clearing agreement.

Additionally, violations of money laundering laws also may subject Introducing Brokers and employees of Introducing Brokers to potential civil and criminal penalties, including imprisonment, as well as possible forfeiture of assets.

21. Accounts of Employees and Associated Persons

Accounts of employees and associated persons will be subject to the same AML procedures as customer accounts, except where based upon a risk assessment, the AML Compliance Officer determines that there is a reason not to do so.

22. Confidential Reporting of AML Non-Compliance

Employees, including all registered persons, will report any violations of the Firm's AML policies and procedures to the relevant AML Compliance Officer, unless the violations implicate the AML Compliance Officer, in which case the person shall report to the Firm's Chief Executive Officer, the Chief Compliance Counsel or other supervisory personnel. GIBs will also be required to report any violations of MF Global's AML policies and procedures by either GIB personnel or MF Global employees to MF Global's AML Compliance Officer. All such reports will be confidential, and the reporting person will suffer no retaliation for making them.

23. Senior Management Approval

Senior Management of MF Global has approved this AML Policy as reasonably designed to achieve and monitor the Firm's ongoing compliance with the requirements of the PATRIOT Act, BSA and their implementing regulations.

EXHIBIT 1

APPROVED FINANCIAL ACTION TASK FORCE ("FATF")

MEMBER COUNTRIES LIST

1. Argentina
2. Australia
3. Austria
4. Belgium
5. Brazil
6. Canada
7. China
8. Denmark
9. European Commission (Member States list)
10. Finland
11. France
12. Germany
13. Greece
14. Gulf Co-operation Council
15. Hong Kong, China
16. Iceland
17. Ireland
18. Italy
19. Japan
20. Kingdom of the Netherlands*
21. Luxembourg
22. Mexico
23. New Zealand
24. Norway
25. Portugal
26. Russian Federation
27. Singapore
28. South Africa
29. Spain
30. Sweden
31. Switzerland
32. Turkey
33. United Kingdom
34. United States

** the Kingdom of the Netherlands: the Netherlands, the Netherlands Antilles and Aruba.*

Countries with observer status:

1. India
2. Republic of Korea

EXHIBIT 2

PROHIBITED COUNTRIES (INCLUDES OFAC SANCTIONS PROGRAMS, THE NCCT LIST, AND COUNTRIES SUBJECT TO SPECIAL MEASURES UNDER SECTION 311*)

Afghanistan	
Albania	
Belarus	(OFAC)
Chad	
Cote d'Ivoire (Ivory Coast)	(OFAC)
Cuba	(OFAC)
Democratic Rep. of the Congo	(OFAC)
East Timor	
Eritrea	
Guinea Bissau	
Iran	(OFAC)
Iraq	(OFAC)
Liberia	(OFAC)
Macedonia	
Myanmar (Burma)	(OFAC and Section 311)
Nauru	(Proposed Section 311)
North Korea	(OFAC)
Pakistan	
Principe	
Sao Tome	
Somalia	
Sudan	(OFAC)
Syria	(OFAC)
Turkish Republic of North Cyprus	
Turkmenistan	
Uzbekistan	
Western Balkans	(OFAC)
• Macedonia	
• Former Yugoslavia	
Yemen	
Zimbabwe	(OFAC)

* **Please note that there are also financial institutions subject to Special Measures under Section 311. Currently, these entities include: VEF Banka, Myanmar Mayflower Bank, Commercial Bank of Syria, Banco Delta Asia and Asia Wealth Bank. Entities subject to proposed Special Measures under Section 311 include: Infobank (includes Belmetalnergro) and First Merchant Bank OSH Ltd. (including its subsidiaries FMB Finance Ltd., First Merchant International Inc., First Merchant Finance Ltd., and First Merchant Trust Ltd.) Refer to the updated list countries and financial institutions subject to special measures under Section 311 for information.**

EXHIBIT 3

MF Global Inc

ENHANCED DUE DILIGENCE FORM FOR CERTAIN NON-U.S. FINANCIAL INSTITUTIONS

Section 312 of the PATRIOT Act requires new due diligence procedures for "accounts" maintained for certain types of non-U.S. financial institutions. The term "account" includes both traditional brokerage accounts and other non-traditional brokerage account relationships, such as stock loan activities and private placement investments. The requirements include procedures to enable the Firm to detect and report any known or suspected money laundering activity conducted by non-US financial institutions through the financial account maintained with the Firm. The regulation also requires additional due diligence for financial accounts maintained with certain non-U.S. banks.

This Enhanced Due Diligence Form is designed to enable the Firm to collect information about the non-U.S. financial institutions covered by Section 312 that the Firm must obtain in order to comply with these regulations.

DIRECTIONS FOR COMPLETING THE FORM

The Form must be completed for any client that is one of the following types of **non-U.S.** financial institutions:

a) Foreign bank, i.e., a bank organized under foreign law;

b) Foreign branch or office of a U.S. securities broker or dealer;

c) Foreign branch or office of a U.S. futures commission merchant or a U.S. introducing broker registered, or required to be registered, with the Commodity Futures Trading Commission ("CFTC");

d) Foreign branch or office of a U.S. mutual fund;

e) Non-U.S. entity that, if located in the U.S., would be a:

   i. Securities broker or dealer;

   ii. Futures commission merchant or introducing broker registered, or required to be registered, with the CFTC; or

   iii. Mutual fund; and

f) Non-U.S. entity that is engaged in the business of, and is readily identifiable as, a currency dealer or exchanger or a money transmitter.

Approval: A relationship may not be established by or for the benefit of a non-U.S. financial institution (that is one of the types described above) located in a high risk country before you receive approval from Senior Management and the AML Compliance Officer.

In situations where an entity is establishing DVP/RVP sub-account(s), no additional EDD Form must be completed for the individual or entity that is the beneficial owner of the sub-account. However, if the sub-account will be a Cash, Margin or Options account, you must complete the EDD Form for the individual or entity that is the beneficial owner of the account.

If you have any questions concerning this Form, please contact the Firm's AML Officer.

NON-U.S. FINANCIAL INSTITUTIONS UNDER SECTION 312 OF THE PATRIOT ACT

1. Account Number (if applicable)	
2. Client	
3. Jurisdictional Money Laundering Laws	Does your client operate in a jurisdiction with established laws designed to prevent money laundering and is your client subject to such laws? □ Yes □ No If yes, please provide details below: _____ _____ _____
4. Know Your Customer Policies	Does your client have established written policies and procedures designed to identify clients ie. "Know Your Customer", and "Know Your Customers Business" in order to combat money laundering prior to entering into a business relationship with them? □ Yes □ No
5. Suspicious Activity Reporting	Does your client have established methods for reporting suspicious activities and transactions to the appropriate authorities? □ Yes □ No
6. AML Audit Functions	Does your client have an established audit and compliance review function to test the adequacy of anti-money laundering procedures and policies? □ Yes □ No
7. Foreign Shell Banks	Does your client have a policy of not opening accounts for a foreign bank that does not have a physical presence in any

	country, (i.e. a foreign shell bank), and that your institution does not currently have any account for foreign shell banks? □ Yes □ No
8. Anonymous Accounts	Does your client have a policy of refusing to open anonymous accounts? □ Yes □ No
9. Disciplinary History	Has your organization been prosecuted, fined or otherwise, for failure to comply with any stipulated anti-money laundering regulations or legislation? □ Yes □ No If yes, please provide details. _____ _____ _____
10. Anti-Money Laundering Compliance Officer Contact	Please provide details of your client's Money Laundering Reporting Officer or the appropriate person/body at your organization charged with overseeing all anti-money laundering policies and procedures: Please provide details below: Name: Position: Contact Details
11. What type of non-U.S. financial institution is the client?	□ Foreign bank, i.e., a bank organized under foreign law; □ Foreign branch or office of a U.S. securities broker or dealer; □ Foreign branch or office of a U.S. futures commission merchant or a U.S. introducing broker registered, or required to be registered, with the CFTC; □ Foreign branch or office of a U.S. mutual fund; □ Non-U.S. entity that, if located in the U.S., would be a: □ Securities broker or dealer; □ Futures commission merchant or introducing broker registered, or

	required to be registered, with the CFTC; or □ Mutual fund; and □ Non-U.S. entity that is engaged in the business of, and is readily identifiable as, a currency dealer or exchanger or a money transmitter. □ Other (describe) _____
12. Indicate the country in which the client is located.	Country in which the main office of the client is located: _____ □ Approved FATF Countries □ High Risk Countries □ OFAC/NCCT Countries □ None of the above
13. Indicate the country in which the client is organized, incorporated or registered.	Country in which client is organized, incorporated or registered: _____ □ Approved FATF Countries □ High Risk Countries □ OFAC/NCCT Countries □ None of the above
14. If the client is a wholly or partially owned subsidiary, indicate the name of the parent and the country in which the parent is organized, incorporated or registered.	Parent: _____ Country of organization: _____ □ Approved FATF Countries □ High Risk Countries □ OFAC/NCCT Countries □ None of the above
15. If the client is a wholly or partially owned subsidiary, indicate the country in which the parent is located.	Country where headquarters located: _____ □ Approved FATF Countries □ High Risk Countries □ OFAC/NCCT Countries □ None of the above
16. List the geographic markets primarily served by the client, including specific countries and	Primary geographic markets. _____ _____

regions.	_____ Identify the category that represents the risk level of the country (-ies) with the highest risk in the geographic markets served by the client: □ Approved FATF Countries □ High Risk Countries □ OFAC/NCCT Countries □ None of the above 8A. Is the primary geographic market served by the client different than the country of origin? If so, does the primary geographic market contain countries in a higher risk category than the country of origin? □ Yes □ No
17. What is the nature of the customer's expected activity at the Firm? (check all that apply)	Identify all applicable categories: □ Private Placement □ Futures/Derivatives Hedging □ DVP/RVP Speculating □ Futures/Derivatives □ Executing Broker □ Securities Options Trading □ Clearing □ Currency Futures Trading □ Trading for own account □ Financial Futures Trading □ Derivative transactions □ Lending Activities □ Hold assets □ Collateral/pledge □ Execute orders on behalf of third parties □ Receipt of funds from third parties If yes, explain. _____ _____ □ Disbursement of funds to third parties If yes, explain. _____ _____ □ Other (describe) _____
18. Identify anticipated wire activity. If the account is DVP/RVP, skip	Anticipated # of monthly incoming wire transactions: □ 0-10 □ 10-20 □ 20+ □ N/A

this question.	Anticipated # of monthly outgoing wire transactions: □ 0-10 □ 10-20 □ 20+ □ N/A
19. Describe the nature and duration of the Firm's relationship with the client.	□ Existing Client: □ 1 month-1year □ 1 year - 5 years □ 5 years + □ New Client
20. Was the client introduced by a regulated affiliate of the Firm?	□ Yes Name: _____ Country: _____ □ No
21. Describe the nature and duration of the Firm affiliates' relationship with the client.	□ Existing Relationship: □ 1 month-1 year □ 1 year - 5 years □ 5 years + □ Past Relationship □ 1 month-1 year □ 1 year - 5 years □ 5 years +
22. Have you personally met with the client?	□ Yes □ No
23. Does the client have a website?	□ Yes □ No If Yes, please provide the website address. _____ Is the website consistent with your understanding of the client's activities and investment intentions? □ Yes □ No If No, please attach relevant website pages and explain (attach additional sheets as necessary) _____ _____
24. Do wiring or delivery instructions require that funds be wired or financial products be delivered to a country other than where the client is based?	□ Yes □ No If Yes, what is the country where funds will be wired or financial products will be delivered? _____.
25. If you checked High Risk Countries, OFAC/NCCT Countries or None of the above in response to question 4 or 5, please answer the question below, conduct research utilizing internet resources to answer the	□ Yes (please describe; attach additional sheets as necessary) _____ _____ _____

following question: Has the client been the subject of any adverse government actions (*e.g.* criminal or regulatory investigations; sanctions for violating anti-money laundering laws and regulations; and/or laws, regulations and Executive Orders administered by OFAC)?	_____ □ No □ Unknown
If the client is a foreign bank, please answer questions 18-23 (in addition to all of the above questions, as applicable)	
26. Provide the following information:	(a) Name: _____ (b) Has the Firm obtained a completed foreign bank certification form for the client? □ Yes □ No If No, contact AML Officer for guidance. (c) What country issued the foreign bank's banking license? _____ (d) Does the foreign bank operate under an offshore banking license, *i.e.,* a license that prohibits the bank from conducting banking activities with the citizens of, or in the local currency of, the jurisdiction that issued the license? □ Yes □ No (e) Was the foreign bank's license issued by a country or territory that is a FATF NCCT or a Section 311 jurisdiction?22 □ Yes □ No **(The Firm will not open an account for any foreign bank that is located in or operates under a banking license issued by a country or territory that is a FATF NCCT or a Section 311 jurisdiction.)**
27. Does the foreign bank have a regulated affiliate and is the foreign bank subject to the regulation of that jurisdiction?	□ Yes □ No If Yes: (a) What is the Name of the affiliate? _____ (b) What jurisdiction is it in? _____

22 The Financial Action Task Force ("FATF") is an international organization that serves as the world leader in the development of effective AML programs. Jurisdictions designated by FATF as non-cooperative in the fight against money laundering are known as non-cooperative countries and territories (**"NCCTs"**). Pursuant to Section 311 of the PATRIOT Act, the U.S. Treasury may require financial institutions to take certain special measures concerning a particular jurisdiction if Treasury designates such jurisdiction a primary money laundering concern (**"Section 311 jurisdiction"**).

28. If you answered Yes to 18(d) and/or 18(e), please answer the following questions: (You must make appropriate inquiries to your contact at the foreign bank in order to answer these important questions.)	(a) Does the foreign bank provide accounts to other banks that will be able to use the account established by the Firm to process transactions? □ Yes □ No (b) If you answered Yes to 20(a), what is the nature of the client's foreign bank customers? _____ _____ _____ (c) If you answered Yes to 20(a), and where appropriate, provide the name and home country of any other bank that will be able to use the account established by the Firm to process transactions. (attach additional sheets if necessary). _____ _____ _____ (d) If you answered Yes to 20(a), are any such customers of the Firm's customer shell banks, *i.e.*, banks that do not have a physical presence in any country? □ Yes □ No **(The Firm must not maintain an account for any foreign bank that uses its account with the Firm to indirectly provide banking services to a prohibited foreign shell bank23 that does not have a physical presence in any country.)**
29. If you answered Yes to 18(d), please request information related to the client's anti-money laundering program. Such information can include a copy of the client's anti-money laundering policies and procedures. Please describe the information obtained.	Description of information obtained. _____ _____ _____ _____ **(The Firm must not maintain an account for any foreign bank that uses its account with the Firm to indirectly provide banking services to a prohibited foreign shell bank that does not have a physical presence in any country.)**

23 "Prohibited foreign shell bank" means a bank incorporated in a jurisdiction in which it has no physical presence and which is unaffiliated with a regulated financial group

30. Is the foreign bank publicly traded?	□ Yes □ No If Yes, provide the name and location of the exchange on which it is traded and the ticker symbol. _____ _____
31. If you have answered Yes to 18(d) and/or 18(e), and if not publicly traded, please provide additional ownership information. 24	_____ _____ _____ _____

Individual Establishing Relationship:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

Form Prepared By:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

AML Compliance Approval By:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

24 In addition to the ownership information provided in the foreign bank certification, pursuant to section 103.176(b)(3), the Firm must obtain the identity of owners of any foreign correspondent bank whose shares are not publicly traded. Owner is defined under section 103.176(b)(3)(ii)(A) as any person who directly or indirectly owns, controls, or has the power to vote 10 percent or more of any class of securities of a foreign bank.

EXHIBIT 4

MF Global Inc

ENHANCED DUE DILIGENCE FORM
POLITICALLY EXPOSED PERSONS
(DOMESTIC CLIENTS)

Section 312 of the PATRIOT Act requires due diligence procedures reasonably designed to detect and report any known or suspected money laundering or suspicious activity conducted through or involving an account that is established, maintained, administered, or managed in the United States by the Firm for, or on behalf of politically exposed persons ("PEPs").25 The requirements include procedures to enable the Firm to ascertain whether an individual is a PEP.

This Enhanced Due Diligence Form is designed to enable the Firm to collect information about PEPs that the Firm must obtain in order to comply with the regulation.

DIRECTIONS FOR COMPLETING THE FORM

This Form must be completed if the client is a PEP. If you have any questions concerning this Form, please contact the Firm's AML Officer.

1. Name of person/entity	
2. Name of country where person/entity is located	
3. Name of PEP (if not the same as client)	
4. Relationship of to client (if not the same)	☐ Corporation, business, or other entity in which PEP has an interest ☐ An immediate family member ☐ Close associate
5. Account Number, if applicable (if not a new account)	
6. Related accounts (if applicable)	
7. PEP'S current government title/position, if any, dates of service and	Position: _____ Dates of service: _____

[25] A "politically exposed person" is a term used for individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. FATF 40 Recommendations Glossary.

yearly compensation (if not current, note N/A)	Yearly compensation: _____
8. PEP'S previous government title/ position(s), dates of service and compensation (if prior positions held)	Position: _____ Dates of service: _____ Yearly compensation: _____ (if additional government positions held, provide information concerning all government positions on a separate page)
9. If the PEP no longer holds a government position, provide information concerning the PEPs current occupation, if any.	Occupation: _____ Employer: _____ Yearly compensation: _____
10. Country in which PEP holds or held position which qualifies client as a PEP	
11. Are any members of the PEPs family also PEPs? □ Yes □ No	Name: _____ Position: _____ Dates of Service: _____ Country: _____ (if additional family members are PEPs, provide information concerning all PEPs on a separate page)
12. If the person who referred the PEP is also a PEP, provide information concerning that person's government position.	Name: _____ Government position: _____ Dates of service: _____ Country: _____ Relationship to client: _____
13. Does the PEP have other sources of income?	Other sources of income: a. _____ b. _____ c. _____ d. _____ e. _____

14. If the PEP has any sources of wealth, e.g., inheritance or spouse's assets, not already described above, provide a description of each source.	a. _____ b. _____ c. _____ d. _____ e. _____
15. Source of funds to be deposited/invested, if applicable.	☐ Business Earnings (owner) ☐ Sale of Business or Property ☐ Salary (employee) ☐ Personal Savings ☐ Insurance Benefits ☐ Inheritance ☐ Gambling/Lottery Winnings ☐ Real Estate Investing ☐ Securities Investing ☐ Retirement Benefits (401K, Pensions, Rollover, etc.) ☐ Court Awards/Legal Settlements ☐ Alimony Benefits ☐ Disability Benefits ☐ Government Benefits ☐ Family Gifts ☐ Other _____
16. If the PEP is not opening the account or establishing the relationship in his or her own name, explain why not.	
17. Does the PEP have an existing relationship with other U.S. financial institutions? (attach additional sheets, if necessary). ☐ Yes ☐ No	Name of financial institution: _____ Length of relationship: _____ Name of financial institution: _____ Length of relationship: _____ Name of financial institution: _____ Length of relationship: _____
18. Was the PEP introduced by a regulated affiliate of the Firm?	☐ Yes Name: _____ Country: _____ ☐ No

19. Describe the nature and duration of the Firm affiliates' relationship with the PEP.	□ Existing Relationship: □ 1 month-1year □ 1 year - 5 years □ 5 years + □ Past Relationship □ 1 month-1 year □ 1 year - 5 years □ 5 years +
20. Is the client opening an account or establishing a relationship in an office of the Firm not located in the PEP country of residence?	□ Yes □ No If yes, explain. _____ _____
21. Have you spoken directly with the PEP?	□ Yes □ No If not, explain. _____ _____
22. Have you met with the PEP in person?	□ Yes □ No If not, explain. _____ _____
23. Has your supervisor met with the PEP in person?	□ Yes □ No
24. Did the PEP attempt to conceal his/her status as a PEP in any way?	□ Yes □ No If yes, explain. _____ _____
25. Purpose of the account/relationship (check all that apply)	□ Investment □ Futures/Derivatives Speculating □ Hold assets □ Securities Options Trading □ Private Placement □ Futures Options Trading □ Lending Activities □ Currency Futures Trading □ Futures/Derivatives Hedging □ Financial Futures Trading □ Execute orders on behalf of third parties □ Receipt of funds from others If yes, explain. _____ _____ □ Disbursement of funds to others If yes, explain.

	_____ _____ □ Other (describe) _____
26. Identify anticipated wire activity	(a) Anticipated # of monthly incoming wire transactions: □ 0-10 □ 10-20 □ 20+ □ N/A (b) Anticipated # of monthly outgoing wire transactions: □ 0-10 □ 10-20 □ 20+ □ N/A
27. Does the PEP anticipate incoming wires from or outgoing wires to any government agencies or government-owned businesses?	□ Yes □ No If yes, explain. _____ _____
28. Does the Firm maintain any accounts for the government of the country in which the PEP holds a position, or any agency of such government?	□ Yes □ No If Yes, please provide the name of the account(s) and government agency(ies). _____ _____
29. If you answered Yes to Question 28, please indicate whether the PEP has any control over any such account (*e.g.* authorized trader).	□ Control □ No Control
30. Conduct research utilizing internet resources to answer the following question: Has the PEP been the subject of any allegations relating to money laundering or official corruption (*e.g.* bribery or extortion,	□ Yes (please describe; attach additional sheets as necessary) _____ _____ _____ _____ □ No □ Unknown

misappropriation or embezzlement of public funds, unlawful conversion of government property, or other illegal activities)?	

Individual Establishing Relationship:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

Form Prepared By:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

AML Compliance Approval By:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

EXHIBIT 5

MF Global Inc

ENHANCED DUE DILIGENCE FORM FOR SENIOR FOREIGN POLITICAL FIGURES/ POLITICALLY EXPOSED PERSONS

Section 312 of the PATRIOT Act requires due diligence procedures reasonably designed to detect and report any known or suspected money laundering or suspicious activity conducted through or involving an account that is established, maintained, administered, or managed in the United States by the Firm for, or on behalf of, a senior foreign political figure ("SFPFs")[26] and politically exposed persons ("PEPs").[27] The requirements include procedures to enable the Firm to ascertain whether an individual is an SFPF/PEP.

This Enhanced Due Diligence Form is designed to enable the Firm to collect information about SFPFs/PEPs that the Firm must obtain in order to comply with the regulation.

DIRECTIONS FOR COMPLETING THE FORM

This Form must be completed if the client is an SFPF/PEP. If you have any questions concerning this Form, please contact the Firm's AML Officer.

1. Name of person/entity	
2. Name of country where person/entity is located	
3. Name of SFPF/PEP (if not the same as client)	
4. Relationship of SFPF to client (if not the same)	☐ Corporation, business, or other entity in which SFPF/PEP has an interest ☐ An immediate family member ☐ Close associate
5. Account Number, if applicable (if not a new account)	

[26] "Senior foreign political figure" is defined as: (a) a current or former senior official in the executive, legislative, administrative, military or judicial branches of a non-U.S. government (whether elected or not), a current or former senior official of a major non-U.S. political party, or a current or former senior executive of a non-U.S. government-owned commercial enterprise; (b) a corporation, business, or other entity that has been formed by, or for the benefit of, any such individual; (c) an immediate family member of any such individual; and (d) a person who is widely and publicly known (or is actually known) to be a close associate of such individual. For purposes of this definition, a "senior official" or "senior executive" means an individual with substantial authority over policy, operations, or the use of government-owned resources; and "immediate family member" means a spouse, parent, sibling, child and a spouse's parent or sibling.

[27] A "politically exposed person" is a term used for individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. FATF 40 Recommendations Glossary.

6. Related accounts (if applicable)	
7. SFPF's/PEP'S current government title/position, if any, dates of service and yearly compensation (if not current, note N/A)	Position: _____ Dates of service: _____ Yearly compensation: _____
8. SFPF's/PEP'S previous government title/ position(s), dates of service and compensation (if prior positions held)	Position: _____ Dates of service: _____ Yearly compensation: _____ (if additional government positions held, provide information concerning all government positions on a separate page)
9. If the SFPF/PEP no longer holds a government position, provide information concerning the SFPF's/PEP's current occupation, if any.	Occupation: _____ Employer: _____ Yearly compensation: _____
10. Country in which SFPF/PEP holds or held position which qualifies client as a SFPF/PEP	
11. Are any members of the SFPF's/PEP's family also SFPFs/PEPs? □ Yes □ No	Name: _____ Position: _____ Dates of Service: _____ Country: _____ (if additional family members are SFPFs/PEPs, provide information concerning all SFPFs/PEPs on a separate page)
12. If the person who referred the SFPF/PEP is also a SFPF/PEP, provide information concerning that person's government position.	Name: _____ Government position: _____ Dates of service: _____ Country: _____ Relationship to client: _____

13. Does the SFPF/PEP have other sources of income?	Other sources of income: a. _____ b. _____ c. _____ d. _____ e. _____
14. If the SFPF/PEP has any sources of wealth, e.g., inheritance or spouse's assets, not already described above, provide a description of each source.	a. _____ b. _____ c. _____ d. _____ e. _____
15. Source of funds to be deposited/invested, if applicable.	☐ Business Earnings (owner) ☐ Securities Investing ☐ Sale of Business or Property ☐ Retirement Benefits (401K, Pensions, Rollover, etc.) ☐ Salary (employee) ☐ Court Awards/Legal Settlements ☐ Personal Savings ☐ Alimony Benefits ☐ Insurance Benefits ☐ Disability Benefits ☐ Inheritance ☐ Government Benefits ☐ Gambling/Lottery Winnings ☐ Family Gifts ☐ Real Estate Investing ☐ Other _____
16. If the SFPF/PEP is not opening the account or establishing the relationship in his or her own name, explain why not.	
17. Does the SFPF/PEP have an existing relationship with other U.S. financial institutions? (attach additional sheets, if necessary). ☐ Yes ☐ No	Name of financial institution: _____ Length of relationship: _____ Name of financial institution: _____ Length of relationship: _____ Name of financial institution: _____ Length of relationship: _____

18. Was the SFPF/PEP introduced by a regulated affiliate of the Firm?	□ Yes Name: _____ Country: _____ □ No
19. Describe the nature and duration of the Firm affiliates' relationship with the SFPF/PEP.	□ Existing Relationship: □ 1 month-1year □ 1 year - 5 years □ 5 years + □ Past Relationship □ 1 month-1 year □ 1 year - 5 years □ 5 years +
20. Is the client opening an account or establishing a relationship in an office of the Firm not located in the SFPF's/PEP country of residence?	□ Yes □ No If yes, explain. _____
21. Have you spoken directly with the SFPF/PEP?	□ Yes □ No If not, explain. _____
22. Have you met with the SFPF/PEP in person?	□ Yes □ No If not, explain. _____
23. Has your supervisor met with the SFPF/PEP in person?	□ Yes □ No
24. Did the SFPF/PEP attempt to conceal his/her status as a SFPF/PEP in any way?	□ Yes □ No If yes, explain. _____
25. Purpose of the account/relationship (check all that apply)	□ Investment □ Futures/Derivatives Speculating □ Hold assets □ Securities Options Trading □ Private Placement □ Futures Options Trading □ Lending Activities □ Currency Futures Trading

	□ Futures/Derivatives Hedging □ Financial Futures Trading □ Execute orders on behalf of third parties □ Receipt of funds from others If yes, explain. _____ _____ □ Disbursement of funds to others If yes, explain. _____ _____ □ Other (describe) _____
26. Identify anticipated wire activity	(a) Anticipated # of monthly incoming wire transactions: □ 0-10 □ 10-20 □ 20+ □ N/A (b) Anticipated # of monthly outgoing wire transactions: □ 0-10 □ 10-20 □ 20+ □ N/A
27. Does the SFPF/PEP anticipate incoming wires from or outgoing wires to any government agencies or government-owned businesses?	□ Yes □ No If yes, explain. _____ _____
28. Does the Firm maintain any accounts for the government of the country in which the SFPF/PEP holds a position, or any agency of such government?	□ Yes □ No If Yes, please provide the name of the account(s) and government agenc(ies). _____ _____
29. If you answered Yes to Question 28, please indicate whether the SFPF/ PEP has any control over any such account (*e.g.* authorized trader).	□ Control □ No Control

30. Conduct research utilizing internet resources to answer the following question: Has the SFPF/PEP been the subject of any allegations relating to money laundering or official corruption (*e.g.* bribery or extortion, misappropriation or embezzlement of public funds, unlawful conversion of government property, or other illegal activities)?	□ Yes (please describe; attach additional sheets as necessary) _____ _____ _____ _____ □ No □ Unknown

Individual Establishing Relationship:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

Form Prepared By:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

AML Compliance Approval By:
Name: _____
Title/Position: _____
Signature: _____
Date: _____

EXHIBIT 6

Agreement Relating to Allocation of Customer Identification and Verification Procedures

Pursuant to the USA Patriot Act, NFA Compliance Rule 2-9(c) requires both futures commission merchants and Introducing Brokers to establish and implement anti-money laundering compliance programs, and requires further that each such Member has an independent customer identification and verification obligation. The NFA has stated, however, that the interests of business efficiency and anti-money laundering effectiveness may be best served if futures commission merchants and Introducing Brokers cooperate with each other in order to meet their respective obligations. A futures commission merchant and an Introducing Broker, therefore, may allocate between themselves certain elements of their customer identification and verification procedures. In addition, the USA Patriot Act permits futures commission merchants and Introducing Brokers to rely on one another for the performance of customer identification and verification procedures provided certain requirements are satisfied.

Accordingly, MF Global Inc, ("MF Global") and the Independent Introducing Broker ("IB") or Guaranteed Introducing Broker ("GIB"), collectively ("IB/GIB"), listed below agree as follows:

1. IB/GIB will obtain all customer identification information for all customers introduced to MF Global by IB/GIB ("Customer" or "Customers") (*e.g.* name, address, telephone number, social security number, tax ID number, date of birth, etc.). This includes all information required to be requested and obtained from the Customer under MF Global's Customer Identification Program ("CIP"). IB/GIB will provide MF Global with all identifying information obtained from the Customer so that MF Global can verify the Customer's identity as provided below.

2. IB/GIB will obtain all documents from the Customer as required by the documentary verification procedures set forth in MF Global's CIP. IB/GIB will provide MF Global with all such documents so that MF Global can verify the Customer's identity as provided below.

3. In the event that a Customer refuses at any point to provide IB/GIB with required information or documents, or provides information or documents that IB/GIB believes is or may be false, misleading, suspicious, or contradictory, or exhibits any of the other "red flags" identified in Section 10.4 of MF Global's AML Program, IB/GIB will immediately alert MF Global's Compliance Department of such circumstances.

4. MF Global will evaluate the identifying information and documents provided by IB/GIB for purposes of documentary verification with respect to a Customer. MF Global will also perform all non-documentary verification procedures with respect to a Customer as required by MF Global's CIP. This will include providing the Customer's identifying information to outside vendors for comparison against various databases, and will include a search of, but not limited to, customer accounts subject to Section 311 Special Measures or customers located in countries designated by FATF as NCCT. MF Global will advise IB/GIB whether MF Global will open an account for the Customer.

5. MF Global will perform OFAC screening by providing the Customer's name and address to an outside vendor for comparison against OFAC's Specially Designated Nationals and Blocked Persons' List and countries subject to OFAC's Sanctions Programs. MF Global will interact with OFAC to the extent necessary to resolve any issues concerning potential name matches against the lists. IB/GIB recognizes that each is legally responsible for its own OFAC obligations. IB/GIB will cooperate with MF Global to resolve any potential OFAC matches and both will file the necessary reports with OFAC.

6. MF Global will conduct enhanced due diligence on correspondent accounts established, maintained, administered, or managed for customers introduced by IB/GIB. IB/GIB recognizes that each is legally responsible for its own enhanced due diligence responsibilities. IB/GIB will assist MF Global in obtaining a completed Certification/Recertification form from the introduced customer. Where applicable, MF Global will also perform enhanced scrutiny on introduced private banking accounts, including accounts requested or maintained by or on behalf of a senior foreign political figure ("SFPF")[28] or politically exposed person ("PEP").[29]

7. In accordance with the requirements under Section 314(a), upon receiving a request for information from FinCEN, MF Global will perform a search of its customer records and inform FinCEN of any matches of the names provided in the request. If FinCEN determines to request IB/GIB to conduct 314(a) searches or to comply with a particular request, IB/GIB will comply appropriately with such request, and inform MF Global of the request and its response.

8. MF Global and IB/GIB are obligated to each report and identify suspicious transactions. MF Global may undertake the responsibility for filing a SAR-SF where both have participated in the same transaction. In the event suspicious activity is detected at the IB/GIB level, the activity must be reported to MF Global's AML Compliance Officer. The IB/GIB will cooperate with MF Global and provide MF Global's AML Compliance Officer with all the relevant facts so that the AML Compliance Officer can determine whether to file a SAR-SF. IB/GIB will consult with MF Global before filing its own SAR-SF with regard to a customer of MF Global or transaction and MF Global must be provided with a copy of the SAR-SF filed by the IB/GIB.

9. IB/GIB will cooperate with MF Global as necessary to obtain additional information or documents from the Customer and to resolve any open issues.

10. MF Global maintains sole discretion to determine whether to open an account for any Customer.

11. In order to facilitate the exchange of customer information between MF Global and IB/GIB, MF Global has filed a notice pursuant to Section 314(b) of the USA Patriot Act and the regulations implemented there under relating to the voluntary sharing of information. IB/GIB has also filed, or promptly will file, such a notice under Section 314(b). Both MF Global and IB/GIB

[28] A "senior foreign political figure" is defined as (a) a current or former senior official in the executive, legislative, administrative, military or judicial branches of a non-U.S. government (whether elected or not), a current or former senior official of a major non-U.S. political party, or a current or former senior executive of a non-U.S. government-owned commercial enterprise; (b) a corporation, business, or other entity that has been formed by, or for the benefit of, any such individual; (c) an immediate family member of any such individual; and (d) a person who is widely and publicly known (or is actually known) to be a close associate of such individual. For purposes of this definition, a "senior official" or "senior executive" means an individual with substantial authority over policy, operations, or the use of government-owned resources; and "immediate family member" means a spouse, parents, siblings, children and spouse's parents or siblings.

[29] A "politically exposed person" is a term used for individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. FATF 40 Recommendations Glossary.

will file additional Section 314(b) notices on an annual basis. If requested by MF Global, each IB/GIB will provide MF Global with copies of all Section 314(b) notices filed by IB/GIB.

12. IB/GIB certifies that: (i) IB/GIB is registered with the CFTC as an Introducing Broker under the Commodity Exchange Act; (ii) IB/GIB has adopted and implemented either the MF Global AML Compliance Program pursuant to a MF Global IB/GIB Adoption Letter or its own AML program as required by Section 326 of the USA Patriot Act and 31 U.S.C. § 103.123; and (iii) IB/GIB will perform the above-specified customer identification and verification requirements for each Customer that establishes an account with MF Global in a manner consistent with its obligations.

13. On an annual basis, IB/GIB will certify to MF Global, and MF Global will certify to IB/GIB, that it has implemented an AML program and will perform the above-specified customer identification and verification requirements.

(Please fax the executed agreement to (312) 902-6178, attention John Brand and send the original executed agreement to MF Global Inc., Compliance Department, Attention John Brand, 440 South LaSalle Street 20th Floor, Chicago, IL 60605).

Agreed to on behalf of IB/GIB:

Introducing Broker _____

Signature _____

Printed Name _____

Title _____

Date _____

Agreed to on behalf of MF Global Inc.:

Signature _____

Printed Name _____

Title _____

Date _____

EXHIBIT 7

_____ (the "Company")

MF Global Inc Anti-Money Laundering ("AML") Compliance Program: Introducing Broker Adoption Letter

A. The Company, an Introducing Broker ("GIB") which operates pursuant to a guarantee agreement with MF Global Inc ("MF Global"), has fully adopted and will follow all the policies and procedures contained in the AML Compliance Program provided by MF Global. Company personnel are required to read and become familiar with MF Global's AML policies and procedures. The Company is fully committed to complying with all of the requirements of the Bank Secrecy Act, the USA Patriot Act, and all other applicable rules and regulations relating to AML as promulgated by the Commodity Futures Trading Commission and the National Futures Association. It is the Company's policy to avoid any instance where it may be used to facilitate a money-laundering scheme.

B. The Company recognizes that it has an independent responsibility to comply with all applicable AML laws, regulations and rules. In order to facilitate the efficient and effective discharge of their respective AML obligations, the Company and MF Global have entered into a written Agreement Relating to Allocation of Customer Identification and Verification Procedures (See Exhibit 6).

C. _____ is designated as the Company's AML Compliance Officer ("AMLCO") (**this individual must be a listed principal of the firm**). The AMLCO is responsible for, among other things, the following:

- monitoring the firm's AML compliance;
- developing compliance policies;
- establishing and overseeing communication and training for employees and registered persons;
- updating policies and procedures as needed;
- maintaining AML records;
- responding to subpoenas and requests for information from government authorities and law enforcement;
- ensuring that an annual AML audit is performed on the policy;
- filing an annual notice for purposes of sharing information with other financial institutions as necessary.

D. The Company will require AML training on at least an annual basis to appropriate personnel.

E. The Company will conduct an annual review to ensure that those areas that have primary responsibility for detecting money laundering are in compliance with the AML policies and procedures adopted hereby. The review will be performed by an independent third party qualified in AML examinations and audit procedures. The Company will address each report recommendation, if any, with an appropriate action plan.

F. Any Associated Person of GIB who fails to adhere to AML policy and procedure as set forth in this document will have their right to solicit account/equity suspended pending an

investigation of the events resulting in the suspension. Depending upon the findings of the investigation GIB may decide to release the registration of the Associated Person.

G. Any individual whose registration is held by GIB must take and successfully complete qualified AML training, or prove that they have successfully completed qualified AML training within the past 10 months, prior to being able to solicit business on behalf of GIB.

The contents of this letter and MF Global's AML Compliance Program have been approved and adopted by **(a listed principal of the firm):**

Name	Signature
Date	

EXHIBIT 8

Anti-Money Laundering Procedures Resources and References

For further information concerning Anti-Money Laundering rules and requirements, please visit the following additional resources:

- **CFTC Website: Anti-Money Laundering**
  http://www.cftc.gov/cftc/cftcaml.htm?from=home&page=lawmoneycontent
- **SEC Website:**
  http://www.sec.gov/
- **SEC AML Source Tool**
  http://www.sec.gov/about/offices/ocie/amlsourcetool.htm
- **NFA Compliance Rule 2-9:**
  https://www.nfa.futures.org/nfaManual/entireManual.asp#2-9
- **NFA Interpretive Notice 9045:**
  https://www.nfa.futures.o0rg/nfaManual/entireManual.asp#45
- **FINRA Rules and Regulations: Anti-Money Laundering**
  http://www.finra.org/RulesRegulation/IssueCenter/Anti-MoneyLaundering/index.htm
- **CBOE Rule 4.20: AML Compliance Program**
  http://cchwallstreet.com/CBOEtools/Platformviewer.asp?SelectedNode=chp_1_1&Manual=/CBOE/rules/cboe-rules/
- **Financial Crimes Enforcement Network:**
  http://www.fincen.gov
- **Financial Crimes Enforcement Network – Bank Secrecy Act ("BSA") Regulatory Guidance:**
  http://www.fincen.gov/reg_guidance.html
- **Financial Action Task Force on Money Laundering ("FATF"):**
  http://www1.oecd.org/fatf/NCCT_en.htm
- **United States Department of the Treasury – Office of Foreign Assets Control ("OFAC"):**
  http://www.ustreas.gov/offices/enforcement/ofac
- **USA PATRIOT Act**
  http://www.fincen.gov/hr3162.pdf
- **Financial Crimes Enforcement Network Web-Based 314(a) Secure Communication System:**
  https://www.fincen.gov/314a/
- **USA PATRIOT Act – Section 326 Customer Identification Programs for Futures Commission Merchants and Introducing Brokers:**
  http://www.treas.gov/press/releases/reports/js3356.pdf
- **Suspicious Activity Report Form**
  http://www.finc4en.gov/forms/SARSF6-30-07.pdf
- **Securities Industry and Financial Markets Association**
  http://www.sifma.org/
- **Futures Industry Association**
  http://www.futuresindustry.org/

EXHIBIT 9

APPENDIX A TO SUBPART I OF PART 103 – CERTIFICATION REGARDING CORRESPONDENT ACCOUNTS FOR FOREIGN BANKS

[OMB Control Number 1505-0184]

The information contained in this Certification is sought pursuant to Sections 5318(j) and 5318(k) of Title 31 of the United States Code, as added by sections 313 and 319(b) of the USA PATRIOT Act of 2001 (Public Law 107-56).

This Certification should be completed by any **foreign bank** that maintains a **correspondent account** with any U.S. bank or U.S. broker-dealer in securities (**a covered financial institution** as defined in 31 C.F.R. 103.175(f)). An entity that is not a foreign bank is not required to complete this Certification.

A foreign bank is a bank organized under foreign law and located outside of the United States (see definition at 31 C.F.R. 103.11(o)). A **bank** includes offices, branches, and agencies of commercial banks or trust companies, private banks, national banks, thrift institutions, credit unions, and other organizations chartered under banking laws and supervised by banking supervisors of any state (see definition at 31 C.F.R. 103.11(c)).*

A **Correspondent Account** for a foreign bank is any account to receive deposits from, make payments or other disbursements on behalf of a foreign bank, or handle other financial transactions related to the foreign bank.

Special instruction for foreign branches of U.S. banks: A branch or office of a U.S. bank outside the United States is a foreign bank. Such a branch or office is not required to complete this Certification with respect to Correspondent Accounts with U.S. branches and offices of the same U.S. bank.

Special instruction for covering multiple branches on a single Certification: A foreign bank may complete one Certification for its branches and offices outside the United States. The Certification must list all of the branches and offices that are covered and must include the information required in Part C for **each** branch or office that maintains a Correspondent Account with a Covered Financial Institution. Use attachment sheets as necessary.

A. The undersigned financial institution, _____ **("Foreign Bank")** hereby certifies as follows:

B. **Correspondent Accounts Covered by this Certification:** Check **one** box.

- ☐ This Certification applies to **all** accounts established for Foreign Bank by Covered Financial Institutions.
- ☐ This Certification applies to Correspondent Accounts established by _____ (name of Covered Financial Institution(s)) for Foreign Bank.

* A "foreign bank" does not include any foreign central bank or monetary authority that functions as a central bank, or any international financial institution or regional development bank formed by treaty or international agreement.

C. Physical Presence/Regulated Affiliate Status: Check **one** box and complete the blanks.

☐ Foreign Bank maintains a **physical presence** in any country. That means:

- Foreign Bank has a place of business at the following street address: _____, where Foreign Bank employs one or more individuals on a full-time basis and maintains operating records related to its banking activities.
- The above address is in _____ (insert country), where Foreign Bank is authorized to conduct banking activities.
- Foreign Bank is subject to inspection by _____, (insert Banking Authority), the banking authority that licensed Foreign Bank to conduct banking activities.

☐ Foreign Bank does not have a physical presence in any country, but Foreign Bank is a **regulated affiliate.** That means:

- Foreign Bank is an affiliate of a depository institution, credit union, or a foreign bank that maintains a physical presence at the following street address: _____, where it employs one or more persons on a full-time basis and maintains operating records related to its banking activities.
- The above address is in _____ (insert country), where the depository institution, credit union, or foreign bank is authorized to conduct banking activities.
- Foreign Bank is subject to supervision by _____, (insert Banking Authority), the same banking authority that regulates the depository institution, credit union, or foreign bank.

☐ Foreign Bank does **not** have a physical presence in a country and is **not** a regulated affiliate.

D. Indirect Use of Correspondent Accounts: Check box to certify.

☐ No Correspondent Account maintained by a Covered Financial Institution may be used to indirectly provide banking services to certain foreign banks. Foreign Bank hereby certifies that it does **not** use any Correspondent Account with a Covered Financial Institution to indirectly provide banking services to any foreign bank that does not maintain a physical presence in any country and that is not a regulated affiliate.

E. Ownership Information: Check box 1 or 2 below, **if applicable.**

☐ 1. Form **FR Y-7 is on file.** Foreign Bank has filed with the Federal Reserve Board a current Form FR Y-7 and has disclosed its ownership information on Item 4 of Form FR Y-7.

☐ 2. **Foreign Bank's shares are publicly traded**. Publicly traded means that the shares are traded on an exchange or an organized over-the-counter market that is regulated by a foreign securities authority as defined in section 3(a)(50) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(50)).

If **neither** box 1 nor 2 of Part E is checked, complete item 3 below, **if applicable.**

☐ 3. Foreign Bank has no **owner(s)** except as set forth below. For purposes of this Certification, **owner** means any person who, directly or indirectly, (a) owns, controls, or has power to vote 25 percent or more of any class of voting securities or other voting interests of Foreign Bank; or (b) controls in any manner the election of a majority of the directors (or individuals exercising similar functions) of Foreign Bank. For purposes of this Certification, (i) **person** means any individual, bank, corporation, partnership, limited liability company or any other legal entity; (ii) **voting securities or other voting interests** means securities or other interests that entitle the holder to vote for or select directors (or individuals exercising similar functions); and (iii) members of the same family* shall be considered one **person**.

Name	Address

F. Process Agent: complete the following.

The following individual or entity: _____ is a resident of the United States at the following street address:

_____, **and** is authorized to accept service of legal process on behalf of Foreign Bank from the

Secretary of the Treasury or the Attorney General of the United States pursuant to Section 5318(k) of title 31, United States Code.

G. General

Foreign Bank hereby agrees to notify in writing each Covered Financial Institution at which it maintains any Correspondent Account of any change in facts or circumstances reported in this Certification. Notification shall be given within 30 calendar days of such change.

Foreign Bank understands that each Covered Financial Institution at which it maintains a Correspondent Account may provide a copy of this Certification to the Secretary of the Treasury and the Attorney General of the United States. Foreign Bank further understands that the statements contained in this Certification may be transmitted to one or more departments or agencies of the United States of America for the purpose of fulfilling such departments' and agencies' governmental functions.

* The same family means parents, spouses, children, siblings, uncles, aunts, grandparents, grandchildren, first cousins, stepchildren, stepsiblings, parents-in-law and spouses of any of the foregoing. In determining the ownership interests of the same family, any voting interest of any family member shall be taken into account.

I, _____(name of signatory), certify that I have read and understand this Certification, that the statements made in this Certification are complete and correct, and that I am authorized to execute this Certification on behalf of Foreign Bank.

_____
[Name of Foreign Bank]

_____
[Signature]

_____
[Printed Name]

_____
[Title]

Executed on this _____ day of_____, 200_

Received and reviewed by:

Name: _____
Title: _____
For: _____
[Name of Covered Financial Institution]

Date: _____
_____

EXHIBIT 10

APPENDIX B TO SUBPART I OF PART 103 -- RECERTIFICATION REGARDING CORRESPONDENT ACCOUNTS FOR FOREIGN BANKS

[0MB CONTROL NUMBER 1505-0184]

The information contained in this Certification is sought pursuant to Sections 5318(j) and 5318(k) of Title 31 of the United States Code, as added by sections 313 and 319(b) of the USA PATRIOT Act of 2001 (Public Law 107-56).

The undersigned financial institution, _____ ("Foreign Bank"), hereby certifies as follows:

1. Foreign Bank has executed a Certification dated _____, 20__ (the "Certification") relating to one or more Correspondent Accounts maintained by one or more Covered Financial Institutions for Foreign Bank. Terms defined in the Certification have the same meaning in this Recertification.

2. The information contained in the Certification:

   ☐ remains true and correct.

   ☐ is revised by the information provided with this Recertification (attach a statement describing the information that is no longer correct and stating the correct information).

Foreign Bank understands that each Covered Financial Institution at which it maintains a Correspondent Account may provide a copy of this Recertification to the Secretary of the Treasury and the Attorney General of the United States. Foreign Bank further understands that the statements contained in this Recertification may be transmitted to one or more departments or agencies of the United States of America for the purpose of fulfilling such departments' and agencies' governmental functions.

I, _____(name of signatory), certify that I have read and understand this Recertification, that the statements made in this Recertification are complete and correct, and that I am authorized to execute this Recertification on behalf of Foreign Bank.

_____
[Name of Foreign Bank]

_____
[Signature]

_____
[Title]

Executed on this _____ day of_____,200_.

Received and reviewed by:

Name: _____
Title: _____
For: _____

[Name of Covered Financial Institution]

Date: _____

EXHIBIT 11

Approval and adoption of the MF Global Inc
Anti-Money Laundering Compliance Manual updated January 2010
and
Designation of an AML Compliance Officer

The senior management of MF Global Inc. hereby approves and adopts the Anti-Money Laundering Compliance Manual updated January 2010 and hereby designates as its AML Compliance Officers, John Brand and Joseph Pucci, for purposes of the same.

Approver Name: _____

Approver Title: _____

Approver Signature: _____

Date of Approval: _____

EXHIBIT 12

CIP Account Opening Guidance

This guidance is for employees engaged in the opening account process; it provides an outline for obtaining documentation from new clients or counterparties in order to fulfill legal and compliance requirements. Certain documents listed are:

- agreements that set forth the terms by which the Firm will conduct business with the client.
- disclosures or other informational forms that the Firm is required by law to distribute to the client or counterparty and to obtain the client's/counterparty's acknowledgement that he or she understands the content.
- required to be provided by the client or counterparty to the Firm that are required by law and /or the Firm's internal policies and procedures in order to enable the Firm in identify the client, document the client's background, and authority and capacity to engage in the business expected to be conducted with the Firm.

With respect to the ladder documentation referenced, the law and the Firm's policies and procedures permit the Firm to take a "risk-based approach" in determining the records it needs to satisfy its requirements. What that means is that the Legal and Compliance Departments may require different types of records and documentation from the client / counterparty or from third party sources to establish information it requires, based on one or more risk factors. Such risk factors are commonly based on the jurisdiction in which the customer/counterparty resides or conducts business (see the Firm's jurisdiction risk ranking list) but may include other factors, including the organizational structure of the client/counterparty; background information about the client/counterparty, age and capacity of the client/counterparty and other factors.

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
Individual (U.S. resident)	*The identity of most individual (U.S. resident) applicants will be verified using a non-documentary method outlined in the AML manual. However, where vendor databases such as Equifax cannot satisfactory verify the applicant's identity, the documentation specified below is required). If application is submitted as a joint account, the set of the aforementioned documentation is required for both individuals applying for the joint account.* **ONE** of the following documents to prove identity: 1. Valid, non-expired driver's license 2. Valid, non-expired passport 3. Valid, non-expired military I.D. 4. Valid, non-expired alien registration card **AND**	Not Applicable

If you have any question about any of the material contained in this document, you are urged to call John Brand in Chicago at 312-548-1143 or Tom Cohen in New York at 212-589-6558.

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	ONE of the following document to prove address (*the document should not be more than 3 months old and should not be printed from the internet*): 1. Utility bill (excluding mobile phone bills) 2. Lease agreement or land deed 3. Local authority property tax statement	
Individual (non-U.S. resident)	*If application is submitted as a joint account, the set of the aforementioned documentation is required for both individuals applying for the joint account.* **ONE** of the following documents to prove identity: 1. Valid, non-expired national identity card (or equivalent) 2. Valid, non-expired passport 3. Valid, non-expired driver's license **AND** **ONE** of the following document to prove address (*the document should not be more than 3 months old and should not be printed from the internet*): 1. Utility bill (excluding mobile phone bills) 2. Lease agreement or land deed 3. Local authority property tax statement	*If application is submitted as a joint account, the set of the aforementioned documentation is required for both individuals applying for the joint account.* **ONE** of the following documents to prove identity: 1. Valid, non-expired national identity card (or equivalent) 2. Valid, non-expired passport 3. Valid, non-expired driver's license **AND** **ONE** of the following document to prove address (*the document should not be more than 3 months old and should not be printed from the internet*): 1. Utility bill (excluding mobile phone bills) 2. Lease agreement or land deed 3. Local authority property tax statement

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
U.S. domiciled entities registered or regulated by a U.S. based financial industry regulator, SRO or exchange (excludes hedge funds, commodity pools and mutual funds)	*This section applies to U.S. corporations that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Depending on entity legal structure; articles of incorporation, operating agreement, partnership agreement or by-laws 2. Proof of regulatory registration 3. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 4. W-9 completed by an officer or director **AND** 1. **IF** the articles of incorporation and by-laws do not list officers, directors and authorized signatories of the company then a certificate of incumbency or Meeting Minutes 2. **IF** the corporation only maintains one officer, then sole officer letter is required	Not Applicable

If you have any question about any of the material contained in this document, you are urged to call John Brand in Chicago at 312-548-1143 or Tom Cohen in New York at 212-589-6558.

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
U.S. domiciled corporations	*This section applies to U.S. corporations that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Articles of incorporation and by-laws 2. Corporate shareholder register or any other corporate document that identifies all shareholders of the firm (i.e. stock certificates) (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*). 3. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 4. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity 5. W-9 completed by an officer or director **AND** 1. **IF** the articles of incorporation and by-laws do not list officers, directors and authorized signatories of the company then a certificate of incumbency or Meeting Minutes 2. **IF** the corporation only maintains one officer, then sole officer letter is required	Not Applicable

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
Non-U.S. domiciled entities regulated by a foreign based regulator, SRO or exchange located in a FATF member jurisdiction	*This section applies to non-U.S. corporations that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Depending on legal structure, articles and memorandum of association, partnership agreement, operating agreement or bylaws (or its equivalent if that is not the standard in that jurisdiction) 2. Certificate of incorporation 3. Register of directors 4. Corporate shareholder register or any other corporate document that identifies all shareholders of the firm (i.e. stock certificates) (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*). 5. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 6. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 7. If a non-U.S. entity, MF Global Inc. enhanced due diligence form (Section 312) (*the form must is to be completed by the MF Global Inc Account Executive*)	*This section applies to non-U.S. corporations that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Articles and memorandum of association (or its equivalent if that is not the standard in that jurisdiction) 2. Certificate of incorporation 3. Register of directors 4. Corporate shareholder register or any other corporate document that identifies all shareholders of the firm (i.e. stock certificates) (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*). 5. A valid, non-expired national identity card (or equivalent), passport or drivers license for each signatory of the account opening form 6. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 7. A valid, non-expired national identity card (or equivalent), passport or drivers license for each beneficial owner(s) with more than a 10% interest in the entity.

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	8. A W-8 completed by an officer or director **AND** 1. **IF** the company does not maintain a register of directors, then a certificate of incumbency with signature samples is required 2. **IF** the corporation only maintains one officer, then sole officer letter is required	8. MF Global Inc. enhanced due diligence form (Section 312) (*the form must is to be completed by the MF Global Inc Account Executive*) 9. A W-8 completed by an officer or director **AND** 1. **IF** the company does not maintain a register of directors, then a certificate of incumbency with signature samples is required 2. **IF** the corporation only maintains one officer, then sole officer letter is required
Non-U.S. domiciled corporations	*This section applies to non-U.S. corporations that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Articles and memorandum of association (or its equivalent if that is not the standard in that jurisdiction) 2. Certificate of incorporation 3. Register of directors 4. Corporate shareholder register or any other corporate document that identifies all shareholders of the firm (i.e. stock certificates) (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*).	*This section applies to non-U.S. corporations that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Articles and memorandum of association (or its equivalent if that is not the standard in that jurisdiction) 2. Certificate of incorporation 3. Register of directors 4. Corporate shareholder register or any other corporate document that identifies all shareholders of the firm (i.e. stock certificates) (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*).

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	5. A valid, non-expired national identity card (or equivalent), passport or drivers license for each signatory of the account opening form 6. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 7. A valid, non-expired national identity card (or equivalent), passport or drivers license for each beneficial owner(s) with more than a 10% interest in the entity. 8. A W-8 completed by an officer or director **AND** 1. **IF** the company does not maintain a register of directors, then a certificate of incumbency with signature samples is required 2. **IF** the corporation only maintains one officer, then sole officer letter is required	5. A valid, non-expired national identity card (or equivalent), passport or drivers license for each signatory of the account opening form 6. A valid, non-expired national identity card (or equivalent), passport or drivers license for each officer(s) and director(s) 7. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 8. A valid, non-expired national identity card (or equivalent), passport or drivers license for each beneficial owner(s) with more than a 10% interest in the entity. 9. A W-8 completed by an officer or director **AND** 1. **IF** the company does not maintain a register of directors, then a certificate of incumbency with signature samples is required 2. **IF** the corporation only maintains one officer, then sole officer letter is required
U.S. domiciled limited liability companies	*This section applies to U.S. limited liability companies that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents:	

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	1. Certificate of formation (*may also be identified as "articles of organization"*) 2. Limited liability company operating agreement 3. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 4. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity 5. W-9 completed by an officer or director **AND** 1. **IF** the client claims that the limited liability company does not maintain an operating agreement, then a written attestation from the client representing the non-existence of an operating agreement is required 2. **IF** the client claims that the limited liability company does not maintain an operating agreement, then meeting minutes may be necessary to identify the manager and managing member(s)	Not Applicable

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	3. **IF** the client claims that the limited liability company does not maintain an operating agreement or documentation listing beneficial owners is not within the operating agreement, then meeting minutes, a copy of the beneficial ownership register or any other document that identifies all beneficial owners of the limited liability company is required (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*) 4. **IF** the limited liability company only maintains one officer, then sole officer letter is required 5. **IF** the nature of business is "trading futures," "investing," etc. then evidence of CFTC registration or an appropriate exemption filing may be required 6. **IF** the nature of business is "trading futures," "investing," etc. and the limited liability company is a proprietary trading firm or trading arcade, additional representations and exchange membership related documents may be required 7. **IF** the limited liability company operates under a "Doing Business As" ("DBA") name, the MF Global DBA form is required. The form should be submitted in conjunction with proof of DBA, such as county or state DBA filing (*note that each state is different and maintains unique DBA filing laws*).	Not Applicable

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
U.S. domiciled limited liability companies registered or regulated by a U.S. based financial industry regulator, SRO or exchange	*This section applies to U.S. limited liability companies that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Certificate of formation (*may also be identified as "articles of organization"*) 2. Limited liability company operating agreement 3. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 4. W-9 completed by an officer or director **AND** 1. **IF** the client claims that the limited liability company does not maintain an operating agreement, then a written attestation from the client representing the non-existence of an operating agreement is required 2. **IF** the client claims that the limited liability company does not maintain an operating agreement, then meeting minutes may be necessary to identify the manager and managing member(s)	Not Applicable

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	3. **IF** the client claims that the limited liability company does not maintain an operating agreement or documentation listing beneficial owners is not within the operating agreement, then meeting minutes, a copy of the beneficial ownership register or any other document that identifies all beneficial owners of the limited liability company is required (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*) 4. **IF** the limited liability company only maintains one officer, then sole officer letter is required 5. **IF** the nature of business is "trading futures," "investing," etc. then evidence of CFTC registration or an appropriate exemption filing may be required 6. **IF** the nature of business is "trading futures," "investing," etc. and the limited liability company is a proprietary trading firm or trading arcade, additional representations and exchange membership related documents may be required 7. **IF** the limited liability company operates under a "Doing Business As" ("DBA") name, the MF Global DBA form is required. The form should be submitted in conjunction with proof of DBA, such as county or state DBA filing (*note that each state is different and maintains unique DBA filing laws*).	

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
U.S. publicly traded companies or subsidiaries of publicly traded companies	*This section applies to U.S. publicly traded companies that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Ticker symbol and name of exchange that the applicant is listed on and evidence of listing 2. Corporate documentation which identifies authorized signatories 3. Corporate resolution authorizing the opening of the an account with MF Global 4. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 5. W-9 completed by an officer or director **AND** 1. **IF** the parent company of the applicant is the listed entity, evidence of its ownership of the applicant	Not Applicable

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
Non-U.S. publicly traded companies or subsidiaries of publicly traded companies	*This section applies to non-U.S. publicly traded companies that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Ticker symbol and name of exchange that the applicant is listed on and evidence of listing 2. Name and jurisdiction of the regulator of the applicant and evidence of regulated status 3. Articles and memorandum of association (or its equivalent if that is not the standard in that jurisdiction) 4. Certificate of incorporation 5. Register of directors 6. Corporate resolution authorizing the opening of the an account with MF Global 7. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 8. W-8 completed by an officer or director **AND** 1. **IF** the parent company of the applicant is the listed entity, evidence of its ownership of the applicant	*This section applies to non-U.S. publicly traded companies that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Ticker symbol and name of exchange that the applicant is listed on and evidence of listing 2. Name and jurisdiction of the regulator of the applicant and evidence of regulated status 3. Articles and memorandum of association (or its equivalent if that is not the standard in that jurisdiction) 4. Certificate of incorporation 5. Register of directors 6. Corporate resolution authorizing the opening of the an account with MF Global 7. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 8. W-8 completed by an officer or director **AND** 1. **IF** the parent company of the applicant is the listed entity, evidence of its ownership of the applicant

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
General partnerships (both U.S. and non-U.S. entities)	*This section applies to general partnerships that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Partnership agreement 2. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity 3. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 4. W-8 or W-9 completed by an officer or director **AND** 1. **IF** the applicant does not maintain a partnership agreement, a general partnership representation is required 2. **IF** the client claims that the general partnership does not maintain a partnership agreement or the partnership agreement does not list all partners and beneficial owners within the document, a copy of the beneficial ownership	*This section applies to general partnerships that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Partnership agreement 2. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity 3. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 4. A valid, non-expired national identity card (or equivalent), passport or drivers license for each officer(s) and director(s) 5. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 6. W-8 or W-9 completed by an officer or director **AND** 1. **IF** the applicant does not maintain a partnership agreement, a general partnership representation is required 2. **IF** the client claims that the general partnership does not maintain a partnership agreement or the partnership agreement does not list all partners and beneficial owners within the document, a copy of the beneficial ownership listing, register or

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	listing, register or any other partnership document that identifies all beneficial owners of the partnership is required *(beneficial ownership ultimately must be documented back to the ownership level of natural persons)* 3. IF partnership maintains three or more partners and/or nature of business is "trading," "futures," "investing," etc., then evidence of appropriate regulatory registrations or exemption filings is required	any other partnership document that identifies all beneficial owners of the partnership is required *(beneficial ownership ultimately must be documented back to the ownership level of natural persons)* 3. IF partnership maintains three or more partners and/or nature of business is "trading," "futures," "investing," etc., then evidence of appropriate regulatory registrations or exemption filings is required
Limited partnerships (both U.S. and non-U.S. entities)	*This section applies to limited partnerships that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Limited partnership agreement 2. Certificate of limited partnership 3. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity 4. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 5. W-8 or W-9 completed by an officer or director	*This section applies to limited partnerships that maintain a stated and confirmed business purpose. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Limited partnership agreement 2. Certificate of limited partnership 3. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity 4. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 5. A valid, non-expired national identity card (or equivalent), passport or drivers license for each officer(s) and director(s) 6. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
		7. W-8 or W-9 completed by an officer or director
	AND	**AND**
	1. **IF** the applicant does not maintain a limited partnership agreement, a partnership representation is required 2. **IF** the client claims that the limited partnership does not maintain a partnership agreement or the partnership agreement does not list all partners and beneficial owners within the document, a copy of the beneficial ownership listing, register or any other partnership document that identifies all beneficial owners of the partnership is required *(beneficial ownership ultimately must be documented back to the ownership level of natural persons)* 3. **IF** partnership maintains three or more partners and/or nature of business is "trading," "futures," "investing," etc., then evidence of appropriate regulatory registrations or exemption filings is required 4. **IF** the identity of the general partner, whom is a U.S. individual, cannot be verified using a non-documentary method outlined in Section 4.3(b), a valid, non-expired drivers license, passport or government issued I.D. for the general partner is required 5. **IF** the identity of the general partner, whom is a non-U.S. individual, a valid, non-expired national identity card (or equivalent), drivers license or passport for the general partner is required	1. **IF** the applicant does not maintain a limited partnership agreement, a partnership representation is required 2. **IF** the client claims that the limited partnership does not maintain a partnership agreement or the partnership agreement does not list all partners and beneficial owners within the document, a copy of the beneficial ownership listing, register or any other partnership document that identifies all beneficial owners of the partnership is required *(beneficial ownership ultimately must be documented back to the ownership level of natural persons)* 3. **IF** partnership maintains three or more partners and/or nature of business is "trading," "futures," "investing," etc., then evidence of appropriate regulatory registrations or exemption filings is required 4. **IF** the identity of the general partner, whom is a non-U.S. individual, a valid, non-expired national identity card (or equivalent), drivers license or passport for the general partner is required 5. **IF** the general partner is an entity, than the legal documents for the general partner are required

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	6. **IF** the general partner is an entity, than the legal documents for the general partner are required	
Funds, hedge funds and commodity pools	*This section applies hedge funds, registered commodity pools, registered investment vehicles or other private offerings that accept outside investors and participants. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Private placement memorandum, offering memorandum or offering documents 2. Prospectus (if applicable) 3. Certificate of incorporation 4. Memorandum or articles of association 5. Board resolution authorizing the opening of an account with MF Global 6. Investment management agreement (if any) 7. Fund administrator name, address, e-mail and telephone information 8. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form	*This section applies hedge funds, registered commodity pools, registered investment vehicles or other private offerings that accept outside investors and participants. If the entity was created to serve as a personal investment company, refer to the "Personal Investment Company ("PIC") section below.* **EACH** of the following documents: 1. Private placement memorandum, offering memorandum or offering documents 2. Prospectus (if applicable) 3. Certificate of incorporation 4. Memorandum or articles of association 5. Board resolution authorizing the opening of an account with MF Global 6. Investment management agreement (if any) 7. Fund administrator name, address, e-mail and telephone information 8. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	9. Name and jurisdiction of the regulator of applicant and evidence of regulated status 10. If a non-U.S. entity, MF Global Inc. enhanced due diligence form (Section 312) (*the form must is to be completed by the MF Global Inc Account Executive*) 11. W-8 or W-9 completed by an officer or director **AND** **EACH** of the following require identification document(s): 1. The investment manager and/or general partner of fund/pool (including documentation which identifies beneficial owners) 2. Each investment advisor 3. The ultimate controller(s) of the fund (*to the extent not already obtained above*) **AND** 1. **IF** the fund is a component of a master/feeder structure, the private placement memorandum, offering memorandum or offering documents are required	9. A valid, non-expired national identity card (or equivalent), passport or drivers license for each officer(s) and director(s) 10. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 11. Name and jurisdiction of the regulator of applicant and evidence of regulated status 12. Written confirmation of whether any single investor holds 25% or more of the fund 13. MF Global Inc. enhanced due diligence form (Section 312) (*the form must is to be completed by the MF Global Inc Account Executive*) 14. W-8 or W-9 completed by an officer or director **AND** **EACH** of the following require identification document(s): 1. The investment manager and/or general partner of fund/pool (including documentation which identifies beneficial owners) 2. Each investment advisor 3. The ultimate controller(s) of the fund (*to the extent not already obtained above*) **AND**

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	2. **IF** the fund is a component of a master/feeder structure, the prospectus (if applicable) is required 3. **IF** the documentation required above does not explicitly identify directors and authorized signatories, then a list of directors and authorized signatories is required (i.e. certificate of incumbency)	1. **IF** the fund is a component of a master/feeder structure, the private placement memorandum, offering memorandum or offering documents are required 2. **IF** the fund is a component of a master/feeder structure, the prospectus (if applicable) is required 3. **IF** the documentation required above does not explicitly identify directors and authorized signatories, then a list of directors and authorized signatories is required
Trusts (revocable and irrevocable)	**EACH** of the following documents: 1. Trust document, agreement or deed 2. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 3. A valid, non-expired drivers license, passport or government issued I.D. for each trustee and grantor/settlor 4. W-8 or W-9 completed by an officer or director **AND** 1. **IF** the trust is opening a futures account, the trust document, agreement or deed must contain explicitly expressed language that authorizes the trust to trade	**EACH** of the following documents: 1. Trust document, agreement or deed 2. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 3. A valid, non-expired drivers license, passport or government issued I.D. for each trustee and grantor/settlor 4. A valid, non-expired drivers license, passport or government issued I.D. for each trust beneficiary (minors excluded from requirement) 5. W-8 or W-9 completed by an officer or director **AND** 1. **IF** the trust is opening a futures account, the trust document, agreement or deed must contain explicitly expressed language that authorizes the trust to trade futures and/or commodities

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	futures and/or commodities 2. **IF** the trust is irrevocable and is opening a futures account and the trust document, agreement or deed does not contain explicitly expressed language that authorizes the trust to trade futures and/or commodities, the account cannot be accepted 3. **IF** the trust maintains a corporate trustee, documentation evidencing name, address, e-mail and telephone information of corporate trustee is required	2. **IF** the trust is irrevocable and is opening a futures account and the trust document, agreement or deed does not contain explicitly expressed language that authorizes the trust to trade futures and/or commodities, the account cannot be accepted 3. **IF** the trust maintains a corporate trustee, documentation evidencing name, address, e-mail and telephone information of corporate trustee is required
Stock cooperatives	**EACH** of the following documents: 1. Cooperative articles of incorporation 2. Cooperative bylaws 3. Cooperative stock ledger (*may also be identified as "member listing" or "cooperative shareholder listing"*) 4. Cooperative constitution (if any) 5. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*) 6. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 7. W-8 or W-9 completed by an officer or director **AND**	**EACH** of the following documents: 1. Cooperative articles of incorporation 2. Cooperative bylaws 3. Cooperative stock ledger (*may also be identified as "member listing" or "cooperative shareholder listing"*) 4. Cooperative constitution (if any) 5. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*) 6. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 7. W-8 or W-9 completed by an officer or director **AND**

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	1. **IF** the cooperative articles of incorporation or bylaws do not identify officers and directors, then most recent board of directors meeting minutes that identify officers and directors or a certificate of incumbency is required 2. **IF** the cooperative operates under a "Doing Business As" ("DBA") name, the MF Global DBA form is required. The form should be submitted in conjunction with proof of DBA, such as county or state DBA filing (*note that each state is different and maintains unique DBA filing laws*). 3. **IF** the cooperative is incorporated, then proof of incorporation is required (*if cooperative is unincorporated, then copy of its constitution and bylaws as required above are required*)	1. **IF** the cooperative articles of incorporation or bylaws do not identify officers and directors, then most recent board of directors meeting minutes that identify officers and directors or a certificate of incumbency is required 2. **IF** the cooperative operates under a "Doing Business As" ("DBA") name, the MF Global DBA form is required. The form should be submitted in conjunction with proof of DBA, such as county or state DBA filing (*note that each state is different and maintains unique DBA filing laws*). 3. **IF** the cooperative is incorporated, then proof of incorporation is required (*if cooperative is unincorporated, then copy of its constitution and bylaws as required above are required*)
Non-stock cooperatives	**EACH** of the following documents: 1. Cooperative articles of incorporation 2. Cooperative bylaws 3. Cooperative member list 4. Cooperative constitution (if any) 5. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*) 6. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 7. W-8 or W-9 completed by an officer or director	**EACH** of the following documents: 1. Cooperative articles of incorporation 2. Cooperative bylaws 3. Cooperative member list 4. Cooperative constitution (if any) 5. A valid, non-expired drivers license, passport or government issued I.D. for each beneficial owners with more than a 10% interest in the entity (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*) 6. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form 7. W-8 or W-9 completed by an officer or director

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	AND 1. **IF** the cooperative articles of incorporation or bylaws do not identify officers and directors, then most recent board of directors meeting minutes that identify officers and directors or a certificate of incumbency is required 2. **IF** the cooperative operates under a "Doing Business As" ("DBA") name, the MF Global DBA form is required. The form should be submitted in conjunction with proof of DBA, such as county or state DBA filing (*note that each state is different and maintains unique DBA filing laws*). 3. **IF** the cooperative is incorporated, then proof of incorporation is required (*if cooperative is unincorporated, then copy of its constitution and bylaws as required above are required*)	**AND** 1. **IF** the cooperative articles of incorporation or bylaws do not identify officers and directors, then most recent board of directors meeting minutes that identify officers and directors or a certificate of incumbency is required 2. **IF** the cooperative operates under a "Doing Business As" ("DBA") name, the MF Global DBA form is required. The form should be submitted in conjunction with proof of DBA, such as county or state DBA filing (*note that each state is different and maintains unique DBA filing laws*). 3. **IF** the cooperative is incorporated, then proof of incorporation is required (*if cooperative is unincorporated, then copy of its constitution and bylaws as required above are required*)

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
U.S. Government Agencies, Municipalities and Public Authority	**EACH** of the following documents: 1. Documents evidencing the existence of the entity (i.e. statutory enactment) 2. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 3. MF Global Inc. political exposure information forms (*the form must is to be completed by the MF Global Inc Account Executive*) 4. The name of the head or director of the agency	Not Applicable
Non-U.S. Government Agencies, Municipalities and Public Authority	**EACH** of the following documents: 1. Documents evidencing the existence of the entity (i.e. statutory enactment) 2. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 3. MF Global Inc. political exposure information forms (*the form must is to be completed by the MF Global Inc Account Executive*) 4. The name of the head or director of the agency	**EACH** of the following documents: 1. Documents evidencing the existence of the entity (i.e. statutory enactment) 2. A valid, non-expired drivers license, passport or government issued I.D. for each signatory of the account opening form or a certificate of incumbency letter containing signature samples of signatory. 3. MF Global Inc. political exposure information forms (*the form must is to be completed by the MF Global Inc Account Executive*) 4. The name of the head or director of the agency

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
Private Investment Company ("PIC") regardless of legal structure	*A PIC may be organized in any form, including corporations, limited liability companies, partnerships, etc.* **EACH** of the following documents: 1. Articles and memorandum of association (or its equivalent if that is not the standard in that jurisdiction) 2. Certificate of incorporation 3. Register of directors 4. Corporate shareholder register, member list or any other corporate document that identifies all shareholders of the PIC (i.e. stock certificates) (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*). 5. A valid, non-expired national identity card (or equivalent), passport or drivers license for each signatory of the account opening form 6. A valid, non-expired national identity card (or equivalent), passport or drivers license for each officer(s) and director(s) 7. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 8. A valid, non-expired national identity card (or equivalent), passport or drivers license for each beneficial owner(s) 9. W-8 or W-9 completed by an officer or director **AND**	*A PIC may be organized in any form, including corporations, limited liability companies, partnerships, etc.* **EACH** of the following documents: 1. Articles and memorandum of association (or its equivalent if that is not the standard in that jurisdiction) 2. Certificate of incorporation 3. Register of directors 4. Corporate shareholder register, member list or any other corporate document that identifies all shareholders of the PIC (i.e. stock certificates) (*beneficial ownership ultimately must be documented back to the ownership level of natural persons*). 5. A valid, non-expired national identity card (or equivalent), passport or drivers license for each signatory of the account opening form 6. A valid, non-expired national identity card (or equivalent), passport or drivers license for each officer(s) and director(s) 7. A valid, non-expired national identity card (or equivalent), passport or drivers license for each authorized trader 8. A valid, non-expired national identity card (or equivalent), passport or drivers license for each beneficial owner(s) 9. W-8 or W-9 completed by an officer or director **AND**

Customer Type	Documents Required by MF Global for accounts originating from LOW and MEDIUM risk jurisdictions	Documents Required by MF Global for accounts originating from HIGH risk jurisdictions
	1. **IF** the PIC does not maintain a register of directors, then a certificate of incumbency with signature samples is required 2. **IF** the PIC only maintains one officer, then sole officer letter is required 3. **IF** the PIC maintains three or more U.S. based investors and/or nature of business is "trading," "futures," "investing," etc., then evidence of appropriate regulatory registrations or exemption filings is required	1. **IF** the PIC does not maintain a register of directors, then a certificate of incumbency with signature samples is required 2. **IF** the PIC only maintains one officer, then sole officer letter is required
Discretionary accounts (limited power of attorney)	**EACH** of the following documents are required if an account is traded pursuant to a limited power of attorney: 1. If the advisor is a non-U.S. individual, a valid, non-expired national identity card (or equivalent), passport or drivers license for the 3rd party advisor(s) is required	**EACH** of the following documents are required if an account is traded pursuant to a limited power of attorney: 1. If the advisor is a non-U.S. individual, a valid, non-expired national identity card (or equivalent), passport or drivers license for the 3rd party advisor(s) is required

Appendix 16.B

MF Global

AML MONITORING PROCESS

CONTENTS:

1. Summary

1.1. Objective

1.2. Background

1.3. Monitoring Process

1.4. Why Monitor and what are the Benefits?

2. Using the AML Report

2.1. How to generating the AML Report (Alerts)

2.2. How to add comments and closing an alert in AML

2.3. Escalating a alert for further investigation

2.4. Closing an escalated alert in AML

2.5. Escalating a case to Case Manager

3. Review Tips

3.1. Review Process

3.2. Things to Watch for

1. SUMMARY

1.1. Objective

The system forms an integral part of MFG's AML monitoring process offering detections, investigation and resolution tools.

The overall objective is to gather the data, apply rules within the system and analyse in a risk-based approach, explaining the movements (alerts) as appropriate and to close the alert within the AML system. Outstanding issues requiring further investigation are completed outside the system (Case Manager in London)

1.2. Background

The AML system, which has been in use since April 2007, enables MFG to gather information on the cash movements (payments and receipts) across customer accounts [and families of accounts] filtering by pre set Rules and Parameters and consolidate the data which enables Compliance to review and identify satisfactory explanations for these movements.

The system gathers information on the cash movements (payments and receipts) across customer accounts (and associated accounts). Initially the 4 Rules were written into the system, and these were supplemented by Rules 5 and 6 in July 2008. (see Appendix 1).

The AML review (or analysis) of any customer account or associated account is based on the account opening process and scoring of the Regulatory Risk Rating ("RRR"). The RRR for each account is set during the client take-on stage, taking into account factors, including the jurisdictions of the potential client, directors and shareholders, including location of client's bank account. There are 4 RRR categories -.Very High, High, Medium and Low.

Within each Rule in the AML system there are variable Parameters that can be set to filter the size and potential risk of an individual movement. These Parameters can be set by Rule, Risk Rating, Desk or individual Account/Family.

The Parameters are set as 'Default' into the system and used to run the data overnight each day. The ability to set the Parameters in the system currently rests with the IT department and Compliance management and any amendments to the Parameters are recorded, the instigator identified and dated within the system.

1.3. Monitoring Process

1.3.1. Generate the AML report (alerts)

See section 2 below

1.3.2. Review and investigation each alerts as per monitoring schedule

Current MFG UK approach:

- All movements identified by all Rules on Very High and High scored accounts plus the large movements identified under Rule 1 across Medium and Low accounts will be reviewed each day
- A single day's data for Medium scored accounts is reviewed against all Rules once a week.
- A single day's data for Low scored accounts is reviewed against all Rules once a month.

1.3.3. Review the report to identify instances or patterns of behaviour that may potentially be abnormal or unusual

1.3.4. Escalate unusual movements for further investigation and referral (management reporting)

1.4. Why Monitor and what are the Benefits?

Ongoing monitoring is a Regulatory requirement. MLR 2007 Regulation 8 (HM Revenue & Customs) describes that ongoing monitoring of a business relationship with customers includes:

- Scrutiny of transactions undertaken throughout the course of the relationship (including where necessary the source of funds) to ensure that the transactions are consistent with the knowledge of the customer, the intended business and risk profile.
- Ensuring that the documents, data or information, obtained for the purposes of applying customer due diligence, are kept up-to-date
- Ensuring that higher risk accounts and customer relationship receive enhanced ongoing monitoring i.e. monitoring is more frequent and intensive.

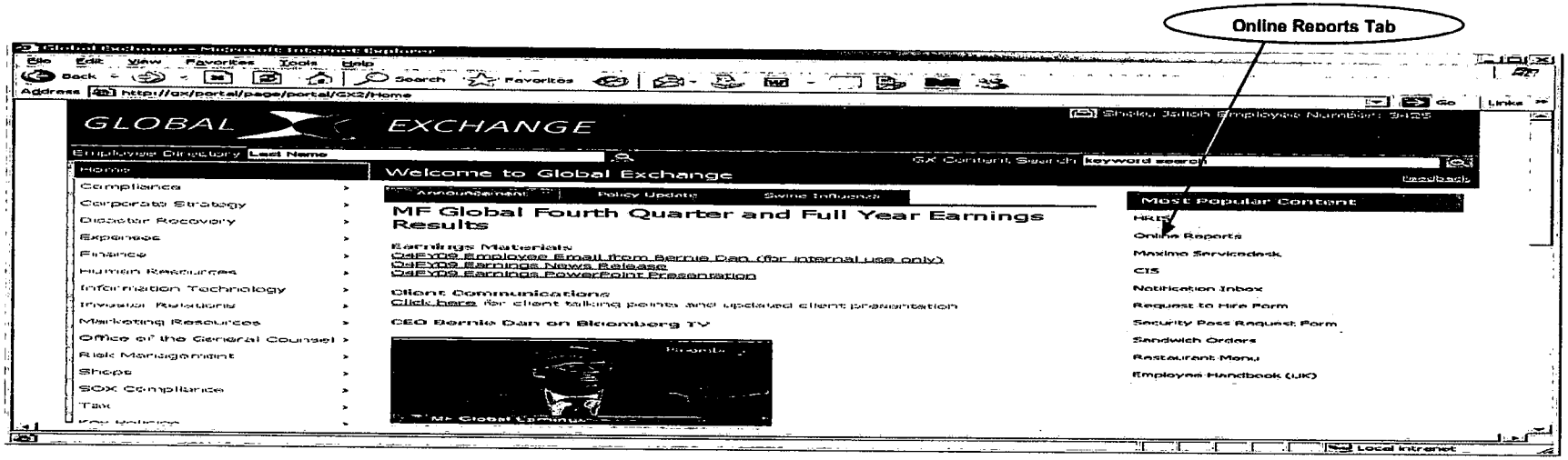
Ongoing monitoring is therefore essential because it provides a means of:

- Identifying unusual activity, which might involve money laundering, terrorist financing, or other financial crimes
- Increasing the knowledge of the customer
- Assessing the ongoing risk of the relationship
- Giving greater assurance that MFG is not being used for the purpose of financial crime

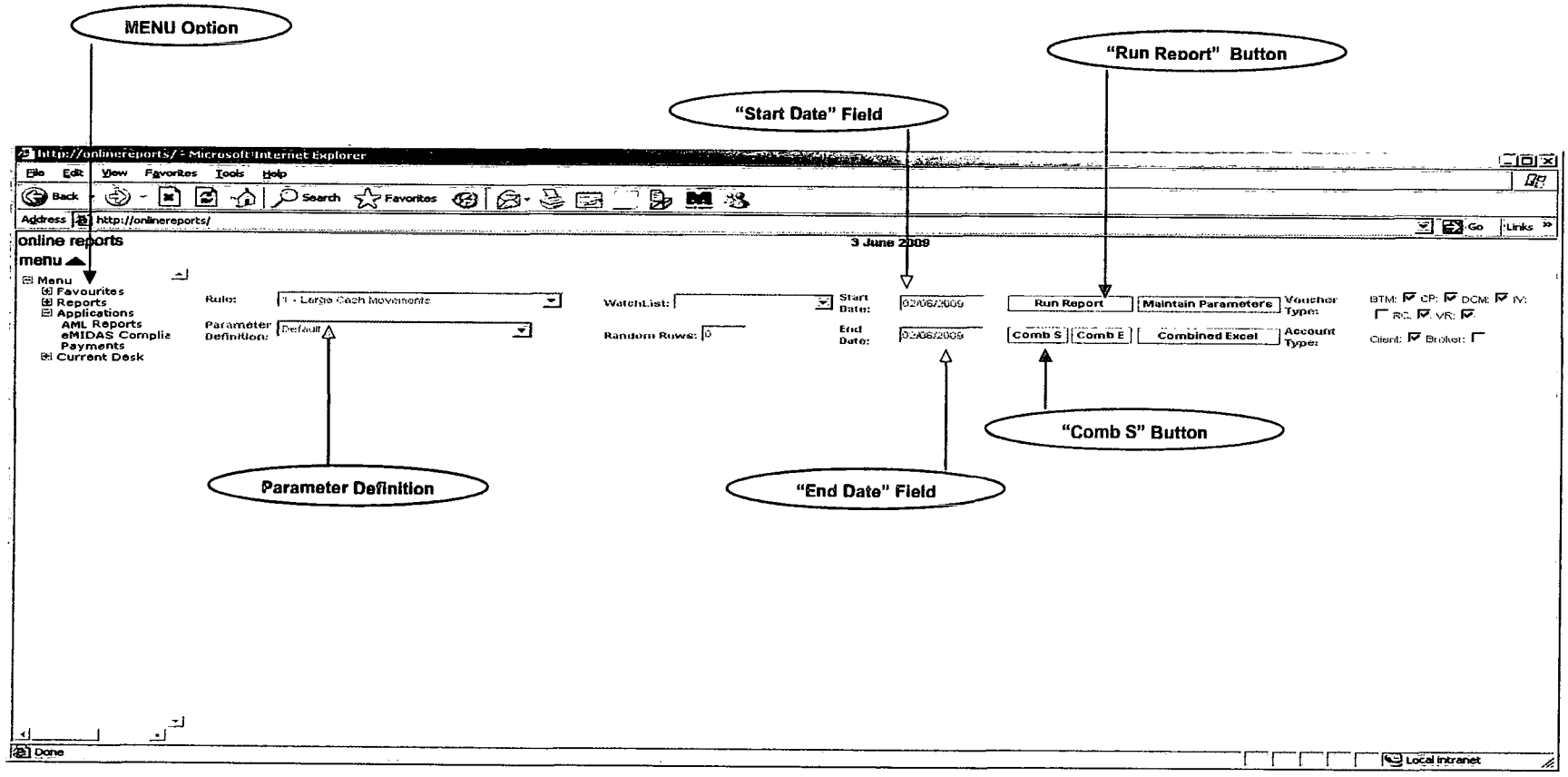
2. USING THE AML REPORT

2.1. How to generating the AML Report (Alerts)

- From MF Global Home Page, click on the **"ONLINE REPORTS"** tab to access the AML system

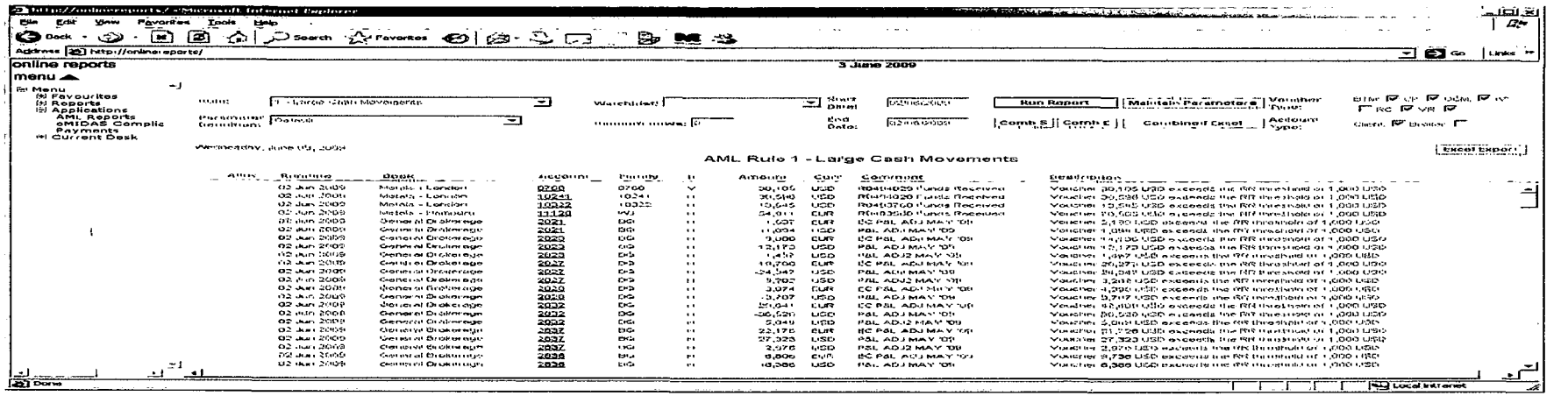


- From the "ONLINE REPORTS" screen, click on "MENU" and then
- "APPLICATIONS"
- "AML REPORTS"
- Amend the date range (i.e. the "START" and "END" dates - dd/mm/yy) and run the report by either clicking on the "RUN REPORT" button or "COMB S" button

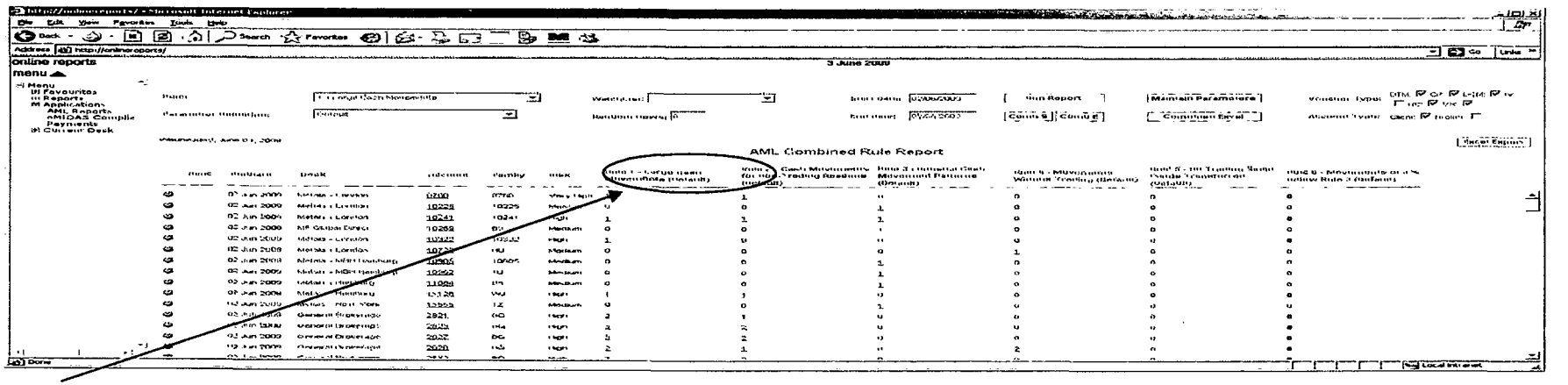


Note: Clicking the "RUN REPORT" button produces a report only on individual rules (e.g. Rule 1 - Large Cash Movements). The "COMB S" on the other hand generates a report including ALL rules (see below). It is important that the "PARAMETER DEFINITION" is set to "DEFAULT" before running the report.

Individual Rule Report Output: "Run Report"

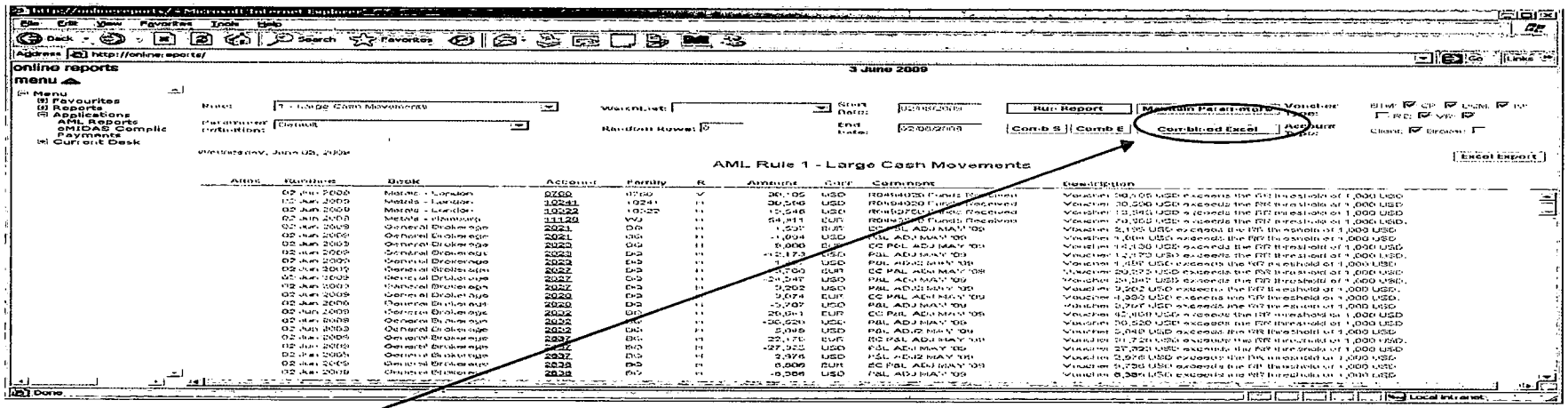


Combined Rule Report Output: "Comb S"

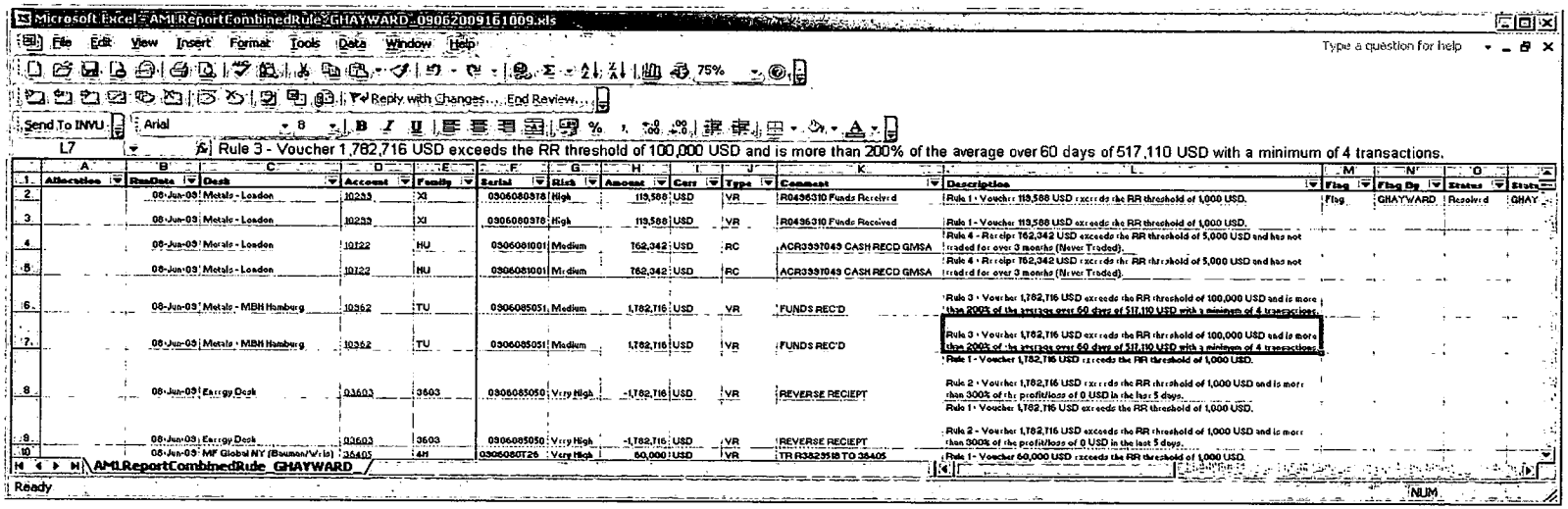


Note: Clicking the "Comb S" button produces a report based on the most recent data run against each individual rule. Individual Rules need to have been most recently generated under the Default setting. "Comb E "produces the report in excel format.

Combined Excel Report Output: "Combined Excel"

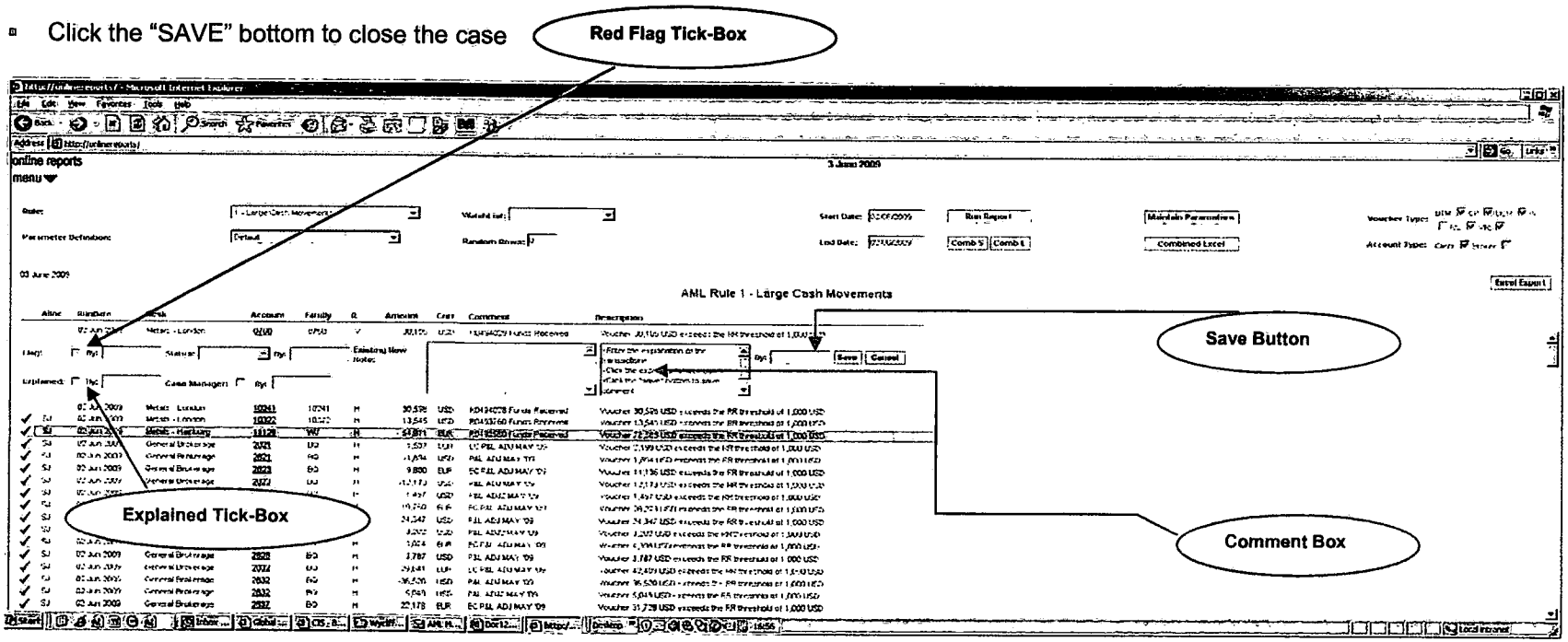


Note: Clicking the "Combined Excel" button produces a report in excel based on all the information in the system against 'all rules'



2.2. How to add comments and closing an alert in AML

- Click the case in question to open "COMMENT BOX"
- Click in the "COMMENT BOX" and add (type) the comment
- Tick the "Explained" tick-box and then
- Click the "SAVE" bottom to close the case

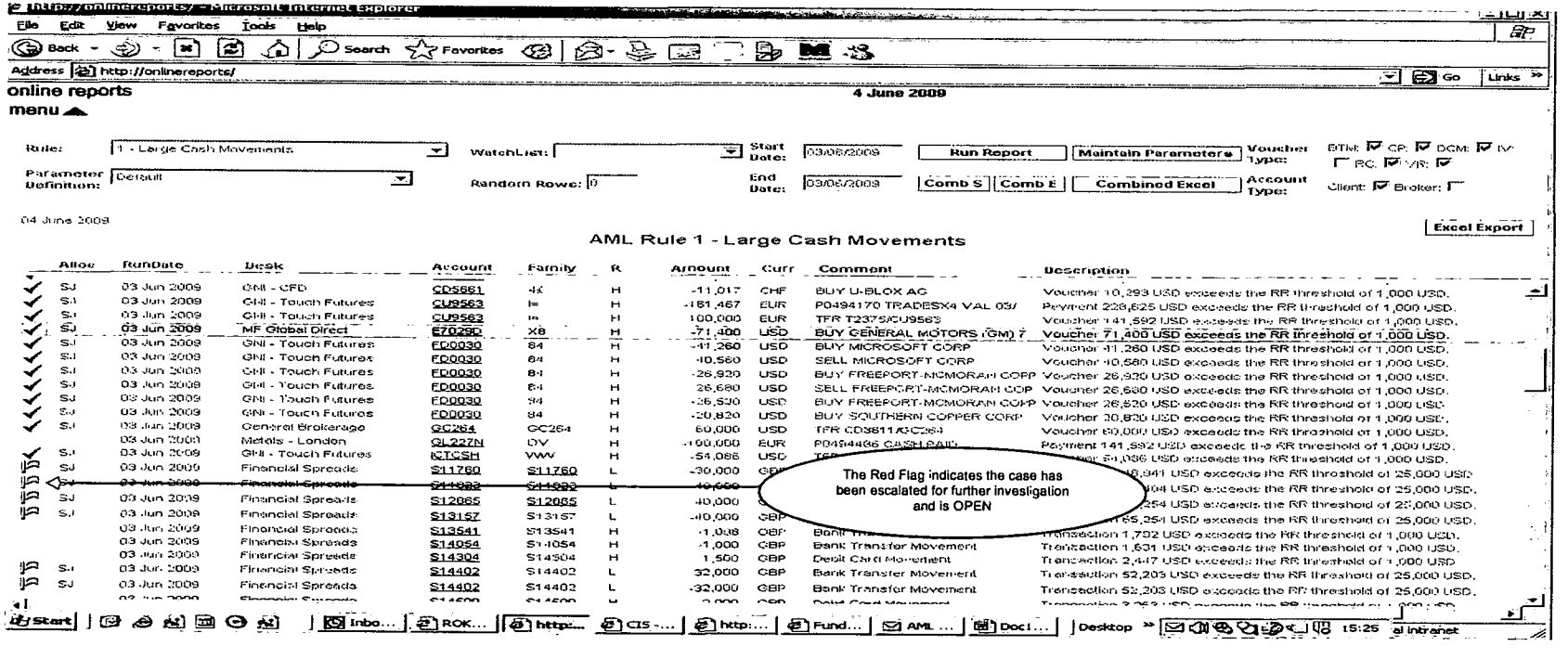


The "TICK" indicates the explanation is satisfactory and no further investigation is required.

2.3. Escalating a Case for Further Investigation

To escalate a case for further investigation, click on the case in question

- Add comment (or reason for the escalation)
- Tick the "FLAG" tick-box
- Click the "SAVE" button, a **RED** flag would appear indicating that the initial investigation carried out highlight some material issues

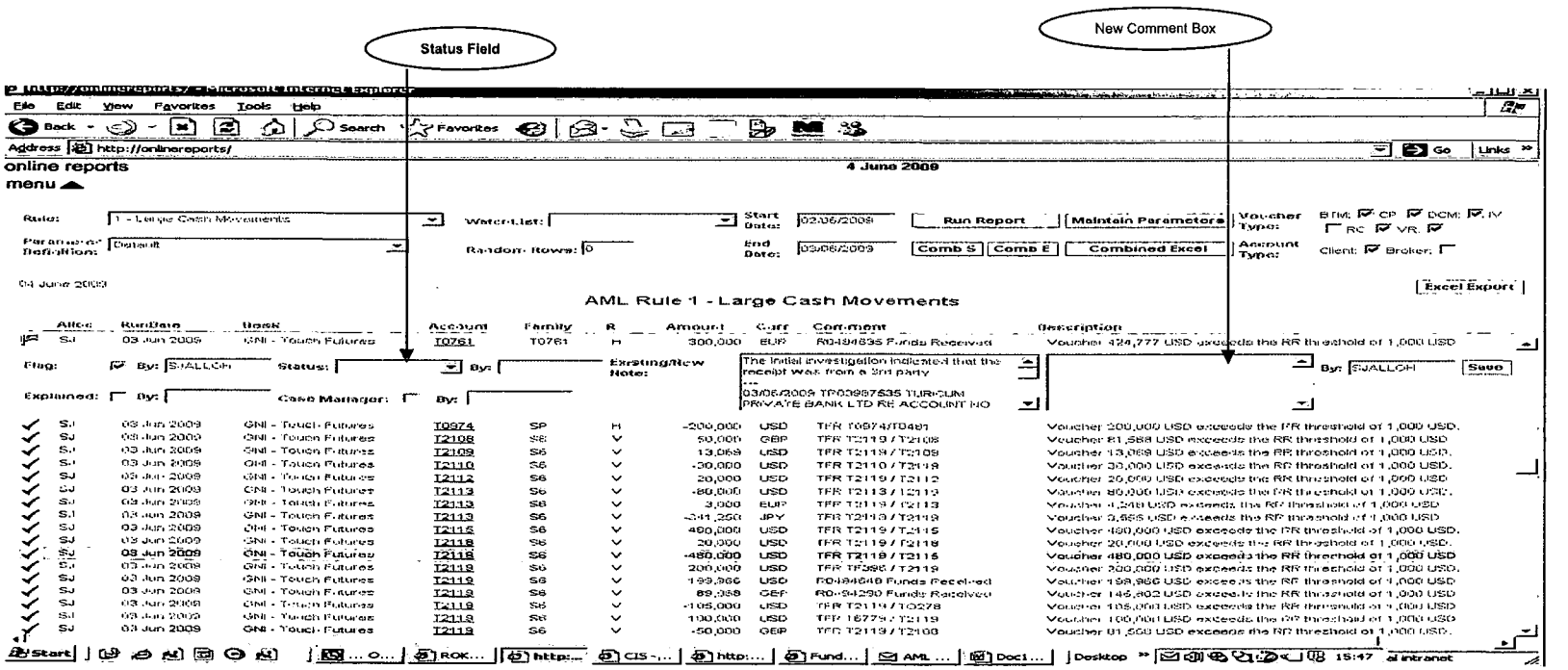


Note: The RED flag will appear on clicking the "SAVE" button indicating that further investigation is required

2.4. Closing an Escalated Case in AML

To close an Escalated case in AML, open the case in question as before and,

- In the "NEW COMMENT" box, type the comment (or explanation) that removes the suspicion
- Tick the "EXPLAINED" tick-box
- Select "RESOLVED" from the STATUS" dropdown field
- Then click the "SAVE" button (The **RED** flag changes to **GREEN**)

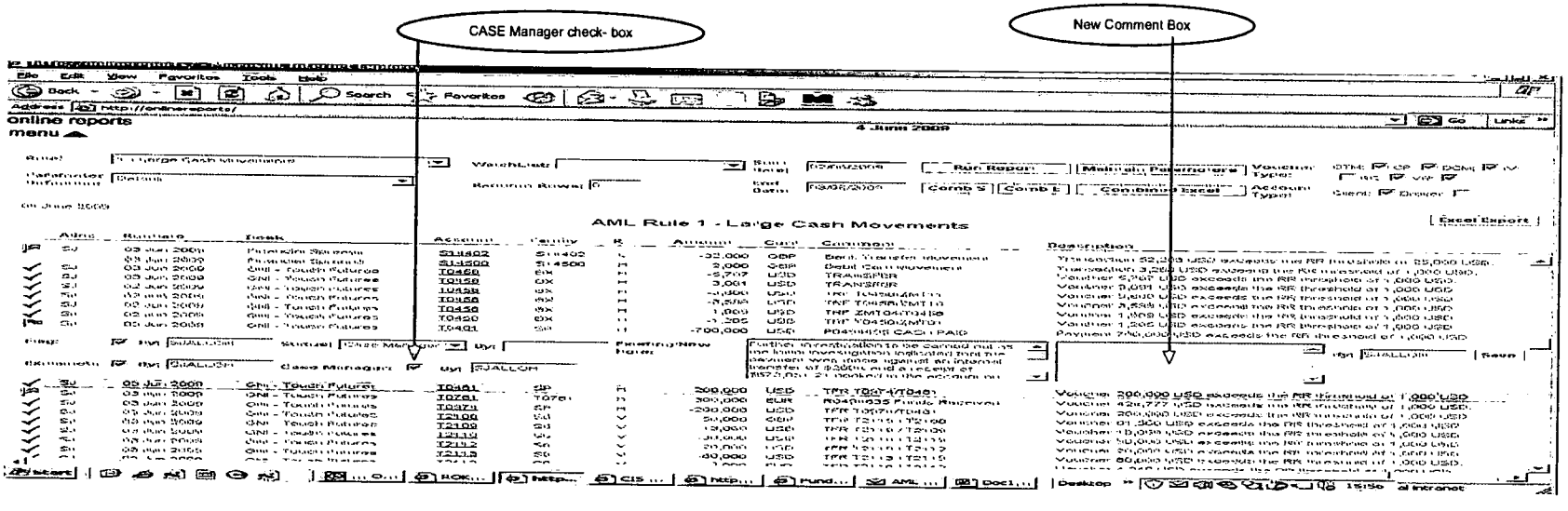


2.5. Escalating a Case to CASE Manager

(Process applied by MFG UK. Elsewhere detailed reviews/investigations should be noted in an auditable format – hard or soft file)

To escalate a case to CASE Manager for further review and investigation:

- Add the issues (or reasons) for the escalation in the "NEW COMMENT" box
- Tick the "CASE MANAGER" tick-box, to activate the "STATUS" field
- Tick the "EXPLAINED" tick-box and then
- Click the "SAVE" button to execute the action



Note: Ticking the "EXPLAINED" tick-box will close the case in AML. The Green flag indicates that the alert has been escalated to Case Manager for further review and will appear in CASE Manager the following day.

3. Review Tips

3.1. Review Process – *See also Appendix 2 – illustration of notation*

Examples of false positive alerts may include:

- Interest due to and from customers
- Charges, commissions and fees
- Internal transfers between accounts of the same client to meet trade obligations

However, it is important to satisfy oneself as to the nature and objective for a transaction or an instruction as failure to ask all relevant questions may constitute "wilful blindness". Thus, customer behaviour should also be taken into account in assessing potential suspicions.

The following investigative approach can help in determining whether or not the alerted transaction/s is/are suspicious.

- Review accounts to establish the total cash received and the payments routed through the client's accounts, including associated accounts (CASH TURNOVER)
- Review the bank SWIFT details of the receipts to establish the source, origin and ordering party of the funds
- Establish the beneficiary of payments made during the period under review
- Review trading activities to see if the transaction rationale in the context of the customer's known personal / business activities
- Review the client's account opening documents to see if the funds routed through the client's accounts are in line with the financial information held
- Carry out external search to see if there has been any change in the structure since the relationship was established

3.2. Things to Watch for

- Internal Transfers and Unusual Payments
- Drop in Frequency of Trades and Dormant Account
- Unprofitable and Uneconomic Behaviour
- Exceeding Margin Limits
- Expected and High Trade Volume
- Trades in Unexpected Contract
- Payment Change (Jurisdiction) and Change in beneficiary

Appendix 1 – AML Monitoring Rules

Six current Rules:

1. Large Cash Movements
2. Cash Movements for Non-Trading Reasons
3. Unusual Cash Movement Patterns
4. Movements without Trading
5. No trading since Funds Transferred
6. Movements on accounts just below the monitoring limits

Details

- **Rule 1** (Large Cash Movements):
  - A movement is displayed if the amount is above a specified amount
    - *Parameters – 1 Maximum cash movement*

- **Rule 2** (Cash Movements for Non-Trading Reasons):
  - For receipts into an account above a specified amount, a transaction is displayed if the amount exceeds a specified percentage of the largest negative cash balance on an account over the previous specified number of days.
  - For payments out of an account above a specified amount, a transaction is displayed if the amount exceeds a specified percentage of the total profit & loss for the family over the previous specified number of days.
    - *Parameters - 1 Maximum cash movements*
      2 % of Margin call
      3 Over number of days
      4 % of profit & loss
      5 over number of days

- ***Rule 3*** *(Unusual Cash Movement Patterns):*
  - *A movement above a specified amount is displayed if it is not below a specified percentage of the average corresponding cash movement over the previous specified number of days with a specified minimum number of transactions.*
    - *Parameters - 1 Maximum cash movements*
      2 Number of days
      3 % of average
      4 Minimum number of transactions

- ***Rule 4*** *(Movements Without Trading):*
  - *A movement above a specified amount is displayed if there is no trading activity in the previous specified number of months.*
    - *Parameters - 1 Maximum cash movements*
      2 Number of months not traded

- ***Rule 5*** *(No trading since Funds Transferred):*
  - *Rule identifies funds over a prescribed level paid into an account at a specified time in the past. It will then identify accounts where the funds have not been utilised for trading purposes.*
    - *Parameters - 1 Maximum cash movements*
      2 Number of business since transfer

- ***Rule 6*** *(Movements on accounts just below our monitoring limits):*
  - *Rule looks for repeated movement of funds over a period that are at a level just below MFG's current parameters. This rule is set against the parameters in Rule3 (which looks at cash flow patterns) and only looks at Medium and Low rated accounts (movements on Very High and High accounts are reviewed daily as a matter of routine).*
    - *Parameters - 1 % range below Rule 3 parameter*
      2 Number of transactions
      3 Number of days

Appendix 2 – AML system – escalation process – system notation

Individual Rules – "*Run Report*"

Note in Comment box

Note in comment box / Explained box ticked

Note in comment box / Flag box ticked

Note in comment box / Flag box ticked / Status resolved or Case Manager / Explained box ticked

Summary report – "*Comb S*"

Any item in the dropdown is unresolved

All items in the dropdown are resolved, either ✓ or ⚐

Appendix 16.C

AML Surveillance – Snapshot of online MIS report.

ONLINE REPORTS DEV - Windows Internet Explorer

http://lwdwebe06.intldn.manfinancial.net/

File Edit View Favorites Tools Help

Links BASIC Search Google Finance cn https--screening.complinet.com-account-login ONLINE REPORTS DEV SunGard ePORT - Login

ONLINE REPORTS DEV

online reports

21 January 2010

menu

- Menu
  - Favourites
  - Applications
    - AML Reports
  - Current Desk

Dataset: US - GMI

Rule: 1 - Large Cash Movements

WatchList:

Start Date: 15/12/2009

Run Report | Maintain Parameters

Voucher Type: BTM: ☑ CP: ☑ DCM: ☑ IV: ☐ RC: ☑ VE: ☑

Parameter Definition: PD Test

Random Rows: 0

End Date: 15/12/2009

Comb S | Comb E | Combined Excel

Account Type: Client: ☑ Broker: ☐

Thursday, January 21, 2010 Row Count:158

Excel Export

AML Rule 1 - Large Cash Movements

Alloc	RunDate	Desk	Account	Family	R	Amount	Curr	Comment	Description
✓	15 Dec 2009	US - GMI	E-290-50047	E-290-R2047	M	50,000	USD	WIRE RECEIVED	Voucher 50,000 USD exceeds the RR threshold of 10,000 USD.
✓	15 Dec 2009	US - GMI	E-290-75994	E-290-75994	H	-15,000	USD	WIRE DISBURSED	Voucher 15,000 USD exceeds the RR threshold of 1,000 USD
✓	15 Dec 2009	US - GMI	E-305-12100	E-305-R2100	M	-2,453,819	USD	WIRE DISBURSED	Voucher 2,453,819 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-305-12100	E-305-R2100	M	971,076	USD	SEG/FOR TRF	Voucher 971,076 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-305-12100	E-305-R2100	M	-971,076	USD	SEG/FOR TRF	Voucher 971,076 USD exceeds the RR threshold of 10,000 USD.
🚩	15 Dec 2009	US - GMI	E-346-45453	E-346-50284	M	-200,000	USD	WIRE DISBURSED	Voucher 200,000 USD exceeds the RR threshold of 10,000 USD.
	Flag: ☑ By: Pdunn	Status: Resolved	By: jbrand	Existing/New Note:	Spoke with account exec (Tony Pecoraro) on 12/23/09 and learned that the customer is funding a Forex account on MFG's books with this $200,000 wire. Activity appears reasonable.			By: Pdunn	Save
	Explained: ☑ By: jbrand	Case Manager: ☐ By:							
🚩	15 Dec 2009	US - GMI	E-346-45453	E-346-50284	M	-10,000	USD	WIRE DISBURSED	Voucher 10,000 USD exceeds the RR threshold of 10,000 USD.
	Flag: ☑ By: Pdunn	Status: Resolved	By: jbrand	Existing/New Note:	the written request of Cisco, the administrator for Vitaloon Spoke with account exec (Tony Pecoraro) on 12/23/09 and learned that the customer has standing instructions to			By: jbrand	Save
	Explained: ☑ By: jbrand	Case Manager: ☐ By:							
	15 Dec 2009	US - GMI	E-346-50130	E-346-50284	M	-1,428,506	JPY	CONVERT JY AT 89.95	Voucher 15,928 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-346-50130	E-346-50284	M	15,881	USD	CONVERT JY AT 89.95	Voucher 15,881 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-346-50130	E-346-50284	M	8,374	EUR	CONVERT R2 AT 1.4505	Voucher 13,527 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-346-50130	E-346-50284	M	-13,597	USD	CONVERT R2 AT 1.4505	Voucher 13,597 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-382-23409	E-382-R2420	M	-94,250	USD	CASH PAY 1 C-DOLLAR	Voucher 94,250 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-382-23409	E-382-R2420	M	100,000	CAD	DELY REC 1 C-DOLLAR	Voucher 94,204 USD exceeds the RR threshold of 10,000 USD
✓	15 Dec 2009	US - GMI	E-382-23409	E-382-R2420	M	-35,000	USD	WIRE DISBURSED	Voucher 35,000 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-382-23420	E-382-R2420	M	56,100	USD	TRSF F1-F2	Voucher 56,100 USD exceeds the RR threshold of 10,000 USD.
	15 Dec 2009	US - GMI	E-382-23420	E-382-R2420	M	-56,100	USD	TRSF F1-F2	Voucher 56,100 USD exceeds the RR threshold of 10,000 USD
✓	15 Dec 2009	US - GMI	E-391-36061	E-391-R6066	H	-2,065,616	USD	WIRE DISBURSED	Voucher 2,065,616 USD exceeds the RR threshold of 10,000 USD
✓	15 Dec 2009	US - GMI	E-391-36063	E-391-R6066	H	-333,322	USD	WIRE DISBURSED	Voucher 333,322 USD exceeds the RR threshold of 10,000 USD
	15 Dec 2009	US - GMI	E-497-10003	E-497-R9017	H	13,561	USD	11-38 COMM REBATE	Voucher 13,561 USD exceeds the RR threshold of 1,000 USD
	15 Dec 2009	US - GMI	E-515-W2075	E-515-W2075	H	1,500	USD	WIT RECD A-O 10/11	Voucher 1,500 USD exceeds the RR threshold of 1,000 USD
✓	15 Dec 2009	US - GMI	E-563-11910	E-563-11910	H	2,223,453	USD	WIRE RECEIVED - USD	Voucher 2,223,453 USD exceeds the RR threshold of 1,000 USD
	15 Dec 2009	US - GMI	E-563-14950	E-563-14950	H	4,251	GBP	CONVERT PP AT 1.623	Voucher 7,127 USD exceeds the RR threshold of 1,000 USD.

