UNITED STATES OF AMERICA
BEFORE THE
COMMODITY FUTURES TRADING COMMISSION

In the Matter of: **MF Global Inc.,** **Respondent**	:	**CFTC Docket No.** 10-03 **ORDER INSTITUTING PROCEEDINGS PURSUANT TO SECTIONS 6(c) AND 6(d) OF THE COMMODITY EXCHANGE ACT AND MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS**

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I.

The Commodity Futures Trading Commission (the "Commission") has reason to believe that MF Global Inc., a registered futures commission merchant ("FCM"), or its predecessor corporation known as Man Financial Inc (collectively referred to as "MF Global"), also a FCM, violated Commission Regulation ("Regulation") 166.3, 17 C.F.R. § 166.3 (2009). Therefore, the Commission deems it appropriate and in the public interest that public administrative proceedings be, and they hereby are, instituted to determine whether MF Global engaged in the violations set forth herein, and to determine whether an order should be issued imposing remedial sanctions.

II.

In anticipation of the institution of an administrative proceeding, MF Global submitted an Offer of Settlement ("Offer"), which the Commission has determined to accept. Without admitting or denying any of the findings or conclusions herein, MF Global acknowledges service of this Order Instituting Proceedings Pursuant to Sections 6(c) and 6(d) of the Commodity Exchange Act and Making Findings and Imposing Remedial Sanctions ("Order").[1]

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[1] MF Global consents to the entry of this Order, the use of these findings in this proceeding and in any other proceeding against MF Global brought by the Commission or to which the Commission is a party; provided, however, that MF Global does not consent to the use of the Offer, or the findings or conclusions consented to in this Order, as the sole basis for any other proceeding brought by the Commission, other than in a proceeding in bankruptcy or to enforce the terms of this Order. Nor does MF Global consent to the use of the Offer or this Order, or the findings or conclusions consented to in the Offer or this Order, by any other party in any other proceeding.

III.

A. Summary

In four separate instances on various days during the period 2003 to 2008, MF Global failed to ensure that significant aspects of its risk management, supervision and compliance programs comported with its obligations to supervise diligently its business as a Commission registrant. As illustrated by the events set forth below, MF Global's violations included the following:

- failure to diligently supervise the trading activities of an associated person resulting in trading losses of more than $141 million and failure to provide appropriate supervisory training to its Memphis Branch Office supervisors,
- failure to implement procedures to ensure appropriate transmission of price indications to third parties for certain natural gas options,
- failure to diligently supervise the proper and accurate preparation of trading cards, and
- failure to maintain in its files appropriate written authorization.

Specifically, on February 26/27, 2008, a MF Global associated person in MF Global's Memphis Branch Office (the "AP") engaged in undetected overnight trading in wheat futures in his personal account that resulted in trading losses of approximately $141 million, which MF Global paid as a clearing member of the Chicago Mercantile Exchange/Chicago Board of Trade ("CBOT"). The AP accumulated a massive short position in the May 2008 CBOT wheat futures contract despite the fact that the AP entered the trading session with a debit balance in his account. MF Global personnel failed to use the company's internal controls appropriately and, consequently, failed to detect or prevent the AP's excessive trading. In addition, MF Global failed to provide appropriate supervisory training to the Memphis Branch Office and to enforce adequately its own supervisory policies by the Memphis Branch Office supervisors.

From approximately May 2003 until April 2007, at least one MF Global voice broker sent price indications on the corresponding terms of the New York Mercantile Exchange ("NYMEX") natural gas contract lookalike, financially settled options and calendar spreads to the back-office of a customer that traded natural gas options. The MF Global voice broker included with the price indications a statement that the price indications "are not tradable markets. They are numbers that reflect a consensus taken on [a particular] date and time, from different sources in the market place." MF Global failed to implement procedures to ensure that the price indications transmitted by its broker did, in fact, "reflect a consensus taken on [a particular] date and time," and were derived from "different sources in the market place."