Waiting for http://lwdwebe06.intldn.manfinancial.net/AML/AMLExcelReport.asp?DatasetID=68&REPORTTYPE=RULE&RULEID=1&STARTDATE=15+D

0000

Local intranet

100%

Appendix 17.A

FinCEN Form 101 Effective May 2004	Suspicious Activity Report by the Securities and Futures Industries Please type or print. Always complete entire report. Items marked with an asterisk * are considered critical. (See instructions.)	OMB No. 1506 - 0019

1 Check the box if this report corrects a prior report (See instructions) ☐

Part I Subject Information

2 Check box a ☐ if multiple subjects box b ☑ subject information unavailable

*3 Individual's last name or entity's full name	*4 First name	5 Middle initial
XX	XX	

6 Also known as (AKA - individual), doing business as (DBA - entity)	7 Occupation or type of business

*8 Address	*9 City
XX	XX

*10 State	*11 ZIP code	*12 Country code (If not U.S.) (See instructions)		13 E-mail address (If available)
X X	—		X X	XX

*14 SSN/ITIN (individual), or EIN (entity)	*15 Account number(s) affected, if any. Indicate if closed.	16 Date of birth
X X	Acc't # ____ yes ☐ Acc't # ____ yes ☐ Acc't # ____ yes ☐ Acc't # ____ yes ☐	__/__/____ MM DD YYYY

17 Government issued identification (If available)

a ☐ Driver's license/state ID b ☐ Passport c ☐ Alien registration d ☐ Corporate/Partnership Resolution

e ☐ Other XX

f ID number ____ g Issuing state or country (2 digit code) X X

18 Phone number - work	19 Phone number - home	20 Is individual/business associated/affiliated with the reporting institution? (See instructions)
( ) —	( ) —	a ☐ Yes b ☑ No

Part II Suspicious Activity Information

*21 Date or date range of suspicious activity	*22 Total dollar amount involved in suspicious activity
From 08/17/2009 To 12/28/2009	$ 1,415,375.00

23 Instrument type (Check all that apply)

a	☐	Bonds/Notes	i	☐	Commodity options	q	☐ Commodity type ____ (Please identify)
b	☐	Cash or equiv.	j	☐	Security futures products		
c	☐	Commercial paper	k	☑	Stocks	r	☑ Instrument description TICKER: DMAT
d	☐	Commodity futures contract	l	☐	Warrants		
e	☐	Money Market Mutual Fund	m	☐	Other securities	s	☑ Market where traded O T C (Enter approprite three or four-letter code.)
f	☐	Mutual Fund	n	☐	Other non-securities		
g	☐	OTC Derivatives	o	☐	Foreign currency futures/options	t	☐ Other (Explain in Part VI)
h	☐	Other derivatives	p	☐	Foreign currencies		

24 CUSIP* number	25 CUSIP* number	26 CUSIP* number
248041V109		
27 CUSIP* number	**28 CUSIP* number**	**29 CUSIP* number**

*30 Type of suspicious activity:

a	☐	Bribery/gratuity	h	☐	Identity theft	o	☐ Significant wire or other transactions without economic purpose
b	☐	Check fraud	i	☐	Insider trading		
c	☐	Computer intrusion	j	☐	Mail fraud	p	☐ Suspicious documents or ID presented
d	☐	Credit/debit card fraud	k	☐	Market manipulation	q	☐ Terrorist financing
e	☐	Embezzlement/theft	l	☐	Money laundering/Structuring	r	☐ Wash or other fictitious trading
f	☐	Commodity futures/options fraud	m	☐	Prearranged or other non-competitive trading	s	☐ Wire fraud
g	☐	Forgery	n	☐	Securities fraud	t	☑ Other (Describe in Part VI)

Part III Law Enforcement or Regulatory Contact Information

2

31 If a law enforcement or regulatory authority has been contacted (excluding submission of a SAR) check the appropriate box.

- a ☐ DEA
- b ☐ U.S. Attorney (**32)
- c ☐ IRS
- d ☐ FBI
- e ☐ ICE
- f ☐ Secret Service
- g ☐ CFTC
- h ☐ SEC
- i ☐ NASD
- j ☐ NFA
- k ☐ NYSE
- l ☐ Other RFA
- m ☐ Other RE-futures (CME, CBOT, NYMEX, NYBOT)
- n ☐ Other state/local
- o ☐ Other SRO-securites (PHLX, PCX, CBOE, AMEX, etc.)
- p ☐ State securities regulator
- q ☐ Foreign
- r ☐ Other (Explain in Part VI)

32 Other authority cont acted (for Item 31 l through r) ** List U.S. Attorney office here.
XX

33 Name of individual contacted (for all of Item 31)

34 Telephone number of individual cont acted (Item 33)
( ) -

35 Date contacted
__/__/____ MM DD YYYY

Part IV Reporting Financial Institution Information

*36 Name of financial institution or sole proprietorship
MF Global Inc.

*37 EIN / SSN / ITIN
1 6 1 6 3 3 0 2 9

COPY

*38 Address
440 S. LaSalle Street, 20th Floor

*39 City
Chicago

*40 State
I L

*41 ZIP code
6 0 6 0 5 -

42 Additional branch address locations handling account, activity or customer.

43 ☐ Multiple locations (See instructions)

44 City

45 State

46 ZIP code
-

47 Central Registration Depository number
6 7 3 1

48 SEC ID number
8 - 1 8 1 0 4

49 NFA ID number

50 Has this reporting individual/entity coordinated this report with another reporting individual/entity? Yes ☐ (Provide details in Part VI) No ☑

51 Type of institution or individual- Check box(es) for functions that apply to this report

- a ☐ Agricultural trade option merchant
- b ☐ Affiliate of bank holding company
- c ☐ CPO
- d ☐ CTA
- e ☐ Direct participation program
- f ☐ FCM
- g ☐ Futures floor broker
- h ☐ Futures floor trader
- i ☐ IB-C
- j ☐ A I
- k ☐ Investment company - mutual fund
- l ☐ Market maker
- m ☐ Municipal securities dealer
- n ☐ NFA
- o ☐ RE-futures
- p ☐ Other RFA
- q ☑ Securities broker - clearing
- r ☐ Securities broker - introducing
- s ☐ Securities dealer
- t ☐ Securities floor broker
- u ☐ Securities options broker-dealer
- v ☐ SRO-securities
- w ☐ Specialist
- x ☐ Subsidiary of bank
- y ☐ U.S. Government broker-dealer
- z ☐ U.S. Government interdealer broker
- aa ☐ Other (Describe in Part VI)

Part V Contact For Assistance

*52 Last name of individual to be contacted regarding this report
Brand

*53 First name
John

*54 Middle initial
A

*55 Title/Position
Compliance Officer

*56 Work phone number
(312) 548-1143

*57 Date report prepared
12/28/2009

Send completed reports to:

Detroit Computing Center
Attn: SAR-SF
P.O. Box 33980
Detroit, MI 48232

Part VI Suspicious Activity Information - Narrative *

Explanation/description of suspicious activity(ies). This section of the report is critical. The care with which it is completed may determine whether or not the described activity and its possible criminal nature are clearly understood by investigators. Provide a clear, complete and chronological description (***not exceeding this page and the next page***) *of the activity, including what is unusual, irregular or suspicious about the transaction(s),* using the checklist below as a guide, as you prepare your account.

a. **Describe** conduct that raised suspicion.
b. **Explain** whether the transaction(s) was completed or only attempted
c. **Describe** supporting documentation (*e.g.* transaction records, new account information, tape recordings, E-mail messages, correspondence, etc.) and retain such documentation in your file for five years.
d. **Explain** who benefited, financially or otherwise, from the transaction(s), how much, and how (if known).
e. **Describe and retain** any admission or explanation of the transaction(s) provided by the subject(s) or other persons. Indicate to whom and when it was given
f. **Describe and retain** any evidence of cover-up or evidence of an attempt to deceive federal or state examiners, SRO, or others.
g. **Indicate** where the possible violation of law(s) took place (*e.g.* main office, branch, other)
h. **Indicate** whether the suspicious activity is an isolated incident or relates to another transaction.
i. **Indicate** whether there is any related litigation. If so, specify the name of the litigation and the court where the action is pending.
j. **Recommend** any further investigation that might assist law enforcement authorities.
k. **Indicate** whether any information has been excluded from this report; if so, state reasons.
l. **Indicate** whether U.S. or foreign currency and/or U.S. or foreign negotiable instrument(s) were involved. If foreign, provide the amount, name of currency, and country of origin.
m. **Indicate** "Market where traded" and "Wire transfer identifier" information when appropriate
n. **Indicate** whether funds or assets were recovered and, if so, enter the dollar value of the recovery in whole dollars only
o. **Indicate** any additional account number(s), and any foreign bank(s) account number(s) which may be involved
p. **Indicate** for a foreign national any available information on subject's passport(s), visa(s), and/or identification card(s). Include date, country, city of issue, issuing authority, and nationality
q. **Describe** any suspicious activities that involve transfer of funds to or from a foreign country, or transactions in a foreign currency. Identify the country, sources and destinations of funds
r. **Describe** subject(s) position if employed by the financial institution
s. **Indicate** whether securities, futures, or options were involved. If so, list the type, CUSIP * number or ISID * number, and amount
t. **Indicate** the type of institution filing this report, if this is not clear from Part IV. For example, a n IA that is managing partner of a limited partnership that is acting as a hedge fund that detects suspicious activity tied in part to its hedge fund activities should note that it is operating as a hedge fund.
u. **Indicate** in instances when the subject or entity has a CRD or NFA number, what that number is
v. **If correcting** a prior report (box in Item 1 checked), complete the form in its entirety and note the corrected items here in Part VI

Information already provided in earlier parts of this form need not necessarily be repeated if the meaning is clear.

Supporting documentation should not be filed with this report. Maintain the information for your files.

Tips on SAR form preparation and filing are available in the SAR Activity Review at **www.fincen.gov/pub_reports.html**
Enter explanation/description in the space below. Continue on the next page if necessary.

This SAR-SF is being filed to summarize activity occurring within the customer omnibus account. Specifically, MF Global Inc. ("MFG") noted that since August 2009, customers via use of the MFG omnibus account have purchased and accumulated a material percentage of all outstanding shares of an over the counter publicly traded company called Dematco, Inc. (TICKER: DMAT) ("DMAT"). DMAT, a technology company located in Encino, California, is engaged in the business of converting financial instruments from paper form to electronic form. The October 20, 2009 Form 10-Q filing made by DMAT stated that the company has no employees and limited operations. MFG identified this activity as suspicious and elected to file a SAR-SF.

Please note that as account is an omnibus account, the persons or entities accumulating positions in DMAT are undisclosed by and not known to MFG. Therefore, Part 1, Box 2(b) was checked within the SAR-SF as the subject information is unknown.

is a Financial Services Authority ("FSA") authorized broker (registration ID#). is located in the United Kingdom. MFG provides securities clearing services to and its customers via a customer omnibus account maintained by MFG. Trades placed by are executed by MFG and maintained in the MFG omnibus account. As the relationship with is omnibus, the customers of executing orders via the MFG omnibus account are undisclosed and not known to MFG.

On December 9, 2009, a MFG Registered Representative ("RR") provided notification to the MFG Compliance Department that since August 17, 2009, the MFG omnibus account held by had been used to accumulate 12,051,876 shares of DMAT. It was estimated by the RR that this position accounted for approximately 11% of all shares outstanding for DMAT. Further, the RR indicated that these purchases since August 17, 2009 represented a significant, and on some days, all the trading volume for the issue.

On December 14, 2009, the MFG Compliance Department discussed the activity with representatives and . During the call, represented that the DMAT shares were purchased by eight (8) separate customers who have accumulated shares of DMAT. Further, explained that the eight (8) customer accounts are managed by the same individual who was given discretionary trading authority. did not disclose the names of the eight (8) individuals or the name of the trader.

Since the initial notification by the MFG RR on December 9, 2009, an additional 380,000 shares have been purchased within account #1043 6732. As of December 28, 2009, the omnibus account maintained a total of 22,431,876 shares of DMAT with a cost amount of $1,415,375.

As this is an omnibus account, MFG is not in position to conclude whether trading irregularities in the accumulation of DMAT shares occurred. Further, MFG is not in a position to conclude whether DMAT positions maintained by customers may have triggered SEC disclosure filing requirements. However, we are filing the SAR-SF as observations by MFG and the fact pattern establishes suspicion.

All records related to this matter are maintained by the MFG Compliance Department in Chicago, Illinois.

COPY

Safe Harbor Federal law (31 U.S.C. 5318(g)(3)) rovides complete protection from civil liability .or all reports of suspicious transactions made to appropriate authorities, including supporting documentation. regardless of whether such reports are filed pursuant to this report' s instructions or are filed on a voluntary basis. Specifically . the law provides that a financial institution, and its directors, officers, employees, and agents, that make a disclosure of any possible violation of law or regulation, including in connection with the preparation of suspicious activity reports, "shall not be liable to any person under any law or regulation of the United States, any constitution, law , or regulation of any State or political subdivision of any State. or under any contract or other legally enforceable agreement (including any arbitration agreement), for such disclosure or for any failure to provide notice of such disclosure to the person who is the subject of such disclosure or any other person identified in the disclosure."

Notification Prohibited Federal law (31 U.S.C. 5318(g)(2)) provides that a financial institution, and its directors, officers, employees, and agents who, voluntarily or by means of a suspicious activity report, report suspicious transactions to the government, may not notify any person involved in the transaction that the transaction has been reported

In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering chemes, the financial institution shall immediately notify by telephone an appropriate law enforcement authority in addition to filing a timely suspicious activity report.

When to file a report

1. Every broker or dealer in securities (BD), futures commission merchant (FCM), and introducing broker in commodities (IB-C) within the United States shall file with FinCEN, to the extent and in the manner required by 31 CFR 103.19 and 103.17, a report of any suspicious transaction relevant to a possible violation of law or regulation. A BD, FCM or IB-C may also file with FinCEN a report of any suspicious transaction that it believes is relevant to the possible violation of any law or regulation but whose reporting is not required by 31 CFR 103.19 or 103.17 A voluntary filing does not relieve a BD, FCM or IB-C from the responsibility of complying with any other reporting requirements imposed by the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), a self-regulatory organization ("SRO") (as defined in section 3(a)(26) of the Securities Exchange Act of 1934, 15 U.S.C. 78c (a)(26)), or any registered futures association (RF A) or registered entity (RE) as these terms are defined in the Commodity Exchange Act (CEA) 7 U.S.C. 21 and 7 U.S.C. 1a(29).

2. A transaction requires reporting if it is conducted or attempted by, at, or through a BD, FCM or IB-C, . involves or aggregates funds or other assets of at least $5,000, and the BD, FCM, or IB-C knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

i. Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;

ii. Is designed, whether through structuring or other means, to evade any requirements of 31 CFR 103 or of any other regulations promulgated under the Bank Secrecy Act, Pub L. 91-508, as amended, codified at 12 U.S.C. 1829b, 12 U.S.C. 1951-1959, and 31 U.S.C. 5311 - 5314, 5316 - 5332;

iii Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the BD, FCM or IB-C knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or

iv. Involves use of the BD, FCM or IB-C to facilitate criminal activity .

3 The obligation to identify and properly and timely report a suspicious transaction rests with each BD, FCM, and IB-C involved in the transaction, provided that no more than one report is required to be filed by any of the BDs, FCMs, or IB-Cs involved in a particular transaction (so long as the report filed contains all relevant facts).

4. A SAR-SF shall be filed no later than 30 calendar days after the date of the initial detection by the reporting BD, FCM, or IB-C of facts that may constitute a basis for filing a SAR-SF . If no suspect is identified on the date of such initial detection, a BD, FCM, or IB-C may delay filing a SAR-SF for an additional 30 calendar days to identify a suspect, but in no case shall reporting be delayed more than 60 calendar days after the date of such initial detection. In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, the BD, FCM, or IB-C shall immediately notify by telephone an appropriate law enforcement authority in addition to filing timely a SAR-SF . BDs, FCMs, or IB-Cs wishing voluntarily to report suspicious transactions that may relate to terrorist activity may call FinCEN' s Financial Institutions Hotline at 1-866-556-3974 in addition to filing timely a SAR-SF. The BD, FCM, or IB-C may also, but is not required to, contact the SEC or the CFTC to report in such situations.

5. **Exceptions.** A BD, FCM, or IB-C is not required to file a SAR-SF to report:

i. A robbery or bur glary committed or attempted that is reported to appropriate law enforcement authorities, or for lost, missing, counterfeit, or stolen securities with respect to which the BD files a report pursuant to the reporting requirements of 17 CFR 240.17f-1;

ii. A violation otherwise required to be reported on a SAR-SF: (a) of any of the federal securities laws or rules of an SRO by the BD or any of its officers, directors, employees or other registered representatives, other than a violation of 17 CFR 240.17a-8 or 17 CFR 405.4, so long as such violation is appropriately reported to the SEC or an SRO; or (b) under the CEA (7 U.S.C. 1 *et seq.)*, the regulations of the CFTC (17 CFR Chpt.1), or the rules of any RF A or RE as those terms are defined in the CEA, 7 U.S.C. 21 and 7 U.S.C. 1a(29), by the FCM or IB-C or any of its officers, directors, employees or associated persons, other than a violation of 17 CFR 42.2 as long as such violation is appropriately reported to the CFTC or a RF A or RE.

6. The Bank Secrecy Act requires financial institutions to file currency transaction reports (CTRs) in accordance with the Department of the Treasury's implementing regulations (31 CFR Part 103) These regulations require a financial institution to file a CTR whenever a currency transaction exceeds $10,000. If a currency transaction exceeds $10,000 and is suspicious, the institution must file both a CTR (reporting the currency transaction) and a suspicious activity report (reporting the suspicious aspects of the transaction). If a currency transaction is $10,000 or less and is suspicious, the institution should only file a suspicious activity report Appropriate records must be maintained in each case

See: 31 CFR Part 103; 17 CFR 240.17a-8; 17 CFR 405.4, 17 CFR 42.2

General Instructions

A. Abbreviations and Definitions

1. AKA-- also known as (individual)
2. ASE-- American Stock Exchange
3. BD-- Broker or Dealer in Securities
4. CBOE-- Chicago Board Options Exchange
5. CBOT-- Chicago Board of Trade
6. CME-- Chicago Mercantile Exchange
7. CPO-- Commodity Pool Operator
8. CRD-- Central Registration Depository
9. CFTC-- Commodity Futures Trading Commission
10. CTA-- Commodity Trading Advisor
11. CUSIP*-- Committee on Uniform Securities ID Procedures
12. DEA-- Drug Enforcement Administration
13. DBA-- doing business as (entity)
14. EIN-- Employer Identification Number
15. EUREX--European Exchange
16. FBI-- Federal Bureau of Investigation
17. FCM-- Futures Commission Merchant
18. FINRA-- Financial Industry Reg. Auth.
19. IA-- Investment Adviser
20. IB-C-- Introducing Broker-Commodities
21. ICE-- Immigration & Customs Enforc
22. IRS-- Internal Revenue Service
23. ITIN-- Individual taxpayer ID number
24. ISID*-- International Securities ID Direct.
25. KCBOT- Kansas City Board of Trade
26. LIFFE-- London International Financial Futures Exchange

27. MATIF-- Marche a Terme International de France.
28. MGEX-- Minneapolis Grain Exchange
29. NASDAQ--Nasdaq Stock Market
30. NFA-- National Futures Association
31. NYBOT-- New York Board of Trade (CSCE, CTN, FINEX, NYFE)
32. NYMEX-- New York Mercantile Exchange
33. NYSE-- New York Stock Exchange
34. NQLX-- Nasdaq Liffe Markets
35. OTC-- Over-the-counter
36. PCX-- Pacific Exchange
37. PHLX-- Philadelphia Stock Exchange
38. RE-- Registered Entity
39. RFA-- Registered Futures Association
40. SEC-- Securities and Exchange Commission
41. SRO-- Self-Regulatory Organization
42. SSN-- social security number
43. USFE-- U. S. Futures Exchange

B. How to make a report:

1. **This form should be e-filed through the Bank Secrecy Act E-Filing System. Go to *http://bsaefiling.fincen.treas.gov* to register.** This form is also available for download on the Financial Crimes Enforcement Network's Web site at www.fincen.gov, or may be ordered by calling the IRS Forms Distribution Center at (800) 829-3676.

If not filed electronically, send each completed suspicious activity report to:

Detroit Computing Center
Attn: SAR-SF
P.O. Box 33980
Detroit, MI 48232

2. While all items should be completed fully and accurately, items marked with an asterisk (*) are considered critical and must be completed according to the provisions of paragraph 3 below and any special item instructions.

3. If the information for a critical item marked with an asterisk (*) is not known or not applicable, enter special response "XX" as appropriate to complete the item. Non-asterisk fields should be left blank if the information is unknown or not applicable. NOTE: The XX response for unknown may not be used in item 21(suspicious activity "From" date), the check boxes in item 30, and in Parts IV, V or VI.

4. Complete each suspicious activity report by providing as much information as possible on initial and corrected reports.

5. Do not include supporting documentation with the suspicious activity report filed. Identify and retain a copy of the suspicious activity report and all supporting documentation (*e.g.*, transaction records, new account information, tape recordings, E-mail messages, correspondence, etc.) or business record equivalent for your files for five (5) years from the date of the suspicious activity report. All supporting documentation must be made available to appropriate authorities upon request.

6. If more than one subject is being reported, make a copy of page 1, complete only the subject information in Part I, and attach the additional page(s) behind page 1. If more space is needed to complete any other item(s), identify that item in Part VI by "item number," and provide the additional information.

7. Type or complete the report using block written letters.

8. Enter all **dates** in MM/DD/YYYY format where MM=month, DD=day, and YYYY=year. Precede any single number with a zero, *i.e.*, 01,02, etc.

9. List all **Telephone numbers** with (area code) first and then the seven numbers, using the format (XXX) XXX-XXXX. List international telephone and fax numbers in Part VI.

10. Always enter an **individual's name** by entering the last name, first name, and middle initial (if known). If a legal entity is listed, enter its name in the last name field and XX in the first name field.

11. Enter all **identifying numbers** (alien registration, Corporate/Partnership Resolution, CRD, CUSIP,* driver's license/state ID, EIN, ITIN, Foreign National ID, ISID, * NFAID, passport, SEC, and SSN, etc.) starting from left to right. Do not include spaces, dashes, or other punctuation. Use XX as appropriate to indicate unknown (see B3).

12. Enter all **Post Office ZIP codes** with at least the first five numbers (all nine (ZIP + 4)) if known) and listed from left to right.

13. Enter all **monetary amounts** in U.S.Dollars. Use whole dollar amounts rounded up when necessary. Use this format: $0,000,000.00. If foreign currency is involved, state name of currency and country of origin in Part VI.

14. **Addresses, general.** Enter the permanent street address, city, two letter state/territory abbreviation used by the U.S. Postal Service, and ZIP code (ZIP+4 if known) of the individual or entity. A post office box number should not be used for an individual, unless no other address is available. For an individual, also enter any apartment number or suite number, road or route number. If a P.O. Box is used for an entity, enter the street name, suite number, and road or route number. If the address of the individual or entity is in a foreign country, enter the city, province or state, postal code, and the name of the country (country codes may be found at www.fincen.gov/reg_bsaforms.html). Complete any part of the address that is known, even if the entire address is not known. If from the United States, leave country Item blank.

C. Specific Suspicious Activity Report Preparation Instructions

Item 1-- Type of report. Check Box if this report is filed to correct a previously filed SAR-SF. To correct a report, a new SAR-SF must be completed in its entirety. Note corrected items in Section VI (see line "v").

Part I Subject Information

Note: Enter information about the person(s) or entity involved that caused this report to be filed, not the victim of the activity.

Item 2 -- Multiple Subjects. If there are multiple subjects involved, check box "2a" and complete a separate Part I for each subject. Check box "2b" only if **NO** critical* subject information is available. If **ANY** subject information is available, record that information in Part I, leave box "2b" blank, and insert the appropriate special response "XX" in any critical item for which data is missing.

Items *3, *4, and 5--Name of Subject See General Instruction B10. If the subject is an entity, enter the legal name in item 3, enter XX in item 4 and leave item 5 blank. If the entity is operated under a different trade or business name than its legal name, enter the entity's legal name in Item 3 (*e.g.*, Smith Enterprises, Inc.) and the name of the business in Item 6 (*e.g.*, Smith's Tours). If more than one Part I is required, make a copy of page 1 and provide the additional information.

Item 6-- Also known as, or doing business as If a reporting institution has knowledge of a subject's separate "AKA" and/or entity's "DBA" name, enter it in Item 6.

Item 7-- Occupation/type of business. If known, identify the occupation, profession, or business that best describes the individual in Part I (*e.g.*, attorney, car dealer, carpenter, doctor, farmer, plumber, truck driver, etc.). Do not use nondescript terms such as businessman, merchant, store owner (unless store's name is provided). If self employed, unemployed, or retired are used, add current/former profession if known (*e.g.* self-employed building contractor, unemployed teacher, retired attorney etc.) If the individual's business activities can be described more fully, provide the additional information in Part VI.

Items 8, 9, 10, 11, and 12-- *Address. See General Instructions B12 and B14.

Item 13-- E-mail address. Enter the subject's E-mail address if available.

Item *14-- SSN/ITIN (individual) or EIN (entity) See General Instruction B11 and definitions. If the subject named in Items 3 through 5 is a U.S. Citizen or an alien with a SSN, enter his or her SSN in Item 14. If that individual is an alien who has an ITIN, enter that number. If the subject is an entity, enter the EIN. If unknown, enter XX in the first two spaces.

Item *15-- Account number(s) See General Instruction B11. Enter up to four affected account numbers in or through which the suspicious activity occurred. If no account number is affected or the account number is unknown, enter XX in the first account number field. Check the "yes" box to indicate if the account is closed. If more than four accounts are affected, provide the additional information in Part VI.

Item 16-- Date of birth. See General Instruction B8. If an individual is named in Items 3 through 5, enter the date of birth. If the month and/or day is ot available or unknown, fill in with zeros (*e.g.*, 01/00/1969" indicates an unknown date in January, 1969).

Item 17-- *Government issued identification . See General Instruction B11 Check the appropriate box showing the type of document used to verify the subject's identity. Box "d" denotes that a cor - porate or partnership resolution was used to identify an entity If you check box "e", "Other" be sure to specify the type of document used. In box "f", list the ID number of the identifying document. In box "g", list the issuing authority . If all information for item 17 is unknown, check box "e" and enter XX in the space provided for "other "

Items 18 & 19-- Telephone numbers. See General Instruction B9 List any additional number(s) (*e.g.*, hotel, cell, fax, international etc) in Part VI.

Item 20-- Institution association Indicate whether the subject identified in Part I is, or was, associated with the reporting institution as an "associated person," as defined in section 3(a)(18) of the Securities Exchange Act of 1934 or CFTC rule 1 3(aa), or is, or was, "affiliated with" the reporting institution, as defined in the CFTC rule 4 7(a)(1)(i) If so, explain in Part VI

Part II Suspicious Activity Information

Item 21-- *Date or date range of suspicious ctivity See General Instruction B8 Enter the date f the reported activity in the " From" field If more than one day , indicate the duration of the activity by entering the first date in the " From" field and the last date in the " To" field. If the same individual or organization conducts multiple or related activities within the 30 calendar day period after the date of initial detection, the reporting institution may consider reporting the suspicious transactions on one form, but only if doing so will fully describe what has occurred. A new report must be filed for other related suspicious transactions committed after the initial detection period. "XX" may not be used in the "From" date entry

Item 22-- *Total dollar amount. See General Instruction B13. Enter the total dollar value of the funds or assets involved in the suspicious activity that is conducted by the same individual or organization within the 30 calendar day period after the date of initial detection. For multiple or related suspicious transactions, show the breakdown of this aggregated total in Part VI. For abuse by a person associated with the institution, the value of this item can be zero (0). Do not such any words as "thousand", "million", etc. For foreign currency , convert to U S Dollars. If unknown, enter XX.

Item 23-- Instrument type . Mark the type of instrument identified in Item 23. (Check all that apply.) In Item 23b, indicate U.S. Dollars only For Item 23r, indicate currency if other than U.S. Dollars. For Item 23s, enter appropriate three or four tter code.

Items 24, 25, 26, 27, 28, and 29-- CUSIP # Numbers. Enter up to six (6) securities numbers. If more, enter additional in Part V I.

Item 30-- *Type of suspicious activity . Check the box(es) that identifies the suspicious activity . More than one box may be checked. Provide a brief explanation in Part VI of why each box is checked. If none of these items applies, mark "other" and provide in Part VI an explanation of the type of suspicious activity . Use of XX does not apply to this item

Part III Law Enforcement or Regulatory Contact Information

Items 31, 32, and 33-- Contacting enforcement authorities. If no contact, go to **Part IV**. See General Instructions "A. Abbreviations and Definitions" for law enforcement and regulatory identities. If you have advised any law enforcement authority SRO, RF A, or RE-futures entity of the suspicious transactions by telephone or written communication, complete this section If box "b" or boxes "l" through "r" are checked, provide the name of the authority contacted in Item 32 If no contact, leave Items 31-35 blank.

Item 34-- Telephone number of individual contacted. See General Instruction B9 for format.

Item 35-- Date contacted. See General Instruction B8 for format

Part IV Reporting Financial Institution Information

Item 36-- *Name of financial institution or sole proprietorship Enter the full legal name of the institution, *i.e.*, the name shown on the charter or other document creating the entity and registered with the SEC or CFTC. If a sole proprietor, enter the business name of the proprietorship registered with the SEC or CFTC

Item 37--*Employer identification number . See General Instruction B11. Enter the reporting financial institution's EIN If sole proprietor enter SSN or ITIN

Items *38, *39, *40, and *41-- Address. See General Instruction B 14. This address should be of the principal office or headquarters in the United States.

Items 42, 43, 44, 45 and 46-- Additional address locations. See General Instruction B14. If more than one location is involved, *e.g.*, branch office etc., provide the address of the location where the most significant portion of the suspicious transactions occurred. If more than two locations are involved check box 43 and list locations in Part VI.

Item 47-- Central Registration Depository number. See General Instruction B1 1 If none, leave blank.

Item 48-- SEC number . See General Instruction B11. This is a ten digit number including the prefix of either "8" or "008" depending on the system used If none, leave blank.

Item 49-- NFA identification number. See General Instruction B11. If none, leave blank.

Item 50-- Joint/coordinated reporting. If this is a joint/coordinated report involving more than one individual/entity (see "When to file a report Item 3") check the appropriate box and provide the details in Part VI.

Item 51-- Type of reporting institution Check all boxes that apply to this particular report. If none of these categories apply to you, explain in Part VI The Federal Bureau of Public Debt, its agents, and any other federal agency issuers of Federal Securities should mark "U.S. Government broker/dealer." State or municipal issuers of municipal securities should mark "Municipal broker/dealer." A securities SRO, RF A, or RE-futures entity filing this form should identify the institution type as that of the member institution for which this report is being filed, and in **Part V**, (Items 52, 53, 54, 55, 56, and 57) identify the securities SRO, RF A or RE-futures entity individual to contact

Part V Contact for assistance

Items 52, 53, and 54-- *Contact individual. See General Instruction B10.

Item 55-- *Title/Position Enter the job title/position of the contact individual.

Item 56-- *Work telephone number. See General Instruction B 9.

Item 57-- *Date report prepared. See General Instruction B8.

Part VI * Suspicious Activity Information - Narrative See page 3 of the form for instructions.

Paperwork Reduction Act Notice:

The purpose of this form is to provide an effective means for financial institutions to notify appropriate law enforcement agencies of suspicious transactions that occur by , through, or at the financial institutions. This report is required by law , pursuant to authority contained in 31 U.S.C. 5318(g). Information collected on this report is confidential (31 U.S.C. 5318(g)) Federal securities and futures regulatory agencies and the U S. Departments of Justice and Treasury, and other authorized authorities may use and share this information. Public reporting and recordkeeping burden for this form is estimated to average 2 hours per response, and includes time to gather and maintain information for the required report, review the instructions, and complete the information collection. Send comments regarding this burden estimate, including suggestions for reducing the burden, to the Office of Management and Budget, Paperwork Reduction Project, Washington, DC 20503 and to the Financial Crimes Enforcement Network. Attn., Paperwork Reduction Act, P.O. Box 39, Vienna VA 22183-0039. The agency may not conduct or sponsor, and an organization (or a person) is not required to respond to, a collection of information unless it displays a currently valid OMB control number .

Appendix 17.B

FinCEN Form 101 Effective May 2004	Suspicious Activity Report by the Securities and Futures Industries Please type or print. Always complete entire report. Items marked with an asterisk * are considered critical. (See instructions.)	OMB No. 1506 - 0019

1 Check the box if this report corrects a prior report (See instructions) ☐

Part I Subject Information

2 Check box a ☐ if multiple subjects box b ☐ subject information unavailable

*3 Individual's last name or entity's full name	*4 First name	5 Middle initial
		A

6 Also known as (AKA - individual), doing business as (DBA - entity)	7 Occupation or type of business
	Commodity Trader/Self Employeed Trader

*8 Address	*9 City
	New York

*10 State	*11 ZIP code	*12 Country code (If not U.S.) (See instructions)	13 E-mail address (If available)
N Y	1 0 0 1 6 —	U S	@gmail.com

*14 SSN/ITIN (individual), or EIN (entity)	*15 Account number(s) affected, if any. Indicate if closed.	16 Date of birth
	Acct # _____ yes ☐ Acct # _____ yes ☐ Acct # _____ yes ☐ Acct # _____ yes ☐	06/20/1957

*17 Government issued identification (If available)

a ☑ Driver's license/state ID b ☐ Passport c ☐ Alien registration d ☐ Corporate/Partnership Resolution

e ☐ Other _____

f ID number _____ g Issuing state or country (2 digit code) N Y

18 Phone number - work	19 Phone number - home	20 Is individual/business associated/affiliated with the reporting institution? (See instructions)
		a ☐ Yes b ☑ No

Part II Suspicious Activity Information

*21 Date or date range of suspicious activity	*22 Total dollar amount involved in suspicious activity
From 03/30/2009 To 04/01/2009	$, , 1 2 , 0 3 5 .00

23 Instrument type (Check all that apply)

a ☐ Bonds/Notes
b ☑ Cash or equiv.
c ☐ Commercial paper
d ☑ Commodity futures contract
e ☐ Money Market Mutual Fund
f ☐ Mutual Fund
g ☐ OTC Derivatives
h ☐ Other derivatives
i ☐ Commodity options
j ☐ Security futures products
k ☐ Stocks
l ☐ Warrants
m ☐ Other securities
n ☐ Other non-securities
o ☐ Foreign currency futures/options
p ☐ Foreign currencies
q ☐ Commodity type _____ (Please identify)
r ☐ Instrument description _____
s ☐ Market where traded _____ (Enter approprite three or four-letter code.)
t ☐ Other (Explain in Part IV)

24 CUSIP® number	25 CUSIP® number	26 CUSIP® number
N / A	N / A	N / A
27 CUSIP® number	**28 CUSIP® number**	**29 CUSIP® number**
N / A	N / A	N / A

*30 Type of suspicious activity:

a ☐ Bribery/gratuity
b ☐ Check fraud
c ☐ Computer intrusion
d ☐ Credit/debit card fraud
e ☐ Embezzlement/theft
f ☐ Commodity futures/options fraud
g ☐ Forgery
h ☐ Identity theft
i ☐ Insider trading
j ☐ Mail fraud
k ☐ Market manipulation
l ☐ Money laundering/Structuring
m ☐ Prearranged or other non-competitive trading
n ☐ Securities fraud
o ☐ Significant wire or other transactions without economic purpose
p ☐ Suspicious documents or ID presented
q ☐ Terrorist financing
r ☐ Wash or other fictitious trading
s ☐ Wire fraud
t ☑ Other (Describe in Part VI)

Part III Law Enforcement or Regulatory Contact Information

2

31 If a law enforcement or regulatory authority has been contacted (excluding submission of a SAR) check the appropriate box.

- a ☐ DEA
- b ☐ U.S. Attorney (**32)
- c ☐ IRS
- d ☐ FBI
- e ☐ ICE
- f ☐ Secret Service
- g ☑ CFTC
- h ☐ SEC
- i ☐ NASD
- j ☐ NFA
- k ☐ NYSE
- l ☐ Other RFA
- m ☐ Other RE-futures (CME, CBOT, NYMEX, NYBOT)
- n ☐ Other state/local
- o ☐ Other SRO-securites (PHLX, PCX, CBOE, AMEX, etc.)
- p ☐ State securities regulator
- q ☐ Foreign
- r ☐ Other (Explain in Part VI)

32 Other authority contacted (for Item 31 l through r) ** List U.S. Attorney office here.

33 Name of individual contacted (for all of Item 31)
Scott

34 Telephone number of individual contacted (Item 33)

35 Date contacted
03/31/2009

Part IV Reporting Financial Institution Information

*36 Name of financial institution or sole proprietorship
MF Global Inc.

*37 EIN / SSN / ITIN
1 6 1 6 3 3 0 2 9

*38 Address
440 S. LaSalle Street, 20th Floor

*39 City
Chicago

*40 State
I L

*41 ZIP code
6 0 6 0 5 —

42 Additional branch address locations handling account, activity or customer.
E*Trade Securities, LLC, Chicago, IL Branch Office

43 ☑ Multiple locations (See instructions)

44 City
440 S. LaSalle Street

45 State
N Y

46 ZIP code
6 0 6 0 5 —

47 Central Registration Depository number
N / A

48 SEC ID number
— N / A

49 NFA ID number
0 3 2 6 8 8 8

50 Has this reporting individual/entity coordinated this report with another reporting individual/entity? Yes ☐ (Provide details in Part VI) No ☑

51 Type of institution or individual- Check box(es) for functions that apply to this report

- a ☐ Agricultural trade option merchant
- b ☐ Affiliate of bank holding company
- c ☐ CPO
- d ☐ CTA
- e ☐ Direct participation program
- f ☑ FCM
- g ☐ Futures floor broker
- h ☐ Futures floor trader
- i ☑ IB-C
- j ☐ IA
- k ☐ Investment company - mutual fund
- l ☐ Market maker
- m ☐ Municipal securities dealer
- n ☐ NFA
- o ☐ RE-futures
- p ☐ Other RFA
- q ☐ Securities broker - clearing
- r ☐ Securities broker - introducing
- s ☐ Securities dealer
- t ☐ Securities floor broker
- u ☐ Securities options broker-dealer
- v ☐ SRO-securities
- w ☐ Specialist
- x ☐ Subsidiary of bank
- y ☐ U.S. Government broker-dealer
- z ☐ U.S. Government interdealer broker
- aa ☐ Other (Describe in Part VI)

Part V Contact For Assistance

*52 Last name of individual to be contacted regarding this report
Brand

*53 First name
John

*54 Middle initial
A

*55 Title/Position
Compliance Officer

*56 Work phone number
(312) 663-7871

*57 Date report prepared
04/16/2009

Send completed reports to:

Detroit Computing Center
Attn: SAR-SF
P.O. Box 33980
Detroit, MI 48232

Part VI Suspicious Activity Information - Narrative *

Explanation/description of suspicious activity(ies). This section of the report is **critical**. The care with which it is completed may determine whether or not the described activity and its possible criminal nature are clearly understood by investigators. Provide a clear, complete and chronological description **(not exceeding this page and the next page)** of the activity, including what is unusual, irregular or suspicious about the transaction(s), using the checklist below as a guide, as you prepare your account.

a. **Describe** conduct that raised suspicion.
b. **Explain** whether the transaction(s) was completed or only attempted.
c. **Describe** supporting documentation (*e.g.* transaction records, new account information, tape recordings, E-mail messages, correspondence, etc.) and retain such documentation in your file for five years.
d. **Explain** who benefited, financially or otherwise, from the transaction(s), how much, and how (if known).
e. **Describe and retain** any admission or explanation of the transaction(s) provided by the subject(s) or other persons. Indicate to whom and when it was given.
f. **Describe and retain** any evidence of cover-up or evidence of an attempt to deceive federal or state examiners, SRO, or others.
g. **Indicate** where the possible violation of law(s) took place (*e.g.*, main office, branch, other).
h. **Indicate** whether the suspicious activity is an isolated incident or relates to another transaction.
i. **Indicate** whether there is any related litigation. If so, specify the name of the litigation and the court where the action is pending.
j. **Recommend** any further investigation that might assist law enforcement authorities.
k. **Indicate** whether any information has been excluded from this report; if so, state reasons.
l. **Indicate** whether U.S. or foreign currency and/or U.S. or foreign negotiable instrument(s) were involved. If foreign, provide the amount, name of currency, and country of origin.
m. **Indicate** "Market where traded" and "Wire transfer identifier" information when appropriate.
n. **Indicate** whether funds or assets were recovered and, if so, enter the dollar value of the recovery in whole dollars only.
o. **Indicate** any additional account number(s), and any foreign bank(s) account number(s) which may be involved.
p. **Indicate** for a foreign national any available information on subject's passport(s), visa(s), and/or identification card(s). Include date, country, city of issue, issuing authority, and nationality.
q. **Describe** any suspicious activities that involve transfer of funds to or from a foreign country, or transactions in a foreign currency. Identify the country, sources and destinations of funds.
r. **Describe** subject(s) position if employed by the financial institution.
s. **Indicate** whether securities, futures, or options were involved. If so, list the type, CUSIP* number or ISID* number, and amount.
t. **Indicate** the type of institution filing this report, if this is not clear from Part IV. For example, an IA that is managing partner of a limited partnership that is acting as a hedge fund that detects suspicious activity tied in part to its hedge fund activities should note that it is operating as a hedge fund.
u. **Indicate,** in instances when the subject or entity has a CRD or NFA number, what that number is.

v. **If correcting** a prior report (box in Item 1 checked), complete the form in its entirety and note the corrected items here in Part VI

Information already provided in earlier parts of this form need not necessarily be repeated if the meaning is clear.

Supporting documentation should not be filed with this report. Maintain the information for your files.

Tips on SAR form preparation and filing are available in the SAR Activity Review at **www.fincen.gov/pub_reports.html**
Enter explanation/description in the space below. Continue on the next page if necessary.

On or about March 27, 2009, MF Global Inc. ("MFG") a U.S. futures commission merchant licensed by the CFTC, received a letter from an individual named alleging of New York, New York accepted $12,035 of her funds for an investment into his futures trading account (Account #) carried in his own name on the books of MFG. a customer of E*Trade Securities, LLC ("E Trade") a U.S. futures introducing broker licensed by the CFTC, which carries its futures accounts on a fully-disclosed basis on the books of MFG.

According to letter, on November 11, 2008, asked her to invest money with him. agreed and entered into a written agreement . A copy of the written agreement between and was included with letter. The agreement made reference to an investment for $10,000, the "interest rate" that would be paid on the investment, the redemption policy and a "futures risk disclosure." The agreement was signed by both and on November 25, 2008. represented that she gave two (2) checks on November 25, 2008; one cashiers check in the amount of $10,000 and a second cashiers check in the amount of $2,035. included copies of both cashiers checks with her letter.

also alleged in her letter that on January 26, 2009 she gave written notice for the return of her investment. alleged that refused to return her investment.

MFG shared the information in letter with E Trade.

letter and the documents she attached to it, raised the suspicion about the true beneficial ownership of account, which has lead MFG to the filing of this SAR-SF.

On March 31, 2009 and April 1, 2009, sent letters to MFG, via fax, in which acknowledged he accepted funds from He contended, however, that the money was never deposited into his MFG futures trading account.

wrote that he since returned the funds to and disputed allegations that he misappropriated money from her.

Account Background

futures account was opened on MFG's books on July 23, 2008. Within the account opening documentation, reported his occupation as a "self-employed trader." AIn his account opening documents, represented that his account was beneficially owned by himself.

traded a substantial number of futures in his account, primarily in heating oil and crude oil futures. deposited approximately $25,000 in his account. Including the $10,000 transfer from another account at MFG (discussed below) on January 22, 2009, a total of $35,000 was deposited into the account.

account showed approximately $30,000 in trading gains. During the period of time in which the account was trading, withdrew approximately $66,000 in amounts between $2,000 and $10,000 for each withdrawal.

MFG maintains an additional futures trading account open and controlled by , account . Account was opened directly with MFG via a MFG Account Executive on December 10, 2008. At the time the account was opened, represented that the account was to be used as his own proprietary account. The activity in account was limited to a single $10,000 deposit via wire transfer on December 19, 2009. No trading occurred and at the request of , the $10,000 was transferred to account on January 22, 2009.

Per review of publicly available registration records, MFG found that at one time was registered with the CFTC as a Floor Broker/Associated Person and NFA Member. See NFA ID# . withdrew his Floor Broker registration in December 2000. This appears to conflict with representations in his April 1, 2009 letter that he is "trading futures as a local."

On March 30, 2009, MFG froze account. At that time, it maintained a balance of $16,260.20. On March 31, 2009, the day after MF Global became aware of the matter, MFG contacted the CFTC to report the occurrence. At this time, a copy of the letter received from was provided to CFTC Deputy Regional Counsel,

MFG determined that the $10,000 that alleges she gave in November 2008 to trade for her was not deposited into either account. Accordingly, when asked for the balance of the funds in his account, MFG honored his request and wired the funds to him on April 8, 2009. Further, MFG determined to end its relationship with and closed his trading account. (Note: MFG can only close accounts during the first week of the month. Therefore, the account will be closed during the first week of May 2009. However, a request was made to have the account frozen so no further activity can occur until the account is closed).

All records related to this matter are maintained by the MFG Compliance Department in Chicago, Illinois.

Safe Harbor Federal law (31 U.S.C. 5318(g)(3)) provides complete protection from civil liability for all reports of suspicious transactions made to appropriate authorities, including supporting documentation, regardless of whether such reports are filed pursuant to this report's instructions or are filed on a voluntary basis. Specifically, the law provides that a financial institution, and its directors, officers, employees, and agents, that make a disclosure of any possible violation of law or regulation, including in connection with the preparation of suspicious activity reports, "shall not be liable to any person under any law or regulation of the United States, any constitution, law, or regulation of any State or political subdivision of any State, or under any contract or other legally enforceable agreement (including any arbitration agreement), for such disclosure or for any failure to provide notice of such disclosure to the person who is the subject of such disclosure or any other person identified in the disclosure."

Notification Prohibited Federal law (31 U.S.C. 5318(g)(2)) provides that a financial institution, and its directors, officers, employees, and agents who, voluntarily or by means of a suspicious activity report, report suspicious transactions to the government, may not notify any person involved in the transaction that the transaction has been reported.

In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, the financial institution shall immediately notify by telephone an appropriate law enforcement authority in addition to filing a timely suspicious activity report.

When to file a report

1. Every broker or dealer in securities (BD), futures commission merchant (FCM), and introducing broker in commodities (IB-C) within the United States shall file with FinCEN, to the extent and in the manner required by 31 CFR 103.19 and 103.17, a report of any suspicious transaction relevant to a possible violation of law or regulation. A BD, FCM or IB-C may also file with FinCEN a report of any suspicious transaction that it believes is relevant to the possible violation of any law or regulation but whose reporting is not required by 31 CFR 103.19 or 103.17. A voluntary filing does not relieve a BD, FCM or IB-C from the responsibility of complying with any other reporting requirements imposed by the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), a self-regulatory organization ("SRO") (as defined in section 3(a)(26) of the Securities Exchange Act of 1934, 15 U.S.C. 78c (a)(26)), or any registered futures association (RFA) or registered entity (RE) as these terms are defined in the Commodity Exchange Act (CEA) 7 U.S.C. 21 and 7 U.S.C. 1a(29).

2. A transaction requires reporting if it is conducted or attempted by, at, or through a BD, FCM or IB-C, it involves or aggregates funds or other assets of at least $5,000, and the BD, FCM, or IB-C knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

i. Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;

ii. Is designed, whether through structuring or other means, to evade any requirements of 31 CFR 103 or of any other regulations promulgated under the Bank Secrecy Act, Pub. L. 91-508, as amended, codified at 12 U.S.C. 1829b, 12 U.S.C. 1951-1959, and 31 U.S.C. 5311 - 5314, 5316 - 5332;

iii. Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the BD, FCM or IB-C knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or

iv. Involves use of the BD, FCM or IB-C to facilitate criminal activity.

3. The obligation to identify and properly and timely report a suspicious transaction rests with each BD, FCM, and IB-C involved in the transaction, provided that no more than one report is required to be filed by any of the BDs, FCMs, or IB-Cs involved in a particular transaction (so long as the report filed contains all relevant facts).

4. A SAR-SF shall be filed no later than 30 calendar days after the date of the initial detection by the reporting BD, FCM, or IB-C of facts that may constitute a basis for filing a SAR-SF. If no suspect is identified on the date of such initial detection, a BD, FCM, or IB-C may delay filing a SAR-SF for an additional 30 calendar days to identify a suspect, but in no case shall reporting be delayed more than 60 calendar days after the date of such initial detection. In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, the BD, FCM, or IB-C shall immediately notify by telephone an appropriate law enforcement authority in addition to filing timely a SAR-SF. BDs, FCMs, or IB-Cs wishing voluntarily to report suspicious transactions that may relate to terrorist activity may call FinCEN's Financial Institutions Hotline at 1-866-556-3974 in addition to filing timely a SAR-SF. The BD, FCM, or IB-C may also, but is not required to, contact the SEC or the CFTC to report in such situations.

5. **Exceptions.** A BD, FCM, or IB-C is not required to file a SAR-SF to report:

i. A robbery or burglary committed or attempted that is reported to appropriate law enforcement authorities, or for lost, missing, counterfeit, or stolen securities with respect to which the BD files a report pursuant to the reporting requirements of 17 CFR 240.17f-1;

ii. A violation otherwise required to be reported on a SAR-SF: (a) of any of the federal securities laws or rules of an SRO by the BD or any of its officers, directors, employees or other registered representatives, other than a violation of 17 CFR 240.17a-8 or 17 CFR 405.4, so long as such violation is appropriately reported to the SEC or an SRO; or (b) under the CEA (7 U.S.C. 1 *et seq.)*, the regulations of the CFTC (17 CFR Chpt.1), or the rules of any RFA or RE as those terms are defined in the CEA, 7 U.S.C. 21 and 7 U.S.C. 1a(29), by the FCM or IB-C or any of its officers, directors, employees or associated persons, other than a violation of 17 CFR 42.2 as long as such violation is appropriately reported to the CFTC or a RFA or RE.

6. The Bank Secrecy Act requires financial institutions to file currency transaction reports (CTRs) in accordance with the Department of the Treasury's implementing regulations (31 CFR Part 103). These regulations require a financial institution to file a CTR whenever a currency transaction exceeds $10,000. If a currency transaction exceeds $10,000 and is suspicious, the institution must file both a CTR (reporting the currency transaction) and a suspicious activity report (reporting the suspicious aspects of the transaction). If a currency transaction is $10,000 or less and is suspicious, the institution should only file a suspicious activity report. Appropriate records must be maintained in each case.

See: 31 CFR Part 103; 17 CFR 240.17a-8; 17 CFR 405.4; 17 CFR 42.2

General Instructions

A. Abbreviations and Definitions

1. AKA-- also known as (individual)
2. ASE-- American Stock Exchange
3. BD-- Broker or Dealer in Securities
4. CBOE-- Chicago Board Options Exchange
5. CBOT-- Chicago Board of Trade
6. CME-- Chicago Mercantile Exchange
7. CPO-- Commodity Pool Operator
8. CRD-- Central Registration Depository
9. CFTC-- Commodity Futures Trading Commission
10. CTA-- Commodity Trading Advisor
11. CUSIP®-- Committee on Uniform Securities ID Procedures
12. DEA-- Drug Enforcement Administration
13. DBA-- doing business as (entity)
14. EIN-- Employer Identification Number
15. EUREX--European Exchange
16. FBI-- Federal Bureau of Investigation
17. FCM-- Futures Commission Merchant
18. IA-- Investment Adviser
19. IB-C-- Introducing Broker-Commodities
20. ICE-- Immigration & Customs Enforc.
21. IRS-- Internal Revenue Service
22. ITIN-- Individual taxpayer ID number
23. ISID®-- International Securities ID Directory
24. KCBOT Kansas City Board of Trade
25. LIFFE-- London International Financial Futures Exchange

26. MATIF-- Marche a Terme International de France
27. MGEX Minneapolis Grain Exchange
28. NASD-- NASD
29. NASDAQ--Nasdaq Stock Market
30. NFA-- National Futures Association
31. NYBOT-- New York Board of Trade (CSCE. CTN. FINEX. NYFE)
32. NYMEX--New York Mercantile Exchange
33. NYSE-- New York Stock Exchange
34. NQLX-- Nasdaq Liffe Markets
35. OTC-- Over-the-counter
36. PCX-- Pacific Exchange
37. PHLX-- Philadelphia Stock Exchange
38 RE-- Registered Entity
39. RFA-- Registered Futures Association
40. SEC-- Securities and Exchange Commission
41. SRO-- Self-Regulatory Organization
42. SSN-- social security number
43. USFE-- U. S. Futures Exchange

B. How to make a report:

1. **This form can be e-filed through the BSA E-File System. goto http://bsaefiling.fincen.treas.gov/main.html to register.** This form is also available for download on the Financial Crimes Enforcement Network's Web site at www.fincen.gov. or may be ordered by calling the IRS Forms Distribution Center at (800) 829-3676. Send each completed suspicious activity report to:

Detroit Computing Center
Attn: SAR-SF
P.O. Box 33980
Detroit, MI 48232

2. Items marked with an asterisk (*) are considered critical and must be completed if known.

3. If the information for a critical item is not known or not applicable. enter special responses "None." "Not Applicable." "Unknown." or "XX" (state/country/middle initial) as appropriate to complete the item.

4. Complete each suspicious activity report by providing as much information as possible on initial and corrected reports.

5. Do not include supporting documentation with the suspicious activity report filed. Identify and retain a copy of the suspicious activity report and all supporting documentation (*e.g.* transaction records. new account information, tape recordings. E-mail messages, correspondence. etc.) or business record equivalent for your files for five (5) years from the date of the suspicious activity report. All supporting documentation must be made available to appropriate authorities upon request.

6. If more than one subject is being reported, make a copy of page 1. complete only the subject information in Part I, and attach the additional page(s) behind page 1. If more space is needed to complete any other item(s). identify that item in Part VI by "item number." and provide the additional information.

7. Type or complete the report using block written letters.

8. Enter all **dates** in MM/DD/YYYY format where MM=month. DD=day. and YYYY=year. Precede any single number with a zero. *i.e.*. 01.02. etc.

9. List all **Telephone numbers** with (area code) first and then the seven numbers. using the format (XXX) XXX-XXXX. List international telephone and fax numbers in Part VI.

10. Always enter an **individual's name** by entering the last name. first name. and middle initial (if known). If a legal entity is listed. enter its name in the last name field.

11. Enter all **identifying numbers** (alien registration. Corporate/Partnership Resolution. CRD. CUSIP.* driver's license/state ID. EIN. ITIN, Foreign National ID. ISID.* NFAID. passport. SEC. and SSN. etc.) starting from left to right. Do not include spaces. dashes. or other punctuation.

12. Enter all **Post Office ZIP codes** with at least the first five numbers (all nine (ZIP + 4)) if known) and listed from left to right.

13. Enter all **monetary amounts** in U.S.Dollars. Use whole dollar amounts rounded up when necessary. Use this format: $0.000.000.00. If foreign currency is involved. state name of currency and country of origin in Part VI.

14. **Addresses, general**. Enter the permanent street address, city. two letter state/territory abbreviation used by the U.S. Postal Service, and ZIP code (ZIP+4 if known) of the individual or entity. A post office box number should not be used for an individual, unless no other address is available. For an individual, also enter any apartment number or suite number. road or route number. If a P.O. Box is used for an entity, enter the street name. suite number. and road or route number. If the address of the individual or entity is in a foreign country, enter the city, province or state, postal code, and the name of the country (country codes may be found at www.fincen.gov/reg_bsaforms.html). Complete any part of the address that is known. even if the entire address is not known. If from the United States. leave country Item blank.

C. Specific Suspicious Activity Report Preparation Instructions

Item 1-- Type of report. Check Box if this report is filed to correct a previously filed SAR-SF. To correct a report. a new SAR-SF must be completed in its entirety. Note corrected items in Section VI (see line "v").

Part I Subject Information

Item 2 -- Multiple Subjects. Check box (a) if multiple subjects are involved. Attach additional copy(ies) of Part I to this report for each subject. Check box (b) if subject information unavailable.

Items 3, 4, and 5--*Name of Subject. See General Instruction B10. If the organization is operated under a different trade or business name than its legal name, enter the organization's legal name in Item 3 (*e.g.*. Smith Enterprises. Inc.) and the name of the business in Item 6 (*e.g.*, Smith's Tours). If more than one Part I is required. make a copy of page 1 and provide the additional information.

Item 6-- Also known as, or doing business as. If a reporting institution has knowledge of a subject's separate "AKA" and/or entity's "DBA" name. enter it in Item 6.

Item 7-- Occupation/type of business. If known. identify the occupation, profession, or business that best describes the individual in Part I (*e.g.*, attorney, car dealer. carpenter. doctor. farmer. plumber, truck driver. etc.). Do not use nondescript terms such as businessman. merchant, store owner (unless store's name is provided). If self employed. unemployed, or retired are used. add current/former profession if known (*e.g.* self-employed building contractor. unemployed teacher, retired attorney etc.). If the individual's business activities can be described more fully. provide the additional information in Part VI.

Items 8, 9, 10, 11, and 12-- *Address. See General Instructions B12 and B14.

Item 13-- E-mail address. Enter the subject's E-mail address if available.

Item 14-- *SSN/ITIN (individual) or EIN (entity). See General Instruction B11 and definitions. If the subject named in Items 3 through 6 is a U.S. Citizen or an alien with a SSN. enter his or her SSN in Item 14. If that individual is an alien who has an ITIN. enter that number. If the subject is an entity. enter the EIN.

Item 15-- *Account number(s). See General Instruction B11. Enter up to four affected account numbers in or through which the suspicious activity occurred. If no account number is affected leave item 15 blank. Check the "yes" box to indicate if the account is closed. If more than four accounts are affected. provide the additional information in Part VI.

Item 16-- Date of birth. See General Instruction B8. If an individual is named in Items 3 through 5. enter the date of birth. If the month and/or day is not available or unknown. fill in with zeros (*e.g.*, "01/00/1969" indicates an unknown date in January. 1969).

Item 17-- *Government issued identification. See General Instruction B11. Check the appropriate box showing the type of document used to verify the subject's identity. Box "d" denotes that a corporate or partnership resolution was used to identify an entity. If you check the "Other" box "e". be sure to specify the type of document used. In box "f". list the ID number of the identifying document. In box "g". list the issuing authority.

Items 18 & 19-- Telephone numbers. See General Instruction B9. List any additional number(s) (*e.g.*. hotel. cell, etc.) in Part VI.

Item 20-- Institution association. Indicate whether the subject identified in Part I is. or was, associated with the reporting institution as an "associated person," as defined in section 3(a)(18) of the Securities Exchange Act of 1934 or CFTC rule 1.3(aa). or is. or was. "affiliated with" the reporting institution, as defined in the CFTC rule 4.7(a)(1)(i). If so. explain in Part VI.

Part II Suspicious Activity Information

Item 21-- *Date or date range of suspicious activity. See General Instruction B8. Enter the date of the reported activity in the "From" field. If more than one day, indicate the duration of the activity by entering the first date in the "From" field and the last date in the "To" field. If the same individual or organization conducts multiple or related activities within the 30 calendar day period after the date of initial detection, the reporting institution may consider reporting the suspicious transactions on one form, but only if doing so will fully describe what has occurred. A new report must be filed for other related suspicious transactions committed after the initial detection period.

Item 22-- *Total dollar amount. See General Instruction B13. Enter the total dollar value of the funds or assets involved in the suspicious activity that is conducted by the same individual or organization within the 30 calendar day period after the date of initial detection. For multiple or related suspicious transactions, show the breakdown of this aggregated total in Part VI. For abuse by a person associated with the institution, the value of this item can be zero (0). Do not use any words, such as "thousand", "million", etc. For foreign currency, convert to U.S. Dollars.

Item 23-- Instrument type. Mark the type of instrument identified in Item 23. (Check all that apply.) In Item 23b, indicate U.S. Dollars only. For Item 23r, indicate currency if other than U.S. Dollars. For Item 23s, enter appropriate three or four letter code.

Items 24, 25, 26, 27, 28, and 29-- CUSIP® Numbers. Enter up to six (6) securities numbers. If more, enter additional in Part VI.

Item 30-- *Type of suspicious activity. Check the box(es) that identifies the suspicious activity. More than one box may be checked. Provide a brief explanation in Part VI of why each box is checked. If none of these items applies, mark "other" and provide in Part VI an explanation of the type of suspicious activity.

Part III Law Enforcement or Regulatory Contact Information

Items 31, 32, and 33-- Contacting enforcement authorities. If no contact, go to **Part IV**. See General Instructions "A. Abbreviations and Definitions" for law enforcement and regulatory identities. If you have advised any law enforcement authority SRO, RFA, or RE-futures entity of the suspicious transactions by telephone or written communication, complete this section. If box "b" or boxes "l" through "r" are checked, provide the name of the authority contacted in Item 32. If no contact, leave Items 31-35 blank.

Item 34-- Telephone number of individual contacted. See General Instruction B9 for format.

Item 35-- Date contacted. See General Instruction B8 for format

Part IV Reporting Financial Institution Information

Item 36-- *Name of financial institution or sole proprietorship. Enter the full legal name of the institution, *i.e.*, the name shown on the charter or other document creating the entity and registered with the SEC or CFTC. If a sole proprietor, enter the business name of the proprietorship registered with the SEC or CFTC.

Item 37--*Employer identification number. See General Instruction B11. Enter the reporting financial institution's EIN. If sole proprietor enter SSN or ITIN.

Items *38, *39, *40, and *41-- Address. See General Instruction B14. This address should be of the principal office or headquarters in the United States.

Items 42, 43, 44, 45 and 46-- Additional address locations. See General Instruction B14. If more than one location is involved, *e.g.*, branch office etc., provide the address of the location where the most significant portion of the suspicious transactions occurred. If more than two locations are involved check box 43 and list locations in Part VI.

Item 47-- Central Registration Depository number. See General Instruction B11. If none, leave blank.

Item 48-- SEC number. See General Instruction B11. This is a ten digit number including the prefix of either "8" or "008" depending on the system used. If none, leave blank.

Item 49-- NFA identification number. See General Instruction B11. If none, leave blank.

Item 50-- Dual reporting. If this is a coordinated report involving more than one individual/entity (see "When to file a report Item 3") check the appropriate box and provide the details in Part VI.

Item 51-- Type of reporting institution. Check all boxes that apply to this particular report. If **none** of these categories apply to you, explain in Part VI. The Federal Bureau of Public Debt, its agents, and any other federal agency issuers of Federal Securities should mark "U.S. Government broker/dealer." State or municipal issuers of municipal securities should mark "Municipal broker/dealer." A securities SRO, RFA, or RE-futures entity filing this form should identify the institution type as that of the member institution for which this report is being filed, and in **Part V**, (Items 52, 53, 54, 55, 56, and 57) identify the securities SRO, RFA or RE-futures entity individual to contact.

Part V Contact for assistance

Items 52, 53, and 54-- *Contact individual. See General Instruction B10.

Item 55-- *Title/Position. Enter the job title/position of the contact individual.

Item 56-- *Work telephone number. See General Instruction B9.

Item 57-- *Date report prepared. See General Instruction B8.

Part VI - Narrative *** Suspicious Activity Information** See page 3 of the form for instructions.

Paperwork Reduction Act Notice:

The purpose of this form is to provide an effective means for financial institutions to notify appropriate law enforcement agencies of suspicious transactions that occur by, through, or at the financial institutions. This report is required by law, pursuant to authority contained in 31 U.S.C. 5318(g). Information collected on this report is confidential (31 U.S.C. 5318(g)). Federal securities and futures regulatory agencies and the U.S. Departments of Justice and Treasury, and other authorized authorities may use and share this information. Public reporting and recordkeeping burden for this form is estimated to average 45 minutes per response, and includes time to gather and maintain information for the required report, review the instructions, and complete the information collection. Send comments regarding this burden estimate, including suggestions for reducing the burden, to the Office of Management and Budget, Paperwork Reduction Project, Washington, DC 20503 and to the Financial Crimes Enforcement Network, Attn.: Paperwork Reduction Act, P.O. Box 39, Vienna VA 22183-0039. The agency may not conduct or sponsor, and an organization (or a person) is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Appendix 18

ANTI-MONEY LAUNDERING PRACTICES FOR INSTITUTIONAL CLIENTS

ANTI-MONEY LAUNDERING PRACTICES FOR INSTITUTIONAL CLIENTS

1.0 Introduction 3

PART ONE: UNITED STATES AML REGULATIONS

2.0 What is Money Laundering? 3

3.0 United States AML Regulatory Scheme: The USA Patriot Act.....4

3.1 Anti-Money Laundering Compliance Programs.....4

3.2 Customer Identification and Verification Procedures 4

3.3 Suspicious Activity Reporting (SAR).....6

3.4 Correspondent and Private Banking Account Due Diligence 7

3.5 Prohibitions against Foreign Shell Banks.....7

3.6 Sharing of Information Among Financial Institutions.....7

3.7 Required Recordkeeping under AML CIP Rules.....7

3.8 Comparison with Government Lists..... 8

3.9 Customer Notice 8

3.10 Enhanced Due Diligence for "High-Risk" Clients 10

3.11 Clearing/Introducing Broker Responsibilities.....10

3.12 AML for Intermediary Relationships such as Hedge and Investment Funds 10

3.13 "Red Flag" or indications of AML Suspicious Activity 11

3.14 Willful Blindness 13

PART TWO: CASE STUDIES: INSTITUTIONAL ACCOUNTS

4.0 Case Study: Customer Identity Programs: Institutional Accounts.....13

4.1 Case Study: Suspicious Activity Reporting.....15

4.2 Case Study: Introducing and Clearing Broker Sharing Agreements..... 17

4.3 Case Study: "Willful Blindness" and non-documentary Verification.....18

5.0 Conclusion: Lessons Learned.....21

ANTI-MONEY LAUNDERING PRACTICES FOR INSTITUTIONAL CLIENTS

1.0 Introduction
Under federal law, banks and broker-dealers have been required to establish comprehensive anti-money laundering (AML) programs as of April 24, 2002. In recent years, mutual funds, insurance companies, investment advisers, casinos, and various money services businesses have also been required to establish anti-money laundering programs. The National Association of Securities Dealers (NASD) and New York Stock Exchange (NYSE) have issued rules that set forth the requirements for AML programs as they apply to broker-dealers and stock exchange members. In general, these rules require broker-dealers to establish written AML policies, procedures, and controls as directed by the USA Patriot Act; designation of an AML compliance officer; initiation of an ongoing employee-training program for appropriate personnel; and implementation of independent AML audits by firm personnel or a qualified outside party. AML programs initiated by broker-dealers must be approved in writing by a member of senior management.

The Securities and Exchange Commission (SEC) has also recognized that anti-money laundering compliance programs "will evolve over time" as firms find "new ways to combat money laundering and to detect suspicious activity." As a result, under the direction of federal AML legislation, the US Treasury Department and the SEC will each year issue directives to the financial services self-regulatory organizations (SROs) to implement new procedures in order to combat illegal money-laundering schemes.

PART ONE of this course reviews current AML rules that cover broker-dealers with particular attention to new rules or amendments to rules that occurred in 2006. PART TWO presents case studies, or scenarios, that illustrate the major AML responsibilities that confront broker-dealers and their employees when conducting business with institutional clients.

PART ONE: UNITED STATES AML REGULATIONS

2.0 What is Money Laundering?
First we need a working definition of "money laundering." What is it? And how is money laundered?

"Money laundering" is a term used to identify a range of financial transactions designed to conceal one or more of the following with respect to money:

its identity;
its source; and
destination.

How is money laundered? The process takes place in three stages, known as:

Placement: the point at which illegally-derived funds enter the financial system via investment in a brokerage account, deposit into a savings vehicle, etc.;

Layering: the movement of funds through transactions within the financial system designed to obscure the link between the source of the funds and their return to the legitimate economy; and

Integration: the re-entry of the "laundered" funds into the economy for possible use in the funding of illegal and/or terrorist acts.

Money laundering is big business. Its size is staggering. Current world-wide estimates indicate that between $590 billion and $1.5 trillion, or 2% to 5% of the world's GDP, is laundered annually. The procedures reviewed in this course are designed to identify such illegally-derived funds and to prevent their laundering.

3.0 United States AML Regulatory Scheme: The USA Patriot Act

The USA Patriot Act of 2001, passed in the wake of the September 11, 2001 attack on the United States, expanded the federal government's powers under the Bank Secrecy Act of 1970 to combat money laundering. Under the USA Patriot Act, broker-dealers and other financial institutions as well, are required to (1) establish anti-money laundering compliance programs, (2) report suspicious activity to appropriate agencies of the US Treasury, and (3) develop customer identification programs (CIPs), and (4) maintain certain records. In addition, those broker-dealers handling institutional accounts, especially correspondent accounts and accounts of financial intermediaries, have special due diligence requirements in order to identify beneficial owners of intermediary accounts and to prevent their illicit laundering of funds.

3.1. Anti-Money Laundering Compliance Programs

The AML provisions of the Patriot Act required broker-dealers to establish anti-money laundering programs as of April 24, 2002. The National Association of Securities Dealers and the New York Stock Exchange have issued AML rules that required their members to have AML programs consistent with the directives of the USA Patriot Act.

The Act directed broker-dealers to:

(1) Develop and implement written AML policies and procedures;
(2) Designate an AML compliance office;
(3) Conduct ongoing employee-training programs for appropriate personnel; and
(4) Conduct an independent audit by firm personnel or by a qualified outside party to test the firm's AML procedures.

AML programs implemented by broker-dealers must be approved in writing by a member of the firm's senior management. The Securities and Exchange Commission (SEC) has indicated that these procedures, while they are not cast in stone must be formalized in writing. AML programs will need to "evolve over time" as the industry finds "new ways to combat money laundering and to detect suspicious activity." When evidence of money laundering occurs, broker-dealers must have clearly written instructions in their AML programs directing employees, registered and non-registered alike, to escalate AML issues to the highest levels of the firm as appropriate.

Current rules, which became effective in March of 2006, require broker-dealers to conduct independent tests of its AML compliance procedures. Under the rules, independent testing may be conducted by a person who reports to the designated AML compliance officer when (A) the broker-dealer has no other qualified internal personnel to conduct the test, (B) the broker-dealer establishes written policies to address conflicts that may arise, (C) to the extent possible, the person conducing the test reports the results to a person who is senior, and (D) the broker-dealer documents its rationale.

3.2 Customer Identification and Verification Procedures

The securities industry requirement to "know your customer" is the guiding principle in the development of AML programs. As a result, the centerpiece of a good AML program is the

establishment of a Customer Identification Program (CIP). CIPs enable broker-dealers to verify the true identity of new account holders. CIP procedures for those employees that handle institutional accounts must take into consideration the AML procedures of clearing brokers, introducing brokers, as well as the AML procedures of any financial intermediaries involved.

Customer identification programs must be appropriate for a broker-dealer's size and type of business conducted. They must enable the firm to reasonably determine the true identity of a client that opens an account. A firm's CIP program must be based on the broker-dealer's assessment of the risks presented by the particular account. In assessing client risk, the broker-dealer must evaluate the size, location, customer base, types of accounts and transactions, methods of opening accounts, and types of identifying information available provided by institutional clients.

Federal law requires that CIP procedures insure that certain specified identifying information be obtained from each customer. Broker-dealers CIP programs must, at a minimum, direct their personnel to obtain the following information *prior* to opening an account:

(1) name;
(2) date of birth (for individuals);
(3) residential or business street address for individuals, or principal place of business, local office or other physical location for persons other than individuals; and
(4) identification number

(a) for a U.S. person, taxpayer identification number such as a Social Security Number (SSN);
(b) for a non-U.S. person, a tax payer identification number (TIN), a passport number and country of issuance, an alien identification card number or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard.

In addition to acquiring such account opening information, broker-dealer CIPs must have procedures for *verifying* the authenticity of identification information supplied by a new client. Verification of information gathered at account opening can take place after the account is opened if done so in a reasonable period of time. CIPs must, however, specify ihe amount of time deemed reasonable for the verification of a customer's identity information. Verification can be achieved through the use of both documentary and non-documentary methods.

Documentary evidence: SROs have determined appropriate documents for verifying the identity of customers to include:

- For an individual, an unexpired government-issued identification evidencing nationality, residence, and bearing a photograph or similar safeguard, such as a driver's license or passport; and

- For a person other than an individual, documents that show the existence of the entity, such as certified articles of incorporation, a government-issued business license, a partnership agreement, or a trust instrument.

Neither broker-dealers nor their employees are required to determine whether the document that the customer has provided for identity verification has been validly issued. If the document, however, shows evidence of fraud, the broker-dealer should decline the evidence because it cannot form a reasonable belief that it knows the customer's true identity.

Non-documentary evidence: Regulators and SROs have indicated that appropriate non-documentary methods of identity verification include:

- Contacting a customer;
- Independently verifying the customer's identity through the comparison of information provided by the customer with information obtained from a consumer reporting agency, public database, or other source;
- Checking references with other financial institutions; or
- Obtaining a financial statement.

Situations in which firms should use non-documentary methods of verification include the following: (a) when the customer is unable to present an unexpired government-issued identification document with a photograph or other similar safeguard; (b) when the firm is unfamiliar with the documents the customer presents for identification verification; (c) when the customer and firm do not have face-to-face contact; and (d) any other circumstance that increases the risk that the firm will be unable to verify the true identity through documentary means.

3.3. Suspicious Activity Reporting (SAR)

After accounts have been opened and the identity of the customer verified, broker-dealers have affirmative obligations to report suspicious activities that occur in those accounts. In January of 2003, the United States Treasury Department, through its Financial Crimes Enforcement Network ("FinCEN"), issued rules for reporting suspicious activity that financial institutions, including broker-dealers must abide by.

FinCEN's SAR reporting rules require broker-dealers to issue a SAR-SF report on transactions of at least $5,000 that the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions):

1) involves funds derived from illegal activity, or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity;

2) is designed, whether through structuring or other means, to evade the requirements of the Bank Secrecy Act;

3) has no business or apparent lawful purpose, or is not the sort in which the particular customer would be expected to engage, and the broker-dealer knows of no reasonable explanation after examining the available facts; or

4) involves use of the broker-dealer to facilitate criminal activity. The reporting requirements apply even to transactions that do not involve currency.

Broker-dealers are to report suspicious activity on a form "SAR-SF" with FinCEN. The SAR must be filed within 30 days of the broker-dealer becoming aware of facts that may constitute a basis for filing. If a firm is unable to identify a suspect, filing may be delayed for an additional 30 days in order to identify a suspect. In situations involving violations that require immediate attention, such as terrorist financing or ongoing money laundering schemes, the broker-dealer must immediately notify the appropriate law enforcement agency by telephone in addition to filing a SAR-SF report.

The rule requires firms to maintain copies of all SARs filed and the original supporting documentation for five years from the date of the filing. In addition, the supporting documentation must be made available to law enforcement or authorized regulatory agencies and the SROs for purposes of examining for compliance with the rule. Firms that file a SAR-SF are

prohibited from notifying any person involved in the transaction that the SAR has been filed. This prohibition does not apply to requests from law enforcement or regulatory agencies.

Broker-dealers that file SAR-SFs are protected from liability for reporting the suspicious activity and for failing to disclose such reporting.

Currency Transaction Report (CTR): Broker-dealers, just like commercial banks, must file what is call a Currency Transaction Report when a client makes a currency transaction exceeding $10,000 in a single banking day. A brokerage house employee who processes such a transaction must complete a CTR immediately following the transaction and have their supervisor review it. The forms must be completed and filed on each deposit, withdrawal, currency exchange, or cash wire transfer over the $10,000 limit. Multiple transactions totaling more than $10,000 of currency in one business day must be counted as one transaction, and reported accordingly. Used in this context, currency means cash, coins, or other monetary instruments that transfer ownership solely by transfer of physical possession of the instrument. Keep in mind that CTRs are not suspicious activity reports (SARs) and involve the deposit or transfer of currency as opposed to securities.

3.4 Correspondent and Private Banking Account Due Diligence

The AML programs of those institutions that conduct business with correspondent accounts have additional responsibilities that require them to establish (1)special due diligence policies, procedures and controls to detect money laundering activities of those clients that have correspondent accounts with foreign financial institutions; (2) provide enhanced due diligence policies, procedures and controls for correspondent accounts for foreign banks with offshore banking licenses and for all banks licensed by jurisdictions that have been determined to pose a high risk of money laundering; and (3) design due diligence policies, procedures and controls for accounts for foreign "private banking" clients, including "senior foreign political figures." A correspondent account is an account established to receive deposits from, make payments on behalf of another financial institution, or handle other financial transactions related to such an institution.

3.5 Prohibitions against Foreign Shell Banks

AML law prohibits U.S. financial institutions from providing correspondent accounts to foreign shell banks. Keep in mind that a foreign shell bank is a bank that does not have a physical presence in any country. The USA Patriot Act prohibits United States financial institutions from conducting transactions with such banks, with the exception of shell banks that are affiliates (under the control) of a bank that has a physical presence in the U.S. or if the foreign shell bank is subject to supervision by a banking authority in the non-U.S. country regulating the affiliated depository institution, credit union, or foreign bank. In addition, United States AML regulations require financial institutions to take reasonable steps to ensure that correspondent accounts are not used indirectly for foreign shell banks. United States institutions must maintain records for all correspondent accounts in the U.S. for a foreign bank that identify the owners of each foreign bank whose shares are not publicly traded and the foreign bank's U.S. agent authorized to accept service of legal process.

3.6 Sharing of Information Among Financial Institutions

AML regulations require broker-dealers to cooperate with other financial institutions, regulators, and law enforcement in their efforts to prevent money laundering and terror financing. Under the regulations, Treasury's Financial Crimes Enforcement Network, acting on behalf of a federal law enforcement agency investigating money laundering or terrorist activity, may require a broker-dealer to search its records to determine whether it maintains or has maintained accounts for, or has engaged in transactions with, named individuals, entities, or organizations. AML regulations also require broker-dealers to have procedures for voluntary information sharing between other broker-dealers and financial institutions. The sharing of information must be for the purpose of identifying and reporting activities that may involve money laundering or terrorist activity. A firm that shares information pursuant to the regulations is protected under the Patriot

Act from any liability for sharing such information or for any failure to provide notice of such sharing to those under suspicion.

A financial institution that intends to share information must file a notice with FinCEN using the form set forth in the regulations. Broker-dealers are required to submit a new form to FinCEN each year and to take reasonable steps to verify that the institution with which it intends to share information has also filed the required notice with FinCEN.

3.7 Required Recordkeeping under AML CIP Rules

AML regulations require both the creation of records concerning the verification of a customer's identity and their retention. These records must include all identifying information that was obtained to verify the customer's identity.

Records must contain a description of any document used to verify the customer's identity and note all of the following:

type of document, i.e. passport, driver's license, etc.;
identification number, if any, on the document;
place the document was issued;
date of issuance and expiration, if any, of the document.

When the method used to verify the customer's identity is non-documentary, the broker-dealer's records must contain a description of the methods used and the results of any measures used to verify the customer's identity.

In some cases, the individual verifying a customer's identity may find a discrepancy. For example, date and/or place of birth may differ from one document or non-documentary source to another. In such a case, CIP rules require that the customer's record contain a description of how each substantive discrepancy found was resolved. (A *substantive* discrepancy is one that may have a direct bearing on the verification of a customer's identity, in contrast to one that may be only a typographical error.)

Broker-dealers are required to retain customer-identity verification records for the following periods:

- Identification information must be retained for five years after the customer's account is closed; and
- Records made about information verifying a customer's identity must be retained for five years after the record is made.

3.8 Comparison with Government Lists

The Office of Foreign Assets Control (OFAC) is a government agency that assists in implementing U.S. foreign policy and national security goals by administering and enforcing economic and trade sanctions against targeted foreign countries, organizations that sponsor terrorism, and international narcotics traffickers. OFAC compiles lists of known or suspected terrorists and terrorist organizations.

Broker-dealers are required to check with OFAC on an ongoing basis to ensure that potential customers and existing customers are not prohibited persons or entities and are not from embargoed countries before transacting any business with them. The NASD provides brokers with an automated method of checking OFAC lists at the following link: http://www.nasd.com/ofac.

Brokerage houses that conduct business with institutional financial intermediaries, such as hedge funds, partnerships, introducing brokers, etc., must take special steps to determine whether the participants in such accounts are on OFAC's lists.

3.9 Customer Notice

Broker-dealers must provide notification to customers that the broker-dealer must request information to verify the customer's identity. The notice must be provided to customers before the account is opened and must generally describe the firm's customer identification requirements. Broker-dealers must provide such notice in such a manner that customers are readily able to view the notice before opening an account.

For example, firms may post a notice in its lobby or on its web site, or it may include the notice on its account applications. The following is a sample of such notice:

Important Information About Procedures for Opening a New Account

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you:

When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

3.10 Enhanced Due Diligence for "High-Risk" Clients

Depending upon the type of client and the location, certain clients require enhanced due diligence. The two most obvious types of accounts that possess heightened risk for you and your firm are accounts of "politically exposed persons" (PEPs) and accounts located in "high-risk jurisdictions." What do these terms mean?

Politically Exposed Person: A politically exposed person is defined, for anti-money laundering purposes, as a senior foreign political figure. A senior foreign political figure may be a person who is, or was, a prominent public official of a foreign country, such as heads of state, senior government judiciary or military officials, or senior executives of foreign government-owned corporations. Immediate family members of such figures should also be considered as a PEP.

High-risk jurisdiction: A high-risk jurisdiction are those jurisdictions that the government and international organizations such as the Financial Action Task Force (FATF) have designated as high risk for money laundering and terrorist financing due to weak regulatory schemes and limited enforcement efforts. The FATF is not a United States government agency, but an international agency whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing

In addition, your firm may have its own specific list of high-risk areas that must be consulted at the account opening stage.

Enhanced due diligence efforts may involve the following:

- For accounts of foreign corporations, the broker should obtain audited financial statements and passports of officers, directors, and beneficial stockholders
- Make an extensive review of public databases
- Review foreign press reports on the company and its officers and directors

- Where possible check with professionals who conduct business with the corporation
- Visit or have a responsible representative visit the corporation's place of business

Broker-dealers operating in the United States are prohibited from doing business with clients operating in countries in which the United States has imposed economic sanctions. As an integral part of enhanced due diligence, account personnel must check with the OFAC lists of SDN and embargoed countries.

3.11 Clearing/Introducing Broker Responsibilities
While NASD Rule 3230 requires introducing and clearing brokers to share AML responsibilities, the NASD, has, however, indicated that the introducing broker because of its primary relationship with the client has the best opportunity to know the client and as a result is the first line of defense against AML activities. Nevertheless, introducing and clearing firms must work together in exchanging information, records, date and exception reports as necessary to comply with AML laws. Institutional firms must file and keep updated the necessary annual certifications for such information sharing. In general, clearing firms monitor customer transaction activity on the introducing broker's behalf while the introducing broker provides clearing firms with verified customer identification information. In short, both introducing brokers and clearing brokers have joint responsibilities under AML laws.

3.12 AML for Intermediary Relationships such as Hedge and Investment Funds
Investment funds, such as hedge funds are generally established for trade execution purposes and therefore maintain limited relationships with the broker-dealer executing the trades. Nevertheless broker-dealers are required to perform AML due diligence appropriate to the nature of the account.

While the considerations are different, broker-dealers' responsibility to know their customers remains much the same as that required for individual accounts. For institutional accounts, broker-dealers should ascertain those areas of its business in which the likelihood of suspicious activity would be greater. Such an evaluation should serve as the basis for determining the amount of customer identification and monitoring required.

Under current SRO rules, a broker-dealer should consider the following factors in assessing the risk posed by an institutional customer acting on behalf of others:

- Whether the customer has established anti-money laundering policies
- whether the broker-dealer has historical experience with the institution
- Is the institution a registered financial institution based in a regulated financial center or is a registered financial institution located a country that is a member of the Financial Assets Task Force (FATF)
- Does the institution have a reputable history in the investment business
- Does the institution conduct business from a jurisdiction characterized as a non-cooperative country by the Office of Foreign Assets Control.

3.13 "Red Flags" or indications of AML Suspicious Activity
SROs have identified a number of money laundering signs called "red flags" that indicate possible money laundering or suspicious activity. When any of the following red flags occur, brokerage employees should initiate the appropriate due diligence before proceeding with a transaction. In addition, a firm's AML program should have clearly written procedures to escalate a red flag to the highest appropriate level of management.

Here are the red flags to be on the lookout for:

1. The customer exhibits unusual concern regarding the firm's compliance with government reporting requirements and the firm's AML policies, particularly with respect to his or her identity, type of business and assets, or is reluctant or refuses to reveal any information concerning business activities, or furnishes unusual or suspect identification or business documents.
2. The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business strategy.
3. The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
4. Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
5. The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.

6. The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs.

7. The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.

8. The customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.

9. The customer attempts to make frequent or large deposits of currency, insists on dealing only in cash equivalents, or asks for exemptions from the firm's policies relating to the deposit of cash and cash equivalents.

10. The customer engages in transactions involving cash or cash equivalents or other monetary instruments that appear to be structured to avoid the $10,000 government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds.

11. For no apparent reason, the customer has multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers.

12. The customer is from, or has accounts in, a country identified as a non-cooperative country or territory by the Financial Action Task Force (FATF).36

13. The customer's account has unexplained or sudden extensive wire activity, especially in accounts that had little or no previous activity.

14. The customer's account shows currency or cashier's check transactions aggregating to significant sums.

15. The customer's account has a large number of wire transfers to unrelated third parties inconsistent with the customer's legitimate business purpose.

16. The customer's account has wire transfers that have no apparent business purpose to or from a country identified as a money laundering risk or a bank secrecy haven.

17. The customer's account indicates large or frequent wire transfers, immediately withdrawn by check or debit card without any apparent business purpose.

18. The customer makes a funds deposit followed by an immediate request that the money be wired out or transferred to a third party, or to another firm, without any apparent business purpose.

19. The customer makes a funds deposit for the purpose of purchasing a long-term investment followed shortly thereafter by a request to liquidate the position and transfer of the proceeds out of the account.

20. The customer engages in excessive journal entries between unrelated accounts without any apparent business purpose.

21. The customer requests that a transaction be processed in such a manner to avoid the firm's normal documentation requirements.

22. The customer, for no apparent reason or in conjunction with other "red flags," engages in transactions involving certain types of securities, such as penny stocks, Regulation S stocks, and bearer bonds, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.)

23. The customer's account shows an unexplained high level of account activity with very low levels of securities transactions.

24. The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent business purpose or other purpose.

25. The customer's account has inflows of funds or other assets well beyond the known income or resources of the customer.

These "red flags" are not exhaustive of all types of money laundering but they should alert brokerage personnel to those activities which warrant AML due diligence.

3.14 Willful Blindness

One of the most significant aspects of anti-money laundering law is the concept of "willful blindness." Even if a brokerage firm and its employees do not have direct knowledge of the illegal nature of the proceeds involved in a transaction, the firm and the employee may be liable for money laundering if the transaction raised red flags without the firm or the employee conducting the proper investigation. What this means is that if an employee, such as an institutional account executive, avoided learning the facts generated by red flags, law enforcement officials may impute constructive knowledge and thereby find the employee and the firm guilty of aiding and abetting money laundering.

United States case law has established willful blindness to be the conscious avoidance of the truth when circumstances indicate a high probability that criminal activity has occurred. Willful blindness is sufficient to establish the knowledge necessary to convict a person of participating in a money-laundering transaction.

The remainder of this course will illustrate through case study scenarios the AML regulations outlined in PART ONE with emphasis on procedures that may protect brokers and their institutional account executives from civil and criminal liability for money laundering whether through willful blindness or direct knowledge. Compliance with the AML laws and vigorous supervision on the part of senior management and designated compliance personnel is the best defense.

PART TWO: CASE STUDIES: INSTITUTIONAL ACCOUNTS

4.0 Case Study: Customer Identity Programs: Institutional Accounts

[Icon --Case Study]

Account Opening:

John Lartel is both a senior partner and an institutional account representative at Lartel, Jones, and Liggati, Inc., a broker-dealer licensed to do business in several states including its home state of Florida. John Lartel, as one of the senior sales representatives as well as a senior partner of the firm that bears his name, conducts business with numerous institutional accounts such as hedge funds and investment advisers located both in the United States and Europe.

One of John's Lartel's long-standing clients, International Investments Limited (IIL), a registered investment adviser located in London, England, referred JStar Partners to Lartel. JStar Partners is a hedge fund whose business office is also located in London. Ted Spore, the authorized trader on the IIL account that referred JStar to Lartel, is married to the daughter of a former president of a government-owned corporation in the Middle-Eastern country of Tadiskhan. The investors in JStar are also located in Tadiskhan, a country listed by OFAC as an uncooperative jurisdiction. The authorized trader and partner with responsibility over the JStar's account is Parish Kladic, who is the son of the current prime minister of Tadiskhan. Ted Spore has known Kladic for over twenty years and in fact attended Kladic's wedding in Tadiskhan. JStar has employed IIL's investment advisory services for several years. IIL is properly registered as an investment adviser in London and is a federal covered investment adviser in the United Sates with offices in Florida, and is properly registered with the U.S. Securities Exchange Commission. IIL has comprehensive AML and CIP programs that are in compliance with United States and British regulations.

John Lartel contacts Kladic in order to obtain the requisite account opening information for the hedge fund. Kladic, however, refused to divulge the names, occupations, identification numbers, and addresses of any of the partners, officers or directors of the hedge fund other than himself, citing confidentiality considerations. Kladic provided Lartel with his personal identification documents that included his personal tax identification number, name, address, and date of birth. Lartel requested that Kladic also provide a valid government-issued business license and a partnership agreement authorizing Kladic to trade in the name of JStar. Kladic did so with the names of the other partners blacked-out. Kladic also provided Lartel with JStar's audited financial statements as well as a copy of his passport that contained his photograph.

Since IIL had done business with JStar over the years, Lartel inquired of Ted Spore whether IIL had CIP and AML procedures that were compliant with US standards. Spore said "yes" and reminded Lartel that IIL was a registered investment adviser in the United States as well as in England. Spore indicated to Lartel that IIL had not had any money laundering issues with respect to JStar over the years. In short, Spore gave a clean report on JStar and also informed Lartel that IIL was in compliance with US AML regulations.

Lartel forwarded all his JStar account opening identification information to his Compliance Department as is required by his firm's written procedures spelled out in the firm's compliance manual. Lartel opened the account satisfied that he had complied with the all US AML and CIP regulations, especially as they applied to institutional customers such as JStar. One day after Lartel had received the account opening documents, JStar wired $25,000,000 to Lartel, Jones and Ligatti's custodial bank in London.

Review: The Account Opening: CIP Considerations

Did Lartel obtain a client identification number acceptable under current NASD CIP rules?

Does the account require enhanced due diligence?

At the account opening should Lartel have given the green light to JStar to wire the $25,000,000 ?

Did Lartel make any significant effort to verify the client's existence by non-documentary means?

Answers to case study reviews

Review: The Account Opening: CIP Considerations

Did Lartel obtain a client identification number acceptable under current NASD CIP rules?

Yes. Lartel obtained the passport number of the authorized person with responsibility for the account, in this case JStar's authorized manager/trader, Parish Vladic. CIP rules require identification information of the client be verified in a number of ways. When the client is a corporation or partnership, such as the case with JStar, verification of the person with authority over the account is an acceptable method of client identification when it is not possible to identify the beneficial owners of the account. In addition, Lartel obtained the business license number, address, and partnership agreement of JStar itself.

In addition to CIP AML regulations, Lartel must also obtain the required account information required by NASD Rules 2110 (Standards of Commercial Honor and Principles of Trade), 2310 (Recommendations to Customers—Suitability), and 3110 (Books and Records), and SEC's Rules17(a)-3(a)(17) (Customer Accounts).

Does the account require enhanced due diligence?

Yes. Although the account is located in London, the names of the partners have been blocked out which should raise suspicion on Lartel's part. In addition, Kladic should be considered a politically exposed person because he is related by marriage to an immediate family member of a prominent political figure in Tadiskhan, a non-cooperative country designated by OFAC. This is a crucial red flag that requires enhanced due diligence.

At the account opening should Lartel have given the green light to IIL to wire the $25,000,000?

No. While CIP rules allow for a reasonable amount of time for broker-dealers to verify documents clients provide for identification purposes, Lartel did not check with OFAC to determine whether Kladic was a Specially Designated National and whether Tadiskahn was a country on which the government had placed trading and economic sanctions.

Lartel could have easily checked by using the NASD's automated method of checking OFAC lists by simply logging on to www.nasd.com/ofac. Had Lartel complied with US AML regulations, as well as his firm's compliance procedures, he would have known not to open the account.

In defending himself against AML prosecution, Lartel cannot rely on the fact that IIL, the investment manager that referred JStar to Lartel, had AML procedures that were in compliance with US standards. Once the account is opened with Lartel, Jones, and Ligatti, Inc., Lartel has primary responsibility for determining the account's identify. He cannot rely on IIL for cover. As it turns out, both IIL and Lartel had conflicts of interest that may have prevented them from full compliance with AML regulations. Willful blindness must have been at work here.

Did Lartel make any significant effort to verify the client's existence by non-documentary means?

Yes. Lartel checked with another financial institution, IIL. IIL supported the information provided by JStar. Furthermore, IIL indicated that its customers are subject to AML and CIP procedures consistent with US AML regulations. In fact, IIL's functional regulator in the United States is the SEC. In addition, as time went by, Lartel visited JStar's place of business in London.

Unfortunately, at the commencement of the account, Lartel did not employ such non-documentary verification methods such as checking with third-party databases and investigating press reports which would have revealed the relationship of Vladic to the prime minister of Tadiskhan. Lartel should also have known that Ted Spore also was related by marriage to a prominent figure in Tadiskhan and that Tadiskhan was listed as an uncooperative jurisdiction by OFAC.

[End of Case Study—*Account Opening: CIP Considerations]*

4.1 Case Study: Suspicious Activity Reporting

[Case Study –Icon]

Wire Transfers

Over the next year, Lartel maintained good relations with Kladic, the authorized trader at JStar. During this time Josic Kladic and Lartel frequently discussed the investment objectives of the fund, the types of clients invested in the fund as well as the fund's investment strategies . Kladic had informed Lartel that the objective of the fund was to secure long-term capital appreciation through the purchase of undervalued securities and taking off-setting positions in undervalued securities. In order to retain a certain level of funds in the fund, the partnership agreement restricted partner's withdrawal to 20% of their initial investment once every two years. Income and capital gains were to remain in the partnership.

Kladic normally executed trades through Lartel, Jones and Liggati, Inc. in amounts totaling approximately $5,000,000 on a weekly basis. No wire transfers to investors or partners were made, a practice consistent with the rules of the hedge fund as revealed by Vladic and the partnership agreement itself. A major American global custodian bank with offices in New York City and in London, Global Bank Custodians Ltd, acted as custodian for Lartel's foreign customers, including JStar. Lartel, Jones and Ligatti had entered into a correspondent banking agreement with Global Bank Custodians Ltd. that provided for information sharing between the two institutions as required by US AML regulations.

Beginning in late June, almost a year and one half after Kladic had opened the account, Kladic instructed Lartel to initiate on a weekly basis a series of wire transfers of funds in the amount of $25,000 from Lartel's custodian bank to various accounts at a correspondent bank in Tadiskahn After about five months of such transfers, an AML compliance officer at Lartel, Jones and Ligatti, Inc. called John Lartel to inquire about the nature of the wire transactions because Lartel, Jones and Ligatti had been informed that a SAR-SF report had been issued on JStar by its global custodian bank in London. Lartel indicated that he would immediately check on the purpose of these transactions.

Lartel called Kladic telling him that Lartel, Jones and Ligatti's Compliance Department had been informed that its custodial bank had submitted a SAR-SF report on JStar to FinCEN, a agency of the U.S. Treasury Department that tracks money laundering activity. Kladic informed Lartel that the funds were withdrawn in payment of routine office expenses and to return profits from invested funds to the partners. Lartel, in turn, assured Kladic that the SAR investigation was

routine and not to worry because thousands of these reports are issued each day. Since there was a legitimate business purpose behind the transfers, Lartel ensured Vladic that there would be no problem.

Review: Wire Transfers

Were Lartel's efforts to determine the business purpose of the $25,000 adequate under the circumstances?

Did Lartel violate any AML regulations in his discussions with Kladic?

Was there any other evidence of inadequate AML procedures or controls at Lartel, Jones, and Ligatti, Inc.?

Answers to case study reviews

Review: Wire Transfers

Were Lartel's efforts to determine the business purpose of the $25,000 adequate under the circumstances?

No. Kladic's explanation was not adequate. Lartel should have inquired more thoroughly. The explanation does not seem plausible. Why would Kladic wire transfer $25,000 in cash to a correspondent bank in Tadiskhan in order to pay routine office expenses for its business located in London. Furthermore, Lartel should also have been suspicious of these transfers because they were inconsistent with the business purposes of the fund. According to the partnership agreement investment funds were to be reinvested in the fund, not distributed to the partners. Since Lartel had gotten to know his client, he should have used the insight he gained to recognize such withdrawals as a suspicious activity or red flag. It should not have taken either his compliance department or himself five months to inquire about the $25,000 transfers. AML compliance monitoring procedures at Lartel, Jones, and Ligatti ,Inc. were either inadequate or not complied with.

Did Lartel violate any AML regulations in his discussions with Kladic?

Yes. Under US AML regulations, financial institutions, such as broker-dealers, are prohibited from alerting, or "tipping off", clients with respect to AML investigations. US regulations, in fact, protect financial institutions from liability for lack of disclosures in just such situations.

Was there any other evidence of inadequate AML controls at Lartel, Jones, and Ligatti, Inc. with respect to the wire transfers?

Yes. Lartel, Jones and Ligatti, Inc. had inadequate AML controls for monitoring wire transfers. In addition, Lartel should have questioned the purpose of the transfers more closely because they were not consistent with the investment objectives of the partnership. Both the Compliance Department and Lartel himself should have investigated JStar more thoroughly. From the start, they should have used non-documentary methods to verify the identity of Kladic and the partners of JStar. They should have checked press reports and both public and private databases as well as with OFAC.

4.2 Case Study: Introducing and Clearing Broker Verification and Information Sharing Agreements

[Case study—Icon]

Verification and Information Sharing between financial institutions

John Lartel had properly submitted account opening documents to Peter LaGrant, international accounts manager in Lartel's compliance department. LaGrant, a relatively new hire, reported to John Lartel, who was both the senior partner for institutional sales as well as the designated senior AML Compliance Officer for the firm. When Lartel turned the customer identification documents over to LaGrant, he informed LaGrant that he had a long-standing relationship with Ted Spore, the partner at IIL that had referred Kladic to Lartel. Lartel informed LaGrant that JStar had been properly scrutinized by the AML procedures at IIL, an investment manager subject to both British and American functional regulators. Lartel also informed LaGrant that the custodial bank, Global Custodians Ltd, was in compliance with all US and UK AML regulations and as a result LaGrant was not required to verify the customer's identity. As LaGrant's boss, Lartel, in fact, had directed LaGrant not to conduct any due diligence on the JStar account.

In addition, Lartel, Jones and Ligatti, Inc. used JMS Brokers Inc. (JMSBI), one of the largest brokerage houses in the United States as its clearing broker. Lartel informed LaGrant that Lartel, Jones and Ligatti also works closely with its clearing firm to detect money laundering and that it had agreements with JMSBI to exchange information, records, data and exception reports as required by US with AML laws. Both firms have filed the necessary annual certifications for information sharing with FinCEN. The agreement required Lartel, Jones and Ligatti, Inc., the introducing broker, to monitor customer AML activity, particularly the CIP aspect because Lartel, Jones and Ligatti, Inc., was the first line of defense because it has the primary relationship with customers.

Review: Verification and Information Sharing between financial institutions

Does it appear that the introducing broker and clearing brokers have initiated the proper information sharing agreement?

Can a senior partner of a brokerage firm who handles accounts be allowed to be the designated AML compliance officer?

Answers to Case Study Reviews

Review: Introduction and Clearing Broker Verification Agreements

Does it appear that the introducing broker and clearing brokers have initiated the proper information sharing agreement?

> Yes. NASD rules require that introducing and clearing brokers share responsibility for AML compliance. Since the introducing broker has the primary relationship with the customer, the NASD stipulates that the introducing broker should be the first line of defense because they are the ones with the primary account relationship and are in a better position to know and understand their customers. The clearing broker should also have automatic methods for screening transactions of introducing brokers with those of other institutions to detect suspicious activity that would not be apparent to the introducing broker alone.

Can a senior partner of a brokerage firm who handles accounts be the designated AML compliance officer?

Yes. NASD regulations allow a senior partner to be the designated AML officer. Lartel is well trained for the position and has both the experience and knowledge of AML regulations. He is also a member of the National Society of Compliance Professionals. In Lartel's case, however, there are conflicts of interest. The junior compliance manager, LaGrant reports to Lartel with Lartel in a position to discourage LaGrant's AML inquiries if they affect Lartel's personal clients.

Lartel, as designated AML Compliance Officer, must ensure that independent AML tests of the firms AML procedures be conducted on an annual basis. Lartel can instruct LaGrant to conduct the required independent tests. Since LaGrant reports to Lartel, the results of the independent tests must be reported to an authorized senior executive other than Lartel. Lartel could have avoided this conflict of interest by retaining an outside firm to conduct the annual audits and to report the results to Lartel as well as another senior manager of the firm.

4.3 "Willful blindness" and non-documentary verification procedures.

Ongoing account relationship

John Lartel flew to London frequently to meet with Ted Spore and Josif Vladic. In addition, John Lartel got to meet two of the other partners in the hedge fund. Like Vladic, they were from Tadiskhan. Lartel was surprised to learn that there were so many wealthy people in Tadiskhan, a small agricultural country.

Vladic, as well as the other two partners, told Lartel that they were changing the disbursement rules of the fund because they had built up a sizeable amount of investment funds. The partners indicated that they would have Lartel wire $5,500 every other day to six separate accounts at the Tadiskhan Bank Ltd, a foreign shell bank. Lartel agrees. The $5,500 transfers begin shortly after the letters of authorizations and settlement instructions were received.

Over the years Lartel got to know Vladic quite well. John Lartel stayed with Vladic and his family during his visits to London and, on occasion, vacationed with the Vladic family on the Island of Ohman, a country under sanctions on the OFAC list of embargoed countries. As business relations intensified, Vladic provided Lartel with sizable gifts in appreciation for the services Lartel had supplied over the years. Lartel declared the gifts and paid appropriate taxes in the United States.

After their last vacation, Lartel and Vladic decided that it would make good business sense to open the fund up to American investors through a "master/feeder arrangement. A master/feeder structure is one in which assets from domestic and offshore "feeder" funds are put into a "master" fund which serves as the investment entity for the feeder funds. Lartel went through the legal process of establishing a hedge fund in Florida that would serve as a United States domestic feeder fund to the master feeder fund managed by Vladic. JStar Partners in London was structured as the offshore feeder fund to the master fund.

The US hedge fund in which John Lartel himself was a partner complied with all US AML regulations. AML regulations covering hedge funds are similar to those covering broker-dealers in general. Lartel established the US hedge fund feeder arrangement for the tax benefits that accrue to US investors. Under this structure, US investors are taxed as investors in a partnership rather than as investors in a foreign passive investment company (PFIC). Under United States tax law, PFICs are subject to significantly more onerous taxes than are partnerships. In addition, Lartel personally knew all of the investors in the fund and was familiar with the sources of their funds. They were successful businessmen in Florida who used the profits from their businesses to invest in the fund.

Over the course of the years, the domestic hedge fund, Domestic Investors Limited Partners (DILP), raised millions of dollars for investment in the master/feeder fund managed by Vladic. DILP directed all of its trades through Lartel, Jones and Ligatti which in turn executed its trades through its clearing broker JMSBI. All funds and securities of DILP were held at the Lartel, Jones and Ligatti's custodial bank. John Lartel would routinely wire funds from the custodian bank to various banks overseas as directed by the partnership.

Press reports surfaced in the newspapers that international law enforcement agencies had indicted Vladic and his relatives for embezzlement of Tadiskhan's government funds and for involvement in drug trafficking linked to the funding of terrorist activity. For years John Lartel was suspicious of the source of funds invested in JStar but he was surprised to learn of the partners' involvement in the financing of terrorism.

Review: Ongoing account relationship

Where there any violations of US AML regulations involved in Lartel's setting up a domestic hedge fund?

Were any red flags raised in the transfer of funds from the partnership accounts at JStar to the separate correspondent banking accounts in Tadiskhan?

Did either of the two feeder funds, the domestic hedge fund or JStar Partners in London, require enhanced due diligence?

What were the responsibilities of the clearing and introducing broker in this case?

Is there any evidence of willful blindness of the part of John Lartel?

Answers to Case Study Reviews

Review: Ongoing account relationship

Where there violations of US AML regulations in Lartel's setting up a domestic hedge fund and was enhanced due diligence required of the domestic hedge fund ?

No. It appears that in setting up the domestic hedge fund, Domestic Investors Limited Partners, Lartel had complied with US CIP regulations. Hedge funds have the same CIP requirements as broker-dealers. Lartel has dual AML responsibilities in this case. He must do the both AML due diligence as an institutional broker at Lartel, Jones and Ligatti as well as a managing partner of the domestic hedge fund. On the surface, AML CIP procedures were followed. Identification documents of the American investors were properly verified in full compliance with US AML regulations. In the case of the domestic partners, Lartel knew his customers.

In addition, unlike JStar, the offshore feeder fund, there is no evidence that enhanced due diligence is required for determining the identities of the investors in the domestic feeder fund, DILP.

Nevertheless, there is a conflict of interest here because John Lartel is the designated AML compliance officer at Lartel as well as a partner with trading authorization at a hedge fund doing business with Lartel, Jones and Ligatti. When the annual independent compliance testing is conducted at Lartel, Jones and Ligatti, the results of the tests involving accounts over which John Lartel has responsibility must be reported to a senior partner at the firm other than Lartel.

Were any red flags raised in the transfer of funds from the partnership accounts at JStar to the separate correspondent banking accounts in Tadiskhan?

Yes. Red flags were raised when the JStar partnership instructs Lartel's custodial bank to wire funds to correspondent accounts in a shell bank in an uncooperative country. Since the correspondent bank is a foreign shell bank, the transfers are prohibited under US AML regulations. If the correspondent bank was a regulated correspondent bank in a country not on OFAC's list the transfers in all likelihood would have been legal.

What were the responsibilities of the clearing and introducing broker adequately difinedin this case?

Yes. Both Lartel, Jones and Ligatti and the clearing broker in New York had provisions in their clearing agreement for sharing required AML information. A SAR-SF should, however, have been filed by one of these institutions because the wire transfers were not consistent with the purposes of the partnership. Since Lartel, Jones and Ligatti had the primary account relationship, it should have issued a SAR-SF. Had the firms adequately shared information, the clearing broker should have recognized that it was also doing business with accounts for members in the JStar partnership who were on OFAC's SDN list. Had an adequate clearing arrangement been in effect, John Lartel would have learned upon the account opening that there were SDNs in the partnership run by Vladic. Such information should have sent up a red flag at the beginning and a SAR-SF report issued. The account should never have been opened.

Did either of the two feeder funds, the domestic hedge fund, Domestic Investors Limited Partners, or the offshore feeder,Star Partners in London, require enhanced due diligence?

Yes. The JStar account involved a senior foreign political figure. Ted Spore, the institutional trader at International Investments Limited in London who referred the account to Lartel is married to the daughter of the president of a government-owned corporation in Tadiskhan.

From the beginning, Lartel should have checked with OFAC. Had he done so he would have immediately determined that Tadiskhan was designated an uncooperative country and that Parish Vladic was on OFAC's list of SDNs. Lartel's AML compliance testing and monitoring procedures were inadequate or not properly complied with as a result of Lartel's instructions to LaGrant not to conduct CIP due diligence. Conflicts of interest or complicity may have contributed to the AML compliance break down.

Enhanced due diligence is not required of the domestic hedge fund because the fund's investors are all domestic citizens of the United States. Note that both JStar and DILP Partners are separate legal entities or feeder funds contributing capital to a master feeder fund.

Is there any evidence of willful blindness on the part of John Lartel?

Yes. Lartel has put himself and his firm in serious legal jeopardy of substantial civil liability and criminal penalties. He should have recognized the danger from the beginning because the account presented evidence of suspicious activity and should have been subjected to enhanced due diligence under the AML compliance program established by the firm. John Lartel avoided checking with OFAC at the outset and had not done sufficient non-documentary verification of clients' identity once the account was opened. Vladic's refusal to identify the investors in the partnership presented a giant red flag that Lartel chose to ignore. In addition, Lartel should have been aware of press reports on the

corruption in Tadiskhan. Lartel had gotten to know Valdic and two other partners over the years, even vacationing with them. Over time he certainly was familiar with the family backgrounds and recognized that he was dealing with a partnership whose beneficial owners resided in an embargoed country. John Lartel's pecuniary interests consciously beclouded his judgment and as a result he was complicit in an elaborate money laundering scheme which had in fact enriched him over time.

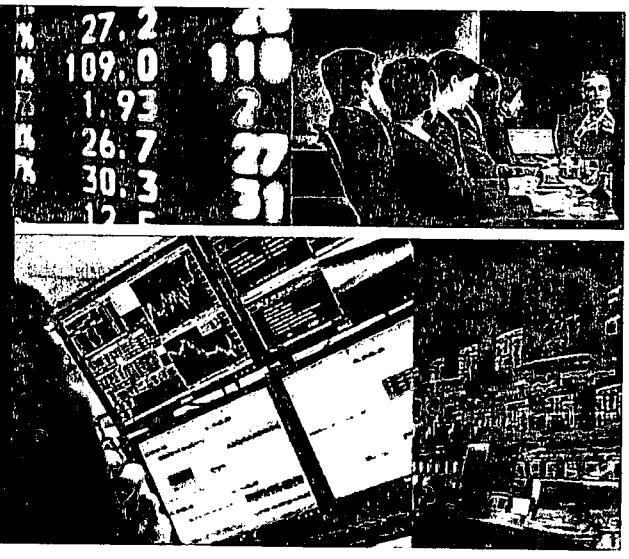
5.0 Conclusion: Lessons Learned

Broker-dealers engaged in institutional business have serious CIP and AML responsibilities. While regulations for conducting retail and institutional business are alike, broker-dealers who conduct an institutional business have special responsibilities to determine the identity of those whose funds they handle through financial intermediaries such as hedge funds, investment managers and introducing brokers. Broker-dealers cannot solely rely on correspondent banks and clearing brokers to provide the requisite monitoring of accounts for suspicious activity. Since broker-dealers in these situations are the front line of defense in the effort to prevent money laundering, they bear the primary responsibility to know the customer. Account transactions need to be monitored and reports shared between clearing brokers, introducing brokers, and correspondent banks in order to identify patterns of suspicious activity.

"Know your customer" is the reigning principle. Every effort needs to be made to verify customer identity and to monitor transactions for consistency with the objectives of the account. Failure to comply with AML regulations under the guidance of this principle can result in willful blindness, subjecting the firm and its personnel to substantial civil liabilities and criminal penalties.

Appendix 19

MF Global®



MF Global Ltd
Bermuda

Enterprise Risk Policy

[GRD 3] 2009-04-29

April 2009

The Risk Policy is confidential to MF Global and no copies made of the policy or any part thereof may be removed from company business premises without the prior written permission of the senior manager in the location concerned.

Contents

1. Introduction 1
1.1. Introduction and Risk Definitions 1
1.1.1. Introduction 1
1.1.2. Definitions of Risks 1
1.2. Context for Risk Policy 2
1.2.1. Business Overview 2
1.2.2. Legislative and Regulatory Context 3
1.2.3. Other Requirements 3
1.3. Purpose and Objectives of Policy 3
1.3.1. Purpose of the Enterprise Risk Policy 3
1.3.2. Overall Objectives of the Risk Policy 3
1.3.3. Regional Variation 4
1.4. Structure, Scope, Sponsorship, Authority and Approval of the Enterprise Risk Policy 4
1.4.1. Policy Structure 4
1.4.2. Scope and Application of the Enterprise Risk Policy 4
1.4.3. Policy Sponsor 5
1.4.4. Policy Approval 5
1.4.5. Audit Requirements 5
1.5. Communication of Enterprise Risk Policy 5
1.5.1. Dissemination of the Policy 5
1.5.2. Maintenance, Amendments and Review of Policy 5
1.5.2.1 Policy Maintenance 5
1.5.2.2 Review Process 6
1.5.2.3 Levels of Amendment and Amendment Authorization 6
1.5.3. Confidentiality 6
1.5.4. Policy Development 6
2. Enterprise Risk Governance 7
2.1. Introduction 7
2.2. MF Global Board and Governing Committees 8
2.2.1. MF Global Board of Directors 8
2.2.2. Governing Committees Related to Enterprise Risk 9
2.2.2.1 Audit Committee 9
2.2.2.2 Enterprise Risk Management Committee ("ERMC") 10
2.2.2.3 Credit Risk Committee ("CRC") 10
2.2.2.4 Market Risk Committee ("MRC") 10
2.2.2.5 Operational Risk Committee ("ORC") 11
2.2.2.6 Asset & Liability Committee ("ALCO") 11
2.2.2.7 New Product Committee ("NPC") 11
2.2.2.8 Reporting Risk Committee 11
2.2.2.9 Disclosure Committee 11
2.2.2.10 Process and Technology Committee ("PTC") 12
2.2.2.11 Level 3 Committees 12
2.3. Risk Appetite Statement and Delegation of Authorities Policy 12
2.3.1. MF Global Ltd. Risk Appetite Statement 12
2.3.2. Delegation of Authority Policy ("D of A") 13

2.3.2.1 Policy Summary 13
2.3.2.2 Areas of Authority 13
2.3.2.2.1 Significant Corporate Matters 13
2.3.2.2.2 General Expenses 14
2.3.2.2.3 Decisions relating to Risk 14
2.4. Risk Roles and Responsibilities 15
2.4.1. Board and Senior Management Responsibilities and Authority 16
2.4.1.1 Subsidiary Boards 16
2.4.1.2 MF Global Senior Management 16
2.4.1.3 Global Product Heads 17
2.4.1.4 Operating Subsidiary Senior Management 17
2.4.2. Business Management and Individual Responsibility 17
2.4.3. Risk Processing Responsibilities 18
2.4.4. Reporting Function Responsibilities 18
2.4.5. Risk Control Responsibilities 18
2.4.5.1 Chief Risk Officer ("CRO") 18
2.4.5.2 Specific Risk Responsibilities 19
2.4.6. Internal Audit 20
2.5. Risk Principles and Related Matters 20
2.5.1. Risk Principles 20
2.5.2. Exceptions to Policy 21
2.5.3. Enterprise Risk Management Escalation Policy 22
3. Capital at Risk Policy 23
3.1. Capital at Risk Management 23
3.1.1. Introduction 23
3.1.2. Definition of Capital 23
3.1.3. Capital in Context 23
3.1.4. Capital at Risk Policy Objectives 24
3.2. Roles and Responsibilities 24
3.2.1. Chief Financial Officer 24
3.2.2. Regional/Country CFOs 25
3.2.3. Treasurer 25
3.2.4. Asset & Liability Committee ("ALCO") 25
3.2.5. Global Head of Capital & Liquidity Risk 25
3.3. Capital at Risk Policies 26
3.3.1. Internal Capital Management Roadmap 26
3.3.2. Capital at Risk Methodology Document 26
3.3.2.1 Risk Identification 26
3.3.2.2 Capital at Risk Measurement Methodology 26
3.3.2.3 Scenario Testing 26
3.3.2.4 Capital Planning 27
3.3.3. Capital at Risk Measurement 27
3.4. Capital at Risk Limitation, Monitoring and Reporting 27
3.4.1. Capital Limits 27
3.4.2. Capital Monitoring and Reporting 27
3.4.2.1 Monitoring by Risk 27
3.4.2.2 Reporting by Risk 27
3.4.2.3 Reporting by CFO and Global Treasurer 28

3.4.3. Escalation 28
3.5. External/Regulatory Capital Requirements 28
3.5.1. Operating Subsidiaries of MF Global in Europe 28
4. Liquidity Risk Policy 29
4.1. Liquidity Risk Management 29
4.1.1. Introduction 29
4.1.2. Definition of Liquidity Risk 29
4.1.3. Liquidity Risk Policy Objectives 29
4.2. Roles and Responsibilities for Liquidity and ALM 30
4.2.1. Chief Financial Officer 30
4.2.2. ALCO 30
4.2.3. Treasurer 30
4.2.4. Chief Investment Officer 31
4.2.5. Regional/Country Treasurers 31
4.2.6. Global Head of Capital & Liquidity Risk 31
4.2.7. Identification of New Liquidity Requirements 31
4.3. Policies for Managing Liquidity Risk 31
4.3.1. Liquidity Planning and Cash Management 32
4.3.2. Liquidity Resources 32
4.3.2.1 EUF 32
4.3.2.2 Daylight and Other Overdraft Facilities from Bank(s) 32
4.3.2.3 Committed External Funding Facilities 33
4.4. Liquidity Risk Analysis and Contingency Planning 33
4.4.1. Liquidity Risk Analysis 33
4.4.2. Liability Concentration 34
4.4.3. Liquidity Contingency Planning 34
4.5. Liquidity Risk Limitation, Monitoring and Reporting 34
4.5.1. Liquidity Limits and Monitoring Policy 34
4.5.1.1 Liquidity Limits 34
4.5.1.2 Monitoring by Treasury 35
4.5.1.3 Monitoring by Risk 35
4.5.2. Reporting 35
4.5.2.1 Regular Reporting 35
4.5.2.2 Reporting on Breaches of Limits and Targets 36
4.5.3. Escalation Policy 36
5. Credit Risk Policy 37
5.1. Credit Risk Management 37
5.1.1. Definition of Credit Risk 37
5.1.2. Sources of Credit Risk in Business Activity 37
5.1.2.1 Placement Risk 37
5.1.2.2 Potential Risk 37
5.1.2.3 Issuer Risk 38
5.1.2.4 Lending Risk (Financing Lines to Clients) 38
5.1.2.5 Pre-settlement Risk 38
5.1.2.6 Settlement and Delivery Risk 38
5.1.2.7 Sovereign and Country Risk 38
5.1.2.8 Fees and Payments 38
5.1.3. Objectives of Credit Risk Policy 39

5.1.4. Restriction on Financing Activity 39
5.2. Specific Roles and Responsibilities for Credit Risk 39
5.2.1. Risk Committees 39
5.2.1.1 Credit Risk Committee (CRC) 39
5.2.1.2 Daily Risk Committees (DRCs) 39
5.2.2. Credit Function 39
5.2.2.1 CRO 39
5.2.2.2 Chief Credit Officer (CCO) 39
5.2.2.3 Credit Function 40
5.2.3. Credit Notification 41
5.3. Credit Risk Assessment Policy 41
5.3.1. Credit Risk Elements 41
5.3.2. Account Opening Requirements 41
5.3.3. Credit Reviews 42
5.3.3.1 Credit Review Criteria 42
5.3.3.2 Renewals 42
5.3.3.3 Internal Credit Rating 43
5.3.3.4 Financial Information and Other Support 43
5.3.4. Product Risk Matrix 43
5.3.5. Country Risk 44
5.3.6. Business Support of Financing Lines 44
5.3.7. Documentation and Storage Requirements 44
5.3.7.1 Documentation 44
5.3.7.2 Document Storage 45
5.4. Risk Mitigation 45
5.4.1. Netting Agreements 45
5.4.2. Collateral and Guarantees 45
5.4.2.1 Collateral 45
5.4.2.2 Guarantees 46
5.4.2.2.1 Bank Guarantees 46
5.4.2.2.2 Parent/Affiliated Company Guarantees 47
5.4.2.2.3 Personal Guarantees 47
5.4.2.2.4 Letters of Comfort 47
5.4.2.3 Guarantees Issued on Behalf of MF Global 47
5.4.2.4 Documentation for Collateral and Guarantees 48
5.5. Concentration Risk 48
5.5.1. Definition of Concentration Risk 48
5.5.2. Types of Concentration 48
5.5.2.1 Credit Concentration 48
5.5.2.1.1 Groups of Connected Counterparties/Clients 49
5.5.2.1.2 Industry Concentration (Correlated Exposure) 49
5.5.2.2 Country Concentration 49
5.6. Credit Risk Limitation, Monitoring and Reporting Policy 49
5.6.1. Credit Risk Limits 49
5.6.2. Concentration Limits: 49
5.6.3. Monitoring Against Limits 50
5.6.4. Escalation Policy 50
5.6.5. Credit Risk Reporting 50

5.7. Debt Collection and Provisioning Policy 50
5.7.1. Bad Debts 50
5.7.2. Collection Activity 50
5.7.3. Provisioning 51
6. Market Risk Policy 52
6.1. Market Risk Management 52
6.1.1. Definition of Market Risk 52
6.1.2. Objectives of Market Risk Policy 52
6.1.3. Occurrence of Market Risk 52
6.2. Specific Roles and Responsibilities for Market Risk 52
6.2.1. Risk Committees 52
6.2.1.1 ALCO 52
6.2.1.2 Market Risk Committee ("MRC") 53
6.2.2. Market Risk Function 53
6.2.2.1 Global Head of Market Risk 53
6.2.2.2 Market Risk Function 53
6.2.3. Business 53
6.3. Market Risk Policy 54
6.3.1. House Accounts 54
6.3.1.1 Types of House Accounts 54
6.3.2. House Account Approval and Review 54
6.3.3. Authorized Trading and Investment Activity 55
6.3.3.1 Trading Portfolios 55
6.3.3.1.1 Client Facilitation 55
6.3.3.1.2 Market Making/Proprietary Trading 55
6.3.3.2 Treasury/ALM Portfolios 55
6.3.3.2.1 Investment Activities 55
6.3.3.2.2 Other Asset/Liability Management Purposes 55
6.3.3.2.3 Hedging 55
6.3.4. Non-Trading Activities 56
6.3.5. Measurement 56
6.4. Market Risk Limitation, Monitoring and Reporting 56
6.4.1. Risk Limits, Delegated Authorities and Trading Authorization 56
6.4.2. Market or Instrument Concentration 56
6.4.3. Monitoring 57
6.4.4. Breaches of Limits and Escalation 57
6.4.5. Reporting 57
7. Exposure Measurement, Margin and Monitoring Policy 58
7.1. Exposure Management 58
7.1.1. Definitions 58
7.1.1.1 Risk Measurement 58
7.1.1.2 Risk Monitoring 58
7.2. Specific Roles and Responsibilities for Exposure Measurement and Monitoring 59
7.2.1. Risk Committees 59
7.2.1.1 Market Risk Committee ("MRC") 59
7.2.1.2 Daily Risk Committees ("DRCs") 59
7.2.2. Risk Control Function 59

7.2.2.1 Chief Risk Officer (CRO) 59
7.2.2.2 Global Head of Market Risk 59
7.2.2.3 Market Risk Function 60
7.2.2.3.1 Valuations 60
7.2.2.3.2 Risk Identification and Measurement 60
7.2.2.3.3 Margin and Collateral Adequacy 61
7.2.2.3.4 Monitoring 61
7.3. Valuation Policy 61
7.3.1. Valuation 61
7.3.2. Price-Sourcing for Valuations 62
7.3.2.1 Exchange-traded Positions 62
7.3.2.2 Securities Traded in Secondary Market 62
7.3.2.3 OTC Positions 62
7.3.2.4 Marking-to-Model 62
7.4. Risk Measurement Policies 63
7.4.1. Value at Risk (VaR) Measurement 63
7.4.1.1 Methodology 63
7.4.1.2 Accounts with VaR Limits 63
7.4.2. Stress Risk Measurement 64
7.4.2.1 Risk Measurement 64
7.4.2.2 Approval and Back-Testing of Parameters 64
7.4.3. Regulatory Margin Requirement Measurement 65
7.4.4. House Margin Requirements Measurement 65
7.5. Margin Policy 65
7.5.1. Margin Requirements 65
7.5.1.1 Exchange Listed Products 66
7.5.1.2 Non-Exchange Listed Products 66
7.5.2. Margin Calls 66
7.5.2.1 Acceptable Funds and Collateral 67
7.5.2.2 Margin Call Monitoring and Records 67
7.5.2.3 Prohibition on Trading 67
7.5.3. Risk Calls 67
7.5.4. Client Availability 68
7.5.5. Note on Client Funds 68
7.6. Policy for Professional Traders 68
7.6.1. Definition of Professional Traders 68
7.6.2. Authorization 68
7.6.3. Classification of a Day Trader 68
7.6.4. Risk Limitation 69
7.7. Risk Limitation and Monitoring Policy 69
7.7.1. Risk Limits 69
7.7.1.1 Margin Requirements and Risk Calls 69
7.7.1.2 MF Global House Account Risk Limits 70
7.7.1.3 Client/Counterparty Credit Risk Limits 70
7.7.1.4 Client/Counterparty Risk Limits 70
7.7.1.4.1 General 70
7.7.1.4.2 Electronic Trading Limits 70
7.7.1.5 Market or Instrument Concentration 70

7.7.2. Direct Market Access Policy 71
7.7.3. Delivery Policy 71
7.7.4. Risk Monitoring and Breaches of Limits 71
7.7.4.1 Breaches of Client/Counterparty Limits 72
7.7.4.2 Breaches of House Account Limits 72
7.7.5. Reporting 72
7.7.6. Escalation Policy 72
8. Operational Risk Policy 73
8.1. Operational Risk Management 73
8.1.1. Definition and Classification of Operational Risk 73
8.1.2. Operational Risk Management Objectives 73
8.1.3. Operational Risk Management Framework 74
8.2. Roles and Responsibilities 74
8.2.1. Committees 74
8.2.1.1 Operational Risk Committee 74
8.2.1.2 New Product Committee 75
8.2.2. Operational Risk 75
8.2.2.1 Global Head of Operational Risk 75
8.2.2.2 Operational Risk Department 75
8.2.3. Business Areas 76
8.2.3.1 Operational Risk Coordinator ("ORCo") 76
8.2.3.2 Line Managers and All Other Employees 76
8.3. Operational Risk Management Framework 76
8.3.1. Assessments 76
8.3.1.1 Risk Controls Self Assessment ("RCSA") 76
8.3.1.2 Scenario Analysis 77
8.3.2. Operational Risk Incidents and Escalation Policy 77
8.3.2.1 Incidents 77
8.3.2.2 Escalation Policy 78
8.3.3. Indicators 78
8.3.3.1 Key Risk Indicators 78
8.3.3.2 Permanent Supervision Testing 79
8.3.4. Standard Reference Data 79
8.3.4.1 Risk, Process and Control (RPC) Library 79
8.3.4.2 Risk Rating Matrix 80
8.3.5. Operational Risk System 80
8.3.6. New Product Development 80
8.4. Operational Risk Mitigation 81
8.4.1. Policy Management 81
8.4.2. Technical Risk Management 81
8.4.3. Policies 82
8.4.3.1 Sarbanes Oxley (SOX) 82
8.4.3.2 Information Security 83
8.4.3.3 Insurance 83
8.4.4. Business Continuity Planning ("BCP") 84
8.5. Operational Risk Limitation, Monitoring and Reporting 84
8.5.1. Risk Limits 84
8.5.2. Risk Monitoring 84

8.5.3. Reporting 84
9. Compliance Policy 85
9.1. Compliance Risk Management 85
9.1.1. Introduction 85
9.1.2. Compliance Definitions 85
9.1.2.1 Compliance-related Risks 85
9.1.2.2 Compliance Assurance 86
9.1.3. Risk-based Compliance 86
9.1.4. Compliance Principles 86
9.1.5. Objectives of Compliance Policy 87
9.2. Roles and Responsibilities 87
9.2.1. Operational Risk Committee 87
9.2.2. Executive Management 88
9.2.3. All Members of Staff 88
9.2.3.1 Regulatory Liaison Coordinator ("RLC") 88
9.2.4. Compliance Function 88
9.2.4.1 Chief Compliance Officer 89
9.2.4.2 Regional Heads of Compliance 89
9.2.4.3 Responsibilities of Compliance Personnel 89
9.2.4.4 Regional/Local Compliance Units 90
9.2.4.5 Anti-Money Laundering Responsibilities 90
9.2.4.5.1 MF Global's Responsibilities 90
9.2.4.5.2 AMLRO Duties and Responsibilities 91
9.3. Compliance Policy Development, Planning, Surveillance and Review 91
9.3.1. Policy Development 91
9.3.2. Annual Compliance Plan 92
9.3.3. Compliance Surveillance and Assurance Programs 92
9.3.3.1 Compliance Surveillance Tools 93
9.3.3.2 Transaction Monitoring 93
9.3.3.2.1 Money Movement Surveillance 93
9.3.3.2.2 AMLRO's Review 93
9.3.3.3 Communications Monitoring 93
9.3.3.4 Conflicts Surveillance 93
9.3.3.5 Risk Assessments/Reviews 94
9.3.3.5.1 Business and Operational Reviews 94
9.3.3.5.2 Other 'Themed' Reviews 94
9.3.3.6 Activity Based Monitoring 94
9.4. Business Process Oversight Policy 94
9.4.1. Client (and Intermediary) Take-on (New Client Review) 94
9.4.1.1 Client Categorization and Appropriateness 94
9.4.1.2 Intermediaries 95
9.4.1.3 Client Identity Verification and AML Due Diligence/KYC 95
9.4.2. External Business Communications 95
9.4.2.1 Promotions and Advertising 95
9.4.2.2 Product Information and Documentation 96
9.4.2.3 Research 96
9.4.3. Complaints 96
9.5. Investigations and Compliance Performance Evaluation 96

9.5.1. Investigation and Case Management 96
9.5.2. Escalation Policy 97
9.5.3. Compliance Risk Assessment 97
9.5.3.1 "Top-down" Compliance Risk Assessments 98
9.5.3.2 "Bottom-up" Compliance Risk Assessment/Review 98
9.5.3.3 Compliance Risk Map/Register 98
9.6. Training 99
9.7. Compliance Reporting 99
9.7.1. Introduction 99
9.7.2. Internal Reporting – Compliance Assurance 99
9.7.2.1 Reporting Hierarchy 99
9.7.2.2 Reporting to the Board and Audit Committee 100
9.7.2.2.1 Regular Reporting 100
9.7.2.2.2 Ad Hoc Reporting 100
9.7.3. External Reporting 101
10. "Other Risks" 102
10.1. Strategic and Business Risk 102
10.1.1. MF Global Risk Management Approach for Strategic and Business Risk 102
10.1.2. Responsibility and Reporting 102
10.2. Regulatory Risk 102
10.2.1. MF Global Risk Management Approach for Regulatory Risk 102
10.3. Pension Risk 102
10.3.1. MF Global Risk Management Approach for Pension Risk 103
10.3.2. Responsibility and Reporting 103
10.4. Reputation Risk 103
10.4.1. Responsibility for Reputation Risk 103
10.4.2. General Corporate Citizenship 103
10.4.3. Reputation Risk Emergency Response 104
10.5. Other Business Risks 104
10.5.1. MF Global's Risk Management Approach for Other Risks 104
11. Risk Reporting 105
11.1. Reporting Framework 105
11.2. Global Roles and Responsibilities with respect to Risk Reporting 106
11.3. Internal Reporting 108
11.4. External Reporting 109
11.4.1. Responsibility for Reporting Risk 109
11.4.2. Regulatory Reporting 110
11.4.3. Insurance Reporting 110
11.4.4. Other External Reporting 110
12. Appendices 111
12.1. ERP Amendment Log 111
12.2. Reference Documents 112
12.2.1. Risk Library 112
12.3. Region Specific Variations to Global Policy 113
12.3.1. Introduction and Scope 113
12.3.2. North America 113
12.3.3. Europe 113
12.3.4. Asia Pacific 113

1. Introduction

1.1. Introduction and Risk Definitions

1.1.1. Introduction

This Enterprise Risk Policy document ("Risk Policy" or "ERP") sets out the MF Global Enterprise Risk Framework; in particular, the policies, principles and functional responsibilities for managing all aspects of risk across MF Global Ltd.[1] ("MF Global" or "the Company"). The primary purpose of the Risk Policy is to set the common standards and the reporting structure that enables risk to be managed in an integrated manner, satisfying the needs not only of the of the company, but also its regulators.

MF Global is committed to having – and continually improving- a best practice Enterprise Risk Management framework that covers all aspects of risk management, including effective reporting and compliance with laws and regulation. This commitment starts with the Board which sets strategy and establishes the company's risk appetite, and is communicated throughout the company by:

- A Board and Senior Management-driven culture that expects all employees to be Risk Managers;
- A strong governance structure that clearly defines responsibilities;
- Delegated authorities for risk control as well as for risk taking; and
- Documented policies and defined methodologies for the identification, measurement, control and mitigation of risk.

The Company is committed to ensuring that its risk framework not only meets the needs of its business, but also achieves the prudential standards of risk management expected by its regulators worldwide. The company is also committed to continually reviewing, developing, refining and improving its risk management practices, and the ERP, to ensure they cover all aspects of risk and remain fit for purpose as the company innovates to maintain its leading position in a dynamic and changing industry.

1.1.2. Definitions of Risks

Risk is defined as *the exposure to adverse consequences arising from internal or external changes, actions, events, decisions and/or circumstances which have the potential to reduce shareholder value*. Risk types include financial, operational and other risks.

Financial Risk is defined as the risk of loss or other adverse consequences arising from market movement, capital insufficiency, unavailability of liquid assets, and/or the failure of an external party to meet their financial obligations to the Company.

Operational Risk is defined as the risk of loss or other adverse consequence arising from inadequate or failed internal processes, people and systems or from external events, including legal risk. It also includes compliance risk.

[1] In this document where the terms 'MF Global' or 'the Company' are used, they denote the entire business of MF Global Ltd, comprising MF Global and all its subsidiaries.

Other risks include strategic, regulatory, pension and reputation risk.

The complete definition of each component of financial, operational and "other" risk is available in MF Global Ltd (Bermuda) Risk Definition document [GRD 1][2].

1.2. Context for Risk Policy

1.2.1. Business Overview

MF Global is a centralized provider of brokerage service. It offers execution and clearing services for exchange-traded and over-the-counter ("OTC") derivative products, for non-derivative foreign exchange products and for securities in the cash market.

Clients include institutions, hedge funds and other asset managers, as well as professional traders and private clients. The company executes client trades on both an agency and a matched-principal basis and also acts as a clearing firm for clients that execute trades in futures and options as well as securities on exchanges where it is approved as a clearing member. These include all major derivatives exchanges in the North America, Europe, and Asia/Pacific markets.

MF Global also provides clearing services for transactions executed in the OTC markets.

The company has offices in New York, London, Chicago, Paris, Mumbai, Singapore, Sydney, Toronto, Tokyo, Hong Kong, Taipei, Dubai, and other locations. The principal executive offices are in New York, and the registered office is in Hamilton, Bermuda.

Revenues arise from four main sources: commissions from agency execution; commissions from clearing services; mark-ups from principal transactions, primarily consisting of client trades executed on a matched-principal basis; and interest income. Interest income is earned on cash balances in clients' accounts, most of which are maintained by clearing clients to meet margin requirements and from fixed income and principal transactions activities.

Client orders executed on an agency basis are typically directed to an exchange or OTC market where they are matched with corresponding orders for execution. The company also engages in matched-principal execution, which generally yields higher profit margins than agency execution, primarily in the OTC markets, but also in certain listed markets outside the United States. When MF Global executes a client order on a matched-principal basis, it takes the other side of the trade for its own account and relatively quickly (simultaneously, or within minutes and generally on the same trading day) enters into an offsetting trade with another party.

In general, except for corporate hedging and investment management transactions, MF Global enters into transactions for its own account in response to or in anticipation of client demand, primarily to facilitate the execution of existing client orders or in the expectation that future client orders will become available to fill the other side of the transaction, and not primarily for directional purposes[3].

Many of the markets in which the company operates are regulated both by government authorities and by the exchanges.

---

[2] GRD X refers to the Risk Library number of an associated risk document. The full list is included as Appendix 12.2.1.

[3] The actual level of market risk that the company takes depends upon the strategy determined by the MF Global Ltd. Board of Directors. If the Board changes its strategy this paragraph may no longer hold.

1.2.2. Legislative and Regulatory Context

The worldwide environment in which the company operates is framed by the rules and guidance issued by the regulator(s) in each jurisdiction where it conducts business. Such regulations as they apply to MF Global may place an obligation to manage risk exposures within a defined framework that is appropriate and relevant to the risks created by its business activities. Notwithstanding any regulatory requirements for risk management, the Board of MF Global sets its own standards and polices which are contained in this document.

Each subsidiary is responsible for identifying and complying with the regulatory requirements of the jurisdictions in which it operates. Any amendments to this policy that may be required by specific local legislation should be documented as an appendix as specified in Section 1.3.3.

1.2.3. Other Requirements

This policy is also framed to be compliant with the requirements of the various exchanges, clearing houses and associations of which MF Global is a member or which are pivotal in fulfilling its business propositions.

1.3. Purpose and Objectives of Policy

1.3.1. Purpose of the Enterprise Risk Policy

MF Global seeks to ensure that all financial, operational, compliance and other risks are consistently and comprehensively identified, assessed, monitored and controlled across all of its businesses in a coordinated way.

The purpose of the Enterprise Risk Policy is to detail:

- The principles and policies for enterprise-wide risks
- The chain of authority whereby such policies have been adopted, and how responsibility for implementation and adherence to such policies is cascaded throughout the company
- The specific functions which are to be responsible for the maintenance and development of policy, and for the co-ordination and reporting of risk throughout the company
- The specific methodologies used within the company for the management of financial, operational, compliance and other risks.

This document aims to communicate the company's enterprise-wide risk policies for both internal and external reference.

1.3.2. Overall Objectives of the Risk Policy

- To ensure effective governance and management of enterprise-wide risks throughout MF Global within the risk appetite established by the Board (see Section 2.3)
- To develop and communicate policies relating to risk management and risk control that are aligned with and supportive of business strategy
- To promote the objective and consistent identification, measurement, reporting and control of all significant financial, operational, compliance and other risks within the various businesses

- To ensure compliance with all applicable law and regulation relating to financial, operational, compliance and other risks
- To achieve maximum efficiency in the management and planning of both regulatory and economic capital in relation to risk
- To define the roles and responsibilities required to achieve these objectives

1.3.3. Regional Variation

The policies contained in this document are designed to apply across all of MF Global. However, from time to time specific regulatory requirements may result in regional or country differences. In such circumstances, variations to this policy will be documented by the Regional Head of Risk and/or Regional Head of Compliance, approved by the Chief Risk Officer ("CRO") and contained as an appendix to this document.

1.4. Structure, Scope, Sponsorship, Authority and Approval of the Enterprise Risk Policy

1.4.1. Policy Structure

- **Section 1** – Introduction
- **Section 2** – Enterprise Risk Governance
- **Section 3** – Capital at Risk Policy
- **Section 4** – Liquidity Risk Policy
- **Section 5** – Credit Risk Policy
- **Section 6** – Market Risk Policy (for risk arising in MF Global house accounts)
- **Section 7** – Exposure Measurement, Margin and Monitoring Policy
- **Section 8** – Operational Risk Policy
- **Section 9** – Compliance Policy
- **Section 10** – "Other Risks"
- **Section 11** – Risk Reporting
- **Section 12** – Appendices

1.4.2. Scope and Application of the Enterprise Risk Policy

This policy is applicable to MF Global Ltd. and all of the operating subsidiaries within the company and, to the extent relevant, to the conduct and management of the non-operating subsidiaries. It also applies to all subsidiaries where MF Global has a controlling interest.

MF Global will conduct appropriate due-diligence and periodic review of risk controls[4] on subsidiaries where it does not have a controlling interest.

[4] Process to be determined

1.4.3. Policy Sponsor

The sponsor for the Risk Policy is the CRO to whom the MF Global Board has delegated the authority to develop and maintain risk policy.

The CRO is also responsible for monitoring the application of the Risk Policy throughout the company in all of its activities.

1.4.4. Policy Approval

The Enterprise Risk Management Committee (ERMC) will review the ERP. The CRO then will recommend it to the MF Global Board of Directors for approval.

The Audit Committee of the Board of Directors will review the Risk Policy as part of its annual[5] review of enterprise risk management policies and related escalation processes. Following such a review, the Audit Committee will provide its recommendation of approval of the ERP to the Board of Directors.

1.4.5. Audit Requirements

To the extent possible, the Risk Policy has been written to auditable standards. The contents of the policy should be taken into account in audit planning and execution across the company.

The process of approval, review and amendment of the Risk Policy should be subject to periodic review by Internal Audit.

1.5. Communication of Enterprise Risk Policy

1.5.1. Dissemination of the Policy

The ERP will be published in electronic form over the MF Global Intranet. Access to the policy will be granted on a "read-only" basis to all MF Global personnel.

The intranet version is the authoritative version of the policy.

The Global Head of Operational Risk is responsible for the maintenance and electronic distribution[6] of the ERP and for setting electronic access levels.

1.5.2. Maintenance, Amendments and Review of Policy

1.5.2.1 Policy Maintenance

The Global Head of Operational Risk will maintain a documented record of all amendments made to the ERP (the "Policy Amendment Log" at Appendix 12.1), which will detail the date of, and authority for, such amendments.

The Global Head of Operational Risk will issue an alert to staff via the Intranet whenever material amendments are made to it.

---

[5] The Board of Directors approved the Governing Framework section (Section2) of the Policy on March 3, 2009. The initial review of the other sections of the ERP policy will be performed by the Audit Committee in May 2009. Final review and approval is anticipated to take place in January 2010 during the annual Risk Control review cycle.

[6] Keeping physical copies of the Risk Policy is strongly discouraged because of the practical difficulties of keeping them fully up-to-date.

1.5.2.2 Review Process

The CRO will, at least annually, initiate a review of the ERP to confirm that the policies set out remain relevant, appropriate and correct. On the basis of such review, if amendments or updates are required, the CRO will initiate the amendment process set out in Section 1.5.2.3.

All risk and senior managers in the different subsidiaries should, on an on-going basis, consider whether amendments/additions to the Risk Policy are required in the context of changes in strategy and/or in product/service and/or risk profiles.

Proposals or suggestions for amendments or updates to the Risk Policy should be submitted via line management to the CRO who will together with the Global Head of Operational Risk co-ordinate due consideration of suggestions and initiate the amendment process.

1.5.2.3 Levels of Amendment and Amendment Authorization

The Risk Policy has three categories of amendment (and related processes and procedures), which are subject to the following levels of sanctioning authority:

Level	Description	Authority
1	Minor typographical, numerical or consequential changes, not affecting policy or process	Global Head of Operational Risk
2	Non-material changes to policy and processes[7], between the annual Board review cycles.	CRO
3	Permanent, material changes to policy.	MF Global Board with recommendation from Audit Committee

In the event of uncertainty as to the category of any amendment, it should be elevated to the next level for sanctioning authority.

1.5.3. Confidentiality

The Risk Policy is confidential to MF Global and no copies made of the policy or any part thereof may be removed from company business premises without the prior written permission of the senior manager in the location concerned. However, on occasions disclosure may be obliged as part of a specific legal or regulatory process.

1.5.4. Policy Development

The policies contained in this document may not be fully implemented at the time of adoption; however, MF Global is committed to the continuous improvement of its risk governance with resulting ongoing development of its policies. Such development will be carried out against documented improvement plans to support this commitment.

[7] "Change to process" means a change in the ways specific activities are undertaken or changes in the inter-actions within businesses and/or supporting functions. It does not include changes to policy.

2. Enterprise Risk Governance

2.1. Introduction

The Enterprise Risk Management governance framework comprises the following elements:

- Matters subject to Board approval
  - The MF Global Board and the company's governing committees (Section 2.2)
  - MF Global Board Statement of Risk Appetite (Section 2.3.1) established and regularly reviewed by the Board to enable it to
    - interpret its strategic goals in terms of prudent risk appetite or tolerance
    - define measurable benchmarks for risk, and to
    - manage its liquidity and capital accordingly
  - Delegation of Authority document (Section 2.3.2) which details the Board delegated limits and authorities
- Matters subject to Audit Committee oversight:
  - An organizational structure which underpins the ability to achieve the risk objectives and adhere to the risk principles with clearly assigned risk responsibility, both at the governance level and in relation to the day-to-day, and in particular the clear separation of reporting lines and responsibilities between
    - The *risk taking* elements of the organization (the "business") (Section 2.4) – the day-to-day undertaking of transactions with clients and counterparties or on behalf of MF Global itself ("house account"); this includes individual risk decisions, transaction execution on behalf of clients and decisions about the portfolio(s) of risk in the different businesses – and
    - The *risk control* elements of the organization (Section 2.4.5) – the independent and objective assessment and monitoring of risk, and the provision of independent risk information and intelligence to senior management and the Board.
    - The *risk processing* elements of the organization – being those middle and back office operations in the business structure which are involved in the confirmation, settlement, reconciliation and payments of the transactions undertaken by the risk-taking elements of the business.
  - Clear objectives and principles in relation to the management/control of risk across MF Global[8], (Section 2.5.1)
  - Documented ERP (this document) including handling exceptions (Section 2.5.2)
  - Enterprise Risk Management Escalation Policy (Section 2.5.3) whereby adverse risk occurrences (and other notifications of material events) are brought to the attention of senior management (and the Board), according to stipulated criteria

[8] Including in relation to the "risk culture" within the organization

The documents in the Risk Library, which describe the different parts of this framework, and their interaction, are detailed at Appendix 12.2.

2.2. MF Global Board and Governing Committees

2.2.1. MF Global Board of Directors

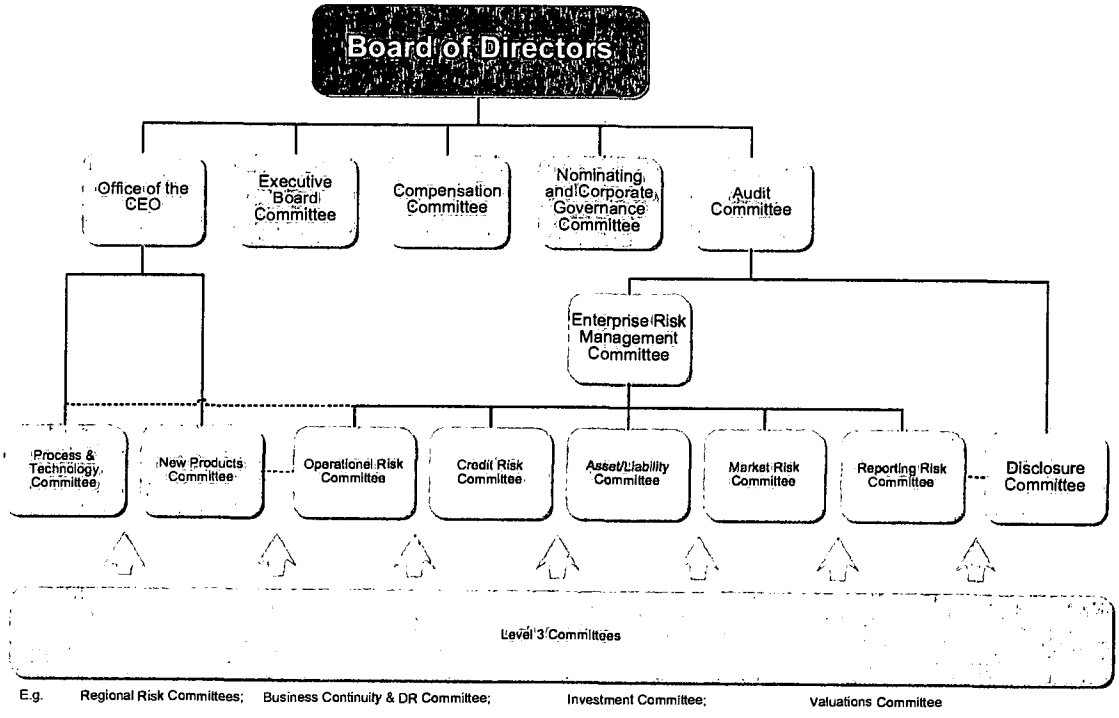
The MF Global Board is responsible for risk at the overall governance level, in particular, for:

- Deciding the overall risk appetite/tolerance at group level and its application to the relevant operating subsidiaries
- Ensuring an appropriate Delegation of Authority policy is in place, and maintained, ensuring clear allocation of responsibility to individuals within the senior management team
- Setting the overall risk strategy, standards, principles and values applying across the company
- Approving the overall governance framework

The Board delegates its authority for financial monitoring and risk oversight to the Audit Committee as documented in the charter for that committee.

2.2.2. Governing Committees Related to Enterprise Risk

This section describes the purposes of the committees with risk and risk-related responsibilities. The diagram below shows the structure of the company's governing committees; those committees under the authority of the CRO are colored tan.



The charters for the Audit Committee and Enterprise Risk Management, and the terms of reference for the other risk committees are contained in the separate document "MF Global Ltd. (Bermuda) Governing Committees" [GRD 6]. The master copy of this document is held by the Company Secretary.

2.2.2.1 Audit Committee

The purpose of the Audit Committee of the Board of Directors of MF Global Ltd. is described fully in its Charter as set out in the separate document "MF Global Ltd. (Bermuda) Governing Committees" [GRD 6]. Its duties and responsibilities with respect to risk include, but are not limited to:

- Discuss periodically with management the development of best practice enterprise risk management across the Company.
- Review generally the overall enterprise risk management framework and related governance model prior to the Board's approval of same.
- Review generally the enterprise risk management policy or policies and the related escalation processes.

- Receiving regular independent reports from the CRO about the risk performance of the Company, against the risk appetite statement adopted by the Board, and any reports on breaches of policy which the CRO considers should be brought to the attention of the Committee.
- Discuss guidelines and policies governing the process by which senior management of the Company and the relevant departments of the Company assess and manage the Company's exposure to risk, and discuss the Company's major exposures to these risks and the steps management has taken to assess and manage such exposures.
- Review periodically management's follow-up of risk management and compliance failures.
- Review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

2.2.2.2 Enterprise Risk Management Committee ("ERMC")

The purpose of the Enterprise Risk Management Committee is to monitor all aspects of risk management activity across all risk categories throughout MF Global Ltd. and its subsidiaries. The goal of the ERMC is to support the effective management of risk in the business, while fostering a culture of prudent risk management. The ERMC provides an effective control environment for the monitoring and reporting of all risk categories by providing a forum for executive discussion of risk in a Company-wide context, including with respect to risks related to mergers and acquisitions, and to the implementation of strategy. The ERMC supports the Audit Committee with respect to its risk management oversight role.

The Credit Risk Committee, the Market Risk Committee, The Operational Risk Committee, the Asset/Liability Committee and the Reporting Risk Committee are all authorized sub-committees of the ERMC.

2.2.2.3 Credit Risk Committee ("CRC")

The purpose of the Credit Risk Committee is to provide effective oversight of credit risk arising across the different regions and businesses of MF Global Ltd. and its subsidiaries. The CRC is the forum through which senior management exercises its monitoring and control responsibilities for all aspects of credit risk throughout MF Global.

2.2.2.4 Market Risk Committee ("MRC")

The purpose of the Market Risk Committee is to support the effective development and application of appropriate risk measurement, models and monitoring for quantifying risk and capital across all risk types.

The MRC is the forum through which senior management exercises its monitoring and control responsibilities for all aspects of market risk, risk measurement and quantification for all risk types, as well as for model development and use throughout MF Global.

2.2.2.5 Operational Risk Committee ("ORC")

The purpose of the Operational Risk Committee is to provide effective oversight of the operational risk framework across all regions and businesses of MF Global and its subsidiaries and provide a forum for senior management to assess the operational risk profile of the organization. The operational risk profile includes an evaluation across all operational risk categories, including all aspects of operational risk (including compliance).

2.2.2.6 Asset & Liability Committee ("ALCO")

The purpose of the Asset/Liability Committee is to ensure that the overall mix of market, investment and liquidity risk within the asset/liability portfolio of MF Global Ltd. and its subsidiaries is constantly managed within appropriate limits. Its purpose is also to ensure that the liquidity and capital of the Company are managed and monitored on a global basis, and locally in an appropriate manner, such that the Company is continuously able to meet its contractual and regulatory obligations in all its operations.

2.2.2.7 New Product Committee ("NPC")

The goal of the New Products Committee ("NPC") is to support the profitable development of MF Global Ltd. and its subsidiaries (the "Company") through the effective and efficient introduction and development of new business[9], as well as new products, which potentially impact multiple departments and/ or supporting functions within the Company.

The definition of a new product includes but is not limited to new non-standard product types and existing products:

- offered to a new client type/base
- offered/traded in a new geographic location, new country, new legal entity
- new exchange memberships

The NPC is an authorized sub-committee of the Office of the CEO and is included here because it has responsibilities closely associated with enterprise risk management.

2.2.2.8 Reporting Risk Committee

The purpose of the Reporting Risk Committee is to provide a forum for the elevation and discussion among the senior management of all matters related to disclosure of any reportable matters to relevant external bodies. This may include matters required to be reported to (for example) regulators, listing authorities, tax authorities, rating agencies, or other civil authorities, such as the police, health and safety executive, customs, immigration or other state or federal authorities. The committee may refer matters to, or have matters referred from, any of the other management and risk committees.

2.2.2.9 Disclosure Committee

The purpose of the Disclosure Committee is to:

[9] "New business" includes but is not limited to new contracts traded on or off exchange or customised trading strategies specific to a particular client or trading desk or desks, as well as new business delivery strategies, delivery channels, operating or settlement processes.

- Review all of the Company's public financial reporting filings with the SEC prior to submission, to assess the quality of the disclosures made in such reports
- Evaluate the effectiveness of the company's disclosure controls and procedures
- Report to senior officers of the Company, prior to their execution of their personal certifications related to the disclosures, the results of its evaluation, findings and conclusions with respect to the quality of the disclosures.

2.2.2.10 Process and Technology Committee ("PTC")

The purpose of the Process and Technology Committee is to allocate financial and human resources in order to align processes and technology with the global business objectives of MF Global Ltd. and its subsidiaries. The PTC is an authorized sub-committee of the Office of the CEO and is included here because it has responsibilities closely associated with enterprise risk management.

2.2.2.11 Level 3 Committees

The level 3 committees are intended to support the governing committees or subcommittees or corporate and/or business functions within MF Global. The level 3 committees do not require formal charters or terms of reference. Their purpose and agendas are established by the principal organizer of the committee and meetings take place as and when needed as determined by the organizer.

Examples of level 3 committees include, but are not limited to the regional risk committees; the business continuity and DR committee; the valuations committee; and the investment committee.

2.3. Risk Appetite Statement and Delegation of Authorities Policy

2.3.1. MF Global Ltd. Risk Appetite Statement

The Risk Appetite Statement document [GRD 2] articulates the risk appetite of MF Global Ltd. The risk appetite is set by the Board and is to be reviewed at least annually.

MF Global will not generate reward without risk; however taking on too much risk can jeopardize the business. Consequently MF Global needs to have an agreed understanding of what and how much risk must be taken in order to deliver its strategic objectives – the "risk appetite".

The risk appetite must be embedded into the business such that it is used to make better business decisions and as a benchmark for reporting and monitoring. It assists the business to meet strategic objectives by providing an objective yardstick against which performance can be measured and monitored. In particular, the taking of risk must generate shareholder value (i.e. the return from the risk must be greater than the cost of capital and liquidity needed to support the risk).

Risk is defined as *the exposure to adverse consequences arising from internal or external changes, actions, events, decisions and/or circumstances which have the potential to reduce shareholder value.*

The "risk appetite" is, therefore, an expression of the volatility in earnings the business is prepared to accept in pursuit of a stated strategy. It is also a critical element in the forward looking estimate of the capital (and liquidity) needs of the business.

The MF Global Risk Appetite Statement aims therefore to:

- reflect current corporate strategy, including the objectives, business plans and stakeholder expectations
- reflect all key risk attributes of the business
- acknowledge a willingness and capacity to take on specific risks which it regards as "active[10]" risks (within appropriate limits)
- define a framework for a tolerance for loss with respect to "passive[11]" risks
- take into account the skills and resources required to manage and monitor risk exposure versus the risk appetite

Risk for the purposes of the Risk Appetite Statement is considered form two perspectives: risks to achieving the company's strategic objectives and principal risks in the business[12].

2.3.2. Delegation of Authority Policy ("D of A")

2.3.2.1 Policy Summary

The purpose of the Delegation of Authority Policy (D of A) is to clearly outline authority to approve certain levels of expenditures, enter into various contracts and transact other significant business of MF Global Ltd. and its subsidiaries worldwide. This D of A sets out the matters specifically reserved for determination by the Company's Board of Directors (the "Board") and those matters delegated to management by the Board.

The D of A is applicable to all employees of MF Global, and any joint ventures that are controlled by the Company or one of its subsidiaries. It is intended to control all situations where an employee is in the position of committing the resources of MF Global, regardless of whether it is an oral or written commitment.

Officers of the company are responsible for operating within their delegated authority.

Delegated authorities are documented within the currently approved Board of Directors Delegation of Authorities Policy document, the master copy of which is held by the Company Secretary.

2.3.2.2 Areas of Authority

The D of A sets out the authority for the following areas of decision making:

2.3.2.2.1 Significant Corporate Matters

These matters are contained in Appendix A of the D of A, and include:

- Mergers and acquisitions/dispositions
- Corporate borrowing/banking agreements

[10] ***Active Risks*** – Those risks which a business will accept onto its books, as a source of income, where the financial outcome of accepting such risks will be predominantly positive (i.e. profits), but which can, from time-to-time be negative (i.e. losses).
[11] ***Passive Risks*** – Those other risks which are an integral part of being in business, but whose financial outcome is likely only to be negative if they occur
[12] Principle business risks are addressed in this Risk Policy

- Issuance of equity securities
- Inter-company transactions
- Investments
- New lines of business
- Corporate organization
- Corporate communications
- Legal and regulatory
- Tax payments
- Insurance
- Employment/HR matters

2.3.2.2.2 General Expenses

Approval (or approvals) required for typical business expenses, expense invoices, and single or multi-year contracts based on the dollar amounts indicated in Sections 11 and 12 of the D of A, not including those listed above.

2.3.2.2.3 Decisions relating to Risk

Risk related delegations are contained in Appendix B [GRD 4] to the D of A and include:

- Capital risk
- Balance Sheet Liquidity risk
- Credit risk, sub-divided into:
  - counterparty credit risk
  - institutional risk
- Credit concentration (country) risk
- Market Risk, sub-divided into
  - trading portfolios
  - treasury/ALM portfolios
  - strategic investments
- Operational risk, specifically
  - execution, delivery and process management risks

While these risks are detailed separately with respect to limits and authorities, they are all interconnected through liquidity and capital, because:

- Any risk exposure has a potential consequence on liquidity (either an actual drawdown of liquidity, or an indirect impact through adverse reputation, on external sources of liquidity);
- Any risk occurrence has a consequential impact on capital (either an increase in capital if a risk results in a gain, or income, or a decrease in capital if a risk results in a loss or costs).

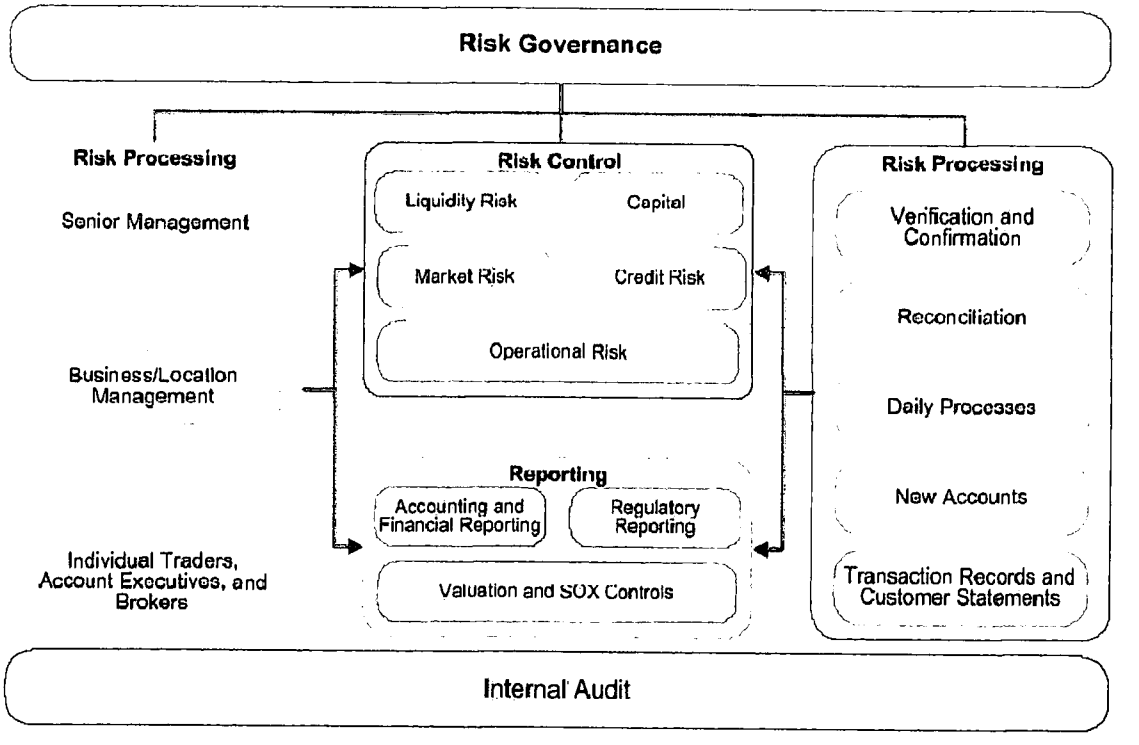
2.4. Risk Roles and Responsibilities

MF Global's approach to the management of risk throughout all of its activities is based on clear identification of, (and where applicable) segregation between, different organizational roles and levels. Overall risk management is exercised through three mutually supporting activities:

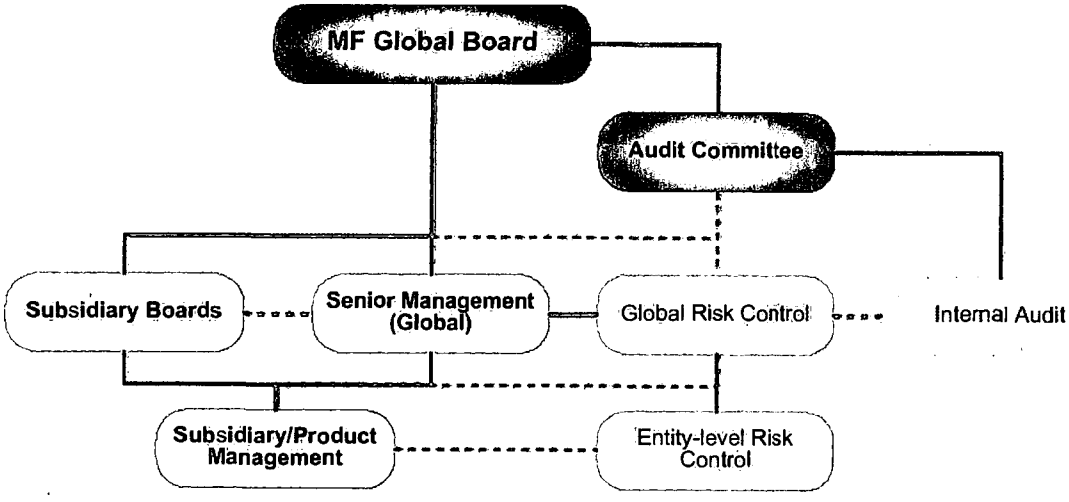
- Risk Taking – the front office activities, where day-to-day business with clients and counterparties is undertaken
- Risk Processing – the back office functions including the systems and other infrastructure upon which all business processes depend
- Risk Control – the independent functions which collectively provide assurance to senior management and the Board that risk is being undertaken prudently and within boundaries set out in this and other related policies.

These activities are supported by the Financial Reporting conducted by the Finance department (in accordance with SOX requirements), and by Internal Audit

This is summarized in the following diagram:



Risk Taking and Risk Processing activities are closely inter-related both in the overall global reporting structure and within their local countries or regions. Risk Control activities provide independent assurance to the Board and senior management. This is outlined in the following diagram:



The following sub-sections describe the roles, responsibilities and relationships between these different levels in the organization.

2.4.1. Board and Senior Management Responsibilities and Authority

2.4.1.1 Subsidiary Boards

The boards of the operating subsidiaries (and, to the extent relevant, other subsidiaries) are responsible for overseeing the application of policy within their business(es) and/or operating subsidiaries and ensuring that their operations meet local regulatory requirements, as well as complying with this and other enterprise-wide policies and global strategy.

2.4.1.2 MF Global Senior Management

The Senior Management[13] of MF Global takes overall responsibility for implementing the risk management framework across the company as required by the Board. This includes:

- Taking overall responsibility for managing risk arising from activities across the company and for taking effective decisions about the portfolio of risk as required, within the Delegated Authority policy handed down by the Board
- Establishing and applying policies, framework and organizational structure for the management of risk according to the requirements set by the Board
- Implementing an appropriate organizational structure across the company, including, in particular, the effective separation of duties between risk taking, risk processing and risk control functions

[13] In this context the term "Senior Management" denotes the senior executive management team operating as individuals or collectively through executive committees (e.g. Office of the CEO)

- Allocating risk responsibilities to specific individual roles within the management team, including business/line management, where applicable
- Ensuring that adequate resources are available to enable the risk control and reporting functions/systems to be effective across the company
- Establishing (and ensuring adherence by all staff to) operating procedures and systems which aim to provide for sufficient and satisfactory controls to minimize and/or protect the business from risk
- Ensuring the necessary capability across the company for the timely identification and escalation of events/incidents which have (or which may have) an adverse effect on MF Global
- Ensuring that all personnel involved in risk taking, risk processing and risk control have the appropriate levels of skills and knowledge to enable them to fulfill their responsibilities effectively
- Ensuring effective, accurate and timely reporting of risk to the appropriate reporting forum and/or the Board and to regulatory authorities, where relevant
- Ensuring that all new product/business initiatives undergo a comprehensive assessment of the risks involved

2.4.1.3 Global Product Heads

The Global Product Heads are responsible for ensuring that policies for risk management and risk control (including operational and other risks) are filtered down to the level of individual businesses. They provide the primary point of contact for all risk matters in the business concerned.

2.4.1.4 Operating Subsidiary Senior Management

The senior management of individual operating subsidiaries within MF Global is responsible for the aspects of risk taking, risk control and risk processing relating to the areas under their control. They are responsible for ensuring that their operations meet local regulatory requirements, as well as complying with this and other enterprise-wide policies, and for highlighting where there is a conflict between the two sets of requirements.

2.4.2. Business Management and Individual Responsibility

Responsibility for the pro-active assumption of risk rests at all times with the management of the risk taking functions.

Line managers of each individual business or support function are accountable for all aspects of risks that arise in their area of responsibility.

Individual members of staff are responsible for the risk taking, risk control or risk processing activity delegated to them, within the framework of policy applicable to their function. This responsibility must be clearly documented both within the regional or local procedural documentation, and in the job descriptions of each individual.

Individuals are expected to understand fully the risk responsibilities delegated to them and be aware of the relevant risk policy and compliance requirements for their function. Individuals whose roles involve risk taking are expected to co-operate and comply fully with all risk control policies and risk processing requirements applicable to their business. All individuals are expected to escalate matters of concern or incidents arising in accordance with the Enterprise Risk Management Escalation Policy [GRD 5] (also see Section 2.5.3).

2.4.3. Risk Processing Responsibilities

Line management and individual members of staff in the risk processing activities are responsible for the application of risk policies as relevant to their function. While their primary role is to support the efficient functioning of the business (and to process the flow of business emanating from the risk-taking activities), they have a secondary role to supervise and monitor those risk taking activities, from the perspective of, and in particular, operational risks (e.g. with respect to execution, delivery and process management, and fraud).

2.4.4. Reporting Function Responsibilities

Line management and individual members of staff in the reporting functions are responsible for the application of risk policies as relevant to their function. They have a responsibility to ensure that the reports generated by MF Global convey information correctly, and in accordance with relevant reporting standards and rules (including accounting, regulatory, tax, and public disclosure standards and rules).

2.4.5. Risk Control Responsibilities

2.4.5.1 Chief Risk Officer ("CRO")

Risk matters are managed by the Company's CRO. The CRO is responsible for, among other things, providing the Board and/or the Audit Committee with information regarding the Company's various risks. Annually the CRO is responsible for providing the Board with the Company's risk appetite statement. The Board is responsible for approving that risk appetite statement.

The CRO is responsible for ensuring that the exercise of risk authority by any individual in the company (whether such delegation is detailed in the D of A or in a separate sub-delegation letter) is continuously monitored, and any breaches, or adverse consequences arising from exercise (or non-exercise), of authority, are reported to and actioned by the Board, for breaches of delegated authorities and to the Office of CEO for breaches of sub-delegations

The Board has delegated the primary authority for Market and Credit Risk to the CRO.

The CRO is to exercise overall control of the enterprise risk management framework that covers all aspects of risk within all of the businesses and subsidiaries of the company. This includes specific, global responsibility for the risk control functions: credit, market, operational (including compliance) risks, for capital and liquidity risk, and for risk and compliance intelligence and assurance.

The CRO also directs the organization's consideration and management of Strategic, Business and other risks, and the integration of these into the planning and management processes of MF Global.

The CRO is responsible for providing assurance to the Board that all risks to the company's objectives are identified, assessed, measured, monitored and controlled and/or mitigated. The CRO is additionally responsible for the effective chairmanship of the ERMC, and for the effective functioning of the risk sub-committees.

The CRO reports to the CEO, and has direct access to the Audit Committee and to the Board, at any time, should circumstances require such access.

2.4.5.2 Specific Risk Responsibilities

For each specific risk type (or risk location), there is to be a nominated person responsible. Such individual responsibilities may include:

- Building consistency and reducing inconsistency in risk control methodologies for specific risk types and processes throughout the company
- Developing and implementing policies relating to all aspects of risk management and control for specific risk types (including compliance) in MF Global
- Developing and implementing risk control processes with respect to the specific risk type, or risk location for which they are responsible
- Establishing and maintaining risk parameters, including risk measurement and evaluation methodologies, limits, other controls, and the structure of delegated authorities for specific risk types
- Preparing risk reports for and providing advice to the CRO, senior management, ERMC, and the relevant risk committees
- Establishing procedures for communicating risk related issues, including limits, to line management, Account Executives (AE), Introducing Brokers (IB), and where appropriate other members of staff (and directly to customers when requested to do so by AEs) with respect to the specific risk type or risk location for which they are responsible.

The individual roles related to these specific risk control responsibilities include:

- Chief Credit Officer
- Chief Compliance Officer
- Global Head of Market Risk
- Global Head of Operational Risk
- Global Head of Capital and Liquidity Risk
- Global Head of Insurance
- Global Head of Risk and Compliance Systems
- Regional Heads of Risk
- Regional Heads of Compliance

2.4.6. Internal Audit

Internal Audit is responsible for providing independent assurance to senior management and the Audit Committee about the effectiveness and integrity of the policy and control infrastructure across the organization, with respect to all risk and compliance policies, and all types of internal controls. This includes all aspects of the risk governance framework detailed in the diagram in Section 2.4, and its application in the day-to-day operations of the business, in all its locations, and across all its products.

2.5. Risk Principles and Related Matters

2.5.1. Risk Principles

MF Global seeks to conduct its risk management and risk control in accordance with the following principles:

- The company aspires to improve continuously its identification, assessment, measurement and monitoring of risk
- The risk management framework must satisfy the requirements of key internal and external stakeholders including, but not limited to the Board, senior management, NYSE (as listing exchange) and regulators in different jurisdictions
- Risk practices and activities must be fit for purpose and follow financial services and other relevant best practice as appropriate for the brokerage business
- The MF Global Board is the ultimate arbiter of methodologies and standards and where appropriate delegates oversight tasks to the Audit Committee and Enterprise Risk Management Committee and delegates authority to individual members of the senior management team
- Specific risk functions must support business activity, but also are to have the necessary independence required to perform their control[14] functions
- All risks are to be methodically and objectively identified, assessed, measured and monitored across MF Global:
  - Risks must be measured in a relevant, objective and statistically valid manner
  - Risks that cannot be measured in a statistically valid way, because of inadequate data, must be subject to logical and consistent qualitative assessment
  - Risk measurement methodologies and models must be documented, be subject to control disciplines and be regularly reviewed for appropriateness
  - The company must establish limits for the containment of risks, as appropriate to its businesses
  - All risks undertaken must be monitored against appetite or tolerance levels or limits set for each risk category/type

[14] "Control" in this context means collection, collation, assessment, analysis and reporting of risk information on behalf of senior management and the Board.

- Breaches of appetite, tolerances or limits must be subject to independent review, reported to management, and can have disciplinary consequences where the breach is proven to be deliberate.

- All members of staff are responsible for contributing to risk management by identifying all risks relating to their area of business and reporting these through their line management to the relevant risk function
- The risk control functions are independent and are empowered to collect, collate, analyze and report risk information upwards and sideways, independent of business, with direct access to the senior management of MF Global
- Segregation of duties:
  - Management of the key elements of the risk process is separated; therefore, no single individual will have the unrestricted authority to do **all** of the following:
    - initiate a transaction
    - authorize a transaction
    - contractually bind the company
    - make payments; and
    - account for the transaction
  - Separation will be achieved appropriately by delegating requisite authority to appropriate individuals and by physical separation of workplace or procedurally through IT system structure and auditable workflows
  - The evidence that duties are segregated must be available and able to bear the scrutiny of internal and external parties
- MF Global and its subsidiaries will comply at all times with all prevailing legislation and regulatory requirements in the jurisdictions in which they operate
- The company applies the principle of *due care* in its activities, decisions and measures taken or adopted in the course of business
- Remuneration schemes and incentives, as well as performance appraisal criteria, should be appropriately aligned to market practice and should not encourage behavior which is contrary either to the risk appetite of MF Global or to principles of highest ethical standards and treating customers fairly

2.5.2. Exceptions to Policy

In preparing and documenting the risk policies detailed in this ERP, it is accepted that not all situations and market circumstances will be covered by the established and documented policy criteria. It is, therefore, understood that exceptions to policy will inevitably arise.

In such circumstances, the general principles expressed within this document should be applied, to the greatest extent possible. The emphasis should be on highlighting and managing exceptions to policy to ensure that they are fully discussed and justified, in the context of these guiding principles, and according to the circumstances in which they arise.

All exceptions to policy are to be:

- Addressed in a timely manner
- Specifically documented and logged in an exception log
- Separately monitored throughout the lifecycle of the transaction to which they relate

Authority for permitting exceptions to the policy rests with the highest Risk Authority for each category of risk detailed in the Delegation of Authority Policy. Exceptions are to be notified explicitly to the CRO and ERMC. Where an exception to policy explicitly or implicitly changes the spirit of the relevant Delegated Authority, it must be specifically reported to, and approved by the CRO and the Board.

2.5.3. Enterprise Risk Management Escalation Policy

This ERP document [GRD 3] together with the Delegation of Authority policy (D of A) set down the various standards within which MF Global expects that its business will be conducted. However, from time to time policy exceptions may arise, breaches of limits may transpire, changes in authorized or responsible officers take place, and unexpected events may occur (collectively referred to as "incidents"), which are outside the boundaries set by policy and delegated limits and/or pose a potential, concerning risk to firm, or require to be notified to relevant external bodies. The purpose of the Enterprise Risk Management Escalation Policy ("ERME Policy") is to ensure that all employees of the company know and understand the reporting chain, reporting protocols and timeframes related to the occurrence of any incidents, such that knowledge of incidents is appropriately disseminated to the correct authorized individuals, for action to be taken in a timely manner.

3. Capital at Risk Policy

3.1. Capital at Risk Management

3.1.1. Introduction

This section addresses policy relating to capital at risk methodologies and monitoring in MF Global. The purpose of capital at risk policy is to ensure that the company has sufficient capital in place to absorb not only the prudent and controlled risks the business explicitly undertakes, but also to cushion against unexpected losses that may materialize from internal or external adverse circumstances.

MF Global will aim to identify the levels of expected loss arising from its day-to-day operations, and to make reasonable estimates of unexpected losses arising from a variety of causes in order to determine the prudent amount of capital it should hold across its business operations.

The amount of capital required to sustain the risk profile (expected and unexpected) of the business is the denominator of return-on-capital, which is a key component of shareholder value. Therefore, the company will seek prudently to optimize its capital so that it can generate optimal long-term shareholder value.

In addition to making its own internal assessment of the capital it should hold for its risk profile, MF Global is required by its regulators to hold specific levels of regulatory capital. The company seeks to hold capital resources equal to the greater of its own internal assessment of capital required or the total of all regulatory requirements for capital. The capital requirement for unregulated subsidiaries will be the internal capital assessment.

3.1.2. Definition of Capital

Capital is defined[15] in MF Global as follows:

- Global Capital Resources (GCR) – Consolidated equity capital less goodwill and intangibles created on consolidation. A combination of Tier 1 and Tier 2[16] capital
- Global Regulatory Capital Requirement (GRCR) – Aggregation, across all regulated entities of MF Global, of the minimum capital resources required for each entity by its local regulator. This includes the UK's FSA's Individual Capital Guidance, and early warning buffers in the U.S.A. and Singapore and any other equivalent local regulatory requirements.
- Global Internal Capital Requirement (GICR) – The amount of capital required by the Board taking account of the risk profile in order to support the achievement of strategic objectives.

3.1.3. Capital in Context

MF Global will review its global capital resources against capital requirements (both GICR and GRCR) at least monthly, since both may be affected by changes in business activities, the risk profile and external market conditions. Global capital resources must be kept equal to or greater than the minimum level set out in the Risk Appetite Document and as delineated by the Appendix B of the D of A policy [GRD 2 and GRD 4].

[15] See the MF Global Ltd. Risk Definition document

[16] At the time of writing MF Global does not have any Tier 2 capital at the global level, but the Risk Appetite envisages the possibility (as and when market circumstances are favourable)

The assessment of internal capital requirements is based on the risks inherent in the business and quantified through methodologies determined by the company, which will take into account regulatory capital calculations.

MF Global will develop its internal capital methodology so that it becomes increasingly central to the way the business is run.

The benefit of identifying, assessing, and mitigating risks in the business is that the company will be able to adopt a risk-based approach to the calculation of its current (and future) capital requirements.

3.1.4. Capital at Risk Policy Objectives

The specific objectives of the capital at risk policy are to:

- Develop the capability to systematically evaluate the adequacy of capital in relation to the company's overall risk profile, and the constraints imposed by regulators, investors and rating agencies.
- Improve risk management by having a common measurement of risk.
- Develop risk-adjusted performance measures that include evaluation of returns (and volatility of returns) from the enterprise to the client level, and hence assist in maximizing shareholder value. The focus on return on internal capital enables MF Global to:
  - Develop an understanding where capital is used, and what the risk and value drivers are.
  - Identify which parts of the business contribute most, relative to the capital they need.
  - Provide a rational basis for pricing at the business, product and customer level.
  - Allow management to identify changes to the way in which business is conducted, that may have a positive effect on risk-adjusted return.
  - Identify sources of concentration and diversification, and what opportunities exist for growth or diversification.
  - Provide a tool to support strategic decision making.
  - Enhance the potential for regulatory agreement to the transferability of capital
- Satisfy relevant regulatory requirements.

3.2. Roles and Responsibilities

3.2.1. Chief Financial Officer

The CFO has the authority and responsibility for the structure and adequacy of MF Global's capital. This responsibility encompasses capital planning to ensure that the company has sufficient capital resources available to meet strategic objectives. The CFO may delegate some responsibilities to the Regional and/or entity CFOs.

3.2.2. Regional/Country CFOs

The regional/ country CFO(s) are responsible for the financial condition and financial operations within their region or country of operation and for compliance with the company's financial reporting standards (and with any local jurisdictional accounting standards). They are responsible for ensuring the availability of adequate financial resources within the business for which they are responsible.

3.2.3. Treasurer

The Treasurer is responsible for the day to day processes for investing the company's capital resources.

3.2.4. Asset & Liability Committee ("ALCO")

See also Section 2.2.2.6.

The tasks undertaken by ALCO that relate to Capital include, but are not limited to:

- Overseeing and influencing the management of capital, liquidity and investment-related risks throughout the Company in accordance with the Risk Policy, Risk Appetite Statement and D of A, including making recommendations for amendment to current risk policy or delegated authorities, including:
  - the capital base structure, allocation, internal capital assessment methodologies and application, returns on capital, utilization, capital raising and reporting
  - to the investment strategy and policy asset/liability maturity matching, liquidity of investments, use of capital, returns and reporting
- Considering the results of capital adverse scenarios, drawing conclusions and recommending appropriate action
- Overseeing the development of the cost- and risk-adjusted return methodologies to be used to monitor the performance of the different businesses to ensure that the returns on capital are sufficient

The complete terms of reference for ALCO is contained in Section 5.4 of the MF Global Ltd. Governing Committees document [GRD 6].

3.2.5. Global Head of Capital & Liquidity Risk

The Global Head of Capital & Liquidity Risk is responsible for:

- Developing and implementing the internal capital methodology processes, including stress and scenario testing
- Creating and maintaining the Capital at Risk Management Document (see Section 3.3.2)
- Monitoring intra-group capital structures and reporting on potential deficiencies or improvements
- Developing internal methodology to assist in the allocation of risk capital to business units
- Reporting on capital, including capital allocation, to senior management, ALCO, ERMC and the Board

See also Section 4.2.6 for the Global Head of Capital & Liquidity Risk's liquidity risk responsibilities.

3.3. Capital at Risk Policies

3.3.1. Internal Capital Management Roadmap

MF Global will measure and monitor the capital required to support the business, and the returns derived from that capital. In order to manage performance at the enterprise level, management needs to monitor risk and return of the component parts of MF Global.

The company will develop internal capital based performance measures at the global entity and business levels, such that a return on risk-adjusted capital (RoRAC) may be generated. This will lead to a more sophisticated capability for the allocation of capital.

To achieve this, MF Global will build up the capacity to identify the costs, revenues and risks (expressed as internal capital) that apply to the individual businesses and activities. Some of these measures can be clearly allocated to them, while others require judgment to be applied.

3.3.2. Capital at Risk Methodology Document

The framework for assessing internal capital requirements is documented in the Capital at Risk Methodology Document (CRMD) [GRD 9]. The document (and associated processes) is to be:

- Reviewed by ALCO and ERMC
- Approved by the CRO;
- Reviewed at least annually with any significant intervening changes approved by the CRO;

The CRMD addresses the following topics:

3.3.2.1 Risk Identification

This section will be based on the Board's Statement of Risk Appetite and will cover the methods by which the risks facing the business are identified and may include a high level statement of the approaches used to manage and mitigate them.

3.3.2.2 Capital at Risk Measurement Methodology

This section will describe the methodologies used to measure the capital that should be held against the various significant risks identified. It will also include the method for deciding which risks require specific capital and which do not.

3.3.2.3 Scenario Testing

This section will explain the method for developing and conducting adverse scenario tests for the various businesses in order to better understand how they might be affected under different economic and extreme event scenarios. It will list the risks for which scenario analyses are appropriate explain how to formulate scenarios that test the resilience of the business and take account of prevailing regulatory guidance and rules.

It will also discuss the mechanisms by which the results of the scenarios can feed in to business planning and assist in setting thresholds for action.

The scenario analysis should be conducted in accordance with the Scenario-based Stress Testing Policy [GRD XX].

3.3.2.4 Capital Planning

This will describe how the outcome of the scenario analysis is applied to the MF Global balance sheet as a whole over the medium term to assist in developing appropriate capital plans.

3.3.3. Capital at Risk Measurement

The company will develop and agree on methodologies to measure the internal capital required for the risks below. Other risk types may be added to this list from time to time.

- Credit risk (includes settlement risk and concentration risk)
- Market risk
- Operational risk
- Strategic and Business risk
- Pension obligation risk

The CRO will review annually the methodologies to be applied for the different risk types.

3.4. Capital at Risk Limitation, Monitoring and Reporting

3.4.1. Capital Limits

The limits for capital are set out in Appendix B of the D of A policy [GRD 4]. These limits seek to ensure that MF Global has adequate strength in its capital base (i.e. that the ratio of Tier 1 to total capital is high enough) and the amount of capital put at risk by the business is constrained.

3.4.2. Capital Monitoring and Reporting

3.4.2.1 Monitoring by Risk

Risk provides the independent, objective monitoring of capital on behalf of ALCO, ERMC and the Board. Risk monitors and reports on the following limits:

- Global Capital Resources (GCR)
- Global Internal Capital Requirement (GICR)- *this is under development*
- Global Regulatory Capital Requirement (GRCR)
- Entity level capital resource (local capital resources in each location)
- Entity level regulatory capital requirement
- Inter-company capital exposures

3.4.2.2 Reporting by Risk

The Global Head of Capital & Liquidity Risk is responsible for ensuring that all capital risk functions provide the necessary information for reporting to ALCO, local risk committees and management, ERMC and Board in the format and frequency required. See also Section 11.

3.4.2.3 Reporting by CFO and Global Treasurer

The CFO and the Global Treasurer, as the individuals to whom the Board has delegated authority for capital decisions are responsible for ensuring that the CEO and Board are kept informed of the capital profile and any risk occurrences relating to capital. They should also ensure that the Global Head of Capital & Liquidity Risk is provided with information necessary to complete the reports required by the Board and other individuals and committees that have oversight and/or monitoring responsibilities for capital.

3.4.3. Escalation

The ERME document [GRD 5] contains the escalation policy for incidents relating to capital. In the event that capital resources, particularly at local levels, fall below the criteria contained in the ERME or are adversely effected by a regulatory change or any other event, the escalation policy should be implemented.

3.5. External/Regulatory Capital Requirements

MF Global is subject to regulatory capital requirements in each jurisdiction in which it operates. Each region and regulated operating subsidiary must adhere to the requirements of the local regulator.

3.5.1. Operating Subsidiaries of MF Global in Europe

MF Global's European operating subsidiaries are subject to the European Capital Requirements Directive (2006/48/EC), as this is transposed into national laws. This imposes a requirement (inter alia) on the European operations to produce a consolidated Internal Capital Adequacy Assessment ("ICAAP"). To the greatest extent possible MF Global intends to ensure that its ICAAP is aligned with the internal capital management processes and methodologies used across the company.

4. Liquidity Risk Policy

4.1. Liquidity Risk Management

4.1.1. Introduction

This section sets out policy relating to liquidity risk in MF Global. Market events, operational procedures, credit realignments and changes to regulatory requirements can have an adverse effect on the company's ability to meet its daily funding obligations. The purpose of liquidity risk policy is to ensure that those obligations can always be met and that liquidity risk is contained within the risk tolerance set by the Board and within the limits detailed in the D of A policy.

4.1.2. Definition of Liquidity Risk

Liquidity risk is defined[17] as "*the risk that MF Global, although solvent, either does not have sufficient liquid financial resources available to enable it to meet its obligations as they fall due, or can secure them only at an excessive cost.*"

The Risk Appetite document [GRD 2] references two specific aspects of liquidity risk:

- **Balance sheet liquidity risk**: **the risk that MF Global may not be able to realize cash from assets or from external financing in a timely manner**
- **Market liquidity risk**: the risk that assets cannot be realized at their valuation price as a result of inadequate market depth or market disruptions

Additionally, MF Global may be subject to **systemic liquidity risk**, the risk that it is unable to receive or pay funds in a timely manner due to market-wide disruptions affecting interbank payment systems in (or between) one or more countries in which it is active.

4.1.3. Liquidity Risk Policy Objectives

The specific objectives of liquidity risk policy are to:

- ensure that the company has sufficient liquid assets and committed external banking facilities to enable it to meet funding requirements arising from
  - exceptional market (and counterparty) conditions
  - operational failures or emergencies
  - sudden adverse changes in counterparty/client creditworthiness
  - sudden and unexpected withdrawal of external funding facilities
  - changes in exchange requirements
- meet regulatory requirements- including changes to those requirements- for the management of liquidity and to be able to evidence this to regulators and other external stakeholders

[17] See MF Global Risk Definitions [GRD 1]

- establish the methodology and process for evaluating the possible effects on MF Global's liquidity from potential adverse internal and external events

4.2. Roles and Responsibilities for Liquidity and ALM

The responsibilities for liquidity across MF Global are as follows:

4.2.1. Chief Financial Officer

The Chief Financial Officer is responsible for directing the overall financial condition, standards and financial operations of MF Global, including the availability of sufficient liquidity resources throughout the business.

The Chief Financial Officer, together with the Treasurer, is responsible for organizing funding facilities that are available to the various subsidiary companies. Each subsidiary should have short-term funding arrangements in place to meet normal cash flow requirements.

4.2.2. ALCO

See also Section 2.2.2.6.

The tasks undertaken by ALCO that relate to liquidity include, but are not limited to:

- Overseeing and influencing the management of liquidity, sources and uses of liquidity, cost of liquidity, adverse scenario planning, utilization, profiling and reporting, including planning and adequacy of external facilities
- Overseeing the contingent liabilities of the company, with respect to guarantees given, fund-raising plans, contingency plans and liquidity infrastructure
- Overseeing the day-to-day activities related to the management of liquidity throughout the Treasury and related operations within the Company
- Considering the results of liquidity adverse scenarios, drawing conclusions and recommending appropriate action
- Monitoring the P&L impact of the asset/liability activities, from the perspective of cost vs. liquidity requirements.

4.2.3. Treasurer

The Treasurer has overall responsibility for the management of liquidity within the agreed limits and triggers as set out in the Delegation of Authority policy. This includes, but is not limited to, arranging and maintaining relationships with principal banking partners, monitoring the availability of external funding, and collating daily information about the liquidity position of MF Global at a consolidated level, and at the subordinate levels of:

- Individual regions (where relevant)
- Individual country level trading and other legal entities
- Individual currencies

The Treasurer is responsible for constantly monitoring the adequacy and availability of all liquidity resources and reporting thereon, daily to Risk and monthly via ALCO, to ERMC and the MF Global Board.

4.2.4. Chief Investment Officer

The Chief Investment Officer is responsible for recommending investment policy to ALCO, ERMC and the Board, for investing surplus funds according to the policy and in consultation with the Treasurer, and also for recommending investment guidelines to the Treasurer which can be applied to regions or country level subsidiaries.

4.2.5. Regional/Country Treasurers

The regional/country treasurer(s)[18] are responsible for the day to day management of cash flows in their businesses, under the overall direction of the Treasurer. They will report on sources and uses of funds in the frequency and format required by the Treasurer and the regional/country CFOs. They must notify the Treasurer of any liquidity drawdown requirement from MF Global resources, with as much notice as is practical in any given circumstance. (See also the Enterprise Risk Management Escalation Policy [GRD 5].)

4.2.6. Global Head of Capital & Liquidity Risk

The Global Head of Capital & Liquidity Risk is responsible for exercising risk control over liquidity management. This includes providing independent and objective assessment of liquidity risk, creating and conducting adverse liquidity scenario analysis, monitoring both liquidity against the Delegation of Authority policy and the processes for managing liquidity, and presenting independent liquidity risk information and intelligence to senior management and the Board. The Global Head of Capital & Liquidity Risk is also responsible for developing the Liquidity Risk Methodology document ("LRMD") (see Section 4.4.1).

4.2.7. Identification of New Liquidity Requirements

The New Products Committee is responsible for ensuring that the liquidity requirements and associated risk arising from any new business initiative it considers is specifically discussed with the Treasurer, including any adjustments to cash flow forecasts or liquidity resources that might be required.

ALCO is to ensure that the appropriate, recommended action has taken place.

4.3. Policies for Managing Liquidity Risk

MF Global expects to be able to meet all requirements for liquidity in all its locations in the normal course of business from its own unencumbered funds (global unencumbered funds – "GUF" or entity-level unencumbered funds – "EUF"). Liquidity management is mainly required for short-term flows related to client driven business. The majority of cash outflows are matched by inflows on the same or the next day. A surplus of unencumbered (i.e. capital and non-segregated) funds is maintained to meet any funding mismatch.

[18] In such locations as these roles specifically exist. If they do not exist, then these tasks are to be assumed by the local head of finance.

4.3.1. Liquidity Planning and Cash Management

The Treasurer will ensure that effective liquidity forecasting and cash management processes are in place, documented and functioning across MF Global, including specific processes to identify any expected cash items that remain outstanding and appropriate action to cover any shortfall.

These processes will also include developing a liquidity plan that assesses the company's liquidity requirements[19] based on the planned volume and composition of business activity for the upcoming period. The plan should include a detailed analysis of projected sources and uses of funds for each MF Global entity. The entity liquidity requirement (ELR) should represent the requirement arising from the normal course of business (but allowing for reasonably expected events) for that period. Treasury should also determine for each entity in each period the unencumbered funds available (EUF) and the entity committed facilities (ECF).

The liquidity requirement and associated analysis of sources and uses must be continuously reviewed and updated for changes in any business and or market conditions. Treasury will report sources and uses; the ELR; the EUF and the ECF to the Risk function for inclusion in the monthly Board report (see also Section 4.5.2).

The Treasurer is also responsible for producing daily cash flow forecasts and monitoring the intra-day and end of day cash positions in each location against forecast to ensure that resources are available as required. It should alert senior management in the event that own funds fall below (or are likely to fall below) the agreed levels.

4.3.2. Liquidity Resources

4.3.2.1 EUF

The company's unencumbered funds are held at a business/country or regional level in highly liquid assets that may be sold or pledged to provide immediate liquidity in the event of a MF Global or market crisis. A variety of different instruments meeting this requirement may be held, subject to the current MF Global Investment policy [GRD XX]. Such assets may be used for stock lending and borrowing, repos and reverse repos.

In the major jurisdictions in which it operates, MF Global is forbidden to use segregated funds for any purpose other than as directed by the client. Therefore, as a matter of policy MF Global considers that segregated funds are not available to it for liquidity purposes.

In normal circumstances, EUF generated in one country or region, are not available for transfer to other countries or regions, unless authorized both by the Treasurer and the CFO. Any local regulatory restrictions on the transferability of funds must also be met.

4.3.2.2 Daylight and Other Overdraft Facilities from Bank(s)

The company has daylight and other overdraft facilities with its settlement banks. MF Global monitors the facility's use intra-day against limits set by the banks so that it can take action to increase the balance on the account or take into account any potential for a settlement failure within the available limits.

[19] Liquidity requirement being the net sources of liquidity less the net uses of liquidity

The size of the facilities should be sufficient to facilitate any of MF Global's daily settlement activities that cannot be met out of EUF.

If these facilities are not adequate, MF Global may utilize the external committed facilities described in Section 4.3.2.3.

The Treasurer should review the size and terms of the facilities regularly and make recommendations for any amendments via ALCO to ERMC. Any amendments will be considered in the context of applicable covenants in the company's external committed funding facilities.

4.3.2.3 Committed External Funding Facilities

In addition to the overdraft facilities detailed in Section 4.3.2.2, MF Global maintains committed external funding facilities. If the company requires liquidity in excess of the amount that can be generated within its GUF, EUF and overdraft facilities, these longer-term facilities may be accessed in progressive draw downs to meet extraordinary funding needs.

4.4. Liquidity Risk Analysis and Contingency Planning

The objective of the liquidity risk analysis and contingency planning is to ensure as far as practicable that MF Global can meet its liabilities as they fall due even during adverse situations.

4.4.1. Liquidity Risk Analysis

In order to evaluate the adequacy of its overall financial resources, MF Global considers an appropriate range of realistic negative circumstances and events ("Adverse Scenarios") in which liquidity risk might occur or crystallize. Such analysis is also useful to ensure the company has adequate controls and mitigation in place or available to reduce adverse consequences.

The liquidity risk scenario analysis is undertaken by the Head of Capital & Liquidity Risk, under the direction of ALCO and the CRO. The adverse scenarios should consider the interaction of different market circumstances on funding requirements in the various operations of MF Global taking due account of the operational controls in place. The CRO and ERMC will review and assess the adequacy of the scenarios and associated assumptions and analysis, which should be conducted in accordance with the Scenario-based Stress Testing policy set out in [GRD XX] and the LRMD.

The results of the analysis will produce the Legal Entity Adverse Scenario Liquidity Requirement (EASLR). The Global Adverse Scenario Liquidity Requirement (GASLR) is defined as the aggregate across all entities of the amount by which any entity's EASLR exceeds its available funds (EUF + ECF). The GASLR and the EASLR should be reported to ALCO, ERMC and the MF Global Board.

The cash flow consequences of each scenario should be evaluated based on reasonable assumptions of the likely effect on both liquidity uses and sources.

The liquidity requirements derived, any operational effects on MF Global identified, the assumptions used and comments on the effectiveness of operational controls will be documented in the Liquidity Risk Management document (LRMD) [GRD 10] and communicated via ALCO to ERMC and the Board. The ERMC or the Board may require additional analysis to be undertaken if it feels that the scenarios do not adequately cover all envisioned situations.

The LRMD should also contain the details of the models, including sources of underlying data, used in the adverse scenario analysis as described in this section.

ALCO periodically should discuss the components of the stress tests to ensure they remain appropriate or require revising in light of market and business conditions or changes to operational processes. If any new situation of concern is identified it will be raised with ALCO by the Treasurer or the Head of Capital & Liquidity.

4.4.2. Liability Concentration

Liability concentration can occur when single clients (or connected entities) accumulate large surplus fund balances with the company. This may leave MF Global vulnerable to a significant and unexpected outflow of funds, should the entity decide to withdraw funds at unusually short notice. Similarly, liability concentration may arise if the company takes on a significant portion of its committed credit lines from a single bank, or a single banking marketplace, such that a sudden withdrawal of such commitments (or a failure to meet them) could strain the company's ability to fund itself when needed.

This is managed as an inherent part of Liquidity Risk Scenarios.

4.4.3. Liquidity Contingency Planning

As a result of the assessment of potential liquidity requirements arising from adverse market or operational situations, MF Global should consider both potential additional sources of liquidity that could be available to meet the unexpected requirements and the management responses that could be required in an adverse liquidity situation. The individual businesses should consider what actions they could take in such circumstances to reduce their normal requirements. These contingencies should be documented in the LRMD.

The escalation policy [GRD 5] clearly documents the roles and responsibilities for responding to an adverse liquidity event.

The Treasurer, the Head of Capital & Liquidity Risk and ALCO will consider whether a test needs to be conducted to assess the effectiveness and completeness of the contingency arrangements detailed above in advance of having to implement them in an adverse liquidity situation.

4.5. Liquidity Risk Limitation, Monitoring and Reporting

4.5.1. Liquidity Limits and Monitoring Policy

4.5.1.1 Liquidity Limits

The Board Delegation of Authority policy sets limits for global liquidity risk based on the Global Adverse Scenario Liquidity requirement[20] (GASLR) (see Section 4.4.1).

In addition each entity will have limits based on its entity liquidity requirement (ELR) under normal market conditions and on the EASLR, assessed against its unencumbered funds and committed facilities (EUF + ECF).

[20] See MF Global Risk Definition document

MF Global will also have a liability[21] concentration limit- the maximum amount of funds (segregated and non-segregated) when aggregated with all other credit exposures to the same entity across MF Global, that may be placed with any one institution,

4.5.1.2 Monitoring by Treasury

Daily monitoring of the liquidity position of individual operating subsidiaries is conducted by the Treasurer (or CFO) responsible for the management of the liquidity of the relevant subsidiary or region against limits established in the delegated authorities. Elements monitored by the Treasurer at a global level include (but are not limited to)

- GUF and EUF
- Credit Line drawings from external funding facilities
- Liquidity by tenor and time-to-realization
- Investments at an entity level
- Amounts and holdings in repo and reverse repo at an entity level
- Cash flow forecast (based on expected cash flows) (entity and global)

4.5.1.3 Monitoring by Risk

Risk is to provide independent, objective monitoring of liquidity risk on behalf of ALCO, ERMC and the Board. Such monitoring will seek to complement the monitoring undertaken by the Treasurer, and may include:

- Monitoring of the GASLR in different adverse scenarios
- Monitoring of the inter-company balances from a liquidity constraint/ ELR perspective

4.5.2. Reporting

4.5.2.1 Regular Reporting

The Risk department will report on liquidity risk monthly to ALCO, ERMC and the MF Global Board in a format agreed by the Board.

Treasury should provide the following liquidity information to Risk daily:

- Entity level sources and uses of funds
- Availability and utilization of all external funds by legal entity
- Investment maturity and realization timescales

Reports will be in format agreed between the CRO and the Treasurer.

Risk is responsible for reporting on the liquidity risk scenarios through production of the Liquidity Risk Management document.

[21] Liability concentration can occur when single clients (or connected entities) accumulate large surplus fund balances with the company. This may leave MF Global vulnerable to a significant and unexpected outflow of funds, should the entity decide to withdraw funds at unusually short notice. Similarly, liability concentration may arise if the company takes on a significant portion of its committed credit lines from a single bank, or a single banking marketplace, such that a sudden withdrawal of such commitments (or a failure to meet them) could strain the company's ability to fund itself when needed.

See also Section 11.

4.5.2.2 Reporting on Breaches of Limits and Targets

The Treasurer is required to produce a report on the reason for any limit or trigger breach and its consequences for ALCO members. ALCO will determine the necessary follow-up action to such a breach.

4.5.3. Escalation Policy

The ERME document [GRD 5] contains the escalation policy for adverse incidents relating to liquidity. Examples of incidents that may trigger the escalation policy process include, but are not limited to a notice of withdrawal of external funding facilities, a credit risk event (e.g. default of counterparty) with potential liquidity consequence, a regulatory announcement that could potentially affect liquidity requirements, or any other incident that has the potential to prevent MF Global from meeting its obligations. Reporting thresholds and the contact details of the relevant authorities are set out in the ERME.

5. Credit Risk Policy

This section documents the policies relating to credit risk in MF Global. The overarching principle of credit risk policy is that MF Global should only allow risk commensurate with the creditworthiness of the customer and the Credit Risk Appetite set by the Board as delineated by the Delegation of Authority [GRD 4].

[The detailed procedures that implement credit risk policy are available in the Credit Risk Procedures manual [GRD 8-(a) (i)]]

5.1. Credit Risk Management

5.1.1. Definition of Credit Risk

Credit risk is defined as the possibility of loss arising from the failure of clients, counterparties or other parties to meet or perform their obligations to MF Global at all or in a timely manner, whether such obligations are direct, indirect or contingent.

The complete definition of credit risk is contained in the MF Global Ltd (Bermuda) Risk Definition document [GRD 1].

5.1.2. Sources of Credit Risk in Business Activity

5.1.2.1 Placement Risk

The most significant source of credit risk exposure in MF Global is generally from counterparties with whom the company places funds. These activities include, but are not limited to, posting margins with exchanges and brokers, placing funds directly on deposit with banks (both MF Global funds and client funds), reverse repurchase agreements and stock lending/borrowing activities.

The company's exposure to placement risk is controlled by setting limits and assessing creditworthiness of counterparties. Exposure to a given counterparty must be appropriately approved.

Note: MF Global conducts the same level of due diligence on the counterparty banks with whom it places clients' segregated funds, as it conducts when placing its own and non-segregated funds.

5.1.2.2 Potential Risk

Potential risk is the possible loss to a client/counterparty due to adverse movements in market prices that the client/counterparty is unable or unwilling to meet. Although MF Global mitigates this risk through margin requirements for listed and some OTC activities, where no margin is held or where the margin held by the company is insufficient to meet the client's trading obligations it creates a credit exposure.

Potential risk is estimated by stressing all positions in a client's/counterparty's account using MF Global's global risk factors (see Section 7.4.2). The Credit department sets limits aimed at controlling the potential risk that a client/counterparty may take on based on their creditworthiness and trading profile.

5.1.2.3 Issuer Risk

MF Global is exposed to issuer risk through its own direct investment activity or whenever the company takes a transaction for its own book where the price is referenced to an underlying security.

This risk is controlled through institutional, issuer and concentration limits.

5.1.2.4 Lending Risk (Financing Lines to Clients)

MF Global provides secured (i.e. collateralized), unsecured and risk-based financing lines to customers to cover initial and variation margin required by exchanges. It also provides financing for OTC activity though thresholds set in Credit Support Annexes (CSAs) under ISDA agreements. This activity creates a direct credit exposure to these clients.

The type and size of credit line and the maximum maturity of the underlying financed contract will be set for each client, depending on their creditworthiness and trading profile. MF Global also places an overall limit on gross financing lines across all accounts in accordance with the MF Global Risk Appetite and Appendix B of the Delegation of Authority [GRD 2 and GRD 4].

5.1.2.5 Pre-settlement Risk

Pre-settlement Risk is defined as the risk that a counterparty might default prior to an instrument's final settlement at contract expiration (either maturity or termination) leaving MF Global potentially exposed to a loss caused by the reinstatement cost of buying back or selling or otherwise replacing the defaulting contract if the market has moved adversely.

5.1.2.6 Settlement and Delivery Risk

Settlement risk is the risk that a contract does not settle or is not accepted for delivery because of a failure of the client/counterparty to provide either cash or the securities. In most cases, a failure that is not corrected becomes the responsibility of MF Global.

MF Global endeavors to control this risk by setting settlement and delivery limits and/or via exchanges.

5.1.2.7 Sovereign and Country Risk

Sovereign Risk is defined as the risk that a government (or a government guaranteed agency or entity) will default on its payment obligations.

Country Risk is defined as the risk that political or economic failure, action, or embargo imposed on or by a specific country will prevent a transaction or obligor, or group of obligors from completing or performing according to its anticipated or agreed terms.

MF Global endeavors to control these risks through the approved country list [in Credit Risk Procedures manual GRD 8(a) (i)] and country risk limits. See Section 5.3.5.

5.1.2.8 Fees and Payments

Some credit risk also arises from the possibility that fees, commissions, and other payments due are not received when expected. This could arise if clients fail to pay commission owed for services.

5.1.3. Objectives of Credit Risk Policy

The objectives of credit risk policy are:

- To establish effective control of credit risk throughout MF Global within the risk tolerances established by the Board and within limits set by the D of A
- To document policies and roles and responsibilities relating to credit risk control that are aligned with and supportive of business strategy
- To establish the requirements for assessing the creditworthiness of clients/counterparties

5.1.4. Restriction on Financing Activity

Credit risk, in particular financing, must not be taken on as a profit-making activity in its own right; only for margin lines or CSA thresholds in support of the core business of MF Global. Any exceptions to this policy require specific approval from the CRO.

5.2. Specific Roles and Responsibilities for Credit Risk

5.2.1. Risk Committees

5.2.1.1 Credit Risk Committee (CRC)

See also Section 2.2.2.3.

The Credit Risk Committee is the forum that assists the Chief Credit Officer in carrying out his/her delegated authority for credit.

See the MF Global Governing Committees Document for the CRC terms of reference [GRD 6].

5.2.1.2 Daily Risk Committees (DRCs)

The DRCs are level three[22] committees that assist the Regional Heads of Risk in the discharge of their authority for credit decisions and monitoring of counterparty risk.

5.2.2. Credit Function

5.2.2.1 CRO

See also Section 2.4.5.1.

The MF Global Board has delegated authority to the CRO to approve financing lines, counterparty and client trading limits and risk limits up to certain thresholds. The CRO in turn has sub-delegated credit approval authority to the Chief Credit Officer and certain individuals.

5.2.2.2 Chief Credit Officer (CCO)

The Chief Credit Officer is the global head of credit risk for MF Global. As such he/she is responsible for ensuring that credit risk is evaluated in a consistent manner across the company, in particular for:

[22] "The level3 committees are working groups established to support corporate and/or business functions. They do not require formal charters or terms of reference. Their agendas are established by the leader of the working group and meetings take place as and when needed." Section1 Page 2 MF Global Governing Committees Document

- Developing and managing credit policy in line with industry best practice
- Developing and managing the credit review and approval process
- Developing and maintaining the MF Global ratings methodology
- Ensuring that issues related to credit are appropriately escalated
- Overseeing the collection of over-due receivables and working with Finance to recognize impairment to such receivables, in line with MF Global accounting policy (for example, Provision for Doubtful Accounts)
- Implementing and managing global credit processes and controls
- Ensuring that the credit risk function globally has adequate and appropriate skilled personnel
- Ensuring that credit-related data and limits are appropriately stored and easily accessible
- Developing business requirement specifications for credit- related evaluation, approval, limit and reporting systems

5.2.2.3 Credit Function

The credit function is responsible for assessing the creditworthiness of clients and counterparties. It has the following as its key tasks:

- Implementing the credit assessment/approval process including producing reports and recording decisions
- Implementing the credit and counterparty limits assessment/approval process
- Collecting financial data either directly from clients or through Heads of Desks, Introducing Brokers, and Account Executives in order to assess client risk profile
- Reviewing information collected in support of a credit review
- Recommending appropriate risk limits
- Creating and maintaining control systems for correctly recording and assessing all clients that have been given risk limits or financing lines
- Monitoring of credit exposures, including both client and counterparty risk
- Reviewing the creditworthiness of all counterparties with whom MF Global places funds, as well as all clearing houses and intermediary brokers used directly by the company
- Monitoring and reporting all credit policy exceptions
- Maintaining and reviewing credit risk policy for the company
- Selecting the appropriate documentation for the client/counterparty and the product
- Working with Legal to draft appropriate credit and default terms in documentation

5.2.3. Credit Notification

Credit will notify the business, in writing, of limit approvals, and/or changes to approved credit limits within the period agreed and specified in the Credit Risk Procedures manual [GRD 8(a)(i)].

To support credit approval and monitoring of counterparty and client financial standing, Account Executives are responsible for providing information about their clients as requested by the credit or risk functions. In addition the Account Executive is responsible for communicating to their regional credit risk function any and all information that reflects, or could influence, the creditworthiness of a client or counterparty as soon as practicable after they receive such information.

5.3. Credit Risk Assessment Policy

5.3.1. Credit Risk Elements

MF Global considers six broad areas that influence credit risk, and their interactions, in determining the full extent to which it will trade with a client or counterparty. These are:

- The risk appetite of the company as set out in the Risk Appetite Statement and delineated in the Delegations of Authority policy [GRD 2 and GRD 4].
- The return on capital employed in the business that is generating the credit risk exposure.
- Creditworthiness: the financial position and capacity of the client/counterparty. This is assessed in the credit review process (Section 5.3.3).
- Product: MF Global's willingness to trade with a given client or counterparty may vary in relation to the risk inherent in a particular product. The contribution of product to the risk assessment of a relationship is determined using a product risk matrix (Section 5.3.4).
- Country: legal, regulatory, economic and/or political situations influence the company's willingness to conduct business in or with clients/ counterparties located in particular jurisdictions (Section 5.3.5).
- The legal documentation under which the business is contracted. Legal documentation provides varying levels of protection from counterparty credit risk; all else equal, the lower is the protection any documentation offers to MF Global, the lower is its risk appetite for that transaction.

5.3.2. Account Opening Requirements

The company should have in place a documented, effective account opening process that specifies what evidence and documentation is required before an account can be opened and what must be in place before trading can commence. The following requirements are not an exhaustive list:

- Clients and counterparties must satisfy the Know Your Customer (KYC) requirements aimed at preventing money laundering activity before an account will be opened and any trading commenced (see also Section 9.4.1).
- Credit must approve the account for trading and assign limits.
- All documentation must be signed and in place before trading can commence.

- All clients must be classified at account opening according to client type to facilitate application of the credit review criteria (see Section 5.3.3.1).

5.3.3. Credit Reviews

MF Global takes a risk-based approach to assessing the creditworthiness of its clients and counterparties. Those that pose a higher risk to MF Global either through the size or nature of their trading activities or their legal or financial standing are evaluated more rigorously than those posing a lower risk.

The company uses credit reviews and undertakes appropriate due diligence to conduct an independent evaluation of the financial capacity of a client or counterparty and to assess the appropriateness of the limits and financing lines that are being requested by/established for that partner. Conducting proper due diligence is critical to setting appropriate limits.

The credit department is responsible for acquiring the information necessary to conduct the appropriate level of due diligence required to make an assessment of the client's/counterparty's creditworthiness.

Credit reviews and appropriate due diligence should be conducted by the credit risk functions on all clients and counterparties at account opening and at any time subsequently as required. As is consistent with a risk-based approach, the depth and detail of the review, as well as the frequency of renewal will be determined according to the risk that the client/counterparty presents to the company. The Credit Risk Procedures manual contains the detailed credit criteria, due diligence questionnaires, requirements for financial information and the extent and depth of the review by client/counterparty type[23] and expected activity.

Notwithstanding the above, the CRO or the CCO may at their discretion require the Credit function to conduct a credit review on any account at inception of a client relationship and at any time thereafter should the account give a cause for concern.

5.3.3.1 Credit Review Criteria

The CCO is responsible for establishing the credit review criteria and ensuring that they are appropriately documented and reviewed at least annually. These will be documented as part of the Credit Risk Procedures manual [GRD 8(a) (i)].

5.3.3.2 Renewals

The frequency of credit review renewal is specified as part of the credit review criteria. However, all financed accounts, all banks and broker/dealers, and all higher risk[24] accounts should be reviewed at least annually. In addition, a credit renewal should be conducted immediately on any client or counterparty whose financial performance or trading profile exhibit cause for concern or whose profile changes to the extent that the credit review criteria require more scrutiny of the client's standing.

[23] For example, and as a general rule, the credit review for a small retail client will be little more than the KYC requirements and an initial margin deposit

[24] As designated in the Credit Review & Limit Criteria

The credit department is responsible for conducting due diligence regularly to support limit renewals. Developments specific to the client/counterparty, their industry, or the economy may require that due diligence be conducted on an ad hoc basis. The credit department is responsible for informing the CCO of these developments and for identifying clients/counterparties who may be affected, conducting appropriate due diligence, adjusting limits as necessary, and where required working with the legal departments to adjust underlying legal documentation.

5.3.3.3 Internal Credit Rating

All clients and counterparties must be assigned an internal MF Global credit rating. All methodology used to assign credit rating will adhere to the requirements of the MF Global Rating Methodology [GRD 15].

5.3.3.4 Financial Information and Other Support

The credit function is responsible for collecting the information required in order to conduct a review. Credit may request the information either from the sponsoring desk or directly from the customer. Credit should endeavor to ensure that all information it receives is of a quality sufficient for making the necessary assessments. Financial information should be audited and include the auditor's opinion, balance sheet, income statement, cash flow statement, and footnotes. Hedge funds' net asset values must be received directly from the administrator on a monthly basis.

As part of the review the credit function will indicate the quality of the information received from the client or counterparty, including whether a clean audit opinion was given and if the auditor made any pertinent comments even though the report was clean.

Clients with insufficient net worth or with inadequate financial information may be required to keep additional margin deposits in their account, or to post a guarantee or other credit support documentation.

The current Credit Risk Procedures manual sets out the information required from the client or counterparty for conducting initial and renewal credit reviews, as well as the conditions under which a guarantee or other non-margin support is required.

5.3.4. Product Risk Matrix

The Product Matrix is currently under development. When complete it will provide a means for assessing the contribution that the various traded instruments, product lines and services ("products") offered by and through MF Global make to the overall risk of a client or counterparty relationship.

The matrix will be developed and maintained by the market risk function. The objectives of the matrix is to measure and document potential exposure risks and verify that products can be adequately priced and processed through MF Global's front-end, operational and risk systems. The company must not undertake trading in products that cannot be properly priced and/or effectively supported.

Similarly, MF Global should not undertake trading in a product whose return is insufficient relative to the risk presented.

All new products offered must be approved through the New Product Development process (see Section 8.3.6).

A comprehensive list of approved products together with their associated risk benchmarks is available at [GRD 8(a) (i)].

5.3.5. Country Risk

MF Global will risk rate countries according to their suitability as the domicile of a client and/or counterparty, of an exchange, and/or a product or instrument. A country will be rated according to the structure and function of its legal system and the stability of its economy and government.

MF Global may decide for economic, legal, political or ethical considerations not to do business with a particular country or countries. The CRO is responsible for deciding which countries are prohibited. The company will not transact business with clients or counterparties in countries that are on the Prohibited Countries list.

Countries will be reviewed and approved by Credit, Compliance, and Legal then recommended to the CRO for final approval.

The current list of approved countries and countries with limits is maintained by Credit [GRD 8(a) (i)].

5.3.6. Business Support of Financing Lines

The CRO, the CCO and selected other individuals in the credit function have the delegated authority to approve financing lines within limits established by the D of A. However, credit will not approve any request for financing unless the account and the line requested is supported in writing by the sponsoring desk, the relevant Regional CEO and relevant Global Head of Product.

5.3.7. Documentation and Storage Requirements

5.3.7.1 Documentation

Complete, appropriate and legally enforceable documentation must be in place for every agreement that gives rise to actual or potential credit risk.

The credit department is responsible for working closely with the legal department to ensure that the legal documentation underlying a relationship is drafted to mitigate credit risk. Credit will inform legal of specific credit and default terms to be included in the document.

MF Global prefers that its standard account documentation is used and every reasonable attempt must be made to have the client or counterparty sign these. OTC trading partners who will not sign standard documentation may transact under an ISDA agreement. (See the current Credit Risk Procedures manual [GRD 8(a) (i)] for the types of ISDA agreements acceptable to MF Global.)

Where the nature of the business does not lend itself to standardized documentation, bespoke documentation is required. All non-standardized documentation must be prepared on a case-by-case basis and agreed by the Credit and Legal functions.

Standardized documentation should be reviewed and where necessary amended for subsequent use, in part or in whole, in response to any changes in the legislative or business environment. In the absence of any such changes, standard documentation should be reviewed for completeness, effectiveness and appropriateness periodically by the relevant regional Legal and Compliance functions.

5.3.7.2 Document Storage

The signed client and counterparty documentation including agreements, terms of business and supporting information including that used to assess granting and renewal of credit facilities must be retained during the time a client/counterparty is active and for a minimum of five years thereafter.

The detailed document storage and destruction procedures are available at [GRD XX].

5.4. Risk Mitigation

5.4.1. Netting Agreements

In trading environments a credit exposure to a counterparty is often reduced by the fact that transactions have both a "pay" and a "receive" leg. These legs or exposures arising from multiple transactions can be netted one against the other either implicitly or explicitly.

Netting is only permitted where a formal agreement exists. Formal netting agreements made directly with counterparties or indirectly through membership in an exchange are acceptable within MF Global as a method of reducing credit risk exposure.

5.4.2. Collateral and Guarantees

5.4.2.1 Collateral

MF Global defines collateral as the non-cash assets that are held on behalf of a client in place of cash to meet current or future anticipated margin obligations.

Acceptable collateral must have the following characteristics:

- can be independently and easily priced (valued)
- is sufficiently liquid that it can be easily disposed of
- has pricing that is stable (holds its value and is relatively free from wide price swings)
- is easy to settle
- a security interest in it can be perfected in favor of MF Global

MF Global recognizes three broad assets classes that may be acceptable as collateral:

- Equity Stocks listed on major, recognized stock exchanges
- Bonds and Fixed Income Securities
- Physical Commodities where full and incontrovertible title and unfettered access to the commodity is given

The Market Risk & Monitoring Manual [GRD 8(b) (i)] lists acceptable collateral within all the company's operating jurisdictions, including specifying acceptable stock exchanges, acceptable issuers, and minimum standards for physical commodities. The guidelines for the acceptable collateral and related haircuts are developed by the market risk function and approved by the CRO. The market risk function is responsible for establishing appropriate haircuts for valuing acceptable collateral instruments.

All collateral arrangements with trading partners must be formally documented and the documentation (standardized or bespoke) prepared by the legal department located in the jurisdiction where the collateral is to be used. The trading partner must have a confirmed legal capacity to enter into a collateral agreement and to provide the requisite collateral.

All collateral for brokerage must be marked to market daily. Should the value of collateral posted by clients fall such that it no longer covers the secured credit facility available to them, they may be asked to increase the collateral posted or reduce utilization of credit lines. The market risk function must monitor the MF Global's exposure to individual securities to ensure that they remain within acceptable or regulatory limits.

The Credit function will report to the ERMC monthly detailing utilization of collateral by client.

5.4.2.2 Guarantees

A guarantee to MF Global may reduce loss in the event of default, but it also creates a potential credit exposure to the provider of the guarantee so due care must be taken in analyzing guarantees. The company may accept guarantees to secure credit exposures, as long as adequate due diligence is carried out on the provider of the guarantee and provided that the documentation associated with the guarantee ensures that it is legally binding and enforceable. Before a guarantee can be taken in a new jurisdiction, external legal advice must be sought in the initial drafting of the guarantee documentation to ensure it is appropriate and binding.

Guarantee documents must follow the guarantee sign-off procedure as set out in the Global Credit Risk Procedures manual [GRD 8(a) (i)] before they can be considered security.

Acceptable guarantees or letters of comfort can be taken from banks and parent and/or affiliated companies. Each of these is addressed below. The level of analysis for a guarantor will be identical as that carried out for a borrower and as detailed in Section 5.3.3.

5.4.2.2.1 Bank Guarantees

All unconditional, irrevocable first on demand guarantees and stand-by letters of credit, (known collectively as "guarantees") must be reviewed by the credit risk function to ensure that the bank opening the guarantee is an acceptable risk to MF Global.

Guarantees from banks rated long term by Moody's, Fitch, IBCA or S&P as less than "A" are not normally acceptable. The CCO or CRO, or an individual to whom the CRO has delegated the authority must approve any guarantee offered by a bank rated less than "A" before it is accepted. This will then be reported to ERMC as an exception.

In general, MF Global would expect bank guarantees to be confirmed by and capable of being drawn in a 'Country A' jurisdiction.

The CCO or CRO, or an individual to whom the CRO has delegated the authority, must sign either the original guarantee letter or a telex/SWIFT confirmation. By signing, the officer is accepting that the guarantee, its legal status, the issuing bank and the amount of the guarantee all comply with MF Global's procedures.

In the event of a client default and when it becomes apparent that a guarantee will be activated, the total amount of guarantees issued by a given bank will be deducted from that bank's risk limit.

5.4.2.2.2 Parent/Affiliated Company Guarantees

All parent and/or affiliated company guarantees must be reviewed and signed according to the guarantee sign-off procedure. Such guarantees must be approved by the CCO or CRO or an individual to whom the CRO has delegated the authority prior to the commencement of trading.

5.4.2.2.3 Personal Guarantees

Credit may require personal guarantees from an individual or individuals if, for example, the financial information for a company is not as complete as the credit function would like to see. Acceptance of personal guarantees will be done in accordance with the Credit Risk Procedures manual. However, personal guarantees are an additional comfort and should not be used to increase limits or financing lines beyond what the financial information provided by the entity supports.

5.4.2.2.4 Letters of Comfort

Letters of Comfort must be reviewed according to the guarantee sign-off procedure and signed by the CCO or an authorized individual in credit before trading commences.

Letters of Comfort are **not** legally enforceable, but are a statement of intent on the basis of mutual trust. As such, they are an inferior source of risk mitigation.

5.4.2.3 Guarantees Issued on Behalf of MF Global

From time to time MF Global counterparties may request a guarantee from it. Credit will initiate this process.

In the D of A, the MF Global Board of Directors delegates the authority to issue parental guarantees on behalf of MF Global to the following executive officers: CEO, COO, CRO CFO and the Chairman of the Board.

Guarantees issued on behalf of MF Global Ltd. or any of its subsidiaries must follow the approval process set out in the Credit Risk Procedures manual. The desk manager requesting the guarantee is responsible for completing the guarantee request form and returning it to the Legal Department.

The Legal Department is responsible for securing approval from:

- One executive officer of MF Global Ltd. (see list above); *and*
- The Treasurer of MF Global Ltd.; *and*
- The Chief Credit Officer

The Treasurer and the CCO may sub-delegate their authority to approve a guarantee in the event that they are not available. This sub-delegation is kept by the Company Secretary.

The Legal Department will complete the guarantee process with the counterparty.

Legal must keep a record of each guarantee issued and who approved it.

Execution of a guarantee must be authorized by a corporate officer (a list of those authorized to execute a guarantee is maintained on GX). The officer executing a guarantee should be different than the officers who approved it.

5.4.2.4 Documentation for Collateral and Guarantees

Proper documentation of risk mitigation is essential; therefore within MF Global, wherever practicable, standardized documentation will be used. In any event, only documentation prepared by approved external law firms may be used. Exceptions to the use of standardized documentation must be approved by the CRO or the CCO and due consideration given to whether the relevant region legal department needs to approve any variation in standardized wording.

Documentation should be reviewed at least every five years and amended in part more frequently in response to changes in regulation or market practices by the legal department and the credit risk function. An approved external law firm must prepare all changes to standardized documentation.

The authority to sign documentation on behalf of MF Global is approved by the Company Secretary. Original guarantee documentation must be stored with the appropriate credit risk function. Letters of Credit must be stored in a secure environment as specified in the Global Credit Risk Procedures manual.

5.5. Concentration Risk

5.5.1. Definition of Concentration Risk

Concentration risk is defined as *the risk that a concentration of activities or exposures in a single area may lead to unexpected loss.*

The purpose of concentration risk policy is to prevent the unintended and uncontrolled build-up of exposure to a counterparty, instrument/product, a country, an industry, or similar.

MF Global sets limits for credit and country concentration as set out in Section 5.6.2.

5.5.2. Types of Concentration

5.5.2.1 Credit Concentration

Credit concentration risk is the risk arising from any single (direct and/or indirect) exposure or group of exposures with potential to produce losses large enough to threaten the company's financial standing or its ability to maintain its core business. Credit concentration includes connected exposure and industry exposure.

5.5.2.1.1 Groups of Connected Counterparties/Clients

Relationships between individual counterparties/clients, which might be considered to constitute a single risk include, but are not limited to:

- Undertakings in the same group
- Entities whose ultimate owner (whether wholly or significantly) is the same individual or individuals, and which do not have a formal group structure
- Entities having common directors or management
- Entities linked by cross guarantees
- Entities that share a common decision-maker (e.g. separate funds managed by the same fund manager)
- Entities carrying out a common trading or investment strategy; and
- Entities operating out of the same office, building or location

5.5.2.1.2 Industry Concentration (Correlated Exposure)

Concentration risk also can arise where MF Global has significant exposures to groups of counterparties/clients/issuers who are engaged in the same or closely related business or industry and whose likelihood of default is driven by common underlying factors.

5.5.2.2 Country Concentration

Similarly, significant exposures to groups of counterparties/clients who are in the same country; in particular, countries with unstable currency, political and/or legal systems present potential concentration risk.

5.6. Credit Risk Limitation, Monitoring and Reporting Policy

5.6.1. Credit Risk Limits

The Board level delegated credit limits are detailed in Section 13.3 of the Appendix B of the D of A [GRD 4]. The Credit and Risk functions develop and implement appropriate types of limits for clients and counterparties and depending on the nature of the business they transact with MF Global in order to keep over-all risk exposure within the Board's Risk Appetite and D of A limits.

The credit review criteria discussed in Section 5.3.3.1 specify the limits available to clients and counterparties. As part of the risk assessment process, the credit function will establish and maintain the appropriate credit limits for each client and counterparty. The limits assigned will determine the method(s) by which the exposures are monitored and whether intra-day monitoring is required.

The Credit Risk Procedures manual [GRD 8(a) (i)] contains more information on credit limits for clients and counterparties.

5.6.2. Concentration Limits:

- The maximum amount of credit exposure:
  - To Individual counterparties/clients/issuers

- To counterparties/clients connected through a third party or individual, such as common advisor, common owner (as per maximum limit attributable to the primary obligor)
- In any one country

5.6.3. Monitoring Against Limits

Individual accounts are monitored against established limits at least daily, and intra-day where applicable, by the market risk function (see Section 7.7.4). The Credit function monitors aggregate credit exposure against the stated risk appetite and limits set out in the D of A policy as well as exposures and limit overruns by counterparty.

5.6.4. Escalation Policy

In the event of a credit risk incident, for example, but not limited to, a breach of a credit limit, notice or other knowledge of counterparty default, or adverse information related to a significant counterparty , the ERME policy should be invoked. The ERME document [GRD 5] contains the escalation policy for a credit risk incident including thresholds the relevant authorities, and their contact details.

5.6.5. Credit Risk Reporting

The credit risk function will report on aggregated credit exposures at least monthly to the ERMC and the MF Global Board in a format agreed by the Board. Such reporting is to highlight any significant issues and trends, especially limit or target breaches.

Credit will also report on individual client/counterparty and country exposure as well as aggregated credit exposure to CRC in a format and a frequency as agreed by the CCO and the CRC.

See also Section 11 – Risk Reporting

5.7. Debt Collection and Provisioning Policy

5.7.1. Bad Debts

MF Global takes on credit exposure only in support of business activity, not explicitly in order to generate a return on that exposure. As such credit exposure in the company arises from core business activities and is generally short term. Credit lines to clients and clients' trading positions are monitored daily and can be revoked quickly. Except for execution only business, fees due are generally collected as part of the settlement process. All credit lines must be reviewed and renewed or adjusted as per the requirements set in the credit review criteria (see Section 5.3.3.1). As a consequence, provisions are generally not a significant item on the company's balance sheet. However, bad debts do arise and are managed according to the following policy.

5.7.2. Collection Activity

The credit function is responsible for overseeing collection activity. It may delegate the process of contacting clients/counterparties or any actions required as appropriate to the amount of money involved.

The credit risk function must assess likelihood of payment as soon as it becomes aware of any difficulties or potential difficulties with a client or counterparty and recommend appropriate action to secure the money owed.

AEs and IBs should assist the credit function through carrying out actions required and by providing information about clients who have over-due receivables, including identifying any items that are under dispute.

5.7.3. Provisioning

Consistent with the structure and short tenor of the credit exposures, as soon as the credit function becomes uncertain whether the monies owed will be recovered, it must raise a provision for the expected loss. The amount of the provision should be calculated in line with past experience of losses[25]. In general this will be 100% of any unsecured balance owing.

When credit decides that the account is unlikely to be paid, it will also refer it to the legal department for possible litigation. The legal department is responsible for deciding whether to pursue litigation.

MF Global will take all due care to collect the debt.

Receivables should be written off in the period where the legal department has reviewed the circumstances and after credit, legal and management agree that recoverability of the balance is remote.

The finance function is responsible for reporting on provisions and write-offs.

[25] See "Provision for Doubtful Accounts (US GAAP policy)" Finance memorandum dated June 30 2008

6. Market Risk Policy

This section addresses the policy relating to market risk in MF Global.

6.1. Market Risk Management

6.1.1. Definition of Market Risk

The company defines market risk as the risk of loss that arises from fluctuations in the values of, or the income from, assets and liabilities held on MF Global's balance sheet. Market risk in the context of this policy is principal risk.

The complete definition of market risk is contained in the MF Global Ltd (Bermuda) Risk Definition document [GRD 1].

6.1.2. Objectives of Market Risk Policy

The objectives of the market risk policy are:

- To establish effective control of market risk throughout MF Global within the risk tolerances established by the Board and within limits set by Appendix B of the D of A [GRD4]
- To document the activities and accounts that are authorized to incur market risk and the process to approve such accounts/activities
- To document policies and roles and responsibilities relating to market risk control
- To establish the methodology for measuring market risk exposure

6.1.3. Occurrence of Market Risk

Market risk arises from three main sources:

- Client funds held in interest bearing accounts on which MF Global seeks to make a spread
- MF Global house accounts (see Section 6.3.1)
- Currency mismatches between income and expenditure

6.2. Specific Roles and Responsibilities for Market Risk

6.2.1. Risk Committees

6.2.1.1 ALCO

See Section 2.2.2.6.

The tasks of the ALCO that relate to market risk, in particular to Treasury and ALM portfolios, include:

- Overseeing and influencing the management of investment-related risks throughout the company in accordance with the ERP, Risk Appetite Statement and D of A, including making recommendations for amendment to current risk policy or delegated authorities, including:
  - investment strategy and policy

- asset/ liability maturity matching
- liquidity of investments
- use of capital
- returns
- reporting

- Overseeing the day-to-day activities related to the management of assets and liabilities throughout the Treasury and related operations within the company
- Monitoring the P&L impact of the asset/liability activities, from the perspective of optimization of return vs. risk

6.2.1.2 Market Risk Committee ("MRC")

See Section 2.2.2.4.

Tasks of the MRC that relate directly to market risk include:

- Overseeing and influencing the management of market risk throughout the Company in accordance with the ERP, Risk Appetite Statement and D of A
- Recommending to the ERMC annually risk appetite and limit frameworks for market risk, including related delegated authorities
- Reviewing at least annually the company's risk policies with respect to market risk, together with any recommendations for change.
- Providing an effective executive forum for the consideration of market risk scenarios and stress tests
- Monitoring key risk indicators for market risk

6.2.2. Market Risk Function

6.2.2.1 Global Head of Market Risk

See Section 7.2.2.2

6.2.2.2 Market Risk Function

The responsibilities of the market risk function relating to market risk are similar to those relating to exposures arising from client and counterparty positions and include:

- Valuation (Section 7.2.2.3.1)
- Risk identification and measurement (Section 7.2.2.3.2)
- Margin and collateral (Section 7.2.2.3.3)
- Monitoring (Section 7.2.2.3.4)

6.2.3. Business

Businesses have the first level responsibility for managing market risk.

6.3. Market Risk Policy

6.3.1. House Accounts

6.3.1.1 Types of House Accounts

The company recognizes the following types of House Account:

- Administration Accounts (e.g. used for fees, charges, control accounts and expenses)
- Error/Default Accounts (e.g. Used for booking positions and/or profit and loss movement where a trading or operational error has occurred)
- House trading accounts (e.g. accounts where MF Global takes a principal position for its own account) in relation to:
  - **Trading portfolios** – which are authorized trading accounts for the specific purpose of client facilitation, hedging and other proprietary trading purposes
  - **Treasury/ ALM Portfolios** – which are used for the purposes of investment of own funds or for Asset/ liability management purposes within Treasury
- Intra-Company Accounts (e.g. Hedging activity between 2 desks or business areas within the same entity)
- Inter-Company Accounts (e.g. Omnibus account for activity between two MF Global entities)

Although administration, error and inter-company accounts are intended as non-trading accounts (see Section 6.3.4), risk can arise in the latter two. Therefore, all error accounts must be captured in the risk systems and monitored by Risk.

Facilitation, house trading, intra-company and inter-company accounts should have limits set for them (see Section 6.4.1) and be monitored in the same manner as a counterparty.

6.3.2. House Account Approval and Review

Under the D of A policy, the CRO is authorized to give explicit permission for a location to undertake house account trading. The CRO may delegate the responsibility for granting permission for house account trading.

The permission will specify what types of activity (see Section 6.3.3) and instruments are permitted. Risk should sign-off proposals before any house trading accounts are opened to confirm that the proposed activity can be adequately measured, monitored and controlled. Limits will be set for the total exposure to market risk in accordance with Risk Appetite and for individual accounts in line with the D of A policy.

In granting permission and setting limits the CRO will be guided by the likely market liquidity and depth as well as the proposed term and location or locations of the proposed activity.

Once approved, house accounts are subject to ongoing review by:

- The Market Risk Committee and the Valuations Committee (for market risk and valuation effectiveness monitoring)
- ALCO for investment and hedging of the company's investment activities, asset/ liability management and cash flow management

- ERMC and the Board for of overall market risk activity

6.3.3. Authorized Trading and Investment Activity

Approval from the CRO may be given to undertake the following activities.

6.3.3.1 Trading Portfolios

6.3.3.1.1 Client Facilitation

Facilitation accounts are used where the company undertakes matched principal transactions, in response to client demand, interacting with both sides of a trade. The vast majority of MF Global's principal trading arises out of the facilitation of client trades.

6.3.3.1.2 Market Making/Proprietary Trading

ERMC may also approve, in selected circumstances, for limited and specific purposes, market making or other proprietary trading activities for the purposes of exploiting market pricing anomalies or other quasi-arbitrage opportunities.

6.3.3.2 Treasury/ALM Portfolios

The day-to-day management of the company's own funds, and of client monies lodged with the Company, rests with Treasury. These activities are to be divided into three functions:

6.3.3.2.1 Investment Activities

The investment of own funds and client monies is to be undertaken according to limits for credit and market risk, and also taking into account liquidity, which are detailed in the Delegated Authorities.

6.3.3.2.2 Other Asset/Liability Management Purposes

Treasury may also engage in a range of other asset/liability management activities on behalf of the company, principally to mitigate unwanted Foreign Exchange risk, or to optimize interest rate risk exposure. Additionally Treasury may manage discretionary funding and investment activities to maintain continuing access to different funding opportunities, including the interbank market, and collateralized funding (e.g. repo/reverse repo). Such activities are also subject to the Delegated Authorities, which restricts foreign exchange, interest rate risk and overall gearing.

6.3.3.2.3 Hedging

Positions for own account may be taken to hedge exposures to foreign currency and interest rate risk, which is inherent in the international nature and financial focus of the business. The company will hedge to mitigate the risk from its own corporate foreign exchange and interest rate exposures.

Hedging activity may also be undertaken in conjunction with client facilitation activity as well as market making/ proprietary trading.

6.3.4. Non-Trading Activities

Administrative house accounts are held for corporate purposes rather than market activity under the authority of the local heads of finance/regional CFOs or the Chief Financial Officer. These include:

- Long-term investments (e.g. Exchange Memberships required in order to conduct business)
- Control Accounts
- Brokerage collection accounts
- General Ledger
- Such other accounts as may be deemed necessary by the Chief Financial Officer

Only minimal market risk exposure is permitted on these accounts. Any positions arising on these accounts should be transferred to an appropriate trading account so that it can be monitored appropriately. Non-trading accounts are not monitored on the risk systems and are the responsibility of the CFO.

6.3.5. Measurement

MF Global uses stress risk, Value-at-risk (VaR), and/or margin requirements to measure the market risk (potential loss in value) in specific house account principal positions. The measurement must be undertaken daily using parameters agreed by the MRC and measured against limits set in the risk appetite and delegated authorities. The daily measurement against limit must be reported to the relevant local daily risk committees, to ALCO/MRC and then monthly to ERMC.

Section 7 contains more comprehensive information about measurement and monitoring of all exposures, including house accounts exposures.

6.4. Market Risk Limitation, Monitoring and Reporting

6.4.1. Risk Limits, Delegated Authorities and Trading Authorization

Risk limits for market risk are set in accordance with the Board's Risk appetite [GRD 2] and cascaded down to desk level and individuals for each activity. The current risk limits for house account activity are contained in the Delegated Authorities and relevant sub-delegation documents [GRD 4].

Only individuals specifically authorized to do so by documented authority are permitted to engage in trading activity for MF Global house accounts.

6.4.2. Market or Instrument Concentration

Concentration risk can arise if the company has significant holdings in a single security/instrument when measured as a share of open interest, shares in issue, or tradable volume such that the price and/or liquidity in the market is, or could be, affected by the company's actions.

This is managed as part of Market Risk limits. See also Section 7.7.1.5.

6.4.3. Monitoring

Individual desks, as the first level of risk control, are responsible for managing positions daily and intraday[26], within limits and for immediately escalating any breaches. It is also responsible for providing daily position and P&L reports to Risk.

The market risk function is responsible for daily monitoring of individual accounts against risk limits. It also is responsible for reporting product/instrument concentrations as required by the CRO and the Board.

The Market Risk function described in Section 7.2.2 is responsible for monitoring MF Global House Accounts daily and intra-day, against the agreed risk limits as it does all client and counterparty exposures. It also monitors for issuer concentrations.

6.4.4. Breaches of Limits and Escalation

The Market Risk function is responsible for identifying and highlighting to the relevant responsible business manager any breaches of MF Global house account trading limits.

Risk will investigate all portfolio limit breaches. Where the issue is not resolved, Risk will report and escalate the breach according to the ERME policy [GRD 5].

6.4.5. Reporting

The Market Risk function will report on market risk exposures as required by the MF Global Board.

The Market Risk function will also report on market risk exposures to the ERMC, MRC, ALCO and Daily Risk Committees in a format and frequency agreed between the CRO and the Global Head of Market Risk.

See also Section 11 – Risk Reporting.

[26] House accounts should be monitored intraday unless the nature of the business means this is not meaningful, for example, repurchase agreements. The Market Risk function will determine which accounts are not monitored intraday.

7. Exposure Measurement, Margin and Monitoring Policy

7.1. Exposure Management

This section covers risk measurement and monitoring policy for MF Global. This policy applies to client/counterparty exposures and to MF Global house account exposures. The purpose of the policies in this section is to enable the company to measure, monitor and control risk of the business within the firm's appetite for risk, and to quantify the capital required to cover these risks.

The processes by which this section of the ERM Policy is implemented together with details of the measurement methodologies are found in the Market Risk & Monitoring manual [GRD 8(b)(i)]

7.1.1. Definitions

7.1.1.1 Risk Measurement

Risk Measurement, also known as risk quantification, is defined as: *the processes and methods used for the analysis and measurement of valuations and risk, using mathematical, analytical and qualitative approaches. These processes and methods are applied consistently to data sets, which are extracted from MF Global's systems or from external sources.*

It comprises all of the methods, models, processes, controls, data collection and IT systems that:

- support risk assessment
- assign internal risk ratings and
- quantify risk exposure

The detailed MF Global approach to this area is contained in the Risk Modeling Policy [GRD 14] but it requires that all models be subject to independent validation and all parameters to periodic back testing and benchmarking using historic data.