On two occasions in August and September 2004, a MF Global floor broker failed to ensure the proper and accurate preparation of trading cards required by the Regulations and instead processed trades that were made after the relevant natural gas futures contract was no longer trading. The trades were known as "EFS" trades, which involve an exchange of futures

for, or in connection with, a swap.[2] Each of the trades was called onto the floor of the NYMEX on the business day after the expiration of the natural gas futures contract and after the time EFS trades are permitted. Trading cards submitted in connection with these trades reflected inaccurately that the trades had been made prior to the expiration of the natural gas futures contract. MF Global failed to implement procedures regarding evaluation of late submittal of trades.

Separately, between January and March 2006, MF Global effected approximately 20 transactions in a customer's account from telephonic instructions from the customer's introducing broker. MF Global did not have in its files the customer's authorization to effect these transactions from this broker.

B. Respondent

MF Global Inc., formerly known as Man Financial Inc, provides brokerage services in commodity derivatives transactions and has been registered as a FCM with the Commission since 1996. MF Global maintains offices at 440 S. LaSalle Street, Chicago, Illinois 60605 and 717 Fifth Avenue, New York, New York 10022.

C. Facts

1. Failure to Supervise Diligently the Trading Activities of the AP and Failure to Provide Supervisory Training to the Memphis Branch Office Supervisors

a. Failure to Supervise Diligently the Trading Activities of the AP

In August 2006, MF Global hired the AP in MF Global's Memphis Branch Office. The AP was authorized by MF Global to solicit customers, accept orders, and enter orders for the accounts of his customers through MF Global's proprietary trading and order entry system, OrderXpress. The AP also was permitted to trade futures contracts for his personal trading account through OrderXpress. The OrderXpress system had an internal control that could be manually configured to limit a user's futures trading based on the account's "purchasing power" or net equity. For users based on "purchasing power," OrderXpress would reject an order for a futures contract where the account did not have sufficient equity to establish the position. Customers' trading limits on OrderXpress were set based on purchasing power. The

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2 In an EFS trade, the buyer and seller of the futures are, respectively, the seller and buyer of a swap involving an approximately equivalent quantity of the commodity underlying the futures contract. *See NYMEX Rule 6.21A*. For example, a natural gas EFS trade allows market participants to exchange a position in the Henry Hub natural gas futures contract for a cash-settled swap contract. An EFS trade also gives market participants the ability to liquidate a swaps position in a market that may have limited liquidity. The parties to an EFS trade are allowed to privately negotiate the execution of an over-the-counter swap and related futures transaction on their own pricing terms. The transaction must involve approximately equal but opposite side-of-market quantities of futures and swap exposures in the same or related commodities.

OrderXpress system also had an internal control that could be manually configured to limit a user's futures trading based on the aggregate number of open contracts ordered by the user. For users on "position limits," OrderXpress would reject an order for a futures contract that would cause the user's aggregate position to exceed the specified position limit number. Associated persons' trading limits on OrderXpress were set based on position limits. The position limit control was misconfigured and was not effective to limit the AP's trading.

Between August 2006 and February 27, 2008, the AP introduced one customer account to MF Global. The AP's activities at MF Global included trading commodity futures contracts for his own account. The AP's personal trading resulted in MF Global issuing numerous margin calls. MF Global permitted the AP to continue trading his personal account because the AP met his margin calls and MF Global believed that appropriate position limits were in place.

In a separate arrangement between the AP and his supervisor, which was not disclosed to anyone in management or compliance at MF Global, the AP funded his personal trading account with a loan from his supervisor. The AP repaid a portion of the loan by generating commissions on his trading. Thus, the supervisor's financial interests conflicted with his supervisory responsibility to monitor the AP's trading activities.