Risk measurement includes both valuations and risk exposure measurement. Valuations include prices, MTM, collateral assessment and NLV computation, liquidation cost, and CVAs. Risk exposure measurements include VaR, CVaR/ES, exchange and other regulatory margin requirement, haircuts, scenario based risk computation, stress risk, and capital at risk.

7.1.1.2 Risk Monitoring

Risk monitoring is examination of exposures against limits established for client, counterparties, and house accounts.

7.2. Specific Roles and Responsibilities for Exposure Measurement and Monitoring

7.2.1. Risk Committees

7.2.1.1 Market Risk Committee ("MRC")

See Section 2.2.2.4.

The Committee is the forum through which MF Global senior management exercises its monitoring and control responsibilities for all aspects of risk measurement and monitoring throughout the company. The MRC assists the CRO and the Global Head of Market Risk in carrying out their delegated authority for market risk.

7.2.1.2 Daily Risk Committees ("DRCs")

The DRCs are level three[27] committees that assist the Global Head of Market Risk (and/or the relevant Regional or local Heads of Risk) in the discharge of his/her authority for risk decisions. They provide an important forum for discussing issues arising out of the risk monitoring activities.

7.2.2. Risk Control Function

7.2.2.1 Chief Risk Officer (CRO)

See Section 2.4.5.1.

The MF Global Board has delegated authority to the CRO to approve risk levels within the limits set out in Appendix B of the D of A [GRD 4]. The CRO in turn has sub-delegated approval authority to the Global Head of Market Risk and to the Global Product Heads and certain other individuals.

7.2.2.2 Global Head of Market Risk

The Global Head of Market Risk is responsible for ensuring that risk is assessed and monitored in a consistent way across the company, in particular for:

- Developing and managing market risk policy in line with industry best practice
- Defining measures to capture client and counterparty risk as appropriate for the various business areas. This includes, but is not limited, to stress risk measures, margin calculations including exchange and house requirements, VaR and others.
- Defining methodologies and parameters used to implement the risk measures in line with the risk appetite of MF Global
- Developing policies and procedure to assess and monitor client and counterparty risk
- Developing policies and procedures to assess and monitor the house and proprietary risk taken by MF Global

[27] "The Level 3 committees are working groups established to support corporate and/or business functions. They do not require formal charters or terms of reference. Their agendas are established by the leader of the working group and meetings take place as and when needed." Section1 Page 2 MF Global Governing Committees Document

- Defining controls to limit the size of the different business areas in accordance with MF Global's risk appetite
- Developing measures and guidelines to capture internal house account risk, and tools to manage and mitigate such risk
- Ensuring continuous monitoring of market risk exposures, in both client and internal portfolios including treasury /ALM positions
- Ensuring that the Market Risk function globally has adequate and appropriate skilled personnel
- Ensuring (in coordination with the Global Head of Risk and Compliance Systems) that appropriate risk systems and infrastructure are in place to support risk measurement and monitoring responsibilities

7.2.2.3 Market Risk Function

The Market Risk function's responsibilities include risk identification and measurement assessment and monitoring. Its responsibilities are not limited to Market Risk per se and include:

7.2.2.3.1 Valuations[28]

The market risk function, in coordination with Independent Price Verification (IPV), has responsibilities for independent valuation verification, in particular:

- Developing and maintaining regular processes for the independent, objective verification of valuation prices used in day-to-day risk and P&L evaluation
- Identifying particular circumstances where "normal" valuation routines may become unreliable, or may require management consideration in order to establish prudent valuations for either risk or accounting purposes
- Identifying particular instruments or markets where valuation methodologies need to be adapted in order to establish prudent valuations for either risk or accounting purposes
- Identifying and recommending appropriate actions to reduce any dependency on specific front-office opinions and other inputs to valuation decisions
- Identifying circumstances, instruments and markets where valuation prices need to be adjusted to permit for delayed or reduced capacity to realize gains or losses, because of market illiquidity

7.2.2.3.2 Risk Identification and Measurement

- Continually reviewing and refining internal stress models (back-testing and stress-testing) and highlighting issues/recommendations to MRC, ALCO and local risk forums as required
- Coordinating the stress models across the different risk locations within the company
- Reviewing and recommending changes to market risk, measurement and modeling policies

[28] Please note that Valuation Control, a part of the Finance function, is responsible for valuations for financial reporting/ FASB purposes

- Reviewing and verifying the models used throughout the company for the pricing, valuation and mitigation of risk, including parameter libraries and settings
- Developing and maintaining key risk indicators for market risk
- Providing input and recommendations to senior management, MRC, NPC and ERMC for market risk attributes of new products
- Developing business requirement specifications for risk systems used for trade and risk valuation
- Establishing procedures for identifying and controlling the risks inherent in supporting electronic Order Routing Systems (eORS)

7.2.2.3.3 Margin and Collateral Adequacy

- Monitoring the adequacy of daily exchange margin requirements
- Monitoring the daily outputs from internal margin models and bespoke portfolio margining arrangements
- Overseeing and ensuring the effectiveness of margin call processes
- Monitoring the effectiveness of the margin call activities undertaken by the other departments (e.g. Client Services)
- Monitoring the composition, value and adequacy of collateral taken and given by the businesses (e.g. stock borrow/lend operations) and any related haircuts

7.2.2.3.4 Monitoring

- Monitoring internal risk positions against limits intraday (see footnote at Section 6.4.3) and reporting breaches in accordance with the ERME [GRD 5].
- Monitoring client/counterparty risk exposures at least daily
- Creating and maintaining controls systems for monitoring daily each individual account's margin requirements and for identifying accounts with insufficient equity

7.3. Valuation Policy

7.3.1. Valuation[29]

MF Global must continuously evaluate its exposures and counterparty risk profiles in response to changes in market prices, client and house account positions.

All transactions are to be marked-to-market at least daily based on end of day settlement, and, to the extent possible, more frequently, especially in times of increased market volatility. Valuation may take place at different and irregular intervals during the day to track the effects of intra-day market movements on margin requirements.

The P&L and account value changes due to price and valuation changes should be automatically updated within the risk systems, and monitored in the daily risk and management reports.

[29] Please note that Valuation Control, a part of the Finance function, is responsible for valuations for financial reporting/ FASB purposes

7.3.2. Price-Sourcing for Valuations

The source of prices for valuations will by necessity differ for each type of instrument; however, MFG must adhere to the following principles:

7.3.2.1 Exchange-traded Positions

Prices for instruments traded on listed markets should be marked according to the relevant exchange's guidelines (e.g. EDSP exchange derived settlement price; the price provided or required by the exchange which could be mid-price, bid or settled).

Prices for positions in exchange-traded instruments should be entered into the booking and clearing systems as automated line feeds, either from external system providers or directly from exchanges.

7.3.2.2 Securities Traded in Secondary Market

Prices for positions in instruments traded in secondary markets should be obtained in the following priority sequence

- Mark to mid of observable closing prices for actively traded[30] securities
- Mark to last observable trade prices where recently traded
- If not traded recently, mark to model (see Section 7.3.2.4)

7.3.2.3 OTC Positions

Prices for positions in OTC instruments should be obtained in the following priority sequence:

- By reference to an exchange-traded price where this is the closest proxy, as designated by Risk and sourced by the Operations functions
- By reference to a third-party, unconnected broker, where the information is directly collected by a third-party vendor or directly sourced through a screen by the Operations functions, as designated by Risk
- By reference to a third-party unconnected broker, where the information is collected by a specific phone call by the Operations functions, as designated by Risk
- By models developed and controlled by the Risk functions, where the underlying prices and implied data is extracted directly from the market (see Section 7.3.2.4 for policy on marking-to-model)

The price source for each instrument and position should be documented as part of the Market Risk & Monitoring Manual [GRD 8(b) (i)].

7.3.2.4 Marking-to-Model

Marking-to-model is undertaken by the Market Risk functions where the prices are not directly available or observable in the listed markets and in order to value specific OTC positions (see above).

[30] Actively traded means an equity market or government securities market

All models used for pricing and valuation, whether developed internally or from a third party vendor(s), must be vetted for correct source and methodology and verified by the Market Risk function and approved by the MRC and EMRC.

7.4. Risk Measurement Policies

Evaluation of the risk presented to MF Global by its clients, counterparties and house accounts must be undertaken using consistent measurement techniques described below. MF Global measures risk exposures from house accounts and client/counterparty portfolios using both "VaR" (Section 7.4.1) and "Stress Risk" (Section 7.4.2) measures. All house accounts and some client/counterparty accounts will have VaR limits (see Section 7.4.1.2); all client/counterparty should have stress risk limits. Risk measurement is also undertaken through application of regulatory[31] margin and internal margin requirements.

The Global Head of Market Risk, guided by the CRO and with input from the MRC and regional market risk functions, is responsible for ensuring that the MF Global measurement methodology evolves continually in response to changes in products and services, markets, and the availability of measurement tools and data/information.

7.4.1. Value at Risk (VaR) Measurement

7.4.1.1 Methodology

VaR analysis should be used to measure market risk exposures in all MF Global house accounts and selected client/counterparty accounts (see Section 7.4.1.2).

The parameters and methodology associated with the VaR are recommended by the Global Head of Market Risk in consultation with the MRC and approved by the CRO. These are detailed in the Risk Modeling Policy [GRD 14].

VaR should be benchmarked to historic moves, market trends and the prevailing macro-market conditions/environment.

Accounts that are monitored by VaR should be assessed at least daily; if market conditions require then VaR measurement may be undertaken intra-day. The daily measurement against limits should be reported to the relevant DRC, the MRC and through to ERMC.

7.4.1.2 Accounts with VaR Limits

VaR limits will be set in accordance with the D of A for:

- MF Global House Accounts:
  - Facilitation Accounts
  - Trading Accounts
  - Treasury/ALM
  - Inter and Intra-company accounts where required
- Counterparty/Client portfolios:
  - That contain correlated instruments

[31] Margins required by exchanges and/or markets

- That are diversified portfolios
- That have significant exposure [significant is defined in parameter documentation]
- That are deemed high risk by the Market Risk function
- Where MF Global provides risk based financing and/or where requested by the Credit function

7.4.2. Stress Risk Measurement

7.4.2.1 Risk Measurement

All client, counterparty and house account exposures should be stressed for price and volatility at a product and client/counterparty level in accordance with the Global Stressing methodology. The Market Risk function is responsible for performing this daily stress analysis. The results are used to monitor client and house risk.

The purpose of this measurement is to ensure a continuous questioning and probing of the standard internal initial margin and other risk assessments. The adverse movements provide benchmarks for risk limitation and are used to make risk calls.

The same parameters will be applied across all of MF Global for each product. These parameters must be documented and available in a controlled environment for use in each market risk function.

Stressing parameters should be benchmarked to historic moves, market trends and the prevailing macro-market conditions/environment. Stress analysis is conducted against historically reasonable market movements; however, from time to time events do occur in markets that mean actual movements are outside of the stressed range. Reasonable care must be taken not to either under or over estimate the stress movements; this is particularly important during unusually volatile periods.

Limits will be assigned to clients/counterparties based on the results of the position stressing.

The stress risk measurement methodology used is documented in the Global Stressing Policy and Parameters section of the Risk Modeling Policy [GRD 14].

7.4.2.2 Approval and Back-Testing of Parameters

The ERMC will at least annually approve the parameters and methodology used for stressing positions, as recommended by the CRO and Global head of Market Risk. These risk parameters must be regularly[32] back-tested, bench marked and updated.

Back-testing may include:

- Tracking of actual price-changes against internal initial margin estimates
- Tracking of actual performance of new instruments (and/or those without a price history) against initial assumptions
- Tracking of actual daily gains/losses against statistical estimates

[32] Parameters should be back-tested at least annually and more frequently is at the discretion of the CRO or Global Head of Market Risk

- Tracking of actual gains/losses on MF Global House Accounts against initial margin limit
- Or other analysis as recommended by the CRO and/or Head of Market Risk

7.4.3. Regulatory Margin Requirement Measurement

MF Global must meet the margin requirements of the exchanges on which it trades. To facilitate this, the company will try in most instances to use a system that replicates the calculation of regulatory margin requirements. As a general rule, MF Global does not want to trade any instrument if it is unable to calculate the regulatory margin requirements on a daily basis.

Where the company does not have such a system, the following may be acceptable substitutes, in descending order of preference:

- A system that does not exactly replicate the regulatory margin calculation but provides a reasonable proxy
- The margin calculation may be undertaken using spreadsheets, but only by exception while automated systems are developed
- Where MF Global is unable to calculate a margin requirement internally – It may go to a reliable third party vendor/providers while the internal capability is be developed

The Global Head of Market Risk must approve the use of any of the above alternatives. The approval should be documented along with an action plan showing the steps required and the expected time it will take to develop the desired capability.

Risk is responsible for ensuring that all margin calculations are accurate and reasonable.

7.4.4. House Margin Requirements Measurement

MF Global House margin requirements are based on the measurements methodologies mentioned in 7.4.1 to 7.4.3. Depending on the client or counterparty, the products traded and the location where trading takes place the house margin requirement may be higher or lower than the regulatory margin or the stressed risk measurements.

The Market Risk function is responsible for the methods used to set house margin requirements.

MF Global margin policy is contained in Section 7.5.

7.5. Margin Policy

The setting and holding of margin is the primary method of risk measurement and mitigation within MF Global.

7.5.1. Margin Requirements

Margin requirements are determined internally by the Credit and Risk functions and applied to every account – house accounts as well as clients and counterparties.

Initial margin (IM) is the deposit required to establish a position; variation margin (VM) is the amount required once a position has been established to cover adverse price movements in excess of the initial margin.

7.5.1.1 Exchange Listed Products

Generally, the minimum initial margin requirement is set by the relevant exchange (see Section 7.4.3), but the actual amount that the client/counterparty is asked to post may be different according to MF Global's assessment of the risk of the account and the types of transactions. The client/counterparty risk is always separately evaluated irrespective of any Exchange Margin requirements.

Credit, in coordination with Risk, determines the circumstances under which clients may be permitted to trade with an initial margin less than the exchange minimum. A financing line approved by the credit function, will be required to finance the difference.

7.5.1.2 Non-Exchange Listed Products

The Risk function will establish the initial margin requirement for products that are not exchange traded or margined.

The Risk function is also responsible for establishing the margin requirements for new, un-margined instruments.

7.5.2. Margin Calls

Generally, clients and counterparties are required to place IM before commencement of trading. Thereafter the position is evaluated at least daily against the margin requirement for the subsequent day's trading, adjusted for existing unrealized gains and losses on open positions.

Where the balance in a client's or counterparty's margin account is insufficient to cover price movements, a margin call must be made requesting the client to increase the net liquidating value of the account to the required level by adding cash or collateral or reducing open positions.

Generally, clients and counterparties are required to place any additional margin due on their close of business statement by the close of business on the following day. If such VM is not forthcoming (or unless a credit limit is granted by MF Global to the client), open risk positions may be closed out immediately on instruction from the Market risk function, to bring the risk exposure within the bounds of available margin.

All margin calls shall be issued on the first day of the call (the same day). This includes initial margin, beginning of day and intraday variation margin calls.

The Regional Head of Risk in consultation with the Daily Risk Committee may, under limited circumstances allow exceptions to this policy. These circumstances include, but are not limited to, situations where exchange regulations, holidays, currency restrictions, limitations of payment systems and procedures, or time zone differences mean a client cannot reasonably meet same day margin calls.

Initial margin should be satisfied by margin deposit while variation margin may be satisfied by either margin deposits or liquidation. The calls met by liquidation shall be approved and monitored by the Risk function.

Variation margin calls on clients who engage in short option selling must be met through actual funding, not by waiting for the positions to expire.

7.5.2.1 Acceptable Funds and Collateral

Margin deposits must be made by cash or by other acceptable forms of collateral.

The Market Risk function is responsible for documenting in the Market Risk & Monitoring manual acceptable collateral (see Section 5.4.2.1) and setting the appropriate haircuts.

In all cases, MF Global will follow the guidelines of the relevant exchanges.

7.5.2.2 Margin Call Monitoring and Records

A detailed record of margin calls and definitive responses must be maintained by the individual/area responsible for making the call.

7.5.2.3 Prohibition on Trading

Any account with an outstanding margin call that does not have a confirmation of funds remitted (such as bank reference numbers) may be prohibited from trading unless the trades are risk reducing. Therefore, such accounts are prohibited from:

- Adding new positions
- Legging out of spreads
- Engaging in day trading

The salesperson/account executive is responsible for monitoring his/her customers' trading activity to ensure it remains within limits.

7.5.3. Risk Calls

Risk calls are based on the continuous stressed evaluation of all accounts conducted by the market risk functions. Risk calls may be based on, but not limited to, the following:

- Stressing positions based on VaR or the global parameters (see Section 7.4.1 or Section 7.4.2)
- Concern as to concentrations in certain illiquid markets where the potential cost of liquidating a position may be too large to be absorbed by the customer 's financial ability or impossible to estimate
- Situations where the credit risk function may not have sufficient information to establish a trading limit and; therefore, uncertainty exists over the customer's, IBs or AEs ability to meet extreme market activity
- Generally, any conditions or concerns that call in to question the validity or applicability of assumptions used in stress modeling or which may render risk projections of limited value.

Regardless of a client's actual margin call, risk calls should be met on the same day they are issued. Risk calls may be met by liquidation or additional funds or collateral. Risk calls that are not met will be subject to escalation in accordance with the ERME policy [GRD 5].

7.5.4. Client Availability

All clients with open positions must be available at all times to control their positions either directly or through an individual appointed with power of attorney. All risk and margin calls must be met regardless of the client's availability status. Clients will be informed of this requirement in the account opening documentation.

7.5.5. Note on Client Funds

MF Global holds client funds for risk mitigation (margin) and to facilitate trading. These funds may be designated as 'segregated' and 'non-segregated' according to the rules applicable in different jurisdictions.[33] In locations where the company holds segregated client funds, it exercises the same duty of care for these funds as it does in managing its own. MF Global will not place client assets with a counterparty with which it would not place its own assets. All such counterparties are subject to credit assessment (see Section 5.3). In cases where the client posts non-cash collateral, appropriate haircuts will be applied to the accepted collateral. The guidelines for acceptable collateral are contained in Section 5.4.2.1.

7.6. Policy for Professional Traders

7.6.1. Definition of Professional Traders

A professional trader is an individual, group of individuals, or a company engaged in the business of trading for profit. Professional traders differ from speculators in that they generally do not take any directional risk for significant period of time. It is the professional trader's goal to use its capital to trade an assortment of products in any direction for maximum profit with limited risk at the lowest possible cost. Professional traders are in most cases liquidity providers in the market. They study order flow, trends, correlations etc. and position themselves to take advantage of different market conditions. They can be split into four categories:

- Spreaders (intra / inter products)
- Market Makers
- Arb (Zeo correlation risk, Momentum, high-frequency)
- Micro Direction Trading aka Day Traders (typically DMA)

7.6.2. Authorization

Clients who wish to day trade may be allowed to operate with less than the exchange minimum margin with permission of the relevant Regional Head of Risk. The relevant Risk function will evaluate any proposals for reduced margins based on, but not limited to, such factors as products to be traded, client type and standing, the client's business model, and access to electronic order entry systems. The Risk function will also ensure that the client's positions and financial standing are effectively monitored.

7.6.3. Classification of a Day Trader

To be classified as a day trader, a trader must be fully margined at the end of the trading day.

[33] Specific requirements associated with segregated funds are available from the regional Compliance Functions

The market risk function will maintain a list of products that:

- may be approved for lower margins (e.g. certain electronically matched products)
- must be pre-approved before being eligible for reduced margin day trading, and
- are not eligible for reduced margins (e.g. due to illiquidity or extreme volatility)

These may differ by location; any differences are to be recorded as a regional/country variation.

7.6.4. Risk Limitation

The maximum allowable risk is defined by the Credit and Market Risk functions, based on the account credit worthiness, funds on deposit, in line with MF Global's D of A.

Clients engaged in futures day trading will normally be assessed at risk requirement (margin and others), at 50% of the overnight position risk requirement, depending on the size of the position, average duration of the position held intraday, frequency of trading, and expected revenues versus firm's appetite for risk.

Clients may not day trade while on margin call (see Section 7.5.2).

Positions held overnight must meet the exchange minimum margin requirements.

Clients holding overnight positions must have the financial ability to absorb the risk of their portfolio. Clients who continually liquidate to meet margin calls and/or hold open positions intra-day that are excessive may be required to maintain a NLV greater than exchange minimum margin on their open position.

Each salesperson and/or desk is required to monitor their clients' activity for excessive intraday positions and/or the need to liquidate positions to meet margin calls and to notify their Market Risk function of such activity.

7.7. Risk Limitation and Monitoring Policy

7.7.1. Risk Limits

High level risk limits are established as part of the MF Global risk appetite and detailed in the Risk Appendix of the D of A [GRD 4]. These high level limits are translated in to various risk limits that are set for all house accounts and client/counterparty exposures.

The Market Risk & Monitoring Manual [GRD 8 (b) (i)] contains detail of the types of limits used by Risk across the MF Global businesses. The principal risk limits are listed below.

7.7.1.1 Margin Requirements and Risk Calls

The amount of risk an account can take on is limited by the application of Initial Margin (IM), Variation Margin (VM), risk calls and/or the level of un-margined credit limits that MF Global is prepared to grant. See also Sections 7.5.2, 7.5.3, and 5.6.1.

7.7.1.2 MF Global House Account Risk Limits

All risk limits for MF Global house accounts are to be approved by the CRO or the Global Head of Market Risk in line with the D of A. Each house account approval should define the limits (for example one or more of VaR, stress, P&L). Market Risk will monitor the accounts against the approved limits. See also Section 6.4.1.

Any internal account deficit not covered by an approved limit is deemed to be in breach.

7.7.1.3 Client/Counterparty Credit Risk Limits

See Section 5.6.1

7.7.1.4 Client/Counterparty Risk Limits

7.7.1.4.1 General

MF Global contains the risk exposure presented by client/counterparty activity by setting appropriate limits, as discussed in Sections 7.4.1 and 7.4.2, or using any other method approved by the Global Head of Market Risk. Limits set on client/counterparty accounts will reflect the financial information provided to the company on account opening in or as subsequently updated.

7.7.1.4.2 Electronic Trading Limits

All electronic trading systems made available to clients and for house account trading must have pre-trade controls in place before trading can commence. These limits include, but may not be restricted to:

- 'Fat Finger' limits
- Net open position limits
- Buying power limits

Limits should be established for each product type in order for Risk to control the products client and house accounts can trade.

Limits should be stored in a central database and monitored across all systems by Risk.

Risk is responsible for defining electronic trading limits for clients/counterparties and house accounts.

7.7.1.5 Market or Instrument Concentration

Concentration risk can arise if the a client or counterparty has significant holdings in a single security/instrument when measured as a share of open interest, shares in issue, or tradable volume such that the price and/or liquidity in the market is, or could be, affected by the client's or counterparty's actions.

Risk will monitor client/counterparty market or instrument concentration and may implement appropriate limits at the discretion of the CRO.

7.7.2. Direct Market Access Policy

Direct Market Access ("DMA") is defined as any customer that is operating an electronic front end system that can access a market through a portal that bypasses any or all of MF Global electronic risk controls.

DMA is available only to clients who meet specific requirements concerning credit worthiness, financial capacity, and trading experience.

DMA for a client must be approved by the relevant Head of Business and the CRO or Head of Market Risk. Approval must be obtained before access is granted and should be renewed at least annually.

The client must clearly demonstrate that it has sufficient internal controls and capability to monitor trading activity.

The detailed Direct Market Access Policy and related procedures are contained in the Market Risk & Monitoring Manual [GRD 8 (b) (i)].

7.7.3. Delivery Policy

In general, MF Global does not permit speculators to take delivery. Approved commercial accounts are permitted to take delivery if they are actively involved in a business that would logically involve the delivery of the product/currency/security they are trading. On a case by case basis and with approval from the regional Head of Risk professional and/or floor traders may be allowed to take delivery when they indicate that they will re-tender.

Generally, all positions must either be liquidated or rolled days prior to first notice day.

Commercial customers and Locals intending to go to delivery must make the request to their local operations department.

Deliveries must be on a fully secured basis.

The detailed Delivery Policy and associated procedures are contained in the Market Risk & Monitoring manual [GRD 8(b) (i)].

7.7.4. Risk Monitoring and Breaches of Limits

Risk monitoring is undertaken by the Market Risk function in several MF Global locations. Client, counterparty and house account positions are monitored 24 hours a day when exchanges are open against limits.

The limits that are set for clients, counterparty and house trading accounts will determine how and how frequently the resulting exposures are monitored; however, as a general rule individual clients and counterparties exposures must be measured and monitored at least daily based on the end-of-day positions for previous trading period.

Any limit breaches should be reported in accordance with the ERME [GRD 5].

Intra-day positions should be monitored in real time where systems and information flows permit to ensure that MF Global is fully aware of large positions, limit breaches and/or any unusual activity. The detailed procedures for intra-day monitoring are contained in the Market Risk and Monitoring manual [GRD 8(b) (i)].

The company is continually striving to improve its systems based automated monitoring processes to improve their accuracy and reliability.

As part of their risk monitoring responsibilities, the Market Risk function must notify the Global Head of Market Risk if they are unable to monitor any risk limit which has been appropriately determined within the Risk Policy detailed. The Global Head of Market Risk is responsible for ensuring that any risk limit authorized can be appropriately monitored.

7.7.4.1 Breaches of Client/Counterparty Limits

Both desk management and the market risk function are responsible for monitoring individual brokers and trading partners' positions to confirm that they are within the stated risk tolerance levels.

The relevant Regional Head of Risk and Daily Risk Committee will set appropriate actions to reduce the exposure to those clients identified as having significant risk.

Once a limit has been breached both Risk and the relevant desk must work together to correct the breach or to facilitate an orderly unwind.

7.7.4.2 Breaches of House Account Limits

See Section 6.4.4.

7.7.5. Reporting

The Risk function will report on risk exposures as required by the MF Global Board.

The Risk function will also report on risk exposures to the ERMC, MRC, ALCO and Daily Risk Committees in a format and frequency agreed between the CRO and the Global Head of Market Risk.

See also Section 11 – Risk Reporting.

7.7.6. Escalation Policy

In the event of a market risk incident, for example, but not limited to, account P&L losses intra-day, increasing B exposure, unresolved margin calls (all of these subject to a minimum $ value) and breach of VaR limits, the ERME policy should be invoked. The ERME document [GRD 5] sets out the escalation policy for a market risk incident and includes thresholds for reporting, the relevant authorities, and their contact details.

8. Operational Risk Policy

8.1. Operational Risk Management

8.1.1. Definition and Classification of Operational Risk

MFG defines operational risk as the risk of loss or other adverse consequence resulting from inadequate or failed internal processes, people and system or from external events. Operational risk is further categorized as noted below and the complete set of definitions is contained in the MF Global Ltd (Bermuda) Risk Definitions document [GRD 1].

- Clients, Products and Business Practices
- Execution, Delivery and Process Management
- Financial Integrity and Reporting
- Internal Fraud
- External Fraud
- Business Disruption and Systems Failure
- Damage to Physical Assets
- Employment Practices and Workplace Safety

8.1.2. Operational Risk Management Objectives

The objective of the Operational Risk Policy is to articulate MF Global's Operational Risk Management (ORM) Framework and overarching Governance structure. The Operational Risk Management Objectives are:

- Design, implement and maintain a robust, global ORM Framework to manage operational risk.
- Develop a strategy that effectively and efficiently identifies, assesses, mitigates/controls, manages and reports operational risk.
- Implement a sustainable framework of transparency and accountability to manage operational risk and present a more accurate operational risk profile.
- Identify areas for potential risk/loss avoidance and/or business process efficiencies for new and existing businesses.
- Demonstrate sound ORM to regulators, rating agencies and shareholders.
- Establish a framework to enable a risk-based capital measurement.
- Facilitate quicker identification of and recovery from events through increased awareness and a strong operational risk culture.
- Integrate, as appropriate, other control initiative programs and agendas to establish a strong governance, risk and compliance environment; leveraging efforts and minimizing duplication of efforts.

8.1.3. Operational Risk Management Framework

The ORM Framework will continue to evolve as it matures and the experience within the organization develops. The ORM Framework is designed to meet the ORM Objectives and is framed by a defined risk appetite as noted by the MF Global Ltd (Bermuda) Risk Appetite Statement document [GRD 2]. The core components of the ORM Framework include:

- Governance – Establish a supervisory hierarchy to ensure ORM is embedded throughout the organization and implement a culture in which every employee is responsible for effective ORM in their activities.
- Assessments – Assess current state to project future risks and impacts:
  - Risk and Control Self Assessments (RCSA) – Qualitative, periodic[34] reviews to identify, assess and rate risks and the effectiveness of controls.
  - Scenario Analysis – Quantitative assessments of risks to identify the probability and severity of tail-end operational risk incidents occurring in the future.
- Incidents – Enable the capture of operational risk incident data allowing useful analysis and the timely dissemination of information across the organization.
- Indicators – Provide a monitoring tool to alert management to controls' performance, risk levels and trending changes that may be indicative of risk concerns. Where such indicators are not available, or appropriate, MF Global intends to develop as part of its ORM Framework, the concept of Permanent Supervision Testing, to complement its quantitative reporting structure.
- Policy Management - Ensure a comprehensive MF Global policy library exists by establishing an accessible firm-wide policy library, a policy update and review process and a globally consistent format.
- Reporting – Present a comprehensive ORM profile to global, regional and business area management incorporating timely and accurate incident, assessment, indicator and integrated analysis results.

8.2. Roles and Responsibilities

Effective ORM requires an integrated effort incorporating all businesses areas including revenue generating, support and control functions. Although due to function, some business areas may have more of an effect in managing/mitigating certain operational risk categories[35], each business area should consider all operational risk categories when assessing and managing their operating control environment and establishing their operational risk profile.

8.2.1. Committees

8.2.1.1 Operational Risk Committee

See Section 2.2.2.5.

[34] At least annually
[35] For example, IT control over business disruption and system failures

The Operational Risk Committee provides a forum for senior management to discuss and assess the Operational Risk profile of MF Global. The committee assists the Global Head of Operational Risk in the exercise of his/her authority for the implementation and oversight of the ORM Framework.

8.2.1.2 New Product Committee

See Section 2.2.2.7.

The New Product Committee is a committee formed under the authority of the office of the CEO and is the forum through which the senior management team considers new product proposals (see Section 8.3.6). The committee seeks to ensure that introduction of a new product does not subject the company to exposures that are incompatible with all areas of its declared risk profile.

8.2.2. Operational Risk

8.2.2.1 Global Head of Operational Risk

The Global Head of Operational Risk is responsible for:

- Meeting the ORM Objectives
- Establishing the ORM Framework, including associated systems (in conjunction with the Global Head of Risk and Compliance Systems)
- Developing and implementing the Operational Risk policies, standards and procedures
- Business continuity planning across MF Global, worldwide
- Overseeing the new product development process

8.2.2.2 Operational Risk Department

The Operational Risk Department is responsible, under the direction of the Global Head of Operational Risk for developing, implementing and overseeing the ORM Framework globally, including:

- Maintaining operational risk policies, standards and procedures
- Facilitating the execution of the ORM Framework
- Collecting, collating and analyzing all relevant ORM information and providing periodic ORM reporting to senior management and the relevant committee(s)
- Ensuring the maintenance and periodic update of MF Global's operational risk profile
- Providing operational risk data/results as requested and appropriate by relevant business areas (e.g. Capital, Insurance)
- Coordinating the ORM activities undertaken by business areas outside the operational risk department
- Liaising with Internal Audit and other assurance functions
- Managing business continuity planning

8.2.3. Business Areas

The principal responsibility for the day-to-day management of operational risk within MF Global lies with the heads of the individual business areas.

8.2.3.1 Operational Risk Coordinator ("ORCo")

In order to support the ORM Framework, each business area shall identify an Operational Risk Coordinator (ORCo). The ORCo's responsibilities include:

- Implementing the Operational Risk Policy and the outlined ORM Framework within their area.
- Disseminating information pertaining to Operational Risk to their area.
- Identifying and assessing the Operational Risks to which their business area is exposed.
- Effectively communicating and escalating Operational Risks and Issues with the Operational Risk Department and Senior Management, as appropriate.

8.2.3.2 Line Managers and All Other Employees

Line Managers and all other employees are responsible for effective ORM in their activities. Line managers and all other employees shall promptly escalate and report operational risk incidents (see Section 8.3.2.1) or increased operational risk in their environment (e.g. where they become aware that a control is no longer functioning properly) via their immediate superior and/or Operational Risk Coordinator.

Escalating and reporting increased operational risk or an operational risk incident does not imply wrongdoing or the commitment of errors on the part of the identifying and/or reporting employee or their respective area. Rather, the appropriate reporting and escalating of operational risk in a timely manner creates increased awareness within MF Global leading to an enhanced risk culture and facilitates the ongoing review and improvement of the company's control environment.

8.3. Operational Risk Management Framework

8.3.1. Assessments

MF Global approaches the identification and assessment of operational risk through both a 'bottom-up' risk and controls self assessment (RCSA) and a 'top-down' scenario analysis. These assessments will be done at a minimum on an annual basis or more frequently if deemed necessary. Ultimately, it is the intention that the results will be captured in a centralized warehouse accessed through an operational risk web-based portal.

8.3.1.1 Risk Controls Self Assessment ("RCSA")

MF Global applies the risk and controls self assessment approach to the periodic review of all business areas, in order to identify and assess the operational risks to which they are exposed and the effectiveness of the control environment. A common risk rating matrix (Section 8.3.4.2) will be used to measure the RCSA results.

The purpose of RCSAs is to:

- Create a broader understanding and awareness of the risks to which each business areas is exposed.
- Inform senior management on the effectiveness of the current operating and control environment.
- Detect risks which are not sufficiently mitigated and identify the need for (additional) mitigating actions
- Promote transparency and accountability with regard to operational risk

RCSA reviews will be refreshed on a periodic basis and/or when deemed necessary by the Operational Risk Department, business area management or senior management to ensure that the operational risk profile of each business area remains current.

Details of the RCSA process and baseline standards are currently under development.

8.3.1.2 Scenario Analysis

MF Global applies the 'top-down' scenario analysis approach to the periodic review of operational risk scenarios as appropriate at either MF Global or business level. These specific operational risk scenarios are aimed to identify and estimate the probability and severity of rare, 'tail-end' incidents occurring at some point in the future.

The purpose of scenario analysis is to:

- Inform senior management on the potential damage from unexpected, severe future losses based on the current risk and control environment
- Form unexpected future loss estimates[36] for capital measurement
- Detect internal or external risk exposure which does not conform to MF Global's Operational Risk Appetite and thus identify the need for mitigating actions

Scenario analysis will be refreshed on a periodic basis and/or when deemed necessary by the Operational Risk Department, business area management or senior management to ensure that the Operational Risk profile of the company and each Business remains current.

Details of the scenario analysis process for operational risk are currently under development (see also Sections 3.3.2.3 and [GRD XX]).

8.3.2. Operational Risk Incidents and Escalation Policy

8.3.2.1 Incidents

An Operational Risk Incident (ORI) is the materialization of operational risk that leads directly to one or more impacts or has the potential to result in an impact. Impacts can either be financial or non-financial.

Although external incidents are an important component of the ORM Framework, the scope outlined in the Operational Risk Policy will be limited to ORIs that impact MF Global.

[36] Initially these losses will be estimated through expert judgement but working towards a longer term goal of gathering data sufficient for statistical estimation

The purpose of the ORI component of the ORM Framework is to:

- Capture essential information to assist in the identification, assessment, control and mitigation of operational risk
- Facilitate the ongoing review and improvement of MF Global's control environment
- Identify opportunities of loss avoidance and process efficiencies

Reportable incidents are those whose outcomes impact the overall well-being of the organization, its brand, lines of business, a particular region, infrastructure and/or process(es). These impacts are defined as:

- Financial threshold of US$10K (gain or loss).
- Other noteworthy impacts deemed reportable by the business areas that may be financial or non-financial or may reflect an impact that did not emerge due to circumstances (i.e. near miss).

All reportable incidents should be escalated in line with the ERME Policy and reported in a centralized repository.

Details of the Operational Risk Incident Policy and processes are currently under development. The centralized repository will be enhanced and ultimately accessed through a web-based portal.

8.3.2.2 Escalation Policy

In the event of a reportable operational risk incident, for example, but not limited to, a significant loss event, the ERME policy should be invoked. The ERME document [GRD 5] sets out the escalation policy for operational risk events and includes thresholds for reporting and identifies the relevant authorities and their contact details.

8.3.3. Indicators

MF Global ensures that the operational risk profile of the business areas and their activities/processes is continuously monitored through the use of indicators.

Operational risk indicators allow the company to:

- Pro-actively monitor potential alterations in the operational risk exposure of the businesses, activities and functions of the organization
- Enable "pre-emptive"[37] management response

8.3.3.1 Key Risk Indicators

Key Risk Indicators (KRIs) are statistics and/or metrics that track the performance and effectiveness of the control environment in mitigating risks. Although not all risks can be monitored by a KRI and the use of KRIs does not predict with certainty specific incidents, the use of KRIs does provide insight into the company's operational risk profile with potentially measurable data on risks.

[37] i.e. With a view to prevent, as far as possible, actual or severe losses from occurring

The reportable KRIs will be continuously reviewed and updated in order to ensure relevant data is captured. The Operational Risk Department, business area management and/or senior management may request updates/changes to the reportable KRIs. Considerations including relevance ease of collection, comparability, effectiveness and use of a given measure will be made in identifying reportable indicators.

A common risk rating matrix (Section 8.3.4.2) will be used to establish thresholds and measure the KRIs results.

All reportable KRIs should be reported on a timely basis in a centralized repository. The centralized repository will be enhanced and ultimately accessed through a web-based portal.

Details of the KRI collection and reporting standards and process(es) are under development.

8.3.3.2 Permanent Supervision Testing

To complement the use of KRIs in the tracking of the performance and effectiveness of the control environment, MFG intends to develop as part of its ORM Framework, the concept of permanent supervision testing. Permanent supervision testing is the monitoring of the compliance and execution of identified controls on a periodic basis. These controls may or may not have a corresponding KRI.

Permanent supervision testing will enable MF Global to:

- Validate the integrity of the control environment
- Identify and address weaknesses or lapses in the documented control environment
- Re-affirm the operational risk profile
- Provide transparency to senior management
- Recognize accountability

Details of the permanent supervision testing process(es) are under development.

8.3.4. Standard Reference Data

Coordinated efforts are underway to establish a centralized enterprise-wide library of reference data. This library will provide common reference data to facilitate analysis of operational risk incidents, to enrich risk profiling efforts and to integrate and support results across the control initiatives.

8.3.4.1 Risk, Process and Control (RPC) Library

In order to facilitate and support the consistent and complete assessment of operational risk, all key risks, business processes and controls will be logged and their relationships captured.

- Risk – Exposure to adverse consequences arising from internal or external changes, actions, events, decisions, and/or circumstances which have the potential to reduce shareholder value. Currently establishing a risk hierarchy utilizing the operational risk categories as the highest level.
- Process – A series of actions supporting MF Global and its businesses conducted by either business areas maintaining the day-to-day business operation or the peripheral supporting and control functions. Currently establishing a process hierarchy.

- Control – Identified activities designed to mitigate intentional and/or unintentional errors or failures in process. Controls may be detective or preventative in design. Currently establishing a control hierarchy.

8.3.4.2 Risk Rating Matrix

The risk rating matrix provides classification of the severity of risk compared to the risk appetite. Determination of risk rating levels will consider both qualitative and quantitative potential results. The Risk Rating Matrix is currently under development.

MF Global will consider the following when assessing its exposure to operational risk:

- The expected likelihood/frequency of an incident
- The expected consequence/impact of an individual incident i.e. in terms of the potential:
  - direct, financial impact, and/or
  - 'non-financial' impact (e.g. regulatory response or sanction (other than fines), reputational damage)

8.3.5. Operational Risk System

The systematic collection and analysis of both internal ORM data and relevant external information is fundamental to proper management and monitoring/reporting of operational risk.

MF Global intends to establish a robust, sustainable IT architecture to support the efficient and timely global capture, analysis and reporting of operational risk.

The Operational Risk System will support the ongoing and developing ORM Framework and agenda, centralize the warehousing of ORM information, capture, analyze and report ORM efficiently and streamline the integration of information with SOX, Internal Audit, Compliance, and other control initiatives as appropriate.

8.3.6. New Product Development

In general, the definition of a new product includes any business, instrument type or activity that affects multiple departments and/or supporting functions within MF Global and its affiliates and subsidiaries. New products include but are not limited to the following:

- Non-standard /new product type (e.g. equity OTC options, fixed income swaps, nuclear power forwards) traded on or off regulated or non-regulated exchanges/platforms not currently transacted by MF Global
- New customized multi-asset class trading strategies
- Existing products offered to a new client type/base
- Existing products offered/traded in a
  - New geographic location
  - New country
  - New legal entity
- Delivery of new strategic initiatives and delivery channels

- New exchange memberships
- Fundamental changes in operating, margining, settlement or other 'support' processes for existing
- Any previously approved new product that has not yet been fully implemented within 6 months of the original approval date
- Any new business initiative the New Product Committee deems to be a 'New Product' (at its discretion)

All new products must be presented to and approved by the New Products Committee (see Section 2.2.2.7) before trading activity commences.

Details of the New Product Policy and approval process are under development.

8.4. Operational Risk Mitigation

MFG mitigates its operational risk exposures through the implementation of an effective control environment, maintenance of insurance (as appropriate) and economic capital (see Section 3.3.3). As weaknesses or gaps are identified in the control environment either through self identification or the ORM Framework components, the relevant business area shall mitigate that exposure as appropriate.

8.4.1. Policy Management

Each business area should establish comprehensive policies to manage the risk their area is responsible for mitigating. Business areas such as human resources, information technology, legal, operations, finance, and compliance should establish policies that not only mitigate the risks that arise in their daily and monthly processes, but also the risks that arise in the management of enterprise-wide risks for which they are responsible. These risks if realized may have financial, operational, regulatory, and/or reputational impacts.

In order to ensure a comprehensive MF Global policy library exists, an enterprise-wide Policy Management Program will be established. The objectives of the program include establishing a useable and accessible firm-wide policy library, a policy update and review process which will include a Policy Review Board to assess the policies before implementation, and a globally consistent policy format.

8.4.2. Technical Risk[38] Management

Technical risk policy and techniques for managing technical risk are being developed and deployed in order to assess how new technologies impact MF Global's business operations and systems. MF Global's applications, systems, networks and databases are an integral part of the company's critical infrastructure, which is increasingly linked to the internet. The technical risk management program will include the following areas:

- Identify the information assets of the organization

[38] Technical risk is defined as any potential adverse outcome, damage, loss, violation, failure or disruption arising from the use of or reliance on computer hardware, software, devices, systems, applications and networks. These risks are usually related to systems flaws, processing errors, software defects, operating mistakes, hardware breakdowns, systems failures, capacity inadequacies, network vulnerabilities, control weaknesses, security shortcomings, malicious attacks, hacking incidents, fraudulent actions and inadequate recovery capabilities.

- Prioritize information assets according to their worth to MF Global.
- Identify, analyze, quantify and mitigate technology risks
- Ensure a strong capability to detect and respond to attacks and suspicious activities is in place for networks and/or systems
- Evaluate vulnerabilities, threats and exposures relating to MF Global information assets
- Determine what control and security measures are required and in place to protect the information assets
- Ensure surveillance and monitoring is in place on critical applications, systems and networks
- Participate in reviewing vulnerability assessments and penetration test reports to identify risks that would impact MF Global
- Determine potential impacts (if any) during system development lifecycle efforts and change requests of production applications, systems, networks and databases.

8.4.3. Policies

8.4.3.1 Sarbanes Oxley (SOX)

The SOX Compliance Policy and programs are designed primarily to mitigate Financial Integrity and Reporting Risk and enable the company to remain SOX compliant. The primary objective of MF Global's SOX policy is to ensure that the necessary framework of internal controls is in place to:

- Ensure the integrity of all financial and related public information as reported by MF Global to its shareholders and other stakeholder groups, by preventing material financial misstatement in its financial accounts
- Detect (attempts at) financial fraud, theft of assets, or attempted manipulation of financial information
- Ensure compliance of MF Global with its obligations in respect of financial accounts and reporting, including, in particular, the annual certification requirements under Section 404 and the quarterly certification requirements under Section 302 of the Sarbanes-Oxley Act of 2002
- Enable MF Global to make the required assertions in relation to its financial accounts and to report on its internal controls assessment[39]

[39] As per Sarbanes-Oxley Act of 2002, Section 404

8.4.3.2 Information Security

Information and information technologies are a vital component of successful businesses and organizations. They are used to support every part of the business including, but not limited to, on-boarding and opening new client accounts, operational processing, managerial decision-making, risk monitoring and measurement, and setting strategic goals and objectives. Therefore, adequate protection of MF Global's information and technology, including but not limited to customer and intellectual property data and systems that support this information is required to safeguard MF Global from fraudulent, malicious or accidental incidents. The policy is intended to ensure that:

- Adequate confidentiality of information is in place to prevent unauthorized access to or disclosure of information that should remain private to MF Global or its customers
- IT assets have adequate integrity to ensure that information is accurate and is modified or erased only by those authorized to do so
- Availability of the IT assets is sufficient to support the business operations of MF Global, its partners, and delivery of services to customers
- Authorization and accountability is in place for individuals use of, access to, or modification while accessing MF Global information
- Assurance that controls are implemented effectively and meet legal and regulatory requirements.

For further information, please refer to the MF Global Information Technology Security Policy.

8.4.3.3 Insurance

MF Global mitigates certain of its operational risks by transferring those risks to the insurance market. The objective of MF Global's Insurance Policy is to ensure that the necessary framework is in place to:

- Identify the operational risks that have been transferred to the insurance markets versus the operational risks retained by MF Global
- Design and negotiate insurance programs that transfer operational risk to the insurance markets on a cost-effective basis and in line with MF Global's Risk Appetite and where the risk cannot be transferred on a cost-effective basis and in line with MF Global's Risk appetite, seek alternative solutions to transfer those risks, (e.g. captive insurance company)
- Allocate the cost of the insurance programs to the legal entities
- Identify any change to the operational risk profile through new products or new acquisitions and determine if such change is covered under the existing insurance programs or whether a separate insurance program needs to be designed and negotiated
- Ensure that all operational risk incidents which are claims under our insurance programs or have the potential to become claims under our insurance programs are reported to insurance markets as soon as practicable
- Collect on the claims which we have reported to the insurance markets
- Report on insurance coverage and insurance claims to the ORC, ERMC and the Board

The MF Global Policy for Insurance Programs and related processes are currently under development.

8.4.4. Business Continuity Planning ("BCP")

Business Continuity Planning (BCP) is an essential mitigant of MF Global's operational risk. BCP is defined as the creation, validation and testing of plans for how the organization will recover and restore business operations within a pre-determined timeframe in the event of a disaster or extended disruption. The company is a global organization. As such, BCP will be approached from a globally consistent perspective but tailor the planning to enable consideration of location specific dynamics. Additionally, as a global organization, the interdependencies between locations should also be considered.

Effective BCP requires the alignment of Disaster Recovery Planning. Details of a BCP Policy and procedures are under development.

8.5. Operational Risk Limitation, Monitoring and Reporting

8.5.1. Risk Limits

As stated in MF Global's Risk Appetite, the company does not seek operational risk so the appetite is as low as reasonably practical. Consequently, the operational risk appetite is set at 'risk averse' for all risk categories with the exception of execution, delivery and process management which is set at 'cautious'. Business is to be managed in such a way that all operational risks are controlled and mitigated to the greatest extent practically possible. The limits are set through the USD equivalent value of the cumulative total of realized losses of reported incidents (see Appendix B of the D of A [GRD 4] Section 13.5).

8.5.2. Risk Monitoring

Operational risk monitoring is undertaken through the collection of operational risk framework results including assessments (see Section 8.3.1), incidents (see Section 8.3.2.1), and indicators (see Section 8.3.3) as well as the consideration of issues and mitigating action plans resulting from assessments done by the business areas themselves, other control initiatives, and/or external parties.

Operational Risk monitoring will continue to evolve as the ORM Framework is implemented.

8.5.3. Reporting

On a monthly basis, the Operational Risk Department will provide a report to the Board and ERMC. The report will highlight operational risk profiles, issues and trends. Current reporting concentrates on the volume and value of operating errors and other reported incidents.

The Operational Risk Department will also generate operational risk reports to be discussed at the monthly Operational Risk Committee. The report will present a comprehensive ORM profile to management incorporating timely and accurate incident, assessment, indicator and integrated analysis results.

Operational Risk reporting is currently under development.

See also Section 11 – Risk Reporting.

9. Compliance Policy

This section of the Enterprise Risk Management Policy documents the principles, policies and high-level responsibilities for the management of compliance risk. The purpose of this policy is to ensure that the Board receives sufficient compliance assurance over the conduct of its business worldwide.

9.1. Compliance Risk Management

9.1.1. Introduction

The term 'compliance' describes the ability to act according to an order, set of rules or request. In practice, compliance consists of ensuring that the activities undertaken by an organization conform to both the letter and the spirit of the relevant standards, laws and/or regulations that govern the business or activity and to internal policies and procedures.

The increasing amount and almost constant evolution of regulations and laws applying to the financial services sector worldwide has resulted in a realization that compliance is an integral part of managing a financial business and can have a substantial effect on its success or failure.

The consequences of non-compliance with legislation and regulations may be substantial and could include:

- Removal of licenses/authorizations, leading to reduction in product range, or even total business closure
- Criminal proceedings/litigation against managers and directors
- Civil proceedings/litigation against the organization and/or its officers
- Financial instability
- Damage to reputation, including:
  - Adverse publicity
  - Loss of market and client confidence in the organization
  - Shareholder withdrawal, leading to loss of market value

9.1.2. Compliance Definitions

9.1.2.1 Compliance-related Risks

The risk related to compliance (i.e. the risk of "non-compliance") is primarily a sub-set of operational risk, particularly (but not exclusively) "Clients, Products and Business Practices", as defined in the MF Global Ltd (Bermuda) Risk Definition document [GRD1].

The "risk of non-compliance" arises for MF Global in the following four areas, namely:

- ***Non-compliance with respect to Anti-Money Laundering***, which would arise from a failure in any part of the business to apply the required controls and processes in order to combat money laundering and terrorist financing, or undertaking actions that contravene economic sanctions imposed by the governments or international bodies such as the United Nations.

- ***Non-compliance with respect to Market Manipulation or Market Abuse*** , which would arise from a failure in any part of the business to apply the required controls and processes in order to combat financial crime in the form of market manipulation or other abuses.

  In an MF Global context, market manipulation would include:

  - ☐ Insider dealing or other attempts to use information which is not publicly available for individual advantage
  - ☐ Actions which seek to distort the price of financial instruments, or effect transactions or orders to trade or disseminates information in a manner which gives or is likely to give false or misleading signals (including rumors) about financial instruments or issuers
  - ☐ Situations or circumstances where investors have been unreasonably disadvantaged by others

  Such market manipulation or abuse prevents full and proper market transparency and undermines market integrity and investor confidence.

- ***Non-compliance with respect to Professional Liability*** , which would materialize through litigation brought by a client or group of clients arising from both the unintentional and negligent failure to meet a professional obligation to specific clients, or from the nature or design of a specific product or service, with particular emphasis on fair treatment of customers.

- ***Non-compliance with respect to Conduct***, which would materialize through fines or other penalties arising from failure to comply with regulatory requirements (e.g. registration requirements, authorization, training and competence, record keeping requirements, and requirements not covered under any of the other compliance risks detailed above) and/or with market conduct standards, as laid down in regulation or by exchanges (e.g. order placement or transaction reporting).

9.1.2.2 Compliance Assurance

Compliance assurance is defined as:

The independent and objective confirmation that internal policies not only comply in all material respects with applicable rules, laws and regulation, but also are being applied in the day-to-day conduct of business.

Compliance assurance is delivered through the application of the Compliance Policy and the oversight of the Compliance function operating within MF Global.

9.1.3. Risk-based Compliance

Wherever it is possible or appropriate, the company seeks to apply a risk-based approach to its compliance-related processes. (See Principle 4 in Section 9.1.4)

9.1.4. Compliance Principles

MF Global has a basic obligation to mitigate compliance risk and ensure compliance with all legislation and regulation applicable to the global jurisdictions in which it operates. In order to carry out this obligation all businesses are to adopt the compliance principles set out below:

- Principle 1 – that each region will have at least one appointed officer who has primary responsibility for the understanding, communicating and reporting of compliance matters within the business and between the business and its next higher reporting body
- Principle 2 – that the senior management of each operating subsidiary or business, has the primary responsibility for compliance in the business for which it acts
- Principle 3 – that all business will be conducted with integrity, due skill, care and diligence and with standards of conduct that are in conformity with local regulatory and legal requirements and by staff who are appropriately trained and whose competence is subject to continuous professional development.
- Principle 4 – that a risk-based approach will be adopted for compliance whereby the resources for compliance monitoring are targeted according to assessed levels of risk applicable to the type of business, client and/or jurisdiction

9.1.5. Objectives of Compliance Policy

The objectives of the Compliance Policy are to:

- Ensure that internal compliance policies are developed and regularly reviewed to ensure that they conform to applicable external laws and regulations.
- Ensure that anti-money laundering compliance programs are established, which includes internal policies, procedures, and controls designed to detect and prevent money laundering and terrorist financing.
- Provide advice to business areas to ensure that their relevant processes conform to the necessary compliance standards.
- Encourage a risk-based approach to compliance.
- Establish appropriate surveillance of the conduct of business by reference to compliance risks and according to a structured and agreed compliance plan.
- Ensure effective and appropriate investigation and case management of all identified potential incidents of non-compliance, to include lessons learned, conclusions reached, changes required, follow-up and consequential changes to policy or process.
- Conduct periodic reviews and compliance performance evaluation by business area.
- Ensure that employees receive the appropriate training in compliance related matters
- Ensure satisfactory reporting of compliance assurance outputs to senior management, relevant committees and the Board.

9.2. Roles and Responsibilities

9.2.1. Operational Risk Committee

See also Section 2.2.2.5.

The ORC considers compliance risk issues as part of its oversight of operational risk for the company. The ORC may from time to time refer compliance matters directly to the ERMC for consideration.

9.2.2. Executive Management

Senior management is responsible for the application and effectiveness of the overall compliance framework as it applies in their jurisdiction and area of responsibility. In particular this includes, but may not be limited to:

- Implementing all compliance-related policies that apply to their business, including ensuring the communication of relevant aspects of policy to individual members of staff
- Ensuring that an adequate control environment is functioning within their area of responsibility
- Reviewing and responding to reports and breaches of policy in the operating subsidiary(ies)
- Taking actions required by this policy or requested by Compliance personnel, including timely reporting of compliance events arising or otherwise reported to them;
- Ensuring that members of staff are appropriately trained in compliance matters
- Managing legal and/or compliance issues as may arise

9.2.3. All Members of Staff

MF Global expects all employees to act with the highest standards of professional conduct and ethics. Members of staff are responsible for:

- Personal adherence to global compliance-related policies and procedures and any additional policies applicable to their part of the business;
- Reporting to line management any instances of non-compliance of which they become aware;
- Timely follow-up of compliance communications requiring their personal action or response.
- Timely follow-up of compliance training, which includes regulatory and firm-element components

9.2.3.1 Regulatory Liaison Coordinator ("RLC")

As specified above, Heads of Business and other executive managers are responsible for the application and effectiveness of the compliance framework in their area. However, in the larger businesses, local management may support the Compliance function and deepen compliance awareness through a network of Regulatory Liaison Coordinator (RLCs). RLCs are nominated individuals within specific business areas (e.g. Metals, Energy, etc.) who are responsible for assisting line management in the business on their compliance obligations and in the conduct and application of compliance-related policies. They may also be asked to assist in compliance-related infrastructure development and implementation in their business area.

9.2.4. Compliance Function

The Compliance function's principle responsibility is to ensure that policies and processes are in place to reasonably ensure that applicable rules and regulations are followed and to ensure that assurance processes are in place throughout the organization. Sections 9.3 to 9.7 elaborate global policy relating to the role of the Compliance function in ensuring that MF Global conducts its business in accordance with applicable rules, regulations and internal policies.

9.2.4.1 Chief Compliance Officer

The Chief Compliance Officer has principal responsibility for the co-ordination of compliance across MF Global. S/he is also responsible for advising and assisting senior management and Board members to ensure MF Global businesses comply with their obligations under applicable law and regulation.

The Chief Compliance Officer is responsible for developing comprehensive compliance procedures that deliver the policy set out in this Policy, meet the needs of business, and conform to the regulatory and legislative requirements of the jurisdictions in which MF Global operates.

9.2.4.2 Regional Heads of Compliance

The Regional Heads of Compliance report to the Chief Compliance Officer and have the principal responsibility for the co-ordination of compliance functions in the operating subsidiaries within their remit and may also be responsible for the organization and management of the compliance personnel employed in those operating subsidiaries. They are responsible for the ongoing application of the compliance assurance framework as it applies to their areas of responsibility.

Each Regional Head of Compliance should consider whether any legal, regulatory or business reasons exist in their areas of responsibility that would require modification to the global compliance policy. In conjunction with the Chief Compliance Officer and with approval from the CRO, any adjustments necessary to satisfy the legislative and regulatory requirements of the jurisdictions in which they conduct business should be documented in an appendix to this Enterprise Risk Management Policy (see Section 1.3.3).

They are also responsible for advising and assisting senior management and Board members in their region, to ensure all MF Global businesses in the region comply with their obligations under global policy as well as applicable law and regulation.

9.2.4.3 Responsibilities of Compliance Personnel

The role of Compliance function is to co-ordinate and conduct where necessary all of the compliance-related assurance activities across the different operating entities within MF Global, and also at an overall level. Specifically it:

- Co-ordinates compliance activities in order to provide assurance that every aspect of the business is conducted according to global policy and local regulatory requirements
- Ensures the maintenance of positive relationships with regulators, and the identification of regulatory changes with which the business may need to comply
- Conducts compliance monitoring activities in accordance with both global standards and regulatory requirements
- Provides necessary assurance to global senior management and the Board about the achievement (or otherwise) of required compliance standards.

It also serves as the primary liaison point between risk and the other global functions with responsibility for legal and governance requirements.

9.2.4.4 Regional/Local Compliance Units

In accordance with international best practice, the company maintains for each jurisdiction a permanent and effective compliance function with the necessary authority, resources, expertise and access to all relevant information. The size of individual compliance units will vary directly with the size and complexity of the business undertaken in a particular location. Local staff is expected to execute functional processes that are consistent with the global standards.

Although specific responsibilities may differ between units, in general local Compliance Officers are responsible for:

- Monitoring overall compliance within their operating subsidiary(ies) with the global compliance-related policies and for reporting breaches to the senior executive officer;
- Providing support to business areas in compliance related matters
- Monitoring effectiveness of compliance-related policy in their operating subsidiary
- Conducting compliance risk review, monitoring, and assessments as required by the Chief Compliance Officer
- Preparing compliance related reports as required by Regional Head of Compliance and/ or the Chief Compliance Officer
- Preparing and/or monitoring the reports to local regulators submitted by the local offices/subsidiaries for which they are responsible.

9.2.4.5 Anti-Money Laundering Responsibilities

9.2.4.5.1 MF Global's Responsibilities

In the global marketplace, the attempted use of financial institutions to launder money is a significant problem that has caused great concern in the international and domestic community. This heightened awareness has resulted in the passage of strict laws and increased penalties for money laundering activities worldwide.

MF Global and its senior management are firmly committed to compliance with all laws and regulations relating to combating money laundering activity, including those rules and regulations requiring the reporting of currency transactions, certain monetary instruments and suspicious activity.

Global laws and rules require firms to establish anti-money laundering ("AML") compliance program(s), which include internal policies, procedures and controls designed to detect and prevent money laundering and terrorist financing. The requirements include enhanced "know your customer" obligations (e.g., verification of customer identity), monitoring and reporting suspicious transactions, special due diligence checks for certain customers, ongoing employee training, record keeping and audits to test the programs.

MF Global's AML Policy [GRD XX] establishes governing principles and standards to protect MF Global and its businesses from being used to launder money. All Firm employees must be vigilant in the fight against money laundering and must not allow MF Global to be used for money laundering activities. MF Global has supplemental local policies and procedures to ensure that we are in compliance with AML rules and laws applicable in each jurisdiction.

9.2.4.5.2 AMLRO Duties and Responsibilities

Each jurisdiction should designate a senior manager to act as the Anti-Money Laundering Reporting Officer ("AMLRO") (or local equivalent). Such individual may require approval from the appropriate local regulator before undertaking this task. The principal role of the AMLRO is to oversee the company's compliance with the local rules on anti-money laundering and the reporting obligations under legislation and regulation covering controlling the financing of terrorism and criminal activity.

AMLRO responsibilities should be documented for each jurisdiction as part of the MF Global AML Policy [GRDXX].

Note:

To carry out his/her responsibilities the AMLRO should:

- ☐ Be given the authority to act independently in carrying out his/her duties including unfettered and (where necessary) confidential access to senior management or the Board
- ☐ Be free to have direct access to the appropriate regulatory authority and law enforcement agencies
- ☐ Be given sufficient resources including staff and technology
- ☐ Be given access to all relevant business information (e.g. Client financial circumstances, transaction patterns/volumes, identity information)

9.3. Compliance Policy Development, Planning, Surveillance and Review

9.3.1. Policy Development

The Compliance function is responsible for actively engaging with regulators, exchanges and related industry bodies to ensure that the company is fully aware of any changes to rules and regulations that may affect the way it conducts business. Compliance-related policies and procedures should be regularly reviewed and revised where necessary to reflect relevant changes to rules and regulations.

A Compliance Communications Manager has been added at the global level to ensure consistency amongst compliance policies, where applicable, as well as a standardized delivery process and global library for archiving and versioning control.

Where feasible and practical, compliance policies should be globally-oriented to ensure that firm standards are developed and practiced. However, regional policies may also be necessary to accommodate the nuisances and requirements of regional regulatory requirements.

9.3.2. Annual Compliance Plan

Compliance related activity should be undertaken within the framework of a ***Compliance Plan*** developed annually by the Chief Compliance Officer and the Heads of Compliance in each region (in cooperation with the compliance functions in each operating subsidiary). The Plan, which should be refreshed at least annually, sets out the nature and extent of compliance activity, in particular risk-based activity, across the different businesses within each operating subsidiary. In formulating and refreshing the Compliance Plan, the following should be taken into consideration:

- Changes to legislative or regulatory framework experienced or expected
- Changes to the business activities in the Region (new business undertaken, new products offered, changes in the customer base, etc.)
- 'Lessons learned' from prior years
- Any incomplete activities from the prior plan and any conclusions arising
- The updated risk map/register detailed in Section 9.5.3.3
- Dialogue between the Chief Compliance Officer, the Regional and local Compliance units, and Internal Audit in respect of co-ordination with overall operational risk management scenario and Internal Audit planning

A significant part of the Compliance Plan will be setting out the type of surveillance activity to be undertaken in each region for each of the four compliance risks (see Section 9.3.3).

9.3.3. Compliance Surveillance and Assurance Programs

Compliance surveillance is an essential mechanism for providing assurance policies are being adhered to across the company. MF Global undertakes four principal types of compliance surveillance: transaction monitoring (includes trading activity), money surveillance (includes surveillance of money movements), communication monitoring, and conflicts surveillance (personal account dealing, gifts, etc.). In addition, Compliance also performs risk assessment/reviews to ensure that policies and procedures are being followed. These are discussed individually below.

Not all countries or regions will necessarily use all types of surveillance. Each location will tailor surveillance and assurance programs accordingly.

The frequency of surveillance monitoring will be determined by the individual locations but should be constructed to ensure compliance with applicable rules and regulations. The surveillance should be reviewed by the relevant compliance function according to the frequency agreed with the Chief Compliance Officer. The precise surveillance tools used at any point in time are confidential to the location and are reported to and discussed with the Chief Compliance Officer and the relevant risk committee.

9.3.3.1 Compliance Surveillance Tools

Each local or regional compliance unit, together with the businesses under their remit should periodically assess the effectiveness of the surveillance tools used. The reports should comment on the types of monitoring undertaken, including any specific incidents that may have been detected and actions or follow-up that has been recommended or undertaken as a result of the surveillance and recommend and if any changes should be implemented.

This information will be collated regionally by business and by location and sent to the Chief Compliance Officer who will prepare a report, with appropriate recommendations, to the CRO.

Compliance related incidents that come to light through surveillance or assurance reviews should be investigated and managed according to the principles set out in Section 9.5.1.

9.3.3.2 Transaction Monitoring

Transaction monitoring is surveillance of transactions against a set of rules or policies where individual transactions are identified for further investigation. Transaction monitoring is used to detect violations of rules or regulations, market abuse and fraud.

9.3.3.2.1 Money Movement Surveillance

Money Movement monitoring is surveillance of payment and receipts of funds against a set of rules or policies where individual movements are identified for further investigation. Money movement monitoring is used to detect violations suspicious patterns of money movements that may suggest potential money laundering activity.

9.3.3.2.2 AMLRO's Review

Each Anti-Money Laundering Reporting Officer (MLRO), as applicable, will produce an annual report to senior management and relevant risk committee, providing an overview of anti-money laundering activity across the operating subsidiary for which they are responsible. The review should comment on the AML risk applicable to the businesses for which the AMLRO is responsible, including any specific AML incidents arising. The review should additionally cover a summary of AML training provided in the location, test results and a commentary on the adequacy (or otherwise) of training offered.

9.3.3.3 Communications Monitoring

The purpose of such reviews is to ensure external communications are in accordance with applicable rules and regulations as well as, expected firm standards. . Such monitoring is used to assess compliance with amongst other things, policies relating to market manipulation, conduct and liability risk.

9.3.3.4 Conflicts Surveillance

Conflicts monitoring is surveillance of employee behavior (personal trading, use of gifts and entertainment, etc) against a set of rules or policies to detect violations of rules or regulations, market abuse and fraud.

9.3.3.5 Risk Assessments/Reviews

Reviews of compliance-related risks in business practices are conducted both by compliance functions and Internal Audit using a combination of interviews with members of staff and examination of operational records. Such reviews are undertaken for a variety of reasons, principally the bottom–up assessment of all compliance-related risks by business area as discussed in Section 9.5.3.2, but also to address a particular risk. Examples of the latter include:

9.3.3.5.1 Business and Operational Reviews

Periodically (as agreed between the Chief Compliance Officer and the Regional Heads of Compliance) and on a risk based approach, client operations in each operating subsidiary will be reviewed to assess conformity with compliance-related policies. Areas that may be included are supervision, new accounts, on-going accounts, client confirmations and activity reports, trade reporting and the account closure process.

9.3.3.5.2 Other 'Themed' Reviews

In addition to all of the above, where requested by senior management or thought necessary by the Global or Regional Head of Compliance, additional themed reviews may be undertaken covering such topics as fair treatment of customers, advertising and promotions, or issues of concern to exchanges or regulators in a particular jurisdiction.

9.3.3.6 Activity Based Monitoring

Activity based monitoring consists of reviewing specific actions undertaken as part of ongoing business or compliance processes. These include, but need not be limited to, reviewing error processes, customer documentation or the handling of queries from exchanges or regulators.

Although monitoring error reports is an operational risk responsibility, compliance functions will also review them in order to assess whether any compliance issues may be arising.

9.4. Business Process Oversight Policy

9.4.1. Client (and Intermediary) Take-on (New Client Review)

Client take-on is the formal process whereby a prospective client is assessed as to whether he/she/it may become an actual client. Compliance, Credit and Client Services are jointly responsible for the account opening process. Compliance should ensure that this process as it relates to client categorization and appropriateness (as required by regulation in each jurisdiction), client identification and AML Due Diligence/KYC is clearly documented, functions properly and adequately covers requirements (see also Section 5.3.2).

The Compliance function in each operating subsidiary is responsible for making sure that adequate and approved account opening/client information documentation policies and processes exist and are utilized.

9.4.1.1 Client Categorization and Appropriateness

Compliance together with the business and Credit should define the client categories to meet both regulatory requirements and the needs of MF Global. Every client should be categorized as part of the take-on process.

Some jurisdictions require that the company conducts an appropriateness assessment[40] of prospective clients. This will be prescribed by regulation and the Compliance function in each operating subsidiary where this is required should ensure that the take-on process documents how the regulation is applied in practice and monitor compliance with it.

9.4.1.2 Intermediaries

The Compliance function is responsible for identifying and conducting diligence on all intermediaries and other third parties that offer trading and investment advice to clients. Regional Compliance manuals should document what constitutes an acceptable third party introducer. Any agreements to share MF Global revenue must always be clearly documented in the agreement with the introducer and notified to each client affected by such an agreement.

Notwithstanding the source of the introduction, all clients are subject to the documented client take-on policies.

9.4.1.3 Client Identity Verification and AML Due Diligence/KYC

Client Identification and AML Due Diligence/KYC is the process whereby the identity of a client is confirmed, in accordance with relevant regulations.

MF Global must have in place robust, documented client identity verification and AML Due Diligence/KYC policies and procedures that satisfy the regulatory requirements of the jurisdictions in which it conducts business. These policies will set out the precise methods and documentation required to verify identity of both personal and non-personal clients. They should also state whether identification has to take place face-to-face or if – and under what conditions – remote verification is permitted. Regions/locations may specify reduced identity/KYC verification requirements for certain, specified types of clients or counterparties (generally regulated financial institutions and public authorities) if this is permissible in their jurisdiction. The Compliance function is responsible for ensuring that the process it documents meets regulatory requirements and is functioning effectively.

9.4.2. External Business Communications

9.4.2.1 Promotions and Advertising

All promotional and advertising material for general release, including any from a third party which is to be passed on from company premises[41], is to be pre-approved by Compliance as a minimum, or as required in the jurisdiction where the product is being offered.

The wording in all promotions and advertising is to be clear and to explain the product or service being promoted or advertised fairly and, to the greatest extent possible, is not to be open to misinterpretation or to be misleading.

Each business should ensure that its promotions and advertisements fully comply with MF Global policy and regulation in the jurisdiction(s) in which the promotions or advertising are to be published.

---

[40] The purpose of an appropriateness assessment is to evaluate whether the types of service or products to be offered to a prospective client are appropriate to that client's personal circumstances, knowledge and experience or risk appetite.
[41] 'Premises' for this purpose Include MFG e-mail systems

9.4.2.2 Product Information and Documentation

The Compliance function should review all product information to ensure it is clear and to the greatest extent possible not open to misinterpretation. Product information should clearly set out costs and associated charges and all risk and other disclosures as required by regulation in the issuing jurisdiction.

9.4.2.3 Research

In each Region where research[42] is conducted or distributed the Compliance function will monitor that documented policies are in place that are relevant to the type[s] of research undertaken in the organization and are in accordance with regulation in the jurisdiction.

Policies should consider the following:

- Restriction on internal circulation of research prior to publication
- Clear identification of the source of research
- Conditions for passing third party research on to MF Global clients
- Disclosure of:
  - All significant sources of information used in the research
  - Methodologies underpinning any valuation or other assessment of a security or derivative, or to set any particular price target or other benchmark used in a recommendation
  - The meaning behind any statement made in the research conclusion, including any particulars of time horizon or circumstances to which the recommendation applies
  - Any known in-house relationship or conflict of interests attaching to such recommendation. "In-house" in this context means within any part of MF Global

9.4.3. Complaints

The Compliance function is responsible for ensuring that the company has a documented and functioning complaints handling policy that fulfils regulatory requirements (where applicable) in each jurisdiction.

All complaints should be forwarded to the Legal function.

As a general principle client queries, disputes and formal complaints should be responded to as quickly as is reasonably possible.

9.5. Investigations and Compliance Performance Evaluation

9.5.1. Investigation and Case Management

If any events or incidents are identified through any of the monitoring or review activities detailed in Sections 9.3.3 they are, to a greater or lesser extent dependent upon the significance of the incident, to be subject to the following investigation and case management policy.

[42] Research, for the purposes of this section, is that intended for disclosure to clients generally, or to individual or selected clients.

Each individual compliance officer is responsible for deciding whether any incident in which they are involved constitutes a "case" which has been "investigated" and therefore needs recording. In doubt, advice should be sought from the individual's line manager or Regional Head of Compliance.

The investigation should incorporate a factual review to identify all the particulars of an incident. This review should, where relevant, include looking into affected client files and discussions with the relevant Account Executive (in some instances, the reason behind the enquiry should not be revealed).

The investigation should either explain the incident adequately as being consistent with normal business activity; or conclude that further investigation and/or escalation is warranted. Escalation can be internally to a different function (e.g. from local compliance to Regional Compliance or for a ML suspicious transaction to the appropriate MLRO) or externally (to the exchange or regulator for suspected market manipulation) and will depend on the incident.

The ERME [GRD 5] for operational risk sets out the internal escalation chain of authority and states what incidents, and under what conditions, an incident should be escalated (see Section 8.3.2.2).

Significant incidents investigated need to be evidenced. Regional Compliance Officers should use judgment to determine significant incidents. The record will describe the incident, any lessons learned, actions recommended and person(s) responsible for carrying out such actions, and the outcome.

An essential part of Compliance's investigation and reporting of compliance incidents is the follow up of action on such issues. The Regional Heads of Compliance are responsible for monitoring the follow up actions arising from compliance incidents in their area of responsibility.

9.5.2. Escalation Policy

Compliance incidents are covered in the operational risk section of the ERME [GRD 5]. See Section 8.3.2.2.

9.5.3. Compliance Risk Assessment

A risk based approach requires regular assessment of where compliance-related risks reside in the business and how likely it is to occur. Accordingly, each operating subsidiary/location is to conduct regular risk assessments as follows:

- "Top-down" Risk Assessment (see Section 9.5.3.1)
- "Bottom-up" Risk Assessment (see Section 9.5.3.2)

In assessing compliance-related risks each of the four aspects of compliance-related risk can be viewed from two different perspectives:

- ***Clients*** – whether particular types or categories of client pose a higher or lower risk
- ***Products and Services*** – whether the nature of a product or service lends itself to a higher or lower risk

This allows a complete picture of risks in a given area to emerge, including whether the nature of one business in the way it is conducted or in its particular mix of clients and products/services represents a higher or lower risk than another.

9.5.3.1 "Top-down" Compliance Risk Assessments

A top-down risk assessment is to be conducted every one to two years by the Regional Head of Compliance together with the Regional Head of Business and key product areas. This group will discuss general compliance matters for the businesses in their remit and consider the compliance risk inherent in both the region's clients and the products/services offered. The top-down assessment is based on the assessors' understanding of policy and its application, the changing external environment (especially legal and regulatory change) and the nature of the businesses under discussion. The top-down risk assessment will be reported to and discussed by the Chief Compliance Officer and the CRO. The resulting risk categorization will be used in senior management's and Compliance's planning for allocation of resources and prioritization of compliance monitoring activity. It also forms the starting point for the Business Compliance risk map (see Section 9.5.3.3).

9.5.3.2 "Bottom-up" Compliance Risk Assessment/Review[43]

A "Bottom-up" risk assessment/review of each business in a region will be conducted periodically by the local compliance function in each country, either separately or in conjunction with Internal Audit's reviews of the individual businesses and operations. The frequency of reviews will depend on the risk assessment, but the intention is that every business should be reviewed at least once in three years with priority given to riskier businesses. Such business reviews are submitted to the relevant Regional Head of Compliance for review and follow-up action as necessary. The reviews should cover an assessment of potential for liability and conduct-related risk, but particular attention should also be paid to anti-money laundering and market manipulation-related risks.

Since a high degree of overlap potentially exists between such compliance reviews and operational risk and internal audit's reviews, the planning of audit, operational risk and compliance review activities should be coordinated to extract maximum value from the time of the resources of each department and to optimize their interaction with the businesses/operational functions.

The results of the reviews will be used by senior management in their assessment of the effectiveness of management of each individual business or operational function and may dictate priority for action (e.g. refresher training, etc.).

As reviews of each business are completed (or refreshed), the assessed risk is to be included in the Business Compliance Risk Map mentioned below.

9.5.3.3 Compliance Risk Map/Register

The conclusions from the risk reviews detailed above are to be collated together to form compliance risk "heat maps" which will assist the Chief Compliance Officer and senior management in considering compliance risk across the different businesses and locations. They may also be used for presenting the changing consolidated compliance risk "picture" to the ORC and ERMC.

[43] The "review" element mentioned here is the same as the review detailed in Section 9.3.3.5.1

When combined with specific commentary from individual business or themed reviews, such risk heat maps will comprise a practical compliance risk register for the different businesses and activities within the company. These assessed risks will be used to inform Compliance Planning (see Section 9.3.2) and will be updated from the tangible evidence arising from the monitoring program as detailed in Section 9.3.3.

9.6. Training

The Compliance Department is responsible for conducting training and education programs to keep business personnel and other employees apprised of policies and procedures and regulatory events. Training involves regular assessments, scheduled updates, as well as additional sessions on an as-needed basis to implement new policies or procedures or to communicate recent regulatory developments.

Compliance training initiatives should be, where practical and appropriate, globally oriented. Delivery of training to employees will include topics related to Anti-Money Laundering, Electronic Communications, Ethics, New Hire Compliance Orientation, and other non-business specific policies such as gift giving/receiving, client entertainment, privacy, etc.

In addition, Compliance training will encompass, where applicable, coordination of Regulatory Continuing Education, supervisory training, compliance risk training, product training, annual compliance meetings, and local training on regulatory requirements and regional policies and procedures.

9.7. Compliance Reporting

9.7.1. Introduction

The purpose of this section is to articulate the reporting requirements which are designed to ensure that all participants (staff, senior management, the Board of Directors and externally interested parties) are provided with information demonstrating that compliance is being carried out with all due diligence across the organization and that its successes and failures are satisfactorily monitored and controlled.

Compliance reporting provides not only the means by which senior management may be fully appraised as to how MF Global operating subsidiaries are managing their regulatory responsibilities, but also how current and newly emerging regulation may affect the day to day business of the organization and therefore its future strategy in terms of products and services, client contact, marketing, operations, human resources and technology.

Compliance reporting in this context does not include normal business reporting, (e.g. risk reporting, financial and sales performance, corporate responsibility, day to day trading, etc) although, certain elements of such reporting may well have a bearing on compliance in the wider sense (e.g. pre and post trade reporting). Information from such elements may provide essential feeds to the compliance reporting system.

9.7.2. Internal Reporting – Compliance Assurance

9.7.2.1 Reporting Hierarchy

Each business area is responsible for providing the information necessary for compliance reporting to the Global Compliance function.

The CRO together with the Chief Compliance Officer determines the extent, nature and frequency of reporting to Executive Management (ORC and ERMC) and to the Board.

9.7.2.2 Reporting to the Board and Audit Committee

The CRO will ensure that both the Board and the Audit Committee are briefed on a frequency to be determined by the Board on Compliance matters arising. Such reporting may be a summary of reports provided to ORC/ERMC or may include additional material at the discretion of the Board and/or the Audit Committee.

9.7.2.2.1 Regular Reporting

Reporting, in the required format as determined from time to time by the Chief Compliance Officer, may include information on the following:

- Breaches of compliance policy
- Legal action against MF Global , or its subsidiaries
- Exceptions to policy (approved)
- Specific regulatory (or exchange) issues affecting the business
- Suspicious activity (fraud, AML, market manipulation, etc.) (which are subject to immediate regional reporting requirements as soon as they come to light)
- Compliance incident report information (see Section 9.5.1)
- Customer complaints
- Process/systems issues likely to affect compliance
- Human resource issues likely to affect compliance (e.g. change of controller, breaches of Personal Account Dealing rules)
- Periodic attestation of compliance from senior executive officer for the business

9.7.2.2.2 Ad Hoc Reporting

Overlaid on the regular reporting structure is the requirement to escalate/accelerate reporting about significant compliance matters to ensure that senior management (and external authorities) is kept informed of significant incidents as they arise. Significant incidents may include:

- New serious complaints (or litigation) from clients and counterparties (threshold determined in Escalation Policy)
- Prohibitive or Manipulative behavior and where required, market abuse
- New Breaches or flouting of compliance policy which has been condoned by management at any level
- New incidents requiring the generation of a Suspicious Transaction Report for anti-money laundering and, where required, market abuse
- Specific regulatory or exchange queries of a critical nature

9.7.3. External Reporting

The Regional Heads of Compliance in conjunction with the Legal Department, under the direction of the Chief Compliance Officer and Chief Legal Officer, have the primary responsibility for the co-ordination of external compliance related reporting to the regulators in their jurisdiction. This responsibility is shared with other Directors and senior management in that jurisdiction who should notify the Regional Head(s) of Compliance of any matter which ought to be reported to the regulatory authorities (i.e. any event which might have significant reputational or financial consequence for MF Global), subject to the requirements for such reporting laid down by the local regulator.

In addition all MF Global Directors and senior managers should carry out tasks in respect of external reporting allocated to them by the Board or senior management in timely and responsible manner.

10. "Other Risks"

The MF Global Risk Appetite Statement articulates the Board's risk appetite in terms of the principal risks in the business. These are addressed in Sections 3 to 10 of this Policy. However, MF Global undertakes a comprehensive assessment of all risks that may affect its business, and has identified a number of other risks that are also subject to review. Those other risks that the company takes into consideration are detailed below.

10.1. Strategic and Business Risk

The definition of Strategic Risk is contained in Section 8.0 of the MF Global Ltd (Bermuda) Risk Definition document [GRD 1].

10.1.1. MF Global Risk Management Approach for Strategic and Business Risk

- Strategic and Business Risk is identified at Group level in the strategic planning process, and considered at divisional and country level in their planning process.
- Its effect is assessed by the analysis of strategic planning scenarios. Appropriate responses are documented in the Strategic Plan, and are subject to continual review.

10.1.2. Responsibility and Reporting

The CEO and the CFO have the principal responsibility for coordinating the identification and assessment of strategic risk.

Heads of individual regions, subsidiaries and businesses are responsible for the identification, assessment and inclusion in their own strategic plans of strategic and business risks which affect their business.

The Operational Risk Department is responsible for extracting from the strategic planning process the principal strategic risks and related action plans, and for reporting thereon to the ERMC.

10.2. Regulatory Risk

The definition of Regulatory Risk is contained in Section 8.2 of the MF Global Ltd (Bermuda) Risk Definition document [GRD 1].

10.2.1. MF Global Risk Management Approach for Regulatory Risk

The Global Head of Capital has the principal responsibility for coordinating the identification and assessment of regulatory risk.

Heads of individual regions, subsidiaries and businesses are responsible for the identification and assessment of changes to regulations locally which affect their business.

10.3. Pension Risk

The definition of Pension Risk is contained in Section 8.3 of the MF Global Ltd (Bermuda) Risk Definition document [GRD 1].

10.3.1. MF Global Risk Management Approach for Pension Risk

The different subsidiaries/operating entities in MF Global are to make an assessment (or reappraise previous assessments) at least annually of their pension fund provision, and are required to alert the Global CFO of any actual or potential shortfalls in such provision.

10.3.2. Responsibility and Reporting

The different operating entities in each country are responsible for pension provision in accordance with local employment/company legislation.

See Section 11 for a summary of reporting on other risks.

10.4. Reputation Risk

The definition of Reputation Risk is contained in Section 8.4 of the MF Global Ltd (Bermuda) Risk Definition document. Furthermore, as described in Section 2.1.3 of the MF Global Risk Appetite Statement, Reputation is considered to be one of the key strategic drivers in the business.

It is managed within MF Global on the basis of:

- Pre-event management, through the allocation of responsibility as detailed in Section 10.4.1; and
- Post-event management, as detailed in Section 10.4.3.

10.4.1. Responsibility for Reputation Risk

Principal responsibility for MF Global's reputation rests with the Chief Executive Officer. However, responsibility for reputation lies with all individuals, at every level within MF Global. Timely escalation of incidents is part of the exercise of this responsibility

10.4.2. General Corporate Citizenship

General Corporate Citizenship is a fundamental part of the management of reputation risk, and MF Global aspires to the highest standards in respect of all its stakeholders in terms of:

- Ethics
- Human Resources
- Human Rights
- Health and Safety
- Environment
- Procurement
- Philanthropy, Donations and Educational Support
- Business (including Trading and Investment) Practices

10.4.3. Reputation Risk Emergency Response

The more severe an incident, the more likely it will have an adverse impact on the reputation of MF Global and require an emergency response. All incidents meeting the Level 4 Escalation Threshold Criteria as outlined in Section 4 – 10 of the ERME are considered to have a potential adverse impact on the reputation of MF Global and, therefore, trigger the Emergency Response Policy also outlined in the ERME.

10.5. Other Business Risks

Other Business Risks comprise Trading Environment Risk, Competition Risk, Channel Risk, Staff Retention Risk and Brand Risk. The definitions of these risks are contained in Section 8.5 of the MF Global Ltd (Bermuda) Risk Definition document.

10.5.1. MF Global's Risk Management Approach for Other Risks

The CRO has the principal responsibility for coordinating the identification and assessment of other business risks.

Heads of individual regions, subsidiaries and businesses are responsible for the identification and assessment of other business risks which affect their business.

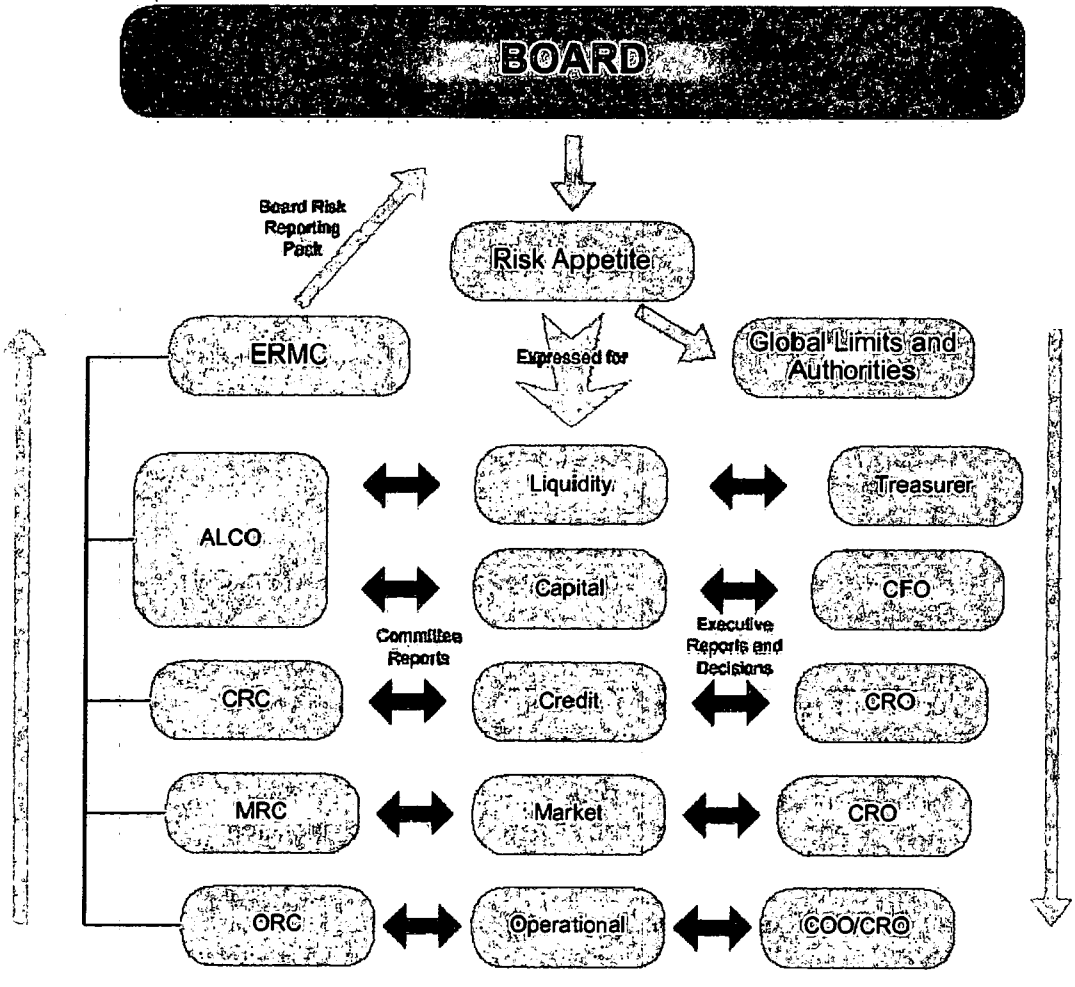
11. Risk Reporting

This section of the ERM Policy sets out the structure of risk reporting to be followed within MF Global. Such reporting will be:

- Internal reporting – to relevant business area managers, senior management, committees and to the Board
- External Reporting – to regulators, shareholders (in accordance with the listing rules), and to other authorities (e.g. tax authorities).

11.1. Reporting Framework

The aim of internal risk reporting structure is to deliver to the Board sufficient information and assurance regarding adherence to the Risk Appetite and the risk policies. The reporting structure also ensures that each committee and individuals responsible for each discrete risk type is informed at a greater level of detail, according to role:



11.2. Global Roles and Responsibilities with respect to Risk Reporting

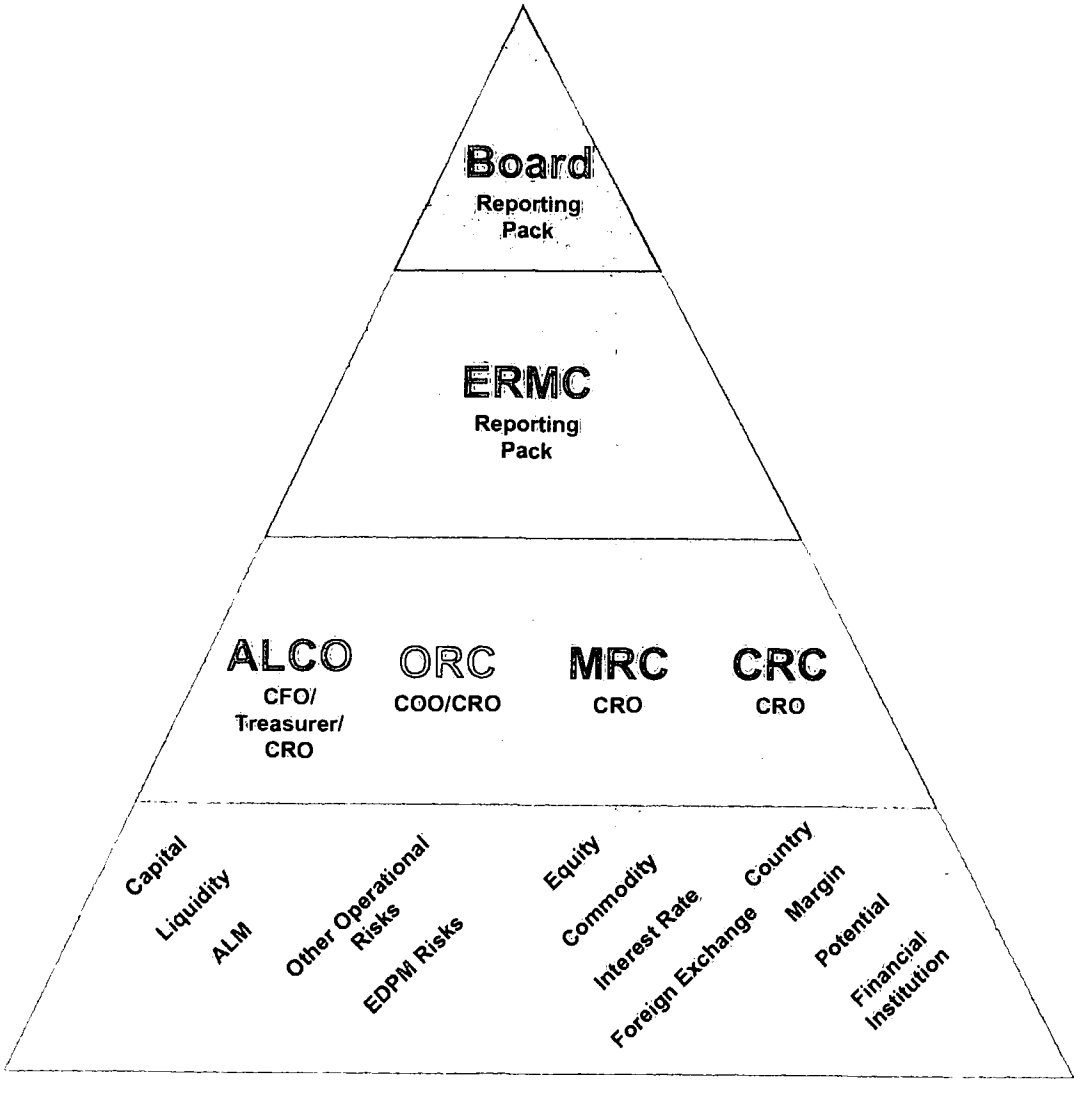
Entity	Reporting Responsibilities	Responsible to:
Board	Receive and review reports on all risk types, relative to Risk Appetite	• Shareholders • External Regulators, Listing and Tax Authorities
Board sub-committees	Receive and review reports on risk aspects related to their sphere of responsibility	Board
Chief Executive Officer and CRO	• Ensure that the Board is provided with sufficient, timely and accurate reports on all aspects of risk • Receive and review reports on risk and performance from: □ Global Product Global Heads □ CFO □ CRO □ COO □ GC	• Board • External Regulators
General Counsel	• Ensure that the Board and Board sub-committees are provided with sufficient and timely reports regarding their legal responsibilities and litigation risk and occurrences arising in the business • Receive and review reports on legal matters from legal officers in the businesses and regions	• Board • CEO
Individuals with global delegated risk authority (Treasurer, CFO, CRO, COO)	• Ensure that the CEO and Board are informed of risk profile and risk occurrences in their sphere of authority • Receive, review and take decisions (within their authority) regarding the specific risk types delegated to them • Make recommendations to the Board for decisions outside their authority	• Board • CEO
Enterprise Risk Management Committee	• Receive and review reports on all categories of risk from the risk sub-committees • Make recommendations to the Board, CEO, CRO and other global delegated risk authorities in relation to risk matters	• Board • CEO • CRO
Credit Risk Committee	• Receive and review reports on all aspects of credit risk from Chief Credit Officer • Make recommendations to ERMC and CRO as global delegated risk authority for Credit	• ERMC • CRO
Market Risk Committee	Receive and review reports on all aspects of market risk and risk monitoring from Global Head of Market Risk	• ERMC • CRO
Operational Risk Committee	• Receive and review reports on all aspects of operational risk from Global Head of Operational Risk • Receive and review reports on all aspects of compliance from Chief Compliance Officer • Make recommendations to ERMC, COO as global delegated risk authority for Execution Delivery and Process Management (a subset of Operational Risk)	• ERMC • COO • CRO • GC

Entity	Reporting Responsibilities	Responsible to:
Asset/Liability Committee	• Receive and review reports on day-to-day liquidity and investment portfolios, banking facilities and other actual and contingent assets and liabilities from the Treasurer • Receive and review reports on all aspects of capital and liquidity risk from the Global Head of Capital and Liquidity Risk • Make recommendations to ERMC, • CFO as global delegated risk authority for capital, • Treasurer as global delegated risk authority for liquidity • CRO as global delegated risk authority for market and credit risk	• ERMC • CFO • Treasurer • CRO
Global Product Global Heads	• Receive and review reports on all aspects of risk arising in the businesses for which they are responsible • Take decisions within their delegated authority • Make recommendations to CEO, ERMC (or related sub-committee) in respect of specific aspects of risk outside their authority	CEO
CRO	Ensure all risk functions provide necessary reporting to risk sub-committees, delegated authorities, ERMC and Board	• Board • CEO • ERMC
Chief Credit Officer	Ensure all credit risk functions provide necessary reporting to CRC, local risk committees, ERMC and Board	• CRO • ERMC
Global Head of Market Risk	Ensure all market risk and risk monitoring functions provide necessary reporting to MRC, ALCO, local risk committees, ERMC and Board	• CRO • ERMC
Global Head of Operational Risk	Ensure all operational risk functions provide necessary reporting to ORC, local risk committees, ERMC and Board	• CRO • ORC • ERMC
Chief Compliance Officer	Ensure all compliance functions provide necessary reporting to ORC, local risk committees, local management, ERMC and Board	• CRO • ORC • GC
Global Head of Capital and Liquidity Risk	Ensure all capital and liquidity risk functions provide necessary reporting to ALCO, local risk committees and management, ERMC and Board	• CRO • CFO • ALCO • ERMC
Global Head of Accounting	Ensure all financial functions provide timely and accurate management and statutory information to ALCO, local risk committees and management, Disclosure Committee, ERMC and Board	• CFO • ALCO • ERMC • Disclosure Committee
Global Head of External Reporting	Ensure all external reporting functions provide timely and accurate external reporting information to local risk committees and management, Disclosure Committee, and Board	• CFO • Disclosure Committee
Global Head of Insurance	Provide timely and relevant information to ORC, senior management, ERMC and Board in respect of insurance coverage outstanding and potential insurance claims matters	• CRO • ORC • ERMC

11.3. Internal Reporting

The form and content of internal risk reporting is constantly evolving within MF Global; however the principles applied are that:

- Risk reporting enables the Board, management, delegated authorities and risk committees to relate the current risk portfolios, to the risk appetite set by the Board;
- Risk reporting is conducted in a pyramid structure whereby increasing degrees of detail are available to specific risk committees and delegated authorities, while enabling the higher levels of reporting to have sufficient breadth of information to evaluate overall risk performance against strategy:



The specific internal risk reporting matrix is as follows:

Risk Type as per Risk Appetite	Risk Function	Global Delegated Authority	Risk Sub-committee	Oversight Over all Risk
Liquidity	Capital and Liquidity Risk	Treasurer	ALCO	• Board • ERMC
Capital		CFO		
ALM	Market Risk and Risk Monitoring	CRO		
Equity			MRC	
Interest Rate				
FX				
Commodity				
Direct loans	Credit Risk	CRO	CRC	
Counterparty				
Institutional				
Execution, delivery and process management	Operational Risk Compliance	COO[44] CRO and other relevant function heads	ORC	
Other operational				

11.4. External Reporting

MF Global's policy is to comply in all respects with the external reporting requirements placed upon it. Such reporting in relation to risk covers, but may not be limited to:

- Regulatory Reporting
- Insurance Reporting

11.4.1. Responsibility for Reporting Risk

Reporting risk arises from the possibility that MF Global could fail to meet reporting or filing deadlines or other required external disclosures. This risk is managed through the Reporting Risk Committee (see Section 2.2.2.8) which is chaired by the General Counsel. Membership of the committee consists of senior management from various functions within MF Global, depending on the nature of the item under consideration.

See also ERME [GRD 5] for reporting risk escalation.

[44] COO for execution, delivery and process management only, the CRO and other function heads receive operational risk reports

11.4.2. Regulatory Reporting

MF Global in its different subsidiaries and overall is subject to a range of regulatory reporting requirements in respect of different aspects of risk. Such disclosure regimes include those related to:

- Listing requirements of NYSE
- Pillar 3 disclosure requirements in Europe under the CRD

  Other disclosures required under applicable accounting standards.

- Regulatory disclosures as dictated by the regulatory authorities in each jurisdiction in which MF Global operates

All such reports are produced under the authority of the global CFO, and each regional or local CFO, under the co-ordination of the global head of external reporting.

11.4.3. Insurance Reporting

MF Global is obliged to report all instances of operational risk which have the potential to become a possible claim under one of the Company's insurance contracts. All incidents of operational risk are to be notified to the global head of insurance, so that he/she may take the necessary notification action.

11.4.4. Other External Reporting

MF Global is obligated to report to other external organizations including rating agencies, exchanges, and civil authorities. Disclosures relating to financial matters are the responsibility of the CFO who may require information from other functions. Disclosures to civil authorities are managed by the General Counsel in consultation with senior management.

12. Appendices

12.1. ERP Amendment Log

Page	Section Reference	Description of Change	Reviewed by:	Approved by:	Effective Date

12.2. Reference Documents

12.2.1. Risk Library

Document Reference	Title
GRD 1	Risk Definitions
GRD 2	Risk Appetite
GRD 2-1	Risk Appetite Scales
GRD 2-2	Risk Appetite Summary
GRD 3	Enterprise Risk Policy
GRD 4	Appendix B Risk Delegations
GRD 4-1	Market Risk sub-delegation letters
GRD 4-2	Credit Risk sub-delegation letters
GRD 4-3	Operational Risk sub-delegation letters
GRD 4-4	Capital and Liquidity sub-delegation letters
GRD 5	Escalation Policy
GRD 6	Governing Committees
GRD 7-1	10-K Risk Statement
GRD 7-2	10-Q Risk Statement
GRD 8	Enterprise Risk Procedures Framework
GRD 8(a) (i)	Credit Risk Procedures Manual
GRD 8(b) (i)	Market Risk & Monitoring Manual
GRD 8-1	Process Framework – Capital and Liquidity Risk
GRD 9	Capital Risk Methodology Document
GRD 10	Liquidity Risk Methodology Document
GRD 11	Operational Risk Library
GRD 12	Board Reporting Pack
GRD 12-1	ERMC Reporting Pack
GRD 13	Enterprise Risk Assurance Framework
GRD 13-1	Assurance Framework Capital & Liquidity
GRD 14	Risk Modeling and Quantification Policy
GRD 15	MF Global Internal Ratings Methodology Document

12.3. Region Specific Variations to Global Policy

12.3.1. Introduction and Scope

12.3.2. North America

12.3.3. Europe

Policy Exception Log

Policy Reference	Policy	Exception Requested	Business Area to which Exception Applies
5.3.2	*All documentation must be signed and in place before trading can commence*	In UK the Spread Betting Department is allowed to open accounts and commence trading with documentation being required to be provided within 2 weeks.	UK Spread Betting

Requested by	Approved by	Effective Date Review Date	Monitoring Requirements and/or Other Requirements
K Harbour	*Mike Roseman*	03/03/09 March 2010	The exception is likely to be permanent due to nature of business, but will be reviewed

12.3.4. Asia Pacific

Appendix 20

SOX Strategy
For - FY2010

Last update: January 06, 2010

Table of Contents

I. Scoping: 3
II. FY2010 Plan & Timeline: 4
III. Design Assessment Phase: 5
Process/Controls Not Subject to Change 5
Process/Controls Subject to Change: 5
IV. Design Assessment Phase: 8
Testing approach: 8
Timing and the Extent of Testing 8
Entity Level Controls: 9
V. Design Issue and Testing Exception Escalation Process 10
VI. End User Computing (EUC) 11
VII. IT General Controls 13

I. Scoping:

- As of December 2009, Management has set the SOX materiality for FY10 as USD 5.5M (same as FY09); materiality is reviewed on a bi-annual basis.

(Note: Materiality is determined based on the actual results for FY09, Q1 and Q2 FY10, as well as the forecast for FY10 as agreed with External Reporting and Consolidation ("Finance") and the External Auditors ("PwC") in November 2009. The materiality will be reassessed at year end.)

Refer to Sharepoint (FY10 Materiality Assessment Memo – Nov 09 Update) for details.

- Based on the current materiality, the SOX Compliance Office ("SCO") determines the locations and significant accounts in-scope for SOX for FY10 and updates the scoping templates for the following:
  - Significant account analysis (quantitative and qualitative assessment)
  - Location risk assessment
  - Significant accounts by location and entities in scope
  - Control mapping for the in-scope entities (US and UK only)

- SCO will determine the impact of the following on the FY10 SOX scope:
  - Summary of Aggregated Deficiencies ("SAD")/prior year issues identified
  - New products (e.g. FX retail, Fund of Funds etc)
  - Re-engineering project, activities and timeline
  - Identify other projects, system changes and timeline
  - New/Changes in locations
  - Consider changes to organizational structure and impact on entity level controls

- SCO will validate the scope documents with the key stakeholders (External Reporting, Global Controller, US and UK CFO and Controllers) and PwC

- Materiality and scoping will be reviewed bi-annually and any new significant accounts will be identified across the locations (if any). In case of a significant change to materiality, Trial Balance level mapping will be updated for the high risk locations (US and UK).

- <u>Supporting Documents:</u>
  - MFG SOX Scoping Policy
  - FY10 Materiality Assessment Memo – Nov 09 Update
  - Scope Templates
  - Control Mapping

II. FY2010 Plan & Timeline:

- SCO develops SOX documentation (design assessment) and testing (operating effectiveness) plan/timeline based on the scoping for all locations US, UK and ROW.

- SCO works with Internal Audit ("IA") to Align the IA plan and SOX plan (Note: the pack/process definition for SOX and IA is not always consistent due to different ways of viewing the business).

- SCO updates the existing guidance (documentation, testing, issue remediation) for FY2010 based on the Strategy document.

- SCO reviews the scoping, guidance and strategy for FY10 with IA and PwC.

- SCO holds joint SOX training with IA on the SOX plan, strategy, and guidance.

- SCO aligns itself with Internal Audit and the planned approach to Audit testing (including audits outside of SOX testing) to ensure consistency when approaching an area and to leverage the meeting time with process owners to serve a joint purpose.

- SCO also aligns itself with Operational Risk by sharing the information gathered by both teams and leveraging the risk assessments and issue notification process to ensure consistency in reporting to the various business areas and Risk Committees.

- SCO also manages the 302 and 404 checklist sign-off by the process owners to identify changes in the processes, controls, spreadsheets (or End User Computing, "EUCs"), IT applications, etc. to update the project plan, process packs, inventories, and test plans.

- The FY2010 Project Plan is shared with the SOX Steering/Oversight Committee and the global, regional and functional business project managers, where appropriate, to identify the impact of any process changes on the overall time-line and key controls for the current year.

- <u>Supporting Documents:</u>
    - Project Plans (Process, EUC, ITGC) – US, UK and ROW
    - SOX Training Deck for Internal Audit ("SOX Slides for IA Meeting 7 23")
    - MFG_SOX_Documentation_Policy
    - MFG_SOX_ Testing_Policy,
    - MFG_ Evaluating SOX Deficiencies_Policy

III. Design Assessment Phase:

- SCO starts with the Consolidated Risk and Control Matrix ("RCM") as of March 2009 and based on the scope exercise conducted in the first quarter FY 2010, will identify processes/controls not subject to change and subject to change
    - The RCM serves as the complete documentation and listing of Processes, Risks and Controls and is being brought in line with the Standard Reference Data, including the Process, Risk and Control ("PRC") Library and Risk Rating Matrix as defined in the Enterprise Risk Policy of MF Global which can be found under the Risk Management section of GX, Policies and Procedures, entitled "MF Global Enterprise Risk Management Escalation Policy". The PRC and Risk Rating Matrix will facilitate and support the consistent and complete assessment of all key risks, business processes and controls.

- In addition SCO will identify any changes to process packs/key controls on a quarterly basis via the following:
    - 302 Checklist (certification process is performed by the SCO team on a quarterly basis prior to the quarter close)
    - 404 Checklist (certification process is performed by the SCO team on a quarterly basis post the quarter close)
    - New key controls from the remediation of design issues

Process/Controls Not Subject to Change

- SCO performs a test of one (walkthrough) to confirm that the control is effectively designed to prevent or detect on a timely basis, material misstatements in the financial statements. IA attends the walkthrough discussions and updates with the SCO and the process owners, where applicable.

- The walkthrough includes the following:
    - Review of the existing documents with the process owners to test the control attributes (sample should be selected from FY2010) and confirm whether the process pack (Process flow, RCM etc.) is complete and accurate;
    - Identify, classify and escalate any noted design deficiencies for remediation. SCO will work with the process owner to determine the remediation plan and dates (as noted in the issue log);
    - Update the process pack (process flow, RCM (RCM includes test plans)) for any changes. Obtain process owner approval for the updated process pak.
    - F&A process owners to sign-off the entity TB level mapping.

- Walkthroughs for all key controls (not subject to change) in the US, UK and ROW will be completed throughout the year, with the expectations to be finished by end of Q3.

Process/Controls Subject to Change:

- For new process/controls identified via the scope exercise, issue remediation and quarterly 302/404 checklist process, the NY SCO will determine the pack and key control reference # for all the locations.

- SCO will perform a design assessment of the new/revised process (IA will participate in the walkthrough meetings) including:
  - Understand the new/revised process and controls;
  - Perform a walkthrough of the new/revised controls;
  - Identify, classify and escalate any noted design deficiencies for remediation. SCO will work with the process owner to determine the remediation plan and dates (as noted in the issue log);
  - SCO will risk assess each key control and note in the Consolidated RCM – High/Low risk. Following factors should be considered to assess the risk associated with a control:
    - Whether the account/controls has a history of errors or issues;
    - The nature and materiality of misstatements that the control is intended to prevent or detect;
    - Whether there have been changes in the volume or nature of transactions that might adversely affect control design or operating effectiveness;
    - The nature of the control and the frequency with which it operates;
    - The competence of the personnel who perform the control or monitor its performance and whether there have been changes in key personnel who perform the control or monitor its performance;
    - Whether the control relies on performance by an individual or is automated (i.e., an automated control would generally be expected to be lower risk if relevant information technology general controls are effective);
    - New/Revised controls would be assessed as High risk controls
    - FY2009 SAD items
  - Create or Update the process pack (process flow, RCM). Obtain process owner approval for the process pack.
  - Document the test plan based on the risk assessment (i.e. re-performance or hybrid approach – refer to the operating effectiveness testing section);
  - F&A Process owners to sign-off on the entity TB level mapping performed as part of the scoping exercise (e.g. Asst. Controller to sign-off on the MFG Market Services Trial Balance mapping).

<u>Other Updates</u>

- In addition to the process pack and test plan update for the changes, SCO will refresh the following inventories on a quarterly basis as part of the 302/404 checklist process:
  - Consolidated RCM and Caption Mapping
  - EUC inventory for any new/changes EUCs identified
  - IT application inventory for any new/changes IT applications identified

- For the key controls implemented based on issue remediation, SCO will note the effective date of the control in the Consolidated RCM to identify sample selection period available for testing

- All walkthroughs are expected to be completed prior to operating effectiveness testing and the timing will be reflected in the Project Plan.

- All changes to the RCMs are tracked on the "RCM Change Log" and approved by the SCO Regional Manager before implementing the change.

- Supporting Documents:
  - Project Plan – US, UK and ROW
  - MFG SOX Documentation Policy
  - MFG_SOX_Testing_Policy,
  - MFG Evaluating SOX Deficiencies Policy
  - Consolidated RCM
  - EUC Inventory
  - IT Application Inventory
  - MF Global Enterprise Risk Management Escalation Policy

IV. Operating Effectiveness Testing Phase (Interim and Roll-forward Testing):

Testing approach:

- Testing will be performed by Internal Audit based on the test plans provided by the SCO. The tester should use judgment as whether to (a) continue testing for the minimum sample size applicable to that control or (b) stop testing and raise the control for remediation.

- First level review will be performed by the IA team and testing lead sheet along with supporting documents will be provided to SCO for review.

- SCO to coordinate the timing and perform second level review of the testing documents.

- If an exception is identified during testing, IA will agree the testing exception with the process owners and report the exception to the SCO.

- SCO will investigate the root cause of the exception and determine the remediation plan, exception rating and the remediation date

Timing and the Extent of Testing:

The timing and extent of testing will depend upon the risk rating assessed for key controls:

- High Risk Controls: Re-performance to test the operating effectiveness of the controls. For the monthly and quarterly High Risk Controls the year end (3/31/10) sample will be selected for roll-forward testing (highlighted in the consolidated in RCM as High (YE)).

- Low Risk Controls: Hybrid approach (**Re-performance** testing for a minimum of one sample and **Inspection** testing for the remainder of the samples. SCO may use its judgment to determine to use **Re-performance** for all samples. The assessment will be completed by SCO and provided to Internal Audit for testing along with the test plans. The assessment will be documented as part of the testing lead sheet.)

- For ROW, SCO will follow the same approach as FY2009, where the key controls over the specific significant accounts will be identified and considered as high risk and tested by IA accordingly. For the ROW, the following new key controls (some of these controls were classified as monitoring controls for FY2009. This will also make the classification consistent with the US and UK) are being included:
    - Journal entry control should be moved from a monitoring control and made a key control in all ROW locations;
    - Review controls over Bad Debt process in ROW to confirm they are consistent with the revised global policy/process;

- Ensure the key control over the Cognos submission in each ROW location (a monitoring control) is appropriately documented consistently. At month-end, before submission to Cognos, there is a control in place which allows Controller to review and approve submission templates for all entities prepared by the Finance Team. Once approved by Controller, the Finance Team is allowed to submit electronically templates to Cognos for Consolidation. All submission templates are printed off and signed by the preparer and reviewer as evidence of approval.
- GAAP Summary template is a control in some ROW locations - need to confirm whether this is the same as the Submission 2 template and consolidate with the above suggested control appropriately;
- Currency translation controls in each ROW location are currently monitoring controls - these should be made key controls;
- Testing some controls at year-end will need to be taken into consideration (e.g. the journal entry, cognos submission, and submission 2/footnote controls).
- Monitoring control (variance analysis) identified in the ROW will be considered as low risk and a hybrid testing approach will be followed.

- SCO will determine the retesting timeline (for the failed controls) based on the results of the interim testing to allow adequate retesting sample size. IA will perform the retesting as directed by SCO.

- SCO will update the Project Plan to reflect the timing of the interim and roll-forward testing by location

(Refer to Appendix A for the sample sizes and Appendix B for examples of Inspection and Re-performance)

<u>Entity Level Controls:</u>

SCO will update the RCM and perform walkthroughs of the ELCs in the 3rd Quarter of FY2010 and update in 4th Quarter FY2010

Supporting Documents:

- MFG Testing Policy
- MFG Deficiency Policy
- Consolidated RCM
- ELC RCM
- Testing Templates

V. Design Issue and Testing Exception Escalation Process

- IA will discuss the design issues and testing exception (ones identified by IA) with the process owner and agree upon the facts of the issue. The agreed-upon issue/exception will be reported to SCO. For the design issues identified by SCO, these will be discussed and agreed by SCO directly with the process owners.

- SCO will review the issue with the Process Owner and agree on the recommendations, issue/exception rating, and remediation date. SCO will incorporate the issue into the consolidated issue tracking tool.

- SCO will be responsible for tracking and reporting open issues/exceptions, including follow up with the Process Owners.

- SCO will be responsible for ensuring issues are escalated to the appropriate areas as per the guidelines established in the MF Global Enterprise Risk Management Escalation Policy which can be found in the Risk Management section, under Policies and Procedures, on GX.

- Once the process owner verbally confirms an issue is closed, SCO will obtain the supporting documents from the process owners and inspect the documents to confirm the issue is closed. If adequate documentation is available to support the remediation, SCO will close the issue.

- SCO will update the Consolidated RCM, process packs, test plans and inventories as part of the quarterly refresh process to reflect the issue remediation. Also, the effective date of the key control will be noted in the RCM and the issue log.

- Internal Audit will perform re-testing of the remediated controls as requested by SCO.

- <u>Supporting Documents:</u>
  - Consolidated Issue and Exception Log
  - Issue Remediation Policy
  - MF Global Enterprise Risk Management Escalation Policy

VI. End User Computing "EUC" (i.e. spreadsheets)

- SCO will review the existing EUC framework and determine if any updates are required.

- SCO will be responsible for documenting the EUCs. The documentation of the EUCs will be performed along with the design assessment phase of the key controls and noted in the EUC RCM included in the process packs.

- IA will perform the control testing for the EUCs – both subject to change and not subject to change; where an EUC is deemed to be a high risk EUC, specialists may be used on behalf of SCO to perform the logic inspection testing, as appropriate.

- <u>Current List of EUCs from FY09 (not subject to change):</u>

  - SCO will review EUC risk assessment as part of the business process design assessment phase;

  - SCO will update the EUC RCM and Inventory for any changes to the ratings;

  - High Risk - testing
    - Logic inspection will not be performed; management will rely on the change management process.
    - Perform Interim (Full Sample) & Roll-forward Testing

  - Medium Risk EUCs – perform test of one control close to year-end

  - Low Risk EUCs (Out of Scope for SOX)

- <u>EUCs subject to change or new EUCs</u>

  - Identify new EUC or any change in the existing EUCs as part of FY2010 scope exercise, walkthroughs and quarterly 302/404 checklist process

  - NY SCO team will provide the EUC reference number for all locations

  - SCO will perform a risk assessment of the new/changed EUC and perform gap analysis against the EUC Control Framework

- SCO will determine remediation plan for the new EUCs to address the control gaps and allow for sufficient time for documentation and testing

- Update the EUC RCM in the process pack as part of the business process documentation updates and remediation

- IA will perform Interim (Full Sample) & Roll-forward Testing. For high risk EUCs logic inspection testing will be performed.

- Timeline for the interim and roll-forward testing for the new EUCs will be determined on a case by case basis. The approach would be to test these new EUCs early to allow sufficient time for remediation.

- As noted in Section III (Design Assessment), the EUC inventory will be updated along with the business process walkthroughs and the quarterly updates to the process packs and other inventories per the 302/404 process.

- Design issues and testing exceptions identified with respect to EUCs will be tracked, monitored and reported by the SCO along with business process issues.

- SCO will determine the retesting timeline (for the failed controls) based on the results of the interim testing to allow adequate retesting sample size. IA will perform the retesting.

- Supporting Documents:
  - EUC Risk Framework
  - EUC Inventory
  - EUC Testing Project Plan – US, UK and ROW
  - MFG Testing Policy
  - EUC Testing Templates

VII. IT General Controls

- SCO and IT will review the existing ITGC framework and determine if any updates are required. This will be reviewed with PwC.

- SCO will be responsible for scoping and identifying IT applications for SOX

- IT will be responsible for documenting the ITGCs and IA will be performing the testing

- For the US and UK – the IT applications in-scope for FY2009 will be reviewed including risk assessment as part of the FY2010 scope exercise. SCO and IT will review the risk assessment and identify applications not subject to change and applications subject to change.

- Applications not subject to change – ITGC Testing:
  - Due to pervasiveness of ITGC and nature of testing, test all controls throughout the year and perform roll-forward procedures during the 4th Quarter FY2010.

- Applications subject to change/new applications – ITGC documentation and testing:
  - SCO and IT will identify new applications in the US and UK as part of the FY2010 scoping and the quarterly 302/404 checklist process
  - SCO and IT will perform a risk assessment and gap analysis with the ITGC control framework for the new applications (i.e. In-scope/SOD/Out-of Scope)
  - Remediation plan to address the ITGC gaps will be determined by IT and SCO to ensure sufficient time is available for documentation and testing
  - IT will document controls around the following 3 different categories:
    1. Change Management: Only appropriately tested and approved changes are made to applications, interfaces, databases, and operating systems.
    2. Logical Access: Only authorized persons have access to data and applications (including programs, tables, and related resources) and that they can perform only specifically authorized functions (e.g., inquire, execute, update).
    3. IT Operations: Data supporting financial information is properly backed up so such data can be accurately and completely recovered if there is a system outage or data integrity issue. Programs are executed as planned and deviations from scheduled processing are identified and resolved in a timely manner. IT Operations problems or incidents are identified, resolved, reviewed, and analyzed in a timely manner.
  - SCO and IT will determine the timeline for the interim and roll-forward testing for the new in-scope and SOD applications on a case by case basis. The approach would be to test these applications early to allow sufficient time for remediation and retesting. IA will be responsible for the testing these new applications.

- ITGC Sampling (also noted in the MFG Testing Policy)

Samples for ITGC testing will be taken from a system generated source (where possible). For example, a complete list of the changes to the relevant components of the IT environment from the beginning of the audit period will be obtained from the Maximo system.

In certain situations ITGC testing will be aggregated, when the related ITGC are similar across multiple applications or technical components of the IT environment. In these circumstances a single testing sample for the entire population of items affected by the common ITGC will be chosen. This approach reduces the number of samples selected while still testing ITGCs across the relevant applications and IT environment technical components.

- For the ROW, given ITGC were not established during FY2009, the following approach will be undertaken by the SCO in collaboration with IT for FY2010 for the **medium risk locations** only:
  - The IT applications supporting the key controls will be identified
  - The IT applications identified will be risk rated (In-scope, SOD and out-of-scope) and reviewed for remediation
  - The remediation assessment will be completed by the end of FY2010.
  - No reliance will be placed on the ITGC's for FY2010 – remediation will be reviewed and controls tested starting FY2011.
  - Reliance will be placed on business process controls for FY2010.

- SCO and IT will determine the retesting timeline (for the failed controls) based on the results of the interim testing to allow sufficient time retesting. SCO and IT will coordinate the retesting timeline with IA.

- SCO and IT will consider Freeze policy for IT System implementation in 4th Quarter.

- Design issues and testing exceptions identified with respect to ITGCs will be tracked, monitored and reported by IT

- <u>Supporting Documentation:</u>
  - ITGC Framework
  - IT Application Inventory
  - ITGC Testing Project Plan – US, UK and ROW
  - MFG Testing Policy
  - Testing Templates

Appendix A: SOX Sample Sizes

Frequency of Control Performance	SCO	Internal Audit			
	Test of One (A)	Interim Testing Sample Sizes (B)	Roll-forward/Year End Sample Size* (4th Quarter) (C)		Total Sample Size for FY10 (Sum A + B+C)
			If Interim Test Sample Included 1st and 2nd Quarters	**If Interim Test Sample Included 3rd Quarter**	
High Risk Controls					
Annually	1	N/A	N/A	N/A	1
Quarterly	1	N/A	1	1	At least 2
Monthly	1	At least 1	3	2	At least 4
Weekly	1	At least 6	4	3	At least 10
Daily/Multiple Times a Day	1	At least 24	10	5	At least 30
Ad-hoc	1	The lesser of 10% of the population or 24	The lesser of 10% of the population or 10	The lesser of 10% of the population or 5	The lesser of 10% of the population or 30
Low Risk Controls					
Annually	1	N/A	N/A	N/A	1
Quarterly	1	N/A	1	1	At least 2
Monthly	1	N/A	1	1	At least 2
Weekly	1	At least 3	1	1	At least 5
Daily/Multiple Times a Day	1	At least 19	10	5	At least 25
Ad-hoc	1	The lesser of 10% of the population or 19	The lesser of 10% of the population or 10	The lesser of 10% of the population or 5	The lesser of 10% of the population or 30

*Roll-forward/year end sample size will depend upon the timing of interim testing e.g.
Scenario 1: For a daily control, samples were obtained from Q1 and Q2 during interim testing, Roll-forward samples size will be 10 and samples would be selected from Q4
Scenario 2: For a daily control, samples were obtained from Q3 during interim testing, Roll-forward samples size will be 5 and samples would be selected from Q4

Note: Similar to FY2009, the Common Journal entry control is an exception to the above sample guidance. Given the large population of this 'as needed' frequency control, and given the high importance for financial reporting, the journal entry control sample size will be 60 journal entries across all entities. 30 journal entries will be selected during interim testing and 30 additional entries will be selected during roll-forward testing and we will adopt re-performance testing. Entries will be selected across all in-scope entities by high risk location and will be selected across all types of journal entries on a judgmental sampling basis. Sampling will take into consideration materiality of journal entries, size of legal entity, complexity of the journal entry, etc.

Sub-sample sizes

Populations of Less Than 200 Items (No Exceptions Tolerated)

# of Exceptions/Reconciling Items	Minimum Sub-Sample Size
< 10	2 items
10-19	3 items
20-49	5 items
50-99	10 items
100-199	20 items

Populations of More Than 200 Items

Control Risk	Number of Items to Test		
	0' exceptions tolerated	**1' exceptions tolerated**	**2' exceptions tolerated**
Low	25	45	65
Medium	40	65	90
High	55	85	115

Appendix B: Example of Inspections & Re-performance

Inspection – Inspection involves more than observing evidence that a control was performed. To ensure that the control does operate effectively, the tester must validate the completeness and accuracy of the result of the control procedure and the timely and effective resolution of control exceptions.

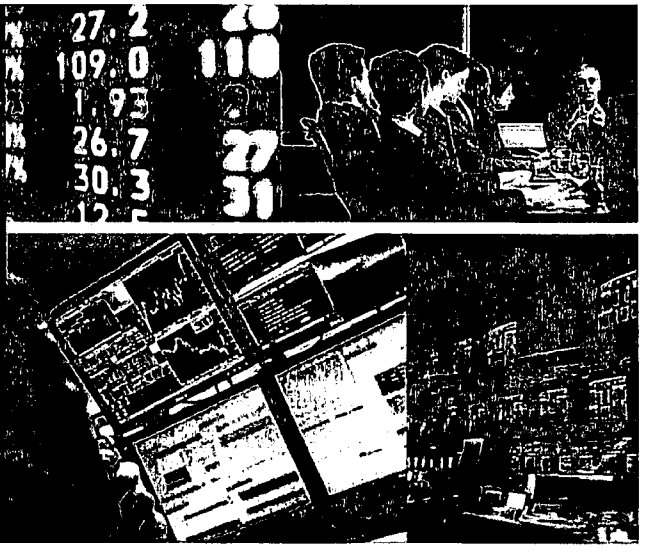
> Example 1 - Inspection Test (Reconciliation control): Tester inspects reconciliation to determine whether all un-reconciled items are resolved and supporting documentation is in place to support them. (Inspection does not include re-performance of the actual reconciliation and tie through to the support.)
>
> Example 2 - Inspection test: Obtaining the evidence of a signed report to verify that review was performed of the daily "Unmatched Trades Report" which is required to be reviewed and signed by head of Operations.

Re-performance - For each control and associated attributes to be tested, using the control documentation, reconstruct the control process for a sample of transactions to determine whether it functioned as described, and whether errors were prevented/detected. During initial implementation, re-performance of controls will be the primary technique used to conclude on operating effectiveness.

> Example 1 - Re-performance testing (Reconciliation control): Tester re-performs the reconciliation calculation and reconciles a sub-sample of items to the supporting documentation to determine that the results (such as the reconciling items and balances) agree to the reconciliation prepared by the management.
>
> Example 2 - Re-performance testing: Tester selects the Exchange report and the GMI report and reconciles the balances to find out the breaks and compares the results to the reconciliation prepared by the management.

Appendix 21

MF Global®



MF Global Ltd
Bermuda

Enterprise Risk Management Escalation Policy

[GRD 5] 2009-06-08

June 2009

Contents

1.	**Introduction**	1
1.1.	**Purpose and Objectives of Policy**	**1**
1.1.1.	Purpose of the MF Global Enterprise Risk Management Escalation Policy	1
1.1.2.	Overall Objectives of this Enterprise Escalation Policy	1
1.2.	**Scope, Sponsorship, Authority and Approval of the Global Risk Policy**	**1**
1.2.1.	Scope and Application of the Enterprise Escalation Policy	1
1.2.2.	Policy Sponsor	2
1.2.3.	Policy Approval	2
1.3.	**Communication of Enterprise Escalation Policy**	**2**
1.3.1.	Dissemination of the Policy	2
1.3.2.	Maintenance, Amendments and Review of Policy	2
1.3.2.1	Policy Maintenance	2
1.3.2.2	Review Process	2
1.3.2.3	Levels of Amendment and Amendment Authorization	3
1.3.3.	Confidentiality	3
2.	**General Escalation Policy**	4
2.1.	**Roles and Responsibilities**	**4**
2.2.	**The Escalation Framework**	**5**
2.3.	**Incident Documentation**	**6**
3.	**Emergency Response Policy**	7
3.1.	**Emergency Response Incidents**	**7**
3.2.	**Emergency Response Committee (ERC)**	**8**
3.3.	**Action Sequence**	**9**
4.	**Capital Risk Incident Escalation**	10
4.1.	**Escalation Criteria**	**10**
5.	**Liquidity Risk Incident Escalation**	11
5.1.	**Escalation Criteria**	**11**
6.	**Credit Risk Incident Escalation**	13
6.1.	**Escalation Criteria**	**13**
7.	**Risk Monitoring and Market Risk Incident Escalation**	15
7.1.	**Escalation Criteria**	**15**
8.	**Operational Risk Incident Escalation**	17
8.1.	**General Operational Risk Escalation Criteria**	**17**
8.2.	**Clients, Products and Business Practices**	**18**
8.2.1.	Supplemental Criteria	18
8.3.	**Execution, Delivery and Process Management**	**19**
8.3.1.	Supplemental Criteria	19
8.4.	**Financial Integrity and Reporting**	**20**
8.4.1.	Supplemental Criteria	20
8.5.	**Internal Fraud and External Fraud**	**22**
8.5.1.	Supplemental Criteria	22
8.6.	**Business Disruption and Systems Failures**	**23**
8.6.1.	Supplemental Criteria	23
8.7.	**Damage to Physical Assets**	**24**
8.7.1.	Supplemental Criteria	24

8.8. **Employment Practices and Workplace Safety** **25**
8.8.1. Supplemental Criteria 25
9. **Reporting Risk Escalation** 27
9.1. **Escalation Criteria** **27**
10. **Strategic and Business Risk Incident Escalation** 29
10.1. **Escalation Criteria** **29**
11. **Appendices** 30
11.1. **Escalation Policy Amendment Log** **30**

1. Introduction

This document sets out the escalation policy of MF Global Ltd. ("MF Global" or "the Company"). This document is to be read in conjunction with the following MF Global Policy documents:

- Delegation of Authority Policy ('D of A') – which sets out the authorities and limits delegated by the Board to different individuals within the management team of MF Global
- Enterprise Risk Policy ('ERP') [GRD 3] – which sets out the detailed policies for risk management which are implemented across MF Global (subject to documented local variation)
- Risk Definitions document [GRD 1]

1.1. Purpose and Objectives of Policy

1.1.1. Purpose of the MF Global Enterprise Risk Management Escalation Policy

The documents referred to in Section 1 establish the various standards in which MF Global will conduct business. However, it is acknowledged that policy exceptions may arise, breaches of limits may transpire, and unexpected events may occur (collectively referred to as 'incidents'), which are outside the boundaries set by policy and delegated limits. The purpose of this Enterprise Risk Management Escalation Policy ('ERME Policy') document is to outline the reporting chain and reporting protocols related to the identification and escalation of incidents, so that knowledge of the incidents is disseminated to the appropriate authorized individuals in a timely manner.

1.1.2. Overall Objectives of this Enterprise Escalation Policy

- To ensure timely and accurate identification of incidents whenever and wherever they occur.
- To ensure prompt communication of incidents to the appropriate authorized individuals to enable timely mitigation or other decision-making activities.
- To ensure that internal dissemination of incident information is appropriate and consistent.
- To ensure that incident communication to external stakeholders, when necessary, is effective and controlled.

The result of an effective escalation is to enable necessary, informed action to be initiated to mitigate the impact of an incident to the greatest extent possible.

1.2. Scope, Sponsorship, Authority and Approval of the Global Risk Policy

1.2.1. Scope and Application of the Enterprise Escalation Policy

This Policy is applicable to all of the operating subsidiaries within MF Global and, to the extent relevant, to the conduct and management of the non-operating subsidiaries.

1.2.2. Policy Sponsor

The sponsor for this Policy is the ***Chief Risk Officer*** *('CRO')*, to whom the MF Global Board has delegated the authority to develop and maintain risk – related policies.

The CRO is also responsible for monitoring the application of this ERME Policy throughout the Company in all of its activities.

1.2.3. Policy Approval

The MF Global Board is responsible for approving the overall framework and direction of the ERME Policy based on the recommendation of the CRO.

The ERMC is responsible for reviewing the detailed policy content, and for ensuring that the Board is notified of changes to the framework and direction of the policy.

1.3. Communication of Enterprise Escalation Policy

1.3.1. Dissemination of the Policy

The ERME Policy will be published in electronic form over the MF Global Intranet. Access to the Policy will be granted on a "read-only" basis to all MF Global personnel.

The intranet version is the authoritative version of the Policy.

The Global Head of Operational Risk is responsible for the maintenance and electronic distribution[1] of the policy.

1.3.2. Maintenance, Amendments and Review of Policy

1.3.2.1 Policy Maintenance

The Global Head of Operational Risk will maintain a documented record of all amendments made to the ERME Policy (the 'Policy Amendment Log'), which will detail the date of, and authority for, such amendments.

The Global Head of Operational Risk will issue an alert to staff via the Intranet whenever material amendments are made to it.

1.3.2.2 Review Process

The CRO will, at least annually, initiate a review of the ERME Policy to confirm that the policies set out remain relevant, appropriate and correct. On the basis of such review, if amendments or updates are required, the CRO will initiate the amendment process set out in this policy.

Proposals or suggestions for amendments or updates to the ERME Policy should be submitted via line management to the CRO who will together with the Global Head of Operational Risk co-ordinate due consideration of suggestions and initiate the amendment process.

[1] Keeping physical copies of the Risk Policy is strongly discouraged because of the practical difficulties of keeping them fully up-to-date.

1.3.2.3 Levels of Amendment and Amendment Authorization

The ERME Policy has three categories of amendment (and related processes), which are subject to the following levels of sanctioning authority:

Level	Description	Authority
1	Minor typographical, numerical or consequential changes, not affecting policy or process	Global Head of Operational Risk
2	Non-material changes to policy and process[2], between the annual Board review cycles.	CRO
3	Permanent, material changes to policy.	MF Global Board with recommendation from Audit Committee

In the event of uncertainty as to the category of any amendment, it should be elevated to the next level for sanctioning authority.

1.3.3. Confidentiality

The contents of this policy are confidential to MF Global and no copies made of the policy or any part thereof may be removed from business premises without the prior written permission of the senior manager in the location concerned. However, on occasions disclosure may be obliged as part of a specific legal or regulatory process.

[2] "Change to process" means a change in the ways specific activities are undertaken or changes in the inter-actions within businesses and/or supporting functions. It does not include changes to policy.

2. General Escalation Policy

2.1. Roles and Responsibilities

The roles and responsibilities in respect to escalation are as follows:

- All employees who identify or are made aware of an incident are responsible to report the incident to their manager as soon as they are aware of the incident. If there is a question as to whether an incident is reportable, they should report it.
- Employees who identify an incident are responsible for documenting the incident or ensuring that someone else, more appropriate, will document the incident.
- Managers are responsible for identifying the relevant risk type and for escalating as appropriate and outlined in Sections 4 – 10 of this policy. Escalation Managers, as identified in Sections 4 – 10 of this policy, are responsible for the overall management of the incident including, as appropriate, necessary approvals, broader communication coordination, appointment of the incident management team, agreement of mitigating actions and ensuring that the incident is appropriately documented. If the needed action or approval is outside their authority, then they should escalate to the relevant person with the next level of authority and document their recommended actions.
- All employees, managers and Escalation Managers should utilize the most efficient and effective means available to escalate and notify (e.g. verbal, telephone, email).
- If an employee does not think their manager or the Escalation Manager has responded to or appropriately escalated the incident, then the employee is responsible for continuing to escalate in one of two ways; either escalate to the appropriate (or next) Escalation Manager noted in Sections 4 – 10 or implement the Whistleblower Policy.
- To the extent the Escalation Manager is not available, the employee should escalate to the next level in the relevant Escalation Matrix.
- Incident management team is a group of relevant individuals appointed by the Escalation Manager, to respond to and mitigate the incident as appropriate.
- Risk officers, defined as the CRO and his direct reports, may also identify an incident or may have one reported to them. As outlined in the escalation matrices, Risk officers are Escalation Managers for their related risks. Risk officers are responsible for collecting and collating all of the relevant information about an incident and for ensuring that the incident is categorized and has been escalated, and resolved in accordance with the policy set out for each risk type, as detailed in Sections 4 – 10 of this policy.
- Risk officers are responsible for creating procedures to support escalation and notification of incidents for their relevant risk types.
- Committees are responsible for considering the implications of the incident and whether it is representative of a trend. If the mitigation of the incident is a change to policy, then the appropriate committee is responsible for initiating the necessary amendments to the relevant policy.

2.2. The Escalation Framework

The escalation framework is aligned to the Enterprise Risk Policy and includes the following:

- Incident identification as related to the risks. In order to assist in the risk type identification of incidents, incident examples are provided. These examples are not intended to be an exhaustive list. The risks are:
  - Capital Risk
  - Liquidity Risk
  - Credit Risk
  - Market Risk and Risk Monitoring
  - Operational Risk (as categorized):
    - Clients, Products and Business Practices (CPBP)
    - Execution, Delivery and Process Management (EDPM)
    - Financial Integrity and Reporting (FIR)
    - Internal Fraud
    - External Fraud
    - Business Disruption and Systems Failure (BDSF)
    - Damage to Physical Assets (DPA)
    - Employment Practices and Workplace Safety (EPWS)
  - Reporting Risk
  - Strategic and Business Risks
- An Escalation Threshold Criteria has been identified for each risk (and risk category) which provides the reporting thresholds. There are four levels of reporting thresholds which have been established using the following factors (as defined for each risk type).
  - **Level 1** – for incidents which are relatively minor at an MF Global level, but which are significant at an operating entity or business level.
  - **Level 2** – for incidents which are significant at an MF Global level, but which are serious at an operating entity or business level. Such incidents should be resolved at a sub-delegation of authority level.
  - **Level 3** – for incidents which are potentially serious at an MF Global level, but which are very serious at an operating entity or business level. Such incidents should be resolved at a global delegation of authority level.

- **Level 4** – for incidents which are very serious at an MF Global level, and potentially catastrophic at an operating entity or business level. Such incidents will always require the Emergency Response protocol which is detailed in this policy. Given the breadth of potential incidents, some degree of consideration will need to be applied for escalation of Level 4 incidents to the CEO and the Board. Level 4 incidents will be escalated to the Board either directly or through the Audit Committee depending on circumstances and the timing will be at the discretion of the CEO and CRO.

- Escalation Managers have been identified for each risk type (and risk category) at each reporting threshold. A call tree including all of the Escalation Managers and other pertinent contacts has been created and distributed to those identified in the call tree.
- Committee identifies the relevant committee to which an incident will be escalated.

2.3. Incident Documentation

A database will be established to capture the details of the incidents.

3. Emergency Response Policy

Incidents can be a result of actions both internal and external to MF Global and could have a negative impact to MF Global which could be of a financial, regulatory and / or reputational type. Incidents with a Level 4 Escalation severity require an emergency response.

3.1. Emergency Response Incidents

All incidents meeting the Level 4 Escalation Threshold Criteria (as outlined in Sections 4 – 10) are considered to have a potential adverse impact to MF Global and will trigger the Emergency Response Policy. Examples of Level 4 incidents include:

- Significant potential for loss arising from house or client accounts.
- Significant drop in an entity's liquidity.
- Failure of a legal entity to meet regulatory capital requirements.
- A breakdown or failure of service to customers (e.g. unexpected office closures, failure of internet-based trading facilities).
- A loss arising as a result of internal or external fraud directed at MF Global.
- Actual or perceived inappropriate selling techniques or product design.
- Regulatory sanctions, fines, adverse legal judgments
- Failure of a major consumer-related corporate customer whose activities or failures is actually, or perceived to be, instigated or aided by action of MF Global.
- Instances of preferential treatment or non-disclosure of significant facts.
- Critical application failure resulting in significant degradation of operating ability / effectiveness.

These are examples of incidents and do not represent an exhaustive list of incidents.

Additionally, any Escalation Manager can also determine an incident to have potential reputational consequences and trigger the Emergency Response Policy after consulting with any of the following individuals:

- Chief Executive
- Chief Financial Officer
- Chief Risk Officer
- Chief Operating Officer
- General Counsel
- Chief Accounting Officer
- Chief Information Officer
- Treasurer

- Head of Communications / Investor Relations

The relevant authority for each type of risk will determine whether an incident is a Level 3 incident (and is, therefore, within their authority) or whether it needs to be escalated to a Level 4 category, which would trigger an Emergency Response (as well as requiring notification to the Board).

When such an event is declared, a specific Emergency Response Committee shall convene within [24 hours].

3.2. Emergency Response Committee (ERC)

An Emergency Response Committee, when meeting in response to a Level 4 incident shall comprise a relevant grouping, according to circumstance, from among the following[3]:

- Chief Executive
- Chief Financial Officer
- General Counsel
- Chief Risk Officer (Chair)
- Chief Operating Officer
- Chief Information Officer
- Global Head of Human Resources
- Global Head of Insurance
- Global Risk Officers of the Related Incident's Risk Type
- Treasurer
- Chief of Compliance
- Head of Investor Relations/Communications
- Relevant regional senior leader
- Relevant global product head
- Other representation from all affected business areas
- Relevant regional COO, CFO, etc.
- Such other individuals as may be judged appropriate by the committee according to circumstance.

Such a committee may operate, depending on the circumstances, at an MF Global, regional, or subsidiary level; however, in all circumstances the 'next level up' must always be informed of the event and its outcome. Speed and coherence of response shall be the priority.

[3] For reference a principle of "one level up" involvement in the ERC should be applied (e.g. is a reputation event is declared in one country, the ERC should include representation from both the country and the region of which the country forms a part)

3.3. Action Sequence

The sequence of actions to be taken in the event of the declaration of a Reputation Risk Event shall be:

- Preparation of a comprehensive, but succinct report describing the event that has occurred by the person(s) calling the meeting (taking into account legal considerations and regulatory requirements)
- Circulation of the report to the members of the ERC that has been identified.
- Meeting of ERC

ERC shall:

- Determine appropriate course of action, identifying key actions to be taken and owners for those actions.
- Consider whether the incident requires disclosure under the SEC Listing Rules.
- Provide direction for the Crisis Communications Committee regarding public statements and messaging.
- Allocate responsibility for briefing of appropriate regulator(s) (and other external authorities e.g. police).
- Allocate responsibility for internal communications (Board and staff).
- Nominate contact names and numbers for public communication,
- Provide direction to the Incident Management team nominated in response to the incident.
- Plan subsequent meetings of the ERC (or an appointed sub-committee or existing management committee e.g. Office of the CEO) to be held on an agreed frequency until such time as the incident is closed, or has been handed over to other specific individuals and committees for closure.

The underlying principle behind the actions of the ERC shall be to ensure as full a degree of transparency and acceptance of responsibility as may be commensurate without prejudicing the longer term interests of the shareholders of the Company.

4. Capital Risk Incident Escalation

4.1. Escalation Criteria

- **Incident Examples**
  - Error in calculation
  - Credit, Market or Operational Risk Incident Loss that could impact capital
  - Surplus

Escalation Threshold Criteria			
Levels	Threshold Criteria Group	Escalation Manager	Committee
1	-	-	-
2	• Error(s) resulting in a US$10M change in GCR. • Error(s) resulting in a US$10M change in GRCR.	• Regional CFO • Global Head of Capital and Liquidity Risk	• ALCO
3	• Error(s) resulting in 2% or greater change in GCR. • Error(s) resulting in 2% or greater change in GRCR. • Events leading to the overall capital falling below the D of A level.	• CFO • CRO	• ERMC
4	*(As deemed appropriate by the CRO and/or CFO)* • Error(s) resulting in 4% or greater change in GCR. • Error(s) resulting in 4% or greater change in GRCR. • Events leading to the overall capital falling below the D of A level.	• CEO	• Board
Levels	Threshold Criteria Legal Entity	Escalation Manager	Committee
1	-	-	-
2	• Events (error or normal trading) resulting in a legal entity falling below the D of A level.	• Regional CFO • Global Head of Capital and Liquidity Risk	• ALCO
3	• Events (error or normal trading) resulting in a legal entity falling below the regulatory minimum resulting in a regulatory breach.	• CFO • CRO	• ERMC • Reporting Risk
4	*(As deemed appropriate by the CRO and/or CFO)* • Events (error or normal trading) resulting in a legal entity falling below the regulatory minimum resulting in a material breach with the potential for serious reputational damage.	• CEO	• Board

5. Liquidity Risk Incident Escalation

5.1. Escalation Criteria

- **Incident Examples**
  - Incidents that impact the liquidity profile of the Firm.

Escalation Threshold Criteria – CURRENT REPORTING			
Levels	Threshold Criteria Legal Entity	Escalation Manager	Committee
1	-	-	-
2	• Incidents or unexpected events resulting in the entities' available funds falling by more than 30%	• Regional Treasurer • Regional CFO • Global Head of Capital and Liquidity Risk	• ALCO
3	• Incidents or unexpected events resulting in the entities' available funds falling by more than 40%	• CFO • Global Treasurer • CRO	• ERMC • Reporting Risk
4	*(As deemed appropriate by the Global Treasurer and/or CRO)* • Incidents or unexpected events resulting in the entities' available funds falling by more than 50% or resulting in a reputational event such as: • External ratings downgrade • Breach of Covenants	• CEO	• Board

Escalation Threshold Criteria – TO BE IMPLEMENTED			
Levels	Threshold Criteria Legal Entity	Escalation Manager	Committee
1			
2	• Incidents or unexpected events resulting in a fall of an entities EAF or an increase an entities ELR or EASLR by more than [10%] • Incidents or unexpected events resulting in a fall of the Group's GAF or an increase in the Group's GASLR by more than [10%]	• Regional Treasurer • Regional CFO • Global Head of Capital and Liquidity Risk	• ALCO
3	• Incidents or unexpected events resulting in a fall of an entities EAF or an increase an entities ELR or EASLR by more than [20%] or events leading to the overall liquidity risk profile of the entity falling below the D of A. • Incidents or unexpected events resulting in a fall of the Group's GAF or an increase in the Group's GASLR by more than [20%] or events leading to the overall liquidity risk profile of the Group falling below the D of A.	• CFO • Global Treasurer • CRO	• ERMC • Reporting Risk

4	*(As deemed appropriate by the Global Treasurer and/or CRO)* • Incidents or unexpected events resulting in a fall of an entities EAF or an increase an entities ELR or EASLR by more than [30%] or events leading to the overall liquidity risk profile of the entity falling below the D of A and those events resulting in a reputational event such as: o External ratings downgrade o Breach of Covenants o Regulatory Censure • Incidents or unexpected events resulting in a fall of the Group's GAF or an increase in the Group's GASLR by more than [30%] or events leading to the overall liquidity risk profile of the Group falling below the D of A and those events resulting in a reputational event such as: o External ratings downgrade o Breach of Covenants o Regulatory Censure	• CEO	• Board

Levels	Threshold Criteria Group	Escalation Manager	Committee
1	-	-	-
2	• Incidents or unexpected events resulting in a fall of the Group's GAF or an increase in the Group's GASLR by more than [10%]	• Regional Treasurer • Regional CFO • Global Head of Capital and Liquidity Risk	• ALCO
3	• Incidents or unexpected events resulting in a fall of the Group's GAF or an increase in the Group's GASLR by more than [20%] or events leading to the overall liquidity risk profile of the Group falling below the D of A	• CFO • Global Treasurer • CRO	• ERMC • Reporting Risk
4	*(As deemed appropriate by the Global Treasurer and/or CRO)* • Incidents or unexpected events resulting in a fall of the Group's GAF or an increase in the Group's GASLR by more than [30%] or events leading to the overall liquidity profile of the Group falling below the D of A and those events resulting in a reputational event such as: o External ratings downgrade o Breach of Covenants o Regulatory Censure	• CEO	• Board

6. Credit Risk Incident Escalation

6.1. Escalation Criteria

- **Type A Incidents requiring notice as soon as is practicable after Credit becomes aware of the incident regardless of exposure:**
  - ❑ Significant regulatory action imposed on a client/counterparty
  - ❑ Client/counterparty participating in a fraud (not directed to MF Global)
  - ❑ Client/counterparty is a victim of a fraud (not perpetrated by an employee of MF Global)
- **Type B Incidents requiring escalation after Credit becomes aware of the incident based on stressed amount:**
  - ❑ Material adverse change in the client/counterparty's financial standing
  - ❑ Material adverse change in the client/counterparty's share/bond price
  - ❑ Increase in CDS pricing by 100 bps
  - ❑ Change in key management of a key client/counterparty that is not part of planned succession
  - ❑ Client/counterparty is a party to significant legal actions (not related to MF Global)
  - ❑ Revocation of Client/counterparty's license or membership that is fundamental to their business.
  - ❑ Ratings downgrade of a client/counterparty by 3 levels or to a C rating

Escalation Threshold Criteria			
Levels	Threshold Criteria	Escalation Manager	Committee
1	• A counterparty's bankruptcy, administration or insolvency of a client/counterparty. • Type A Incident occurs • Type B Incident occurs: o Client / counterparty has a credit or financing facility with a debit of <US$500K; or o Uncovered stress is <US$2.5MM	• Regional Head of Credit Risk	• Daily Risk
2	• A counterparty's bankruptcy, administration or insolvency of a client/counterparty. • Type B Incident occurs: o Client / counterparty has a credit or financing facility with a debit between US$500K and US$2MM; or o Uncovered stress is between US$2.5MM and US$5MM	• Chief Credit Officer • Regional CRO	• Credit Risk

Escalation Threshold Criteria			
Levels	Threshold Criteria	Escalation Manager	Committee
3	• A counterparty's bankruptcy, administration or insolvency of a client/counterparty. • Type B Incident occurs: ○ Client / counterparty has a credit or financing facility with a debit between $US2MM and US$10MM; or ○ Uncovered stress is between US$5MM and US$50MM	• CRO	• ERMC
4	*(As deemed appropriate by the CRO)* • A counterparty's bankruptcy, administration or insolvency of a client/counterparty. (if deemed appropriate by the CRO) • Type B Incident occurs[4] (if deemed appropriate by the CRO): ○ Client / counterparty has a credit or financing facility with a debit >US$10MM ○ Uncovered stress is >US$50MM	• CEO	• Board

- **Incident Examples (Concentration Risk)**
  - Breach of country limit
  - Breach of counterparty limit

Escalation Threshold Criteria – Concentration Risk			
Levels	Threshold Criteria	Escalation Manager	Committee
1	• >10% Breach of country limit • >10% Breach of global aggregated counterparty limit	• Head of Local Risk Monitoring • Regional Head of Credit Risk	-
2	• >20% Breach of country limit • >20% Breach of global aggregated counterparty limit	• Chief Credit Officer	• Credit Risk • Reporting Risk
3	• >35% Breach of country limit • >35% Breach of global aggregated counterparty limit	• CRO	• ERMC
4	*(As deemed appropriate by the CRO)* • >50% Breach of country limit • >50% Breach of global aggregated counterparty limit	• CEO	• Board

- **Daily Monitoring**
  - Limit overruns are part of the daily monitoring for credit and market risk.

[4] Level B issue will be escalated to the Board if the Credit event causes the Counterparty exposure to be in violation of the DOA. For example, a Bank being downgraded from AA to A should not go to the Board for 25MM.

7. Risk Monitoring and Market Risk Incident Escalation

7.1. Escalation Criteria

- **Incident Examples**
  - Account P&L losses intraday
  - Uncovered stress risk exposure
  - Unresolved margin calls
  - One Day P&L Loss on a Book
  - Cumulative P&L loss on a Book
  - Breach of approved limits

Escalation Threshold Criteria – Counterparty Risk Monitoring			
Levels	**Threshold Criteria**	**Escalation Manager**	**Committee**
1	• NLV erosion >50% and >US$1MM • Unresolved margin >US$100K for 3 business days or more. • Uncovered stress risk 50% of account and >US$2MM, or corresponding Nominal Violations • Non-collateralized negative NLV >US$1M with no financing line. • Stress Limit breaches resulting in Risk calls > $500K	• Desk Head • Head of Local Risk Monitoring	• Daily Risk
2	• NLV erosion >75% and >US$5MM • Unresolved margin >US$250K for 3 business days or more. • Uncovered stress risk 50% of account and >US$5MM, or corresponding Nominal Violations • Non-collateralized negative NLV >US$3M with no financing line. • Stress Limit breaches resulting in Risk calls > $2MM. For DRC > 0.5MM	• Global Product Head • Regional CRO	• Credit Risk • Market Risk
3	• NLV erosion >75% and >US$10MM • Unresolved margin >US$1MM for 3 business days or more • Uncovered stress risk 50% of account and >US$25MM, or corresponding Nominal Violation • Non-collateralized negative NLV >US$10MM with no financing line. • Stress Limit breaches resulting in Risk calls > $25MM	• Regional CEO • CRO	• ERMC
4	*(As deemed appropriate by the CRO)* • NLV erosion >75% and >US$25MM • Unresolved margin >$5MM for 3 business days or more. • Uncovered stress risk of US$100MM, or corresponding Nominal Violations • Non-collateralized negative NLV >US$25MM with no financing line. • Stress Limit breaches resulting in Risk calls $25MM	• CEO	• Board

Escalation Threshold Criteria – Market Risk			
Levels	Threshold Criteria	Escalation Manager	Committee
1	• Any 1 day P&L loss on a book >$500K • Cumulative P&L loss on a book >$1MM • Breach of approved limits	• Desk Head • Head of Local Risk Monitoring	-
2	• Any 1 day P&L loss on a book >$1MM • Cumulative P&L loss on a book >$2MM • Breach of approved limits >25%	• Global Product Head • Regional CRO • Global Head of Market Risk	• Market Risk
3	• Any 1 day P&L loss on a book >$2MM • Cumulative P&L loss on a book >$4MM	• Regional CEO • CRO	• ERMC
4	*(As deemed appropriate by the CRO)* • Any 1 day P&L loss on a book >$3MM • Cumulative P&L loss on a book >$6MM	• CEO	• Board

- **Daily Monitoring**
  - Limit overruns are part of the daily monitoring for credit and market risk.

8. Operational Risk Incident Escalation

8.1. General Operational Risk Escalation Criteria

- **Reportable Operational Risk Incident**
  - Reportable incidents are those whose outcome impacts the overall well-being of the organization, its brand, lines of business, a particular region, infrastructure and/or process(es). An impact is defined as:
  - Financial threshold of US$10K (gain or loss).
  - Other noteworthy impacts deemed reportable by the business areas that may be financial or non-financial or may reflect an impact that did not emerge due to circumstances (i.e. near miss).

Escalation Threshold Criteria			
Levels	Threshold Criteria	Escalation Manager	Committee
1	• Incidents with a financial impact >US$10K	• Regional Head of Operational Risk	-
2	• Incidents with a financial impact >US$50K	• Global Head of Operational Risk	• Operational Risk
3	• Incidents with a financial impact >US$100K	• CRO	• ERMC
4	*(As deemed appropriate by the CRO)* • Incidents with a financial impact >$250K	• CEO	• Board

- The Escalation Threshold Criteria above is for all Operational Risk categories.
- Within the Escalation Policy, each Operational Risk category is addressed separately to also consider those 'other noteworthy impacts deemed reportable by the areas'. Each Operational Risk category also expands on the identification of the Escalation Managers. The Operational Risk categories are:
  - Clients, Products and Business Practices
  - Execution, Delivery and Process Management
  - Financial Integrity and Reporting
  - Internal Fraud
  - External Fraud
  - Business Disruption and Systems Failures
  - Damage to Physical Assets
  - Employment Practices and Workplace Safety

8.2. Clients, Products and Business Practices

8.2.1. Supplemental Criteria

- **Incident Examples**
  - Complaint or litigation received from a client or counterparty.
  - Regulatory, exchange or other civil authority, sanction leading to a fine or other penalty.

Escalation Threshold Criteria			
Levels	**Threshold Criteria**	**Escalation Manager**	**Committee**
1	• Regulatory inquiries. • Employee violated a compliance policy, regulator's rule, securities' law or government regulations.	• Regional Head of Compliance • Regional Head of Operational Risk	-
2	• Likelihood that the Firm or an employee may be subject to regulatory discipline. • A pattern has been identified with an employee or in a business area that may be a potential violation of the compliance policy, regulator's rule, securities' law or government regulations	• Chief Compliance Officer • Global Product Head • Regional Head of Legal • Global Head of Operational Risk	-
3	• Reasonable assessment that the Firm or an employee may be subject to regulatory discipline • A pattern has been identified with an employee or in a business area that has been an identified violation of compliance policy, regulator's rule, securities' law or government regulations	• CRO • General Counsel	• Operational Risk • Reporting Risk • ERMC
4	*(As deemed appropriate by the General Counsel and/or CRO)* • Potential serious infraction	• CEO	• Board

- **Exception**
  - Only actual regulatory discipline or (patterns of) violations should be recorded as an incident as it is identified. Financial settlements of fines and legal cases will be reported based on the thresholds established for Operational Risk incidents
  - Regulatory inquiries will be captured in a Compliance database and the metrics will be provided.

8.3. Execution, Delivery and Process Management

8.3.1. Supplemental Criteria

- **Incident Examples**
  - Trading or operating errors
  - Potential delivery/settlement issues

Escalation Threshold Criteria			
Levels	Threshold Criteria Operational	Escalation Manager	Committee
1	• Operational risk incidents with actual or potential impact >US$10K.	• Local COO • Regional COO • Regional Head of Operational Risk	-
2	• Operational risk incidents with actual or potential impact >US$50K.	• Regional COO • Global Head of Operational Risk	• Operational Risk
3	• Operational risk incidents with actual or potential impact >US$100K.	• Global COO • CRO	• ERMC
4	*(As deemed appropriate by the COO and/or CRO)* • Operational risk incidents with actual or potential impact >US$250K.	• CEO	• Board
Levels	Threshold Criteria Trading	Escalation Manager	Committee
1	• Operational risk incidents with actual or potential impact >US$10K.	• Desk Head • Regional Head of Operational Risk • Regional Head of Market Risk	
2	• Operational risk incidents with actual or potential impact >US$50K.	• Regional Product Head • Global Head of Operational Risk • Regional CRO	• Operational Risk
3	• Operational risk incidents with actual or potential impact >US$100K.	• Global Product Head • CRO • COO	• ERMC
4	*(As deemed appropriate by the COO and/or CRO)* • Operational risk incidents with actual or potential impact >US$250K.	• CEO	• Board

8.4. Financial Integrity and Reporting

8.4.1. *Supplemental Criteria*

- **Incident Examples**
  - Discovery of material misstatement or error in financial reporting data which may have, or may be about to result in MFG providing incorrect information to external authorities or into the public arena.

Escalation Threshold Criteria			
Levels	**Threshold Criteria** **Internal Reporting**	**Escalation Manager**	**Committee**
1	For a quarterly reporting period: • Errors or misstatements between >$250K and $500K of legal entity's stand alone SEC account line in Cognos • 0.5% of legal entity's stand alone SEC account line in Cognos • between >US$250K and US$500K impact to consolidated US GAAP net revenues or consolidated US GAAP profit before tax	• Regional CFO • Regional Controller • Director of External Reporting • Regional Head of Operational Risk	-
2	For a quarterly reporting period: • Errors or misstatements between US$500K and US$1.5M of legal entity's stand alone SEC account line in Cognos • 0.5% - 2% of legal entity's stand alone SEC account line in Cognos • between US$500K -US$2M impact to consolidated US GAAP net revenues • US$500K - US$1.0M impact to consolidated US GAAP profit before tax	• Chief Accounting Officer • Global Head of Operational Risk	• Operational Risk • Reporting Risk
3	For a quarterly reporting period: • Errors or misstatements >2% or US$1.5M of a consolidated US GAAP basis SEC account line • between US$2M and US$3M impact to consolidated US GAAP net revenues • between US$1.0M – US$2.5M impact to consolidated US GAAP profit before tax	• CFO • CRO	• ERMC
4	(As deemed appropriate by the CFO and/or CRO) For a quarterly reporting period: • Errors or misstatements >4% of SEC account line as disclosed on a consolidated US GAAP basis • >US$3M impact to consolidated US GAAP net revenues • >US$0.01 EPS impact to consolidated MF results	• CEO • Chairman of Audit Committee • General Counsel	• Board

Levels	Threshold Criteria External Reporting	Escalation Manager	Committee
1			
2	For unregulated entities: • Intent to issue qualified audit opinion • Intent to miss a reporting deadline • Restate a previously released financial statement.	• Chief Accounting Officer • Director of External Reporting • Global Head of Operational Risk	• Operational Risk • Reporting Risk
3	For regulated and SEC reported entities: • Intent to issue qualified audit opinion • Intent to miss a reporting deadline • Restate a previously released financial statement.	• CFO • CRO	• ERMC • Board
4			

8.5. Internal Fraud and External Fraud

8.5.1. Supplemental Criteria

- **Incident Examples**
  - Attempted, suspected or actual internal fraud (including theft)
  - Attempted, suspected or actual external fraud (including theft)

Escalation Threshold Criteria			
Levels	**Threshold Criteria**	**Escalation Manager**	**Committee**
1	There is no reporting threshold. All incidents of fraud (actual or suspected) must be reported	• Regional COO • Regional Head of Operational Risk	• Operational Risk • Reporting Risk • ERMC • Board

The Regional COO and Regional Head of Operational Risk will escalate to the Global COO, Global Head of Operational Risk, CRO, General Counsel, and CEO.

8.6. Business Disruption and Systems Failures

8.6.1. Supplemental Criteria

- **Incident Examples**
  - System failures/outages/non-availability
  - Actual or suspected breach of data security

Escalation Threshold Criteria			
Levels	**Threshold Criteria**	**Escalation Manager**	**Committee**
1	• Non-critical system failure <30 minutes • Location specific virus anomaly.	• Local Head of IT • Regional Head of Operational Risk	
2	• Non-critical system failure >30 minutes • Critical system failure <15 minutes • Trading systems that are down for less than 5 minutes or are down for less than 30 minutes when there are alternate trading platforms available. • Regional impact due to a virus.	• Regional CIO • Global Head of Operational Risk	• Operational Risk
3	• Non-critical system failure >4 hours • Critical system failure >15 minutes • Trading systems that are down for more than 5 minutes with no alternatives or more than 30 minutes with alternatives. • Limited exposure of sensitive information (client or Firm)	• Global CIO • Global Head of Operational Risk • CRO	• ERMC • Process and Technology • Reporting Risk
4	*(As deemed appropriate by the CIO and/or CRO)* • Trading systems that are down for more than 4 hours. • Significant exposure of sensitive information (client or Firm)	• CEO	• Board

8.7. Damage to Physical Assets

8.7.1. Supplemental Criteria

- **Incident Examples**
  - Fire, Flood, Earthquake, Hurricane, Terrorist Incident, Strike/Demonstration, Utilities Outage or other similar type of incident that result in damage to or the inaccessibility to an MFG place of business (or part thereof) and/or injury to MFG employees.
  - Damage or loss to assets/critical supplies from third-party suppliers.

Escalation Threshold Criteria			
Levels	**Threshold Criteria**	**Escalation Manager**	**Committee**
1	• Localized unexpected event/incident without risk to employee safety or injuries • Local incident in which the BCP and/or DR plans are consulted or activated in limited capacities to mitigate the decline in service usability based on a nominal classification for the affected resource.	• Local Head of Facilities • Local Head of Disaster Recovery • Local Head of Business Continuity	
2	• Regional unexpected event/incident without significant risk to employee safety or injuries in which the BCP and/or DR plans are consulted or activated in limited capacities to mitigate the decline in service usability based on a classification of limited for the affected resource.	• Regional Head of Facilities • Regional Head of Disaster Recovery • Global Head of Business Continuity • Regional CIO • Regional Head of Operational Risk	• Operational Risk • Reporting Risk
3	• Regional unexpected event/incident with expected risk to employee safety or injuries in which the BCP and/or DR plans are consulted and activated to mitigate the decline in service usability based on a significant classification for the affected resource	• Global Head of Facilities • Global Head of Disaster Recovery • Global CIO • Global Head of Operational Risk • CRO	• ERMC • Process and Technology
4	*(As deemed appropriate by the CIO and/or CRO)* • Any unexpected event/incident with imminent risk to employee safety or injuries in which the BCP and/or DR plans are activated to mitigate the event and continue business operations. • A decline in service usability classification of significance.	• CEO	• Board

8.8. Employment Practices and Workplace Safety

8.8.1. Supplemental Criteria

- **Incident Examples**
  - Formal compliant of harassment, discrimination or unfair dismissal.
  - Injuries or death while on business.
  - Unexpected absence of significant numbers of staff
  - Loss of key employees or team of employees

Escalation Threshold Criteria			
Levels	Threshold Criteria Employment Practices	Escalation Manager	Committee
1	• Allegation of Employee or Supervisory misconduct that contributes to a hostile work environment.	• Regional Head of HR • Local Head of Function/ Product (if appropriate [i.e. allegations]) • Regional Head of Operational Risk	
2	• Following investigation, a finding of Employee or Supervisory misconduct.	• Global Head of HR • Regional Head of Function/ Product (if appropriate (i.e. allegations)) • Global Head of Operational Risk	• Operational Risk • Reporting Risk
3	• Following investigation, finding of a pattern of Employee or Supervisory misconduct affecting multiple staff members.	• General Counsel • Global Head of Function / Product (if appropriate [i.e. allegations]) • CRO	• ERMC
4	*(As deemed appropriate by the General Counsel and/or CRO)* • Finding or notification of a class action exposure, or initiation of a class action based on Employee or Supervisory misconduct, or related to an employment practice of the Firm. • Notification of an individual legal action based on Employee or Supervisory misconduct, or related to an employment practice of the Firm.	• CEO	• Board

Levels	Threshold Criteria Workplace Safety	Escalation Manager	Committee
1	• Identification of an unsafe condition in the workplace. • Individual employee suffers an accidental injury or medical condition on the premises.	• Regional Head of HR • Local Head of Function/ Product (if appropriate [i.e. allegations]) • Regional Head of Operational Risk	
2	• Business travel accident, injury or death	• Global Head of HR • Regional Head of Function/ Product (if appropriate [i.e. allegations]) • Global Head of Operational Risk	• Operational Risk • Reporting Risk
3	• Incident or condition requiring the shutdown, evacuation or loss of access of an employment site.	• COO • Global Head of Function/ Product (if appropriate [i.e. allegations]) • CRO	• ERMC
4	*(As deemed appropriate by the General Counsel and/or CRO)* • Threat or commission of a violent crime on business premises. • Disgruntled employee: threat or commission of a willful act resulting in financial or operational harm to one or more employees, clients or the firm. • Incident or condition requiring shutdown, evacuation or loss of access to an employment site, with accompanying possible or actual injury or loss of life.	• CEO	• Board

9. Reporting Risk Escalation

9.1. Escalation Criteria

- **Incident Examples**
  - Matters that are required to be reported (for example) to regulators, listing authorities, tax authorities, rating agencies or other civil authorities but are not reported accurately and/or timely.
  - Due to the definition of Reporting Risk, incidents that have actually occurred and require reporting to external parties will likely be captured through the other risk escalation matrices identified in this policy. Potential incidents will be captured through the Reporting Risk Escalation Matrix.

Escalation Threshold Criteria – Potential Incidents			
Levels	Threshold Criteria	Escalation Manager	Committee
1	-	-	-
2	• Possibility that MF Global may not meet their Financial, Regulatory, Rating Agency and/or other Disclosure reporting and/or filing deadline(s).	• Chief Accounting Officer • Chief Compliance Officer • Global Head of Operational Risk	• Reporting Risk
3	• Increasing probability that MF Global may not meet their Financial, Regulatory, Rating Agency and/or other Disclosure reporting and/or filing deadline(s).	• CFO • General Counsel • CRO	• ERMC
4	*(As deemed appropriate by the CFO, General Counsel and/or CRO)* • Certain that MF Global will not meet their Financial, Regulatory, Rating Agency and/or other Disclosure reporting and/or filing deadline(s).	• CEO	• Board

Escalation Threshold Criteria – Actual Incidents			
Levels	Threshold Criteria	Escalation Manager	Committee
1	**Financial** • All incidents of external or internal fraud that require notification external to MFG.	• See Operational Risk – Internal and External Fraud Matrix	
2	**Financial** • External financial reporting errors or misstatements requiring notification to external authorities or a re-statement of financials. • Intention to miss an external reporting deadline.	• See Operational Risk – Financial Integrity and Reporting Matrix	• Reporting Risk

	• Intention to issue a qualified audit opinion **Disclosure** • External exposure of MFG's or client's sensitive information requiring notification to external authorities. • Critical and/or extended system outages requiring notification to external authorities. • Any unexpected event with risk to employees' safety or injuries in which the BCP and/or DR plans may need to activated and external authorities need to be notified. • An employee or supervisory misconduct contributing to a hostile or unsafe work environment requiring notification to external authorities. • Loss of key management of staff to MF Global or a subsidiary.	• See Operational Risk – Business Disruption and Systems Failures Matrix • See Operational Risk – Damage to Physical Assets Matrix • See Operational Risk – Employment Practices and Workplace Safety Matrix • See Strategic and Business Risk Matrix	
3	**Regulatory** • Reasonable assessment concludes that an issue or pattern has been identified that may be in violation of a regulator's rule, securities' law or government regulations whereby MFG may inform the relevant regulators. • Legal entity level regulatory capital breaches • Incidents resulting in a significant fall of available funds.	• See Operational Risk – Clients, Products and Business Practices Matrix • See Capital Risk Matrix • See Liquidity Risk Matrix	
4	-	-	-

10. Strategic and Business Risk Incident Escalation

10.1. Escalation Criteria

- **Incident Examples**
  - Significant legislative or political change impacting on the business.
  - Unexpected absence of a significant number of staff
  - Loss of key employee or team of employees

Escalation Threshold Criteria			
Levels	Threshold Criteria	Escalation Manager	Committee
1	• Legislative or political change affecting one minor subsidiary or business. • Loss of one member of staff who is key in a minor subsidiary or business.	• Local CEO • Local Head of Relevant Business Area	
2	• Legislative or political change affecting a significant subsidiary or business. • Loss of one member of staff who is key in a significant subsidiary or business.	• Regional Senior Leader • Global Product Head	• Reporting Risk
3	• Legislative or political change affecting an entire region. • Loss of key member of staff at a regional or global level • Loss of team which has a significant part of a particular product line	• CRO • CEO	• ERMC • Office of CEO
4	• Legislative or political change affecting the whole company • Loss of entire Global product team • Loss of any member of the Office of the CEO		• Board

11. Appendices

11.1. Escalation Policy Amendment Log

Page	Section Reference	Description of Change	Reviewed by:	Approved by:	Effective Date

Appendix 22

MF Global

FY10 INTERNAL AUDIT PLAN

APRIL 2009

Table of Contents

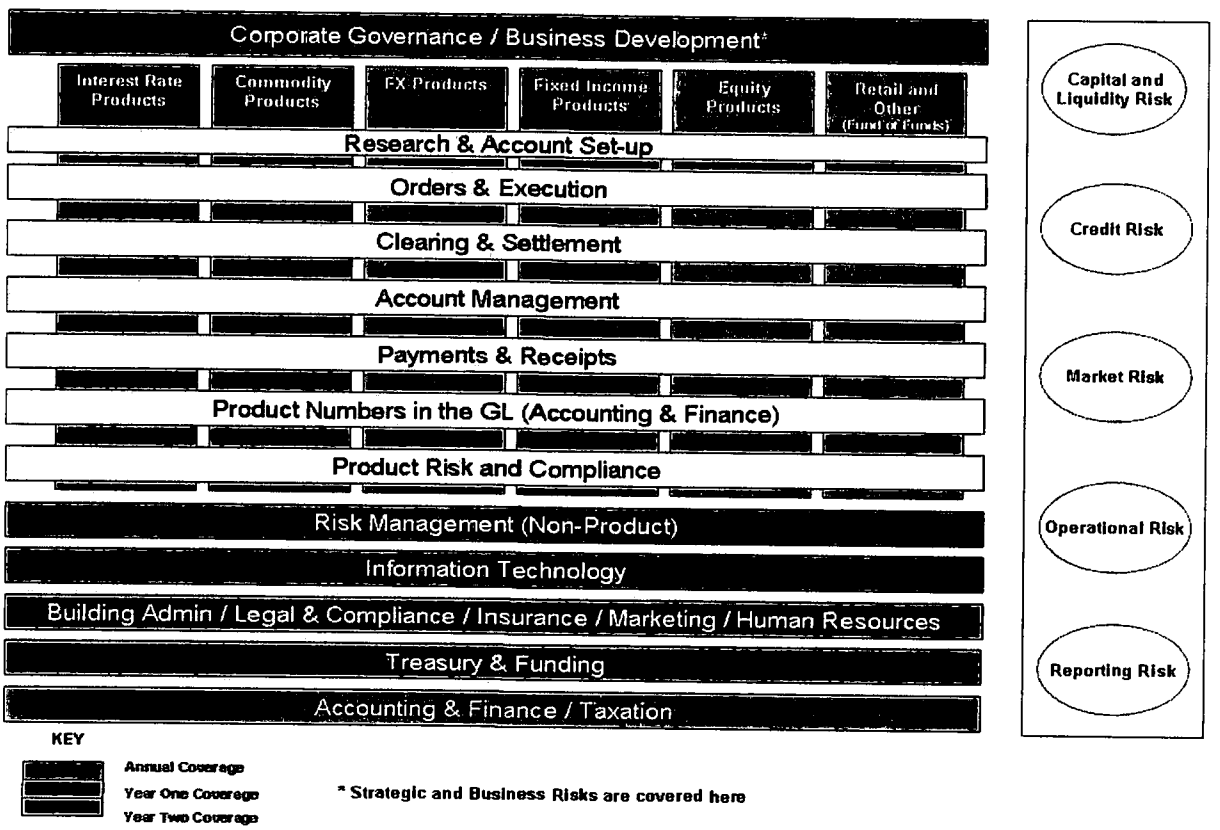
	Page
Executive Summary	3
FY10 Internal Audit Plan	5
Resources and Budget	11
APPENDICES	
Appendix 1 – Detailed 12 Month Standard Audit Rolling Program	14
Appendix 2 – Internal Audit Universe versus SOX	15
Appendix 3 – Audit Rotation – 2 year cycle of coverage	16
Appendix 4 – IA Organization Chart	18
Appendix 5 – Staff Utilization	19
Appendix 6 – Audit Coverage of a Product Silo	21

EXECUTIVE SUMMARY

The purpose of this summary is to provide the Board and Audit Committee with a high level overview of the FY10 Internal Audit (IA) Plan including the proposed coverage, resources and budget. The rationale and any underlying drivers of change are discussed in the body of the plan and the 12 month rolling program of standard audits is detailed in Appendix 1.

Internal Audit Mission – Independent evaluation and reporting on control effectiveness.

Audit Universe – All of MF Global's (MFG's) corporate functions/business units including JVs where MFG has a controlling interest. The audit universe is anchored to a business process model defined in terms of major processes by, where applicable, product grouping/location (see diagram below).



Risk-Based Audit Approach – IA's primary service delivery remains the standard audit which will continue to be driven by the risks mapped to each audit universe entity. Such risks are consistent with the Board approved risk appetite and delegations of authority and include Capital, Liquidity, Credit, Market, Operational and Reporting risk factors.

Audit Cycle of Coverage – Prior years' audit coverage was based primarily on a risk driven 1-3 year standard audit cycle supported by other 'lighter' touch assurances processes covering most entities not scheduled for a standard audit. This enabled control effectiveness assessments to be made covering all risk scenarios across the complete audit universe. It is proposed to reduce the standard audit frequency to a 2 year cycle and at the same time to cease those other assurance activities that duplicate/overlap with the new activities of the SOX and Operational Risk functions. The high level coverage of the universe is shown on the above diagram and is based on the new global product groupings.

Reporting and Communication - IA produces exception based audit reports for distinct pieces of assurance work to summarize the results of control evaluation and testing of the scoped control environment. Reporting is at a detailed and summary level with distribution to process owners and the executive/non-executive layers. IA will continue to periodically report on the status of the IA plan and audited control environment and will align its summary reporting to the new global product organizational structure.

Escalation – It is envisaged that the tracking of open audit issues and aged reporting of outstanding issues will be supported by the new Operational Risk system with a potential target implementation of Q3 FY10. Until then, IA will continue with the existing issue status reporting and escalation process. This involves monthly reporting to risk committees of all open issues by region and escalation reporting of issues that have the most adverse impacts on risk levels as well as aged reporting of overdue issues. These are similarly reported to the Audit Committee on a quarterly basis. Issues where management have taken risk acceptance decisions in disagreement with IA's recommendations are also escalated to the risk committees and if necessary the Audit Committee. There is also no change envisaged to the formalized follow-up process for IA issues, which is driven by the severity of the issue raised.

Co-ordination / Alignment with SOX / Operational Risk – IA's audit methodology, testing approach and documentation standards will be closely aligned with SOX requirements. All assurance functions will share the planned Operational Risk System and commonly use the same process model, risk/control libraries and documentation base. IA will take responsibility for executing the SOX test plan as defined by SOX management. Where possible, testing will be leveraged to meet both SOX and standard audit requirements.

Co-ordination with External Audit – Co-ordination with the external auditor will be heightened in FY10 to enable high levels of reliance to be placed on IA's SOX testing including the enhanced program of IT General Controls work. Additionally, IA will second the requested testing resources (5,000 hours) to the external auditor to facilitate delivery of a more cost effective external audit.

Resources and Budget – IA headcount to deliver on its core services is projected to decrease slightly with a projected cost of $7.8 million. However, execution of the SOX testing program and secondment of resource to the external auditor will require an increase in IA resource from 24.8 to 39.9 FTEs at an additional cost of approximately $2 million in the budget for FY10 (9 month run rate as programs commence Q2 and run thru Q1 of FY11) resulting in a total cost of $9.855 million. The external auditor has indicated this will save $.9 million in fees and the comparable cost for EY to deliver the SOX testing in FY09 was approximately $4.7 thus a saving of approximately $3.6 million.

FY10 INTERNAL AUDIT PLAN

Planning Rationale

The purpose of this section of the plan is to outline key changes, their impact on IA planning drivers and the recommended changes to IA's audit approach (commentary in italics) versus the prior year. The key changes are as follows:

- The volume of change – management, organizational, processes/systems;
- The introduction of the new Enterprise Risk Management (ERM) framework;
- The planned activities of the new Operational Risk function/system;
- The planned activities of the new SOX function;
- The new global product-aligned organizational structure;
- An annual program of SOX key control testing covering significant parts of the audit universe independently executed by IA;
- Secondment of 3.75 FTE's (approx 5,000 hours) of IA resource to the external auditor; and
- Strengthening of the IT General Control environment.

Internal Audit Mission – Independent evaluation and reporting on control design/operating effectiveness. IA's focus has predominantly been on the live operational environment although the Internal Audit Charter provides for coverage of selected projects to permit Control Design Effectiveness Reviews (CDERs) which are intended to give comfort on the planned control environment of processes/systems under development. *Given the significant pipeline of projects with a heavy control impact a budget of 10% of IA's consulting resources has been optionally set aside to perform (CDERs).*

Audit Universe – All of MF Global's (MFG's) corporate functions/business units including JVs where MFG has a controlling interest. The audit universe is anchored to a business process model defined in terms of major processes by, where applicable, product grouping/location (see diagram on page 3). *The entities defined by this model are commonly used by Operational Risk and SOX and the model is part of MFG's ERM framework. The scope of the work conducted for each entity gives consideration to the range of risks defined in the Global Risk Definitions document. This includes the risk factors highlighted in the 10K under the Operations, Technology and Regulation headings but to a much lesser degree those that relate to external strategic/business risks. The process model, along with risk statement and controls libraries, will be used to populate the planned operational risk system which will be commonly shared by all assurance functions and progressively introduced over the next 1-2 years.*

Risk-Based Audit Approach – IA's primary service delivery remains the standard audit which will continue to be driven by the risks mapped to each audit universe entity. *Such risks are consistent with the Board approved risk appetite and delegations of authority and include Capital, Liquidity, Credit, Market, Operational and Reporting risk factors. Granular operational risk statement definition and their process mapping, risk assessment and linkage to risk appetite were activities conducted by IA as part of the standard audit process but these will transition to Operational Risk. The current granular risks have been transitioned to Operational Risk to form the basis of a new risk library that IA will continue to use on each audit. A program to define the business' top operational risks will be conducted in FY10 and the results will further enrich this risk*

library which IA will also use in updating the 12-month rolling plan. Granular risks relating to the non-op risk categories that are typically applicable to only a narrow subset of the audit universe, will be jointly developed/assessed with the business. IA will validate/confirm risk data with business unit management as part of each audit so as to ensure all relevant controls are identified, evaluated and tested. External expertise will be used to help with this risk identification/assessment process where not available in house. IA will adjust its control testing methodology to ensure, as a minimum, that each risk has its primary mitigating control tested. This change extends the high levels of assurance currently provided for the most significant risks to all risks without incurring a major increase in cost. Previously, IA's standard audit methodology required testing of only controls relating to granular risks classified with a very high/high inherent risk profile. *Materiality levels that drive the risk ranking and issue escalation process have been agreed as part of a project to harmonize these across all the assurance functions (led by Operational Risk but involving IA, SOX and Compliance).*

Audit Cycle of Coverage – Prior years audit coverage was based primarily on a risk driven 1-3 year standard audit cycle supported by:

- ongoing proactive (monthly) assessments of targeted entities where concentration of key controls is high; and
- an annual program of Control Operating Effectiveness Reviews (COERs) covering the most significant key controls for entities not scheduled for a standard audit in the current year. This program relied on SOX testing performed by EY on those common SOX and IA defined key controls so as to avoid any duplication of effort.

Additionally a risk override was applied to the following entities that had relatively low risk profiles:

- Canada, France and Asia/Pacific offices; and
- Non-product related support functions (e.g. Human Resources, Insurance, etc.) where IA did not maintain internal expertise or conduct periodic proactive assessments.

This range of deep to light assurance activities was designed to ensure IA had enough information about the overall control environment and specifically, the annual operating performance of the universe of key controls, to facilitate periodic status reporting on risk scenarios across 100% of the audit universe.

In FY10, IA proposes to temporarily shorten the standard audit cycle from 3 to 2 years due to:

- *the realignment of audits to match the product organizational structure positions most of the universe on a two year frequency of coverage; and*
- *the widespread/volume of change in the business will force the need for timely and independent review of the impacted control environment – a 3 year cycle of coverage in such a fast changing environment would impair IA's ability to opine on the overall health of the control environment.*
- *eliminate the above risk override as it relates to non-product support functions with low risk profiles*

IA will cease both its proactive role and performance of COERs as these have the highest overlap with the role/activities planned for Operational Risk and SOX functions. IA conducted the above to support monthly reporting on the global status of risk

scenarios, something which is not part of the new Enterprise Risk Management (ERM) framework. The equivalent reporting transitions to other functions as outlined in the ERM framework. Nevertheless, with the combination of the change in cycle of coverage and continued leveraging of SOX testing, which will be performed by IA from FY10, it will be possible to annually sustain high levels of independent audit coverage of MFG's universe of key controls. It is envisaged that coverage can revert to the 1-3 year risk based cycle when the other assurance functions are fully embedded, the operational risk system fully operational and the major pipeline of strategic business process/system change implemented.

Strategically IA will position itself as the 'third line of defense' playing more of an oversight and monitoring role over the other assurance functions (Operational Risk, SOX, Compliance) with a view to further optimizing the level of time consuming detailed inspection activities across the business. IA's coverage of the audit universe would then be increasingly influenced by the information flowing from the ERM framework (KRIs, incident reports, RCSA results, external events, etc.).

To smooth out reporting and planning activities that typically have caused bottlenecks in Q4, IA proposes to introduce a rolling 12 month audit program with agreed target start dates. Using a rolling program will enable dynamic business changes and assessments of the current status of areas of risk to be routinely factored into planning. Accordingly, the rolling program will be updated quarterly and presented to the Audit Committee for review and approval.

Reporting and Communication – IA produces exception based audit reports for distinct pieces of assurance work to summarize the results of control evaluation and testing of the scoped control environment. Reporting is at a detailed and summary level with distribution to process owners and the executive/non-executive layers. IA will continue to periodically (quarterly) report on the status of the IA plan and *will align its summary reporting to the global product organizational structure. IA will group audit universe entities into audits which permit an opinion to be formed on the overall control environment at the new product group level. IA's monthly risk status reporting at the risk scenario level will cease as outlined above.*

Escalation – *It is envisaged that the tracking of open audit issues and aged reporting of outstanding issues will be supported by the new Operational Risk system with a potential target implementation of Q3 FY10.* Until then, IA will continue with the existing issue status reporting and escalation process. This involves monthly reporting to risk committees of all open issues by region and escalation reporting of issues that have the most adverse impacts on risk levels as well as aged reporting of overdue issues. These are similarly reported to the Audit Committee on a quarterly basis. Issues where management have taken risk acceptance decisions, in disagreement with IA's recommendations, are also escalated to the risk committees and, if necessary, the Audit Committee. There is also no change envisaged to the formalized follow-up process for IA issues, which is driven by the severity of the issue raised.
A common approach to risk/issue ratings across all the assurance functions has been developed to facilitate transparent/consistent escalation reporting.

Co-ordination / Alignment with SOX / Operational Risk – *IA's audit methodology, testing approach and documentation standards will be closely aligned with SOX requirements. All assurance functions will share the Operational Risk System and commonly use the same process model, risk/control libraries and documentation base.*

IA will take responsibility for executing the SOX test plan as defined by the SOX Management. This approach provides for continued high levels of reliance by our external auditor on the SOX testing program because IA is seen as a competent and objective resource. It also enables IA to avoid duplication of controls testing (see Appendix 2 for SOX control overlap with the IA universe) that would normally be additionally conducted as part of each standard audit. IA's existing testing resources have had significant periods of training through their secondment to the SOX project throughout FY09 to facilitate a smooth transition of this testing role to IA.

Co-ordination with External Audit – *Co-ordination with the external auditor will be heightened in FY10 to enable high levels of reliance to be placed on IA's SOX testing. The existence of a SOX compliant IT General Control (ITGC) environment will also facilitate enhanced reliance on automated application controls and provide the external auditor with more opportunities to consider reduction of substantive testing. IA is building its IT audit capability to ensure delivery of ITGC SOX testing as well as coverage of the ITGC environment for other non-SOX but mission critical applications. IA will second the requested testing resources (5,000 hours) to the external auditor to facilitate delivery of a more cost effective external audit.*

12 Month Rolling Program – Core Activities

The main components of IA's program of work covering the next 12 months are outlined below. See appendix 1 for the full 12 month rolling program details and appendix 3 for coverage over the 2 year cycle.

Standard Audits

IA's standard audit methodology will be applied to the entire audit universe over the course of a 2 year cycle. In FY09, of the product related audits, those feeding through to the GMI and R&N back-office systems were extensively covered (with the exception of the postponed audits of the risk monitoring processes). Accordingly, the product groupings that received only a light assurance touch in FY09 have been selected for standard coverage over the next 12 month period. Similarly, the audits deferred in FY09 at management request (e.g. Risk, Accounting and Finance, Tax etc) have been carried forward and have been rescheduled at a time that is consistent with planned changes/workload. With the introduction of IT General Controls (ITGC) standards that meet SOX requirements, IA has also planned a program of ITGC coverage relating to the platforms on which mission critical and SOX applications reside. New business activity and areas that are either planned for significant change or have recently changed also influenced the development of the rolling program and will play a key role in its quarterly update. Audits with low correlation with SOX testing are prime candidates for coverage in Q1 as SOX testing for FY10 will not commence until Q2.

Product audits have a multidimensional element as they cover the complete business cycle. This includes account set-up/order taking through to back-office processes and the GL interface as well as coverage of all the supporting key IT application systems, some of which may be commonly shared with other product groups. Such audits require embedded product-specific risk monitoring, accounting and compliance controls to be assessed at the time of the audit so as to enable all relevant key/compensating controls to be factored into IA's control opinion. However, where these processes/systems are common across the product groupings, IA will conduct the design control effectiveness work once (the most time consuming element of the audit). This work will be leveraged

for subsequent product audits with only brief 'roll forward' control testing of the target product to confirm continued operating effectiveness. This does mean that such functions will be subject to multiple visits by IA throughout the 12 months at the time when each product related audit is conducted. In the case of the risk function, they are typically product oriented in terms of structure and thus this should minimize the potential for disruption. Additionally, when required, multiple visits will coincide with the timing of SOX testing so as to leverage this work and avoid duplication (see Appendix 6 which shows as an example of how this approach will be applied to the UK Equities product silo).

Annual audits will continue of the offices outside the US/UK, some of which are undergoing major change that will likely impact the historical allocations of time needed to conduct full coverage audits. Additionally, when scoping the audits of these offices IA will fully leverage the results of the new local/regional assurance activities so as to optimize IA resource/coverage. Accordingly, the plan shows a target optimized time allocation for these offices. However, as this is the first year of introducing this approach, and given its dependency on the likely phased introduction of other assurance activities, a contingency time/cost budget has been included in the plan to cover any additional time required to perform a full scope standard audit should it not be possible to fully leverage the other assurance functions. The actual scope and resource allocation will be determined as part of the planning phase of each audit and any use of this contingency time will be flagged to Management.

Control Design Effectiveness Reviews

Given the significant pipeline of projects with a heavy control impact (risk, credit, margins, single back-office, restructuring FX, global account set-up process, etc.), a budget of 10% of IA's consulting resources has been set aside to perform CDERs. Each candidate project will be assessed and a recommendation for review or otherwise made to management/Audit Committee. The key objective of any such review work will be to ensure that control design is effective thus avoiding expensive control retro-fitting after the systems/processes go live. This is an optional area of audit coverage as it is not on the live environment but work conducted during the systems development life cycle is akin to the documentation and assessment phases of the standard audit process and thus any work done will save the equivalent time in future standard audits of the area.

Business Requests

IA will continue to respond to business requests and whistle blowing events where the skills to perform the work are within the IA team, or if outsourced, are best managed by IA. A contingency budget, based on prior years request levels, has been allocated. Projects already requested for coverage in the next 12 month period are as follows:

- Anti-money laundering testing (US); and
- Independent review of the effectiveness of the resolved Promontory and FTI action points.

Internal Projects

IA is working closely with Operational Risk and other assurance functions on the implementation of a systems solution to automate as much as possible of the audit

administration and reporting processes as well as to provide tools that support the standard audit process. Much legacy data will be reviewed and validated to form common risk/control libraries and re-engineering will be required of the audit process to fully leverage the functionality offered by the chosen application. This will require significant involvement of IA staff and although this will fall predominantly on the management tier, time has been allocated in the budget for other team member involvement. Other key activities include training and recruiting the additional SOX/seconded external auditor testing resource and updating the audit methodology to further align with SOX.

Other Activities

Execution of the SOX testing program

IA has been requested to execute the SOX testing program in FY10. The plan is defined by SOX management and IA has no discretion in terms of its execution. However, to facilitate effective internal resourcing, it is envisaged that as much work as possible will be brought forward to FY10 Q2 and Q3 to avoid Q4 peaks. The transition of this work from EY to IA is intended to maintain the levels of external audit reliance placed on the work conducted in FY09. Depending on the timing of IA standard audits, there is an opportunity to leverage the SOX testing thus avoiding duplication and minimizing any potential disruption to the business. Based on the current information available from SOX management, it is estimated that the resource required to conduct this program is approximately 15,000 hours. This allows for an assumed level of 15% for re-testing of failed controls and a 20% overhead to ensure quality assurance. This time is split between IT General Controls (2,150 hours) and all other controls (12,850 hours). Strategically this activity is a candidate for embedding in the business.

Staff Secondment to the external auditors

To optimise the costs of performing the external audit IA has been requested to provide 5,000 hours of testing resource (3,150 hours in the UK and 1,850 hours in Chicago) which will be seconded to the external auditor and will work under their direction. The timing of when these resources are to be used is crucial to their effective deployment with the objective of spreading this out as evenly as possible over the 12 month period.

RESOURCES AND BUDGET

Resources

The IA team is split into three satellite locations (Chicago, New York and London) where the majority of MFG's business takes place. To deliver the IA rolling program over a 2 year cycle, a team of 16.5 controls consultants (experienced senior auditor level) and 3 business auditors (junior testing level), are required. IA management resource remains at 3, including the head of IA. The resource required to execute the SOX testing program is estimated at 11.25 staff with a further 3.75 staff required to meet the 5,000 hours of external audit support (see Appendix 4 - Organization Chart). IA also shares an executive assistant administration resource with the UK based Treasury and Finance/Accounting functions (not included in headcount numbers but included in budget).

The internal staffing level for FY10 assumes that the EY co-sourcing relationship will continue to be utilised where IA does not maintain the technical skills/language in house (e.g. technical areas of Risk, Compliance, Tax, Insurance, etc. and to cover Japan). IA has planned the lowest use of EY resource since the inception of the co-sourcing arrangement reflecting the strengthening of the IA team's skills base and, in particular, build-up of IT audit resource.

Recruiting of the planned additional resources is underway with a target start date of end Q1 early Q2 for the majority of testing resources. This is to facilitate training ahead of the planned start of SOX testing in Q2. A staffing utilization assessment based on the FY10 SOX testing plans as provided by SOX Management is available (Appendix 5). Resources for the external auditor have been included in this assessment based only on the location split provided as no detailed information is yet available on when the resource will be utilized. An agreed goal with the external auditor of smoothing out the use of this resource over the year has driven this utilization assessment. With the larger pool of IA resource it should be possible to meet occasional peaks in demand for SOX and external auditor seconded testing resources but it remains critical to plan all such work on the basis that as much as possible of the testing work should be evenly spread throughout all quarters.

		Total	Management	Controls Consultants	Testing Resource	External Professional Resource
Execution of core internal audit activities						
FY09	*Execution of core internal audit activities*	*25.75*	*2**	*14.75*	*6*	*3*
FY10	**Execution of core internal audit activities**	**24.8**	**3***	**16.5**	**3**	**2.3**
Other activities						
FY09	*Execution of other activities*	*0*	*0*	*0*	*0*	*0*
FY10	Execution of the SOX testing program	11.35	0	1.5	9.75	0.1^

FY10	Staff secondment to the external auditors	3.75	0	0	3.75	0

FY09	*Total Staff* **(excluding professional resource)**	*22.75*	*2**	*14.75*	*6*	-
FY10	**Total Staff (excluding professional resource)**	**37.5**	**3***	**18**	**16.5**	-
FY09	*Total Staff* **(including professional resource)**	*25.75*	*2**	*14.75*	*6*	*3*
FY10	**Total Staff (including professional resource)**	**39.9**	**3***	**18**	**16.5**	**2.4**

** In addition, IA administers a shared Executive Assistant with Accounting and Finance in the UK*
^ Japan related SOX work (language challenge)

Budget

The budget to deliver the recommended 12 month audit program is $9.855 million. Most of the resources covering SOX and the secondment to external audit will not be hired until the end of Q1 and thus these costs only represent start-up and 75% of full year costs.

FY10 Core Internal Audit Activities	**Total ($000s)**
Staff salaries and benefits (including hiring costs)	4,945
Professional costs	1,179
Travel and entertainment	933
Training and other employee costs	744
Total for core audit activities	**7,801**

FY10 Other Activities	**Total ($000s)**
Execution of the SOX testing program	
Staff salaries and benefits (including hiring costs)	1,018
Professional costs	44
Travel and entertainment	226
Training and other employee costs	312
Total for execution of the SOX testing program	**1,600**
Staff secondment to the external auditors	
Staff salaries and benefits (including hiring costs)	357
Professional costs	0
Travel and entertainment	0
Training and other employee costs	97
Total for staff secondment to the external auditors	**454**

FY10 Total for other activities	**2,054**

FY10 Total core audit and other activities budget (March 09)*	**9,855**

FY10 Budget (Dec 08)	**8,646**

FY09 Budget	**6,020**

The increase in costs versus the budget submitted in December 2008 are due to:

- Provision of 3.75 FTE's to the external auditor (new request)
- Request to provide Control Design Effectiveness Reviews (10% of consulting resource) – new request.
- Higher EY professional fees than those projected in December.

The FY09 budget was not constructed on a comparable basis to FY10 making variance analysis of little value.

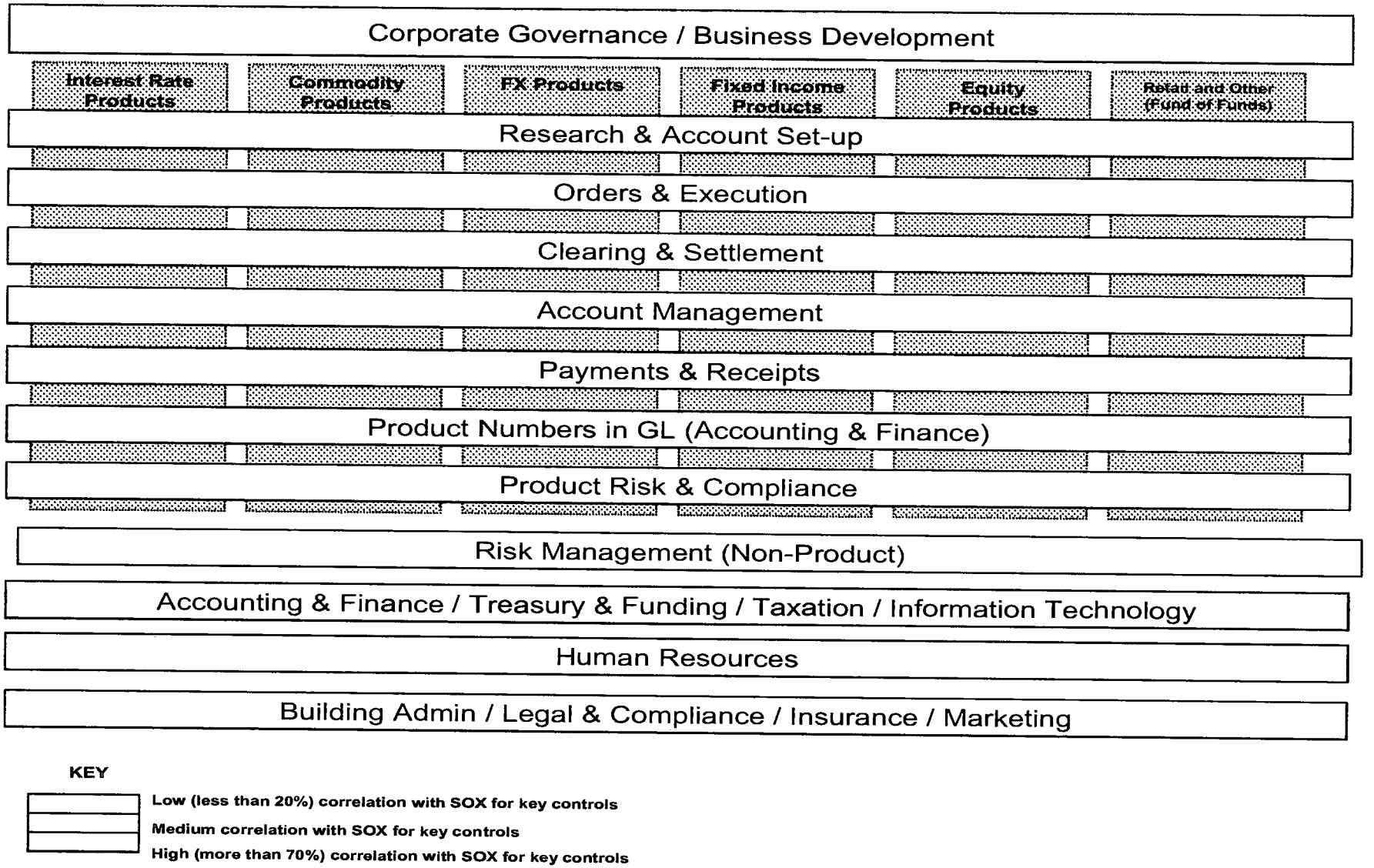
APPENDIX I: Detailed 12 Month Standard Audit Rolling Program

Product/ Process	Audit Report	Location	Department	Global Head	Key Systems	Process Scope	Total Time (Weeks)	Controls Consultant Time (Weeks)	Testing Resource Time (Weeks)	Professional Time (weeks)	"Locked" 3 Month Plan FY10 - Q1			FY10 - Q2			"Target" 9 Month Plan FY10 - Q3			FY10 - Q4		
											Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-09	Feb-09	Mar-09
Foreign Exchange	Global FX: OTC and EFPs	New York, Chicago & London	Front Desks, Research teams(where applicable) and Middle Office, Operations, Account Set-up, Accounting, Treasury, Compliance, Risk Management and Margins,	Lentini	R&N	Research, Account Set-up, Orders & Execution, Clearing & Settlement, Account Management, Payments & Receipts, Risk Management (product related), Legal & Compliance (product related), Accounting & Finance (product related) and Treasury & Funding (product related)	38	32	6	0												
	OTC FX	New York & Chicago		Lentini	FSS		19	16.5	2.5	0												
	Retail OTC FX	TBD		Lentini	TBD		21	19	2	0												
Fixed Income	Fixed Income and Securities Lending	New York & Chicago		McCarthy / Herrigan	Beta Phase III		38.5	30.5	8	0												
	Relative Value	London		McCarthy	GRIPS		25	21	4	0												
	Bond Repo and financing	London		McCarthy	GRIPS		11	8	3	0												
Equities and Equity Options	Equities and Equity Options	New York & Chicago		Roswell	Beta Phase III		47	40	7	0												
	Equities and Equity Lending	London		Rowsell	GRIPS		23	18	5	0												
	CFDs	London		Roswell	GRIPS		15	13	2	0												
	Total Return Swaps	London		Roswell	FinTrak		19	16	2	1												
	Choice Odds (Binary Betting)	London		Roswell / Herrigan	Choice Odds		17.5	13.5	4	0												
	Global Spreads (Spread Trading)	London		Roswell / Herrigan	Phoenix		16.5	13.5	3	0												
Fund of Funds	Fund of Funds	TBD	TBD	Rochlin	TBD	TBD	6	5.5	0.5	0												
Corporate Governance / Business Development		New York, Chicago, London and Asia Pacific	All	Multiple	Multiple	Company Level Controls and SOX Program etc	55	25	2	28												
Risk Management (excluding products)		New York, Chicago, London and Asia Pacific	Risk Management	Rosemen	TBD	Margining, Credit Analysis, and Risk Monitoring	59.5	47	7.5	5												
ECAP / ICAAP		London		Rosemen	TBD	Regulatory compliance with ECAP / ICAAP	14	2	0	12												
Taxation		New York and London (Asia is covered by New York)	Tax	MacDonald	TBD	Accounting and Reporting & Compliance globally	22.5	4.5	0	18												
Accounting & Finance		New York, Chicago & London	Accounting & Finance	MacDonald	Sun	FSCP, Estimation Processes, Brokerage Fees & Commissions, Hedge Accounting, Accounts receivable & collections, Accounts	33.5	29.25	4.25	0												
Information Technology	IT Logical Access	New York, Chicago & London	IT	Kornberg	Multiple	IT Logical Access	43	34	5	4												
	IT Application Development & Change Management	New York, Chicago & London	IT	Kornberg	Multiple	IT Application Development & Change Management	28.5	23.5	3	2												
	IT Operations	New York, Chicago & London	IT	Kornberg	Multiple	IT Operations	24	20	2	2												
Canada		Canada	All	Harte	Multiple	All processes	10	9.5	0.5	0												
Paris		Paris	All	O'Connell	Multiple	All processes	2	1.5	0.5	0												
Japan		Japan	All	O'Connell	Multiple	All processes	10	2	0	8												
Singapore		Singapore	All	O'Connell	Multiple	All processes	15	12	2	1												
India		India	All	O'Connell	Multiple	All processes	15	12	2	1												
Australia		Australia	All	O'Connell	Multiple	All processes	15	11	3	1												
Hong Kong		Hong Kong	All	O'Connell	Multiple	All processes	10	8.5	1	0.5												
Dubai		Dubai	All	O'Connell	Multiple	All processes	2	2	0	0												
Amsterdam		Amsterdam	All	O'Connell	None	All processes	2	2	0	0												
Geneva		Geneva	All	O'Connell	None	All processes	2	2	0	0												
							659.5	494.25	81.75	83.5												

*An allocation of time has been planned to cover the proposed new Fund of Funds business in anticipation of Board approval. The audit is contingent on a successful start up and the actual scope and resource requirement will be determined as part of the detailed planning phase (targeted for Q4 FY10).

A contingency pool of IA resource has been included in the budget/resource numbers to facilitate full coverage of non-UK/US locations but has not allocated above.

APPENDIX 2 : Internal Audit Universe Versus Sox



KEY

- Low (less than 20%) correlation with SOX for key controls
- Medium correlation with SOX for key controls
- High (more than 70%) correlation with SOX for key controls

Appendix 3: Audit Rotation – 2 year cycle of coverage

Product audits (US and UK)		Key Systems	Processes
Year 1			
Global Foreign Exchange	Foreign Exchange OTC, EFPs, and Retail OTC	R&N Currenex FSS	Research, Account Set-up, Orders & Execution, Clearing & Settlement, Account Management, Payments & Receipts, Risk Management, Legal & Compliance, Accounting & Finance, and Treasury & Funding (product related)
Fixed Income	Fixed Income, Relative Value, bond repos, CFDS etc	GRIPs Beta Phase III Loannet Martini Raptor	
Equities and Equity Options	Equities and Equity Options	GRIPs Beta Phase III MTS	
	Total Return Swaps	FinTrak	
	Binary Betting	Choice Odds	
	Spread Trading	Phoenix	
Fund of Funds	Fund of Funds	TBD	TBD

Year 2			
Commodity Products	Metals, Softs, Energy etc	R&N GMI Kiodex	Research, Account Set-up, Orders & Execution, Clearing & Settlement, Account Management, Payments & Receipts, Risk Management, Legal & Compliance, Accounting & Finance, and Treasury & Funding (product related)
Interest Rate Products	Interest Rate Products	R&N GMI Kiodex	

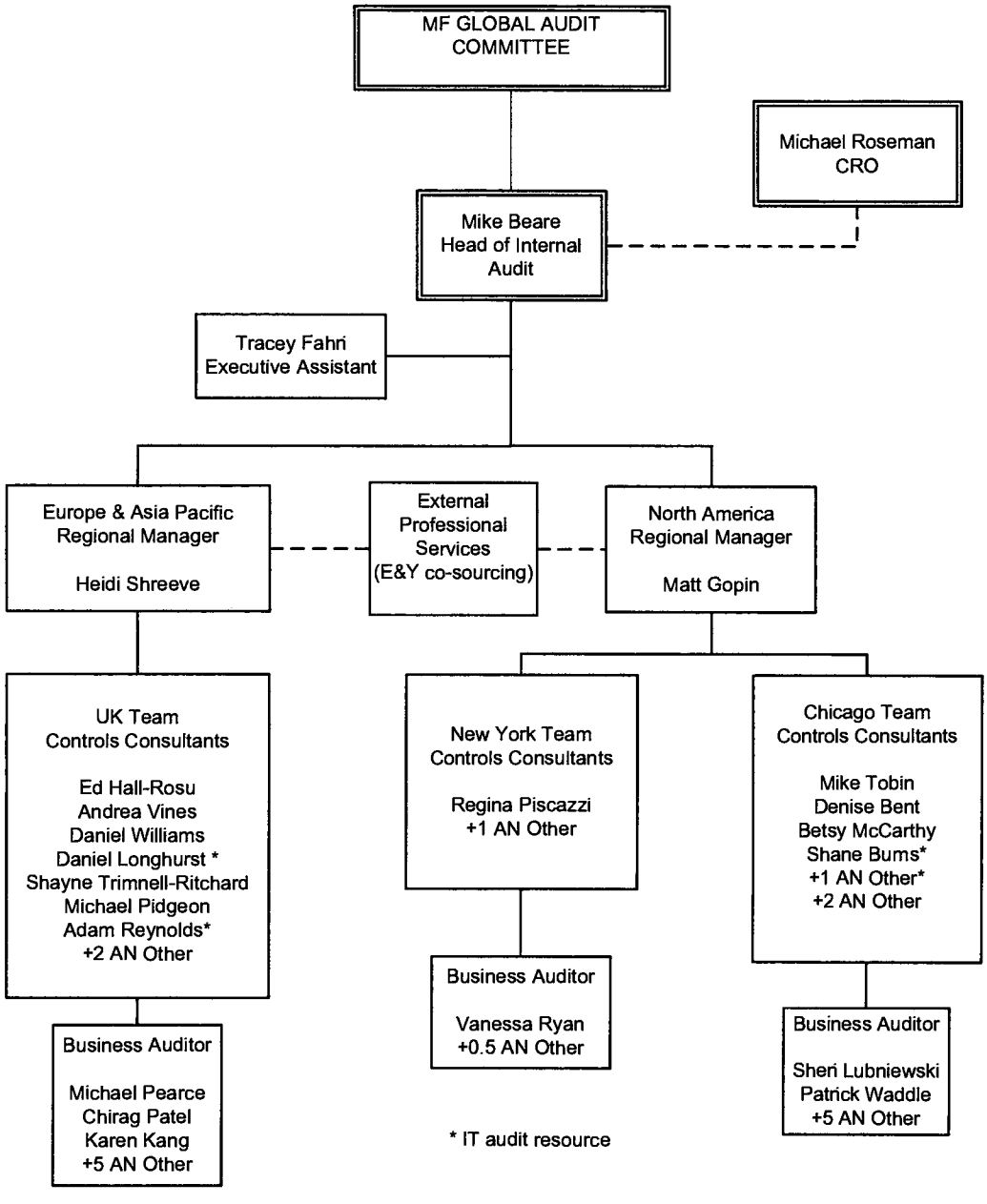
Annual Audits - Process
Corporate Governance / Business Development
Global Risk Management (excluding products) and including Asia
ITGC

Bi – Annual Audits - Process
Year 1
ECAP/ICAAP
Taxation
Accounting & Finance

Year 2
Building Administration
Insurance
Human Resources and Pensions
Legal and Compliance
Treasury and Funding
Marketing

Annual Audits – Location – Scope driven by results of other assurance activities to optimize resource utilization
Paris
Singapore
India
Geneva
Amsterdam
Canada
Australia
Japan
Hong Kong
Dubai

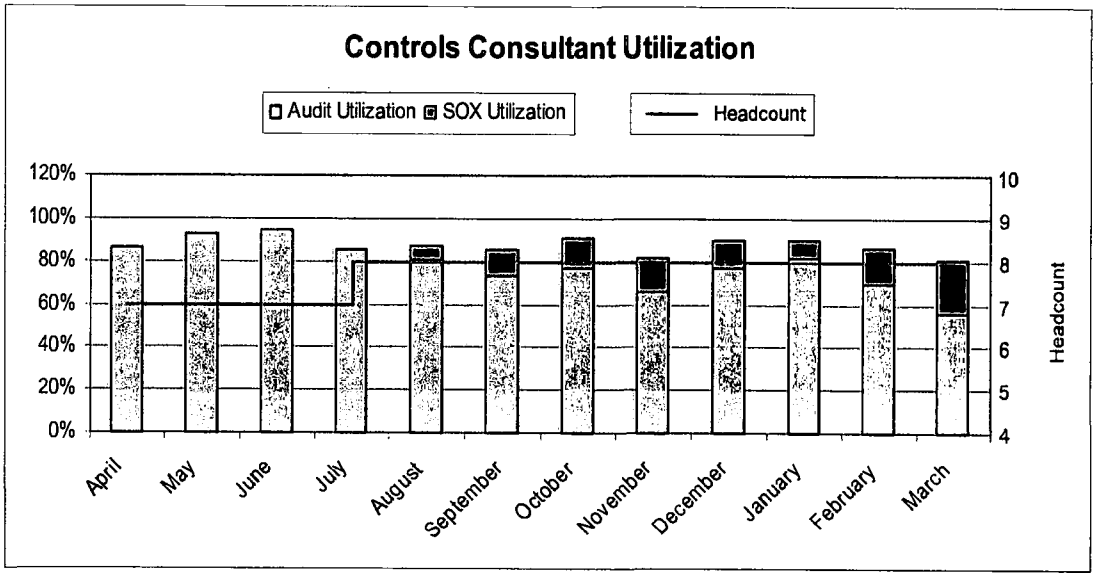
Appendix 4 – IA Organization Chart

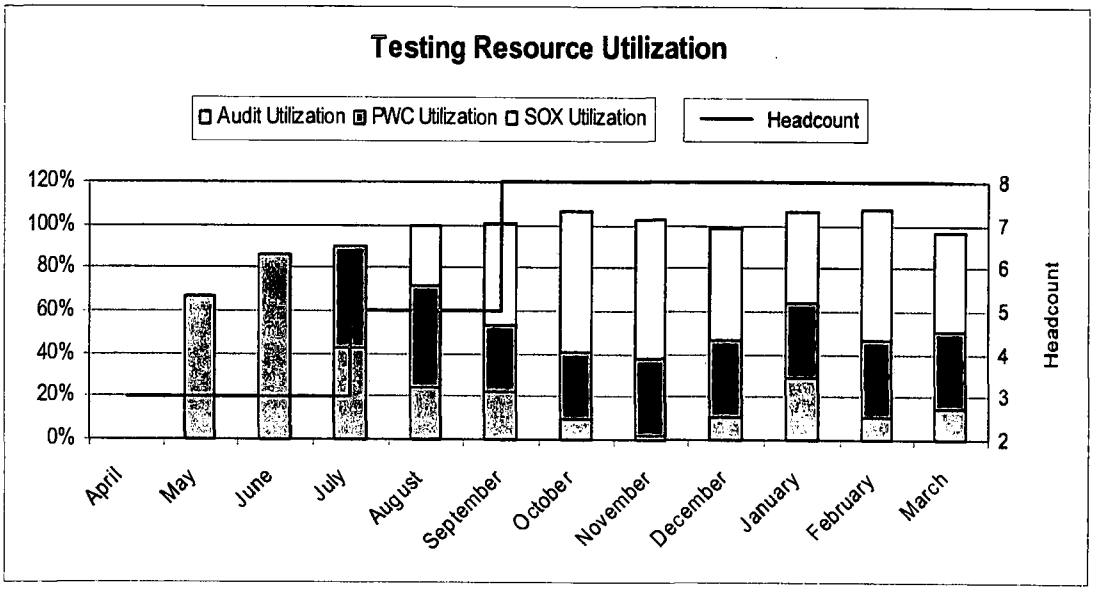


Appendix 5 – Staff Utilization

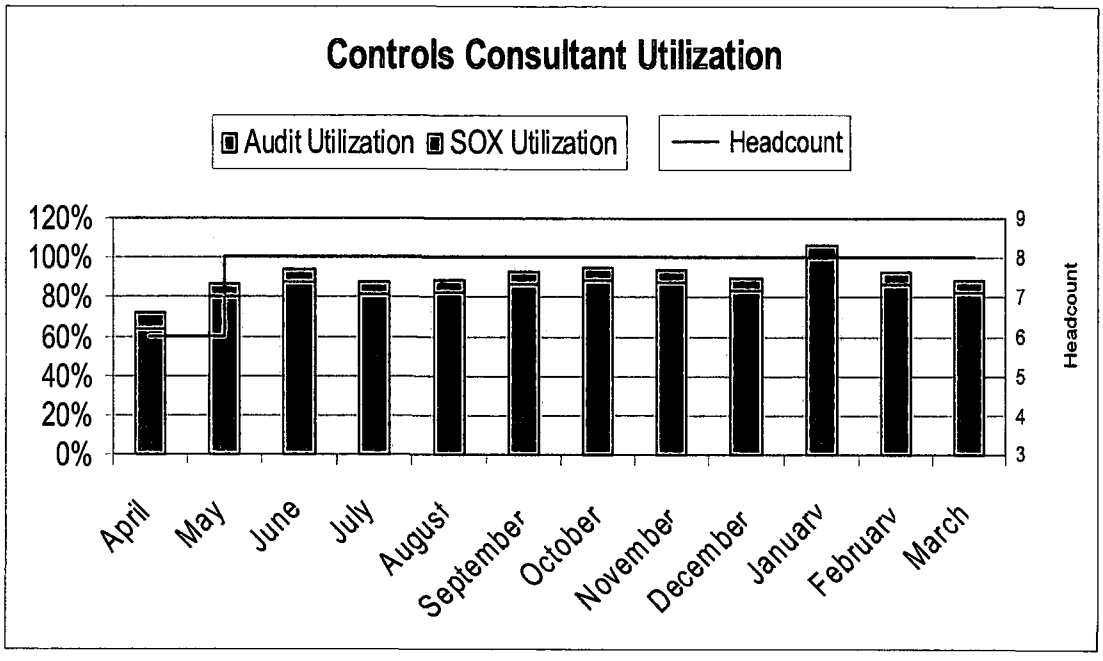
The charts below show IA resources assigned to cover the 12 month standard audit program and meet the planned SOX/External Audit requirements. In those months where there is a shortfall in testing resource (i.e. over 100% utilization) it is planned to use a combination of overtime and, if necessary, excess capacity of controls consulting resource to ensure the testing plan can be completed on time. The controls consulting chart shows excess capacity which is planned to enable coverage of CDERs (no dates), business requests and internal projects that have flexibility on their timing.

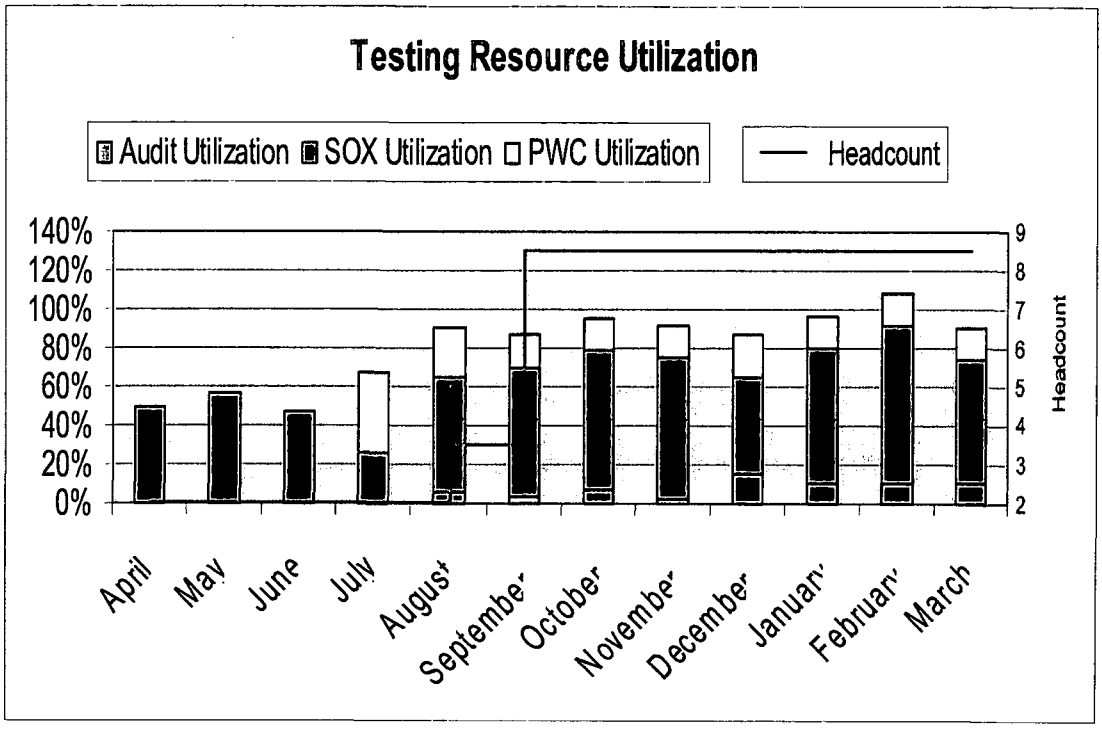
Europe / Asia Pacific Staff Utilization





North America Staff Utilization





A contingency pool of IA resource has been included in the budget/resource numbers to facilitate full coverage of non-UK/US locations but has not reflected in the above.

Appendix 6 – Audit Coverage of a Product Silo

Product audits cover the complete business cycle (account set-up/order taking through to back-office and GL interface) and include coverage of all the supporting key IT application systems. Such audits require embedded product-specific risk monitoring, accounting and compliance controls to be assessed at the time of the audit so as to enable all relevant key/compensating controls to be factored into IA's control opinion.

The following two diagrams show an example of the audit coverage for UK Equity Products:

Diagram 1: This diagram shows the audit coverage of each of the processes matched against the various audits of the Equity Products silo.

Diagram 2: This diagram shows the depth of each audit visit. As can be seen, those areas with common controls will have a lighter touch in the latter audits after an assessment of control design has been performed initially. Those areas with 'product-specific' controls would receive short focussed visits to cover the distinct key controls specific to each product.

Diagram 1

Audit Approach

	Equity Products			
	TRS	EL	CFDs	Common System
Account Set-up	C	C	C	CIS/INVU
Orders and Execution	FinTrack	Fidessa/ Martini	Fidessa	
Clearing and Settlement	C	C	C	GRIPS
Account Management	C	C	C	GRIPS
Payments and Receipts	C	C	PS	Payments
Product numbers in GL (A&F)	PS	PS	PS	
Product Risk and Compliance	PS	PS	PS	

C = The majority of key controls are 'common' across products
PS = The majority of key controls are distinct and 'product-specific', operated independently over the products
Fidessa / FinTrack / Martini = Systems with common controls and may include embedded product-specific controls

TRS = Total Return Swaps
EL = Equities and Equity Lending
CFDs = Contract for Differences

NB: Equity Products also includes the Global Spreads and Binary Betting businesses. However, these have stand-alone front and back-office systems which are separate from the other equity products audits. All of the processes/controls would therefore be product-specific.

Diagram 2

Audit Timetable

	Jun – Jul	Aug – Sep	Oct – Nov
	TRS	EL	CFDs
Account Set-up	D+O	RF	RF
Orders and Execution	FinTrack	M/F	F
Clearing and Settlement	D+O	D+O/RF	RF
Account Management	D+O	D+O/RF	D+O/RF
Payments and Receipts	D+O	D+O	D+O
Product numbers in GL (A&F)	AF	AF	AF
Product Risk and Compliance	RC	RC	RC

D+O = Design effectiveness assessed over common key controls and operating effectiveness specific to the product.
RF = Roll forward testing, aligned with SOX, specific to each product. Design effectiveness already assessed as key controls are common.
AF/RC = Design and operating effectiveness over the distinct key controls, specific to each product for Accounting & Finance and Risk & Compliance respectively.
M/F = Common system control review over Martini/Fidessa performed once, and embedded product-specific controls review performed on later product audits.
FinTrack = FinTrack reviewed once as the system is specific to TRS.

The CFDs Audit, as an example, would include the following :

- Limited-scope roll-forward testing over Account Set-up, and Clearing & Settlement. The design effectiveness of these common key controls will be assessed during the Equities and Equity Lending audit.
- The review over Fidessa, covering the Orders and Execution process, will include only embedded product controls. The previous review of Fidessa during the Equities and Equity Lending audit would cover the common system controls.
- Account Management and Payments & Receipts have product-specific controls which will be assessed for design effectiveness, however a number of controls over Account Management are common and can be rolled forward from the Equities and Equity Lending audit.
- Design and operating effectiveness over Accounting & Finance and the Product Risk and Compliance areas will be assessed individually during each product audit, in this case those over CFDs.

Appendix 23

Index

Step 1 – Planning ..... Page 6

Step 2 – Risk Identification & Assessment ..... Page 10

Step 3 – Detailed Understanding ..... Page 13

Step 4 – Control Evaluation ..... Page 16

Step 5 – Testing ..... Page 21

Step 6 – Conclude & Communication Results ..... Page 24

MF Global

AUDIT EXECUTION GUIDANCE NOTES

Background

The following guidance notes provide support to the auditor with respect to the execution of all tasks necessary to perform an audit of an assigned area of the business. While the following guidance notes are set out in a linear fashion, it should be kept in mind that a number of these steps will be performed simultaneously and / or on an iterative basis. It should be stressed that the guidance provided is not a substitute for the experience of audit staff or the Institute of Internal Auditors Professional Standards, both of which provide the context to IA's primary service delivery.

As the Audit Lead, the following principles should be adopted in communication throughout the audit process.

Communication with business management

- Ongoing communication with management at different levels of the organisation to ensure they understand the objectives and nature of the audit process, the timescales for the audit and the purpose and format of the deliverables.
- Early escalation of control design deficiencies, control breakdowns, control gaps and demonstrability issues to the layers of management as agreed as part of the planning phase. This 'no surprises' approach ensures that management is aware of likely observations that will be included in the report and is able to work on action plans as soon as possible. The only exception to this is in the unusual circumstance where fraud may be suspected. Such situations should be fully discussed with the Head of Internal Audit (HIA)/ Regional Managers before any communication takes place with management.

Communication within the team and with other stakeholders

- Confirmation of key dates with IA Regional Manager
- Early and ongoing communication of roles and responsibilities with the business auditors so they understand when they will be required to perform testing, for what duration and scope of their work
- Early and ongoing communication (where applicable) with other controls consultants
- Ongoing communication (where applicable) with PWC to ensure that they are engaged at all appropriate stages
- Early escalation of control design and operating gaps to the IA Regional Manager so that IA management is aware of likely observations that will be included in the report.
- Where any finding also relates to SOX control then please make the IA Regional Manager aware so this can be co – ordinated with the SOX project office.

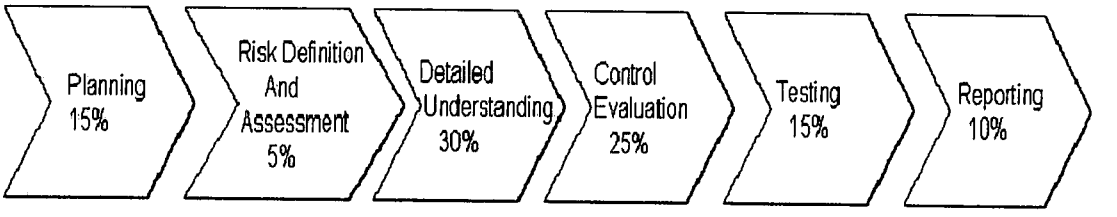
In addition, the following is a list of the target timescales for client facing deliverables:

Deliverable	Timeframe for communication to business management
• Communication of intention to audit (can be verbal)	At least 4 weeks before commencing audit fieldwork
• Draft Terms of Reference	Prior to the second week of fieldwork commencing or at the end of the Planning phase
• Draft Audit Report	48 hours before closeout meeting, and at a maximum, 1 week after completion of fieldwork
• Final Audit Report	Maximum of 2 weeks after completion of fieldwork

Definition: Fieldwork includes the stages of Planning through to completion of on-site Testing.

Timeline

As a general principle, the following example provides high level guidance as to the time which will potentially be spent on each stage of the audit.



Audit Work-paper Filing & Review

Work-papers are produced as deliverables from each phase of the audit. Several iterations of the deliverables are common as most are subject to one review process (and in some cases two review processes) and may well be amended to reflect follow-up action. While each resultant version may be useful as an audit trail during the audit, it is inappropriate and potentially confusing, to keep multiple versions and accordingly only the final version should be filed on conclusion of the audit. Similarly, documentation used as input to any of the audit phases should be referenced as a source. Such documentation, if it is likely to be of use in the future for training/planning/the next audit should be placed on a separate permanent audit file maintained for the process/location under review.

Additionally the following general principles apply:

- All documentation on the audit file must be referenced and where required cross referenced to permit information that supports observations, conclusions and opinions to be easily tracked – e.g. from the final report to the detailed granular supporting material.

- The Audit 'Close-out Checklist' should be used at the end of the audit as it represents both an aid memoir for ensuring all elements of the work paper file are correctly filed as well as providing the means of recording any variances from the audit methodology.

- There must be a documented independent peer / supervisory review of any working paper and the table below summarises the minimum authorisation required:

MF Global

AUDIT EXECUTION GUIDANCE NOTES

Documentation	Minimum Review
Meeting Notes	This needs to have the preparer name and the reviewer name typed on the document. At a minimum this should be subject to a Peer Review / Audit Lead.
Permanent audit file documentation	At a minimum this should be subject to a Peer Review / Audit Lead.
Terms of Reference	The email sign off from the Regional Manager must be on file
Application diagram	The application diagram needs to be signed off by the ITCC
Control Evaluation Questionnaire	At a minimum this should be subject to a peer review / Audit Lead.
Flowcharts	At a minimum this should be subject to a Peer Review / Audit Lead. Additionally this needs to have the name of the business person the flowchart was confirmed with and the date. Also a review of the Orders and Execution spreadsheets where applicable.
Walkthrough Documents	At a minimum this should be subject to a Peer Review / Audit lead.
RaCE	At a minimum this should be subject to a review by the Regional Manager
Test Schedule (where applicable)	At a minimum this should be subject to a Peer Review / Audit Lead.
Test Work Papers	This needs to have the preparer name (usually business auditor) and the reviewer name (usually the Audit Lead) typed on the document.
Issue Log	This needs to have the preparer name and the reviewer name typed on the document. At a minimum this should be subject to a review by the Regional Manager
Report	The email issuing the report is proof that this has been approved by the HIA and Global Risk Officer
Checklist	This must be physically signed by the audit lead and the reviewer and then scanned onto the file

MF Global

AUDIT EXECUTION GUIDANCE NOTES

Step 1 - Planning

Purpose: The primary objective of the planning phase of the audit is to gain a sufficient understanding of the targeted area of coverage and the related business/process objectives in order to define the scope, timing and resource requirements of the audit.

Key Deliverables: Terms of Reference (ToR) and Permanent Audit File Documentation

1.1 Understand work conducted to date and communicate to the business the intention to audit

1.1.1 Communicate to process owners and their management, the intention to audit

Communicate the intention to audit the business at least 4 weeks before commencing audit fieldwork. It is preferable for this to be in writing (e.g. email) but verbal advice is acceptable. (An example of email communication can be found in 1.1)

Note: At this stage it is suggested that key documentation be requested from Business Management, e.g. organisation chart, key operating and financial highlights particularly volumes and values of transaction flows, KRI's / KPI's, procedures etc. The Audit Lead may also want to arrange the opening meeting with the client.

1.1.2 Review audits of related support services and/or processes that are due to be or have recently been completed

For example if an audit of Cash Products UK is being planned, review recent audit documentation of Cash Products US. This step is done in order to gain insight into related areas and put the current audit into perspective.

1.1.3 Review the status of issues from previous audits, any notes carried forward from previous audits, and the prior audit working papers/permanent audit file (where available)

A key source for background information is the prior audit work papers / permanent audit file (where applicable). These should be reviewed in order to gain a greater understanding of the area. Additionally, obtain an understanding of the issues raised in previous audits and review follow-up status and any related IA interim work. Ensure that if there are any 'notes for subsequent audits' that apply to this audit, that these points are picked up and incorporated into your audit scope.

1.1.4 Review documentation prepared by other assurance functions (eg, Operational Risk, SOX, Compliance, PWC etc.)

Work of other assurance functions including external auditors (PWC) can be used for the following purposes:

- To enhance IA's understanding of the business area;
- To enhance understanding of the risk and control profile of the area; and
- To identify already reported control issues and to assess their status.

Inputs:	Prior audit work papers and permanent audit file Internal and external assurance documentation
Outputs:	Initial communication to the business of intention to audit

1.2 Obtain an overview of the business area and draft the Terms of Reference

1.2.1Obtain information on the business area(s)/planned scoped functional processes such as related org charts, KRIs, loss data, external failures, procedures, business plans etc. and update / complete the permanent audit file documentation

At this stage, it is important to research areas within scope to validate existing knowledge and gain further knowledge of the business. Relevant sources of information could include the intranet, informal (or formal) discussions with management.

Useful information (if not already gathered) includes:

- business objectives/plans;
- organisation structure/chart;
- KRIs and KPIs;
- loss data;
- procedures;
- P&L Reports;
- Systems Documentation;
- relevant Management Information; and
- planned changes to processes.

The Permanent Audit File Documentation should be completed, the template is in Appendix 1.2. This will need to be reviewed by the peer reviewer / audit lead.

1.2.2 Identify any critical system applications that perform key elements of the planned scoped functional processes and discuss potential involvement of ITCCs

Determine which systems are being used to perform primary controls (either automated or IT dependent). Involve the IT controls consultant so as to enable effective coordination and timely planning.

1.2.3 Identify which level III processes apply to the audit and save these on the file. Ensure there is a rationale for any level III processes excluded from the review.

1.2.4 Commence drafting Terms of Reference and application diagram

The Terms of Reference (ToR) is drafted at this stage based on the information received/reviewed to date. The template in Appendix 1.3 provides guidance and standard mandatory wording for each section of the ToR .

The application diagram needs to be produced and signed off by the ITCC prior to issuing the TOR. An example of an application diagram is attached in 1.4

Inputs:	Background Information
Outputs:	Draft Terms of Reference, Permanent Audit File Documentation (updated), Applicable processes documented and application diagram

1.3 Engage Stakeholders

1.3.1 Arrange opening meeting with business stakeholder(s) and discuss: audit approach; processes to be covered; the applicable Risks; and the status of prior internal audit or other action plans.

The IA regional manager must always be invited to the opening meeting(s), although it is discretional as to whether they attend all opening meetings.

Document the opening meeting using the template in Appendix 1.5. The opening meeting should cover the following:

- Validating key processes included within the initial scope and the key risks;
- Obtain feedback on the risks that are important to the business (strategic etc.) Note: This will more than likely be high-level and should be detailed in the meeting note in the client's language;
- Description of generic audit approach (to manage expectations);
- Audit Reporting Process (including the rating of findings and what is expected in management comments);
- Confirmation of Key Business Contacts (relevant organisation charts can be used in determining who to meet); and
- Establish / reconfirm with the client if there have been any changes in the processes / systems being utilised in the area under review.

At a minimum the opening meeting note should summarise the key participants and key points discussed

1.3.2 Gain an overview of the regulatory environment and engage as appropriate with Compliance

Inputs:	Draft Terms of Reference
Outputs:	Refined Draft Terms of Reference Opening Meeting Note

1.4 Finalise and Issue Terms of Reference

1.4.1 Finalise draft Terms of Reference and issue to business management for final input (where applicable)

In finalising the Terms of Reference (ToR), it is critical to consider:

- The audit scope will act as a "contract" between IA and the business and as such it is important that the audit scope clearly identifies what is included within the scope of the audit and what is excluded from the audit as well as the agreed timelines;
- The distribution list of the ToR should consider the key business stakeholders. This should include process as well as global owners, and

1.4.2 Submit Terms of Reference to IA Regional Manager and the Head of Audit for review / approval

The IA Regional Manager should review and approve the Terms of Reference.

1.4.3 Issue finalised Terms of Reference to all stakeholders (including PWC)

MF Global

AUDIT EXECUTION GUIDANCE NOTES

The TOR is e-mailed to the process owners, the related global heads and PWC providing them with the agreed Terms of Reference copying the IA Regional manager. The email contact at PWC is linda.s.mcgowan@us.pwc.com

Inputs:	Draft Terms of Reference
Outputs:	Finalised Terms of Reference (ToR), Permanent Audit File Documentation and signed off application diagram

Step 2 – Risk Identification & Assessment

Purpose: The purpose of this phase of the Audit Execution process is to produce a comprehensive list of granular risk definitions each with an assessment of the risk level specific to the functional processes under review.

This phase of the execution process is conducted in advance of detailed understanding of the scoped functional process(es) so as not to restrict the risk assessment from being purely based on 'what can go wrong' with the process. The resultant risk profile will underpin the control discovery process and will also be the basis on which control effectiveness will be judged.

Key Deliverables: RaCE populated with granular risk definitions and risk ratings

2.1 Develop granular risk definitions

2.1.1 Take the definitions per the ToR and the operational risk granular risk statements and identify the granular risk definitions as they apply within the boundaries of the audit scope.

Definition: A *risk* is "the chance of something happening or not happening that will have an influence upon the achievement of business objectives." - **Institute of Internal Auditors.**

Inherent risk is "the status of risk (measured through impact and likelihood) without taking account of any risk management activities that the organisation may already have in place." - **Institute of Internal Auditors.**

2.1.2 Propose any changes/ deletions / additions to the operational risk granular risk definitions to the regional manager who will take these forward and agree with the operational risk team

2.1.3 Establish if there are other risks e.g market, credit, strategic etc and define risk definitions for these risks.

2.1.4 Conduct a brain storming session with your team / regional manager to ensure all risks have been identified

The requirement and the format of this session will be determined by the level of granular risk information already available. The goal of this step is to ensure the completeness of the granular risk definition list.

Inputs:	Previous RaCE (where applicable) Operational Risk Granular risk definitions
Outputs:	Documented granular risk definitions on Risk and Control Evaluation document (RaCE)

2.2 Assess granular risk definitions

2.2.1 Assess each granular risk definition using the Assessment Criteria Matrix

Using the Assessment Criteria Matrix (ACM) (Appendix 2.1), consider each risk definition in turn in order to determine an inherent risk assessment. The rating and rationale (where needed) for each risk definition should be included in the Assessment column in the Risk and Control Evaluation document (RaCE Appendix 4.1). Note: Please include the ACM on file to serve as a reference tool to support risk assessments at a point in time as future versions of the ACM may differ in materiality.

2.2.2 Revisit the Terms of Reference and consider whether there are any additional processes which should be included in scope as a result of the granular risk understanding. Revise Terms of Reference, where necessary

The process of granular risk definition/assessment for the process under review may highlight scoping issues in terms of the boundaries of the audit, and in exceptional cases, challenges with the process model itself. Such issues should be escalated and any proposed changes should be discussed with the IA Regional Manager.

2.3 Discuss granular risk definitions with Business Management

2.3.1 Discuss the granular risk definitions and their assessment with Business Management (where feasible)

This step can be conducted in various ways depending on the client and the level of risk and control documentation already existing. Depending on the level of interest of the client will depend on whether the specialist chooses to engage in a face to face client meeting where each risk is discussed.

Note: Business Management may not understand that a risk exists because controls are in place in order to try and prevent the risk from arising. Explain that the risk assessment is the level of risk to the organisation in the absence of internal controls but assuming current staff and organisational structures and existing external control environment. Where Business Management provides persuasive arguments to support their suggested changes to audit's original view, it is appropriate to update the granular definitions and/or risk ratings.

2.3.3 Peer review and sign off on granular risk definitions and assessment

Inputs:	Initial assessment of granular risk definitions
Outputs:	Finalised definition and assessment of granular risks

Step 3 - Detailed Understanding

Purpose: The primary objective of this phase of the audit is to gain a detailed understanding of both the process flow, including identification of all controls, and the overall 'context' or supporting control environment under which the process is operated. The auditor's experience and judgement is needed in this step to ensure that enough is learnt about the process flows and controls that relate to the scoped risks to permit evaluation of control design effectiveness.

Key Deliverables: Completed Control Environment Assessment Questionnaire, and validated/agreed flowcharts and walkthroughs.

3.1 Conduct control environment assessment

3.1.1 Complete the Control Environment Assessment Questionnaire (Appendix 3.1), through discussion and observation

The purpose of this questionnaire is to provide an indication of the repeatability, reliability and sustainability of the control environment. With the exception of fully automated environments, people are key to performing controls and it is important to understand the 'soft' control' aspects of the 'context' in which the controls operate as clarity of purpose and motivation underpin the effective execution of controls. The questionnaire will assist in the capture of the above but the auditor should include any other 'soft' control issues that they consider relevant to the operation of the control environment.

Inputs:	Discussions with Business Management, Control Environment Assessment Questionnaire
Outputs:	Completed Control Environment Questionnaire

3.2 Flowchart processes

3.2.1 Arrange meetings with key business contacts to more fully understand the scoped process(es) and their objectives. Obtain key information from the business to assist in understanding as appropriate

Note: While the business contacts may want to explain all the activities that they perform, it is important to only focus our understanding process on the areas that are within the scope. Key to ensuring efficiency of the understanding process is maintaining a focus on understanding those controls that mitigate the identified granular risks.

Obtain key information from the business to assist in understanding as appropriate, such as Business procedures, SOX flowcharts and Application system documentation.

3.2.2 Create or validate existing flowcharts / meeting notes as deemed appropriate, thus documenting the auditor's detailed understanding of the area

Where possible, obtain existing process flowcharts/process meeting notes and update these to reflect the current process flow understanding and to ensure they meet current documentation standards.

Where there are no existing process flowcharts or process meeting notes, produce a flowchart (Appendix 3.2). It is recognised, in exceptional circumstances, or for some support services functional processes that are not transaction oriented, that meeting notes are an acceptable alternative to a flowchart. Where meeting notes are used to document the process flow, all controls need to be mentioned and referenced to the RaCE.