On the evening of January 27 and morning of January 28, 2008, the AP traded well beyond his financial ability to trade. Trading from his home, the AP executed 1,594 round turn trades while his account had a net equity of approximately $400 entering the trading session. This venture proved profitable. The AP made approximately $37,000, before commissions and fees. The supervisor stated, in an email to the AP, that the volume of trading for the amount of equity involved was "out of line," and forwarded the email to the Memphis Branch Office Manager. The supervisor also discussed the incident with the AP. The supervisor and the Branch Office Manager took no further action concerning the incident and did not escalate the issue to MF Global's Compliance Department or management. The AP continued to use the electronic trading platform and kept the trading profits. Moreover, a portion of the commissions generated by the trading was used to repay a part of the loan to the supervisor. The trading episode was not flagged for further review independent of the Branch Office review. MF Global's compliance procedures in place at the time did not catch this trading episode.

On February 26, 2008, the AP again conducted overnight trading from his home. At that time, his account had a debit balance of $3,004. The AP entered all of his trades that night through MF Global's OrderXpress. Between 6:00 pm on February 26 and 6:00 am (CT) on February 27, the AP sold May 2008 CBOT wheat futures contracts and accumulated a net position that exceeded the Commission's speculative trading limit of 5,000 contracts. By approximately 5:10 am (CT) on February 27, 2008, as the AP's short position began to exceed 10,000 contracts short, the price of the May 2008 CBOT wheat contract declined the full extent permitted under the exchange rules – *i.e.*, "limit down."

The AP's excessive overnight trading went undetected by MF Global. MF Global designated a single employee in New York to monitor risk for MF Global's U.S. operations between the hours of 6:00 pm and 11:00 pm (EST) on February 26, 2008 but that person did not detect the AP's evening trading. The trading continued to be undetected overnight by personnel in MF Global's Risk Departments in Singapore and London. By 6:00 am (CT) on February 27,

when the overnight trading session ended, the AP held an open short position of 16,174 May 2008 CBOT wheat futures contracts, and he held a short position in all wheat futures months combined totaling 16,428 contracts. MF Global had not detected and was unaware of his position at this time.

When the market re-opened at 9:30 am (CT), the AP initially purchased May 2008 CBOT wheat contracts which offset a portion of the short position. At approximately 9:59 am (CT), the AP began selling the May 2008 wheat futures contracts, and by approximately 10:11 am (CT) his short position had increased to 17,181 May 2008 wheat futures contracts. At approximately 10:14 am (CT), the AP began to exit his positions. By 10:29 am (CT), the market had risen "limit up" – rising the full extent permitted under the exchange rules – to $13.495 per bushel. The AP's remaining short position at the time the market was limit up was 9,499 contracts. The AP ultimately offset his 17,181 contract short position in May 2008 wheat futures by buying 7,800 contracts at prices above $13.00 per bushel, 5,114 contracts at prices between $12.50 and $13.00 per bushel, and the remainder at lower prices. The AP's overall trading losses were $141,020,850.

A staff member of MF Global's Risk Department became aware of the AP's position by 10:40 am (CT) on February 27, and, after the AP's positions were confirmed by MFG personnel, MF Global management ordered that the AP's access to the trading system be shut off, which was effected by 11:18 am (CT). That action halted his trading. However, by that point, the AP had offset most of his overall position. MF Global paid the trading losses to the clearinghouse that day, but the AP did not, and does not, have the ability to pay MF Global for his overnight trading losses of over $141 million.

b. Failure to Enforce Supervisory Policies in the Memphis Branch Office

MF Global provided its Futures Compliance and Supervisory Manual, which contained MF Global's policies regarding compliance and supervision of associated persons and other employees, to the Memphis Branch Office Manager and the associated persons in the Memphis Branch Office. However, MF Global did not provide training on its company policies to employees or supervisors in the Memphis Branch Office and failed to diligently enforce compliance with these policies within the Memphis Branch Office. As a result, a supervisory failure occurred in the Memphis Branch Office.