Each flowchart must have the following:

- Source/Business Management contact, with whom the process was discussed;
- Process name covered by the flowchart;
- Logical breakdown of the process with all controls identified and referenced (this control reference will be documented on the RaCE in step 4);
- The flowchart preparer; and
- Evidence of review and date

The flowchart needs to have enough information that the reviewer can understand the process without having in-depth conversations with the preparer.

3.2.3 Discuss draft flowcharts with Business Management to validate accuracy

Flowcharts should be updated where necessary post-discussion with Business Management.

Inputs:	Meetings with business / flowcharts
Outputs:	Updated flowcharts

3.3 Confirm detailed process understanding via walkthroughs

3.3.1 Perform and document process walkthroughs to confirm process understanding

The purpose of the walkthrough (Appendix 3.3) is to confirm the accuracy and completeness of the auditor's understanding of the process flows including confirmation that the controls operate as expected. In the case of different transaction types, the auditor should trace more than one item in order to understand how the controls operate in the different circumstances. Each walkthrough should be documented and should include documentation/reports showing snapshots of the controls. Where possible, the same transaction(s) should be taken right through the process.

Specific things to bear in mind when documenting the walkthrough are:

- Our understanding should be documented to the level of detail that is sufficient in order to determine the points in the process where key risks (step 2) could crystallise and to the level of detail that is sufficient in order to clearly document the control points (refer to step 4 for further guidance on identifying controls); and

- Ultimately, auditor understanding of the process should be sufficient enough to ensure that they actually know what happens in the process (as opposed to what management has told them should happen in the process).

In the event that the walkthrough process identifies a control that is not designed satisfactorily, this should be documented on the walkthrough document and added to the issue log and referred to in the RaCE. Testing of this control will not be required as its design has been found to be not fit for purpose.

The walkthrough should be documented on the process narrative document and, where a control is particularly complex to document, then the walkthrough template should be used to document your understanding of the control.

The walkthrough should focus on documenting the important controls (i.e. primary – see step 3) and does not always have to show in detail the less important controls (secondary – step 3). When you get to stage 3 though, the walkthrough must have walked through as a minimum all "primary" controls and all SOX "Key" controls.

Identification of EUCs (End User Computing)

(Update Nov 09)
Where a spreadsheet is being used to perform a control rather than being automated than this should be logged on the EUC register for the audit. EUCs are not as substainable as automated controls so consideration must be given to whether there are compensating manual controls which provide comfort. If this is a critical EUC then involve the IT specialists who will perform testing around the EUC to ensure it is locked down etc. Always flag any EUC to the regional manager for discussion

Inputs:	Existing flowcharts Business process documentation
Outputs:	Validated and agreed flowcharts and Walkthrough documentation, O&E spreads bets (where applicable)

3.3.2 Where applicable, also complete the O&E spreadsheets

The O & E spreadsheet template (appendix 3.4) is aimed at capturing the multiple front desk platforms that are operating within the business and standard information about these platforms to ensure completeness of understanding.

Step 4 – Control Evaluation

Purpose: The purpose of this phase of the audit is to perform an evaluation of overall control design effectiveness in terms of mitigating the significant risks inherent in the scoped process(es). The auditor also needs to stand back from the granular level and consider the overall combination / balance of control types and the context in which they operate.

Key Deliverables: Updated and Reviewed Risk and Control Evaluation document (RaCE)

4.1 Map controls against the granular risk definitions

4.1.1 Against each granular risk definition in the Risk & Control Evaluation document (RaCE), reference each control that is designed to mitigate the risk. Document any control gaps in the RaCE as well as Issue Log

Note: All controls in the RaCE (appendix 4.1) must be detailed/referenced to the flowcharts and vice versa. A control can mitigate many granular risks, the auditor should use their discretion to ensure the RACE does not become cluttered from copying and pasting the same information multiple times.

4.1.2 Against each control in the RaCE, identify the process within which the control lies

Inputs:	Flowcharts and control environment assessment
Outputs:	Updated RaCE

4.2 Categorise Controls

4.2.1 Determine which controls are Primary or Secondary, and document this control categorisation on the RaCE. Select control model label(s) that best describe the control type

Primary controls:	Primary controls for a given risk are the minimum set of controls that can provide reasonable assurance that the risk is mitigated, provided that the controls are designed properly, operating as intended and are demonstrable.
Secondary control:	Secondary controls are supplemental controls frequently used to improve the timeliness of detection of issues or backstop controls used as emergency 'catch alls'.

Note: It is possible for a control to be classified differently for each risk it relates to, as there is often a one to many relationship, and the role that the control plays for each risk may be different in terms of mitigation and risk reduction.

Document the Control Type

Automated: These are controls which are performed by an IT system. For example, an automatic reconciliation is done between system A and system B.

Manual Hard Controls: These are controls which are performed by a person rather than an application system, and leave a clear audit trail of control performance i.e. are demonstrable.

Manual Soft Controls: These are controls which are performed by a person rather than a system, can be preventative or detective, and are typically non-demonstrable. For example a desk manager sitting on the trading floor monitoring the activities of the traders. *A primary control cannot be a manual soft control unless it is found to be not designed effectively.*

IT Dependant: IT Dependent controls are manual controls based on information derived from a computer system/application and is typically presented either on screen or paper.

Note: All Automated and IT dependant controls need to be communicated to the IS controls consultant. Once the Control Type, frequency etc has been determined for each control, document this on the RaCE. Having identified and evaluated individual control design effectiveness, consider how effective the combination of controls is in mitigating each risk.

Inputs:	Draft RaCE
Outputs:	Updated RaCE

4.3 Evaluate Control Design Effectiveness

4.3.1 Evaluate design effectiveness of individual controls and combinations of controls that aim to mitigate a granular risk. Establish if there are any control gaps, non-evidenced controls or design weaknesses. Document any issues on the Issue log

Note: In most instances there will be more than one control for each risk. This is because human error can jeopardise the successful operation of even high quality preventative controls. Therefore most preventative controls need to be balanced by a detective control to ensure that any human errors are detected. There is no optimal mix of prevent/detect controls. Certain risks will lend themselves more to one form of control than another. Both should be present in a strong control environment.

In order to evaluate combinations of controls:

- Consider whether controls are effective only when operating in conjunction with other controls. If so, those controls may need to be assessed together for design effectiveness
- Assess whether controls are in line with expectations, given review of similar processes/business areas seen in the business
- If one control is not designed effectively, consider whether there are compensating controls that are designed effectively and consider the impact if not.

For each key risk, make an assessment as to whether the combinations of controls are:

- Effective – the combination of controls in place are designed effectively to substantially mitigate the risk.
- Ineffective – the combination of controls in place are not designed effectively to mitigate the risk.

This conclusion will be made based on auditor judgement and should be documented in the Risk and Control Evaluation document (RaCE). Any issues should be documented in the Issue log (appendix 6.1).

Note: There may be instances where the primary controls are so poorly designed that detailed testing will not be required. When this is the case, the Audit Lead should work with the IA Regional Manager to determine if the audit should progress to the detailed testing stage or if the report writing stage should commence. Note that, if the report writing stage is to commence, detailed audit work may, in exceptional circumstances, still be required to determine the impact of the ineffectively designed controls.

4.3.2 Perform further work, as necessary, where the design effectiveness of controls cannot be determined with work completed to date

In exceptional circumstances, it may be necessary to perform additional work in order to get comfortable as to the effectiveness of the control. This must be agreed with the IA Regional Manager.

4.3.3 Confirm control design findings/gaps and understanding with Business Management

Where there are indications that controls may be ineffectively designed to mitigate the risks, details of the control exception should be recorded and discussed with management to confirm factual accuracy, and to allow for potential compensating controls outside the process under review to be identified. Also, determine whether any further work is required to understand the impact and size of the exception.

Where significant issues are already known by management, they should still be evaluated to determine if the mitigation plans and temporary controls in place are sufficient to mitigate the risk. Work should be documented in work-papers and issues should be documented as observations for the report and actions to mitigate the risks documented and agreed (highlighting those mitigation plans and temporary controls already in place). All observations/issues should be documented in the Issue Log (Appendix 6.1) and referenced on the RaCE.

4.3.4 Formal review and sign off by peer / audit lead of all documentation produced to date

At this stage, the peer / audit lead should review all documentation produced to date and sign-off

Inputs:	Draft RaCE, discussion with Business Management
Outputs:	Updated and Reviewed RaCE, Issue Log (where necessary)

Step 5 – Testing

Purpose: The purpose of this phase of the audit is to test the primary controls so as to determine if they have operated throughout the period under review.

Key Deliverables: Conclusion on operating effectiveness of primary controls documented in the Risk and Control Evaluation document (RaCE), and agreed factual accuracy of any control exceptions raised during testing.

5.1 Determine testing strategy for primary controls

5.1.1 Establish how best to test the primary controls and how they might be able to be grouped together under one test, where possible

The key to test design is having a thorough understanding for each control, of the criterion on which evidence of control performance can be judged. This will identify the sources that need to be sampled and will also potentially enable several controls to be tested at one time, thus avoiding multiple reviews of the same documents / reports.

At this stage of the audit, only primary controls are tested.

Note: At this point, consider whether there are any primary controls that can be logically grouped together for the purposes of testing efficiency and optimisation.

Note: Any automated controls and IT dependant controls which need testing will need to be referred / discussed with the ITCC

5.1.2 Obtain SOX test plan and review where SOX are also testing a primary control, then where practical, reliance should be placed on this work rather than repeating the test

Where SOX test plans are utilised document this on the test schedule (see appendix 5.2)

5.1.3 Document the testing strategy on the Test Schedule / workpapers for the primary controls to be tested by IA. This should clearly describe the objective of the test, primary control(s) to be tested, test period, sample rationale and testing criterion, using the testing matrix (see appendix 5.1)

For each test, its strategy/objective, controls covered, sample size, attributes to be tested etc. should be detailed on a workpaper, one test per workpaper.

See the supplementary paper sampling guidance for how to approach testing

Inputs:	Risk and Control Evaluation document (RaCE) Testing Matrix, sampling guidance
Outputs:	Test Schedule (as applicable) and draft test work papers

5.2 Execute Testing

5.2.1 Execute tests of controls and record results accordingly within the test Workpapers, RaCE and Issue Log (where appropriate)

Testing is performed so that the auditor can independently determine whether or not the important controls have functioned as intended.

Primary workpapers to be used are included in Appendix 5.3

All original documentation is not required to be kept unless evidence of an exception, however the workpaper should be sufficiently detailed to be able to re-perform the test (if necessary) so as to reach the same conclusion.

5.2.2 Obtain results of SOX tests (where applicable) and record results within the workpapers

Inputs:	Test Schedule (as applicable)
Outputs:	Executed tests of controls documented on Workpapers

5.3 Evaluate operating effectiveness of primary controls

5.3.1 Conclude whether primary controls operate effectively and identify any control exceptions on the Workpapers. Clearly document the rationale for conclusions reached

Following the testing done in 5.2, assess whether the controls in place operated effectively and mitigated the risk to the intended level. Record the conclusion in terms of 'Effective' or 'Ineffective'.

Workpapers must document the rationale for the conclusions reached and have adequate supporting documentation attached to them to substantiate the conclusion reached.

Inputs:	Executed tests of controls documented on Workpapers
Outputs:	Conclusion on operating effectiveness of primary controls

5.4 Determine impact of controls not operating effectively

5.4.1 Understand the nature of control exceptions and assess impact and route cause. Reassess if there are any compensating or secondary controls

Discuss and validate the nature of the control exceptions with the control owner. Consider the following:

- Is our understanding of the control exception correct? Is the control exception one of performance or documentation?

- Could the control exception apply to the whole population (or is it limited to one business segment, transaction type, department, area or branch etc.)?
- What is the effect of the control exception on the achievement of the process objective? (Consider all risks that the control mitigates)
- What was the route cause of the control exception? (E.g. was the usual control operator away?)

5.4.2 Record all control observations in the Risk and Control Observation (RaCE) and log any issues in the issues log

5.4.3 Agree factual accuracy of the exceptions with Business Management

Once an exception has been identified, the following steps should be followed to facilitate a 'No Surprises' approach to the audit:

- Verbally agree facts with process owner (including route cause);
- Document observation; and
- Escalate to Regional Manager for internal review and feedback.

Note that agreeing and documenting observations should be occurring throughout the audit. This process should begin once each observation is identified. More detailed guidance on formally agreeing and finalising observations is included at Step 6.1.

In simple terms, for each issue raised, the following needs to be documented in the Issue Log and referenced in the RaCE:

- Details of the observation/exception and reason for issue being raised;
- Reference to the workpaper wherein the issue was found eg, test workpaper or walkthrough;
- Operational Risk Scenario, granular risk definitions and assessment; and
- Cause (one of the below four categories):
    - Control Gap - If the issue relates to the lack of a control
    - Control Demonstrability - If the issue relates to a control for which no evidence is available to review operational effectiveness throughout the audit period
    - Control Failure - If the issue relates to any control exception or failure in part or entirely
    - Control Design - If the issue relates to the control design not meeting the control objective (i.e. not fit-for-purpose)

Inputs:	Workpapers and documented observations
Outputs:	Updated RaCE and Issue Log (where applicable), Agreed factual accuracy of control exceptions

Step 6 – Conclude & Communicate Results

Purpose: The purpose of this phase is to:
- Communicate the observations/control weaknesses identified and conclusions reached during the audit to management including agreement of action plans with management; and
- Provide executive management with opinions on the effectiveness of controls in relation to the scoped significant risks

Key Deliverables: Final Report, Issue log, Archived File and electronic work-papers

6.1 Finalise observations

6.1.1 Merge similar observations to develop themes and update Issue Log

Where there are similarities in observations, these should be merged together and reported as one issue in the report. For example, where segregation of duties has not been put in place across a number of processes this should be merged as one observation incorporating the specific examples.

However, where control exceptions do not appear to share a route cause, control exceptions should be reported as separate observations.

For each of the observations raised, ensure that the impact and route cause have been determined, and incorporated into draft observations in the Issue Log (Appendix 6.1).

Note: For each issue, route cause analysis should be performed. The goals of route cause analysis are to determine: what happened; why it happened and what can be done to prevent it from happening again. This process will assist with development of the action plan and ensures that route causes are addressed rather than just the symptoms.

6.1.2 Determine the issue rating(s) and update Issue Log

Each particular issue/observation should be rated as 1, 2, 3 or 4 based on the associated risk rating. The table below provides guidance to assist in rating issues/observations.

Issue Rating	Description	Follow Up Process
Critical	For control issues relating to 'very high' or multiple 'high' granular risk definition(s).	Requires regular status reporting by the business to ORC, ERMC as well as the Audit Committee. IA will monitor status and once management have confirmed the control(s) are in place IA will arrange to check that the control(s) are fit for purpose via re-performance and also test a sample (typically after 3 months of the control being introduced) .
High	For control issues relating to 'high' or multiple 'moderate' granular risk definition(s).	Requires regular status reporting by the business to ORC, ERMC as well as the Audit Committee. IA will monitor status and once management have confirmed the control(s) are in place IA will arrange to check that the control(s) are fit for purpose via re-performance.
Moderate	For control issues relating to "moderate' or multiple "low' granular risk definition(s).	Requires regular status reporting by the business to ORC. IA will track the status of the issue but will only review the effectiveness of control design on the next audit.
Low	For control issues relating to 'low' granular risk definitions.	Requires regular status reporting by the business to ORC. IA will review the effectiveness of control design on the next audit.

Where you have a critical or high issue with a long dated action then tactical solutions must be explored with the client and then both noted. If there are no tactical solutions available then this must be stated on the issue log.

Having applied the above guideline, an element of judgement will still be applied to ensure that the assigned rating does reflect the correct level of materiality.

Note: It should be stressed that the opinion is not determined purely through strict application of the formulaic approach. Judgement is additionally applied so as to form a view on the impact and probability of excessive risk resulting from the combined impact of any identified control issues. This is a subjective process that requires knowledge of industry practice and management's historical risk appetite.

Note: Observations will be escalated / communicated to the Audit Committee on the basis of the rating assigned to each issue/observation

6.1.3 Confirm any final observations with management, finalise management actions and due dates

All issues/observations should have been agreed prior to this point in time in regards to their existence and factual accuracy. This stage will focus on agreeing the wording of issues/observations, an appropriate action plan and communication of the rating of each observation including the rationale for the rating.

Inputs:	Agreed factual accuracy of observations Issue Log
Outputs:	Finalised observations Updated Issue Log

6.2 Write draft detailed Report

6.2.1 Draft detailed Report

The draft detailed report is produced on completion of testing when it is possible to analyse the test results and assess, in combination with any other findings (control gaps/ control demonstrability/ control design/ control failure), the overall effectiveness of the control environment. The report should be written using the guidance template (Appendix 6.2)

Note: For all unresolved issues from previous audits (open items), these should be mentioned in the detailed report if they affect our opinion. Similarly if there are appropriately supported better practice suggestions, these should be considered for inclusion in the final report.

Note: A repeat issue is where management represented they have closed an action but in fact nothing has been done. A repeat issue needs to be flagged immediately to the Regional Manager.

Inputs:	Documented observations
Outputs:	Draft Report

6.3 Work-paper Review

6.3.1 Prepare audit file for peer review with checklist. The supervisor will review IA prepared work-papers on an ongoing basis throughout the audit

Throughout the audit project, working paper reviews should be performed. Each working paper should be prepared by one person and reviewed by someone independent within the team structure. Evidence of this review should be maintained on each working paper. These reviews should be performed to ensure that the documentation produced is sufficient to support observations raised, and that all issues/observations are raised. In addition, the review should ensure that the workpapers are sufficient for an external party to place reliance on.

The close out checklist (Appendix 6.3) should be completed by the preparer of the audit file prior to review. The close out checklist is critical in documenting that every step of the methodology has been followed.

Note: The numbering in the flowchart or the RaCE need not be sequential. The important point is for all referenced controls in one document to be consistently referenced wherever mentioned.
It is mandatory a review to be performed of the audit file once the audit testing has been completed. Evidence of this review should be maintained on the close out checklist. The purpose of this review is to ensure that:

- The work was performed in accordance with the agreed scope;
- The work performed was sufficient to support the audit report;
- Significant judgements and conclusions for the audit were appropriate;
- The work performed, the results and conclusions were adequately documented;
- The work performed, results and conclusions supported the audit observations raised; and
- All control weaknesses identified have been appropriately included within the report.

The nature of this review is likely to be ongoing throughout the assignment It will include, at a minimum, a review of the Terms of Reference (ToR), the Risk and Control Evaluation document (RaCE) before and after testing, the issue log and the Audit Report. It is also likely to include a review of key work papers to ensure that documentation standards have been met.

Inputs:	IA prepared working papers
Outputs:	Completed file of work-papers and checklist

6.4 Issue Draft Detailed Report

6.4.1 Review of Report by Regional manager and then Head of Audit

It is mandatory for the Regional manager and Head of Audit to perform a final review of the Draft Detailed Report.

6.4.2 Issue draft report to client

The report will be issued to the applicable process and global owners, General Counsel, PWC, SOX PMO, Global CEO and COO and then the applicable regional CEOs and COOs and nominated risk committees.

Inputs:	Draft Report
Outputs:	Draft Report to key business staff

6.5 Closeout Meeting

6.5.1 This is discretionary unless there are High and Critical issues and an overall target risk profile of high or critical.

The closing meeting should be held at the final stage of the audit and is compulsory if your audit has a High or critical rating. The members of Business Management who are required to attend the closing meeting(s) should have been identified during the scoping of the audit.

Inputs:	Draft Report
Outputs:	Finalised and agreed audit Report, Closing meeting memo (where applicable)

6.6 Issue final detailed Report

6.6.1 Make any final revisions to the Report

The feedback obtained from management on the conclusion should be considered and the report amended to correct factual inaccuracies.

6.6.2 Obtain Head of Internal Audit's formal approval of final Report

Once any changes have been made, the report should be approved by the Head of Internal Audit. The Head of Internal Audit's email approving the final report must be held on file.

6.6.3 Issue final Report

The final report should be issued with a covering email by the Head of Internal Audit to management. Note: The HIA should liaise with legal counsel where the contents of the report are of a sensitive nature. This should be done at the earliest stage possible in the report drafting process.

Inputs:	Agreed draft Report
Outputs:	Formally agreed final Report

6.7 Archive & issue tracking

6.7.1 Closing administration

Once the report has been issued the following should be completed as part of the Close-out Checklist (see Appendix 6.3) of the audit:

Archiving of the audit file -The audit file should be prepared for archiving within 5 working days of issuing final report. This includes:

- Confirming all review comments have been cleared by the audit team and that they have been deleted from the audit file;
- Confirming all drafts of the report or any other document have been deleted from the audit file;
- Ensuring that only documents that support the audit rating are filed. If an extract of a document has been read and used as part of the audit, only the extract should be filed and not the whole document;
- Any supporting documentation not explicitly used in the audit should be filed on the permanent audit file
- The close out checklist must be fully completed and signed by both the Specialist and Reviewer. This should then be scanned and stored electronically on the audit file
- Confirming all work papers have been completed and electronically signed off as reviewed and have a reference; and

6.7.2 Handover to issues tracking process

Each of the observations raised in the final report should be provided to the IA member maintaining the Issues Tracking system.

Inputs:	Final report
Outputs:	Archived work papers Initiation of Issue Tracking process

MF Global

AUDIT EXECUTION GUIDANCE NOTES

Appendices – the documentation can be found filed under the template section

Appendix Reference	Name of Document
1.1	Example of communication of intention of audit
1.2	Permanent Audit file Template
1.3	Terms of Reference Guidance Template
1.4	Application diagram
1.5	Meeting Note
2.1	Risk Assessment Criteria
3.1	Control Environment Evaluation Assessment
3.2	Flowchart
3.3	Process narrative and walkthrough templates
3.4	O&E Excel spreadsheets
4.1	Risk and Control Evaluation Document (RaCE)
5.1	Test Sample guidance
5.2	Test Schedule
5.3	Test Work-paper
6.1	Issue Log
6.2	Detailed Report Guidance Template

Appendix 24.A

MF Global

INTERNAL AUDIT REPORT – 24/FY09

Phase III – US Fixed Income Prime Brokerage

Orders & Execution, Clearing & Settlement, Account Management and Payments & Receipts

To:

Head of FIPB

For Information:

PWC
SOX Project Manager
North American Regional Committee
General Counsel

Dates:

Field Work Completed – March 2009
Testing Sample Period – 11months ending February 2009
Report Issued – March 2009

13/03/2009

MF Global

BACKGROUND

The US Fixed Income and Prime Brokerage (FIPB) team offers execution, sales and fixed income clearing services to institutional clients including broker dealers, hedge funds and investment advisors. Additionally, the team offers matched principal financing of equities and corporate bonds.

The team executes an average of 2,500 buy/sell transactions and 2,000 repo transactions daily. Revenues are generated through transaction fees, interest income and mark-up charges. As at the end of December 2008, year to date net revenues totalled $110 million.

FIPB is comprised of 40 front office staff. The fixed income and securities operations group supports FIPB with a total of 17 individuals in New York, of which four support Fed/FICC clearing and settlements, nine support DTC settlements (with approximately 10% related to fixed income products) and four are dedicated to fixed income Middle Office activities.

SCOPE

The purpose of this audit is to evaluate the operating effectiveness of key controls as performed by FIPB over the risks related to the Orders and Execution, Clearing and Settlement, Account Management and Payments and Receipts processes.

CONCLUSION

The key controls were found to be operating effectively as sampled over the period under review.

Risk Scenario	Opinion Rating
Internal fraud	Satisfactory
External fraud	
Operations error	
Financial integrity - inappropriate accounting	
Rogue trading & unauthorised activities	
Settlement failure – MF Global failure	
Settlement failure - exchange / counterparty failure	
Trading error	
Third party/vendor failure	
Compliance failure - anti money laundering	
Compliance failure - conduct of business	

DETAILED FINDINGS

There are no detailed findings to report.

Appendix 24.B

MF Global

INTERNAL AUDIT REPORT – 32/FY09

US EQUITY AND EQUITY OPTIONS - BETA

Orders & Execution, Clearing & Settlement, Account Management, Payments & Receipts

To:

- Senior Vice President - Middle Office/Operations
- Chicago Back Office Operations Manager
- OTC/Securities Operations Manager
- Head of Securities

For Information:

- PWC
- SOX Project Manager
- North American Risk Committee
- General Counsel

Dates:

Field Work Completed – February 2009

Testing Sample Period – 11 months ended February 2009

Report Issued – April 2009

MF Global

I. BACKGROUND AND SCOPE

BACKGROUND

The Chicago Securities desk handles equities, equity options, fixed income and mutual funds trading for its institutional and retail client base. These transaction flows are recorded in the Beta back office system which is administered by the Chicago and New York Operations teams. For the 11 months ending February 2009, net revenues for the Chicago Equities business was $14.1m and profit before tax was $1m. The desk handles about 1800 trades per month: 60% equity options, 38% equities and 2% fixed-income and mutual funds.

The desk's 250 institutional clients comprise about 80% of its total revenue and are either execution only (for equities/delivery vs. payment (DVP)) or CMTA (for equity options) and utilize the RealTick electronic trading platform to execute orders. Institutional customers are invoiced monthly on a per contract basis. The remaining 20% of the desk's total revenue is commission based and is attributed to the 7,000 accounts comprising its retail customer base. Retail clearing clients utilize either the MTrade electronic trading platform or trade via the central order desk.

The Chicago Securities Desk employs 10 staff and there is also 18 front office staff within the Fox Division which place trades through the Chicago Securities Desk. Back office responsibilities related to equity options and mutual funds are handled by 5 staff located in Chicago, while 4 New York Back Office staff perform the same function for the equities and fixed income business still residing on Beta.

SCOPE

The purpose of this audit is to evaluate the effectiveness of internal controls as operated by Chicago and New York Operations and the Chicago Securities Desk over the key risks as related to the processes listed in the table below:

Level I Process	Level II Process	Risk Scenarios
Orders & Execution	Client Orders Execution Desk Confirmation	Internal fraud Rogue trading and unauthorized activities External fraud Compliance failure – Conduct of business Compliance failure– Anti-money laundering Settlement failure – MF Global failure Settlement failure – Exchange / counterparty failure Trading error Operations error Financial integrity – Inappropriate accounting Information security Third party/vendor failure
Clearing & Settlement	Trade Clearing Trade Matching Settlement Balancing	
Account Management	Pricing Reporting & Confirmation Corporate Actions & Dividends Custody	
Payments & Receipts	Non-client Payments & Receipts Payments & Receipts Approval Client interest	

MF Global

II. OVERALL CONCLUSION

The overall control environment is primarily reliant upon a combination of automated and manual controls. Key controls include the daily reconciliations of position and cash balances and the timely resolution of trade breaks. However, controls over trading platform access security and pre-execution limits require strengthening as do those over the Beta payment issuance process.

Based on the detailed audit results the following ratings have been assigned to the scoped risk scenarios:

Risk Scenario	Opinion Rating
Internal fraud Rogue trading & unauthorized activities Trading error Information security	**Needs Improvement**
Operations error External fraud Compliance failure – Conduct of business Compliance failure – Anti-money laundering Financial integrity – Inappropriate accounting Settlement failure – MF Global failure Settlement failure – Exchange / counterparty failure Third party/vendor failure	**Satisfactory**

MF Global

III. DETAILED FINDINGS

ISSUE REF 32-FY09/01: User permissions within Beta allow for the dual authorisation process over payments to be circumvented	Control Design	Rating: 2

Findings –Payments and Receipts
Fund disbursements through Beta are initiated and approved by Operations before being executed by Treasury. The process in Beta is that one individual sets up the payment and another approves it. However, the user permissions are such that one person can both set up and approve a payment in Beta. Without the system enforcing segregation of duties it is possible for a payment to be sent for release without an independent review to ensure accuracy and authorisation. Risk Scenario(s) impacted: Internal fraud

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/01	A report will be reviewed daily by the manager to ensure all payments made on that day have a different initiator to approver. Additionally the manager's own access will be removed so he does not have the ability to initiate or approve payments himself.	Chuck Thorp	April 2009

MF Global

ISSUE REF 32-FY09/02: No monitoring is being performed over the third party vendor who manages the client static data and user access administration processes for the RealTick trading platform	Control Gap	Rating: 2

Findings – Orders and Execution
RealTick is an internet based vendor supplied and supported trading platform primarily for the use of institutional clients. The Chicago Securities Desk advises the vendor by email of any new clients to be set up or changes to be made to existing client static data. The vendor executes the changes and handles any associated user access administration. However, there is no oversight performed of these activities to ensure that all requests are processed accurately, completely and timely and that unauthorised changes are not made. The same situation exists for internal users of RealTick. Risk Scenario(s) impacted: Rogue trading & unauthorized activities, Trading error and Information security

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/2a	Management will pursue with the vendor a resolution to this issue so that monitoring of all additions, deletions and changes to clients and internal users from the Chicago Equities Trading Desk on the RealTick electronic trading platform can be reviewed.	Dan Caputo, Head of Securities	TBD
32-FY09/2b	A process will be implemented whereby all internal users from the Chicago Equities Trading Desk terminated on the system will be verified within RealTick by management and documentation supporting this verification will be maintained on file.	Dan Caputo, Head of Securities	Immediate

MF Global

ISSUE REF 32-FY09/03: Optimal password mechanisms have not been implemented on the MTrade and RealTick trading platforms	Control Design	Rating: 2

Findings – Orders and Execution
The main trading platforms, Mtrade and RealTick, do not meet the MF Global access security standards in relation to password distribution, expiration, construction, reuse and disabling. Risk Scenario(s) impacted: Internal fraud, External fraud and Rogue trading & unauthorized activities

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/3a	Management will look into implementing a control for failed login attempts with MTrade as this is the most significant of the standards. As far as having MTrade create the email with the initial password, management has indicated that the firm uses MTrade as its trading platform and passes it along to customers as a "white label" product as MTrade does not have the facilities itself to perform such a function. Regarding the other password standards that have not been implemented, management will look into which can reasonably be implemented with the vendor.	Dan Caputo, Head of Securities	June 2009
32-FY09/3b	Management will contact the RealTick vendor regarding implementing the password standards required by IT.	Dan Caputo, Head of Securities	June 2009

MF Global

ISSUE REF 32-FY09/04: Internal brokers can override the customer's pre execution controls on Real Tick and this is not being monitored	Control Design	Rating: 3

Findings – Orders and Execution
RealTick is an internet based trading platform that provides clients with straight through order processing functionality to the exchange and accordingly pre-execution buying power control functionality has been implemented. However, orders that fail the buying power control are routed to Internal brokers on the Securities Trading Desk who have the ability to release the held order. There is no monitoring of when this control override is used and the risk function is not involved in the decision. Risk Scenario(s) impacted: Rogue trading & unauthorized activities and Trading error

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/04	Management will continue to pursue a report with RealTick to show the individuals with the authority to reverse rejections so that access level reviews can be implemented. Additionally, management will also pursue a report with RealTick that will show when buying power has been overridden so that these override decisions can be reviewed.	Dan Caputo, Head of Securities	June 2009

MF Global

ISSUE REF 32-FY09/05: There is no change control over client static data on the MTrade electronic trading platform	Control Design	Rating: 3

Findings – Orders and Execution
Client account set ups, changes and removals on the MTRade electronic trading platform are not independently verified. This includes the set up and maintenance of the products that each client is authorised to trade. Also, system access rights to set up accounts or implement changes are not periodically reviewed for reasonableness. Risk Scenario(s) impacted: Rogue trading & unauthorized activities and Trading error

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/05	An independent review has been added for all account set ups and changes within MTrade. Also, the Beta "Daily Report for Changes to Account Number" is now independently reviewed for reasonableness by Compliance. Further, a new procedure will be implemented whereby John Gannon will review MTrade access levels quarterly. This review will ensure that only appropriate personnel have the ability to set up accounts and make changes to account information.	Dan Caputo, Head of Securities	As of June 2009

MF Global

ISSUE REF 32-FY09/06: There is no supervisory review over the manual check posting process to ensure these are not from a third party	Control Gap	Rating: 3

Findings – Payments and Receipts
Firm policy is that third party receipts are not accepted and for wire transfers a review is in place to ensure adherence to this policy. Checks (approx. 5 a day) received are reviewed to ensure that they are from the account owner prior to input into Beta. However, there is no supervisory review for ensuring that third party checks are not cashed. Risk Scenario(s) impacted: Compliance failure – Anti-money laundering and External fraud

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/06	A control will be implemented whereby copies of check receipts will be forwarded to management each day and compared to a Beta report to ensure there are no third party receipts prior to the check being deposited.	Chuck Thorp, Chicago Back Office Operations Manager	Implemented

MF Global

ISSUE REF 32-FY09/07: No formal review is in place over the mutual fund reconciliation between external clearing parties and Beta	Control Gap	Rating: 3

Findings – Orders and Execution
Chicago Operations reviews the "Networked Mutual Fund Balance Report" from Beta which acts as the Daily Break Sheet, identifying differences between Beta and the National Securities Clearing Corporation (NSCC)/Fund Serve. However, a formal reconciliation is not prepared. Additionally, no management review is done to ensure differences between Beta and the NSCC / Fund Serve are identified and resolved. Risk Scenario(s) impacted: Rogue trading & unauthorized activities, Internal fraud and Trading error

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/07	A formal daily reconciliation has been implemented by the Chicago Equities Back Office which is being reviewed and signed off by the Back Office Manager.	Chuck Thorp, Chicago Back Office Operations Manager	Implemented

MF Global

ISSUE REF 32-FY09/08: There are no controls to ensure prices used for valuing instruments are reasonable	Control Gap	Rating: 3

Findings – Account Management

MF Global designates the external pricing feeds to be utilised by the vendor, Thomson Transaction Services (Beta), in valuing instruments in the back office system. The vendor does not guarantee the accuracy of pricing feeds but supplies the Beta system with control functionality to identify stale/missing prices and large price movements. Such functionality is not being used and consequently there is a heightened risk of error in relation to valuation and margining processes.

Risk Scenario(s) impacted: Operations error

Action Plan Reference	Management Action Plan	Responsibility	Timeframe
32-FY09/08	Daily reasonableness reviews of stale prices, missing prices and large price movements will be implemented.	Chuck Thorp, Chicago Back Office Operations Manager	June 2009

Appendix 25.A

MF Global

Americas Business Continuity / Disaster Recovery Plan

January 2010

Owner

It is the responsibility of owner(s) to ensure this plan is accurate and up to date. If, during use or review, any information is found to be incorrect, missing, or unclear please inform the owner to ensure correction.

Document Owner(s)	Project / Organization Role	Approval Signature	Date
Robert Lyons	COO, North America	Via SharePoint workflow	
Mike Mallahan	CIO, North America	Via SharePoint workflow – December 4th, 2009	

Version Control

It is important that this plan accurately reflect the current situation and business requirements. Updates must be provided to plan owner. The following table describes the history of this document.

Version	Status	Date	Author	Change Description
V1.0	Initial version	2006-01-08	Rich Wawrzyniak Gene Carmack	Final version
V2.1	Draft / Review Process	2008-06-10	Paul Johnson	Document update – content, format, versioning
V3.0	Final	2009-02-18	Paul Johnson / All Reviewers	Final Version / Reviewed
V4.0	Final (updated)	2009-12-3	Paul Johnson / All Reviewers	Updated to add FXCM business and additional site recovery information
V5.0	Final (updated)	2009-12-21	Paul Johnson / Bryan Thompson	Updated to add New York office and site recovery information

Approved / Reviewed By

This document has been reviewed and approved for accuracy and content as indicated below. This document is reviewed annually and updated in the event of any material change to our operations, structure, business, or locations.

Name	Project / Organization Role	Approval Signature	Date
Lyons, Robert	COO, North America		
Mallahan, Mike	CIO, North America		
Johnson, Paul	Disaster Recovery		
Thompson, Bryan	BCM		
Hamey, Tom	Facilities		
Beatty, John	Facilities		
Carl, Jeff	Operational Risk		
Straub, Tracey	Compliance		
Galvin, Tiffany	Corporate Communications		

Table of Contents

INTRODUCTION **5**
- OBJECTIVE 5
- SCOPE 5
- POLICY 6
- GOVERNANCE 6
- DISCLOSURE 6

OVERVIEW OF BUSINESS CONTINUITY AND DISASTER RECOVERY **7**
- *Business Interruption / Disaster Recovery Process Lifecycle* *8*
- SUMMARY DISASTER RECOVERY CAPABILITIES 8
  - *Backup Systems for Trading and Communications* *9*
  - *Business Continuity and Disaster Recovery Plans* *10*
  - *Hot Backup Site* *11*
  - *Training* *11*
  - *Testing and Exercises:* *12*
  - *Example recovery methodologies:* *12*

TEAMS AND RESPONSIBILITIES **14**
- CRISIS MANAGEMENT TEAM 14
- BUSINESS CONTINUITY COORDINATORS 16
  - *Business Impact Analysis* *16*
- TECHNICAL GROUPS 16
  - *Operations and Servers / Applications Teams* *17*
  - *Networking Team* *17*
  - *Facilities Team* *17*
  - *Corporate Communications Team* *17*
- MF GLOBAL STAFF 18
  - *Employee Responsibilities and Preparation* *18*
  - *Staff Registration and DR Event Information* *18*
  - *Departmental Head / BCC* *19*

IN THE EVENT OF A DISASTER **20**
- OVERVIEW 20
- BUILDING EVACUATION 21
- FIRST STEPS FOR THE RECOVERY TEAMS 24
- NEXT STEPS 24

COMMUNICATION LINES **25**
- INVOCATION CALL TREE 25
- EXTERNAL NOTIFICATIONS 26
- EMPLOYEE COMMUNICATION 26
- RETURN TO NORMAL 26

RECOVERY SCENARIOS **27**
- SCENARIO 1 27
- SCENARIO 2 27
- DATA RECOVERY AND BACKUP 28
  - *Tape Backup* *28*

DFS (Distributed File System) *28*
Double Take *28*
Hosted Services *29*
Server Consolidation *29*
Active Directory Replication *29*
Hardcopy Data Storage *29*

DISASTER RECOVERY SITE 30

ARRIVAL AT A DR SITE 30
CHICAGO OFFICES 30
General Information *30*
Telecommunications *30*
Street Plan for Matteson, IL DR Site and Local Transportation *31*
FLOOR PLAN OF THE CARLSTADT, NJ DR SITE 32
NEW YORK OFFICES 33
General Information *33*
Telecommunications *33*
Directions to the SunGard DR Site in Carlstadt, NJ *33*

APPENDIX I – CONTACT INFORMATION 35

EXTERNAL EMERGENCY CONTACT NUMBERS 35
PRIMARY / ALTERNATE BC COORDINATORS (BCC) - CHICAGO 36
PRIMARY / ALTERNATE BC COORDINATORS (BCC) - NEW YORK 37
GLOBAL OPERATIONS DEPARTMENT OFFICE CONTACT NUMBERS 38

APPENDIX II – GLOSSARY OF TERMS 39

Introduction

MF Global is the world's leading independent broker of exchange-traded futures and options and a well-established intermediary for other major financial instruments around the world through our trading desks in London, New York, Chicago, Singapore, Sydney, Mumbai and other cities around the world.

MF Global operates in five continents and has affiliations with more than 70 financial exchanges, providing clients' trading needs for futures, options, and other financial instruments across an array of market sectors, including interest rate products, equities, foreign exchange, metals, energy, and agriculture.

A business interruption or disaster is defined as an incident that can result from a number of accidental, malicious, or environmental events such as fire, flood, terrorist attack, human error, software, or hardware failures.

Objective

The objective of this document is to detail accountabilities, define planning standards and outline the procedures to be followed if a business interruption or unplanned disaster occurs to MF Global and its customers, minimize financial losses, and ensure a timely resumption of critical processes in the event of a disaster or other business disruption.

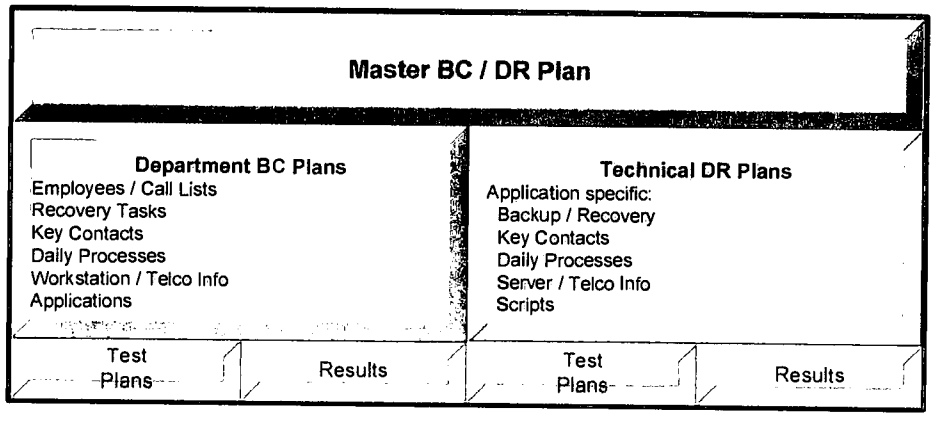
In so doing, MF Global will more effectively protect the life and safety of its personnel, minimize the number of decisions that must be made following an emergency or business interruption, and decrease the dependence on the participation of any specific person or group of people during the recovery.

Scope

This plan is to be used in the event of a business interruption or disaster affecting MF Global's North America offices, in particular the Chicago and New York locations. This plan applies to all internal business processes and external service providers who provide services to MF Global. It is structured around teams, with each team having specific responsibilities.

The decision to initiate these procedures will be at the discretion of the Crisis Management Team (CMT) leader or their deputy after assessing the situation following a disaster or crisis. If the CMT leader decides to initiate disaster recovery procedures, then all members of the recovery teams will follow the procedures contained in this and any associated plans until recovery is achieved.

This plan, along with departmental and system recovery plans contains the information necessary to restore operational services in the event of a business interruption or disaster. Below is a sample of the hierarchy of the plan relationships.



Management will periodically assess and report on the preparedness of all organizational groups. The assessment will include the quantification and qualification of business exposures including but not limited to life/safety controls, vital record protection, status of manual processing procedures and application systems and data file backup procedures.

Policy

MF Global has established a policy which applies to all BU's in all locations. Key objectives of the policy are:

- Business Continuity Management (BCM) is an integral part of MF Global's strategic and day-to-day operational management;
- All locations are to have BCP's and facilities sufficient to ensure they are able to continue to function and meet their regulatory and customer obligations in the event of unforeseen interruptions;
- Update BCP's whenever we have a material change to our operations, structure, business or location. In addition, our firm will review this BCP annually to modify it for any changes in our operations, structure, business, or location(s);
- Regular testing will be performed to ensure their effectiveness; and
- Plans are well documented, backed up and communicated across the business unit as a whole.

Governance

MF Global has established BCM department responsible for facilitating and executing the program elements in all BU's in all locations. In addition, MF Global has designated the following individuals in each location responsible for ensuring that BCPs meet the requirements of the firms BCM policy and guidelines:

Robert Lyons – Americas Chief Operating Officer (COO) & Series 24 Registered Principal

Verrona Browne – Europe COO

Naren Bartlett – APAC COO

The key objectives of each of these individuals are responsible for reviewing, ratifying and making decisions on BCP and DR issues. Typical tasks for these individuals include:

- Review any BCP or DR incidents occurring (ensuring lessons learned are incorporated into procedures);
- Consider major change management issues and implications for BCP and DR (e.g., projects, acquisitions, growth);
- Review at least annually (or when a material trigger event occurs) the policy and procedures for BCP and DR in the region, ensuring it is consistent with company policies and standards; and

Review the BCP and DR Risk Assessment and Business Impact Analysis at least annually, including identification of possible threats and potential impacts.

Disclosure

MF Global will provide a written and approved BCP / DR plans to any customers requesting. Additionally, MF Global has posted its BCM summary on the MF Global Website (MF Global Business Continuity Management Summary) for all customers to review.

Overview of Business Continuity and Disaster Recovery

MF Global has implemented strategies, aligned resources, and regularly tests actions necessary to resume our critical business functions in the event of an unplanned business interruption or disaster, loss of facility, or business interruption. In doing so, MF Global will more effectively protect the life and safety of its personnel while maintaining the highest level of service to our clients.

MF Global is committed to ensuring an effective Business Continuity Management (BCM) program is in place, tested, and constantly improved. BCM is a holistic management process to identify potential impacts that threaten an organization and provide a framework for building resilience and the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand, and value creating activities. The program captures the nature and scale of business in each MF Global location; is regularly tested to ensure ongoing appropriateness; and is within compliance of all relevant regulatory requirements. MF Global has established a global program wherein BCM is an integral part of the firm's strategic and day-to-day operational management.

Our Disaster Recovery (DR) objectives are achieved through the implementation of cohesive IT solutions to bring about a synergy of business goals, continuity, and technology in order to maximize our return on expenditures and alignment with the business objectives derived from the BCM program.

In the event of a business interruption or disaster affecting MF Global's locations, the decision to initiate procedures will be at the discretion of the Crisis Management Team (CMT) leader or their deputy after assessing the situation following a business interruption or disaster or crisis. If the CMT leader decides to initiate disaster recovery procedures, then all members of the recovery teams will follow the procedures contained in this and any associated plans until recovery is achieved. The MF Global recovery strategy is covered in the following areas:

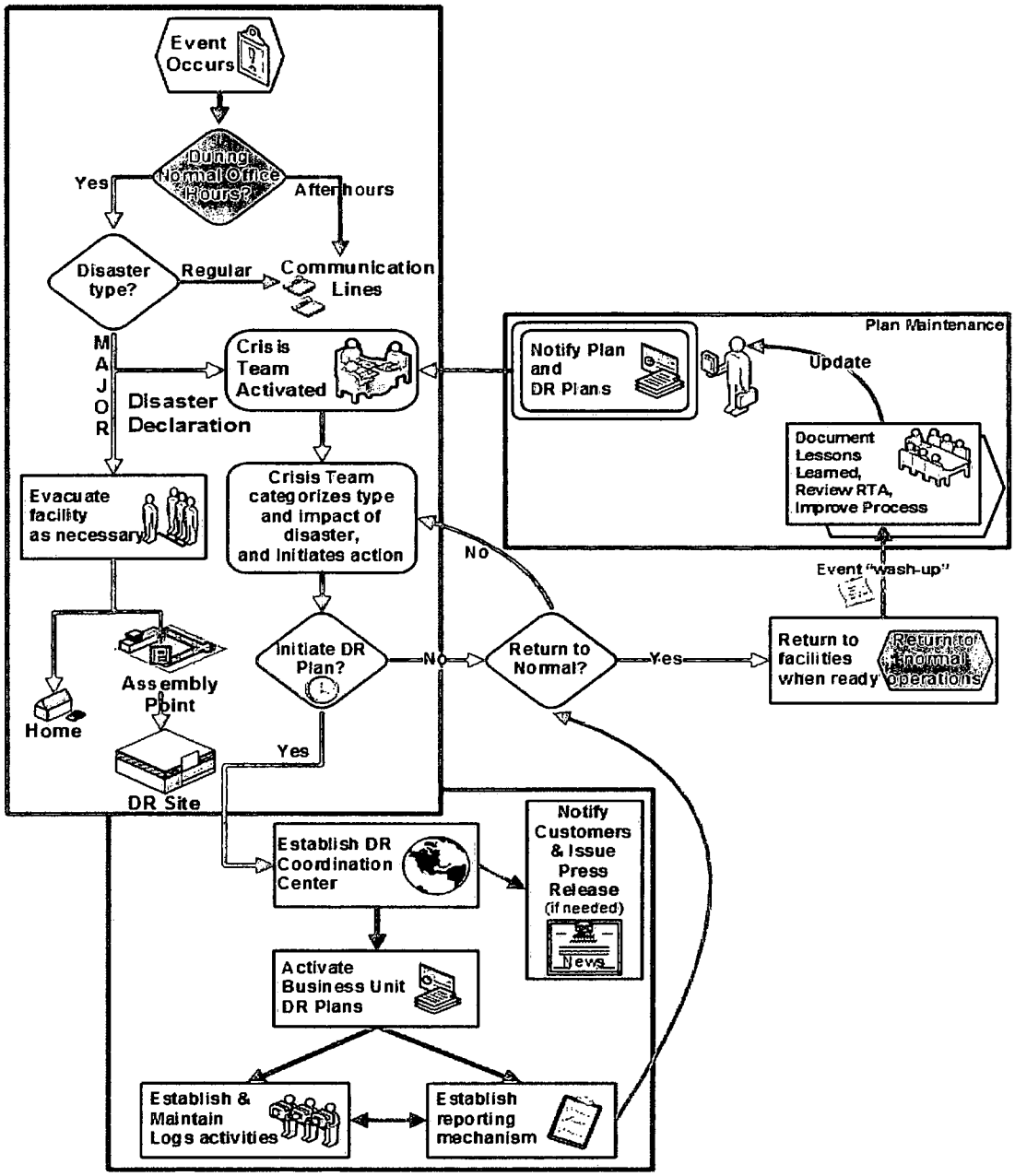
- **Loss of site**: In situations where a loss of site occurs, the primary MF Global strategy is to revert to an alternate site;
- **Loss of information technology (IT) capability**: In situations where there is disruption of IT infrastructure either for communications or to run software applications, the primary MF Global strategy is to have an Information Technology Disaster Recovery (IT DR) plan;
- **Loss of critical function continuity**: In situations where there is loss of critical function continuity not affecting the whole of MF Global, each critical function shall establish an alternate or contingency work flow to accomplish the critical function.

Management periodically assesses and reports on the preparedness of all organizational groups. The assessment will include business exposures including but not limited to life/safety controls, vital record protection, status of manual processing procedures and application systems and data file backup procedures and recovery.

MF Global will determine the value and liquidity of our investments and other assets to evaluate our ability to continue to fund our operations and remain in capital compliance. We will contact our clearing firm, critical banks, and investors to apprise them of our financial status. If we determine that we may be unable to meet our obligations to those counter-parties or otherwise continue to fund our operations, we will request additional financing from our bank or other credit sources to fulfill our obligations to our customers and clients. If we cannot remedy a capital deficiency, we will file appropriate notices with our regulators and immediately take appropriate steps.

External communication during time of crisis is a critical business process. The CMT shall work with the Corporate Communication office to develop the process and messages that will be communicated to the press, clients, counter-parties, and to staff in the event of an institutional or business unit-specific business interruption.

Business Interruption / Disaster Recovery Process Lifecycle



Summary Disaster Recovery Capabilities

MF Global has implemented layered services based on current production technologies and systems within our existing global infrastructure to achieve the level of service both in production and if necessary at one of multiple disaster recovery sites that will provide continued operation with like quality, functionality, and assurances to continue critical business operations. This strategy is aligned with current MF Global objectives for disaster recovery which are to:

- Globally define, standardize, and implement common processes to achieve operational synergy, customer value, and reduced operating costs
- Assess, develop, test, implement, and improve recovery solutions, plans, and procedures to identify and remediate issues that may limit business processing or service restoration
- Develop awareness and cross-train skills of staff participating in development, implementation, maintenance, and execution of MF Global Disaster Recovery plans

Backup Systems for Trading and Communications

MF Global has multiple levels of redundancy and resiliency (*Backup Systems*) for its business operations, facilities and communications, and systems and network infrastructure.

- Business Operations: All business units, in all locations, are required to have a Business Continuity Plan (BCP) appropriate to the nature and scale of the business. The BCP documents the planned actions and responses to an emergency situation for the department and their recovery of critical processes. Departments' cross-train and position staff in other production offices to facilitate these activities. Additionally, each business unit has a BCP plan that is tested at the applicable MF Global Disaster Recovery (DR) site through regularly scheduled DR testing.

- Facilities and Communications: Each of MF Global offices (primary and alternate sites) maintain the facility, physical security, and regularly test power, cooling systems, and communications for the offices and data centers.

  For example, in the Chicago primary office for redundant electrical power, in addition to that provided by the local electrical company, MF Global maintains 3 UPS and a 500KVA generator. Further, at the Matteson, IL alternate site, there are 2 UPS and 3 generators to provide 750KVA of power. For voice communications, a PBX is shared between the locations allowing near transparent transfer or shared use of voice communication and recording capabilities.

  For our New York office, similar power redundancy is implemented. And the disaster recovery location is located in Carlstadt, NJ – collocated at the SunGard managed facilities dedicated solely to MF Global usage.

- Systems, Network Infrastructure, and Data: Systems, networks, and data replication are designed in a redundant and resilient architecture to facilitate continued processing in the event of minor component failures.

  In general the network infrastructure is based on fiber and gigabit Ethernet for the LAN; the WAN implements both direct connected data circuits and MPLS WAN technology for global connectivity. Financial trading exchange connectivity designed as redundant and parallel services to ensure constant availability in both production and recovery sites. Key exchanges have additional connections from other MF Global office locations. The majority of the systems utilize circuits that are destined into each respective financial trading exchange's production and backup sites from both MF Global production and recovery sites. Exchange (trading) systems are in a 'live' state and usable from both locations.

  The core data that allows the network to function is the routing table which programs the respective switch/router with information on how to reach other parts of the network, or destinations. This data is replicated and exchanged dynamically between each network device using a Cisco proprietary dynamic routing protocol called Enhanced Interior Gateway Routing Protocol (EIGRP). The information that is exchanged possesses value only in its live running state and is built and learned

dynamically. This information includes destinations for other MF Global offices, 3rd parties such as customers, exchanges, and the Internet. EIGRP propagates this information on a real-time basis as soon as a change occurs in the topology table. This replication is monitored by MF Global network staff and automated email alerts. For primary office connection with Internet service providers and other 3rd parties, MF Global has implemented Border Gateway Protocol (BGP) to automatically exchange network routing information.

Servers are generally composed of multiple units with multiple CPUs in a "clustered" model. Further, MF Global makes use of key technologies to enhance resilience and if needed recovery, such as Microsoft Distributed File System (DFS) which provides data and file replication, server virtualization, SAN, etc. Server hardware is "active" at the DR sites with operating systems mirroring production servers and respective application software installed; technologies for data / database replication are implemented based on requirements from the business for acceptable recovery times and potential data loss. Some critical systems are constantly replicated and recovery would be near real-time with minimal if any data loss.

The DR sites are configured for use with both a SAN and DFS architecture to facilitate data replication as necessary for each critical system. Database replication, log shipping, and backups of databases are transferred from the production site throughout each day/night. Further, MF Global does perform tape backups of its systems and data; however, restoration of data from backup tapes is not required to perform recovery at the DR sites.

Business Continuity and Disaster Recovery Plans

All locations are required to have DR and BCP plans in place appropriate to the nature and scale of their business. All key locations are required to have plans drafted. Their format and complexity varies across the locations.

Each business unit is responsible for developing a business continuity plan that documents its planned action to respond to an emergency situation, recover its critical activities and restore business activities back to its normal state, consistent with the approved recovery strategies.

The MF Global business continuity and disaster recovery plans are reviewed and updated annually. Technical disaster recovery plans that are application specific are updated as frequently as the production systems, as they contain details in recovery processes for the systems based on the production system. The MF Global change management system includes the ability for the requestor to flag changes that may impact disaster recovery; these changes are periodically reviewed and utilized to initiate reviews and updates to application disaster recovery plans.

The teams responsible within MF Global are aligned within the IT organization. The MF Global Global IT Infrastructure Department is charged with deployment and maintenance of both the logical computing and physical locations in support of MF Global's business initiatives. Further, this group is charged with maintenance of disaster recovery resources and facilities management. The technical application disaster recovery plans are created / updated by the IT Disaster Recovery team and are reviewed and approved by the North America CIO only after validation and sign-off from each responsible application, system, database, and network stakeholder, as well as review by the applicable business unit.

Hot Backup Site

MF Global has multiple Disaster Recovery (DR) locations, each associated with key locations and regional offices around the world. Key MF Global processing sites (London, NY, Chicago, Mumbai, Sydney, Hong Kong, and Singapore) comprised of MF Global business units and IT Operations have dedicated (alternate site) recovery facilities which are located a substantial distance from the primary office. The primary principle is to duplicate/replicate the functions and workflow processes used in by the business in production in order to minimize or eliminate lost processing abilities or data.

The MF Global Carlstadt, NJ recovery site: MF Global leases dedicated seating for 150 staff/traders and utilizes collocation services for the DR Datacenter from SunGard, an industry leader in their quality and capabilities to provide robust high availability collocation services in a secure and environmentally redundant environment.

The MF Global Matteson, IL recovery site is approximately 30 miles from our Chicago offices. It is a discreet single story brick and steel building with diverse power and telecommunication links, 3 generators, and 2 UPS provide continued power and cooling for the facility. MF Global maintains 45,000 square feet which consists of 2 data centers and 605 staff desks and associated workstations preconfigured to the business requirements, representing about 65% of the staff located at the main office.

MF Global architects and focuses on providing "active" recovery sites in order to minimize any manual restoration of network, server systems, and data. This architecture for critical systems and the active replication tasks provide the functionality and operation of the recovered system in near real-time, with minimal if any data loss. For less critical systems where the business has determined and accepted a reduced recovery time and data recovery point in favor of rationalized costs, the recovery is generally for two to eight hours. All systems would be recovered based on the Business Impact Analysis (BIA) and agreed recovery time and priority. Additionally, MF Global maintains global connection points that would facilitate access by authorized staff to MF Global resources via secure remote access.

Clients who elect to have disaster recovery services provisioned will have dedicated connectivity and functionality guaranteed per their contractual agreement with MF Global. All MF Global clients are offered disaster recovery services and options applicable to their business needs. The solution and options are then implemented based on the client's desires and contractual agreement. Each solution generally includes dedicated circuits to both the production location and an MF Global dedicated disaster recovery site.

All MF Global's disaster recovery sites are actively networked with redundant connectivity to production and other alternate sites via the WAN primarily utilizing MPLS. Thus, if an event were to occur necessitating use, all clients with dedicated connectivity would already be connected to the recovery site and applicable system routing would commence to facilitate continued processing.

Training

Training is developed and conducted by the BCM staff to establish and support a BCM culture within MF Global. BCM training and awareness programs shall be categorized into three main areas:

- Basic: Basic training comprises mainly awareness programs, talks and lectures applicable to all staff;
- Management: Management training comprises seminars and issues management workshops to assist management make decisions concerning BCM; and

- Specialized: Specialized training comprises business continuity training for specialized support or business processes so that specific procedures can be undertaken by trained personnel.

Testing and Exercises:

One of the main principles behind the recovery sites is to duplicate, as much as possible, the functions and workflow process that are in place in each employee's usual place of work. The desktop systems will provide the same functionality and information that each employee is currently accustomed. The effect of these provisions is that employees operate as they did prior to the business interruption or disaster.

MF Global has determined that there are two primary effects of a major interruption event. The first (Scenario 1) is when physical access to or occupancy of the primary MF Global offices is restricted or unavailable. The second (Scenario 2) is when the primary location's operations and habitability sustain sufficient damage that destroys or prevents its systems from operating. In a Scenario 1 event, staff would relocate to the recovery site and systems would operate at the primary site using the data links. Scenario 2 would involve the full DR plan with the recovery site operating in isolation.

Proper documentation, including the exercise plan and results, are created, reviewed by BCP and DR management. Any significant weakness or risk issues surfaced during the exercise will be highlighted to senior management together with any proposals to address the weaknesses or risk issues.

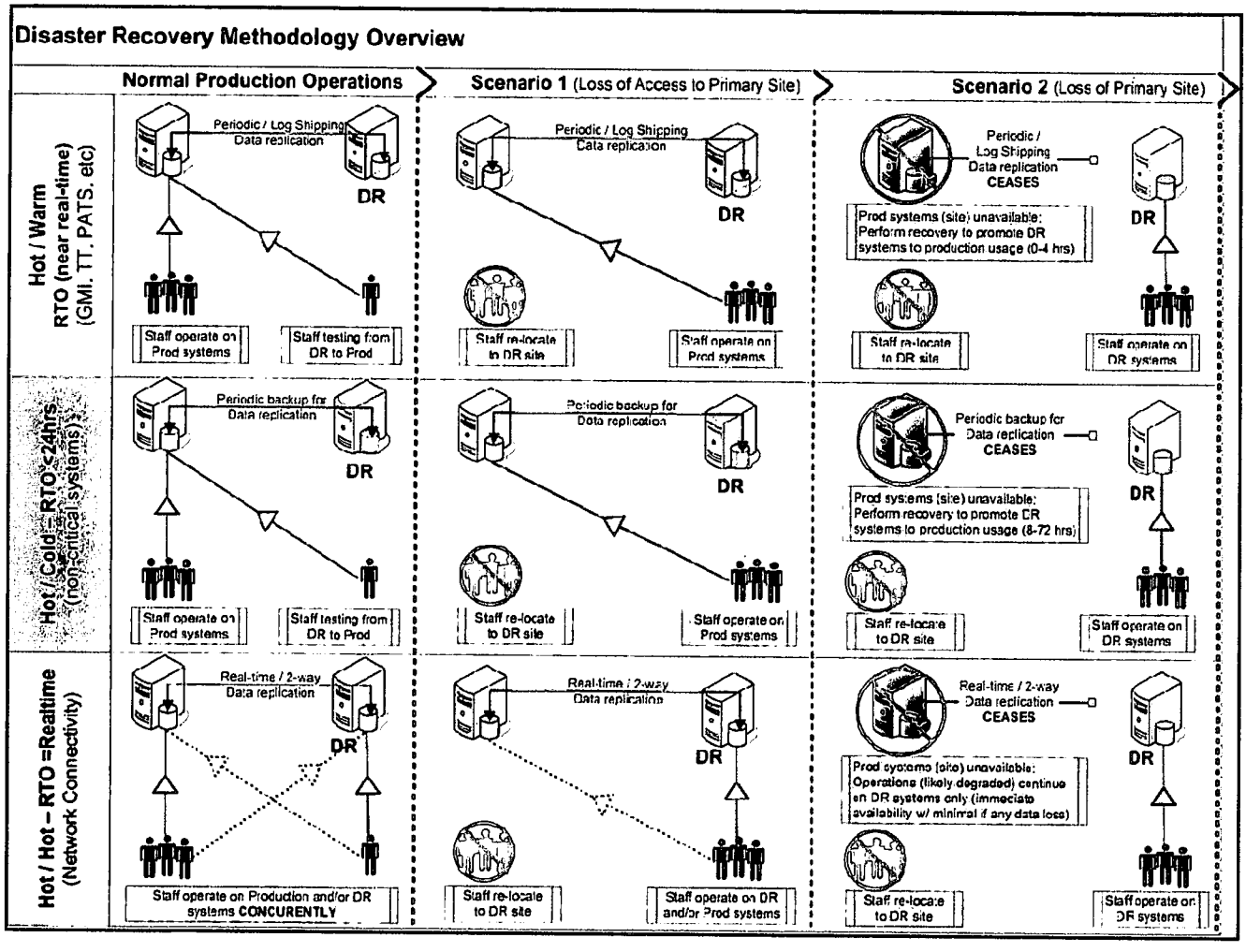
MF Global conducts disaster recovery tests in each location periodically, and in the case of our key offices in Chicago, testing is performed twice per year. One of the two tests is scheduled to be performed in conjunction with the Futures Industry Association (FIA) industry-wide disaster recovery test. In all test events, any weakness or risk issues identified are documented and reported to senior management together with applicable remediation plans to improve our abilities. MF Global participates in numerous other regulatory, industry, and vendor disaster recovery tests, such as CDS, IIROC, FIA, SIFMA, SGX, LME, FSA, etc. MF Global regularly submits evidence to financial exchange auditors in support of our continuity program and required compliance.

A complete end-to-end disaster recovery test was recently completed in conjunction with the 6th annual FIA (and participating exchange and clearinghouse organizations) industry-wide test on October 24, 2009

Example recovery methodologies:

The first, Scenario 1, is when physical access to or occupancy of the primary MF Global offices is restricted or unavailable. In a Scenario 1 event, staff would relocate to the recovery site and systems would operate at the primary site using the data links.

The second, Scenario 2, is when the primary location's operations and habitability sustain sufficient damage that destroys or prevents its systems from operating. A Scenario 2 would involve the full DR plan with the recovery site operating in isolation.


Disaster Recovery Methodology Overview
Normal Production Operations
Scenario 1 (Loss of Access to Primary Site)
Scenario 2 (Loss of Primary Site)
Hot / Warm
RTO (near real-time)
(GMI, TT, PATS, etc)
Hot / Cold – RTO <24hrs
(non-critical systems)
Hot / Hot – RTO =Realtime
(Network Connectivity)
Periodic / Log Shipping
Data replication
DR
Staff operate on Prod systems
Staff testing from DR to Prod
Staff re-locate to DR site
Staff operate on Prod systems
Periodic / Log Shipping
Data replication
CEASES
Prod systems (site) unavailable: Perform recovery to promote DR systems to production usage (0-4 hrs)
Staff operate on DR systems
Periodic backup for
Data replication
Staff operate on Prod systems
Staff testing from DR to Prod
Staff re-locate to DR site
Staff operate on Prod systems
Periodic backup for
Data replication
CEASES
Prod systems (site) unavailable: Perform recovery to promote DR systems to production usage (8-72 hrs)
Staff operate on DR systems
Real-time / 2-way
Data replication
Staff operate on Production and/or DR systems CONCURENTLY
Staff re-locate to DR site
Staff operate on DR and/or Prod systems
Real-time / 2-way
Data replication
CEASES
Prod systems (site) unavailable: Operations (likely degraded) continue on DR systems only (immediate availability w/ minimal if any data loss)
Staff operate on DR systems

Teams and Responsibilities

MF Global senior management is responsible for annually reviewing and approving the status of MF Global's business continuation strategy and disaster recovery plans. DR Plans are reviewed annually and updated, when necessary, such as a significant business process change. This section defines the functional responsibilities of each recovery team. Sensible judgment must be exercised to determine what activities are appropriate based on the nature and extent of the disruption.

	Team / Staff	Declare Disaster	Coordinate	Respond to Disaster	Report on Progress
Incident Management / MF Global BC/DR Board	**CMT (Crisis Management Team)**	●	●	Manage DR activities; Report to senior management	
	BCC (Business Continuity Coordinator)		●	●	●
	IT Groups **Networks** **Operations** **Servers** **Applications**			●	●
	Facilities			●	●
	Communications			●	●
	All other staff / departments	Action per department DR plans / Advise their business unit BCC of issues or needs			

Staff and contact details identified in the groups above are listed in Appendix I.

Crisis Management Team

In the event of a business interruption or disaster affecting a MF Global location, the decision to initiate procedures will be at the discretion of the Crisis Management Team (CMT) leader or their deputy after assessing the situation following a disaster or crisis. If the CMT leader decides to initiate disaster recovery procedures, then all members of the recovery teams will follow the procedures contained in this and any associated plans until recovery is achieved.

External communication during time of crisis is a critical business process. The CMT shall work with the Corporate Communication office to develop the process and messages that will be communicated to our customers, employees, critical business constituents, critical banks, critical counter-parties, and regulators in the event of an institutional or business unit-specific business interruption. The CMT consists of:

1. CMT Leader – oversees the day-to-day activities of the recovery effort. This individual will serve as the liaison to the executive team.
2. Corporate support team leaders provide the required support and resources to help departments in the recovery process. Representatives from the following departments may be included. See Technical Groups below:
    a. Legal
    b. Purchasing
    c. Corporate Communications
    d. Human Resources

e. Accounting / Finance
f. Facilities - Safety / Security
g. IT (Infrastructure and Operations)
h. Risk Management

3. Executive Team
4. BCM Team
5. Disaster Recovery Team

MF Global staff comprising the CMT includes:

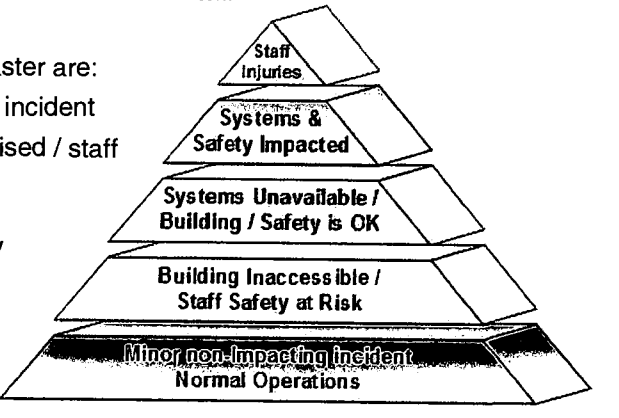
Name	Role
Beatty, John	Facilities/Safety/Security/Administration Head
Carl, Jeffrey	Operational Risk Head – North America
Carmack, Gene	BCM Analyst – North America
Thompson, Bryan	Global Head - BCM
Dan, Bernard	Chief Executive Officer - Executive Team
Grady, Steve	Chief Executive Officer – Chicago – Executive Team
Harte, Tom	Managing Director, North America
Johnson, Paul	Global Head – Disaster Recovery
Kornberg, Avram	Chief Information Officer – Executive Team
Lyons, Robert	Chief Operating Officer, North America
Mallahan, Mike	IT Global Infrastructure Head – Executive Team
Connolly, Tom	Human Resources
O'Dell, Eric	Global Head – (IT Operations, Networks, Servers)
Pucci, Joseph	Vice President (Legal) – Executive Team
Serwinski, Christine	Finance Controller, North America– Executive Team
Skule, Jeremy	Corporate Communications/Public Relations

The CMT leader will formally declare a business interruption or disaster and invoke these or other such procedures as considered appropriate. If all of the above are unavailable, then the most senior available officer of the company will assume this responsibility.

The first critical action will be for those responsible for declaring a business interruption or disaster to evaluate the scale and magnitude of the event based on the information available at the time. The nature of the business interruption or disaster and the analysis of available information will then determine the severity of the business interruption or disaster. Notification that it is safe to return will be communicated by the CMT.

CMT primary responsibilities during a business interruption or disaster are:

- Provide an immediate assessment of and response to an incident
  - **Level 5** – Major: systems and building compromised / staff injured
  - **Level 4** – Major: affecting systems and safety
  - **Level 3** – Major: affecting systems but not safety
  - **Level 2** – Major: affecting our safety or building access
  - **Level 1** – Minor: not affecting our safety or systems



- Provide decisions related to recovery solutions
- Monitor and maintain security and audit control requirements

- Manage recovery team efforts and time objectives
- Document and provide executive reporting of efforts
- Provide information to team members dealing with media inquiries

Business Continuity Coordinators

Primary and Alternate Business Continuity Coordinators (BCC) are responsible for keeping their department informed of events and coordinating recovery activities. They identify business requirements, oversee the plan construction, and ensure recovery preparedness for his/her business process.

In the event of a business interruption or disaster, their responsibilities include:

- Activate business recovery plans when notified and authorized by the CMT
  - Initiate and Coordinate recovery operations
  - Assist departmental staff with issues (IT or Communications)
  - Prioritize any challenges or material issues
- Report the effectiveness of recovery efforts to the CMT including:
  - Evacuation of the impacted site for their department
  - Relocation to the recovery site for their department
  - Progress of recovery efforts
  - Other significant or material issues
  - Personal or HR issues these should be referred to the HR Department

Business Impact Analysis

All locations carry out a high level Business Impact Analysis (BIA) to help with identify between critical and non-critical business processes/functions, understanding each business unit recovery requirements and costs of downtime. For each critical function, two values are then assigned:

- Recovery Time Objective (RTO) – the acceptable amount of time to restore the function;
- Recovery Point Objective (RPO) – the acceptable latency of data that will be recovered.

The Recovery Point Objective must ensure that the Maximum Tolerable Data Loss for each activity is not exceeded. The Recovery Time Objective must ensure that the Maximum Tolerable Period of Disruption (MTPD) for each activity is not exceeded.

Recovery requirements consist of the following information:

- The business requirements for recovery of the critical function, and/or
- The technical requirements for recovery of the critical function.

The BIAs identify the business process availability Recovery Time Objectives (RTOs), business process Recovery Point Objectives (RPOs) and the minimum level of services and/or products that is acceptable to MF Global to achieve its business objectives during an incident, emergency or disaster.

Technical Groups

Technical groups include IT (Operations, Networking, Servers / Applications), Facilities, and Communications. They support critical business requirements relative to all hardware, applications, voice & data communications, and physical facilities. These efforts are coordinated by the DR team:

- Build and maintain technical backup and recovery strategies
- Implement the recovery mechanisms necessary to meet recovery time objectives
- Perform system failover and applicable recovery procedures during a business interruption or disaster

- Report progress and challenges to CMT during a recovery efforts

Operations and Servers / Applications Teams

The Operations Team is responsible for the computer environment (computer room and other vital computer locations) and for performing tasks within those environments. This team is responsible for restoring computer processing and for performing computer room activities. Objectives and Responsibilities are:

- Initiating operations at the standby facility
- Providing the appropriate management and staffing at the DR site to meet the defined level of user requirements
- Support operable versions of critical applications
- Performing backup and recovery activities
- Establishing processing schedule
- Arranging for acquisition and availability of necessary computer supplies

Networking Team

The networks team is responsible for all computer networking and communications. They will "swing" network connectivity to the DR facility as necessary in the event of a business interruption or disaster. Objectives and Responsibilities are:

- Evaluate the extent of damage to the voice and data network and discuss alternate communications arrangements with telecoms service providers
- Order the voice/data communications and equipment as required
- Providing ongoing support of the networks
- Re-establish networks at the primary site when post disaster restoration is complete

Facilities Team

The Facilities Team is responsible for the general environment including buildings, services, and all environmental issues outside of the computer rooms. This team has responsibility for security, health and safety and for the DR building facilities. Objectives and Responsibilities are:

- Arranging all transport to the standby facility
- Working with the other teams as needed to maintain the DR facility:
  - Heating / Cooling
  - Power Distribution
  - Voice Communications
  - Security
  - Floor and desk layouts
  - Staff safety and welfare
- Activities related to the damaged location:
  - Controlling security at the damaged site
  - Evaluate damage and identify equipment to salvage
  - Supplying information for initiating insurance claims
  - Administering the reconstruction of the original site for recovery and operation

Corporate Communications Team

The Communications Team is responsible for obtaining communications directives from the CMT, and communicating information during the business interruption or disaster and restoration phases to employees, suppliers, customers, and the media. Objectives and Responsibilities are:

- Liaising with the CMT to obtain directives on the messages to communicate

- Making statements to media, as appropriate
- Informing suppliers and customers of any potential delays
  - Counter-party notifications
  - NASD notifications
  - Other notifications as required
- Informing employees of the recovery progress
- Manage content and information for the DR Helpline and Website

MF Global Staff

If a situation arises, in which an employee believes it is necessary to declare a disaster; the employee should consult his or her manager, or a member of the CMT such as a BCC. Each department has established its own business continuity procedures, which complement this plan.

Employee Responsibilities and Preparation

If any event occurs which does not involve evacuation of the building to which you have concerns or require guidance please contact your manager or BCC. Staff should not proceed to the DR site unless instructed by management or as an action in their DR plan.

1. Each employee should have two (2) copies of both this plan and their departmental plan
   - One to keep at the office with their assigned Evacuation Bag
   - One to keep at their home
2. Employees should advise HR and their coordinator of any changes in their contact details
3. It is recommended to have key contact numbers stored in their mobile phone
4. Arrangements will be made for all staff to visit the disaster recovery site; generally through DR exercises.
5. Employees should become familiar with
   - the content and procedures of all relevant DR plans
   - the location and layout of the DR site
   - the use of any alternative procedures or software to function effectively at the DR site

It is intended that all information stored on the personal or shared network drives (currently the H, P, S, V and X drives) **will be** available at the DR Site. Data stored on local PC hard drives (currently the C drive) is **not** backed-up and would be unavailable at the DR Site. Key working documents should therefore be saved on network drives. Employees are often required to access password protected applications and websites. Some of these passwords and logon details are stored and memorized as shortcuts within an employee's PCs. Stored logon details, passwords, profiles and "cookies" etc will **not** be available at the DR Site. Employees should therefore ensure that they have adequate back up for these.

Staff Registration and DR Event Information

In the event of a major business interruption or disaster, the CM will activate a number of centralized initiatives. These will include activation of a website and a telephone helpline. All staff should use either of these to obtain the latest available business continuity status information.

Staff registration is imperative, as soon as is practical, to enable HR to confirm all employees are safe and to focus on identifying those who are in need of assistance. Requests to return to the building to collect documents, equipment, or personal belongings should be made to the CMT.

Helpline: 312-548-4710

The helpline will contain a recorded message that will be updated with news of an incident and advice to staff as to what DR procedures have been invoked. In addition, callers can leave a message and contact information including their status.

Website: http://moss/technology/dr (*Employee use only via office network or VPN)*

The website is accessible via the VPN and contains ongoing information on the status of an incident, recovery operations, and related information such as DR plans, maps, etc. In addition, a limited messaging facility should be available in case email is not functional.

Departmental Head / BCC

Each department head is responsible for maintaining their departmental plan, advising members of their department of an invocation and coordinating the team's evacuation status, and relocation to the recovery site. Departmental BC plans contain:

- Contact details for all members of the respective department
- Key external contact details (i.e. counter-parties)
- Relevant DR site operating procedures and seating arrangements

Departmental plans include the provision for additional copies of key files and records to be copied to disk and stored at the DR site. However, employees should arrange with their manager to ensure their key files, keys, tokens, etc are duplicated at the DR Site.

In the event a business interruption or disaster is declared, the department should:

- Work in accordance with your Departmental BC plan
  - Personal or HR issues should be referred to the HR department
  - No requests should be made directly to IT or Communications staff
- Collect and Advise the BCC or CMT on the status of:
  - Evacuation of the impacted site for their department
  - Relocation to the recovery site for their department
  - Status of BC plan implementation efforts
  - Any material needs such as IT or Communications

In the Event of a Disaster

Overview

MF Global's offices have established a formal structure and adopted the procedures outlined in this plan to be implemented in the event of a business interruption or disaster. The response will depend on the severity of the business interruption or incident disaster response dictated by the CMT.

Standard Emergency Procedures

The first priority in a disaster situation is to ensure safe evacuation of all personnel. In the event of a major physical disruption, standard emergency procedures must be followed. This means immediately:

- Activating the standard alarm procedures for that section of the building
- Ensure that Medical, Security, and Safety departments and emergency authorities are alerted

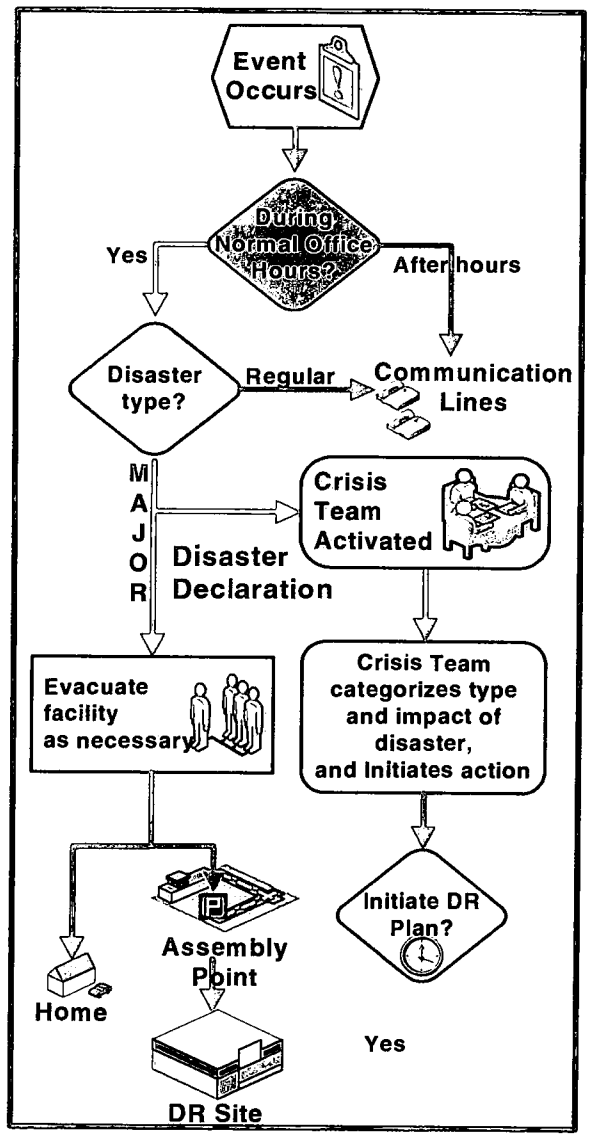
If necessary, evacuating the premises following the evacuation procedures and assemble outside at the designated location, if it is safe to do so.

If a business interruption or disaster occurs during Normal Office Hours, the CMT will invoke applicable recovery procedures that should be followed. For after hours, the communication procedures outlined in Communication Lines are invoked and staff will be contacted and advised of next steps.

If a Major Disaster occurs during Normal Office Hours:

1. All staff should evacuate their building (as directed)
2. Once outside, employees should assess whether it is appropriate to go to the Assembly Point.
    a. If the employee determines that it is appropriate, then the employee should make his or her way to the assembly point and follow the procedures in Building Evacuation.
    b. If it is deemed inappropriate to go to the assembly point, the employee should immediately make his or her way home.
        i. From home, the employee should endeavor, at the earliest opportunity, to contact their manager and other members of the employee's department.
        ii. Employees will be informed as to whether to stay at home or move to the DR Site. See staff registration above.
        iii. The lines of communication stated in Communication Lines will be invoked.

If the Major Disaster occurs after hours, then the lines of communication outlined in Communication Lines are invoked and staff will be contacted and informed of recovery operations and actions to carry out.



Building Evacuation

Normal Office Hours Evacuation

If evacuation is necessary, the alarms will sound and you should follow the instructions given by the Fire Wardens (in certain circumstances, it may be safer to stay in the building). Employees should take time to familiarize themselves with building exits and the location of their respective Assembly Point. Except in the case of pre-advised tests, take these warning bells seriously – they allow preparation time for an evacuation.

Should the Assembly Point be considered unsafe, proceed to a place of safety as quickly as possible, moving away from the direction of danger as instructed by members of the emergency services.

Off Hours Evacuation

If it is necessary to evacuate any of the above offices outside of Normal Office Hours, the procedures below should be followed as closely as possible. The senior person on site should contact the BCC or CMT as soon as possible.

Evacuation Backpacks

All staff with a workspace at Chicago and New York has been provided with an Evacuation Backpack. Staff at the CBOE have access to Evacuation Backpacks, and should inquire of their coordinator for availability for their specific location. The backpacks are provided to assist in emergencies. It is the responsibility of the employee to ensure the completeness and accessibility of the backpack. Employees should review the contents of the backpack and all operating instructions and direct any questions to their BCC. If an employee does not have a backpack, they should contact their BCC. Each Evacuation Backpack should contain the following:

- Respirator Mask with P-100 filter
- Flashlight with radio, siren, and batteries
- Vent less goggles
- Safety light stick
- Flame resistant Kevlar gloves
- Bottle of water

First Aid (if needed) during normal office hours, contact your manager or emergency services as required. If a first aider is not immediately available, contact the Emergency Service by dialing 911.

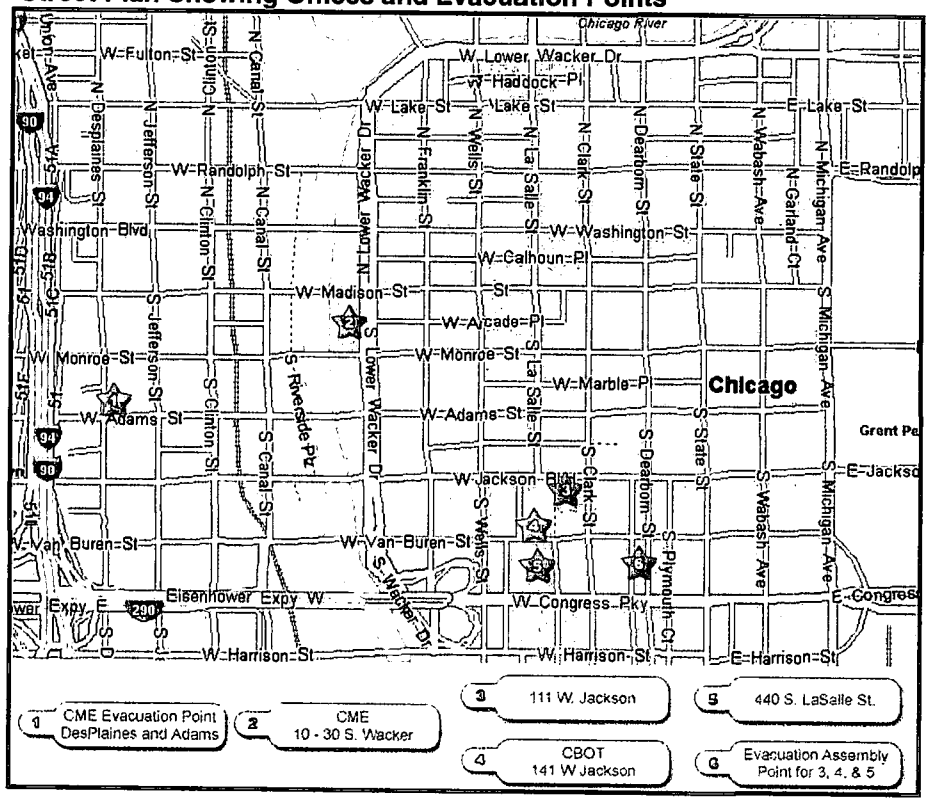
Procedure for Evacuation

If it is necessary to evacuate the office, all employees, guests, and visitors are required to meet at the Assembly Point; if this is not physically possible, or if Fire Wardens / CMT advise it is not safe, if possible you should report to your manager or BCC and await further instructions.

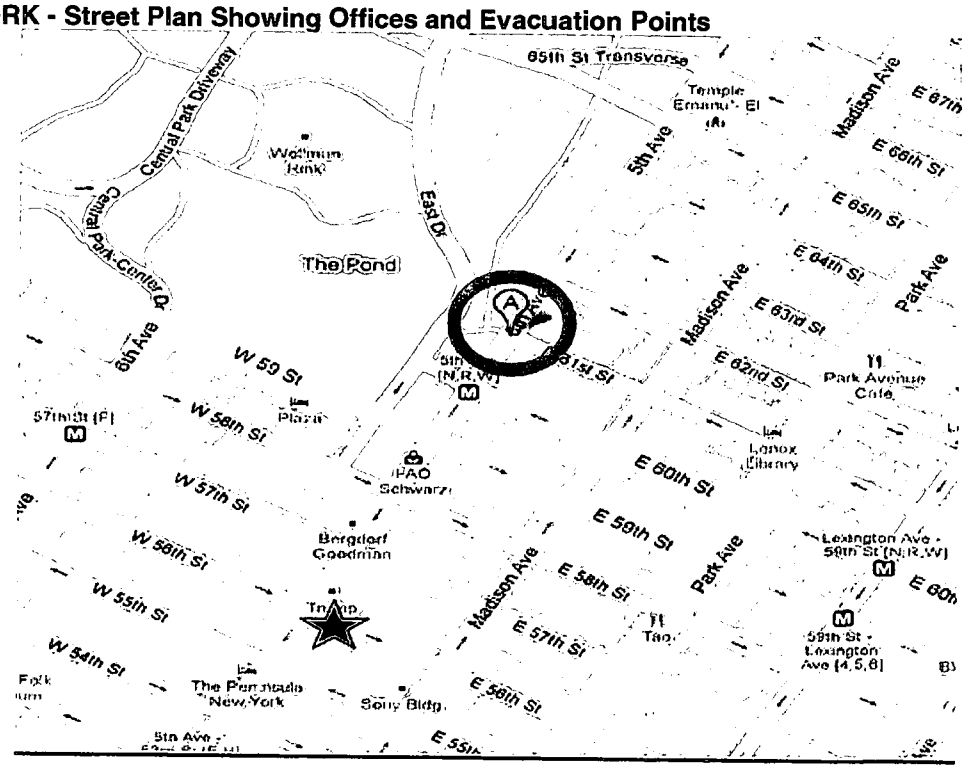
1. Having regard for your own safety and the instructions of the Fire Wardens or the DR Coordinators, attempt to complete the following during a warning alarm:
    - Trading desk personnel should ensure that all Good-Till-Cancelled, working, or unprocessed orders are collected and taken to the Assembly Point
    - Log-off trading screens (i.e. electronic order routing and trading systems)
    - **Where possible** save and close all currently opened files and documents on your PC
    - **Where possible** clear desks of loose papers into drawers
    - Forward phones to mobiles or alternatives per your Departmental Plan
    - Collect your DR plans, mobile phones, organizers, or portable pc's
    - Take the Evacuation Backpack
    - Exit via the safest Fire Exit (please see Appendix 4)
2. Once all personnel are gathered at the assembly point:
    A. Each BC Coordinator will verify that all his or her staff has evacuated the building and/or is receiving necessary medical treatment in a safe place.
        i. If any employee is injured because of the disaster or during evacuation, the Disaster Recovery Coordinator should obtain the name, specific injury, and the location of the employee.
        ii. If appropriate, Human Resources will inform relatives of injured employees, after reasonable information on the nature of the injury and location of the employee has been obtained.
    B. The BC Coordinators will provide departmental information to the CMT.

3. Those personnel allocated spaces at the DR Site should, on the instruction of their manager or a BCC, proceed to the DR Site as quickly as possible.

CHICAGO - Street Plan Showing Offices and Evacuation Points



NEW YORK - Street Plan Showing Offices and Evacuation Points



Assembly Point – just inside Central Park at the SW Corner of 5th Ave & E. 61st

First Steps for the Recovery Teams

- The Facilities Team assesses the nature and extent of the problem
- The Operations and Facilities Teams give an initial assessment to the CMT, who needs to know the extent of the damage to the buildings, equipment, and staff status.
- BCC should report what actions have been taken

Next Steps

- The CMT decides whether to activate the BC and DR Plans, and which recovery scenario will be followed (Scenario 1 or 2)
- The recovery teams then follow the defined recovery activities and act within the responsibilities of each team, as defined in their respective plans

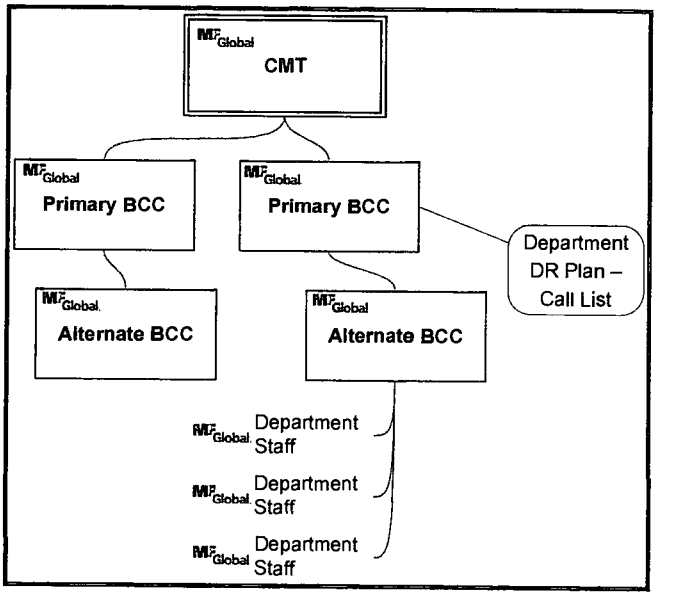
Communication Lines

Invocation Call Tree

In the event of a disaster or emergency, it is necessary that staff be notified and advised of the situation and actions required of them. The first objective is to ensure awareness and decision-making capabilities through the notification the Crisis Management Team (CMT). The CMT will in turn notify directors and key managers in accordance with the following call list as the situation dictates. Department contacts and their BCC will notify respective departmental staff in accordance with their departmental BC plans.

Person	Role	Primary Contact(s)	Alternate Contact(s)
Mallahan, Mike	CMT	Eric O'Dell, Paul Johnson, Steve Grady Bernard Dan Avram Kornberg Christine Serwinski Bob Lyons	John Llanes, John Beatty
Skule, Jeremy	CMT	Tiffany Galvin	
Beatty, John	CMT	MaryKate McArdle, Joe Tripam, Frank Croce	Christine Mustiful, Tom Harney
Carmack, Gene	CMT	Primary BCCs, Bryan Thompson	Alternate BCCs
Johnson, Paul	CMT	Eric O'Dell, Mike Mallahan, John Beatty	John Llanes, Bryan Thompson
O'Dell, Eric	CMT	Server / Application Support Staff, Paul Johnson, Mike Mallahan	
Llanes, John	BCC	Networking Staff , Larry Lipkovitch, Eric O'Dell, Paul Johnson	

Communication between key MF global groups involved with DR responsibilities is depicted below.



1. In the event of a business interruption or disaster arising outside Normal Office Hours, the senior onsite staff member should contact a CMT member. Alternately, a BCC may be contacted who will notify the CMT.
2. The CMT in turn contact the Primary and Alternate BC Coordinators (BCC).
3. Primary and Alternate BC Coordinators are responsible for keeping their staff informed of the status of the recovery efforts, in accordance with their department's procedures. It is imperative that BCC keep, at home, a list of all department staff and their contact data.
4. Detailed contact lists are maintained in individual departmental DR plans.

External Notifications

In the event that any office has to be evacuated, each department is responsible for advising its relevant external contacts, counterparties, exchanges and so forth. Details of the arrangements for notifying these contacts are contained within the individual departmental plans. Responsibility for contacting customers and counter-parties (i.e. NASD rules) is identified in departmental DR plans.

The following individuals are responsible for ensuring appropriate notification obligations are completed as required by various compliance initiatives. Additionally, completion of required notification should be reported to the CMT.

Regulatory – Compliance Department – Toni Rossetti / Tom Cohen

Insurance – Legal Department – Joe Pucci
Insurance Risk – Ted Bohlman

Exchanges – Operations Department – Dan Schulman / Chuck Thorp
Operations Department – Bob Lyons / Rich Gill

All media enquiries should be directed to senior executive staff or to the Corporate Communications Dept.

The following websites and a toll-free phone number provide additional information during any disaster or other disruption of business. These will provide all up–to–date, pertinent information related to any incident.

Website: **http://moss/technology/dr** (*Employee use only via office network or VPN)*

Phone: **312-548-4710**

Employee Communication

In the event of a business interruption or disaster, MF Global leverages a call tree methodology along with an emergency notification system (Everbridge) to communicate with employees at MF Global locations. The emergency notification system, Everbridge, has the ability to contact employees by telephone (work/home/mobile/cell) and email (work and home).

Return to Normal

Stand-down from DR operations and the return to the primary buildings will occur only when the CMT gives clearance. Notification that it is safe to return will be communicated from the CMT. Requests to return to the building to collect documents, equipment, or personal belongings should be made to the CMT, who will provide direction based on the current situation and local authority direction.

Recovery Scenarios

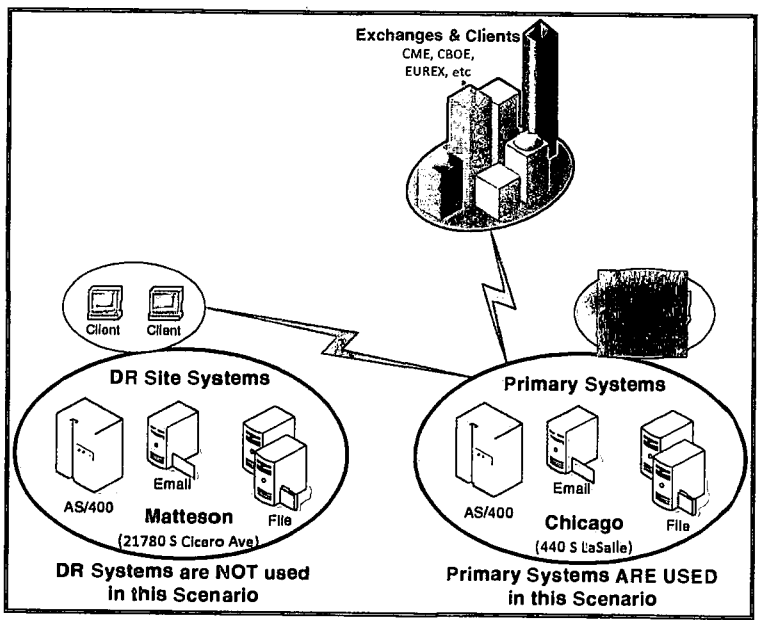
One of the main principles behind the Matteson, IL and Carlstadt, NJ sites are to duplicate, as much as possible, the functions and workflow process that are in place in each employee's usual place of work. The desktop systems will provide the same functionality and information that each employee is currently accustomed. The effect of these provisions is that employees operate as they did prior to the disaster.

Below depicts the recovery scenarios to be implemented based on the nature of the disaster and the extent of the damage. The CMT decides which scenario to implement when activating the plan.

Scenario 1

This scenario would generally be implemented when physical access to or occupancy of the Chicago and New York offices is restricted or unavailable. This assumes the primary operations servers and systems are online and available for production usage.

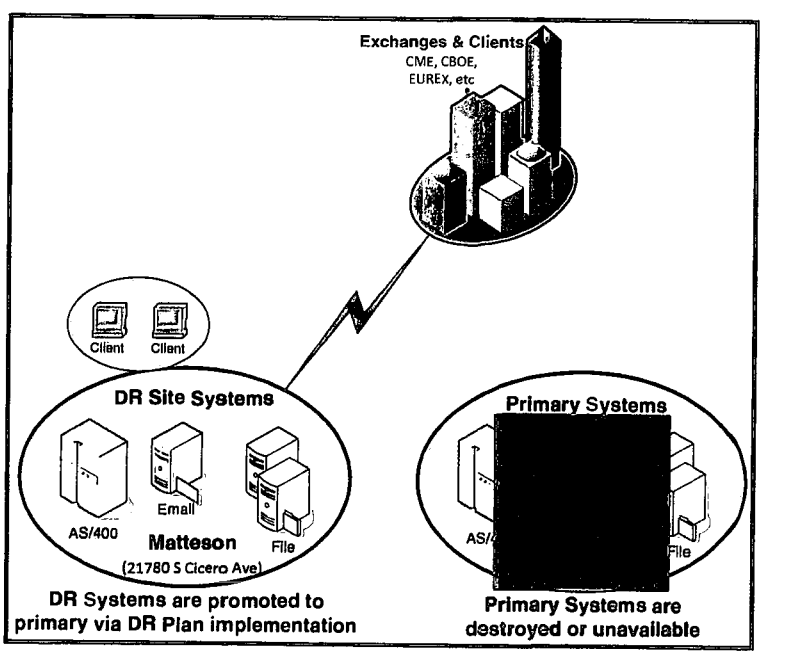
In this type of event, assigned DR staff would physically be located at the DR site and "transparently" operate the normal production applications and systems at the primary site using the data links.



Scenario 2

This scenario would generally be implemented when the primary Chicago and New York location operations and habitability sustain sufficient damage that destroys or prevents its systems from operating. This assumes the primary operations servers and systems are unavailable and continued operations must be performed from the DR Site.

In this type of event, assigned DR staff would physically be located at the DR site and upon successful DR Plan implementation; staff would "transparently" operate from recovered applications and systems.



Data Recovery and Backup

MF Global utilizes several forms of backup and resiliency to ensure that the operations are adequately protected versus catastrophe. Backup and resiliency solutions are chosen based upon the requirements of the individual system.

Tape Backup

Tape is used to backup the file servers. Tape is used to help protect critical data against file corruption that would traverse replication strategies – yielding both sides of the replication pair unusable. Tape backups are performed using Computer Associates BrightStor v.11. Full backups are taken on a nightly basis. The retention scheme is as follows:

- Monday, Tuesday, Wednesday, Thursday backups are saved for one week.
- The period of retention for the Friday tapes is one month, at which point the tapes are reused.
- Backups taken on the last day of the month (End of Month) are saved for a period of seven years. The End of Month tape for December is used where any End of Year backup would be requested.
- Diagram of tape retention scheme:

Monday Data kept one week	**Tuesday** Data kept one week	**Wednesday** Data kept one week	**Thursday** Data kept one week	**Friday 1** Data kept one month
Monday Data kept one week	**Tuesday** Data kept one week	**Wednesday** Data kept one week	**Thursday** Data kept one week	**Friday 2** Data kept one month
Monday Data kept one week	**Tuesday** Data kept one week	**Wednesday** Data kept one week	**Thursday** Data kept one week	**Friday 3** Data kept one month
Monday Data kept one week	**Tuesday** Data kept one week	**Wednesday** Data kept one week	**Thursday** Data kept one week	**Friday 4** Kept one week - OR - **End of Month** Kept 7 years

DFS (Distributed File System)

DFS is used to provide site redundancy and system resiliency for user/departmental files. DFS is built into Windows 2003, and is fully integrated with Active Directory security. DFS provides a single path to a file that is independent of the server where the file resides. The file can then exist on multiple servers simultaneously, and is replicated real-time as changes to the file occur. One important aspect to note is that the file location path does not change depending on where the file physically is stored. Users can then use the exact same path to get to any one file regardless of where the file is physically located.

Double Take

Double Take is used to provide site redundancy for files. It differs from DFS in that failover is not dynamic. Rather, it must be manually failed between nodes (frequently at different physical locations); however, data replication remains real-time. This is ideal for database applications

where greater control over the source of the data is desirable. MF Global makes use of Double Take in the Microsoft Exchange 2003 (email) architecture.

Hosted Services

Some services utilized by MF Global are provided by third parties and are hosted outside of MF Global sites. These services are generally available via the public Internet, exceptions to this are noted individually. Redundancy and disaster recovery for these systems is covered by the MF Global network, with respect to access; and, the vendor, with respect to resiliency of the systems hosted at the vendor site(s).

Server Consolidation

MF Global does not wish to fully replicate its production server environment in its DR facility. Production facilities include many internal resiliency features that have not been deemed required for disaster recovery purposes. Thus, where there may be two servers deployed into production for a given system (where these servers are deployed for system redundancy), there may only be a single server in DR. The functionality and operations will be the same, only the hardware solution is different.

Active Directory Replication

MF Global utilizes a Microsoft Windows 2003 Active Directory domain structure. The built-in Active Directory replication between domain controllers (including domain services) is utilized for redundancy purposes. Note that some domain services are not required to be replicated (such as DHCP leases) as they are only utilized in the local site operation.

Hardcopy Data Storage

MF Global utilizes Iron Mountain for all its document retention storage.

Disaster Recovery Site

Arrival at a DR Site

The DR site is organized in zones and seats within the zones have been allocated to individual departments. Department BC Plans contain specific seating assignments for their staff. On arrival:

Employees:

- Follow the directions of their manager and/or one of the BCC
- Proceed to their desk
  - Verify necessary system and data access
  - Report issues to their BCC
    - No requests should be made directly to IT or Communications staff
    - Personal or HR issues these should be referred to the HR Department
  - Commence work in accordance with their departmental DR plan

Business Unit BCC (primary or alternates) should:

- Assist departmental staff with any issues
- Prioritize any challenges or material issues
- Advise the CMT on the status of:
  - Their team's evacuation
  - Relocation to the recovery site, and
  - Any other material issues

Chicago Offices

General Information

The Chicago DR Site is located at 21780 South Cicero Avenue, Matteson IL 60443. There is ample parking at the Site for those who drive. Employees should find the most convenient route to the DR site, be it by driving or by public transport – see the map below, which shows the location of the DR site and some local transportation options.

Use the entrance on the north side of the building, most staff Chicago office security access cards will provide access to the building during business hours.

Telecommunications

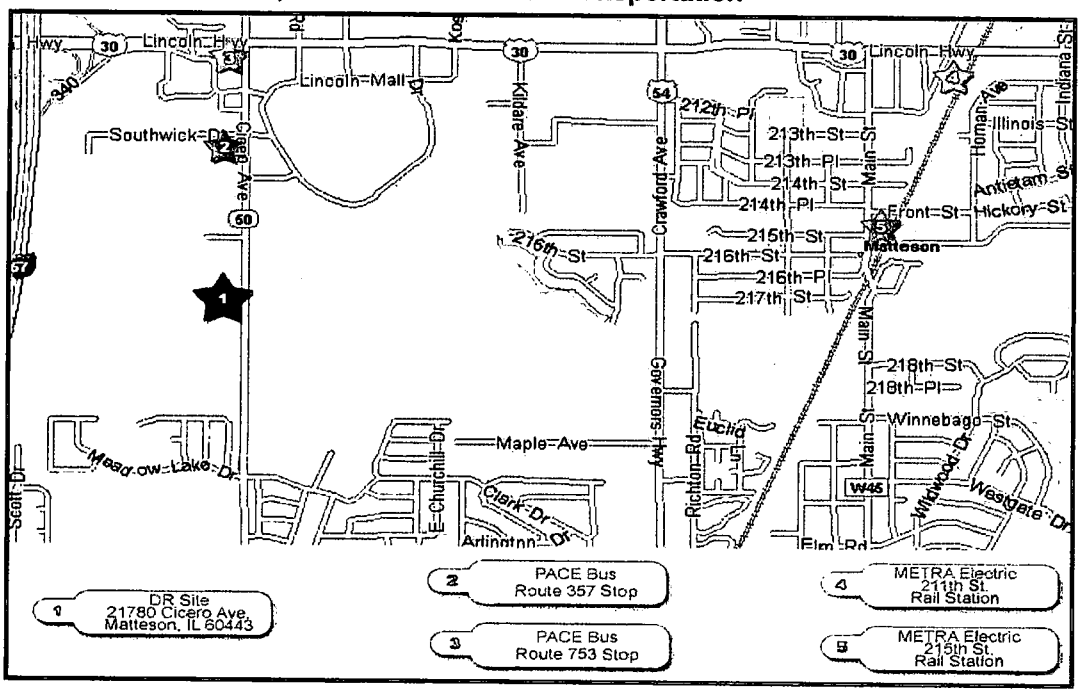
The main Chicago switchboard number is 312-663-7500 or 312-548-0000

- The functions of this number will transfer to the DR Site during a business interruption or disaster
- Individual 663 and 902 prefixed Chicago numbers will also automatically transfer to each individual's new location at the Site.

The number at the DR Site is 708-679-6200

- When the DR plan is not active, this number diverts to a voice mail directing the caller to call the main Chicago switchboard at 312-663-7500 or 312-548-0000
- If a problem occurs with the transfer of the main switchboard number, then 708-679-6200 will be operational
- The main number at the DR Site will have only a limited number of lines; employees should use direct extension numbers where possible in order to avoid overburdening the switchboard. Those staff with new 548 prefixes will simply need login to the handset on their desk and their calls will automatically appear the same as if they were in the production office.

Street Plan for Matteson, IL DR Site and Local Transportation



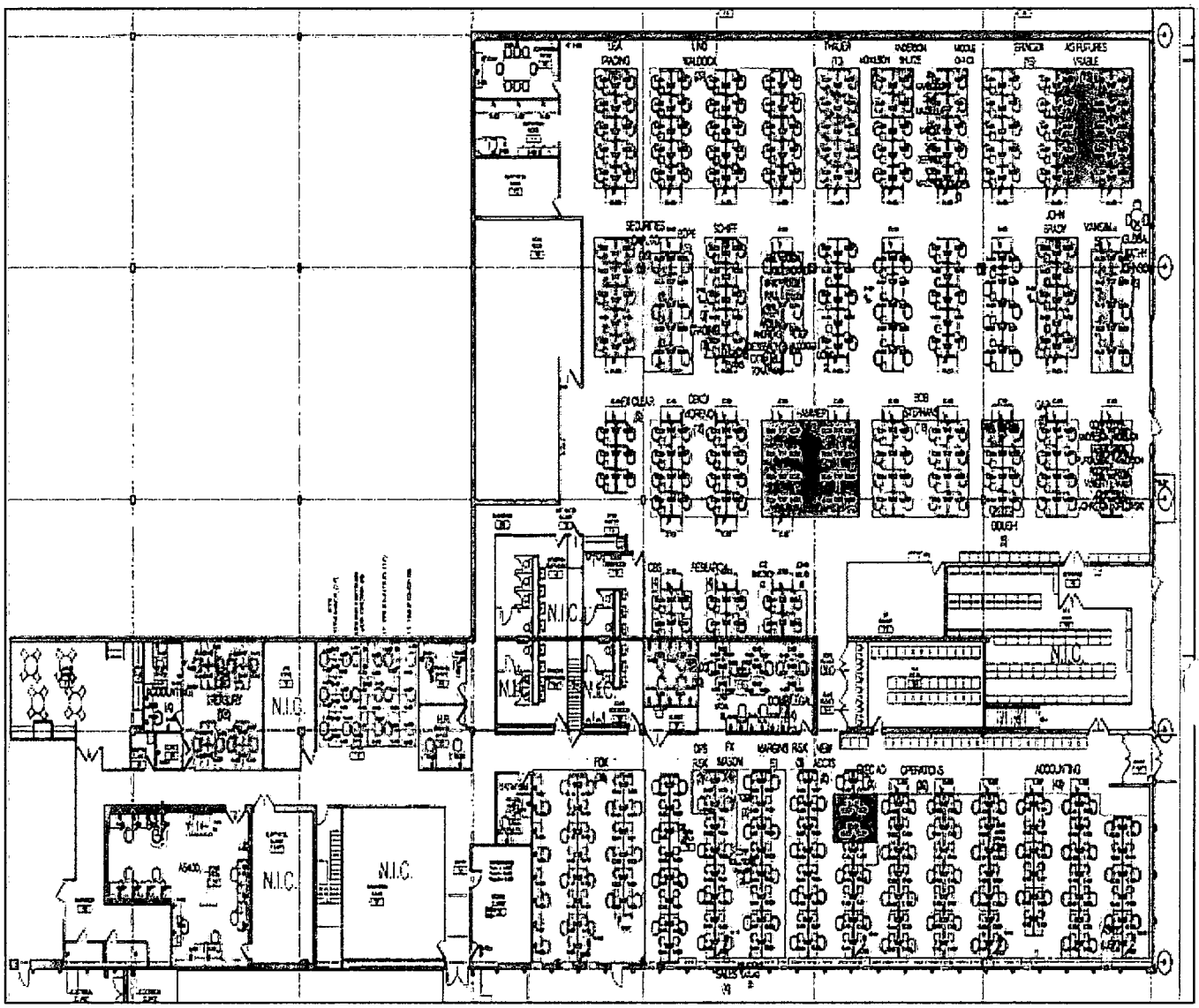
Driving from downtown: Take I-94 east to I-57 south, exit Lincoln Highway/US-30 east (exit 340A). Take Lincoln Highway east to Cicero Avenue (IL-50), turn right (south) at the light, go to N. Gateway Dr. The recovery site is on the west side (right hand side) of the street, approximately one-half mile down the road, just south of Menards. The address is 21780 S Cicero Avenue, Matteson, Illinois 60443. Ring the south bell, attached to the white-framed door under the awning. If you have gone past the second Life Storage sign, you have gone too far.

Driving from all other directions: You eventually merge onto I-57 South, exit Lincoln Highway/US-30 east (exit 340A). Take Lincoln Highway east to Cicero Avenue (IL-50), turn right (south) at the light, go to N. Gateway Dr. The recovery site is on the west side (right hand side) of the street, approximately one-half mile down the road, just south of Menards. The address is 21780 S Cicero Avenue, Matteson, Illinois 60443. Ring the south bell, attached to the black-framed door under the awning. If you have gone past the second Life Storage sign, you have gone too far.

Trains: The Metra Electric train line at Randolph and South Water Streets stops at 211th Street in Matteson. From 211th Street, you can take either the Pace No. 357 bus, which stops two blocks north of the DR site, or the Pace No. 753 bus, which stops about three blocks north of the DR site and has a less frequent schedule. The Metra Electric train line also stops at 215th Street in Matteson, but no buses run from there to the DR site. The Metra Rock Island train line at 440 South LaSalle Street stops at 159th and Cicero in Oak Forest, but it is three buses to the recovery site from that station. The Metra Rock Island train line also stops at 173rd and Oak Park Ave in Tinley Park. You can take the Pace No. 354 to the North Creek Business Center where there are hotels and restaurants or there are several restaurants within walking distance where you can wait for someone to pick you up.

Floor Plan of the Matteson, IL DR Site

Department DR Plans contain specific seating assignments for their staff.



New York Offices

General Information

The Carlstadt, NJ DR Site is located at 760 Washington Ave, Carlstadt, NJ 07072. There is ample parking at the site for those who drive. Employees should find the most convenient route to the DR site, be it by driving or by public transport.

Department BC Plans contain specific seating assignments for their staff. Each staff member must check-in and obtain a badge from the security desk at the SunGard facility prior to proceeding to the MF Global dedicated work area.

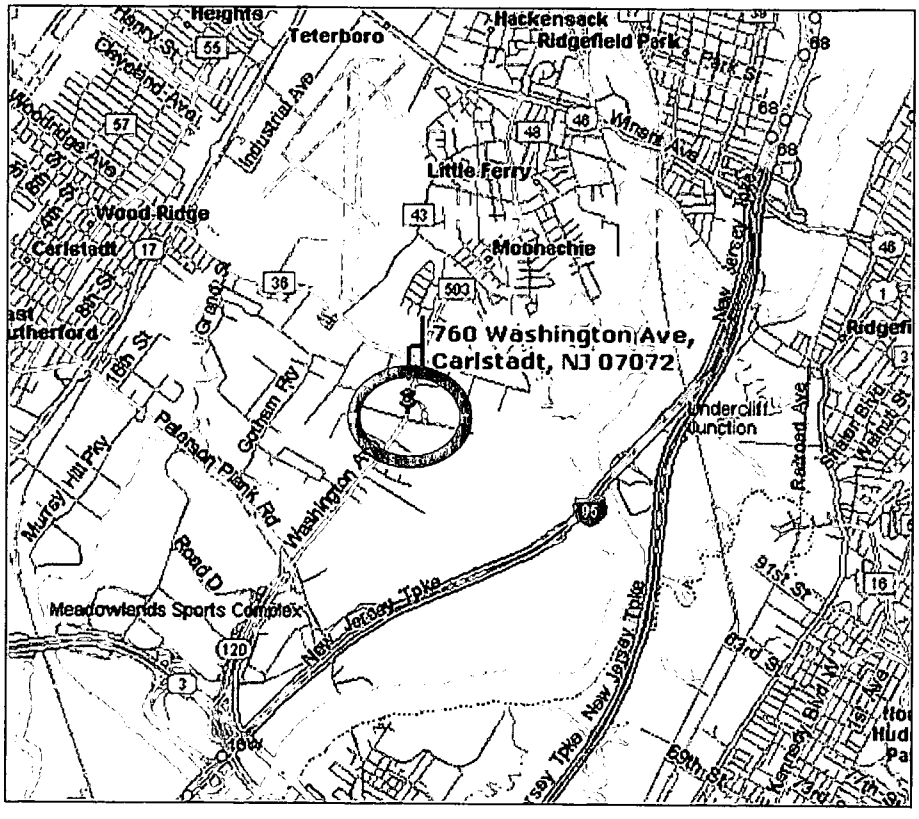
Telecommunications

The main New York switchboard number is 212 589-6200

The SunGard DR site (phone 1-800-441-1181) requires approved access (LILO) which can be provided by the Paul Johnson, Rich Johnson, Bryan Thompson, and key management as needed or in advance of an exercise.

- The main number at the DR Site will have only a limited number of lines; employees should use direct extension numbers where possible in order to avoid overburdening the switchboard.

Directions to the SunGard DR Site in Carlstadt, NJ



Traveling through the Lincoln Tunnel:

- Follow 495 West to Route 3 West.
- Follow 3 West to 120 North Exit (right lane only exit). Exit on to 120 North.
- Continue in the right lane and exit onto the ramp toward 120 North and Route 3 West.
- Once on the ramp, move to the left lane and follow the sign for 120 North however DO NOT get on 120 North. (You will pass Continental Arena on your right and Giant Stadium and the Meadowlands Race Track on your left).

- Continue straight on 503/Washington Ave, after 2nd light, move to the right lane.
- Look for Moonachie Avenue/Empire Blvd. U-Turn Exit. Get off and proceed to stop sign.
- Make a left at the stop sign (there will be a Gym Source Warehouse and Outlet Center in front of you).
- You are now on Empire Blvd.
- Continue to first light and make a left onto Moonachie Road. (There will be a Sunoco gas station on the corner - Moonachie Road turns into Washington Avenue).
- Proceed for 3/10 of a mile and you will see the 760 Washington Avenue building on your right.

Traveling from the George Washington Bridge:

- Take New Jersey Turnpike south, local lanes, to Exit 16W.
- Bear right off the exit and stay in the right lane after the toll following sign for Route 3 East.
- This will put you onto Sheraton Plaza Drive heading toward Route 3 East and the Sheraton will be on your right.
- Continue in the right lane and exit onto the ramp toward 120 North and Route 3 West.
- Once on the ramp, move to the left lane and follow the sign for 120 North however DO NOT get on 120 North. (You will pass Continental Arena on your right and Giant Stadium and the Meadowlands Race Track on your left).
- Continue straight on 503/Washington Ave, after 2nd light, move to the right lane.
- Look for Moonachie Avenue/Empire Blvd. U-Turn Exit. Get off and proceed to stop sign.
- Make a left at the stop sign (there will be a Gym Source Warehouse and Outlet Center in front of you).
- You are now on Empire Blvd.
- Continue to first light and make a left onto Moonachie Road. (There will be a Sunoco gas station on the corner - Moonachie Road turns into Washington Avenue).
- Proceed for 3/10 of a mile and you will see the 760 Washington Avenue building on your right.

Appendix I – Contact Information

External Emergency Contact Numbers

Service	Contact / Phone Number	
Fire/Police/Ambulance – Emergency	911	
Fire/Police/Ambulance - Non-Emergency	311	
Matteson Police Department - non-emergency	(708) 748-1564	
Matteson Police Department – Administration	(708) 748-4085	
Matteson Fire Department	(708) 748-5129	
St James Hospital Emergency Room	(708) 747-4000 x 1099 and x 1098	
FBI	(312) 431-1333	
US Secret Service	(312) 353-5431	
Poison Control Center	(800) 942-5969	
US Weather Service	(312) 976-1212	
DISASTER RECOVERY SITE BUILDING LANDLORD		
Meritex (Matteson, IL site)	Jill Evans	(630) 907-9100
SunGard (Carlstadt, NJ site) Rich Johnson / Paul Johnson *(can authorize access)*	SunGard (LILO Authorizations)	1-800-441-1181
KEY BUILDING PERSONNEL - 440 South LaSalle		
Director Of Life Safety and Security	Lou Caravelli	(312) 663-7347
SVP and General Manager	George Conopeotis	(312) 663-7341
Tenant Services Coordinator	Sarena Spears	(312) 663-7343
Director of Operations & Assistant General Manager	Erik Lekberg	(312) 663-7342
Security		(312) 663-7125
Lobby Security		(312) 663-7134
Office of the Building		(312) 663-7200

Primary / Alternate BC Coordinators (BCC) - Chicago

Contact telephone numbers are listed in the orange DR contact books and available via lookup from email (OWA, Outlook, or Blackberry devices). They are not listed here for security reasons.

Department	Primary	Alternate
Order Desk	STEPHENS, Robert	ENGLISH, John
Finance / Accounting	SERWINSKI, Christine	BOLAN, Michael
Real Estate and Facilities	BEATTY, John	MCARDLE, MaryKate
Client Solutions	MITCHELL, Thomas	BALOW, Brendan
Client Services	MUNDT, Timothy	
Communications	BEATTY, John	TRIPAM, Joe
Compliance/Legal	ROSSETTI, Toni	MATRENEC,
Corporate Solutions	GRADY, Stephen	BISHOP, Tara
Dowd Wescott	DOWD, Michael	PERRY, Brian
Business Continuity Management	CARMACK, Gene	WILSON, Mandy
Financial Futures	COLETTO, Vito	GOUGH, Peter
Futures Operations	SCHUMAN, Daniel	TERRELL, Maxine
Information Technology	JOHNSON, Paul	
FX Operations	MASON, Mardee	HUMPHRIES, Troy
Futures and Options Execution		GREENE, Genitra
GAP	MASTERTON, Peter	CASEY, Kevin
Leese Trading Group	VRABEL, Jerome (Jake)	HOFFLAND, Thomas
Hammer Trading	STUBENRAUCH, Nancy	GALVIN, Shirley
Human Resources	KACZANKO, Janella	PARKER, Nicole
DK Group	SIMPSON, Katherine	
Internal Audit	TOBIN, Michael	GOPIN, Matthew
IT Development	SANCHEZ, Jeff	
IT Infrastructure	O'DELL, Eric	LLANES, John
Lind Waldock	SACHS, Mark	GULOTTA, Gregory
Margins	STRODER, Donna	CICERO, Christine
Client Onboarding/New Accounts	BAUM, Jennifer	SHARP, Simon
Operational Risk	CARL, Jeffrey	ROMANO, Lisa
Order Express	CROWE, Joseph	BROWN, Rita
Research	FELTES, Richard	PAWLICKI, Thomas
Fox – Retail	FOX, Jeffery	PIAZZA, Vito
Risk Management	ROVNER, Garry	CALDWELL, Michael
Ron Thauer Group	CANEPARI, Jake	THAUER, Ron
Equity Operations	THORP, Charles	SANCOMB, Michael
Securities Trading	CAPUTO, Daniel	TODARO, Aldo
Tax Compliance	LADENTHIN, Kristen	CABEKAS, Diana
IT Trader Support	MACK, Thom	
Treasury	GURDIAN, Eric	O'BRIEN, Edith/VAVRA,
USA Trading	MOROWITZ, Jacob	CEICYS, Ugnius

Primary / Alternate BC Coordinators (BCC) - New York

Department	Primary	Alternate
BAUMAN WEISS	Kovar, Vera (NY Int)	
COMPLIANCE	Straub, Tracey (NY Int)	Lee, Joe (NY Int)
CORP	Galvin, Tiffany (NY Int)	Will, Jennifer (NY Int)
CREDIT DERIVATIVES		
ENERGY	Timmins, Martin (NY Int)	
EQUITIES	Peppin, Mark (NY Int)	
FACILITIES	Croce, Frank (NY Int)	Harney, Thomas (NY Int)
FINANCE - Controller	Mascolo, Michael (NY Int)	Bates, Chris (NY Int)
FINANCE - External Reporting/IPV	Rayan, Pallavi (NY Int)	Gates, John (NY Int) - IPV
FINANCE - Management Reporting	Nussbaum, Aviva (NY Int)	Kaye, Scott (NY Int)
FINANCE - SOX	Palmieri, Brian (NY Int)	Peron, Liliana (NY Int)
FINANCIAL FUTURES	DiFilippo, Vincent (NY Int)	
FIXED INCOME	Posner, Brent (NY Int)	Mahoney, Jack (NY Int)
FOREIGN EXCHANGE	Lentini, Frank (NY Int)	Horowitz, Barry (NY Int)
FOREIGN EXCHANGE - CLEAR	Archakam, Sunil (NY Int)	Dispenza, Stephen (NY
GENERAL BROKERAGE	Parrinelli, Lisa (NY Int)	Texido, Joseph (NY Int)
HUMAN RESOURCES	Adler, Mona (NY Int)	Brindley, Nicola (LDN Int)
INDUSTRIAL MATERIALS		Demler, Fred (NY Int)
INFORMATION TECHNOLOGY - EAS	Bryant, James (NY Int)	
INFORMATION TECHNOLOGY - Infrastructure / Operations	Johnson, Richard (NY Int)	Gago, David (NY Int)
INFORMATION TECHNOLOGY -		
INSTITUTIONAL EQUITIES	Meola, Angelo (NY Int)	
INSTITUTIONAL MANAGED	Woods, John (NY Int)	Palumbo, Chuck (NY Int)
INTERNAL AUDIT	Piscazzi, Regina (NY Int)	Allegretti, Angela (NY Int)
LEGAL		
MARGINS	Earley, Dave (NY Int)	Di Matteo, Anthony (NY
OFFICE of CEO		

Global Operations Department Office Contact Numbers

New York Switchboard: 1 212-589-6200

Chicago Switchboard: 1 312-548-0000

Contact	Office Number
Dan Schulman	1 312 663 7686
Maxine Terrell	1 312 548 2057

London Switchboard: 011 44 20 7144 1000

Contact	Office Number
Verrona Browne	011 44 20 7144 4016
Paul O'Sullivan	011 44 20 7144 4601

Kansas City Switchboard: 1 816 931 7620

Contact	Office Number
Frank Stone	1 816 931 7620

Singapore Switchboard: 011 65 6438 6011

Contact	Office Number
Chew Suan Lui	011 65 6435 6037

Taiwan Switchboard: 011 886 2 25798118

Contact	Office Number
Madina Santos	011 8862 2570 8383

Sydney Switchboard: 011 612 8273 8822

Contact	Office Number
Naren Bartlett	011 65 6845 1690

Paris Switchboard: 011 331 5530 5100

Contact	Office Number
Philippe Champion	011 331 5530 5104

Appendix II – Glossary of Terms

Assembly Point: The meeting location for staff in the event of an evacuation of the primary office location in order to facilitate an accounting of personnel and their safety.

Chicago: 404 S. Wells (Cactus bar)

New York: Central Park (SW Corner of 5th and 61st)

Business Continuity Coordinators (BCC): Those staff members designated by their business unit heads that represent and coordinate their departmental recovery tasks and communicate with management.

Business Continuity Planning: Advance planning and preparation to identify the impact of potential losses, to formulate and implement viable continuity strategies, and to develop continuity plans to ensure continuity of organizational services in the event of a business interruption or disaster.

Crisis Management Team (CMT): Group of staff responsible for categorizing type and impact of a business interruption or disaster, then coordinating, managing, and reporting response activities

Critical Business Activity: Critical operational and/or business support, service or product related activity (provided internally or externally), including its dependencies and single points of failure, which enables the group to achieve its business objectives

Disaster: A situation or event that causes a significant interruption of part or all of the business of MF Global or one or more of its operating units. The CMT will determine actions if the business interruption or disaster does not threaten the ultimate continuation of the business and/or the lives of employees or if it poses a threat to the ultimate continuation of the business and/or the lives of employees.

Scenario 1: denial of access to the primary site; event staff would relocate to the recovery site and operate systems at the primary site using the data links

Scenario 2: sufficient damage to the primary site that destroys or prevents its systems from operating; implementation of the full DR plan with the recovery site operating in isolation

Disaster Recovery Planning: Disaster recovery planning is the process of developing advance arrangements to enable a planned response to business system impacting events. The goal of the plan is to rapidly recover and enable critical information processing functions with minimal interruption or fundamental change. The recovery plan is intended to respond to all events causing a complete or temporary loss of operations, which may or may not include destruction of critical components. Disaster recovery planning is complimentary to business continuity planning.

Disaster Recovery Site: This is the location designated employees will continue operational work efforts in the event of a business interruption or disaster resulting in an inability to operate at one or more of primary office locations.

Chicago: The building at 21780 South Cicero Avenue, Matteson IL 60443

New York: The SunGard building at 760 Washington Ave., Carlstadt, NJ 07072

Incident: A situation that may be, or lead to, a business interruption, loss, emergency or crisis

Normal Office Hours: The period from 7.00am to 5.00pm local time, Monday through Friday, when MF Global's switchboard is open

RPO: Recovery Point Objective; the point in time data must be restored in order to resume processing transactions (the data we are prepared to lose)

RTO: Recovery Time Objective; The time from declaration of a business interruption or disaster to the recovery of critical functions (the timeframe for having the minimum-required systems operational and available)

THIS PAGE INTENTIONALLY BLANK

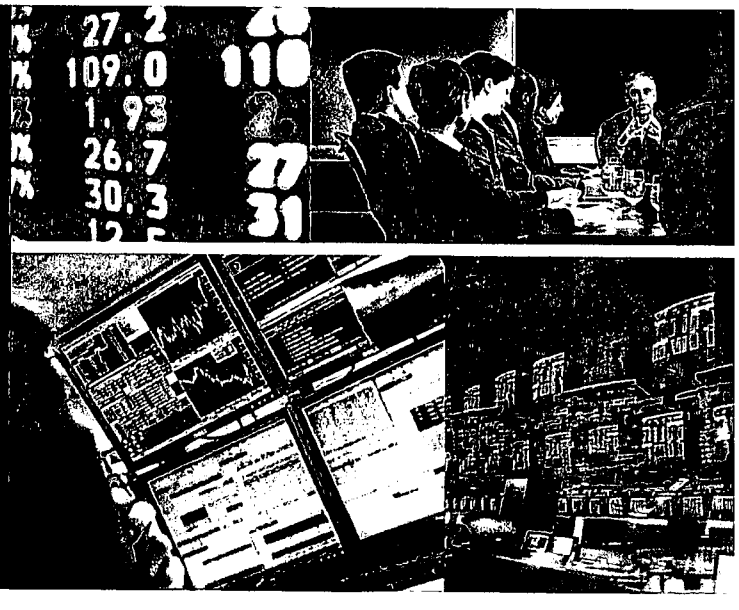
Appendix 25.B

MF Global

MF Global

Business Continuity Plan – Fixed Income (Primary Dealer)

January 2010



Business Continuity Plan - Fixed Income (Primary Dealer)

MF Global

Owner

It is the responsibility of owner(s) to ensure this plan is accurate and up to date. If, during use or review, any information is found to be incorrect, missing, or unclear please inform the owner to ensure correction.

Document Owner(s)	Organization Role / Title
Mahoney, Jack	Vice President, Fixed Income
Posner, Brent	Vice President, Fixed Income

Version Control

It is important that this plan accurately reflect the current situation and business requirements. Updates must be provided to plan owner. The following table describes the history of this document. This document and any related Business Continuity and Disaster Recovery Plans must be reviewed at least annually.

Version	Status	Date	Author	Change Description
V1.0	Initial version	December 2009	Paul Johnson / Bryan Thompson	Final version
V1.2	Draft / Review Process	December 2009	Fixed Income Team	Document update – content and validation
V1.3	Final	January 2010	Paul Johnson / All Reviewers	Reviewed / Approved

Approved / Reviewed By

This document has been reviewed and approved for accuracy and content as indicated below. This document is reviewed annually and updated in the event of any material change to our operations, structure, business, or locations.

Name	Organization Role / Title	Approval Signature	Date
McCarthy, Peter	Global Head, Fixed Income		
Mahoney, Jack	Vice President, Fixed Income		
Posner, Brent	Vice President, Fixed Income		
Lyons, Robert	COO, Americas		
Johnson, Paul	Global Head, Disaster Recovery		
Thompson, Bryan	Global Head, BCM		
Fanning, Craig	Vice President, Fixed Income		

Contents

1. INTRODUCTION **3**

1.1. Objective 3
1.2. Scope 3

2. FIXED INCOME OVERVIEW **4**

2.1. Policy 4
2.2. Execution Services 4
2.3. Clearing and Settlement Services 5
2.4. Financing & Securities Lending 5
2.5. Product Capabilities 5

3. PRECAUTIONARY PROCEDURES **6**

3.1. Overview 6
3.2. Business Continuity Coordinators 6
3.3. Situational Impacts 7

4. EVACUATION PROCEDURES **8**

EMERGENCY NOTIFICATION **9**

5.1. Key Contacts 9
5.2. Other Response Teams 9

6. PROCEDURES AT THE DR SITE **11**

7. RETURN TO 'NORMAL' OPERATIONS **11**

8. PRIMARY DEALER – US TREASURY **12**

8.1. Critical Business Processes 12
8.2. Key Business Inputs / Outputs 14
8.3. Critical Systems and Applications 14
8.4. Regulatory Reporting 15
8.5. Vital Records 15
8.6. Alternate Recovery Processes 16
8.7. Invocation Call Tree 17
8.8. Third Party Notification 18

1. Introduction

MF Global is the world's leading independent broker of exchange-traded futures and options and a well-established intermediary for other major financial instruments around the world through our trading desks in London, New York, Chicago, Singapore, Sydney, Mumbai and other cities around the world.

MF Global operates in five continents and has affiliations with more than 70 financial exchanges, providing clients' trading needs for futures, options, and other financial instruments across an array of market sectors, including interest rate products, equities, foreign exchange, metals, energy, and agriculture.

A business interruption or disaster is defined as an incident that can result from a number of accidental, malicious, or environmental events such as fire, flood, terrorist attack, human error, software, or hardware failures.

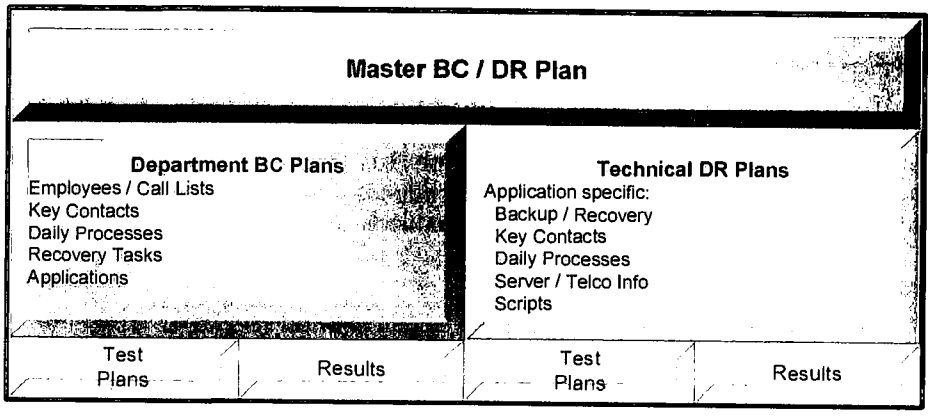
1.1. Objective

This document sets out the procedures to be followed if an event occurs at the 717 5th Avenue office in New York, and the site of systems for normal operations by the FIXED INCOME department become unusable or inaccessible. This document covers specific departmental business continuity procedures for all personnel in the Fixed Income department and should be used in conjunction with the Americas Business Continuity / Disaster Recovery Plan. Its existence and regular review is governed by the MF Global BCM Policy. Each operational department has its own business continuity plan and procedures which should be read in conjunction with this document as applicable to any dependencies. Each department has appointed its own Business Continuity Coordinator (BCC).

1.2. Scope

This plan is to be used in the event of a business interruption or disaster affecting MF Global's North America Fixed Income business operations. This plan applies to all internal business processes and external service providers who provide services to / receive services from MF Global. It is structured around teams, with each team having specific responsibilities.

The decision to initiate these procedures will be at the discretion of the Head of the Fixed Income department. Additionally, the Crisis Management Team (CMT) leader may decide to initiate disaster recovery procedures, then all members of the recovery teams will follow the procedures contained in this and any associated plans until recovery is achieved. This plan, along with the Americas BC/DR Plan and technical system recovery plans contains the information necessary to restore operational services in the event of a business interruption or disaster. Below is a hierarchy of the plan relationships.



Management periodically assess and report on the preparedness of all organizational groups. The assessment will include the quantification and qualification of business exposures including but not limited to life/safety controls, vital record protection, status of manual processing procedures and application systems and data file backup procedures; these are generally covered in periodic BIA reports.

2. Fixed Income Overview

MF Global's Fixed Income group provides institutional investors with execution, financing, securities lending and clearing services.

2.1. Policy

MF Global has established a policy which applies to all BU's in all locations.

Key objectives of the policy are:

- Business Continuity Management (BCM) is an integral part of MF Global's strategic and day-to-day operational management;
- All locations are to have BCP's and facilities sufficient to ensure they are able to continue to function and meet their regulatory and customer obligations in the event of unforeseen interruptions;
- Update BCP's whenever we have a material change to our operations, structure, business or location. In addition, our firm will review this BCP annually to modify it for any changes in our operations, structure, business, or location(s);
- Regular testing will be performed to ensure their effectiveness; and
- Plans are well documented, backed up and communicated across the business unit as a whole.

2.2. Execution Services

The firm's sales and trading professionals offer deep market experience and industry connections; enabling them to deliver consistently superior execution, market color and relative value ideas. In addition, the MF Global Research team provides economic, technical, and fundamental analysis across the U.S. and European fixed income markets.

2.3. *Clearing and Settlement Services*

MF Global provides clearing as well as financing and operational support services across a wide range of asset types.

2.4. *Financing & Securities Lending*

MF Global is an active participant in the Repo/Reverse Repo markets. Our Repo Sales and Trading team works closely with clients to help them finance their positions. The firm also offers clients a complete range of securities lending options, including agency lending.

2.5. *Product Capabilities*

Asset Class	Execution Services	Financing / Sec. Lending	Clearing Services
US Treasuries	✓	✓	✓
European Governments	✓	✓	✓
Agencies / GSEs	✓	✓	✓
Agency MBS	✓	✓	✓
ABS/MBS/CMBS	✓	✓	✓
Inv. Grade Corporates	✓	✓	✓
High Yield/ Distressed	✓		✓
Emerging Markets	✓		✓
OTC Interest Rate Swaps	✓	✓ (UK)	✓ (UK)
Interest Rate Futures	✓		✓
Foreign Exchange	✓		✓
Commodities	✓		✓
Equities	✓	✓	✓

3. Precautionary Procedures

3.1. *Overview*

Please read this document carefully and familiarize yourself with the procedures, instructions, the location of the DR site and any alternative procedures or applications related to the continuity of business operations. You should advise your departmental Business Continuity Coordinators (BCC) and HR of any changes in your contact details. Each staff member should keep one copy of the Americas BC/DR Plan and this departmental plan at your desk and an additional copy at home. Electronic copies are available online at http://moss/technology/dr/bcm.

It is advisable to have key contact numbers (see Call Lists section) stored on your mobile phone, PDA, BlackBerry, or similar device.

It is intended that information stored on the shared network drives will be backed up at the DR site via DFS services (near real-time data replication). However, please note:

- There is no backup for data stored on local PC hard drives (i.e. the 'C' drive).
- Often normal business processes require access to password protected applications and web sites.
  - Some of the website's URLs (web addresses), passwords / certificates, and logon details (tokens / cookies) maybe stored as shortcuts within the primary office PC / desk area.
  - Locally stored information likely will not be available at the DR site PC and therefore should be ensured that adequate backup for these are exist or are documented.
  - Sharing of passwords is a prohibited and a violation of the MFG security policy.
- Key working documents should always be saved on network drives rather than the local PC hard drive.
- Vendor issued tokens (i.e. RSA SecurID) should be kept on your person or have additional tokens requested for secure usage/storage at alternate locations.

In the event a business interruption or disaster is declared, department staff should:

- Work in accordance with this departmental BC plan
  - Personal or HR issues should be referred to the HR department
  - Only the BCC should make requests directly to IT or Communications staff
- Collect and Advise the BCC or CMT on the status of:
  - Evacuation of the impacted site for their department
  - Relocation to the recovery site for their department
  - Status of BC plan implementation efforts
  - Any material needs such as IT or Communications

3.2. *Business Continuity Coordinators*

Primary and Alternate BCC are responsible for keeping their department informed of events and coordinating recovery activities. They identify business requirements, oversee the plan construction, and ensure recovery preparedness and continuity of operations for their business group.

In the event of a business interruption or disaster, their responsibilities include:

- Activate business recovery plans when notified and authorized by the CMT or department head

  - Initiate and Coordinate recovery operations
  - Assist departmental staff with issues (IT or Communications)
  - Prioritize any challenges or material issues
- Report the effectiveness of recovery efforts to the CMT including:
  - Evacuation of the impacted site for their department
  - Relocation to the recovery site for their department
  - Progress of recovery efforts
  - Other significant or material issues
  - Personal or HR issues these should be referred to the HR Department

3.3. Situational Impacts

This table shows where staff is anticipated to relocate to in the event of an incident. However, confirmation will be received via either your departmental manager or BCC.

Scenario	Impact	Potential Action
Denial of access to the office (Scenario 1)	No access to the building, IT systems available	Relocate to DR site, as directed
Office Building Damaged (Scenario 2)	Building inaccessible; IT systems unavailable at primary site	Relocate to DR site, as directed; IT to invoke system recovery at the DR site
Pandemic	Potential loss of key staff, highlighting key man dependencies, no transport infrastructure	Work from home, assess key dependencies, alternate methods of transport & inoculations; Social distancing

4. Evacuation Procedures

If evacuation is necessary during working hours the alarms will sound CONTINUOUSLY and you should follow the instructions given by the Fire Wardens. Intermittent rings indicate a warning of a potential evacuation. Except in case of pre-advised tests, take these warning bells seriously – they allow preparation time for an evacuation.

1. Having regard for your own safety and the instructions of the Fire Wardens or the DR Coordinators, attempt to complete the following during a warning alarm:
    a. Trading desk personnel should ensure that all Good-Till-Cancelled, working, or unprocessed orders are collected and taken to the Assembly Point
    b. Log-off trading screens (i.e. electronic order routing and trading systems)
    c. Where possible save and close all currently opened files and documents on your PC
    d. Where possible clear desks of loose papers into drawers
    e. Forward phones to mobiles or alternatives per your Departmental Plan
    f. Collect your DR plans, mobile phones, organizers, or portable pc's
    g. Take the Evacuation Backpack
    h. Exit via the safest Fire Exit
2. Once all personnel are gathered at the assembly point:
    a. Each BCC will verify that all his or her staff has evacuated the building and/or is receiving necessary medical treatment in a safe place.
        i. If any employee is injured because of the disaster or during evacuation, the Disaster Recovery Coordinator should obtain the name, specific injury, and the location of the employee.
        ii. If appropriate, Human Resources will inform relatives of injured employees, after reasonable information on the nature of the injury and location of the employee has been obtained.
    b. The BCCs will provide departmental information to the CMT and their staff.
3. Those personnel allocated spaces at the DR Site should, on the instruction of their manager or a BCC, proceed to the DR Site as quickly as possible.
4. Communications to all staff will be provided via the Call Lists in the section below if the plan is invoked and staff will be informed of recovery operations and actions to carry out.

If an event occurs outside of normal office hours and you are still in the office, you should, and as far as possible, follow the evacuation procedures above or as directed. You should contact your manager or the departmental BCC; contact information is listed in your FI department section below.

If any event occurs which does not involve evacuation of the building but in relation to which you have concerns or require guidance please contact your manager or BCC.

Where an event occurs outside of office hours, the relevant senior members of staff will be contacted by Building Services. If it is necessary to activate these BCP procedures your department manager or BCC will be contacted. You in turn will be contacted in accordance with your FI department Call List below.

5. Emergency Notification

In the event of a business interruption or disaster or emergency, it is necessary that staff be notified and advised of the situation and actions required of them. The first objective is to ensure awareness and decision-making capabilities through the notification the Crisis Management Team (CMT). The CMT will in turn notify directors and key managers in accordance with the following call list as the situation dictates. Department contacts and their BCC will notify respective departmental staff in accordance with their departmental BC plans.

5.1. Key Contacts

A Crisis Management Team (CMT) has been established; please refer to the Americas BC/DR Plan for the most current list of team members. Only members of the CMT or the department head may initiate the invocation of recovery procedures. Should you become aware of any event or issue that may necessitate invoking these procedures (or if you are unsure) you should immediately contact your department manager or BCC.

The department head or BCC are responsible for invoking this document's procedures, including initiating the Invocation Call Tree, managing any transition to the DR site, and coordinating all crisis related activities with the CMT.

Other Response Teams have been established to deal with IT, HR and general Business Continuity issues. Members of these teams are listed below.

5.2. Other Response Teams

The following teams have been assigned specific responsibilities in the event of a declared incident or invocation of MF Global's Americas Business Continuity / Disaster Recovery Plan. The teams report to the CMT.

The first instance you should always contact your immediate manager or supervisor. If you are unable to do so then you should contact a member of the appropriate team.

IT Response & Disaster Recovery Team	
Mike Mallahan – CIO, North America	See "Orange Book" for BCP/DR contacts
Paul Johnson – Disaster Recovery Global Head	
Eric O'Dell – IT Operations Global Head	
Rich Johnson – IT Manager, NY	
John Llanes – IT Manager, Chicago	
James Bryant – EAS Lead (NY)	

BCM Response Team	
Bob Lyons – COO, North America	See "Orange Book" for BCP/DR contacts
Bryan Thompson – BCM Global Head	

HR and Corporate Communication Response Team	
Marion Corrigan – HR	See "Orange Book" for BCP/DR contacts
Tom Connolly – HR Global Head	
Tiffany Galvin – Corporate Communications	

Facilities / Telecom Response Team	
Frank Croce	See "Orange Book" for BCP/DR contacts
Tom Harney	
John Beatty	
Dave Gago	
SunGard (Carlstadt, NJ site) Rich Johnson / Paul Johnson *(can authorize access)*	1 800 441-1181

6. Procedures at the DR Site

The below NJ location is the disaster recovery facility for the NY office. Order taking and entry, auctions can be recovered and function from this location in the event of business interruption or disaster situation. Additionally, the Chicago office is able to perform auction and other functions during any transition of locations. The Carlstadt facility is managed and operated by SunGuard and is located approximately six (6) miles from the primary NY office.
The primary means of travel to the Carlstadt office by our employees is through taxis or car. MF Global's NY DR Facility is located at:

760 Washington Avenue
Carlstadt, NJ, 07072
Tel: 201-729-2000

On arrival at the DR site, the BCC must advise the CMT on the status of:

- Their team's evacuation,
- Relocation to the recovery site
- Any other material issues

The DR site is organized into department section and seats for designated department staff. The seats are not 100% allocated to each individual staff within each department. On arrival at the DR site, members should report to your BCC for further instruction.

- Requests for IT or Communications assistance should be directed through the department BCC.
- Normal facilities such as network printers, faxes, photocopying, and stationery will be available. Deal tickets, payment vouchers and other standard forms are all held at the site. The department head or BCC will periodically ensure any specific department items are available at the site (i.e. tokens).
- The Building Management / Administration Team will be responsible for building services, telecommunications, supplies, and building security access.
- If you have any personal or HR issues please direct staff to the HR Team.

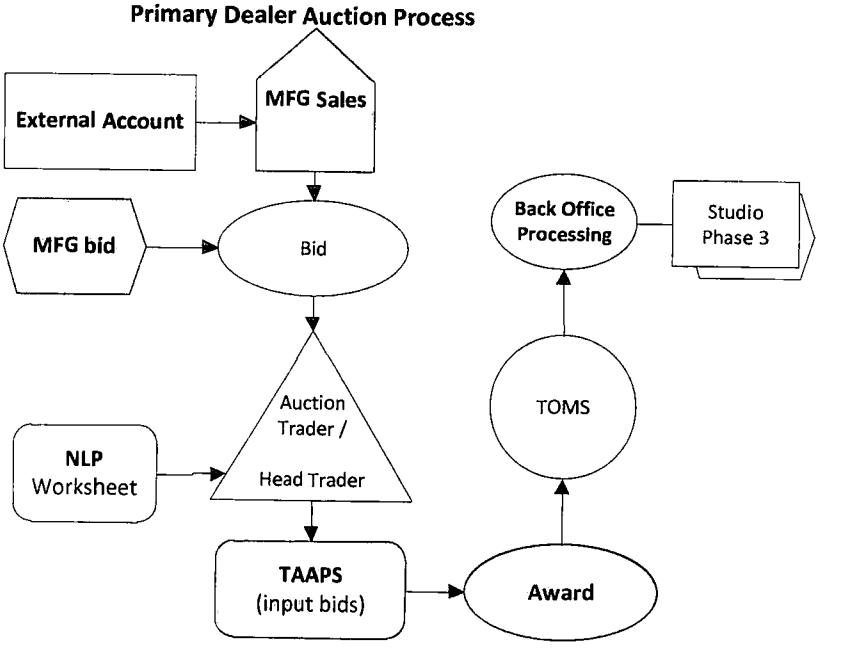
7. Return to 'Normal' Operations

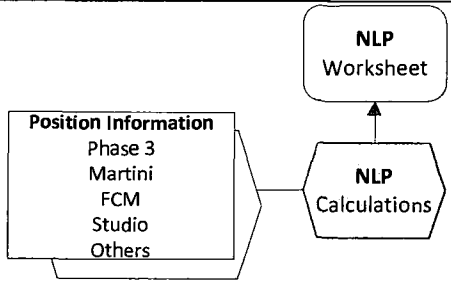
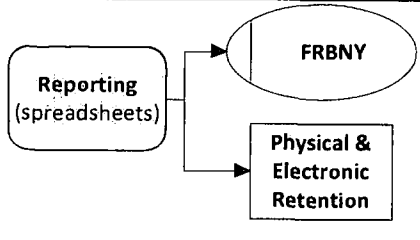
We may return to the primary office only when the Executive team gives clearance. Notification that it is safe to return will be communicated via the BCC. Requests to return to the affected office to collect documents, equipment, or personal belongings should be made to the Facilities via the BCC.

8. Primary Dealer – US Treasury

8.1. Critical Business Processes

Critical Process (Level 1)	Critical Process (Level 2)	Recovery Time Objective (RTO)	Critical Time of Day Needed	Description of Process	Dependency (Internal/ External)
Order & Execution	Client Orders	Mission Critical (0-4 hrs)	1) 3x a week (avg) per Fed Sched 2) 11-1pm	1) Accept bids from clients and internally 2) Submit Bids to Sales and bid sheet 3) Action trader consolidates and Head Trader will input to TAAPS during auction 4) Awards provided at end of action and 5) Input awards into TOMS 6) TOMS provides data for back office processing (i.e. Studio, Phase 3)	U.S. Treasury Auctions



Account Setup	Static Data Maintenance	Mission Critical (0-4 hrs)	11:00-1pm (Daily)	**Net Long Position (NLP) Calculation & Reporting** • NLP must be calculated and provided to the auction trader thirty (30) minutes before the time of the auction. Treasury Bill Auctions are typically scheduled for 11:30AM EST on the day of auction. Therefore, the Firm's NLP must be provided to the trading desk by 11:00AM EST. • Treasury Note and Bond Auctions are typically scheduled for 1:00PM EST. Therefore the Firm's NLP must be provided to the Trading Desk by 12:30PM	
					
Account Setup	Static Data Maintenance	Mission Critical (0-4 hrs)	11:00-1pm (Daily)	FR 2004 Reporting There is a spread sheet for each of the FR2004 reports, which filter the raw data to only include information that is required by the Federal Reserve (see the list of validations in the attached instruction manual). The filtered and extracted data is validated through a set of calculations, which are logical assumptions as defined by the Federal Reserve's instructions	
					

8.2. *Key Business Inputs / Outputs*

- Reporting - Each of the FR2004 reports uses Phase III's data for the source of the information. The FR2004SI and FR2004SD report also uses a report out of Trader Studio, MF Global's trade capture system which feeds Phase III. This Studio report is needed to assist in identifying special and general collateral transactions. Phase III does not currently have the ability to fully capture this information so a report out of Trader Studio must be used to report the information accurately.
  - manual process consists of extracting data out of the Phase III back-office booking system and Trader Studio as required for the FR2004SI and FR2004SD report
  - Phase III (datarep) file extract for input to reports; available on internal website
- NLP Reporting
  - Middle Office will identify upcoming auctions via the URL link: http://www.treasurydirect.gov/RI/OFAnnce
  - Martini via an email file, a .CSV file (Read Only) will be generated and placed onto Share location \\Ldninnts56\Martini\Prod\Trade_Feed\NetLongPosition
  - The Investment System (FCM) will be used to extract position information as trades are processed real time (sent from Treasury department via email)
  - Studio (via access to the system)
  - Phase 3 (via access to the system)

8.3. *Critical Systems and Applications*

We are currently using the Internet to connect to the US Treasury for MF Global auction participation. The US Treasury issues individual USB Secure Tokens with a digital certificate used in conjunction with passwords to ensure two-factor authentication. These tokens can be used on any workstation with an internet connection; however there is security software that must be installed on the PC to access the token. This software is on an MFG file share (\\nywpwnas01\apps\Taaps). Each individual will be issued a secure token directly for their use with the TAAPS application.

TAAPS URL: https://taaps.treasuryauction.gov/auctions/TAAPSWeb/index.do

For the NY location, there will be two (2) dedicated MF Global workstations for the auction process order execution.

Current individuals with a TAAPS token:

- Mark Reilly (Primary auction input)
- William D'Alessio
- Bilal Qureshi
- Maureen Ziegler
- Brent Posner
- Chuck Thorp (Chicago Resource)
- Elisa Moy (Chicago Resource)

Supporting Applications and Systems

System / Application	Recovery Time Objective (RTO)	Critical Time of Day Needed	Recovery Point Objective (RPO)	Dependency (Internal/External)
Email (MS Exchange) – used for receipt of files from Martini system in London – used to receive files from the Treasury department	Mission Critical	ALL	0-2	Network and Internet Connectivity
TAAPS - Accessed via the Internet and a USB token	Mission Critical	Per Auction Schedule	0-2	NY Federal Reserve (External) Network and Internet Connectivity
Token (Digital Certificate) - Issued by FRBNY - Requires driver to be installed on PC prior to usage	Mission Critical		—	NY Federal Reserve (External)
Phase 3 (INQSTR command)	Mission Critical	ALL	0-2	SunGard Connectivity
RiskVal (FI)	Mission Critical			Network Connectivity
Martini (UK)/GRIPS	Mission Critical			Network Connectivity
Trader Studio (FI)	Mission Critical			Network Connectivity
TOMS (Bloomberg)	Mission Critical			Internet – Bloomberg service
FCM/ Investment System	Mission Critical			Network Connectivity (MIMIX on AS/400)

8.4. *Regulatory Reporting*

- Fed Reporting: submit 6 reports—the FR2004 reports (manual calculated spreadsheets)
- Email FR2004 reports to Federal Reserve market staff
- The Federal Reserve requires that a senior officer of the primary dealer sign off on each FR2004 report. In addition to this requirement, MF Global will require the Head of the Finance desk, the Head of the Treasury desk, the Head of Operations, the Head of Fixed Income and the preparer to review and approve the reports before passing them to the senior officer.

8.5. *Vital Records*

- The signed FR2004 reports will be retained physically and electronically for two years. Scanned copies are stored on MF Global's SharePoint Portal (document repository) (http://moss/projects/primarydealer/default.aspx).

8.6. *Alternate Recovery Processes*

- **Alternate Processing Options**
  a. For the NY office:
     i. two (2) workstations will be logged in and available to process (submit bids) during auction periods,
     ii. two (2) users in Chicago will be available in case of a NY office system failure
        1. NY staff have the ability to call bids into the FRBNY helpdesk in case of inability to utilize the TAAPS system
           a. Calling in bids from either the office or a mobile phone are the primary alternate solutions for the auction if the TAAPS system is unavailable
           b. If phones and the TAAPS system are unavailable, staff in Chicago would facilitate entering bids
        2. These staff would have the ability to submit bids while NY staffs relocate to the DR site. The DR site will have several workstations available (i.e. TAAPS) for processing.

- **Relocation to the DR Site** - Upon arrival at the recovery site, staff should:
  a. Test and verify all necessary access
     i. Verify dependencies outside of your team first so the proper people can be contacted and start working on a recovery solution immediately.
     ii. Many tasks and procedures are dependent upon networking and Internet access availability; verify that these systems are available prior to continuing normal operations at the DR site.
  b. Check email/outlook, user H:\ drive, group P:\ drive, and site S:\ drive accessibility – Verify files can be accessed, created, modified and deleted by users on the DR file server.
     i. Verify access to the spreadsheets for reporting
  c. Obtain TAAPS token and login to the TAAPS site (minimum 2 users will be logged into TAAPS at anytime):
     i. https://taaps.treasuryauction.gov/auctions/TAAPSWeb/index.do
  d. Login to Studio and verify functionality
  e. Login to TOMS and verify functionality
  f. Login to Phase III and verify functionality (i.e. MFG website for reporting)
     i. IF a reporting day, extract files as provided by the development team
  g. Continue business operations as normal - Detailed operational tasks and procedures for normal processing of business unit operations are identified within the respective operations guide.

8.7. *Invocation Call Tree*

In the event of an invocation of this BCP Plan it will be necessary for all staff to be notified. The Crisis Management Team will notify BCCs and department heads in accordance with the following Call Tree. The BCC and department head will be contact the persons associated by the Contact Order column number.

Contact Order	Name	Role	Primary / Alternate #s	Person(s) to Call
1	Brent Posner	BCC	Redacted – Internal Staff use only	2,5,9,10,11,12
2	Peter McCarthy	Global Head		3
3	Robert Lyons	COO		2,4,CMT
4	Rich Gill	NY Operations		3
5	Mark Reilly	Primary auction input		1,6,7,12
6	William D'Alessio	FI		1,7,8
7	Bilal Qureshi	FI		1,8,9
8	Maureen Ziegler	FI		1,9
9	Jack Mahoney	FI		1,2,4
10	Mac Budd	Head of US Treasury Desk		
11	Brett Benza	Head of IR Sales		
12	Chuck Thorp	Chicago Operations		13
13	Elisa Moy	Chicago Operations		

8.8. *Third Party Notification*

Responsibility for contacting customers, key third parties, and counter-parties are shown below. The format and content of any notifications must be approved by Corporate Communications or if applicable by the department head.

The following individuals are responsible for ensuring appropriate notification obligations are completed as required by various compliance initiatives. Additionally, completion of required notification should be reported to the CMT.

- **Regulatory** – Compliance Department – Tom Cohen
- **Insurance** – Insurance Risk – Ted Bohlman
- **Exchanges** – Operations Department – Bob Lyons/Rich Gill
- Media enquiries should be directed to the CMT and Corporate Communication who will issue appropriate statements.
    - Generally, no one other than those authorized by the Corporate Communications should make any comments to the media.

Customers/Business Constituents/Counter - Parties	Internal / External	Contact Name	Contact Phone Number
NY Federal Reserve (Business Contacts)	External		
NY Federal Reserve (Technical Contacts)	External	Bill Wien (Primary) Richard Dzina	212-720-7427 212-720-5946
JPM Chase	External	Bill Fishman (Primary) Dave Rosengarden Kevin Murphy (Banking Contact)	212-623-0434 212-623-0549 212-622-5383
Bloomberg	External	Helpdesk Scott O'Dabashian	212-318-2000 212-617-5444
Risk Valve	External	Jordan Hu	
MF Global – Chicago	Internal	Chuck Thorp Elisa Moy	312-663-7731 312-663-7632
Operations	Internal	Rich Gill Bob Lyons	212-935-3011 212-589-6570
Middle Office	Internal	Craig Fanning	212-589-6563 (w) 646-266-1225 (h)
Finance	Internal	Aviva Nussbaum	212-935-2555
Accounting	Internal	Christine Serwinski / Louis Valentini	312-548-1400 212-935-4675
Legal	Internal	Andrew Unterberg	212-589-6286

Appendix 26.A

U.S.A.
Credit Analysis

MF Global Ltd.

Ratings

	Current Rating
MF Global Ltd.	
Long-Term IDR	BBB
Short-Term IDR	F2
Senior Debt	BBB
Preferred Stock	BB+

Rating Outlook

Stable

Financial Data

MF Global Ltd

	9/30/09	3/31/09
Total Assets ($m)	59,494	38,836
Total Equity ($m)	1,449	1,448
Net Income ($m)	(33)	(49)
EBITDA Margin[a] (%)	(0.43)	5.74
EBITDA Fixed Coverage (x)	Negative	1.53

[a]d on Fitch's net revenues. Note: Fiscal [b]nded March 31.

Analysts

Eric Newell, CFA
+1 212 908 0769
eric.newell@fitchratings.com

Leslie Bright
+1 212 908 0622
leslie.bright@fitchratings.com

Related Research

Applicable Criteria

- *Global Financial Institutions Criteria, Dec. 29, 2009*
- *Rating Criteria for Securities Firms, Dec. 30, 2009*

Rating Rationale

- MF Global Ltd.'s ratings reflect a global franchise with strong market share in clearing exchange-traded derivatives with notable product diversity and depth. Fitch Ratings views actions to enhance management, improve the capital structure and enterprise risk management, and bolster liquidity management positively. Continued GAAP losses, despite preliminary actions improving overall profitability, detract from these positive rating considerations.
- Fitch expects short-term moderate pressure on operating performance, which underlay the IDR downgrade in June 2009 due to a higher dependence on trading volumes and low interest rates. Offsetting the reduced net revenues is a drive for greater operational efficiency, reduction and better utilization of professional staff, and new products.
- MF Global's balance sheet grew significantly in fiscal 1H10 (YE March 31) resulting from fixed-income business growth through a wider product offering. Incremental market risks from this growth are minimal due to the high-quality composition of these securities.
- The company's capital structure is vastly improved from its post-IPO structure due to initiatives extending the maturities in the capital structure and reducing overall leverage. This is evidenced in the filing of a shelf registration and the repayment of the $240m two-year term facility in April 2009 and the $200m payment to reduce the balance of its liquidity facility in December 2009.
- Efforts to improve enterprise risk management have resulted in significant changes throughout the structure of the organization. A more efficient organizational structure with a global product and service approach rather than a focus on geography is expected to better identify, monitor, anticipate, and mitigate risks.
- Liquidity remains a key consideration. A limited amount of level 3 assets, primarily exchange seats, as well as high-quality balance sheet assets, excess capital, and access to a liquidity facility, gives MF Global the ability to fund significant outflows.

Key Rating Drivers

- The Stable Outlook encompasses Fitch's short-term view of moderate yet manageable pressure on operating performance. Actions to lengthen the capital structure will be viewed positively. Fitch will continue to assess profitability and risks posed by initiatives to improve operating performance. Risks or losses that fall outside of our expectations would result in a review of the company's ratings.

Profile

MF Global is a leading futures and options broker with subsidiaries in major financial centers across the globe. Its main subsidiaries are registered futures commissions merchants and broker-dealers and heavily regulated as a member of commodities, futures, and securities exchanges in the U.S., Europe, and the Asia-Pacific regions.

- MF Global Ltd. is a futures and options clearing broker with operations across the globe. Geographic and product diversification are material competitive advantages.
- Global banks and broker dealers are major competitors.
- Management changes have been significant over the last 18 months, with much of the IPO executive management no longer with the firm.

Profile

MF Global provides trade execution and clearing services for exchange-traded and OTC derivatives and selective cash products across the globe. Organized in Bermuda and principally located in New York, N.Y., the firm has a presence in the U.S., U.K., France, Singapore, Australia, Hong Kong, Canada, India, Switzerland, and Japan. The increasing revenue contribution from outside legacy core-market sources is an illustration of the company's ability to successfully execute and manage the various businesses across different geographies. The corollary risk management systems needed to manage the requirements of the multiple regulatory regimes underscore the need for successful executions.

Man Group plc

In July 2007, MF Global completed its initial public offering of common stock, which finalized its separation from Man Group plc's asset management business. In an agreement between the two parties, both are subject to noncompetition and nonsolicitation agreements until July 2010. Amid the market turmoil in early 2008, MF Global and Man Group terminated an agreement for which the company would provide extended settlement for Man Group's trading activity. This represented a miniscule percentage of the company's revenues; the business loss resulted in enhanced liquidity and a reduced capital charge against the business. In July 2009, Man Group floated its remaining 18.6% ownership of MF Global stock through a variable forward sale agreement.

Management

A significant level of change in the executive management of MF has occurred over the past 18 months. The most notable is the replacement of Kevin Davis as CEO in October 2008 by Bernard Dan, who was previously appointed as COO in June 2008. Mr. Dan has previous experience in the futures and options sector as the president and CEO of the Chicago Board of Trade. The COO position was filled by a European-based COO. Michael Roseman was appointed chief risk officer (CRO) in August 2008. Mr. Roseman was the Americas CRO for Newedge Group prior to joining MF. J. Randy McDonald, who joined as CFO in April 2008 remains in this role at the writing of this report.

- Fitch expects operating performance to remain under pressure due to a reduced level of market activity as well as low interest rates.
- The company has initiatives to decrease the dependence on the level of trading activity for profitability.

Performance

MF Global has reported consecutive GAAP losses over the past several quarters. In the downgrade of the company's ratings in June 2009, Fitch cited its weak FYE09 earnings performance and near-term challenges for revenue in fiscal FYE10 as key drivers. MF Global's year-to-date (fiscal year-end March 31) loss of $48.8m continues to fall within Fitch's initial expectations. year-to-date net revenue, as defined by Fitch, declined to $923m from $1.32bn, or 30%, from the comparable period. MF Global's revenue generation stems from three sources: commissions from its execution and clearing; matched principal revenue from fixed-income, stock-lending, and principal transactions; and net earnings from the investment of client funds. Each source is reviewed below.

Commissions

Commissions arise from MF Global's execution and clearing activities. Execution-only transactions are generally completed on an agency basis. MF will direct the order to the appropriate exchange or OTC market for which the order is matched with a corresponding order. Clearing of transactions, when the order is executed through a central clearinghouse, requires approving clearing members, for which MF is designated, to act on behalf of the parties for the transaction. Consequently, MF is required to ensure that the client for which it is acting on behalf of to the clearinghouse maintains adequate margin throughout the life of the open position. This activity introduces credit risk to the company from the potential inability of the client to post additional

collateral if a margin call is made by the clearinghouse. In the event of a margin call, MF would be required to post its own collateral to the clearinghouse if the client failed to post collateral to MF. Historically, clearing of trades through the OTC-traded market were completed by the counterparties of the transaction. However, with increased standardization in OTC markets, MF has begun to provide clearing services for a growing number of OTC derivative trades. When no clearinghouse is involved, MF will step in as the counterparty for both sides of the transaction, require collateral to be posted, mark the collateral to market daily, and make margin calls as necessary. If MF is not clearing both sides of the transaction, the company will evaluate the creditworthiness of the third-party clearing firm to ensure financial stability and soundness.

Net Revenues[a]

($m, Fiscal Years Ended March 31)

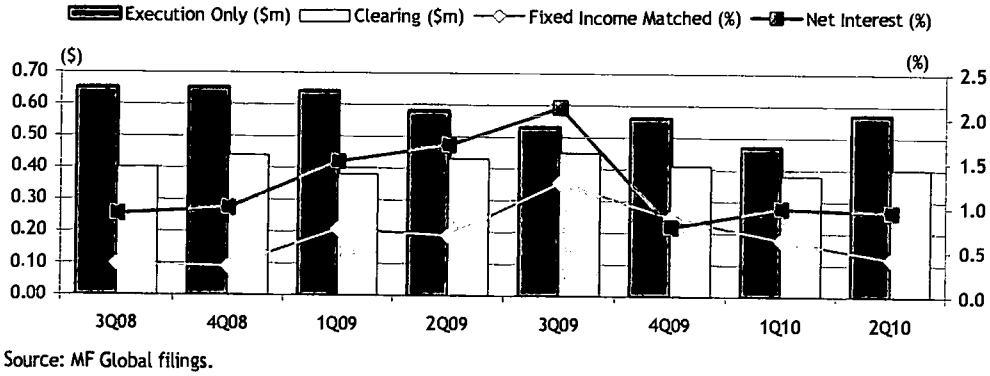
	1Q09		2Q09		1Q10		2Q10	
	Amount	%	Amount	%	Amount	%	Amount	%
Execution-Only Commissions	119.1	18	107.0	16	79.3	17	79.6	17
Cleared Commissions	374.2	57	370.7	57	259.5	56	262.8	57
Principal Transactions	63.2	10	69.2	11	45.7	10	40.2	9
Interest Income	345.8	52	272.3	42	112.2	24	100.8	22
Interest Expense (Securities Financing)	(238.8)	(36)	(171.7)	(26)	(36.1)	(8)	(35.1)	(8)
Interest Expense (Borrowings)	(14.2)	(2)	(22.0)	(3)	(10.5)	(2)	(10.0)	(2)
Net Interest and Dividends	**92.8**	14	**78.8**	12	**65.5**	14	**55.8**	12
Other[b]	11.0	2	30.1	5	14.3	3	20.0	4
Net Revenues	660.3	100	**655.8**	100	**464.3**	100	**458.4**	100

[a]As defined by Fitch. [b]Includes gains on exchange seats/shares. Note: Numbers may not add due to rounding.
Source: MF Global.

Commissions are highly dependent on many market-driven variables and to a lesser extent on factors that can be influenced by the company. The yield earned on execution and clearing is provided in the table below. Most importantly, is the volume of contracts for the respective period. In the latest quarter (2Q10, ended Sept. 30, 2009), volumes declined 8% from the June 2009 quarter to 396m contracts. This decline was in line with overall exchange volumes falling 8% for the same period. The execution-only and clearing yields for 2Q10 of $0.57 and $0.40, respectively, improved from the previous quarter. Yields are influenced by the products and the clients that are traded.

Historical Yield Analysis

(Fiscal Years Ended March 31)



Source: MF Global filings.

Matched Principal

In certain circumstances, the company will engage in matched principal execution. This is where MF will enter into one side of a client trade and then make an attempt to enter into an offsetting trade with another party as soon as feasible. Most matched principal execution occurs in OTC markets to facilitate client transactions quickly. Because of MF's depth in some markets, the company sometimes has the opportunity to simultaneously match one client's trade with another client's offsetting trade, on a principal-to-principal basis. This activity is the most profitable to the company since it is facilitating both sides of the transaction. Products typically within the matched principal business are energy, metals, foreign exchange, and agriculture. Spreads earned on each commodity fluctuate due to market conditions and, in particular, pricing volatility. Matched principal revenues also occur from the company's fixed-income business. Over the past year, MF has grown the fixed-income business to include markets such as U.S. Treasuries and agencies, high-yield, and investment-grade corporates. Consequently, average gross balances on the balance sheet have grown from client demand. Revenues are derived by the spread earned between the asset and the liabilities funding the asset. MF's revenues from matched principal are susceptible to market fluctuations and volatility from perceptions of market liquidity and health, which can either benefit or hinder revenues.

Average Balances

($m, Fiscal Years Ended March 31)

	2Q10	1Q10	2Q09
Securities Borrowed	11,175	9,445	6,614
Securities Loans	(4,551)	(5,153)	(4,455)
Securities Owned	7,590	6,762	4,353
Securities Sold	(3,788)	(2,659)	(2,227)
Reverse Repo	19,959	15,612	9,621
Repo	(30,456)	(21,390)	(14,366)
Average Net Balances	(71)	2,617	(459)
Average Gross Balances	38,759	30,511	20,817

Source: MF Global.

Net Earnings on Client Funds

In the course of business, clients will leave funds on deposit with the company as margin. Often, MF Global will have a higher margin requirement than the clearinghouse; this allows the company to earn a spread off the nonsegregated and segregated funds. The net yield earned during the latest quarter, fiscal 2Q10, was 0.95%. To achieve this spread, 53% of average client balances were invested into longer dated maturities, with an average maturity of 13 months. The blended duration of the entire portfolio is seven months. Net earnings from the investment of client funds has declined from the comparable period due to a low interest rate environment, shorter duration of investments to ensure liquidity to meet client demands for excess cash, and a lower level of excess client funds in the current period than in the comparable period. It is important to note that clients can call their excess cash at anytime, necessitating a robust liquidity program, especially in times of high volatility.

Performance Metrics

($m, Fiscal Years Ended March 31)

	YE08	YE09	1Q10	2Q10
Net Revenue	2,865	2,367	464	458
Operating EBITDA	232	162	2	30
ROE (%)	(5.6)	(3.4)	(9.2)	(4.5)
Pretax ROE (%)	(0.2)	(2.3)	(6.1)	(3.6)
Compensation/Net Revenues (%)	33.4	35.5	39.1	37.9
Noncompensation/Net Revenues (%)	19.5	15.2	20.5	16.8
Operating EBITDA/ Interest Expense (x)	3.3	2.4	0.2	3.0
Operating EBITDA/ Interest Expense + Preferred Dividends(x)	3.3	1.8	0.1	1.7

Notes: See Net Revenue Table on page 3; operating EBITDA excludes effect of stock-based compensation; noncompensation considers recurring only.
Source: MF Global.

Initiatives to Improve Net Revenues and Earnings Prospects

Operating performance over the past several quarters has been affected by general market trends, especially the narrowing of spreads and a low level of interest rates. Market volatility, which benefits MF's revenues through higher volumes, such as in the commodities business, can be offset by reduced volumes experienced in exchange traded markets. Recently, as market volatility has subsided from the high levels witnessed in late 2008, exchange traded markets have experienced improved trading volumes. In response to market volatility in 2008, MF re-evaluated its businesses, exited markets, and stopped offering products that required high levels of capital and liquidity. The consequence was a product mix that became largely dependent on spreads and trading volume. As volumes declined, the company's operating performance also declined. With much of the legacy management team having been replaced, the new team re-evaluated the current strategy relating to products and markets to rebuild on MF's core businesses and improve profitability. Two areas that have been identified as sources of future growth: retail and fixed income. The latter initiative's initial investments can be seen through the hiring of fixed-income producers, the company's application to the Federal Reserve Bank of New York for the primary dealer designation, and the notable balance sheet growth attributed to the fixed-income businesses. The former initiative, expanding its retail business, is also underway, with new products and services being offered. One example is offering independent research in its Hong Kong market. As a result of its focus on growing the retail component, retail revenues from Asia, which Fitch sees as a growing and important region for revenue and growth, rose 26% sequentially.

While each of the initiatives identified by management is designed to grow revenues through higher levels of trading volume and margins, the market dynamics continue to place a significant level of pressure on operating performance. A third initiative undertaken by the company has been a rationalization of expenses. Noncompensation expenses have continued to decline on an absolute basis as management identifies more efficiencies and procedures to rationalize its expense base. Compensation-related expenses, however, have increased over the past several periods due to the company's investment in people in its fixed-income business line and a reduced reliance on consultants and a greater dependence on full-time permanent employees. The company indicates that the upfront investment will pay dividends in the intermediate and long run. One positive example is that in fiscal 1H10, fixed-income accounts grew by 230, in part driving a 60% increase in fixed-income revenue from Europe.

- The nature of MF's business results in primarily operational risk. Since its trading loss in February 2008, enterprise risk management improved notably.
- Credit risks are carefully evaluated and include settlement and financing.

Risk

Operational Risk

The company has reviewed and made notable changes to its enterprise risk management (ERM) function since the early-2008 trading incident. The ERM Committee oversees operational risk, credit risk, asset/liability management, market risk, and reporting risk. In addition to the ERM committee, two committees have been established, Process & Technology and New Products, which review the resulting effects and the risks posed by new products, procedures, and technology. A notable outcome of this new schematic is the review of its existing order entry platforms and the decision to streamline differing technologies to minimize the risks and resources needed to maintain the numerous legacy platforms obtained through acquisitions. Losses due to transactional errors totaled 1.0% of revenues net of interest and transaction based expenses during fiscal 1H10 from 0.9% in the comparable period.

Market Risk

Market risk arises from several types of activities: foreign exchange risk, which is related to the company's international operations; interest rate risk arising from the

impact of interest rate movements and their effect on interest income earned and interest paid on cash balances and secured financing transactions; and to a lesser extent commodity and equity price risk that results from principal trades and the period for which the company has not found an offsetting trade. Since the company generally does not trade for a proprietary portfolio, this last risk is minimal relative to broker/dealers. In the majority of situations where MF Global will take a position to facilitate a client trade, the company will find an offsetting position during the same trading day. In the period ending June 30, 2009, the company started to hedge foreign exchange risk arising from the company's international operations. It is expected that the income statement volatility from the relationship between the British Pound and Euro and the U.S. Dollar will no longer significantly impact profitability as long as the hedging is effective. A measure of the company's market risk can be seen through the level of its value at risk (VaR). At March 31, 2009, end-of-day VaR at a 95% confidence level on a one-day time horizon was $1.3m. The same measure for Sept. 30, 2009 increased to $4.1m, with the majority of the risk emanating from interest rate risk, similar to the previous fiscal year end. The ratio of VaR to TCE for these two respective periods is 0.11% and 0.36%. As demonstrated by the low VaR in comparison to TCE, this level of market risk is de minimus compared to broker/dealers, which take on significantly more risk due to proprietary trading activities.

Credit Risk

Monitoring of credit risk is essential for the company to limit losses as well as the maintain profitability. Without a robust enterprise risk management scheme, breakdowns in controls may result in a loss of confidence of among the company's clients. Activities inherent in MF Global's business model create credit risk. Exposure to counterparties not performing (either through trading or settlement); issuers of securities the MF Global holds for its account, directly or indirectly; clients or counterparties unable or unwilling to meet margin calls; clients unable to repay financing lines; and clients who owe the company commissions. The company looks at credit risk through several prisms: potential exposure, actual exposure, institutional exposure, financing risk, and country risk. To monitor these risks, the company looks at positions in customer and counterparty portfolios on a real time basis. Concentrations are reviewed on an individual account level as well as an aggregate level where similar risk attributes are shared. Margined business makes up a vast majority of the company's clearing business, whereby the client may be required to cover additional variation margin in addition to initial margin requirements. Credit risk can be elevated when the company may be required to fund the margin call to the exchange in advance of receiving the margin from the client. To minimize this risk, MF Global may have a higher maintenance margin than the exchange, engage in intra-day margin calls in times of high market volatility, and when circumstances require, liquidate a position when the client fails to meet a margin call. Depending on the client relationship, at times the company will provide secured and unsecured lines of credit that can be used to post initial and variation margin. These lines of credit are uncommitted and therefore can be rescinded at any time. Bad debt expense for the fiscal 1H10 totaled a credit of $615 thousand, comparing favorably to the fiscal 1H09 bad debt expense of $8.7m, representing negative 0.1% and 1.1% of total revenues, respectively.

- The company has taken steps to improve its capital structure following the IPO bridge loan.
- With excess capital resulting from a more conservative of asset profile on the balance sheet, the firm has been de-leveraging, which is viewed positively by Fitch.
- Liquidity management has been a major consideration as evidenced by the high level of liquid assets despite significant balance sheet growth over F1H10.

Capital/Liquidity

Funding

Coincident to MF Global's separation from Man Group and the IPO, the company entered into a short-term $1.4bn bridge loan, which was fully repaid in December 2008. Market and idiosyncratic events dramatically influenced the eventual funding structure that would replace the bridge loan. Importantly, through this time, MF Global's

difficulty in issuing senior debt resulted in much of the funding structure that is currently in place. Current management, which has largely replaced managers in place at the IPO, recognizes the need to improve the quality and tenor of the capital structure.

Liquidity Facility

In tandem with establishing the $1.4bn bridge loan at the time of its IPO, MF Global also entered into a $1.5bn liquidity facility. The unsecured, committed revolving line of credit matures in June 2012. In February 2008, the facility was drawn by $142.5m to fund a trading loss brought about by a broker. Later in the year, with markets under significant stress, the company decided not to renew bilateral facilities with a committed amount totaling $275m, which was used to fund clients posting of margin in the energy and metals business lines. To continue providing this service, MF Global again looked to the liquidity facility. In June 2008, in an effort to pay off the IPO bridge loan, the company used proceeds from the liquidity facility to pay down the bridge loan totaling $350m. The company classifies $500m of the $642.5m outstanding at Sept. 30, 2009 as long-term debt and considers it part of its capital structure. The remaining amount of $142.5m is classified as short-term borrowings. In December 2009, the company announced its intention to pay down $200m of the liquidity facility from excess liquidity from improved efficiencies in the usage of cash as well as excess capital in its regulated operating subsidiaries.

Convertible Senior Notes

In June 2008, the company issued $150m of 9.00% convertible notes due 2038. In connection with the offering, initial purchasers exercised the option to purchase an additional $60m of convertible notes. Holders of the notes may convert at their option any times prior to maturity. The initial conversion price is approximately $10.45 per common share. The company may redeem the notes for cash at any times on or after July 1, 2013. Holders may require the company to repurchase the notes for cash on July 1 in 2013 or in five-year increments until maturity. In March 2009, MF Global completed a cash tender offer to purchase its $210m convertible notes, in which $5m was tendered. The company viewed the low level of participation in the tender as a positive indication of investor interest in the company as well as expectations of improved future performance.

Convertible Preference Shares

In June 2008, the company issued $150m of 9.75% noncumulative convertible preference shares (series B), which is applicable only as long as the original investor holds the security. The series B shares are convertible to common shares based on an initial conversion price of $10.45 per share. On or after July 1, 2018, if the closing price of the company's common shares exceeds 250% of the then-prevailing conversion price for 20 trading days within a 30-day period, the company may, at its option, cause the shares to automatically convert into common shares.

In July 2008, the company issued $150m of 10.725% (reset from the original 6.0% due to the dividend on the aforementioned series B shares) cumulative convertible preference shares (series A). The purchaser, J.C. Flowers, agreed to purchase a minimum of $150m and up to a maximum of $300m, which was dependant on the ability to issue the series B preference shares. Under the investment agreement, J.C. Flowers is able to appoint one director to MF Global's board, and if the company fails to pay dividends on the series A for six quarterly periods, two additional directors can be appointed to the board. The company has declared dividends for both series A and B preferred shares on schedule since the issuance.

Capital

MF Global's regulatory capital requirements are dictated by respective regulatory authorities. In general, client funds require a higher level of capital than what is required to be held against other types of assets, depending on the level of risk. Despite a notable increase in assets over the fiscal 1H10, the regulatory capital requirement has fallen modestly, demonstrating the low level of risk that the incremental assets have added to the balance sheet. At September 30, 2009, total capital was $2.23bn of which regulatory capital requirements totaled $1.31bn. Over the last 18 months, the company has received approval for excess capital to be released out of its regulated subsidiaries totaling $749m. Excess funds, in part, were used to pay down other obligations.

Liquidity

A strong liquidity scheme is paramount for MF Global, in Fitch's opinion. In the wake of its trading loss in February 2008 as well as market rumors, MF's liquidity came under pressure from client withdrawals. Fitch has previously commented that the company's actions to preserve liquidity during that period as well as maintain ample liquidity in less stressful periods are viewed positively. Nevertheless, it is important to understand and assess the company's sources and uses of liquidity.

Liquidity sources stem primarily from excess capital as well as the undrawn portion of the aforementioned liquidity facility, both of which total $1.44bn at Sept. 30, 2009. The company also looks to non-segregated payables to customers and excess collateral which totals an additional $1.55bn, and while this is a source of daily liquidity, in Fitch's view, the company could not rely on this during a period of stress.

MF Global Ltd.

($m, Fiscal Years Ended March 31)

	YE07 Actual		YE08 Actual		YE09 Actual		6/30/09 Actual		9/30/09 Actual	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
ASSETS										
Cash and Cash Equivalents	1,693	3.3	1,481	3.0	639	1.6	822	1.5	797	1.3
Segregated Cash and Securities	4,475	8.7	12,047	24.5	9,670	24.9	9,187	17.2	9,642	16.2
Securities Purchased under Agreement to Resell	19,056	36.9	13,022	26.4	12,903	33.2	18,321	34.3	21,597	36.3
Securities Borrowed	4,843	9.4	4,649	9.4	8,625	22.2	10,266	19.2	12,085	20.3
Securities Received as Collateral	555	1.1	624	1.3	54	0.1	72	0.1	53	0.1
Securities Owned	13,599	26.3	7,380	15.0	3,606	9.3	9,918	18.5	11,588	19.5
Receivables:										
Brokers, dealers, clearing organizations	6,185	12.0	7,086	14.4	2,473	6.4	4,055	7.6	2,693	4.5
Customers	802	1.6	2,367	4.8	416	1.1	365	0.7	580	1.0
Affiliates	12	0.0	1	0.0	0	0.0	0	0.0	0	0.0
Other	42	0.1	42	0.1	37	0.1	55	0.1	41	0.1
Memberships in Exchanges, At Cost	18	0.0	9	0.0	6	0.0	6	0.0	7	0.0
Furniture, Equipment, etc.	46	0.1	55	0.1	63	0.2	63	0.1	68	0.1
Goodwill and Intangible Assets, Net	238	0.5	267	0.5	152	0.4	144	0.3	137	0.2
Other	107	0.2	224	0.5	191	0.5	201	0.4	209	0.4
TOTAL ASSETS	51,670	100.0	49,255	100.0	38,836	100.0	53,478	100.0	59,494	100.0
LIABILITIES and EQUITY										
Short-Term Borrowings, Including LTD Maturing < 1 Year	82	0.2	1,730	3.5	149	0.4	166	0.3	152	0.3
Securities Sold under Agreement to Repurchase	16,874	32.7	18,638	37.8	14,272	36.7	28,508	53.3	32,403	54.5
Securities Loaned	10,108	19.6	3,188	6.5	5,952	15.3	4,354	8.1	4,747	8.0
Obligation to Return Securities Borrowed	555	1.1	624	1.3	54	0.1	72	0.1	53	0.1
Securities Sold, Not Yet Purchased	3,379	6.5	1,869	3.8	2,885	7.4	2,433	4.6	5,143	8.6
Payables:										
Brokers, Dealers, Clearing Organizations	2,562	5.0	6,317	12.8	1,077	2.8	4,246	7.9	2,414	4.1
Customers	15,756	30.5	15,302	31.1	11,766	30.3	11,351	21.2	12,242	20.6
Affiliates	870	1.7	13	0.0	2	0.0	3	0.0	0	0.0
Accrued Expenses and Other Liabilities	346	0.7	314	0.6	293	0.8	205	0.4	191	0.3
Long-Term Borrowings	595	1.2		0.0	938	2.4	698	1.3	698	1.2
TOTAL LIABILITIES	51,125	98.9	47,995	97.4	37,388	96.2	52,037	97.3	58,044	97.6
Minority Interests (Claim on Equity)	7	0.0	11	0.0	13	0.0	14	0.0	14	0.0
Preferred Stock	0	0.0	0	0.0	224	0.6	224	0.4	224	0.4
Common Stock	0	0.0	120	0.2	91	0.2	91	0.2	92	0.2
Paid-In Capital	0	0.0	1,266	2.6	1,335	3.4	1,344	2.5	1,354	2.3
Accumulated OCI	0	0.0	6	0.0	(24)	(0.1)	(16)	0.0	(10)	0.0
Retained Earnings	0	0.0	(142)	(0.3)	(191)	(0.5)	(217)	(0.4)	(225)	(0.4)
TOTAL EQUITY	538	1.0	1,249	2.5	1,435	3.8	1,426	2.7	1,435	2.4
LIABILITIES and EQUITY	51,670	100.0	49,255	100.0	38,836	100.0	53,478	100.0	59,494	100.0
INCOME STATEMENT										
Execution-Only Commissions	387	15.7	486	17.0	381	16.1	79	17.1	80	17.4
Cleared Commissions	1,280	52.0	1,529	53.4	1,261	53.3	260	55.9	263	57.3
Principal Transactions	300	12.2	282	9.8	288	12.2	46	9.8	40	8.8
Interest Income	4,090	166.3	3,669	128.1	872	36.9	112	24.2	101	22.0
Less: Interest Expense (sec fin)	3,739	152.0	3,165	110.5	495	20.9	36	7.8	35	7.7
Less: Interest Expense (Borrowings)	44	1.8	69	2.4	68	2.9	11	2.3	10	2.2
Net Interest and Dividends	307	12.5	434	15.2	309	13.1	66	14.1	56	12.2
Other (Including Gains on Exchange Seats/Shares)	186	7.6	134	4.7	127	5.4	14	3.1	20	4.4
Net Revenues	2,460	100.0	2,865	100.0	2,367	100.0	464	100.0	458	100.0
Execution and Clearing Fees	700	28.5	927	32.4	741	31.3	142	30.6	146	31.9
Sales Commissions	276	11.2	291	10.2	252	10.6	61	13.0	59	13.0
Compensation and Benefits	835	33.9	897	31.3	796	33.6	173	37.2	164	35.9
Additional Compensation, IPO Awards	0	0.0	59	2.1	45	1.9	9	1.9	9	2.0
Communications and Technology	102	4.2	119	4.1	123	5.2	27	5.8	29	6.3
Occupancy and Equipment	30	1.2	36	1.2	45	1.9	10	2.1	10	2.1
Depeciation and Amortization	47	1.9	55	1.9	58	2.4	14	2.9	14	3.1
Professional Fees	50	2.0	75	2.6	90	3.8	20	4.3	17	3.8
Other	78	3.2	326	11.4	101	4.3	38	8.3	21	4.7
Other, IPO-Related	34	1.4	56	2.0	23	1.0	1	0.2	0	0.0
Refco Integration Costs	19	0.8	3	0.1	1	0.0	0	0.0	0	0.0
Impairment of Intangible Assets and Goodwill	0	0.0	0	0.0	82	3.5	1	0.1	1	0.1
Loss on Extinguishment of Debt	0	0.0	18	0.6	0	0.0	10	2.1	0	0.0
Total Expenses	2,171		2,861		2,356		504		471	
INCOME BEFORE TAXES	289		4		10		(40)		(13)	
Income Tax (Benefit)	100		67		42		(14)		(5)	
INCOME AFTER TAX	189		(63)		(31)		(25)		(8)	
Minority Interests and Unconsolidated Earnings, Net	(1)		(7)		(17)		0		(0)	
NET INCOME	188	7.6	(70)	(2.4)	(49)	(2.1)	(25)	(5.4)	(8)	(1.8)
Preferred Dividends	N.A.	N.A.	N.A.	N.A.	19	N.A.	8	N.A.	8	N.A.
Cumulative and Participating Dividends	N.A.	N.A.	N.A.	N.A.	2	N.A.	N.A.	N.A.	N.A.	N.A.
Common Dividends	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
NET TO R/E	188	N.A.	(70)	N.A.	(69)	N.A.	(33)	N.A.	(16)	N.A.

N.A. – Not applicable.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTP://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Copyright © 2010 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004.Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from USD1,000 to USD750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from USD10,000 to USD1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch

Appendix 26.B

Moody's Investors Service

Rating Action: Moody's changes MF Global's (issuer rating at Baa2) outlook to negative

Global Credit Research - 06 Nov 2009

New York, November 06, 2009 -- Moody's Investors Service changed the outlook on MF Global's Baa2 long-term issuer rating to negative from stable. This rating action reflects the sharp increase in MF Global's balance sheet leverage as management seeks to offset the effect on revenue of lower transaction volumes and interest yields and diversify its revenue base.

As we expected, low interest rates and declining transaction volumes have been exerting negative pressure on MF Global's results. We continue to expect the operating environment to remain challenging for the next several quarters. Positively, management has been successful this year in reducing expenses across the board, but we do not foresee further incremental expense saves of this magnitude to be realized in the near term.

Lower revenues have led MF Global to double its balance sheet leverage since the end of 2008. Our concern with regard to the sharply higher balance-sheet leverage is primarily related to potential funding friction in times of stress. We recognize that the matched book is composed mainly, but not exclusively, of screen-funded liquid treasuries and agencies. Given its liquid and generally short-term nature, the matched book can be unwound, and the leverage -- reduced, as rapidly as it was expanded. Furthermore, we believe that MF Global has prudent policies and controls with regard to liquidity, duration, and counterparty credit risks. Nonetheless, it remains the case that MF Global's balance sheet has grown 80% in nine months, while its equity base and long-term capital have remained the same.

"Notwithstanding MF Global's prudent liquidity management and the recent abatement of stressed market conditions, we are cautious about sharp increases in leverage," said Alexander Yavorsky, Moody's Vice President. If leverage remains at currently elevated levels, particularly if combined with increases in duration or credit risk, this would put negative pressure on the rating.

MF Global's franchise remains stable and healthy. We continue to think that the long-term industry trends -- demand for liquid derivatives as vehicles for risk management and position taking, and emerging customer preferences for un-conflicted intermediaries and the transparency of exchange-traded products -- will remain positive for MF Global. "MF Global's continued investment in the franchise will position it well for long-term growth," said Yavorsky. "However, at present, its performance and credit profile are weighed down by the tough market and macro-economic conditions, over which the company has no control."

If over the next several quarters, MF Global is able to return to profitability, while demonstrating a conservative liquidity profile, this, in conjunction with its positive long-term prospects, could return the outlook to stable.

The last rating action on MF Global was on January 16, 2009 when its issuer rating was downgraded to Baa2 from Baa1.

The principal methodology used in rating MF Global was the December 2006 Global Securities Industry Methodology, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

MF Global Ltd. is a New-York based broker with leading market share in traded contract volume at many of the world's largest, most active commodities and futures exchanges. For the fiscal 2009 (ended March 31st), the company reported $1.4 billion in net revenue.

New York
Alexander Yavorsky
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376

SUBSCRIBERS: 212-553-1653

New York
Robert Young
Managing Director
Financial Institutions Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Moody's Investors Service

CREDIT RATINGS ARE MIS'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

© Copyright 2009, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold

ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Appendix 26.C

STANDARD
&POOR'S

RATINGSDIRECT®

September 24, 2009

MF Global Ltd.

Primary Credit Analyst:
Robert B Hoban, Jr., New York (1) 212-438-7385; robert_hoban@standardandpoors.com

Secondary Credit Analyst:
Diane Hinton, New York (1) 212-438-4415; diane_hinton@standardandpoors.com

Table Of Contents

Major Rating Factors

Rationale

Outlook

Profile: Expanding Business And Elevated Competitive Pressures

Support And Ownership: A Stand-Alone Company

Strategy And Management: New Management Team A Positive Ratings Factor

Accounting: Goodwill Written Off

Performance: Reduced Profitability

Risk Management: Addressing Critical Issues

Liquidity And Funding: Adequate For The Rating

Capital: Also Adequate For The Rating

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

748329 | 300000726

MF Global Ltd.

Major Rating Factors

Counterparty Credit Rating

BBB/Negative/--

Strengths:

- Good competitive niche position
- Adequate financial profile
- Modest credit risk

Weaknesses:

- Reduced operating profitability
- Dependence on transaction volumes
- Elevated competitive pressures
- Weak, but improving, governance and risk management.

Rationale

Standard & Poor's Ratings Services' rating on MF Global Ltd., an institutional broker specializing in futures and options, is based on its relatively good niche franchise, as well as its adequate financial profile and liquidity. The rating is constrained by the firm's profitability, which we believe is incommensurate with the size of the firm's balance sheet, and revenue that is largely dependent on transaction volumes. We view positively management's efforts to improve governance and risk management, which we have historically viewed as weak.

Operating performance has been weak in recent quarters due to lower net interest income and trading volumes, as well as lower margin balances and an increase in expenses associated with expanding the company's businesses--both existing and new. Specifically, the company had generally accepted accounting practices (GAAP) losses over the past two quarters totaling $152 million and operating losses of $48 million. Over the next couple of quarters, we expect revenue and net income to continue to come under negative pressure from MF Global's lower transaction volume and net interest income. Over the next couple of years, we expect MF Global's efforts to expand its businesses will produce meaningful revenue, particularly once the firm is approved as a primary dealer in U.S. government debt. While we view favorably the revenue diversification and growth that we expect from the company's new businesses, we recognize that there will be some increase in risk, especially with its planned increase in market-making activities. For example, we have already seen in the quarter ended June 30, 2009, an increase in its balance sheet and leverage associated with the firm expanding its fixed income business.

We believe industry consolidation and the preference of certain customers to favor larger industry participants, some of which have received financial support from the U.S. government, had a negative impact upon MF Global's competitive position during the past few quarters. In addition, certain clients have become more aggressive in moving their excess cash balances away from MF Global, which has seen a reduction in its total client payables. However, despite elevated pressures, we believe MF Global is maintaining a good competitive niche position. There is no expectation of government support in our rating for MF Global.

The senior management team, which started coming on board in fourth-quarter 2008, has had to contend with governance and risk management issues, which had led to some expensive and high-profile problems, including a

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 748329 | 300000726

$141 million loss from a rogue trader and a $75 million lawsuit settlement. We believe the new management is addressing most of our governance concerns and is taking the necessary steps to improve the firm's risk management; however, this will have to be proven over time.

We consider management's efforts to reduce leverage and improve liquidity to bolster the company's financial profile as a positive for the rating. In our opinion, liquidity is adequate, given the company's borrowing availability under its $1.5 billion revolving credit facility and lack of near-term debt maturities. We also view favorably the company's maintenance of regulatory capital well in excess of the minimum regulatory requirements at its regulated brokerage subsidiaries.

Outlook

The negative outlook reflects our concern over MF Gobal's weak profitability in a slow revenue environment, and the challenges the new management faces in turning around the company. If the company fails to meet our current projections over the next few quarters, we will lower the rating. We could also lower the rating if MF Global's trading volumes or operating cash flows deteriorate beyond our current expectations. A decline in maintenance margin funds or excess capital levels at its regulated subsidiaries would also pressure the rating. On the other hand, if its financial performance improves materially and management is successful in achieving its goals, we would return the outlook to stable.

Profile: Expanding Business And Elevated Competitive Pressures

MF Global's core business is to provide brokerage execution and clearing services across a broad array of derivatives traded on global exchanges and in the largely unregulated over-the-counter (OTC) markets. MF Global's other main businesses include providing nonderivative foreign exchange products and facilitating trading of other securities in cash markets, including providing clients with variation margin lines. Clients can execute trades either online or over the phone, and on an agency or matched-principal basis. The company derives the majority of its revenues from clearing commissions, matched principal execution, and agency execution; a smaller proportion of revenues comes from interest earned on either client margin balances or on lending out client securities. The firm generally does not take proprietary positions, except to facilitate customer activity, which limits market risk, potential conflicts of interest, and potential regulatory and legal risks related to "trading ahead" of customer orders.

MF Global has a global footprint with offices in 13 countries. North America, Europe, and Asia-Pacific represented about 55%, 34%, and 11% of revenues (net of interest and transaction-based expenses), respectively, in fiscal 2009. The company has executive offices in New York, but is headquartered in Hamilton, Bermuda, largely for tax reasons. However, MF Global recently announced that is was evaluating whether to move its domicile to the U.S. from Bermuda, and we understand that these plans are proceeding. The company's finance subsidiaries include MF Global Finance USA Inc., MF Global Finance North America Inc., and MF Global Finance Europe Ltd. The company had about 3,200 employees as of March 31, 2009--a decline of nearly 6% year-over-year.

MF Global's products include exchange-traded derivatives, OTC-traded derivatives, and cash instruments. Important markets include interest rate products, equities, currencies, energy and metals, and agricultural and other commodities. Net revenues, by product, are dominated by exchange-traded derivatives (64% of net revenues). OTC-traded derivatives represent only 13% of net revenues, with the remaining 23% derived largely from cash

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

products and corporate interest.

MF Global had a large number of active client accounts with no significant client concentrations. Customers include institutional, asset managers/hedge funds, private clients, and professional traders and other clients. Following its 2005 acquisition of certain clients and assets from Refco Inc. (which declared bankruptcy), the company became the largest futures commission merchant in terms of the number of its introducing broker customers.

In December 2008, the company announced its strategic decision to no longer participate in the U.S. Futures Exchange (USFE), a Chicago-based electronic futures exchange, which subsequently liquidated its operations. As such, MF Global incurred an impairment charge of nearly $14 million in fiscal 2009 to write down its 48% equity investment in USFE.

In our opinion, MF Global has a good competitive niche position. However, we believe the company faces elevated competitive pressures given industry consolidation and the preference of certain customers to favor larger industry participants, some of which have received U.S. government support. The company has formidable competitors, including several of the world's largest banks, such as UBS Securities Inc., Goldman Sachs, Citigroup, JPMorgan Chase & Co., and Bank of America Corp., as well as focused competitors such as NewEdge (a joint venture between the Fimat and Calyon Financial Groups), RJO Holdings Corp. (privately held).

The company's market position (see table 1) has remained strong in North America, but declined in Europe and has been volatile in Asia. MF Global ranked eighth in the U.S. in terms of segregated customer assets as of May 31, 2009, according to the Commodity Futures Trading Commission (CFTC), down from fourth a couple of years ago. In Europe, the company's exit from the contracts for its derivatives business and a reduction in its Interest Rate Products team in early fiscal 2009 were largely responsible for its lower ranking. Specifically, the company announced in March 2008 that it had modified its exclusive foreign exchange clearing agreement with Man Group. Man Investments represented less than 1% of adjusted income before taxes in fiscal 2009, down from nearly 10% in fiscal 2008.

Table 1

Exchange Market Positions (Rank)

Name	2009	2008
North America		
Chicago Board of Trade	1	1
Chicago Mercantile Exchange	1	1
Commodity Exchange	1	1
New York Mercantile Exchange	1	1
Europe		
Eurex	8	3
Euronext.Liffe	1	1
ICE Futures Europe	3	0.5
Asia-Pacific		
Sydney Futures Exchange	1	3
Singapore Exchange Ltd.	7	4

Source: MF Global Ltd. form 10-K; based on information provided by the exchanges for executed business for the fiscal years ended March 31, 2008 and 2009.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 748329 | 300000726

Support And Ownership: A Stand-Alone Company

MF Global, previously a wholly owned subsidiary of U.K.-based Man Group PLC, was spun off in July 2007 in an IPO. Man Group's management viewed the businesses as not complementary and saw few operating synergies. Management also expected the spin-off to optimize shareholder value and allow both companies to focus on their core competencies. Man Group recently sold its remaining 18.4% stake in MF Global.

Strategy And Management: New Management Team A Positive Ratings Factor

In October 2008, MF Global brought in a new senior management team. Specifically, the company appointed Bernard W. Dan as CEO in October 2008, succeeding Kevin R. Davis shortly after the firm hired Mr. Dan as president and chief operating officer. The company hired J. Randy MacDonald, previously the CFO and Treasurer of TD Ameritrade Holding Corp., as CFO in April 2008. The company has also hired several new executive officers including a new treasurer, chief risk officer, and chief information officer general council, and also appointed a managing director of Europe. While we normally view high management turnover negatively, we regard these management changes as favorable, given the new management's experience and the governance and risk management issues the company faced under its former management.

The new management team is currently executing the firm's strategic plans, focusing specifically on increasing the company's efficiency, strengthening its risk management, optimizing its capital, and building its scale. Management has established a new global governance model in order to better manage the firm's businesses and allocate capital, and has hired several professionals dedicated to high-yield debt, investment-grade corporate debt, and mortgage-backed debt in order to pursue growth opportunities.

Management continues to evaluate acquisitions as a means of consolidating opportunities, opening new markets, and offering expanded product lines. In addition to its 2005 purchase of Refco, MF Global successfully completed three relatively small strategic acquisitions in fiscal 2008: FXA Securities Ltd., BrokerOne Pty Ltd., and ChoiceOdds Gaming Ltd., all of which expanded the company's global footprint. Management views developing markets, especially in the Asia-Pacific region, as an important growth opportunity, particularly in India.

Accounting: Goodwill Written Off

Currently, no accounting issues present material risks to the rating. During fiscal 2009, the company incurred goodwill and impairment charges of $82 million, which eliminated all of its goodwill as of March 31, 2009. As we already deduct goodwill from equity, this impairment was neutral to the ratings. Historically, Man Group, including its brokerage division, had not reported its financial statements under U.S. GAAP. However, the combined financial statements for MF Global Ltd. were prepared as if the company existed on a stand-alone basis and in conformity with U.S. GAAP.

Performance: Reduced Profitability

MF Global experienced a significant reduction in profitability in fiscal 2009 following several years of strong growth. In recent quarters, operating performance has deteriorated due to lower trading volumes, which have been

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

748329 | 300000726

badly affected, in our view, by reduced market volatility in calendar 2009, elevated competitive pressures, and lower net interest income. As a result, MF Global's operating results have lagged both management's and our expectations in recent quarters. The company reported an adjusted net loss of $17.4 million in its fiscal fourth quarter--excluding the goodwill impairment and a reserve for a legal settlement. Most importantly, the total volume of exchange-traded futures and options transactions executed and cleared by the company decreased 12% in fiscal 2009 to 1.833 billion contracts, following increases of about 40% in fiscal 2008 and 49% in fiscal 2007. We believe the volume decline among professional traders has had a somewhat smaller impact on profits since they have lower margins. Client deleveraging has contributed to shrink client assets (customer payables) to $11.8 billion as of March 31, 2009, from $15.3 billion as of March 31, 2008, and $15.8 billion as of March 31, 2007. MF Global invests its clients' cash balances in overnight repurchase agreements, government and agency securities, bank demand deposits, and money market funds. These low-interest investments, given near-zero interest rates, have also had a negative affect on MF Global's interest earnings.

MF Global has no significant client concentrations. Although difficult to project, we expect the company's revenue from its traditional business lines to decline in fiscal 2010 due to lower industry-listed trading volumes and reduced volatility. We expect this will be offset by revenue from newer business lines, which should increase to meaningful levels in the second half of 2009. We expect net interest revenues to continue to suffer from lower client payables, a lower interest rate environment, reduced securities lending, and management's aversion to credit risk. We view favorably management's cost-reduction initiatives, which we expect should partially mitigate the revenue challenges.

Risk Management: Addressing Critical Issues

We believe MF Global's risk management profile has greatly improved recently, but the overall effectiveness of its new risk management infrastructure will only be proven over time. As a result of losses stemming from unauthorized trading activity in fiscal 2008, improving risk management has been a significant focus of the company's new management. MF Global has made changes to its risk management policies and practices in recent quarters, which we will continue to evaluate. We believe that the company's risk management capabilities will benefit over time from the policies that have been implemented and the new risk management framework.

The company hired a new chief risk officer (CRO) in 2008, as well as a senior risk management professional responsible for managing and overseeing the company's economic and regulatory capital requirements. The risk management organization consists of regional CROs and risk officers for operational risk, credit risk, market risk, compliance, insurance, and capital and liquidity risk. An enterprise risk management committee reports to the board of directors on risk issues. The board of directors sets risk appetite and policies.

MF Global's risk governance structure is reinforced by multiple levels of risk-escalation policies. The company developed a comprehensive set of definitions of risk incidents and defined detailed escalation procedures for all risk incidents including capital, liquidity, credit, market, and operations. Depending on the level of potential impact of the risk incident, resolution may be addressed by the escalation manager, regional CRO, global CRO, CEO, or the board of directors' Audit Committee.

Excluding the fiscal 2008 unusual loss associated with unauthorized trading, trading errors and bad debts generally have been modest--less than 2% of net revenues over the past several years. MF Global was able to avoid the significant market disruptions associated with Enron and Amaranth without material credit losses. We feel this reflects positively on the company's market and credit risk management practices.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 748329 | 300000726

Before new management's efforts to improve risk management, there had been a few high profile and expensive risk management failures. For example, the company entered into a settlement agreement in December 2007 (costing $75 million) to settle a lawsuit brought by a court-appointed receiver for Philadelphia Alternative Asset Fund Ltd., a hedge fund, and Philadelphia Alternative Asset Management Co. LLC, its fund manager. The lawsuit alleged that MF Global failed to maintain adequate internal controls related to the oversight of an employee and a customer account. Man Group has indemnified MF Global for any losses greater than $50 million after insurance proceeds. MF Global is currently seeking monetary recoveries under its insurance policy for this settlement. Another example occurred in fiscal 2008, when the company took a $141 million charge to cover losses incurred by a registered representative in its Memphis office who conducted unauthorized trading in the wheat market. MF Global is currently seeking monetary recoveries under its insurance policy for this unusual bad-debt expense.

Based on our ongoing review of MF Global's enterprise risk management policies and procedures, we believe the company has taken adequate measures to prevent a similar occurrence. Furthermore, we don't think the loss has significantly affected the company's ongoing operations, customer relationships, or compliance with regulatory requirements. However, we believe the significant number of frontend trading systems that the company employs increases management complexity and risk. We also believe greater risks are associated with the company's two proprietary frontend trading systems, which, however, represent just a small proportion of total trading volume.

MF Global has also had some compliance issues with various regulators. As a result, the company established a $10 million reserve in fiscal 2008 to cover an expected fine from the CFTC related to a possible enforcement action. In our opinion, the company could also be subject to modest additional fines from the Chicago Mercantile Exchange (CME) largely because of the $141 million unusual loss highlighted above. The investigations by the CFTC and the CME are ongoing.

Operational risk

We believe MF Global is subject to considerable operational risks given its global footprint, numerous technology platforms, significant headcount, and volatile markets. MF Global has had more regulatory actions compared with some other brokerage companies, but most of the offenses, such as floor-record keeping, are relatively minor. MF Global is the largest employer of floor staff in the derivatives brokerage industry, which, in our opinion, contributes to the larger number of regulatory actions. As trading activity continues to migrate toward electronic execution, we expect to see a decline in regulatory actions. Correspondingly, we expect that risks associated with technology operations and platforms will rise. We view the company's disaster recovery and business continuity plans, which use facilities throughout the world, as adequate.

MF Global is currently involved in various lawsuits, some of which may be material. For example, the company is subject to an arbitration proceeding related to Conservative Concept Portfolio Management GmbH, a German introducing broker. Damages sought in this case include about $6 million in compensatory damages and $12 million in punitive damages. The company has a financial institution bond (insurance), which may partially cover the loss related to the unauthorized trading in the wheat market mentioned above, subject to a favorable coverage opinion.

Market risk

We believe there are significant market risks regarding the company's operating profitability, which is largely dependent on trading activity. However, market risks have historically been limited from a balance sheet perspective, since MF Global does not engage in proprietary trading. The firm's plan to increase its market making business will introduce more principal market risk, however. Some market risk exists in the company's traditional

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

matched-principal execution, where it enters into one side of a client trade and looks to enter quickly into an offsetting trade with another party. The trade is either matched internally, or with another broker or market participant. For most of the matched-principal trades, MF Global typically exits positions quickly, but occasionally holds positions overnight or longer.

Credit risk

We consider MF Global's current credit risk exposure to be relatively modest. MF Global is exposed to credit risk through counterparties, clients, clearinghouses, and banks. With respect to clients, MF Global grants credit lines for margin accounts and offers some clients variation margin lines, where the client does not need to settle margin calls daily. Clients are required to maintain margin accounts with sufficient collateral to support their open positions. If the markets move against the client, MF Global can make margin calls and liquidate client positions if the calls are not met. In other instances, MF Global may waive margin requirements imposed by exchanges and front the margin from its own resources.

MF Global is also obligated to cover any potential shortfalls for its clearing clients. Centralized credit management teams monitor these accounts and report to a central risk committee. Client positions are closely monitored and stress-tested by the company. Stress-testing data are based on the past five years (or 1,280 trading days), which greatly exceeds industry standards. Exposures to exchanges and other financial institutions are relatively high, but these institutions are, for the most part, highly rated.

Regulatory risk

In our opinion, regulatory risks have increased in recent quarters for the entire broker-dealer sector. Specifically, we believe regulators around the world have become more cautious regarding capital requirements at regulated broker-dealers following the events in the brokerage industry in 2008. In addition, the CFTC, in July 2009, stated that it is considering increasing limits on trading positions in energy commodities. We believe that the International Organization of Securities Commissions (IOSCO) could adopt more stringent rules in the oil-futures markets. IOSCO is an umbrella organization for global securities regulators that helps to set global standards and advises national bodies on regulation. While this could have a material impact on U.S. trade volumes, it is likely to simply result in these traders moving their activity offshore. Given MF Global's global platform, we believe the company would be able to continue to serve these investor needs wherever they decide to conduct their trading.

MF Global is regulated by the Financial Services Authority (FSA), CFTC, SEC, and other U.S. and non-U.S. regulators, which subject the company to regular reporting requirements. MF Global also must meet regulatory capital requirements in order to provide financial security for its clients' assets. The regulated nature of MF Global's businesses and various minimum net capital requirements protect client assets and the solvency of its regulated subsidiaries. However, capital restrictions may also limit the amount of cash that is available to be transferred from the regulated brokerage subsidiaries to the holding company to service its debt. Consequently, we do not take segregated assets into account in our liquidity analysis.

Liquidity And Funding: Adequate For The Rating

In our opinion, MF Global's liquidity is adequate, given the company's borrowing availability under its revolving credit facility coupled with its existing cash balances. The company has no near-term debt maturities (the revolving credit facility matures in June 2012), which reduces refinancing risk. MF Global repaid its $240 million term loan in April 2009, largely funded by the transfer of about $250 million in excess capital from its regulated U.K. brokerage

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 748329 | 300000726

subsidiary in February 2009.

In terms of available liquidity, MF Global Finance USA has a $1.5 billion, five-year revolving credit facility (liquidity facility). Borrowings under this credit facility were relatively modest immediately following the IPO, but have increased to repay borrowings under the bridge loan facility, as well as to downstream $150 million to its U.S. regulated broker-dealer subsidiary to maintain regulatory capital following the unauthorized trading loss in late February 2008. As of March 31, 2009, the company had $642.5 million outstanding under its revolving credit facility, leaving $857.5 million in remaining borrowing availability. The company's $275 million 364-day bilateral credit agreements were not extended or renewed in fiscal 2009.

We believe that the company currently has sufficient cash at the holding company and its nonregulated finance subsidiaries to repay the remaining $205 million in convertible senior notes due June 20, 2038. Holders of these notes may put them to the company on July 1, 2013, or at four subsequent dates, which occur in five-year intervals.

MF Global cannot borrow from the Federal Reserve--unlike the 16 primary dealers of Treasury securities, which were granted special access to the Fed's discount window in March 2008 for a limited time. However, MF Global is pursuing discussions with the Federal Reserve Bank of New York in order to become a member of the Fed's primary dealer network. The company expects to complete the application process by the end of calendar year 2009 or shortly thereafter.

The company's balance sheet consists mostly of liquid assets, a large proportion of which are segregated customer assets. Illiquid assets are a relatively small proportion of adjusted net assets, which exclude reverse repurchase agreements, securities received as collateral, intangibles, securities borrowed, and segregated cash. The company's only Level 3 assets are its exchange memberships. MF Global provides a significant amount of margin financing to its largest clients, which could reduce liquidity if drawings increase substantially. To mitigate this, MF Global evaluates potential liquidity needs by modeling various stress scenarios that include exceptional increases in margin requirements by the exchanges, very large market movements that stress client positions, and one or more substantial failures, such as a clearinghouse default.

Capital: Also Adequate For The Rating

We believe that MF Global's capital position is adequate for the rating. Total leverage has declined substantially from where it had been before the 2008 credit market disruption. However, as of June 30, 2009, leverage started to increase again largely due to the expansion of the company's fixed income business. The adjusted common equity to adjusted net assets ratio was 7% as of June 30, 2009, down from 14.66% as of March 30, 2009. Any material increase in leverage beyond June's level would have negative implications for the rating.

MF Global had total debt of $847.5 million as of June 30, 2009, after paying off its $240 million term loan in April 2009. Much of MF Global's debt was incurred as part of its separation from Man Group. The company's financial leverage, as measured by debt-to-equity, was fairly modest at less than one to one. However, when financial leverage is measured against EBITDA, it's high--with a debt-to-EBITDA ratio of 3.5X as of June 30, 2009. We view favorably the significant reduction in the company's total debt, including the repayment of its $1.4 billion bridge loan facility in fiscal 2009. Debt reduction was aided by the company's transfer--approved by the FSA--of $250 million in excess capital from its regulated U.K. subsidiary in February 2009. Management does not plan to pay any cash dividends on its common shares or buy back any common shares in the foreseeable future.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

As of March 31, 2009, MF Global's capital structure included $205 million in 9.00% convertible senior unsecured notes, $233 million in perpetual convertible preference shares (including 10.725% Series A and 9.75% Series B), and about $1.2 billion in common shareholders' equity. Borrowings under the revolving credit facility, which matures in June 2012, totaled $642.5 million as of June 30, 2009. The company does not intend to repay $500 million of the outstanding borrowings under its revolving credit facility before the maturity date and has, therefore, classified this amount as long-term borrowings on its balance sheet. Holders of the convertible senior notes may require the company to repurchase the notes on July 1, 2013, or at four subsequent dates occurring in five-year intervals.

As of June 30, 2009, MF Global was required to maintain an aggregate $1.4 billion in minimum regulatory capital across all jurisdictions, including regulatory early warning requirements--down from about $1.5 billion one year earlier. At the end of fiscal 2009, the company had $441 million in excess capital (excluding early warning capital). Regulators also require a minimum of shareholders' equity in the company's regulated subsidiaries.

Table 2

Balance Sheet Statistics

	Fiscal year ended March 31				
(Mil. $)	**2010***	**2009**	**2008**	**2007**	**2006**
Assets					
Cash and money market instruments	38,668	31,892	31,155	30,561	18,097
Cash and equivalent securities	822	639	1,481	1,733	1,414
Reverse repurchase agreements	18,321	12,903	18,424	19,056	6,444
Securities borrowed	10,266	8,625	4,649	4,843	4,229
Securities received as collateral	72	54	624	555	605
Amount segregated under regulations	9,187	9,670	5,977	4,373	5,406
Inventory	9,918	3,606	8,049	13,599	8,154
Investment securities (historical cost)	735	0	0	0	0
Domestic government securities (long term)	8,322	3,195	3,713	2,021	1,314
Corporate bonds	234	225	2,755	3,147	725
Foreign securities	266	8	363	488	449
Portfolio equities	339	154	1,172	7,780	5,636
Other securities	22	24	45	163	30
Receivables (gross)	391	440	2,384	827	558
Customer receivables	391	440	2,384	827	558
Receivables from brokers	4,055	2,473	7,086	6,185	7,030
Loan loss reserves	26	25	16	13	11
Specific reserves	26	25	16	13	11
Receivables (net)	365	416	2,368	814	547
Intangibles (nonservicing)	144	152	267	238	248
Exchange membership	6	6	9	18	40
Fixed assets	63	63	55	46	37
Accrued receivables	55	37	42	42	62
Other assets	201	192	224	168	100
Total reported assets	53,478	38,837	49,255	51,670	34,315

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 748329 | 300000726

Table 2

Balance Sheet Statistics (cont.)					
Less reverse repos	(18,321)	(12,903)	(18,424)	(19,056)	(6,444)
Less securities received as collateral	(72)	(54)	(624)	(555)	(605)
Net assets	35,085	25,879	30,207	32,059	27,266
Less nonservicing intangibles plus interest-only strips	(144)	(152)	(267)	(238)	(248)
Less securities borrowed	(10,266)	(8,625)	(4,649)	(4,843)	(4,229)
Less amount segregated under regulations	(9,187)	(9,670)	(5,977)	(4,373)	(5,406)
Adjusted net assets	15,487	7,432	19,313	22,604	17,383
Breakdown Of Adjusted Net Assets (%)					
Cash and money market instruments	249.68	429.09	161.31	135.2	104.11
Cash and equivalent securities	5.31	8.6	7.67	7.67	8.13
Reverse repurchase agreements	118.3	173.6	95.4	84.31	37.07
Securities borrowed	66.29	116.04	24.07	21.43	24.33
Securities received as collateral	0.47	0.73	3.23	2.46	3.48
Amount segregated under regulations	59.32	130.11	30.95	19.35	31.1
Inventory	64.04	48.52	41.67	60.16	46.91
Investment securities (historical cost)	4.74	0	0	0	0
Domestic government securities (long term)	53.73	42.99	19.23	8.94	7.56
Corporate bonds	1.51	3.03	14.27	13.92	4.17
Foreign securities	1.72	0.11	1.88	2.16	2.58
Portfolio equities	2.19	2.07	6.07	34.42	32.42
Other securities	0.14	0.32	0.23	0.72	0.17
Customer receivables (gross)	2.53	5.92	12.34	3.66	3.21
Customer receivables	2.53	5.92	12.34	3.66	3.21
Receivables from brokers	26.18	33.28	36.69	27.36	40.44
Loan loss reserves	0.17	0.33	0.08	0.06	0.07
Customer receivables (net)	2.36	5.59	12.26	3.6	3.14
Nonservicing intangibles	0.93	2.04	1.38	1.05	1.43
Fixed assets	0.41	0.84	0.28	0.2	0.21
Accrued receivables	0.36	0.5	0.22	0.18	0.36
Other assets	1.3	2.59	1.16	0.74	0.58
Total reported assets	345.3	522.53	255.03	228.59	197.41
Net assets	226.54	348.2	156.4	141.83	156.85
Adjusted net assets	100	100	100	100	100
	2010*	**2009**	**2008**	**2007**	**2006**
Liabilities (mil. $)					
Repurchase agreements	28,580	14,326	19,262	17,429	3,575
Securities sold short	2,433	2,885	1,869	3,378	1,329
Short-term debt	166	149	1,730	25	42
Long term debt maturing within one year	N.A.	N.A.	N.A.	57	14
Long-term debt--senior	698	945	0	595	618
Other liabilities	20,159	19,090	25,134	29,641	28,357

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

748329 | 300000726

Table 2

Balance Sheet Statistics (cont.)					
Total liabilities	52,037	37,395	47,995	51,126	33,935
Total shareholders' equity	1,440	1,442	1,260	545	380
Preferred stock and other capital	224	224	0	0	0
Minority interest-equity	14	13	11	7	5
Common shareholders' equity (reported)	1,202	1,205	1,249	538	374
Share capital and surplus	1,465	1,450	1,385	N.A.	N.A.
Revaluation reserve	(16)	(24)	6	N.A.	N.A.
Retained profits	(217)	(191)	(142)	N.A.	N.A.
Other equity	(30)	(30)	N.A.	538	374
Total liabilities and equity	53,478	38,837	49,255	51,670	34,315
Equity Reconciliation Table (mil. $)					
Common shareholders' equity (reported)	1,202	1,205	1,249	538	374
Plus minority interest (equity)	14	13	11	7	5
Minus revaluation reserves	16	24	(6)	0	0
Minus nonservicing intangibles	(144)	(152)	(267)	(238)	(248)
Adjusted common equity	1,088	1,090	986	307	132
Plus admissible preferreds and hybrids	224	224	0	0	0
Adjusted total equity	1,312	1,314	986	307	132
Tangible total equity	1,312	1,314	986	307	132
Tangible common equity	1,088	1,090	986	307	132
	2010*	**2009**	**2008**	**2007**	**2006**
Breakdown Of Liabilities And Equity (%)					
Repurchase agreements	53.44	36.89	39.11	33.73	10.42
Securities sold short	4.55	7.43	3.79	6.54	3.87
Short-term debt	0.31	0.38	3.51	0.05	0.12
Long term debt maturing within one year	N.A.	N.A.	N.A.	0.11	0.04
Other liabilities	37.70	49.16	51.03	57.37	82.64
Total liabilities	97.31	96.29	97.44	98.95	98.89
Total shareholders' equity	2.69	3.71	2.56	1.05	1.11
Preferred stock and other capital	0.42	0.58	0.00	0.00	0.00
Minority interest-equity	0.03	0.03	0.02	0.01	0.02
Common shareholders' equity (reported)	2.25	3.10	2.54	1.04	1.09
Share capital and surplus	2.74	3.73	2.81	N.A.	N.A.
Revaluation reserve	(0.03)	(0.06)	0.01	N.A.	N.A.
Retained profits	(0.41)	(0.49)	(0.29)	N.A.	N.A.
Other equity	(0.06)	(0.08)	N.A.	1.04	1.09
Total liabilities and equity	100.00	100.00	100.00	100.00	100.00

*Data as of March 31, 2009. Ratios annualized where appropriate. Certain raw data items used above have been obtained from SNL Financial LC. N.A.—Not available.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

Table 3

Profit And Loss Statement Statistics

(Mil. $)	Fiscal year ended March 31				
	2010*	2009	2008	2007	2006
Profitability					
Net interest income	66	309	434	361	191
Other fees and commissions (net)	339	1,642	2,015	1,667	1,127
Trading gains	46	288	333	246	151
Other income	10	50	54	38	29
Operating revenues	461	2,289	2,837	2,311	1,498
Noninterest expenses	482	2,153	2,502	2,059	1,350
Personnel expenses	171	788	925	835	596
Brokerage, clearing, exchange fees	203	993	1,218	976	583
Other general and administrative expense	95	348	337	231	158
Depreciation	14	23	22	17	13
Memo: Fixed expenses	192	822	900	761	534
Operating pretax profit	(22)	136	334	252	148
Nonrecurring/special income	4	77	80	149	34
Nonrecurring/special expense	21	87	377	81	79
Amortization of goodwill and intangibles	0	34	33	30	15
Pretax profit	(40)	10	4	290	88
Tax expense/credit	(14)	42	67	100	28
Net income before minority interest	(25)	(31)	(63)	190	60
Minority interest in consolidated subsidiaries	(0)	17	7	2	(0)
Net income before extraordinaries	(25)	(49)	(70)	188	60
Net income after extraordinaries	(25)	(49)	(70)	188	60
Core Earnings Reconciliation					
Net income (before minority interest)	(25)	(31)	(63)	190	60
Minus nonrecurring/special income	(4)	(77)	(80)	(149)	(34)
Plus nonrecurring/special expense	21	87	377	81	79
Plus/minus tax impact of adjustments	(6)	(39)	(104)	23	(14)
Plus amortization/impairment of goodwill/intangibles	1	116	33	30	15
Minus preferred dividends	(8)	(21)	0	0	0
Core earnings	(21)	35	164	175	106
As a Percent Of Average Adjusted Net Assets (%)					
Net interest income	2.29	2.31	2.07	1.81	N.A.
Other fees and commissions (net)	11.83	12.28	9.61	8.34	N.A.
Trading gains	1.60	2.15	1.59	1.23	N.A.
Other income	0.36	0.37	0.26	0.19	N.A.
Operating revenues	16.07	17.12	13.53	11.56	N.A.
Noninterest expenses	16.83	16.10	11.94	10.30	N.A.
Personnel expenses	5.96	5.90	4.42	4.17	N.A.
Brokerage, clearing, exchange fees	7.08	7.43	5.81	4.88	N.A.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

Table 3

Profit And Loss Statement Statistics (cont.)					
Other general and administrative expenses	3.32	2.60	1.61	1.16	N.A.
Amortization of intangibles	0.00	0.26	0.16	0.15	N.A.
Depreciation and amortization--other	0.48	0.17	0.10	0.09	N.A.
Fixed expenses	6.72	6.15	4.30	3.80	N.A.
Operating pretax profit	(0.76)	1.02	1.59	1.26	N.A.
Nonrecurring/special income	0.13	0.58	0.38	0.74	N.A.
Nonrecurring/special expense	0.74	0.65	1.80	0.41	N.A.
Pretax profit	(1.39)	0.08	0.02	1.45	N.A.
Tax expense/credit	(0.50)	0.31	0.32	0.50	N.A.
Net income before minority interest	(0.89)	(0.24)	(0.30)	0.95	N.A.
Minority interest in consolidated subsidiaries	(0.01)	0.13	0.03	0.01	N.A.
Net income before extraordinaries	(0.88)	(0.36)	(0.33)	0.94	N.A.
Net operating income	(0.75)	0.26	0.78	0.88	N.A.
Average Balance Sheet (mil. $)					
Average interest-bearing liabilities	22,432	18,206	19,549	11,177	2,124
Average common equity	1,203	1,227	893	456	N.A.
Other Data					
No. of employees (end of period, actual)	N.A.	N.A.	3,399	3,271	2,980
Off-balance-sheet credit equivalents	23	22	95	51,863	0

*Data as of March 31, 2010. Ratios annualized where appropriate. Certain raw data items used above have been obtained from SNL Financial LC. N.A.—Not available.

Table 4

Ratio Analysis					
	Fiscal year ended March 31				
	2010*	2009	2008	2007	2006
RATIO ANALYSIS					
Annual Growth (%)					
Total assets	150.80	(21.15)	(4.67)	50.58	N.A.
Tangible common equity	(0.68)	10.49	221.65	133.01	N.M.
Total equity	(0.45)	14.44	131.28	43.51	N.M.
Operating revenues	(19.54)	(19.29)	22.73	54.27	24.21
Noninterest expense	(10.40)	(13.96)	21.51	52.57	24.05
Operating pretax profit	(163.90)	(59.20)	32.72	69.71	25.76
Net income	N.M.	N.M.	(133.21)	217.22	(29.02)
PROFITABILITY (%)					
Revenue Analysis					
Net interest income/revenues	14.23	13.51	15.32	15.63	12.72
Other fees and commissions/revenues	73.58	71.74	71.03	72.11	75.25
Trading income/revenues	9.93	12.56	11.75	10.63	10.08
Other noninterest income/revenues	2.27	2.18	1.91	1.64	1.95
Noninterest expense/revenues	104.73	94.04	88.22	89.10	90.10

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 748329 | 300000726

Table 4

Ratio Analysis (cont.)					
Pretax profit/revenues	(8.64)	0.45	0.13	12.53	5.88
Tax/pretax profit	36.26	402.78	1850.15	34.52	32.08
Net income/revenues	(5.51)	(1.38)	(2.22)	8.21	3.99
Operating Leverage And Productivity Analysis					
Personnel expense/revenues	37.08	34.44	32.62	36.11	39.76
Noncompensation and noninterest expense/revenues	67.65	59.60	55.60	52.99	50.34
Expense less all amortizations/revenues	101.77	91.54	86.29	87.08	88.21
Personnel expense/operating pretax profit plus personnel expense	114.62	85.25	73.47	76.82	80.06
Operating pretax profit/revenues	(4.73)	5.96	11.78	10.90	9.90
Net income/employee (currency unit)	N.A.	N.A.	(18,887)	60,682	25,827
Personnel expense/employee (currency unit)	N.A.	N.A.	277,463	267,064	257,311
Net interest income/avg. adjusted net assets	2.29	2.31	2.07	1.81	N.A.
Operating pretax profit/avg. adjusted net assets	(0.76)	1.02	1.59	1.26	N.A.
Pretax profit/avg. common equity	(13.23)	0.85	0.40	63.53	N.A.
Cash earnings/avg. tang. common equity (ROE) (%)	(7.13)	0.51	(1.26)	107.89	N.A.
FUNDING AND LIQUIDITY (%)					
Total loans/customer deposits plus long-term funds	18.30	18.44	189.24	69.15	55.16
Customer receivables (net)/adj. net assets	2.36	5.59	12.26	3.60	3.14
Less liquid assets/long term funding	56.87	18.01	55.41	50.13	51.35
Less liquid assets/adj. net assets	7.38	5.47	2.83	2.00	2.21
More liquid assets/short term funding	216.78	162.88	131.85	175.86	102.29
CAPITALIZATION (%)					
Adjusted common equity/adj. net assets	7.03	14.66	5.11	1.36	0.76
Internal capital generation/prior year's equity	(10.90)	(5.54)	(13.12)	50.25	N.M.
Regulated subsidiary excess net capital	266	235	N.A.	N.A.	N.A.
Adjusted total equity/adj. net assets	8.47	17.68	5.11	1.36	0.76
Adjusted total equity plus loan loss reserves (specific)/customer receivables (gross)	341.94	304.10	42.04	38.70	25.62
Common dividend payout ratio	0.00	0.00	(1.45)	0.00	0.00

*Data as of June 30, 2009. Ratios annualized where appropriate. Certain raw data items used above have been obtained from SNL Financial LC. N.A.—Not available. N.M.—Not meaningful.

Ratings Detail (As Of September 24, 2009)*	
MF Global Ltd.	
Counterparty Credit Rating	BBB/Negative/--
Preference Stock (1 Issue)	BB+
Senior Unsecured (1 Issue)	BBB
Counterparty Credit Ratings History	
04-Dec-2008	BBB/Negative/--
18-Jul-2008	BBB/Stable/--
29-Feb-2008	BBB/Watch Neg/--
31-May-2007	BBB+/Stable/--

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

Ratings Detail (As Of September 24, 2009)* **(cont.)**

Sovereign Rating

United States of America	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2009 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved. No part of this information may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P. S&P, its affiliates, and/or their third-party providers have exclusive proprietary rights in the information, including ratings, credit-related analyses and data, provided herein. This information shall not be used for any unlawful or unauthorized purposes. Neither S&P, nor its affiliates, nor their third-party providers guarantee the accuracy, completeness, timeliness or availability of any information. S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such information. S&P, ITS AFFILIATES AND THEIR THIRD-PARTY PROVIDERS DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained herein even if advised of the possibility of such damages.

The ratings and credit-related analyses of S&P and its affiliates and the observations contained herein are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. S&P assumes no obligation to update any information following publication. Users of the information contained herein should not rely on any of it in making any investment decision. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of each of these activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P's Ratings Services business may receive compensation for its ratings and credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge) and www. ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.

Copyright © 1994-2009 by Standard & Poors Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. All Rights Reserved.

The McGraw-Hill Companies

Appendix 27.A

BARCLAYS CAPITAL

Equity Research

'ovember 06, 2009

United States of America
Financial Services
Brokers & Asset Managers

MF Global Ltd. (MF - US$ 6.62) 1-Overweight

Earnings Review/Sales Analysis

Controlling What it Can

Roger A. Freeman, CFA
1.212.526.4662
roger.freeman@barcap.com
BCI, New York

Investment Conclusion

- While MF's F2Q10 earnings were slighly disappointing, we remain positive on the company as MF makes its way through a tough operating environment. In our view, MF's management team continues to do a good job diversifying the company's revenue streams, better positioning the company to capitalize on an improving economic outlook. While earnings power may remain muted in the near term, we continue to believe the company is well positioned over the longer term with the potential for higher rates to boost trading volumes and interest income.

Summary

- We are lowering our fy10 EPS estimate to $0.23 from $0.26 on the back of weaker-than-expected f2Q10 results. In addition, we believe MF will continue to face some headwinds in the current operating environment given the negative impact of low interest rates, lower spreads and lower volumes.
- That said, we our raising our fy11 EPS estimate to $0.68 from $0.66 given the potential for higher rates to boost trading volumes and interest income in an improved economic environment.

EPS (US$) (FY Mar)

	2009	2010			2011			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2010	2011
1Q	0.29A	0.05A	0.05A	0.05A	N/A	N/A	0.13E	-83%	N/A
2Q	0.14A	0.03E	0.01A	0.03E	N/A	N/A	0.13E	-93%	N/A
3Q	0.13A	0.07E	0.06E	0.06E	N/A	N/A	0.17E	-54%	N/A
4Q	-0.05A	0.11E	0.11E	0.11E	N/A	N/A	0.20E	320%	N/A
Year	0.51A	0.26E	0.23E	0.27E	0.66E	0.68E	0.60E	-55%	196%
P/E			28.8			9.7			

Market Data

Market Cap (Mil.)	858
Dividend Yield	0.00
52 Week Range	8.22 - 1.72

Financial Summary

Revenue TTM (Mil.)	2228.1

Stock Rating

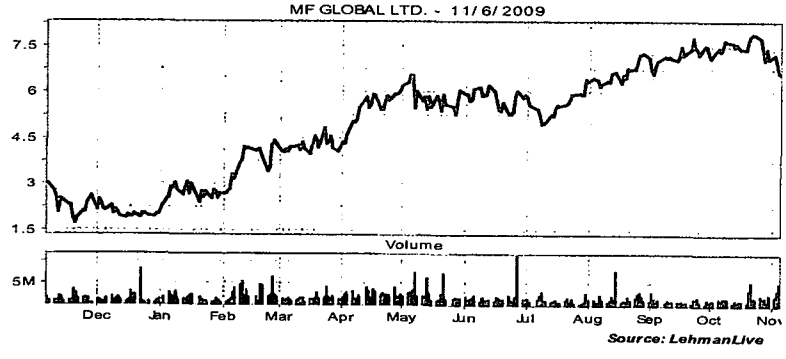
New: 1-Overweight
Old: 1-Overweight

Target Price

New: US$ 8.00
Old: US$ 8.00

Sector View: 2-Neutral

Stock Overview



Please see our earnings review summary on the following page. Following the summary comments is a financial earnings review analysis and our model summary.

Barclays Capital does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

'nvestors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 7 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 8

Summary Thoughts

	Below	In-line	Above
Sales	☑	☐	☐
Operating Margin	☑	☐	☐
EPS	☑	☐	☐

- MF reported adjusted fiscal 2Q10 EPS of $0.01, 2 cents below our $0.03 estimate and Street consensus. GAAP EPS was -$0.13. Similar to previous quarters, results included several one-time items (see below), so we would call earnings quality somewhat low. Overall the company reported slightly lower-than-expected net revenue, which was offset by better-than-expected expenses.
- Net revenue of $252mm came in $17mm (7%) lower than the $269mm we had modeled. Lower principal transactions and net interest revenue drove most of the delta and was only partially offset by higher net trading revenue.
- Net trading revenues of $137mm came in $13mm higher than the $124mm we expected. Much better-than-expected pricing helped drive the beat.
  - Total exchange-listed volume traded was 2% higher than we had forecast, down 27% y/y, but up 3% sequentially. Net exchange revenue per contract, which we define as execution-only and cleared commissions minus execution and clearing fees, increased 2% sequentially and came in 9% higher than our estimate. Execution-only pricing increased primarily due to client and product mix shift in the interest rate products business. Cleared commissions were positively impacted by higher yielding retail volume in Asia and lower seasonal volumes from professional traders.
  - Principal transaction revenue of $40mm was $17mm below the $57mm we had forecast. Metals and energy spreads came in as a result of pricing volatility declining 22% across the commodity spectrum.
- Net interest income of $66mm came in $9mm lower than our $75mm estimate. The company's fixed income business posted revenues of $36mm against the $45mm we had modeled due to a sharp decline yields. Interest on client funds and excess cash, came in at $30mm and was inline with the $30mm we had estimated.
- The company's operating margin of 0.4% came in well below the 4.7% we were looking for. The comp/net rev ratio saw a sequential uptick from 63% to 65%. The company did a nice job controlling non-compensation expenses which came in $7mm lower than our estimates.

Figure 1 below details how results compared to our estimates

Additional Details

- GAAP results included several one-time items, which we have excluded in our model:
  - Exchange membership gains: $11mm
  - Stock compensation related IPO awards: $9.2mm
  - Legal settlement costs: $3.4mm
  - Severance: $1.5mm
- Net interest income break-down:
  - Interest on client funds and excess cash:: $29.9mm
  - Fixed Income: $36mm
- Yield-Per-Contract Disclosures (Net):
  - Execution: $0.57in the F2Q10, up 21% from $0.47 in the F1Q10
  - Clearing: $0.40 in the F2Q10, up 5% from $0.38 in the F1Q10

Materiality of New Information	Low	Medium	High
	☐	☑	☐

Building for the Future – MF continues to make strides diversifying the company's business model, expanding its footprint in new product classes and geographies, while continuing to build credibility with investors and the Fed.

- Building by segment – Over the summer the company ramped up its fixed income business moving into the high grade corporate and high yield areas. These new hires will add to MF's already established agency, treasury and repo businesses. On the call management disclosed the new sales and distribution staff opened 230 new accts over the first 6 months of 2010.
- Building geographically – MF enhanced its geographic position by making further inroads in Asia. Revenues from the Asia region grew 26% sequentially and Contracts For Difference (CFD's) were up 70% sequential due to new account opening in Australia and Singapore. In addition MF hired an additional 40 new sales and trading professionals in the European region as the build their fixed income business in that region. Management states the new hires opened many new accounts, diving a 60% increase in European based fixed income revenue in the first six months of fiscal 2010.
- Building credibility – In addition to turning in another quarter with minimal noise, the company announced yesterday it filed an S-4 to move the company's domicile from Bermuda to Delaware. We believe this move to Delaware will help MF in the process to become a primary dealer.

Expenses – In 2Q10 we believe the company did a good job controlling non-compensation expenses, but the compensation / net revenue ratio rose dramatically.

- Non-compensation – On the call management mentioned they have taken a number of steps to control expenses, helping them finish under their target of $100mm non-comp expenses for the quarter. Helping control volatility, the company put to use its newly developed FX hedging process to keep the gain to only $200k, mitigating the large currency changes over the quarter. While the move has limited impact on adjusted results, we view this as a positive step in the company's efforts to present cleaner financials (i.e. GAAP vs. adjusted results), which should give investors more confidence in reported results (and probably the company's earnings multiple) over time. In addition, MF employs a team of employees who are tasked with managing the drivers of non-comp. The group works throughout the company on methodologies to control expense across the non-comp spectrum. That said, we do expect a slight build in expenses moving forward given the company is entering an 18-36 month rollout of the reengineering of straight-through processing. While the company does expect increased costs, management does not think they will exceed the $100mm quarterly target.
- Compensation – compensation expenses were down sequentially for the quarter, but falling at a slower rate than revenues. MF's comp/rev ratio for the quarter was a higher-than-anticipated 65%. The uptick is the result of the additional fixed costs associated with the recently added fixed income group. As the fixed income employees continue to gain traction and interest rates returns to more normalized levels, we expect the comp/rev ratio to decline. In addition, we look for benefits from MF restructuring compensation agreements.

Rate Per Contract – Rate per Contract (RPC) was a bright spot for MF this quarter. Rates rose across the board which helped offset the decline in volumes. Net exchange revenue per contract, which we define as execution-only and cleared commissions minus execution and clearing fees, increased 2% sequentially during the quarter. Execution-only pricing increased primarily due to some mix shift in the interest rate products (IRP) business, by both client and product type. Cleared commissions were positively impacted by higher yielding retail volume in Asian and lower seasonal volumes from professional traders.

Interest Income– Yields were negatively impacted this quarter by a low rate environment hampering interest earned on client cash and a narrowing of spreads impacting fixed income returns. That said, the company is proactively taking steps to improve yields instead of simply waiting for a higher rate environment.