MF Global maintained company policies prohibiting loans to employees except in cases of emergency and at management's discretion, and requiring any employees with trading accounts to meet MF Global's minimum financial requirements. However, the AP funded his personal trading account with a personal loan from his supervisor. Under the terms of the loan, the AP would repay the loan through commissions generated by his trading. Thus, the supervisor had a direct financial interest in allowing the AP to trade, which conflicted with his supervisory responsibility to monitor the AP's trading and ensure that the AP was not trading excessively. In fact, as a result of the AP's trading on January 28, 2008, and the substantial commissions generated in the course of this trading, the AP's supervisor received a substantial payment on his outstanding loan to the AP.

MF Global also maintained a company policy requiring that any violation of company policies be reported to the Compliance Department. As noted above, the supervisor and Branch Office Manager in the Memphis Branch Office did not notify anyone in MF Global's Compliance Department about the AP's January 28 trading. The AP's January 28 trading violated MF Global's policies, and should have subjected the AP's account to management review for excessive activity.

2. Failure to Implement Procedures to Ensure Appropriate Transmission of Price Indications of Certain Natural Gas Option Positions

From approximately May 2003 until April 2007, MF Global brokers provided a customer with voice brokerage services in its natural gas derivatives trading business, which generated commissions for MF Global. During the relevant period, at least one MF Global broker sent price indications to the MF Global customer. That MF Global broker attached a disclaimer to the price indications he transmitted to the customer. Specifically, that disclaimer stated:

> Those Numbers Are Price Indications On The Corresponding Terms Of The NYMEX Natural Gas Contract Lookalike, Financially Settled Options And Calendar Spreads, Quoted On The Date And Time Shown Below, These Are Not Tradable Markets. They Are Numbers That Reflect A Consensus Taken On That Date And Time, From Different Sources In The Market Place.

MF Global failed to implement procedures to ensure that the price indications transmitted by its broker did, in fact, "reflect a consensus taken on [a particular] date and time," and were derived "from different sources in the market place."

3. Failure to Diligently Supervise the Proper and Accurate Preparation of Trading Cards

On two occasions in August and September, 2004, a MF Global customer entered into certain natural gas EFS trades. A MF Global floor broker executed the trades for the customer and was required to properly prepare trading cards. Each of the trading cards the MF Global broker prepared purportedly reflected EFS trades called to the NYMEX floor during the time period allowed under the trading rules for the natural gas futures contracts. However, on both of the trading dates at issue, the trades took place outside of the permitted time period and the trading cards did not accurately reflect the actual trade dates. Specifically, the trading cards reflected that the trades had been made prior to the expiration of the natural gas futures contract. MF Global failed to implement procedures to ensure that its employees recorded and submitted accurate trade information in connection with the evaluation and processing of these two late trades.

4. Failure to Maintain In Its Files Appropriate Written Authorization

Between January and March 2006, MF Global effected approximately 20 transactions in a customer's account after receiving telephonic instructions from the customer's introducing broker. MF Global did not have in its files the customer's authorization to effect these transactions from this broker.

D. Legal Discussion

Regulation 166.3 requires that every Commission registrant (except associated persons who have no supervisory duties) diligently supervise the handling by its partners, employees and agents of all of its commodity interest accounts and activities relating to its business as a registrant. In order to prove a violation of Regulation 166.3, it must be demonstrated that either: (1) the registrant's supervisory system was generally inadequate; or (2) the registrant failed to perform its supervisory duties diligently. *In re Murlas Commodities*, [1994-1996 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 26,485 at 43,161 (CFTC Sept. 1, 1995); *In re Paragon Futures Assoc.*, [1990-1992 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 25,266 at 38,850 (CFTC Apr. 1, 1992); *Bunch v. First Commodity Corp. of Boston*, [1990-1992 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 25,352 at 39,168-69 (CFTC Aug. 5, 1992).