- Fixed Income - As mentioned, fixed income returns were hurt by the OIS/Libor spread retraced from higher levels. As MF gains traction in new products arenas (high yield and high grade) this will provide MF with some additional diversification. MF stated on the conference call that the newly hired brokers provided some insulation from the falling rates and spreads.
- NI on Client Cash - To help offset some of the impact of a lower rate environment the company made additional steps in extending the duration of the portfolio. MF extended $7.3bn (53%) of their average balances into longer dated maturities with an average maturity of 13 months. The blended portfolio of $13.6bn has an average duration of 7 months, up from 6 months last quarter. Increases in rates going forward should add a significant boost to MF's revenues and management stated on the conference call that if last year's rates were applied to current client assets it would have yielded an additional $112mm in revenues.
- Additional disclosure - In the next quarter the company hopes to be able to provide more color on earnings sensitivity around increases in the fed funds or a steeper yield curve.

Investment Thesis Implications

Neg	Neutral	Positive
☐	☑	☐

- MF's fiscal 2Q10 results demonstrated MF management team's continued effort to diversify revenue streams in the face of a difficult economic environment. While earnings power remains limited in the near term, we continue to believe that the company should be very well positioned once the environment improves again.
- MF made further inroads in its fixed income expansion as it continued to add new clients, helping diversify revenues in the current difficult economic setting. While the continued expansion will likely result in certain metrics, such as the comp ratio, remaining at elevated levels for the near term, longer term we believe that these new initiatives represent higher-margin opportunities.

- The highlight of the quarter was the significant reduction of fixed costs. While we do anticipate these expenses to tick up in future quarters, we believe the company will remain disciplined on expenses moving forward. In a challenging environment, we are encouraged to see the company deliver on the items it has some control over and continue to position itself for an economic uptum.

Earnings Implications

Neg	Neutral	Positive
☐	☑	☐

- We are lowering our fy10 EPS estimate to $0.23 from $0.26 on the back of weaker-than-expected f2Q10 results. In addition, we believe MF will continue to face some headwinds in the current operating environment given the negative impact of a low interest rates, lower spreads and lower volumes.
- Relative to our previous forecast we now look for 6% lower revenue ($1.03bn vs. $1.13bn previously), a higher comp ratio (61% vs. 59% previously) and a steady tax rate at 40%. This is partially offset by lower fixed expenses ($372mm vs. $382mm).
- The revenue expectation reduction is driven by lower principal transaction as a result of compressed spreads, lower interest income in the current lower rate environment and lower volumes, as witnessed during the fiscal 2Q, due to lower pricing volatility. These decreases are partially offset by an increase in RPC given the addition of higher margin business.
- We our raising our fy11 EPS estimate to $0.68 from $0.66.

Valuation Implications

Neg	Neutral	Positive
☐	☑	☐

- Our price target remains unchanged at $8. Our $8 price target applies a 1x multiple on the company's liquid equity per share of about $8 per share. With near-term earnings power likely remaining limited, we continue to point to the stock's discount to liquid equity/tangible book value, which we believe offers further potential upside from here.

ure 1: MF Global – Earnings Review Analysis

MF	Reported 2Q10	BarCap Estimate 2Q10E	Difference	%	Last Year (Year over Year) Reported 1Q09	Difference	%	Last Quarter (Sequential) Reported 4Q09	Difference	%
Net Revenue	**$252.0**	**$269.4**	**($17.4)**	**(6.5%)**	**$374.7**	**($122.6)**	**(32.7%)**	**$256.7**	**($4.7)**	**(1.8%)**
Net Trading Revenue	**$136.7**	**$123.5**	**$13.2**	**10.7%**	**$192.8**	**($56.1)**	**(29.1%)**	**$127.5**	**$9.2**	**7.2%**
Execution-only Com.	$79.6	$71.0	$8.6	12.2%	$119.1	($39.4)	(33.1%)	$75.1	$4.6	6.1%
Cleared Commissions	$262.8	$232.4	$30.4	13.1%	$374.2	($111.4)	(29.8%)	$237.8	$24.9	10.5%
- Ex. and Clearing Fees	$146.3	$127.6	$18.7	14.6%	$232.7	($86.4)	(37.1%)	$125.3	$20.9	16.7%
- Sales Commissions	$59.5	$52.3	$7.2	13.7%	$67.7	($8.3)	(12.2%)	$60.1	($0.6)	(1.0%)
Principal Transactions	**$40.2**	**$57.5**	**($17.3)**	**(30.2%)**	**$63.2**	**($23.0)**	**(36.4%)**	**$45.3**	**($5.1)**	**(11.3%)**
Net Interest Revenue	**$65.8**	**$74.5**	**($8.7)**	**(11.7%)**	**$107.0**	**($41.3)**	**(38.6%)**	**$71.7**	**($6.0)**	**(8.3%)**
Other	**$9.4**	**$13.9**	**($4.5)**	**(32.6%)**	**$11.6**	**($2.3)**	**(19.5%)**	**$12.2**	**($2.8)**	**(23.2%)**
Indirect Expenses	**$250.9**	**$256.8**	**($5.8)**	**(2.3%)**	**$307.8**	**($56.8)**	**(18.5%)**	**$256.7**	**($5.7)**	**(2.2%)**
Compensation Expense	$162.9	$161.7	$1.3	0.8%	$210.7	($47.8)	(22.7%)	$153.6	$9.3	6.0%
Other Expenses	$88.0	$95.1	($7.1)	(7.5%)	$97.1	($9.1)	(9.3%)	$103.0	($15.0)	(14.6%)
Corp. Interest Expense	**$10.0**	**$9.0**	**$1.0**	**10.9%**	**$14.2**	**($4.2)**	**(29.8%)**	**$13.5**	**($3.5)**	**(26.0%)**
EBITDA	$15.9	$27.3	($11.4)	(41.9%)	$79.6	($63.7)	(80.1%)	$14.4	$1.5	10.1%
Operating Income	$1.1	$12.6	($11.5)	--	$66.9	($65.8)	--	$0.1	$1.0	--
Adj. Pre-Tax Income	**($8.9)**	**$3.6**	**($12.5)**	**--**	**$52.7**	**($61.6)**	**--**	**($13.4)**	**$4.5**	**--**
Net Income (ex-Items)	($1.3)	$5.1	($6.4)	--	$37.0	($38.3)	--	($8.8)	$7.5	--
EPS from Cont Ops	**$0.01**	**$0.03**	**($0.02)**	**--**	**$0.29**	**($0.28)**	**--**	**($0.05)**	**$0.06**	**--**
Expenses/Margins										
Comp/Net Revenue	64.6%	60.0%	4.6%		56.2%	8.4%		59.8%	4.8%	
n-Comp Expense	34.9%	35.3%	(0.4%)		25.9%	9.0%		40.1%	(5.2%)	
EBITDA Margin	6.1%	9.8%	(3.7%)		21.6%	(15.5%)		6.1%	(0.0%)	
Operating Margin	0.4%	4.7%	(4.3%)		17.9%	(17.4%)		0.0%	0.4%	
Adj. Pre-Tax Margin	(3.5%)	1.4%	(4.9%)		14.1%	(17.6%)		(5.2%)	1.7%	
Tax Rate	38.3%	40.0%	(1.7%)		29.8%	--		(5.3%)	43.6%	
Net Income Margin	(0.5%)	1.9%	(2.4%)		9.9%	(10.4%)		(3.4%)	2.9%	
Metrics										
Volume and Assets										
Execution-only (mm)	113	118	(5)	(4.5%)	156	(43)	(27.5%)	114	(1)	(0.6%)
Cleared (mm)	283	268	14	5.4%	387	(104)	(26.9%)	273	10	3.8%
Total Volume (mm)	**396**	**387**	**9**	**2.3%**	**543**	**(147)**	**(27.0%)**	**386**	**10**	**2.5%**
Client Funds ($mm)	$12,200	$11,578	$622	5.4%	$16,942	($4,742)	(28.0%)	$11,766	$434	3.7%
Blended Pricing:										
Fee per Contract										
Execution-only	$0.70	$0.60	$0.10	17.5%	$0.76	($0.06)	(7.8%)	$0.66	$0.04	6.7%
Cleared	$0.93	$0.87	$0.06	7.3%	$0.97	($0.04)	(4.0%)	$0.87	$0.06	6.5%
Total	**$0.87**	**$0.78**	**$0.08**	**10.3%**	**$0.91**	**($0.04)**	**(4.8%)**	**$0.81**	**$0.05**	**6.8%**
Exec/Clearing Expense	$0.37	$0.33	$0.04	12.0%	$0.43	($0.06)	(13.9%)	$0.32	$0.04	13.9%
Net Fee	**$0.50**	**$0.45**	**$0.04**	**9.0%**	**$0.48**	**$0.02**	**3.2%**	**$0.49**	**$0.01**	**2.0%**

Source: Company reports, Barclays Capital estimates.

Note: In $ million unless otherwise noted.

MF Model Snapshot

P&L:	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10E	4Q10E	2006	2007	2008	2009	2010E	2011E
Net Sales	**$375**	**$373**	**$367**	**$257**	**$272**	**$252**	**$269**	**$285**	**$946**	**$1,379**	**$1,692**	**$1,372**	**$1,077**	**$1,366**
Net Trading Revenue	**$193**	**$189**	**$140**	**$128**	**$136**	**$137**	**$145**	**$151**	**$544**	**$690**	**$796**	**$649**	**$569**	**$708**
Execution-only Com.	$119	$107	$80	$75	$79	$80	$84	$87	$262	$387	$486	$381	$330	$406
Cleared Commissions	$374	$371	$279	$238	$260	$263	$264	$276	$866	$1,280	$1,529	$1,261	$1,062	$1,270
- Ex. and Clearing Fees	$233	$221	$162	$125	$142	$146	$150	$157	$463	$700	$927	$741	$595	$729
- Sales Commissions	$68	$68	$56	$60	$61	$59	$53	$55	$120	$276	$291	$252	$228	$238
Principal Transactions	**$63**	**$69**	**$110**	**$45**	**$46**	**$40**	**$45**	**$50**	**$151**	**$246**	**$338**	**$288**	**$181**	**$242**
Net Interest Revenue	**$107**	**$101**	**$98**	**$72**	**$76**	**$66**	**$69**	**$74**	**$222**	**$405**	**$504**	**$377**	**$285**	**$374**
Other	**$12**	**$14**	**$19**	**$12**	**$14**	**$9**	**$10**	**$10**	**$29**	**$38**	**$54**	**$57**	**$42**	**$41**
Indirect Expenses	**$308**	**$322**	**$320**	**$257**	**$263**	**$251**	**$259**	**$262**	**$782**	**$1,107**	**$1,309**	**$1,206**	**$1,035**	**$1,151**
Compensation Expense	$211	$215	$217	$154	$171	$163	$164	$165	$596	$807	$930	$796	$663	$750
Other Expenses	$97	$107	$103	$103	$93	$88	$95	$96	$186	$301	$379	$410	$372	$400
EBITDA Margin	21.6%	17.4%	16.8%	6.1%	8.0%	6.1%	9.4%	13.7%	20.4%	23.1%	25.7%	14.3%	9.7%	20.8%
Adj. Pre-Tax Margin	**14.1%**	**7.9%**	**7.9%**	**(5.2%)**	**(0.8%)**	**(3.5%)**	**0.3%**	**5.1%**	**14.1%**	**16.5%**	**18.5%**	**7.1%**	**0.4%**	**13.1%**
Comp as % of Sales	56.2%	57.5%	59.1%	59.8%	62.9%	64.6%	61.0%	58.0%	62.9%	58.5%	55.0%	58.0%	61.5%	55.0%
Non-Comp as % of Sales	25.9%	28.8%	27.9%	40.1%	34.1%	34.9%	35.4%	33.8%	19.7%	21.8%	22.4%	29.9%	34.5%	29.3%
EPS	**$0.29**	**$0.14**	**$0.13**	**($0.05)**	**$0.05**	**$0.01**	**$0.06**	**$0.11**	**$0.70**	**$1.16**	**$1.63**	**$0.51**	**$0.23**	**$0.68**
Y/Y Comparisons														
Sales	0.1%	(14.4%)	(12.2%)	(44.7%)	(27.5%)	(32.4%)	(26.9%)	11.0%	31.1%	45.7%	22.8%	(19.0%)	(21.5%)	26.8%
EPS	**(20.6%)**	**(66.9%)**	**(64.9%)**	**(110.6%)**	**(82.4%)**	**(93.8%)**	**(51.1%)**	**(317.6%)**	**10.8%**	**65.8%**	**40.4%**	**(69.0%)**	**(54.1%)**	**193.5%**

Volume and Assets:	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10E	4Q10E	2006	2007	2008	2009	2010E	2011E
Volume														
Execution-only (mm)	156	143	125	114	132	113	120	126	338	438	570	537	491	592
Cleared (mm)	387	359	277	273	298	283	290	305	674	1,065	1,514	1,295	1,176	1,419
Total Volume (mm)	**543**	**501**	**403**	**386**	**430**	**396**	**410**	**431**	**1,011**	**1,504**	**2,084**	**1,833**	**1,666**	**2,012**
Client Funds ($mm)	$16,942	$13,973	$11,055	$11,766	$11,351	$12,200	$12,444	$12,693	$15,437	$15,756	$15,302	$11,766	$12,693	$13,739
Y/Y Comparisons														
Volume														
Execution-only (mm)	20.8%	(7.3%)	(4.5%)	(27.1%)	(15.6%)	(20.9%)	(4.1%)	10.8%	23.2%	29.9%	30.0%	(5.7%)	(8.7%)	20.8%
Cleared (mm)	16.8%	(7.6%)	(23.2%)	(37.1%)	(22.9%)	(21.1%)	4.5%	11.7%	38.1%	58.1%	42.1%	(14.4%)	(9.2%)	20.8%
Total Volume (mm)	**17.9%**	**(7.5%)**	**(18.2%)**	**(34.5%)**	**(20.8%)**	**(21.1%)**	**1.9%**	**11.5%**	**32.7%**	**48.7%**	**38.6%**	**(12.0%)**	**(9.1%)**	**20.8%**
Client Funds ($mm)	(4.1%)	(24.3%)	(43.3%)	(23.1%)	(33.0%)	(12.7%)	12.6%	7.9%	75.3%	2.1%	(2.9%)	(23.1%)	7.9%	8.2%
Sequential Comparisons														
Volume														
Execution-only (mm)	(0.1%)	(8.3%)	(12.4%)	(9.1%)	15.7%	(14.1%)	6.2%	5.0%	23.2%	29.9%	30.0%	(5.7%)	(8.7%)	20.8%
Cleared (mm)	(10.8%)	(7.3%)	(22.6%)	(1.8%)	9.4%	(5.2%)	2.5%	5.0%	38.1%	58.1%	42.1%	(14.4%)	(9.2%)	20.8%
Total Volume (mm)	**(8.0%)**	**(7.6%)**	**(19.7%)**	**(4.0%)**	**11.3%**	**(7.9%)**	**3.6%**	**5.0%**	**32.7%**	**48.7%**	**38.6%**	**(12.0%)**	**(9.1%)**	**20.8%**
Client Funds ($mm)	10.7%	(17.5%)	(20.9%)	6.4%	(3.5%)	2.0%	2.0%	2.0%	75.3%	2.1%	(2.9%)	(23.1%)	7.9%	8.2%

Blanded Pricing:	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10E	4Q10E	2006	2007	2008	2009	2010E	2011E
Fee per Contract														
Execution-only	$0.76	$0.75	$0.64	$0.66	$0.60	$0.70	$0.70	$0.69	$0.78	$0.88	$0.85	$0.71	$0.67	$0.69
Cleared	$0.97	$1.03	$1.00	$0.87	$0.87	$0.93	$0.91	$0.91	$1.28	$1.20	$1.01	$0.97	$0.90	$0.89
Total	**$0.91**	**$0.95**	**$0.89**	**$0.81**	**$0.79**	**$0.87**	**$0.85**	**$0.84**	**$1.11**	**$1.11**	**$0.97**	**$0.90**	**$0.84**	**$0.83**
Exec/Clearing Expense	$0.43	$0.44	$0.40	$0.32	$0.33	$0.37	$0.37	$0.36	$0.46	$0.47	$0.45	$0.40	$0.36	$0.36
Net Fee	**$0.48**	**$0.51**	**$0.49**	**$0.49**	**$0.46**	**$0.50**	**$0.48**	**$0.48**	**$0.66**	**$0.64**	**$0.52**	**$0.49**	**$0.48**	**$0.47**
Y/Y Comparisons														
Fee per Contract														
Execution-only	(10.6%)	(15.3%)	(22.7%)	(21.6%)	(21.1%)	(5.9%)	9.1%	5.1%	(10.6%)	13.7%	(3.3%)	(16.9%)	(5.1%)	1.8%
Cleared	(10.7%)	12.1%	(2.6%)	(13.9%)	(10.1%)	(10.1%)	(9.3%)	3.8%	(8.8%)	(6.5%)	(16.0%)	(3.6%)	(7.2%)	(1.0%)
Total	**(10.8%)**	**4.5%**	**(8.8%)**	**(16.4%)**	**(13.3%)**	**(9.2%)**	**(4.8%)**	**4.2%**	**(8.2%)**	**(0.6%)**	**(12.8%)**	**(7.3%)**	**(6.7%)**	**(0.3%)**
Exec/Clearing Expense	(10.9%)	2.6%	(12.1%)	(22.8%)	(22.9%)	(16.2%)	(9.1%)	12.4%	(11.9%)	1.7%	(4.5%)	(9.2%)	(11.6%)	1.4%
Net Fee	**(10.8%)**	**6.2%**	**(5.9%)**	**(11.4%)**	**(4.7%)**	**(3.2%)**	**(1.2%)**	**(1.3%)**	**(5.4%)**	**(2.1%)**	**(18.8%)**	**(5.8%)**	**(2.7%)**	**(1.7%)**
Sequential Comparisons														
Fee per Contract														
Execution-only	(9.2%)	(2.0%)	(14.6%)	3.2%	(8.7%)	16.9%	(1.0%)	(0.5%)	(10.6%)	13.7%	(3.3%)	(16.9%)	(5.1%)	1.8%
Cleared	(4.6%)	6.8%	(2.9%)	(13.1%)	(0.3%)	6.8%	(2.0%)	(0.5%)	(8.8%)	(6.5%)	(16.0%)	(3.6%)	(7.2%)	(1.0%)
Total	**(6.1%)**	**4.8%**	**(6.5%)**	**(9.0%)**	**(2.7%)**	**9.7%**	**(1.9%)**	**(0.5%)**	**(8.2%)**	**(0.6%)**	**(12.8%)**	**(7.3%)**	**(6.7%)**	**(0.3%)**
Exec/Clearing Expense	2.0%	2.7%	(8.7%)	(19.4%)	1.9%	11.7%	(1.0%)	(0.3%)	(11.9%)	1.7%	(4.5%)	(9.2%)	(11.6%)	1.4%
Net Fee	**(12.4%)**	**6.6%**	**(4.6%)**	**(0.5%)**	**(5.8%)**	**8.3%**	**(2.6%)**	**(0.7%)**	**(5.4%)**	**(2.1%)**	**(18.8%)**	**(5.8%)**	**(2.7%)**	**(1.7%)**

Source: Company reports, Barclays Capital estimates

Note: In $ million unless otherwise noted.

Analyst Certification:

I, Roger A. Freeman, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Other Team Members:

Hill, Kenneth (BCI, New York)	1.212.526.7179	kenneth.hill@barcap.com
Bertrand, Eric (BCI, New York)	1.212.526.1369	eric.bertrand@barcap.com
Truong, Steven (BCI, New York)	1.212.526.9937	steven.truong@barcap.com

Company Description:

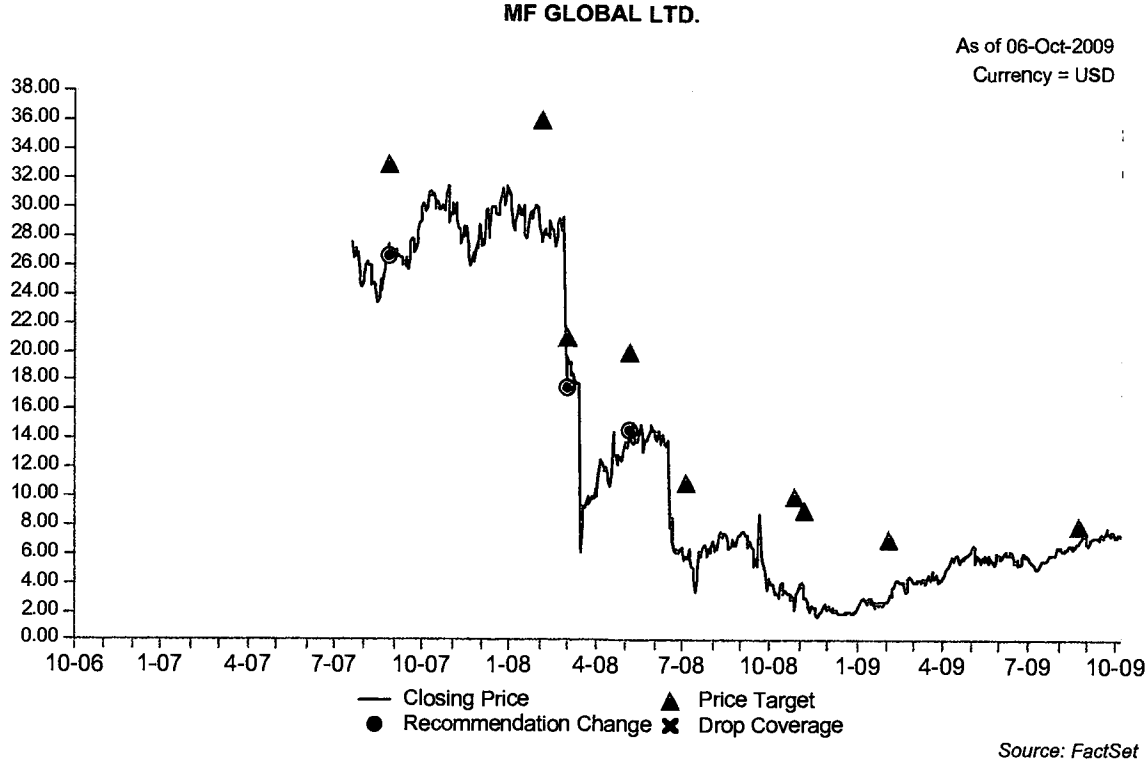
MF Global is one of the largest futures and options brokers in the world. The company provides execution and clearing services for a variety of exchange-traded and OTC derivatives and futures as well as cash products across a number of asset classes including interest rates, equities, foreign exchange, metals, energy and agricultural and other commodities. The company serves a broad array of customers including institutional clients, asset managers and hedge funds, retail clients and professional traders.

On September 20, 2008, Barclays Capital acquired Lehman Brothers' North American investment banking, capital markets, and private investment management businesses. All ratings and price targets prior to this date relate to coverage under Lehman Brothers Inc.

Important Disclosures:

MF Global Ltd. (MF) **US$ 6.62 (05-Nov-2009)** **1-Overweight / 2-Neutral**

Rating and Price Target Chart:



Source: FactSet

Currency=US$

Date	Closing Price	Rating	Price Target
21-Aug-09	6.77		8.00
04-Feb-09	2.85		7.00
06-Nov-08	3.04		9.00
28-Oct-08	2.25		10.00
03-Jul-08	5.79		11.00
07-May-08	14.53		20.00

Date	Closing Price	Rating	Price Target
07-May-08	14.53	1 -Overweight	
29-Feb-08	17.55		21.00
29-Feb-08	17.55	2 -Equal weight	
04-Feb-08	28.03		36.00
28-Aug-07	26.70		33.00
28-Aug-07	26.70	1 -Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from MF Global Ltd. within the next 3 months.
Barclays Bank PLC and/or an affiliate trades regularly in the shares of MF Global Ltd..
Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from MF Global Ltd. within the past 12 months.
MF Global Ltd. is or during the past 12 months has been an investment banking client of Barclays Bank PLC and/or an affiliate.
MF Global Ltd. is or during the last 12 months has been a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our $8 one-year price target applies a 1x multiple on the company's liquid equity per share of about $8.

Risks Which May Impede the Achievement of the Price Target: Key risks to our investment thesis include earnings sensitivity to trading volumes, competition and pricing, sensitivity to interest rates, regulation, the relationship with Man Group, credit risk, and outsourcing of key technology platforms.

ɔortant Disclosures Continued:

..e analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
MF Global Ltd.	MF	US$ 6.62	05-Nov-2009	1-Overweight / 2-Neutral

Barclays Capital produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Guide to the Barclays Capital Fundamental Equity Research Rating System:
Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

ᐣlackstone Group LP (BX)
ᐣE Group (CME)
ᐣRADE Financial (ETFC)
Evercore Partners Inc. (EVR)
Federated Investors, Inc. (FII)
Franklin Resources Inc. (BEN)
Goldman Sachs Group Inc. (GS)
Invesco Limited (IVZ)
Knight Capital Group (NITE)
MF Global Ltd. (MF)
NASDAQ OMX Group, Inc. (NDAQ)
Och-Ziff Capital Management Group (OZM)
TD Ameritrade Holding Corp. (AMTD)
Charles Schwab Corp. (SCHW)
Duff & Phelps Corp. (DUF)
Eaton Vance Corp. (EV)
FBR Capital Markets (FBCM)
Fortress Investment Group (FIG)
GLG Partners, Inc. (GLG)
IntercontinentalExchange Inc. (ICE)
Janus Capital Group Inc. (JNS)
Legg Mason Inc. (LM)
Morgan Stanley (MS)
NYSE Euronext, Inc. (NYX)
T Rowe Price Group Inc. (TROW)
Waddell & Reed Financial Inc. (WDR)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

ᐣector View
ᐣositive - sector coverage universe fundamentals/valuations are improving.
.eutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
ɔ-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:
Barclays Capital Equity Research has 1309 companies under coverage.
40% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 43% of companies with this rating are investment banking clients of the Firm.
45% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 38% of companies with this rating are investment banking clients of the Firm.
13% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 30% of companies with this rating are investment banking clients of the Firm.

Barclays Capital offices involved in the production of Equity Research:
London
Barclays Capital, the investment banking division of Barclays Bank PLC (Barclays Capital, London)

New York
Barclays Capital Inc. (BCI, New York)

Tokyo
Barclays Capital Japan Limited (BCJL, Tokyo)

São Paulo
Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong
Barclays Bank PLC, Hong Kong branch (BB, Hong Kong)

This publication has been prepared by Barclays Capital; the investment banking division of Barclays Bank PLC, and/or one or more of its affiliates as provided below. This publication is provided to you for information purposes only. Prices shown in this publication are indicative and Barclays Capital is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. Other than disclosures relating to Barclays Capital, the information contained in this publication has been obtained from sources that Barclays Capital believes to be reliable, but Barclays Capital does not represent or warrant that it is accurate or complete. The views in this publication are those of Barclays Capital and are subject to change, and Barclays Capital has no obligation to update its opinions or the information in this publication. Barclays Capital and its affiliates and their respective officers, directors, partners and employees, including persons involved in the preparation or issuance of this document, may from time to time act as manager, co-manager or underwriter of a public offering or otherwise, in the capacity of principal or agent, deal in, hold or act as market-makers or advisors, brokers or commercial and/or investment bankers in relation to the securities or related derivatives which are the subject of this publication.
The analyst recommendations in this report reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays Capital and/or its affiliates.
Neither Barclays Capital, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents. The securities discussed in this publication may not be suitable for all investors. Barclays Capital recommends that investors independently evaluate each issuer, security or instrument discussed in this publication and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information in this publication is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.
This communication is being made available in the UK and Europe to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Capital is authorized and regulated by the Financial Services Authority ('FSA') and member of the London Stock Exchange.
Barclays Capital Inc., US registered broker/dealer and member of FINRA (www.finra.org), is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.
Subject to the conditions of this publication as set out above, ABSA CAPITAL, the Investment Banking Division of ABSA Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06), is distributing this material in South Africa. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of ABSA Capital in South Africa, 15 ALICE LANE, SANDTON, JOHANNESBURG, GAUTENG, 2196. ABSA CAPITAL IS AN AFFILIATE OF BARCLAYS CAPITAL.
Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.
In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Capital Japan Limited. Barclays Capital Japan Limited is a joint-stock company incorporated in Japan with registered office of 2-2-2, Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.
Barclays Bank PLC Frankfurt Branch is distributing this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.
IRS Circular 230 Prepared Materials Disclaimer: Barclays Capital and its affiliates do not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.
© Copyright Barclays Bank PLC (2009). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays Capital or any of its affiliates. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.

Appendix 27.B

CLSA

A-PACIFIC MARKETS

oduced by CALYON SECURITIES

MF Global

$5.28 - OUTPERFORM

Rob Rutschow
rob.rutschow@clsa.com
(1 212) 261 4001

Tom Hennessy
tom.hennessy@clsa.com
(1 212) 261 4003

Initiation of coverage

Initiating with Outperform

MF Global is one of the largest futures brokers globally, serving institutional and individual investors seeking to trade rate, equity, commodity and foreign exchange derivatives. The firm was spun off from Man Financial in 2007, but suffered due to trading losses and worries over capital adequacy. The company improved its capital position and controls, bringing back stability. With low-hanging fruit picked, the focus is now on growth, a tough proposition in the current environment.

Global franchise

MF Global is one of the largest independent futures and derivatives brokers in the world, with significant market share on nearly every major futures exchange. The firm serves institutional and retail clients with voice and electronic trading.

Year of transition in 2009

During the May conference call to discuss earnings, one of the first statements made by the CEO was that this was a year of transition for MF Global, as it seeks to retool the business. MF has taken positive steps to improve capital adequacy and pay down higher-priced debt, but with that accomplished, the focus is now on improving operations and finding new growth opportunities. We have a negative view on volume growth, meaning that despite improved management, we expect the company to face revenue headwinds.

In a better position

Despite our negative view on volumes, there are some bright spots for MF Global. First, it appears that based on volumes and customer assets, market share has stabilized after declining in the 2H08. Second, the company has a good position in Asia, which may perform better than the US or Europe. Third, management has reduced risk in the firm and is now moving to expand into new growth areas such as managed futures, which can help on the margin.

Only modest upside

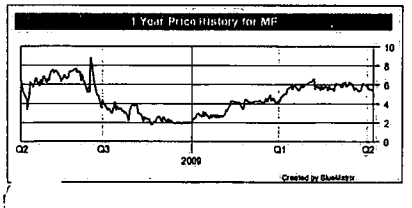
We have a relatively balanced view of MF Global, with concerns about volumes and commission compression mostly offset by optimism about market share, reduced capital risk and possible growth opportunities. We have established a US$6 target for the stock and rate it an Outperform, as we feel the lack of credit risk should help results relative to banks and other financials.

July 2009

JSA

Exchanges

Reuters	MF
Bloomberg	MF
Priced on 07/07/2009	
S&P	881
12M hi/lo	$8.75/$1.72
12M price target	$6.00
±% potential	+14%
Target set on	08/07/2009
Shares in issue (m)	121
Free float (est)(m)	NA
Market cap (m)	$639
3M avg. daily vol.	2,495,412



Financials

Year to 31 Mar	07A	08A	09CL	10CL	11CL
EPS ($)	1.17	1.08	0.53	0.35	0.40
EPS (% YoY)	NM	(8)	(51)	(34)	14
P/E (x)	4.5	4.9	10.0	15.1	13.2

Source: Calyon Securities (USA); FactSet for consensus data. CL = estimate

The group of companies that comprise CLSA are affiliates of Calyon Securities (USA) Inc.

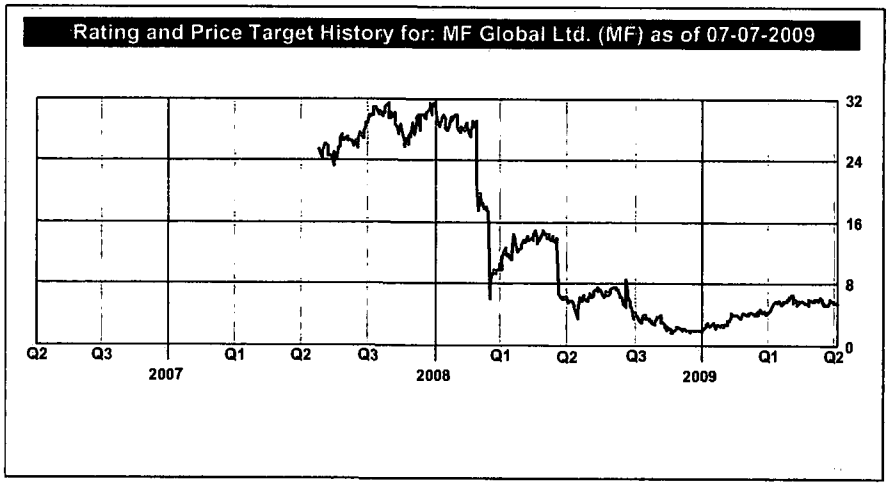
Please see important disclosures on pages 2 - 3.

IMPORTANT DISCLOSURES

Analyst Certification

I, Rob Rutschow, hereby certify that the views expressed in this research report accurately reflect my own personal views about the securities and/or the issuers and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report. In addition, the analysts included herein attest that they were not in possession of any material, non-public information regarding the subject company at the time of publication of the report.

The member and/or analyst(s) involved in the preparation of this report have reason to know that an affiliate of Calyon Securities (USA) Inc. received compensation from MF Global Ltd. for non-investment banking products/services in the past 12 months.



Valuation Methodology

We arrived at our price target using the average of three methods. First, we forecast what MF would be able to pay in dividends and discount the value of those dividends using a discount rate derived from a risk free rate, equity risk premium and beta calculation. Our discounted cashflow model discounts projected cashflows using the same discount rate used in the dividend discount model. Our PE/growth model applies a market PE/G to various EPS growth projections to arrive at a price target. The average of these three methods yields our price target.

Risk to Target

There are several risks to our investment thesis. First, MF Global's revenue is highly dependent on volumes, which are inherently hard to predict. Lower commissions per trade could hamper revenue and increased competition from larger competitors could impact market share and revenue. A shift in the brokerage model to more electronic trading could require significant infrastructure investment, which could increased costs and hurt results. Increased exchange fees could hurt net margins. Increased borrowing costs or the inability to retire higher-cost debt could reduce earnings. Trading errors or losses could cause large losses. Dilutive acquisitions could reduce earnings and dilute existing shareholders.

EVA is a registered trademark of Stern, Stewart & Co. "CL" in charts and tables stands for Calyon Securities (USA) Inc. estimates unless otherwise noted in the Source. Calyon Securities (USA) Inc. does and seeks to do business with companies in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.RATING RECOMMENDATIONS: Buy = Expected to outperform the local market by >10%; Outperform (O-PF) = Expected to outperform the local market by 0-10%; Underperform (U-PF) = Expected to underperform the local market by 0-10%; Sell = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends). Overall rating distribution for

Calyon Securities (USA) Inc. Equity Universe: Buy / Outperform - 82%, Underperform / Sell - 18%, Restricted - 0%. Data as of 30 June 2009. INVESTMENT BANKING CLIENTS as a % of rating category: Buy / Outperform - 16%, Underperform / Sell - 16%, Restricted - 0%. Data for 12-month period ending 30 June 2009. Prior to 25 November 2008, Calyon Securities (USA) Inc. used an absolute system (based on anticipated returns over a 12-month period): Buy: above 20%; Add: 10%-20%; Neutral: +/-10%; Reduce: negative 10-20%; Sell, below 20% (including dividends). FOR A HISTORY of the recommendations and price targets for companies mentioned in this report, please write to: Calyon Securities (USA) Inc., Compliance Department, 1301 Avenue of the Americas, 15th Floor, New York, New York 10019-6022. CALYON SECURITIES (USA) INC. POLICY: Calyon Securities (USA) Inc.'s policy is to only publish research that is impartial, independent, clear, fair, and not misleading. Analysts may not receive compensation from the companies they cover. Neither analysts nor members of their households may have a financial interest in, or be an officer, director or advisory board member of companies covered by the analyst. ADDITIONAL INFORMATION on the securities mentioned herein is available upon request. DISCLAIMER: The information and statistical data herein have been obtained from sources we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to any change in our views. This is not a solicitation or any offer to buy or sell. We, our affiliates, and any officer director or stockholder, or any member of their families may have a position in, and may from time to time purchase or sell any of the above mentioned or related securities. This material has been prepared for and by Calyon Securities (USA) Inc. This publication is for institutional client distribution only. This report or portions thereof cannot be copied or reproduced without the prior written consent of Calyon Securities (USA) Inc. In the UK, this document is directed only at Investment Professionals who are Market Counterparties or Intermediate Customers (as defined by the FSA). This document is not for distribution to, nor should be relied upon by, Private Customers (as defined by the FSA). This publication/communication is distributed for and on behalf of Calyon Securities (USA) Inc. in Australia by CLSA Limited; in Hong Kong by CLSA Research Ltd.; in India by CLSA India Ltd.; in Indonesia by PT CLSA Indonesia; in Japan by Calyon Securities Japan, a member of the JSDA licensed to use the "CLSA" logo in Japan; in Korea by CLSA Securities Korea Ltd.; in Malaysia by CLSA Securities Malaysia Sdn Bhd; in the Philippines by CLSA Philippines Inc.; in Thailand by CLSA Securities (Thailand) Limited; and in Taiwan by CLSA Limited, Taipei Branch. Singapore: This publication/communication is distributed for and on behalf of Calyon Securities (USA) Inc. in Singapore through CLSA Singapore Pte Ltd solely to persons who qualify as Institutional, Accredited and Expert Investors only, as defined in s.4A(1) of the Securities and Futures Act. Pursuant to Paragraphs 33, 34, 35 and 36 of the Financial Advisers (Amendment) Regulations 2005 with regards to an Accredited Investor, Expert Investor or Overseas Investor, sections 25, 27 and 36 of the Financial Adviser Act shall not apply to CLSA Singapore Pte Ltd. Please contact CLSA Singapore Pte Ltd in connection with queries on the report. MICA (P) 001/01/2009 File Ref. No.: 931318. This publication/communication is also subject to and incorporates the terms and conditions of use set out on the www.clsa.com website. Neither the publication/ communication nor any portion hereof may be reprinted, sold or redistributed without the written consent of CLSA Limited and Calyon Securities (U.S.A.) Inc. © 2009 Calyon Securities (USA) Inc. All rights reserved.

Appendix 27.C

CREDIT SUISSE

05 November 2009
Americas/United States
Equity Research
Brokerage

MF Global, Ltd. (MF)

FORECAST REDUCTION

Rating	NEUTRAL* [V]
Price (04 Nov 09, US$)	6.68
Target price (US$)	7.00[1]
52-week price range	7.94 - 1.73
Market cap. (US$ m)	821.10

*Stock ratings are relative to the relevant country benchmark.
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

Howard Chen
212 538 4552
howard.h.chen@credit-suisse.com

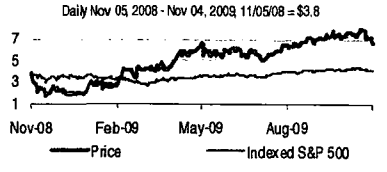
Adam C. Eling
212 538 3928
adam.eling@credit-suisse.com

Ashley N. Serrao
212 538 8424
ashley.serrao@credit-suisse.com

Continuing to Work Through the Headwinds

- **3Q earnings.** This morning, MF Global reported September quarter GAAP EPS (their fiscal 2Q10) of -$0.13 EPS. Stripping out non-core items, we gauge core EPS closer to $0.01, still below our estimate ($0.04) and consensus ($0.03). The downside versus expectations was primarily revenue-related.
- **Financial snapshot.** Net revenues of $252 million were below our $266 million forecast and down 32% yr/yr and down 7% qtr/qtr. Downside here was broad-based—net brokerage commissions (flat qtr/qtr), fixed income/sec lending (-14%), matched principal (-20%) were all below our forecast. Client net interest revenues (-3% qtr/qtr) were slightly better than expected but still declined from last quarter. Non-interest expenses of $266 million included myriad non-core items; ex. these items, operating expenses of $251 million (-23% yr/yr, -9% qtr/qtr) were slightly below our $257 million estimate. Tax rate was higher; share count was in line. Tangible book value of $8.71 was fairly stable from 1Q levels.
- **Reducing estimates.** Factoring in this quarter's results, coupled with more conservative volume and spread assumptions going forward, we are reducing estimates. Our fiscal 2010/2011 EPS estimates are now $0.13/$0.50. Our target price is $7—this implies that shares can trade at 14x our 2011 estimate.
- **Our thesis on MF.** We are Neutral rated on MF shares. While we see book value support for the shares at current levels, we remain Neutral rated given limited near-to-intermediate term earnings power due to the headwinds a slower customer activity levels, the absolute low level of interest rates and debt service costs.

Share price performance



On 11/04/09 the S&P 500 index closed at 1046.5

Quarterly EPS	Q1	Q2	Q3	Q4
2009A	0.29	0.14	0.13	-0.05
2010E	0.00	0.01	0.04	0.09
2011E	—	—	—	—

Financial and valuation metrics

Year	03/09A	03/10E	03/11E
EPS (CS adj., US$)	0.51	0.13	0.50
Prev. EPS (US$)	—	0.23	0.55
P/E (x)	13.0	50.4	13.3
P/E rel. (%)	70.8	304.0	100.5
Revenue (US$ m)	1,426.3	1,111.3	1,367.9
Book value per share (US$)	9.8	9.7	10.0
Tangible BV per share (US$)	—	—	—
Pretax preprovis inc. (US$ m)	—	—	—
P/tangible BV (x)	215.3	222.7	222.7
ROE (%)	6.15	1.91	7.16

Number of shares (m)	122.92	Dividend (03/09A, US$)	—
BV/share (03/09A, US$)	9.8	Dividend yield (%)	—
P/BVPS (x)	—	BV/share (03/09A, US$)	9.8
Price/tangible BVPS (x)	—	Tangible BVPS (current, US$)	—

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

MF 3Q09 Highlights

This morning, MF Global reported September quarter GAAP EPS (their fiscal 2Q10) of -$0.13 EPS. Stripping out non-core items, we gauge core EPS closer to $0.01, still below our estimate ($0.04) and consensus ($0.03). The downside versus expectations was primarily revenue-related. **Bottom line: Market conditions remain challenging for MF with depressed levels of customer activity, tight spreads and the absolute low level of interest rates continuing to take their toll. While we see book value support for MF shares at current levels, we remain Neutral rated given limited near-to-intermediate term earnings power and debt service costs.**

- **Financial snapshot.** Net revenues of $252 million were below our $266 million forecast and down 32% yr/yr and down 7% qtr/qtr. Downside here was broad-based—net brokerage commissions (flat qtr/qtr), fixed income/sec lending (-14%), matched principal (-20%) were all below our forecast. Client net interest revenues (-3% qtr/qtr) were slightly better than expected but still declined from last quarter. Non-interest expenses of $266 million included myriad non-core items; ex. these items, operating expenses of $251 million (-23% yr/yr, -9% qtr/qtr) were slightly below our $257 million estimate. Tax rate was higher; share count was in line. Tangible book value of $8.71 was fairly stable from 1Q levels. See Exhibit 1-Exhibit 2.

- **Brokerage commissions stable.** Net commissions of $137 million were just below our forecast—this was down 28% yr/yr and stable from last quarter. Volumes were slightly below our forecast while revenue capture trends were better. Exchange-traded execution commissions were weaker (-7%) as a 24% decline in volumes was largely offset by improvement in net yields. Clearing commissions (-3%) were weaker as well, also due to a decline in volumes (-7%) partially offset by an improvement in revenue capture. Cash/OTC commissions were improved, up 23%. In aggregate, total volume of 396 million lots were just below our 405 million estimate and down 21% yr/yr and down 8% qtr/qtr—this was roughly in line with the experience of the major futures exchanges. Calendar fourth quarter-to-date, industry futures exchange volumes are tracking up 5% from last quarter's levels.

- **Revenue capture trends rebound.** Commission pricing trends improved sequentially for MF Global and were better than we were modeling. Net execution rate per contract (RPC) of $0.57 was up 22% from last quarter. On this morning's call, management spoke to favorable customer/product mix shift in the interest rate product business in driving this higher. Net clearing RPC was also stronger, up 5% qtr/qtr to $0.40 driven by more in the way of Asian retail business and less in the way of professional trader activity. Going forward, we remain conservative with respect to our assumptions here—we assume 2-4% annual rate per contract compression across MF's brokerage businesses.

- **Net interest revenues improved.** Client net interest revenues totaled $30 million (-3% qtr/qtr). This was down 3% from last quarter as client balances held stable and spread compressed—the latter was slightly less severe than we were modeling. Average client balances were up 1% qtr/qtr to $13.6 billion. Client net interest margin compressed 11 bps from last quarter to 0.87%—management is speaking to the benefit of extending duration in helping to maintain net interest margin in the face of the absolute low level of interest rates. Average duration of the portfolio now stands at 7 months, up from 6 months last quarter. We expect the spread to hold stable near these levels until short-term interest rates begin to rise.

- **Principal brokerage businesses significantly weaker.** Within the company's fixed income/securities lending business, revenues decreased 14% qtr/qtr to $41 million—results here were well below our expectations ($46 million) as the benefit of recent hires was largely offset by spread compression. Sec lending/repo balances increased

significantly, up 27% qtr/qtr. Offsetting this, spreads here compressed 20 bps to 0.42% driven by continued fixed income market healing and spread tightening (i.e., LIBOR-OIS). Looking forward, we're factoring modest growth in balances given continued efforts to grow the fixed income business partially offset by tight spreads. Brokerage revenues (down 20% qtr/qtr) from the matched principal business were also below forecast.

- **Expenses remain noisy, but trending lower.** Total noninterest expenses of $266 million included several non-core items. Ex. these items, we peg operating expenses at $251 million, (down 22% yr/yr and down 9% qtr/qtr) and better than our $257 million estimate as non-comp expenses came in better than anticipated. Compensation expenses (-5%) were accrued at 64.6% of revenues (ex. severance), up from 62.9% last quarter and higher than our 60.5% estimate as recent investments in human capital and new hires continue to ramp up. Ex. unique items, non-comp expenses totaled $88 million, down 16% from last quarter as management continues to work to drive additional efficiencies.

- **Capital/liquidity.** Tangible book value stood at $8.71 at September 30th, relatively stable from the prior quarter. Given the likelihood of additional non-core charges (severance, equity IPO awards, preferred dividends), we don't envision much in the way of book value growth for the next few quarters.

- **Reducing estimates.** Factoring in this quarter's results, coupled with more conservative volume and spread assumptions going forward, we are reducing estimates. Our fiscal 2010/2011 EPS estimates are now $0.13/$0.50. Our target price is $7—this implies that shares can trade at 14x our 2011 estimate.

- **Our thesis on MF.** We are Neutral rated on MF shares. While we see book value support for the shares at current levels, we remain Neutral rated given limited near-to-intermediate term earnings power due to the headwinds a slower customer activity levels, the absolute low level of interest rates and debt service costs.

Financial Summary

Exhibit 1: MF Quarterly Summary—Actual vs. Estimated Fiscal Results
in millions, unless otherwise stated

	2Q09	3Q09	4Q09	1Q10	Actual 2Q10	Estimate 2Q10	Actual vs. Estimate	2Q10/ 2Q09	2Q10/ 1Q10
Execution commissions	107.0	80.0	75.1	79.3	79.6	80.0	0%	-26%	0%
Cleared commissions	370.7	278.6	237.8	259.5	262.8	257.0	2%	-29%	1%
Principal transactions, net	69.2	109.9	45.3	45.7	40.2	48.4	-17%	-42%	-12%
Net interest revenues	100.5	97.9	71.7	76.1	65.8	65.6	0%	-35%	-14%
Other	14.3	73.9	12.2	13.6	9.4	14.0	-33%	-35%	-31%
Revenues (net of interest)	**661.7**	**640.4**	**442.2**	**474.2**	**457.8**	**465.0**	**-2%**	**-31%**	**-3%**
Execution/clearing fees	-221.0	-162.0	-125.3	-142.1	-146.3	-141.2	--	--	--
Sales commission	-67.9	-56.4	-60.1	-60.6	-59.5	-57.3	--	--	--
Transaction-based expenses	-288.9	-218.4	-185.4	-202.7	-205.7	-198.4	4%	-29%	1%
Net revenues	**$372.9**	**$422.0**	**$256.7**	**$271.5**	**$252.0**	**$266.6**	**-5%**	**-32%**	**-7%**
Employee comp & benefits	214.6	217.3	153.6	172.7	164.4	161.3	2%	-23%	-5%
Communications & technology	31.5	28.2	30.5	27.2	28.7	26.0	10%	-9%	6%
Occupancy & equipment costs	11.2	12.1	11.2	9.7	9.8	10.0	-2%	-13%	1%
Depreciation/amortization	14.0	14.1	97.6	14.2	14.2	13.6	5%	2%	1%
Professional fees	19.0	19.0	21.4	20.0	17.4	19.0	-9%	-9%	-13%
General and other	31.6	29.5	24.3	38.3	21.4	26.0	-18%	-32%	-44%
Noninterest expenses	**344.6**	**331.4**	**349.8**	**291.7**	**265.7**	**264.7**	**0%**	**-23%**	**-9%**
Corporate interest	-21.7	-18.4	-13.5	-10.5	-10.0	-7.5	33%	-54%	-5%
Pretax income	**22.3**	**71.3**	**-105.7**	**-39.8**	**-13.0**	**-5.6**	**--**	**--**	**--**
Income taxes	11.2	18.3	5.6	-14.4	-5.0	-1.8	--	--	--
Net income	**$9.7**	**$39.0**	**-$111.7**	**-$25.2**	**-$8.3**	**-$3.8**	**117%**	**-186%**	**-67%**
Preferred stock dividends	5.9	10.9	7.7	7.7	7.7	7.7	0%	--	0%
Net income avail. to common	3.7	28.2	-119.4	-32.8	-16.0	-11.5	39%	-528%	-51%
Adjusted EPS	**$0.14**	**$0.13**	**-$0.05**	**$0.00**	**$0.01**	**$0.04**	**-78%**	**-94%**	**-356%**
Diluted EPS	**$0.03**	**$0.23**	**-$0.98**	**-$0.27**	**-$0.13**	**-$0.09**	**39%**	**-524%**	**-51%**
Adjusted share count	167.7	172.9	173.3	172.6	172.9	173.0	0%	3%	0%
Diluted share count	122.0	121.8	122.3	122.9	123.3	123.0	0%	1%	0%
Profitability trends									
Comp exp. per $ of net rev.	57.5%	59.1%	59.8%	62.9%	64.6%	60.5%	--	--	--
Noncomp exp. per $ of net rev.	28.6%	27.9%	40.0%	38.5%	34.9%	35.5%	--	--	--
Exp. per $ of net rev.	86.1%	87.1%	99.9%	101.4%	99.6%	96.0%	--	--	--
Adjusted pretax margin	8.0%	7.9%	-5.1%	-5.3%	-3.5%	1.2%	--	--	--
Adjusted net profit margin	6.4%	6.2%	-3.5%	-0.2%	0.6%	2.5%	--	--	--
Effective tax rate	50.3%	25.7%	-5.3%	36.3%	38.3%	32.0%	--	--	--
Return on equity	7.3%	6.9%	-2.8%	-0.2%	0.5%	2.2%	--	--	--
Balance sheet data									
Cash and cash equivalents	--	$1,220	$639	$822	$797	--	--	--	--
Goodwill and intangible assets, net	255	247	152	144	137	131	--	--	--
Total assets	49,774	32,564	38,837	53,478	59,494	39,683	50%	20%	11%
Short-term debt	342	166	149	166	152	166	--	--	--
Long-term debt	950	950	945	698	699	698	--	--	--
Total liabilities	48,219	30,982	37,395	52,037	58,045	38,493	51%	20%	12%
Preference shares	233	224	224	224	224	224	--	--	--
Common equity	1,312	1,348	1,205	1,202	1,211	1,191	2%	-8%	1%
Book value per share	$10.76	$11.07	$9.85	$9.78	$9.82	$9.68	--	--	--
Tangible book value per share	$8.67	$9.04	$8.61	$8.61	$8.71	$8.62	--	--	--
Common Equity-to-Assets	2.6%	4.1%	3.1%	2.2%	2.0%	3.0%	--	--	--
Tangible common equity-to-Assets	2.1%	3.4%	2.7%	2.0%	1.8%	2.7%	--	--	--
Net revenue breakdown									
Commissions	51%	33%	50%	50%	54%	52%	--	--	--
Principal transactions	19%	26%	18%	17%	16%	18%	--	--	--
Net interest revenues	27%	23%	28%	28%	26%	25%	--	--	--
Other	4%	18%	5%	5%	4%	5%	--	--	--

Source: Company data, Credit Suisse estimates

Exhibit 2: MF Quarterly Summary—Actual vs. Estimated Fiscal Results
in millions, unless otherwise stated

	2Q09	3Q09	4Q09	1Q10	Actual 2Q10	Estimate 2Q10	Actual vs. Estimate	2Q10/ 2Q09	2Q10/ 1Q10
COMMISSION REVENUE DRIVERS									
Commission Revenue									
Execution-only Transactions									
Gross commissions	$77.8	$65.6	$60.1	$58.9	$54.8	$61.0	-10%	-30%	-7%
Execution & clearing fees	-$1.9	-$2.2	-$1.2	-$1.2	-$1.0	-$1.2	-13%	-47%	-17%
Net commissions	$75.9	$63.4	$58.9	$57.7	$53.8	$59.8	-10%	-29%	-7%
Clearing Transactions									
Gross commissions	$346.8	$263.4	$233.7	$244.5	$244.6	$242.0	1%	-29%	0%
Execution & clearing fees	-$198.7	-$142.4	-$125.7	-$133.1	-$136.2	-$132.0	3%	-31%	2%
Net commissions	$148.1	$121.0	$108.0	$111.4	$108.4	$110.0	-1%	-27%	-3%
Other & OTC Transactions									
Gross execution commissions	$29.2	$14.4	$15.0	$20.4	$24.8	$19.0	31%	-15%	22%
Gross cleared commissions	$23.9	$15.2	$4.1	$15.0	$18.2	$15.0	21%	-24%	21%
Execution & clearing fees	-$20.4	-$17.4	$1.6	-$7.8	-$9.1	-$8.0	14%	-55%	17%
Net commissions	$32.7	$12.2	$20.7	$27.6	$33.9	$26.0	30%	4%	23%
Total Commissions									
Gross execution commissions	$107.0	$80.0	$75.1	$79.3	$79.6	$80.0	0%	-26%	0%
Gross cleared commissions	$370.7	$278.6	$237.8	$259.5	$262.8	$257.0	2%	-29%	1%
Execution & clearing fees	-$221.0	-$162.0	-$125.3	-$142.1	-$146.3	-$141.2	4%	-34%	3%
Sales commissions	-$67.9	-$56.4	-$60.1	-$60.6	-$59.5	-$57.3	4%	-12%	-2%
Net commissions	$188.8	$140.2	$127.5	$136.1	$136.6	$138.5	-1%	-28%	0%
Sales commissions % gross	14%	16%	19%	18%	17%	17%	2%	22%	-3%
Transaction Volume (In Millions)									
Execution-only	130	121	106	123	94	115	-18%	-28%	-24%
Cleared	346	271	266	290	269	275	-2%	-22%	-7%
Other	26	12	14	16	33	15	118%	28%	102%
Total	501	403	386	430	396	405	-2%	-21%	-8%
Exchange-Traded Revenue Capture									
Execution Commissions									
Gross Yield	$0.60	$0.54	$0.57	$0.48	$0.58	$0.53	10%	-3%	22%
Execution & clearing fees	$0.01	$0.02	$0.01	$0.01	$0.01	$0.01	6%	-27%	9%
Net Yield	$0.58	$0.53	$0.56	$0.47	$0.57	$0.52	10%	-2%	22%
Cleared Commissions									
Gross Yield	$1.00	$0.97	$0.88	$0.84	$0.91	$0.88	3%	-9%	8%
Execution & clearing fees	$0.57	$0.53	$0.47	$0.46	$0.51	$0.48	5%	-12%	10%
Net Yield	$0.43	$0.45	$0.41	$0.38	$0.40	$0.40	1%	-6%	5%
NET INTEREST REVENUE DRIVERS									
Net Revenue									
Spread earned on Client Funds	$75.6	$46.5	$34.3	$33.3	$29.8	$29.0	3%	-61%	-11%
Corp treasury transactions & other	$0.0	$31.1	-$7.8	$0.2	$2.7	$0.0	--	--	--
Total net interest revenue	$75.6	$77.6	$26.5	$33.5	$32.5	$29.0	12%	-57%	-3%
Average Balances & Yields									
Client Funds (bn)	$17.9	$14.7	$13.6	$13.5	$13.6	$13.7	0%	-24%	1%
Client Yield	1.69%	1.26%	1.01%	0.99%	0.87%	0.85%	0.02%	-0.82%	-0.11%
PRINCIPAL TRANSACTION REVENUE DRIVERS									
Net Revenue									
FI&SL Financing & interest	$24.9	$51.4	$37.4	$42.8	$35.9	$36.6	-2%	44%	-16%
FI&SL Brokerage	$10.0	$21.0	$8.2	$5.0	$5.2	$9.2	-43%	-48%	4%
Fixed Income & Securities Lending	$34.9	$72.4	$45.6	$47.8	$41.1	$45.8	-10%	18%	-14%
Matched principal brokerage	$59.2	$57.8	$44.9	$40.5	$32.3	$39.3	-18%	-45%	-20%
Total principal transaction revenue	$94.1	$130.2	$90.5	$88.3	$73.4	$85.1	-14%	-22%	-17%
Average Balances & Yields									
Fixed Inc & Sec Lending Balances (bn)	$21	$23	$21	$31	$39	$31	27%	86%	27%
Fixed Inc & Sec Lending Yield	0.67%	1.27%	0.88%	0.63%	0.42%	0.60%	-0.18%	-0.25%	-0.20%
Fixed Income & Sec Lending revenue breakdown									
% Financing & interest	71%	71%	82%	90%	87%	80%	--	--	--
% Brokerage	29%	29%	18%	10%	13%	20%	--	--	--

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 04 Nov 09)*
MF Global, Ltd. (MF, $6.68, NEUTRAL [V], TP $7.00)

Disclosure Appendix

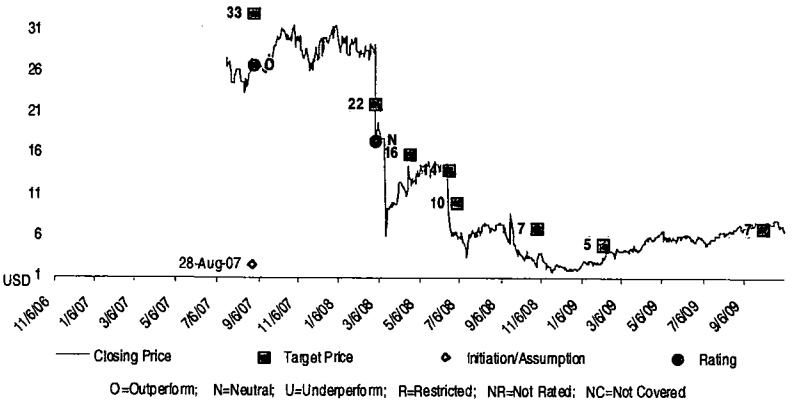
Important Global Disclosures

I, Howard Chen, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for MF

MF Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
8/28/07	26.7	33	O	X
2/29/08	17.55	22	N	
4/21/08	12.88	16		
6/18/08	7.83	14		
6/30/08	6.31	10		
10/29/08	3.26	7		
2/5/09	3.33	5		
10/2/09	7.25	7		



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

Restricted (R): In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

	Global Ratings Distribution	
Outperform/Buy*	40%	(56% banking clients)
Neutral/Hold*	42%	(59% banking clients)
Underperform/Sell*	16%	(50% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (MF)

Method: Our $7 target price for MF is based on a discounted cash flow (DCF) analysis (2-4% long-term free cash flow growth, 13% discount rate), supported by price-to-earnings and price-to-book multiples. Our 2-4% long-term growth expectation is based on sustained growth in the financial services industry, and derivatives trading in particular, and is below that of the rate we use in evaluating the financial exchanges given the more competitive nature of the futures commission merchant/broker business model. Our 13% discount rate is also a premium to that which we use in valuing the financial exchanges given the higher level of credit and market risk at the company.

Risks: Risks to our $7 MF price target are a decline in derivatives trading activity in general, as well as sudden shifts or disruptions in the underlying markets (supply, demand, price, and volatility). The company's results may also be at risk due to increased competition, either within the interdealer broker/futures commission merchant industry or through disintermediation by other new participants. The company also faces counterparty credit risk through its agency, clearing, and principal trade execution businesses. Longer term, the company's results may also be at risk as a result of market structure reform in the U.S. or abroad. MF Global operates across a broad geographic footprint. The company is also exposed to interest rate risk and foreign exchange rate risk. Company results are also at risk to the extent that the company cannot successfully integrate current or future acquisitions.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names.

The subject company (MF) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (MF) within the past 12 months.

Credit Suisse provided non-investment banking services, which may include Sales and Trading services, to the subject company (MF) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (MF) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (MF) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (MF) within the past 12 months.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (MF) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

CS may have issued a Trade Alert regarding this security. Trade Alerts are short term trading opportunities identified by an analyst on the basis of market events and catalysts, while stock ratings reflect an analyst's investment recommendations based on expected total return over a 12-month

period relative to the relevant coverage universe. Because Trade Alerts and stock ratings reflect different assumptions and analytical methods, Trade Alerts may differ directionally from the analyst's stock rating.
The author(s) of this report maintains a CS Model Portfolio that he/she regularly adjusts. The security or securities discussed in this report may be a component of the CS Model Portfolio and subject to such adjustments (which, given the composition of the CS Model Portfolio as a whole, may differ from the recommendation in this report, as well as opportunities or strategies identified in Trading Alerts concerning the same security). The CS Model Portfolio and important disclosures about it are available at www.credit-suisse.com/ti.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:
The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at www.credit-suisse.com/researchdisclosures or call +1 (877) 291-2683.
Disclaimers continue on next page.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse; in Canada by Credit Suisse Securities (Canada), Inc..; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited , Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch, Credit Suisse Securities (India) Private Limited, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse Taipei Securities Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse Taipei Securities Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2009 CREDIT SUISSE and/or its affiliates. All rights reserved.

CREDIT SUISSE SECURITIES (USA) LLC
United States of America: +1 (212) 325-2000

Appendix 27.D

North America United States
Financial Brokers & Asset Managers

Deutsche Bank

5 November 2009

MF Global

Reuters: **MF.N** Bloomberg: **MF UN** Exchange: **NYS** Ticker: **MF**

Missed quarter & NT challenges, but LT potential

Michael Carrier, CFA
Research Analyst
(+1) 212 250-6600
michael.carrier@db.com

Matthew Klein, CPA
Research Associate
(+1) 212 250-3088
matthew.klein@db.com

MF Global missed expectations on lower revenues
MF Global reported op. EPS of $0.01 (GAAP Loss of $0.13), below our/Street est. of $0.03/$0.04, primarily on lower revenues. Top line results were weaker than anticipated, primarily due to declining volumes and lower NII, but partially offset by better pricing. Although non-comp exp. was well managed, the comp ratio remained elevated, leading to negative op. leverage. While there is potential for longer term upside in MF, particularly given management's initiatives, given the near term headwinds, our rating remains Hold.

Volumes and low rates pressure earnings
Volumes came under pressure in the quarter with overall volumes declining roughly 8% in the quarter, although partially offsetting the decline was an increase in both execution and cleared pricing, which were up 21% and 5%, respectively, due to mix. In addition to declining volumes, rates continue to remain at extremely low levels, pressuring NIM and NII revenues (-14% q/q). Lastly, due to recent hires to build out various business lines, the comp ratio remains elevated, although non-comp expenses were well managed (-4% q/q).

Near term headwinds, but long term potential
MF faces some near term headwinds, including potentially weak volumes, pricing pressure (due to mix and competition), low interest rates (weighing on NII), elevated comp expense (mostly due to strategic hiring), and rising gross leverage (repo/match-book related, but 49x is still high). That said, rising volumes and rates will eventually be a tailwind, and market share gains and new initiatives/hires could provide some offset. In addition, management has also been active in executing on its strategy and building out its product and geographic reach (building out Japan research/sales this quarter), which should provide some benefit longer term.

Valuation: maintain Hold rating
Given the quarter and our outlook, we are adjusting our 2009 CY operating EPS estimate to $0.05 from $0.9 and keeping our CY 2010 estimate unchanged at $0.55. Our PT remains at $7, based on a target PE multiple of ~12x our CY 2010E EPS. The in-line valuation versus peers is due to its similar growth outlook. Downside risks include pricing pressure and declining margins, while upside risks include improved pricing and better-than-expected volumes.

Forecasts and ratios

Year End Mar 31	2009A	2010E	2011E
1Q EPS	0.29	**0.05A**	0.16
2Q EPS	0.14	**0.01A**	0.14
3Q EPS	0.13	**0.04**	0.18
4Q EPS	-0.05	**0.07**	0.22
FY EPS (USD)	0.51	**0.17**	0.69

Source: Deutsche Bank estimates, company data

Results

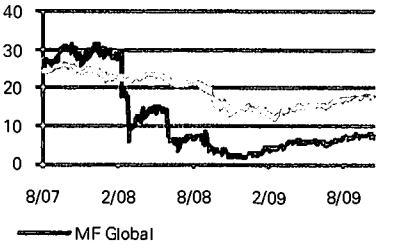
Hold

Price at 5 Nov 2009 (USD)	6.62
Price Target	7.00
52-week range	7.94 - 1.73

Key changes

EPS (USD)	0.25 to 0.17 ↓	-33.0%

Price/price relative

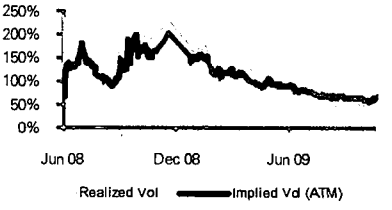


Performance (%)	1m	3m	12m
Absolute	*-11.4*	*2.8*	*74.2*
S&P 500 INDEX	*2.5*	*6.4*	*12.0*

Stock & option liquidity data

Market Cap (USD)	815.4
Shares outstanding (m)	123.2
Free float (%)	99
Volume (5 Nov 2009)	1,090,800
Option volume (und. shrs., 1M avg.)	33,109

Implied & Realized Volatility (3M)



Deutsche Bank Securities Inc.

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Independent, third-party research (IR) on certain companies covered by DBSI's research is available to customers of DBSI in the United States at no cost. Customers can access IR at http://gm.db.com/IndependentResearch or by calling 1-877-208-6300. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 106/05/2009

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
MF Global	MF.N	6.62 (USD) 5 Nov 09	2,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.

8. Deutsche Bank and/or its affiliate(s) expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.

Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the "Important Disclosures Required by US Regulators" and the Explanatory Notes.

2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.

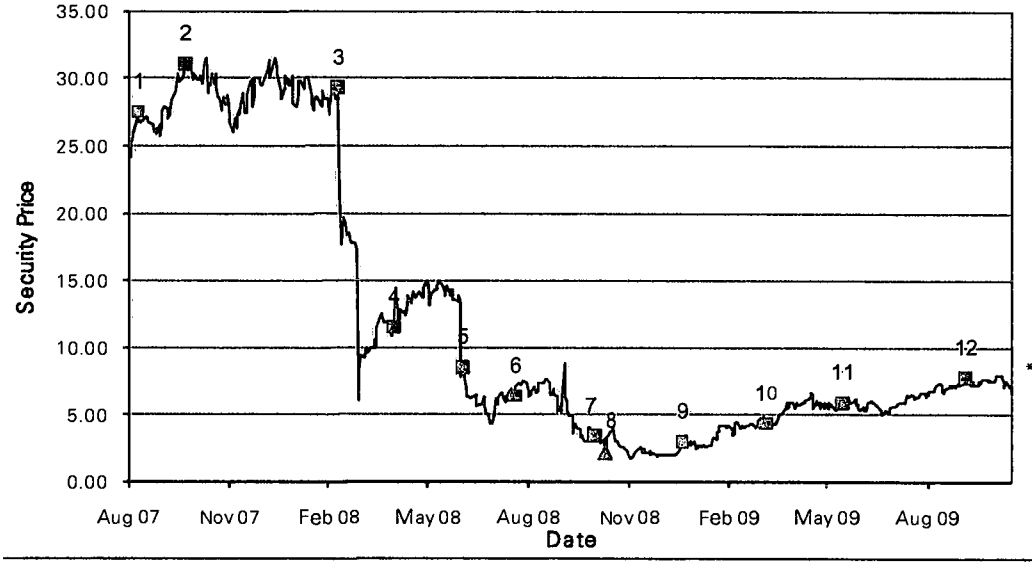
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=MF.N.

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Michael Carrier

Historical recommendations and target price: MF Global (MF.N)

(as of 11/5/2009)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1.	8/28/2007:	Hold, Target Price Change USD31.00	7.	10/20/2008:	Hold, Target Price Change USD5.00
2.	10/10/2007:	Hold, Target Price Change USD33.00	8.	10/29/2008:	Upgrade to Buy, Target Price Change USD6.00
3.	2/28/2008:	Hold, Target Price Change USD27.00	9.	1/8/2009:	Buy, Target Price Change USD5.00
4.	4/19/2008:	Hold, Target Price Change USD17.00	10.	3/26/2009:	No Recommendation, Target Price Change USD0.00
5.	6/20/2008:	Hold, Target Price Change USD11.00	11.	6/3/2009:	Hold, Target Price Change USD6.00
6.	8/7/2008:	Hold, Target Price Change USD9.00	12.	9/23/2009:	Hold, Target Price Change USD7.00

Equity rating key

Buy: Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

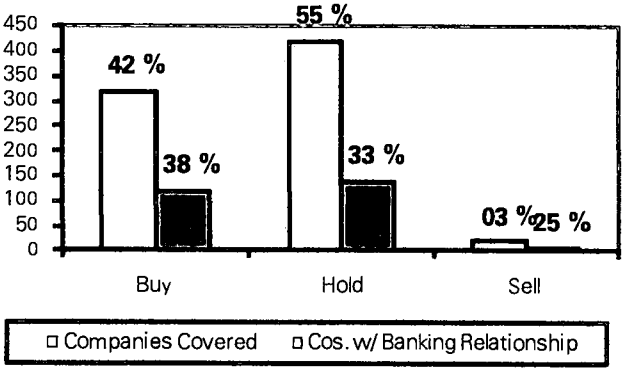
Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
   Buy: Expected total return (including dividends) of 10% or more over a 12-month period
   Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



North American Universe

Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

3. Country-Specific Disclosures

Australia: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.
EU countries: Disclosures relating to our obligations under MiFiD can be found at http://globalmarkets.db.com/riskdisclosures.
Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, The Financial Futures Association of Japan. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations.
New Zealand: This research is not intended for, and should not be given to, "members of the public" within the meaning of the New Zealand Securities Market Act 1988.
Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Deutsche Bank Securities Inc.

North American locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
Tel: (212) 250 2500

Deutsche Bank Securities Inc.
225 Franklin Street
25th Floor
Boston, MA 02110
Tel: (617) 988 8600

Deutsche Bank Securities Inc.
222 South Riverside Plaza
30th Floor
Chicago, IL 60606
Tel: (312) 537-3758

Deutsche Bank Securities Inc.
3033 East First Avenue
Suite 303, Third Floor
Denver, CO 80206
Tel: (303) 394 6800

Deutsche Bank Securities Inc.
1735 Market Street
24th Floor
Philadelphia, PA 19103
Tel: (215) 854 1546

Deutsche Bank Securities Inc.
101 California Street
46th Floor
San Francisco, CA 94111
Tel: (415) 617 2800

Deutsche Bank Securities Inc.
700 Louisiana Street
Houston, TX 77002
Tel: (832) 239-4600

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Level 55
Cheung Kong Center
2 Queen's Road Central
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6701

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may (1) engage in securities transactions in a manner inconsistent with this research report, (2) with respect to securities covered by this report, sell to or buy from customers on a principal basis, and (3) consider this report in deciding to trade on a proprietary basis.

Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy.

Deutsche Bank has instituted a new policy whereby analysts may choose not to set or maintain a target price of certain issuers under coverage with a Hold rating. In particular, this will typically occur for "Hold" rated stocks having a market cap smaller than most other companies in its sector or region. We believe that such policy will allow us to make best use of our resources. Please visit our website at http://gm.db.com to determine the target price of any stock.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Stock transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany this report is approved and/or communicated by Deutsche Bank AG Frankfurt authorized by the BaFin. In the United Kingdom this report is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange and regulated by the Financial Services Authority for the conduct of investment business in the UK and authorized by the BaFin. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. This report is distributed in Singapore by Deutsche Bank AG, Singapore Branch, and recipients in Singapore of this report are to contact Deutsche Bank AG, Singapore Branch in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), Deutsche Bank AG, Singapore Branch accepts legal responsibility to such person for the contents of this report. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10). Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.

Copyright © 2009 Deutsche Bank AG

Appendix 27.E

PALI

U.S. Equity Research
Exchanges & Market Structure

MF Global (MF, Buy, PT $8)

January 14, 2010

Management Meeting Takeaways

- **Recently, we hosted investor meetings with MF CFO Randy MacDonald** in Boston. We left the meetings incrementally more confident that the turnaround story at MF continues apace and that the company is well positioned to capitalize on a better environment. While it will clearly take some time to realize the true earnings potential of the firm, we believe the company has the right strategy and management team to execute that strategy to succeed in the long-term. Given positive leverage to rising rates, operating leverage which should lead to margins in excess of 20% in a normalized environment, a diversified business model and strong management team, we continue to believe MF is an attractive investment at current levels.
- **Environment remains challenging, but seeing some positive signs**. While spreads have continued to tighten and rate levels remain at trough levels, management noted that open interest and volume levels at the major future exchanges have been perking up of late.
- **Primary dealer update.** MF has taken all the necessary steps (reporting, risk management, personnel) and is now in the process of building a track record in Treasury auctions (MF has been accounting for ~5% of recent auctions). This should be the last step in MF receiving Primary Dealer designation which could lead to new customer relationships, such as sovereign banks.
- **Well positioned for rising rates.** Given meaningful improvements in its internal treasury function, MF is confident in its ability to maintain a positive spread (currently ~80bps) on client assets relative to the Fed fund rate. The duration on these assets currently stands at 7 months as management is cautious on extending further given its views that rates are heading upward. We believe that MF will be able to extend further on duration as rates move higher and there may be potential for the spread relative to Fed funds to increase (obviously somewhat dependant on the shape of the yield curve).
- **Regulatory changes (potential and actual) appear positive for MF.** Recent capital requirement changes by the CFTC for larger dealers to levels MF already employs should be a positive for MF as it could reduce competitive pricing pressure. Looking forward, any changes that bring OTC markets (particularly interest rate swaps) to clearinghouses and/or exchanges should allow MF access (at a low capital cost) to a sizeable new market.
- **Retail opportunity.** Management is focused on building out a multi-asset class retail offering. MF is currently doing so organically, but may look to accelerate the growth via a joint venture, deal, or a white label agreement.
- **Adjusting EPS estimates,** with 3Q10E moving to $0.02 from $0.03 (and 4Q10E goes from $0.09 to $0.07) to reflect ongoing spread compression as LIBOR-OIS spreads have tightened by 5bps in 3Q10.

Christopher J. Allen
212.259.2650
callen@palicapital.com

Avi Ghosh
212.259.2055
aghosh@palicapital.com

MF: BUY
Price: $6.80
Target Price: $8

52 Week Range:	**$1.72 - $15.19**
Market Cap. (mm):	**$931.0**
Avg. Daily Volume (100 day):	**98,000**
5-Yr. Est. EPS CAGR:	**14%**

FY (Mar)	2009A	2010E	2011E
Q1	$0.37A	$0.05A	NA
Q2	$0.14A	$0.01A	NA
Q3	$0.13A	$0.02E	NA
Q4	($0.05)A	$0.07E	NA
FY	$0.53A	$0.12E	$0.68E
P/E	N/A	36.8x	9.5x
Consensus FY	N/A	$0.14E	$0.50E
Revenues ($m)	$1,426	$1,040	$1,211
EBITDA ($m)	$121	$9	$151

Source: Pali Research Estimates and Company Documents

Note: EPS exclude non-recurring items.

Please Read: Important disclosures and analyst's certification appear in Appendix

Recently, we hosted investor meetings with MF CFO Randy MacDonald. Key takeaways from our meeting are as follows:

Continue to make progress on strategic plan. MF management has made meaningful positive changes to the operating model over the last year and a half. Starting with changes to corporate governance and risk management, and now a shifting focus to profitability and long-term stability and diversity, we believe the platform is well positioned for a more positive operating environment. Clearly MF needs the environment to turn from a volume and rate level perspective, but when it does, management expects to see much higher profitability levels than the company has seen historically. Given the numerous changes in the expense structure (for example, the ongoing modification of broker payout contracts to move away from the "eat what kill" model), new business opportunities (the buildout of fixed income, equities, and Asia), alterations to how MF manages its capital and investments, and how it interacts with customers (moving away from market determined spreads to MF determined spreads), management believes the company is well positioned for a turn in the cycle. In fiscal 2008, MF produced pre-tax margins in the ~18-19% range. Given the changes in the model, management believes that in a good environment (obviously higher volumes and rate levels), MF is capable of producing margins somewhere between agency brokers such as ITG (~20-25%) and the exchanges (40-60% depending on the exchange), implying tremendous operating leverage in the model.

Primary dealer designation. MF has done a meaningful amount of work to satisfy requirements to become a primary dealer in the Treasury markets. MF has had to demonstrate expertise in both risk management and transaction reporting, and a trading track record in the Treasury markets on both the short end (always a core competency) and the long end (which MF needed to add personnel to accomplish). MF has been participating in recent auctions and has accounted for roughly 5% of activity in recent auctions according to management. While management would not delineate any financial targets for what primary dealer designation would translate to, the company did state that the designation would lead to more business from existing customers and would also allow penetration into new customers including sovereign banks.

- **Federal Reserve increased minimum net capital requirements for Primary Dealers should not impact MF**. On January 11th, the Federal Reserve Bank of New York increased the minimum net capital requirements for Primary Dealers from $50m to $150m. At the end of 2Q09, MF had $2.2b in net capital on its balance sheet, so the company is clearly well above the new minimum requirements. Also, the Fed has instituted a seasoning requirement of 1 year of relevant operations before a prospective dealer may submit an application. MF already has an application in place and given that the firm started this process well over a year ago would likely achieve the year threshold fairly soon in any case.

Leverage to rising rates. Positive spread to Fed Funds rate should continue. Currently, MF is earning ~95bps on customer balances vs. an effective Fed Funds rate of 15bps, which equates to an 80bps spread over Fed Funds. While this spread relative to Fed Funds will move around a bit depending on the company's risk appetite (which will be evidenced by the duration of the portfolio), management fully expects to maintain a very healthy spread relative to the effective Fed Funds rate. As an example, management pointed to AMTD (Neutral rated), which outsources its treasury management function and targets a spread of 25-30bps relative to Fed Funds. Given MF's in-house treasury capabilities, management expects to earn consistently higher than the spread level realized by company's that outsource the function. And given the current duration characteristics of the portfolio (avg. duration of 7 months), we actually see an opportunity for MF to increase the spread relative to Fed Funds over time. Management is of the view that rates are not rising anytime soon, so they have been reluctant to extend duration out and prefer to wait until rates do rise to start locking in.

Balance sheet expanding, but regulatory capital requirements have been contracting. In recent quarters, MF has seen meaningful growth in its balance sheet, with assets up to $59.5b at the end of 2Q10 from $38.8b in 4Q09. While MF's assets have been growing, its required capital has been falling, dropping to $1.3b in 2Q10 vs. $1.426b in 1Q10. The disconnect between rising assets and the drop in required capital has been due to almost the entire growth in assets being driven by the matched book of the FICC business. Capital requirements against the low-risk matched book business are fairly low at 1-2% whereas MF holds 8-10% in capital against customer balances. Some investors have been worried about the growth in assets and the low levels of return on assets. But as we see below, on a return on capital basis, the returns are fairly strong.

- **FICC business.** Looking at the FICC-Stock lending business, average assets stood at $38.8b in 2Q10, up $8.2b from the prior quarter. Management estimates that required capital on this matched book business is roughly 1-2%, so applying a 1.5% capital charge equates to $581m in required capital in 2Q10. According to the company, this book generated $41.1m in revenues in 2Q10, equating to a return on assets of 0.42%, but a return on estimated capital of 28.3%. Keep in mind that LIBOR-OIS spreads continued to contract during the period and that management belies normalized spread levels should be in the 50-60bps range, implying returns on capital in excess of 30%.

- **Customer balances** stood at $13.6b (avg.) in 2Q10 and MF earned $32.5m in spread income on these balances in the quarter. On a ROA basis, this translated into 0.95%. Using an estimate of 9% capital requirements (MF estimates between 8-10% depending on the position), we estimate a return on capital of 10.6%.

Exhibit 1: Breakdown of growth in FICC and client

FICC-Stock Lending	**1Q10**	**2Q10**	**Chg.**
Revenues	47.8	41.1	(6.7)
Avg. assets	30,511	38,759	8,248.0
ROA	**0.63%**	**0.42%**	**-0.20%**
Est. Capital @ 1.5%	458	581	123.7
ROC	**41.8%**	**28.3%**	**-13.50%**
Client funds	**1Q10**	**2Q10**	**Chg.**
Revenues	33.5	32.5	(1.0)
Avg. assets	13,519	13,634	115.0
ROA	**0.99%**	**0.95%**	**-0.04%**
Est. Capital @ 9%	1,217	1,227	10.3
ROC	**11.0%**	**10.6%**	**-0.42%**

Source: Company reports, Pali Research estimates.

Regulatory landscape favourable to MF. Investor focus on regulatory changes that would impact MF has been on the introduction of clearing in the OTC markets and the inherent opportunities likely to stem from same changes in areas such as interest rate swaps for MF. These remain in motion and are likely to be positive for the company over the long-term as we believe interest rate swap clearing will allow much easier penetration for MF, but it will clearly take some time. There have also been other changes recently which we view as favourable to MF. Recent margin requirement changes for Future Commission Merchants (FCMs) by the CFTC should be positives for MF as they could force smaller players out of the business or to outsource to larger players such as MF. Also, increased capital requirements vs. customer positions are likely to level the playing field as MF was already holding the required capital levels (8%) against their customer positions. We suspect that the increased capital requirements may lessen the potential for larger FCM's to compete on price in the near-term as these players will have to adjust their return on capital and profitability thresholds.

- **Recent CFTC changes to FCM capital requirements**. At the end of 2009, the CFTC adjusted margin requirements for FCM's, increasing the minimum net adjusted capital requirements for FCMs to $1m from $250k. Also, the amendment increased an FCM's margin-based capital requirements for noncustomer positions that the firm carries from 4% of the maintenance margin requirements to 8% of the maintenance margin requirements.

Retail opportunity. Management sees a significant opportunity in the retail business. Historically, MF has operated multiple brands across its retail platform, including multiple brands in the same region at times. MF is now looking to consolidate brands and products under one umbrella in the form of a multi-asset class platform with a clear strategy on branding, marketing and client interaction. MF is currently building out its retail platform organically, but management may look to accelerate the process with a deal, joint venture, or white label agreement.

Current environment remains challenging. Management has started to see some positive signs (healthier trading volumes, positive open interest trends) that are leading to an incrementally more confident outlook. However, management was quick to point out the environment is far from favorable and the near-term remains challenged. We are currently forecasting $0.02 in EPS for 3Q10 for MF. Looking at industry trends for the quarter, it was a bit of a mixed bag, sequential growth in volumes, improving share for MF, but tighter spreads. We believe the quarter could be a bit of coin flip.

- **Revenue outlook.** Looking at the major future exchanges (CME, ICE, Eurex, and Euronext), total volumes were up 3.7% sequentially in the Dec. quarter. We are currently forecasting volumes of 403.7m, up 2% sequentially. Volumes could come in better than we are forecasting, particularly as market share (as represented by customer segregated assets) has continued to improve. We are forecasting rate per contract of $0.46, down from $0.48 in 2Q10. In terms of pressure points, MF is likely to see further pressure from continued spread tightening. LIBOR-OIS spreads have contracted further, with average spreads dropping 5bps from already extremely tight levels in the Sept. quarter. Given this compression, we are forecasting further compression in the FICC book to 0.35% in 3Q10 from 0.42% in 2Q10. We are forecasting net revenues of $250m, down slightly from $252m in 2Q10.

Appendix: Important regulatory disclosures on subject companies

Analyst certification

I, Christopher J. Allen, in my role as Research Analyst, hereby certify that the views about the companies and their securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Avi Ghosh, in my role as Research Analyst, hereby certify that the views about the companies and their securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Analyst Stock Ratings

Pali Research's ratings are defined as follows:

BUY – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

SELL – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

NEUTRAL – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

Disclosure of distribution of ratings: US

Pali Capital Inc. must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "buy", "neutral" or "sell" rating. The said ratings are updated on a quarterly basis. Below is the distribution of Pali's US research recommendations as of the end of the fourth quarter of 2009:

BUY: 38.5% NEUTRAL: 55.6% SELL: 6.0%

Stocks in coverage as of the end of the most recent calendar quarter (December 31, 2009): 117

Valuation

We assign an $8.00 price target, which equates to 1.0x tangible book.

Risks

1. Sustained downturn in trading activity
2. Increase in competitive pressures hampering MF's ability to attract/retain brokers
3. Man Group looking to sell their shares which represents approximately 18% of outstanding shares

General Risks of Investing

Investors need to be aware that investments in equity securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that can affect the earnings, cash flow and overall valuation of a company. Any investment in equity securities should be facilitated only within the context of diversification by asset class, industry, company, as well as investment objectives and time horizon. For additional information, please contact your Pali sales and trading representative.

For additional information, please contact your Pali sales and trading representative.

Legal disclaimer

Reports produced by Pali Capital Inc ("Pali Research") are based on public information and Pali Research considers the same to be reliable, comprehensive information, but makes no representation or warranty that it is accurate or complete. Pali Research has no obligation to tell you when opinions or information in this report change apart from when we intend to discontinue research coverage of a subject company.

This research report is not an offer to buy or sell or solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. This research is not a personal recommendation or otherwise to participate in any trading strategy or transactions. Any recipient of this research report should consider obtaining independent advice specific to their personal circumstances before undertaking any investment activity.

Facts, views or opinions presented in this report have not been reviewed by, and may not reflect information known to, employees or other professionals in the Pali Group (Pali Group includes but is not limited to Pali Capital Inc) business areas or its affiliates. Pali Group employees including Sales and Traders may provide oral or written commentary or advice that may be inconsistent with the opinions and, or views expressed in this research report. Pali Research or its employees and, or its affiliates not involved in the preparation of this research report may have investments in securities or derivatives of securities of companies mentioned in this report, and may trade them in ways different from those discussed in this report.

The value of and income from your investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in your securities transactions. Past performance is not a guide to future performance. Estimates of future performance are based on assumptions that may not be realised.

Pali Research personnel conduct site visits from time to time but are prohibited from accepting any payment or reimbursement by the subject company for travel expenses for such visits.

The research analyst, strategists, or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

This research report has been published in accordance with our Research Policy which is available on written request from Pali Research.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability of any damages of any kind relating to such data. The report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Pali Research. This Publication is intended only for use by the recipient. The recipient acknowledges that all research and analysis in this Publication are the property of Pali Research and agrees to limit the use of all publications received from Pali Research within his, or her, own company or organisation. No rights are given for passing on, transmitting, re transmitting or reselling the information provided.

Jurisdiction and dissemination

United States of America

Pali Capital Inc. is a US broker-dealer. The information and opinions in this report were produced and distributed by Pali Research. Within the last 12 months neither Pali Research nor any of its affiliates have managed or co-managed a public offering of any securities or owned any shares mentioned in this report.

Within the last 12 months neither Pali Research nor its affiliates have provided investment-banking services to any of the companies mentioned or received compensation from any of the companies mentioned in this report.

Appendix 27.F

MF Global Ltd.

EFINANCE

NYSE: MF - $6.62

RATING: BUY
12-Month Price Target: $7.50

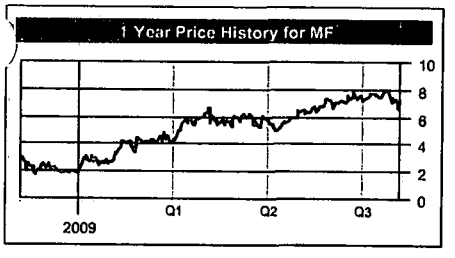
November 6, 2009

Richard Repetto, CFA, Principal
212-466-7906
rrepetto@sandleroneill.com

Mike Adams, CFA, CPA, Assoc.
212-466-7962
madams@sandleroneill.com

Chris Donat, CFA, Associate Director
212-466-8068
cdonat@sandleroneill.com

MARKET DATA	
Market Cap.	$1.1 Bil.
Price/Book	67%
Price/Tang. Book	75%
* As of	09/30/2009
52-Week High	$8.22
52-Week Low	$1.72
3-Mo. Avg. Daily Volume	1,829,550
Dividend Yield	NM
Total Assets	$59.5 Bil.
* As of	09/30/2009
ROE	0.34%
* As of	09/30/2009
Shares Outstanding (Mil)	172.9
Annual Dividend	NA
Institutional Ownership	78.0%
Insider Ownership	20.9%



MF Global provides execution and clearing services for exchange-traded and OTC derivative products. MF's clients trade derivative and cash products based on interest rates, equities, foreign exchange, and commodities. The company is typically the largest broker at futures exchanges such as CME, NYMEX and Liffe. MF Global was spun off from Man Group plc through an IPO on July 18, 2007.

Earnings Below Expectations, But Early Signs of Fixed Income Traction Appear

EPS	Jun	Sep	Dec	Mar	Year	Growth	Est. Change	P/E
2009A	$0.29	$0.14	$0.13	$0.04	$0.56	NM	—	11.8x
2010E	$0.05A	$0.01A	$0.02	$0.05	$0.13	NM	($0.21)	50.9x
2011E	$0.10	$0.10	$0.09	$0.12	$0.40	—	($0.20)	16.6x

Reported EPS: -$0.13
Core EPS: $0.01
Consensus EPS: $0.03
SOP EPS: $0.04

- **EPS below consensus on lower net interest revenue.** MF Global reported fiscal 2Q10 core operating EPS of $0.01. This was $0.03 below our forecast of $0.04 and also $0.02 below consensus of $0.03. MF's GAAP loss of $0.13 per share includes $13.0 million of compensation related to IPO awards, plus seven other adjustments. Relative to our forecast, net interest revenue of $65.8 million was $24.6 million below our forecast and down $10.3 million from F1Q10.
- **Building out a fixed income platform that could be positioned to outperform boutiques.** On the conference call, CEO Bernie Dan discussed MF's competitive advantages versus other firms in the fixed income trading business. He emphasized that MF already has its infrastructure in place as an established player in secondary fixed income markets. This infrastructure includes compliance, risk management and operations. In addition, he believes MF has significant scalability in its platform and its product offering. Finally, MF believes it will likely have primary dealer status in early 2010. Mr. Dan believes that these elements should give MF a competitive advantage over the boutique fixed income firms and also enable it to take advantage of a shift in client demand for non-bank trading intermediaries.

© Sandler O'Neill + Partners, L.P. All rights reserved. Sandler O'Neill does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Sandler O'Neill may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision. Please see "Important Disclosures" and the analyst certifications in the Appendix of this report.

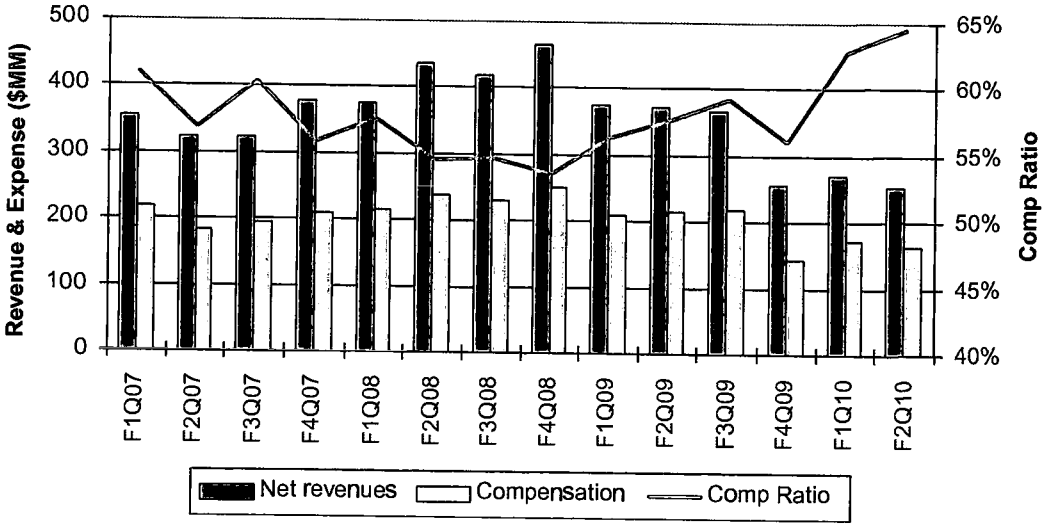
- **Compensation ratio rises to record as revenues compress.** MF's compensation ratio was a record 64.6% in the quarter, up from 62.9% for the June quarter and 57.5% a year ago. Management has attributed the growth in the ratio to higher headcount for new product offerings and also moving consultants into salaried positions. On the conference call, CFO Randy MacDonald pointed out that expanding the "depth and breadth" of MF's fixed income team contributed $9 million of fixed income revenue in the quarter. We believe that these new hires provide a demonstration that MF is adding revenue producers.
- **Industry volumes are currently up 5-10% in F3Q10, but will likely slow.** Our estimate for the quarter is that MF total volumes are flat with C3Q09, even though major future exchanges indicate that volumes are up 5-10% quarter-to-date. Our forecast assumes that trading activity slows in November and December, as is typical around the holiday and vacation season.
- **Reducing estimates while raising price target based on tangible book; maintaining BUY rating.** We are significantly reducing our FY10 and FY11 EPS estimates to $0.13 and $0.40 from $0.34 and $0.60. We point out that while we have near-term visibility on expenses from MF's recent hiring, we believe there could be upside to revenues in future quarters. We are raising our price target to $7.50 from $7. Our new target is based on a 0.85x multiple of tangible book of $8.83. We are using a higher multiple as we have increased confidence that MF's tangible book value is not likely to shrink. There is no change to our BUY rating.

I. Summary

EPS below consensus on lower net interest revenue. This morning MF Global reported fiscal 2Q10 core operating EPS of $0.01. This was $0.03 below our forecast of $0.04 and also $0.02 below consensus of $0.03. MF's GAAP loss of $0.13 per share includes $13.0 million of compensation related to IPO awards, plus seven other adjustments. Relative to our forecast, net interest revenue of $65.8 million was $24.6 million below our forecast and down $10.3 million from F1Q10.

Compensation ratio rises to record as revenues compress. MF's compensation ratio was a record 64.6% in the quarter, up from 62.9% for the June quarter and 57.5% a year ago. It's worth noting that the interest rate environment has compressed revenues, creating the effect of a lower denominator for MF's comp ratio. Management has attributed the growth in the ratio to higher headcount for new product offerings and also moving consultants into salaried positions. On the conference call, Mr. MacDonald pointed out that expanding the "depth and breadth" of MF's fixed income team contributed $9 million of fixed income revenue in the quarter. While he did not comment on the compensation expenses associated with the $9 million of revenues, we believe that the new hires demonstrates that MF is adding revenue producers.

Compensation, Net Revenues and Comp Ratio by Quarter

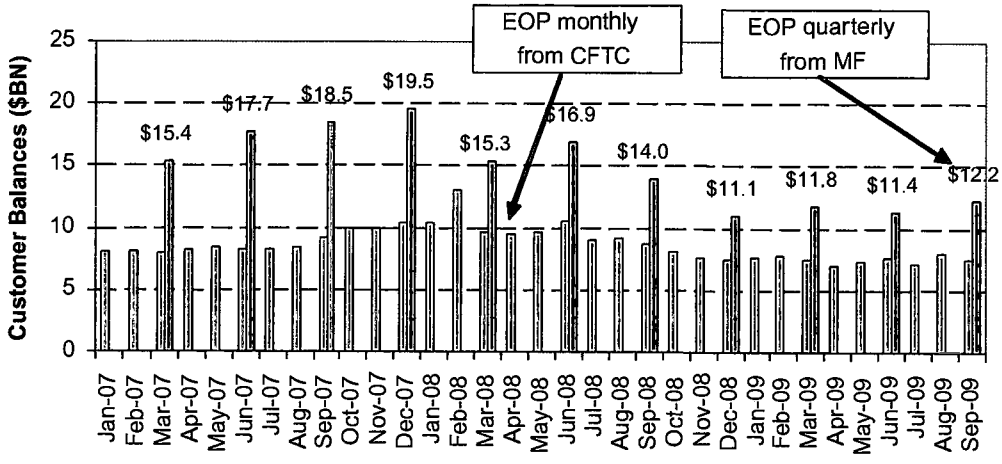


Source: company documents

Building out a fixed income platform that could be positioned to outperform boutiques. On the conference call, CEO Bernie Dan discussed MF's competitive advantages versus other firms in the fixed income trading business. He emphasized that MF already has its infrastructure in place as an established player in secondary fixed income markets. This infrastructure includes compliance, risk management and operations. In addition, he believes MF has significant scalability in its platform and its product offering. Finally, MF believes it will likely have primary dealer status in early 2010. Mr. Dan believes that these elements should give MF a competitive advantage over the boutique fixed income firms and also enable it to take advantage of a shift in client demand for non-bank trading intermediaries.

Client assets grow 7.0% from prior quarter. MF reported client assets of $12.2 billion, up 7.0% from the prior quarter and down 12.9% from $14.0 billion at September 2008. We had expected client assets to be unchanged from the June quarter at $11.4 billion. We point out that CFTC data for September shows a 0.5% decrease from June. Management commented that its share of segregated funds reported to the CFTC is the highest since November 2008, and according to the most recent CFTC data is was 5.7% in September. We note that CFTC data apply only to futures trading regulated in the United States. This is significant, because roughly 40% of MF Global's client assets are from outside the United States.

Clients' Funds (from MF) and Seg Funds (from CFTC) for MF Global



Source: company documents and CFTC

Moving headquarters from Bermuda. MF intends to change its corporate domicile to the United States from Bermuda. Last quarter, the company announced that it was considering this transition. The move should enable MF to operate in a regulatory environment that "benefits from the enhanced financial reforms that are being discussed in Washington." In addition, the Federal Reserve likely has a more favorable view of a Delaware incorporation than a Bermuda domicile, which could be a factor in the primary dealer process. Finally, Mr. MacDonald stated that the tax impact would not be significant because MF's U.S. operations are already taxed at U.S. rates.

II. Net Revenue Changes

A closer look at sequential changes within matched principal net revenue. In the following table, we show the primary components of net revenues. The company breaks these into three categories: matched principal, net interest, and commissions. We highlight that revenue from matched principal decreased sequentially, while the other two categories were roughly flat. Matched principal revenue decreased $14.9 million to $73.4 million on lower fixed income net interest and lower principal transactions due to tighter spreads in OTC markets. Commissions contracted only $0.6 million to $196.1 million and net interest from client funds decreased $1.0 million to $32.5 million. While matched principal represents 24% of net revenues, net interest from client funds and commissions combined represent 76% of total revenues.

Components of Changes to Quarterly Net Revenues

F2Q10

Matched Principal			Net Interest		Commissions			Total
$73.4			**$32.5**		**$196.1**			**$302.0**
24%			**11%**		**65%**			Comm exp
								($59.5)
FI & Stock NI	FI & Stock Comm.	Principal Trans	Net Interest	PT Comm.	Execution Only	Clearing	Other	*-30.3%*
$35.9	$5.2	$32.3	$29.8	$2.7	$53.8	$108.4	$33.9	Other Inc
12%	2%	11%	10%	1%	18%	36%	11%	**$9.4**
Of Total Matched Principal			Of Total Net Interest		Of Total Commissions			Net Rev
49%	7%	44%	92%	8%	27%	55%	17%	**$252.0**

Less

F1Q10

Matched Principal			Net Interest		Commissions			Total
$88.3			**$33.5**		**$196.7**			**$318.5**
28%			**11%**		**62%**			Comm exp
								($60.6)
FI & Stock NI	FI & Stock Comm.	Principal Trans	Net Interest	PT Comm.	Execution Only	Clearing	Other	*-30.8%*
$42.8	$5.0	$40.5	$33.3	$0.2	$57.7	$111.4	$27.6	Other Inc
13%	2%	13%	10%	0%	18%	35%	9%	**$13.6**
Of Total Matched Principal			Of Total Net Interest		Of Total Commissions			Net Rev
48%	6%	46%	99%	1%	29%	57%	14%	**$271.5**

Sequential change

Matched Principal			*Net Interest*		*Commissions*			*Total*
-$14.9			***-$1.0***		**-$0.6**			***-$16.5***
-16.9%			*-3.0%*		-0.3%			-5.2%
FI & Stock NI	*FI & Stock Comm.*	*Principal Trans*	*Net Interest*	*PT Comm.*	*Execution Only*	*Clearing*	*Other*	*Net Rev*
-$6.9	*$0.2*	*-$8.2*	*-$3.5*	*$2.5*	*-$3.9*	*-$3.0*	*$6.3*	*-$19.5*
-16.1%	*4.0%*	*-20.2%*	*-10.5%*	*1250.0%*	*-6.8%*	*-2.7%*	*22.8%*	*-7.2%*

Source: company documents

Sliced another way, fixed income revenue decreased $6.7 million on lower yields. In F2Q10, MF generated $41.1 million of revenue from fixed income and clearing (in the previous table, this appears as $35.9 million from fixed income and stock lending net interest, plus $5.2 million from fixed income and stock lending commissions). This revenue can be expressed as yield on the average securities and repo balances. In F2Q10, the $41.1 million of revenue over average balances of $30.8 billion equated to an annualized yield of 0.42%. Management attributed the decline in yield from 0.63% in F1Q10 to a contraction in the LIBOR-OIS spread. While management believes the 0.42% yield might be a trough, with the current LIBOR-OIS spread trending lower from F2Q10 we do not expect the yield to rebound in the near term.

Yield on Fixed Income and Stock Borrow/Loan

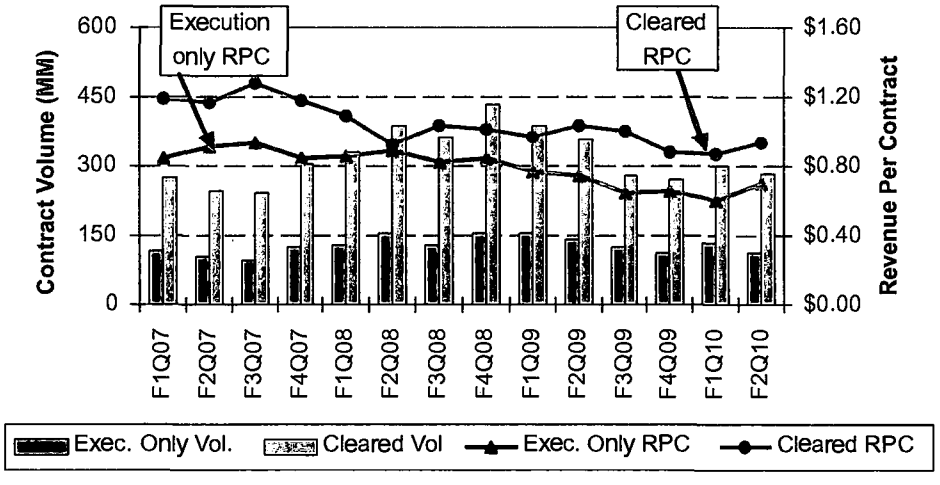
($ millions)	F4Q08	F1Q09	F2Q09	F3Q09	F4Q09	F1Q10	F2Q10
Average of Absolute Balances	$32,195	$22,218	$20,817	$22,817	$20,818	$30,511	$38,759
Principal Transactions Revenue	-$9.5	$4.8	$10.0	$21.0	$8.2	$5.0	$5.2
Net Interest Revenue	$35.1	$36.5	$24.9	$51.4	$37.4	$42.8	$35.9
Total Revenue	**$25.6**	**$41.3**	**$34.9**	**$72.4**	**$45.6**	**$47.8**	**$41.1**
Yield	0.32%	0.74%	0.67%	1.27%	0.88%	0.63%	0.42%

Source: company documents

III. Volumes & Rates

Volumes contracted 7.9%, but show stability after declines in FY09. Total volumes in F2Q10 were 395.8 million contracts, down 7.9% sequentially and down 21.1% from the year ago quarter. Execution only contract volume decreased 14.1% sequentially to 113.0 million while cleared contract volume edged down 5.2% sequentially to 282.8 million. Cleared contracts generated over 3x the gross revenue as execution only contracts in the quarter. We calculate that combined execution and cleared commissions per contract increased to $0.87 from $0.79. Within this number, the commission per execution contract was $0.70, up from $0.60 in the prior quarter, while the cleared revenue per cleared contract increased to $0.93 from $0.87. (We point out management uses a more complex calculation of execution yield, which excludes certain revenues and volumes.) For execution only, the rate expanded to $0.57 from $0.47 in the June quarter, and for cleared, the rate increased to $0.40 from $0.38 per contract. Management attributed the increase to a higher mix of high-yielding interest rate products along with more retail trading at higher rates.

Execution Only and Cleared Volume and Revenue Per Contract By Quarter



Source: Sandler O'Neill and company information

September quarter volumes slightly underperformed major exchanges on sequential basis. The 7.9% sequential increase in total volumes at MF Global was below the average 4.3% decrease experienced by other futures exchanges in the September quarter. On a year-over-year basis, MF's volumes declined 21.1%, while averages at the futures exchanges decreased only 9.3%. We think the YoY underperformance in the quarter is more a function of activity weakening in late CY08 than recent activity. We point out that our estimate for the quarter is that MF total volumes are flat with C3Q09, even though major future exchanges indicate that volumes are up 5-10% quarter-to-date. Our forecast assumes that trading activity slows in November and December, as is typical around the holiday and vacation season.

Volumes at MF Global and Major Futures Exchanges

	C4Q09TD	C3Q09	C2Q09	C1Q09	C4Q08	C4Q09TD Seq chg	C3Q09 Seq chg	C4Q09TD Y/Y chg
CME Group	10.9	10.1	10.4	10.4	10.4	7.6%	-2.9%	4.4%
Eurex	6.5	5.9	7.2	7.2	7.8	10.4%	-18.2%	-16.5%
Liffe Connect	3.2	3.0	3.2	3.1	3.0	8.9%	-7.8%	8.1%
ICE Futures Europe	0.7	0.7	0.6	0.6	0.6	4.3%	11.5%	23.9%
Average						**7.8%**	**-4.3%**	**5.0%**
MF Global Total Volumes (1)								
Execution only	113	113	132	114	125	0.0%	-14.1%	-9.7%
Cleared	283	283	298	273	277	0.0%	-5.2%	1.9%
Total	**396**	**396**	**430**	**386**	**403**	**0.0%**	**-7.9%**	**-1.7%**

(1) C4Q09 is SOP estimate for MF Global.

Source: Sandler O'Neill and company documents

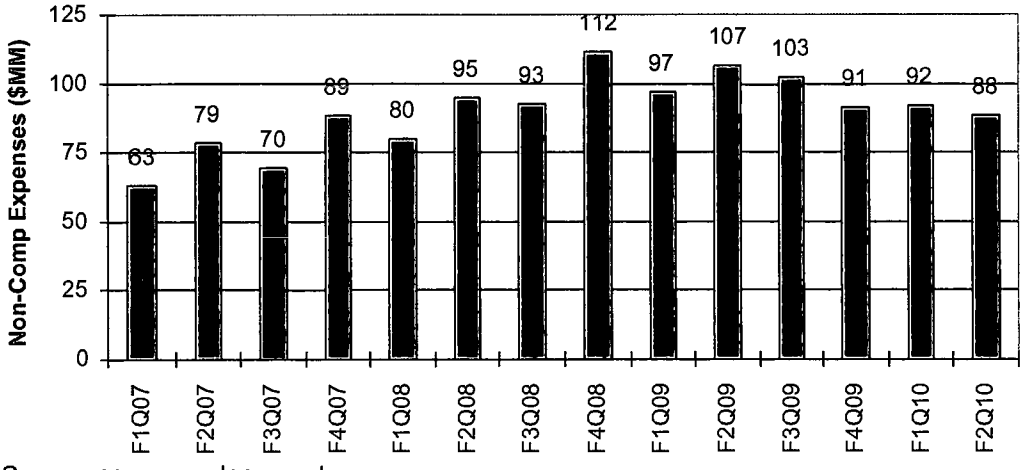
IV. Fiscal 2Q10 Earnings Review

Revenues decrease on lower net interest and lower transaction revenues. Net revenues at MF contracted 7.2% sequentially to $252.0 million. The primary driver was a 13.6% decline in net interest revenues to $65.8 million. We had expected slight spread expansion and growth in average (as opposed to end of period) balances to generate net interest revenues of $90.4 million. Net non-interest revenues (mostly transactions, but excluding transaction expenses) decreased 4.7% to $186.3 million. This revenue was inline with our expectations.

Expenses decrease on lower revenues, but comp ratio rises. Operating expenses decreased 4.6% to $251.1 million, mostly due to lower compensation. Comp was $162.9 million, a 4.6% decrease from the prior quarter. The comp ratio was a record 64.6%, and up from 62.9% in F1Q10. MF has announced a host of new hires in recent months, many of which are not yet producing material revenues.

Non-comp expenses below expectations, but management still expects $100 million run rate. On the F1Q10 conference call, CFO Randy MacDonald said he expected non-comp expenses to be close to $100 million on a quarterly basis going forward. However, F2Q10 non-comp expenses were only $88.2 million. Nevertheless, Mr. MacDonald continues to guidee to non-comp costs of $100 million. The primary reason for the expected increase is engineering new systems for straight through processing. Mr. MacDonald expects this effort to take 18-36 months to build a platform that is more scalable and flexible.

Non-Comp Expenses by Quarter



Source: company documents

GAAP reconciliation is affected by a number of adjustments. For F2Q10, MF reported a loss of $0.13 per share on a GAAP basis, which includes expense adjustments totaling $14.6 million. Removing certain items results in operating earnings of $0.01 per share. The major changes are removing $9.2 million of compensation related to IPO awards and subtracting $10.6 million of gains on exchange seats and shares. We note that GAAP earnings are based on 123.3 million basic shares. However, adjusted EPS are based on 172.9 million diluted shares and add back $6.5 million of interest on the convertible debt.

Fiscal 2Q10 GAAP Reconciliation ($000)

	GAAP	Adjustments	Operating
EPS	**-$0.13**	**$0.14**	**$0.01**
Revenues, net interest & trans-based exp.	**252,042**	**0**	**252,042**
Expenses			
Employee compensation & benefits	164,409	-1,500	162,909
Employee compensation, non-recurring IPO awards	9,168	-9,168	0
Communications & technology	28,663	0	28,663
Occupancy & equipment costs	9,766	0	9,766
Depreciation & amortization	14,241	0	14,241
Professional fees	17,380	0	17,380
General & other	21,382	-3,265	18,117
IPO-related costs	23	-23	0
Impairment of intangibles and goodwill	618	-618	0
Total non-interest expenses	**265,650**	**-14,574**	**251,076**
Operating income	**-13,608**	**14,574**	**966**
Gains on exchange seats and shares	10,606	-10,606	0
Interest on borrowings	9,987	0	9,987
Income before provision for income taxes	**-12,989**	**3,968**	**-9,021**
Provision for income taxes	-4,977	677	-4,300
Minority interests in income of combined companies (net of tax)	310	0	310
Net income	**-7,702**	**3,291**	**-4,411**
Net income attributable to noncontrolling interest	631	0	631
Net income attributable to MF Global Ltd.	**-8,333**	**3,291**	**-5,042**
Dividends on preferred stock	7,678	-7,678	0
Interest on convertible notes		-6,500	-6,500
Net income to common shareholders	**-16,011**	**17,469**	**1,458**
Earnings per share:	**-0.13**	**0.14**	**0.01**
Basic shares	123,254,930	0	123,254,930
Diluted shares	123,254,930	49,641,000	172,895,930

Source: company documents

V. Outlook

Reducing FY10 EPS estimate by $0.21. We are reducing our fiscal year 2010 estimate to $0.13 from $0.34 primarily for (1) lower net interest income, (2) a higher compensation ratio, and (3) a higher assumed tax rate for the remainder of the year of 46% compared to our prior forecast of 41%. Our net revenue forecast of $1.08 billion assumes total transactions decrease 8.5% to 1.68 billion contracts. On the expense side, we expect non-transaction expenses of $1.05 billion driven by a 63.1% comp ratio and $370 million of non-comp expenses.

Reducing FY11 estimate. We are reducing our FY11 estimate to $0.40 from $0.60. We expect total contracts to increase 9.8% from FY10 to 1.84 billion. We expect MF to generate net revenues of $1.17 billion, up 8.3% from FY10 on both volume growth and higher balances. We project operating expenses to be flat with FY10 at $1.05 billion as the comp ratio contracts to 57.0%. Our model forecasts the pre-tax margin to expand to 7.0%.

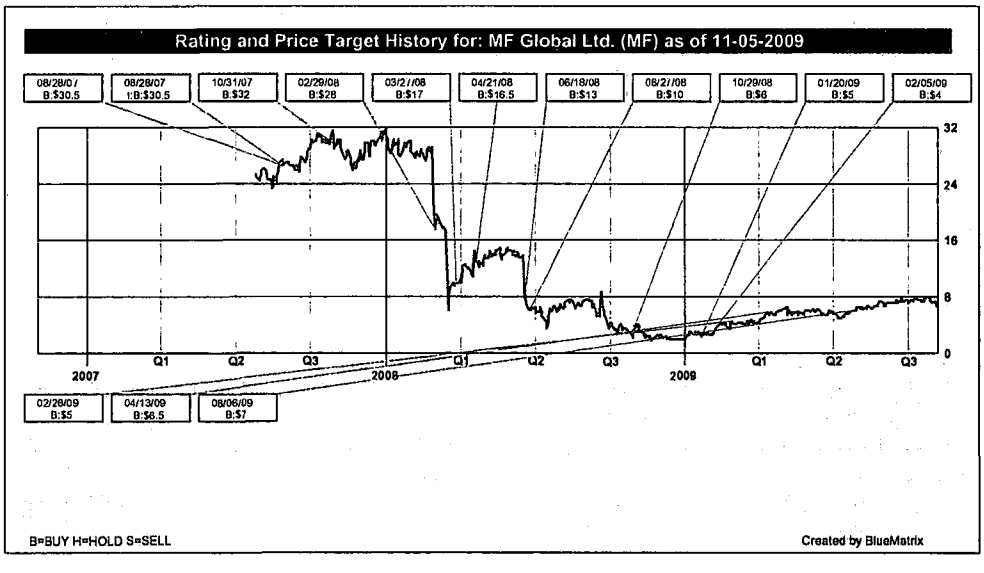
APPENDIX

I attest that all of the views expressed in this report accurately reflect my personal views about the security and/or industry covered by this report as of the date of this report, and that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report. S/ Richard Repetto, CFA

I attest that all of the views expressed in this report accurately reflect my personal views about the security and/or industry covered by this report as of the date of this report, and that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report. S/ Chris Donat, CFA

I attest that all of the views expressed in this report accurately reflect my personal views about the security and/or industry covered by this report as of the date of this report, and that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report. S/ Mike Adams, CFA, CPA

IMPORTANT DISCLOSURES:



Price Target

Our 12-month price target is $7.50 per share.

Valuation Methodology

Our price target is based on a 0.85x multiple of F2Q10 tangible book of $8.83.

Risk Factors

The most significant risks is a decrease in trading activity. Any development that adversely affects exchange-traded and OTC derivatives volumes would have likely have a negative effect on transaction revenues. While the current environment reduces the risk of lower interest rates, there is some risk that the rates MF earns could contract and reduce net interest income. MF might experience increased competition from a range of sources, including other brokers and exchanges that seek to disintermediate brokers from end customers. Following the separation from Man Group in July 2007, Man Group represents a large source of revenues and profitability for MF Global. The $141.5 million of bad debt related to an employee's trading activities that the company disclosed on February 28, 2008 might not be a one-time event, and therefore MF could be at risk for further losses due to insufficient oversight and controls.

Distribution of Ratings/IB Services Firmwide

Sandler O'Neill + Partners

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [B]	65	26.70	20	30.77
HOLD [H]	160	65.80	45	28.12
SELL [S]	18	7.40	3	16.67

Our Ratings System
Sandler O'Neill + Partners, L.P. ("Sandler O'Neill") currently uses the following three-tiered ratings system:
BUY - In the opinion of our analyst, a stock rated BUY is materially undervalued and represents an attractive investment candidate. The analyst expects the stock to appreciate by more than 10% within the next 12 months.
HOLD - In the opinion of our analyst, a stock rated HOLD is either fairly valued or modestly undervalued. The analyst expects the stock to appreciate between 0% and 10% within the next 12 months.
SELL - In the opinion of our analyst, a stock rated SELL is overvalued and could decline in value within the next 12 months. The potential price decline could be of any magnitude and is quantified by the analyst's price target.

Research Analyst Compensation Policy

The compensation of Sandler O'Neill's research analysts is based upon a number of factors, including the firm's revenues from investment banking and other business activities. No research analyst receives any compensation based upon revenues from any specific investment banking transaction.

Certain Interests in Securities Covered by this Report

Sandler O'Neill generally prohibits research analysts and members of their households from maintaining a financial interest in securities or options of any company that the analyst covers. If Sandler O'Neill was making a market in securities covered by this report at the time this report was published, that fact is disclosed below.

Certain Relationships with Companies Covered in this Report

Sandler O'Neill expects to receive or intends to seek compensation from MF Global Ltd. for investment banking services in the next three months.

Important Information Regarding the Distribution of this Report in the United Kingdom

This report has been produced by Sandler O'Neill and is being distributed in the United Kingdom ("UK") by Seymour Pierce Limited ("SPL"). SPL is authorized and regulated in the UK by the Financial Services Authority ("FSA") to carry out both corporate finance and investment services and is a member of the London Stock Exchange.

Although Sandler O'Neill is under separate ownership from SPL, Sandler O'Neill has appointed SPL as its exclusive distributor of this research in the UK and Sandler O'Neill will be remunerated by SPL by way of a fee.

This report has not been approved for purposes of section 21 of the UK's Financial Services and Markets Act 2000, and accordingly is only provided in the UK for the use of persons to whom communications can be made without being so approved, as detailed in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

Important Information Regarding the Preparation and Use of this Report

This report has been prepared and issued by Sandler O'Neill. The information contained in this report (except information regarding Sandler O'Neill and its affiliates) was obtained from various sources which we believe to be reliable, but we do not guarantee its accuracy or completeness. Additional information is available upon request. The information, opinions or recommendations contained in this report speak only as of the date of this report and are subject to change without notice.

This report does not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including the securities of companies mentioned in this report. This report has been prepared and circulated for general information only and does not take into account the financial position or particular needs or investment objectives of any individual or entity. The securities or strategies discussed in this report may not be suitable for all investors. Investors must make their own determination of the appropriateness of an investment in any securities based on the legal, tax and accounting

considerations applicable to such investors and their own investment strategy. Investors are cautioned that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance.

Sandler O'Neill generally prohibits research analysts and members of their households from maintaining a financial interest in securities or options of any company that the analyst covers. Information as to whether Sandler O'Neill was making a market in securities covered by this report at the time this report was published is available by calling the toll-free number referred to above.

This report or any portion thereof may not be reproduced or redistributed by any person for any purpose without the written consent of Sandler O'Neill.

(C) Copyright 2009 Sandler O'Neill + Partners, L.P. All rights reserved.