Under Regulation 166.3, a FCM has a "duty to develop procedures for the detection and deterrence of possible wrongdoing by its agents." *Samson Refining Co. v. Drexel Burnham Lambert, Inc.* [1987-1990 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 24,596 at 36,566 (CFTC Feb. 16, 1990) (*quoting Lobb v. J.T. McKerr & Co.,* [1987-1990 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 24,568 at 36,444 (CFTC Dec. 14, 1989)). "A showing that the registrant lacks an adequate supervisory system can be sufficient" to establish a breach of duty under Regulation 166.3. In re Collins, [1996-1998 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 27,194 at 45,744 (CFTC Dec. 10, 1997). The lack of an adequate supervisory system can be established by showing that the registrant failed to develop proper procedures for the detection of wrongdoing. *CFTC v. Trinity Fin. Group Inc.*, [1996-1998 Transfer Binder] Comm. Fut. L. Rep. (CCH) ¶ 27,179 at 45,635 (S.D. Fla. Sept. 29, 1997), *aff'd in relevant part, vacated in part and remanded sub nom. Sidoti v. CFTC*, 178 F.3d 1132 (11th Cir. 1999).

MF Global failed to monitor supervisory procedures and failed to supervise diligently activities in its Memphis Branch Office and associated persons in that office. MF Global failed to adequately test the pre-trade risk control on OrderXpress to ensure that it was properly configured and the controls functioned as designed. MF Global failed to provide compliance training to its registered Memphis Branch Office Manager and other MF Global Memphis Branch Office employees. MF Global failed in particular to enforce compliance with its own policies regarding futures trading in the AP's personal account. Due to MF Global's failure to properly monitor supervisory procedures, and failure to supervise diligently commodity interest trading activity in its Memphis Branch office, MF Global violated Regulation 166.3.

Included with the price indications sent to a MF Global customer was a disclaimer that the price indications are "not tradable markets. They are numbers that reflect a consensus taken on [a particular] date and time, from different sources in the market place." Because MF Global failed to implement procedures to ensure that the statements contained in its broker's disclaimer were accurate, MF Global failed to diligently supervise the handling by its employees and agents of all of its commodity interest accounts and therefore violated Regulation 166.3.

In addition, a MF Global floor broker failed to prepare trading cards properly ensuring that trading occurred in a timely manner and was documented as such. Because MF Global failed to employ any supervisory system to detect such violations, MF Global violated Regulation 166.3.

MF Global also failed, in violation of Regulation 166.3, to ensure that supervisory systems were followed by its personnel regarding confirmation of authorizations for customer trading.

IV.

FINDINGS OF VIOLATIONS

Based on the foregoing, the Commission finds that MF Global violated Regulation 166.3, 17 C.F.R. § 166.3 (2009).

V.

OFFER OF SETTLEMENT

MF Global has submitted an Offer of Settlement ("Offer") in which it acknowledges service of this Order and admits the jurisdiction of the Commission with respect to the matters set forth in this Order and waives: (1) the service and filing of a complaint and notice of hearing; (2) a hearing; (3) all post-hearing procedures; (4) judicial review by any court; (5) any objection to the staff's participation in the Commission's consideration of the Offer; (6) any and all claims that it may possess under the Equal Access to Justice Act (EAJA), 5 U.S.C. § 504 (2006) and 28 U.S.C. § 2412 (2006) and part 148 of the Regulations, 17 C.F.R. §§ 148.1, *et seq.* (2009), relating to, or arising from this action; (7) any and all claims that it may possess under the Small Business Regulatory Enforcement Fairness Act, 1996 HR 3136, Pub. L. 104-121, §§ 201-253, 110 Stat. 847 (1996), as amended by 2007 HR 2206, Pub. L. No. 110-28, § 8302, 121 Stat. 112 (2007), relating to or arising from this action; and (8) any claim of double jeopardy based upon the institution of this proceeding or the entry in this proceeding of any order imposing a civil monetary penalty or any other relief.

MF Global stipulates that the record basis on which this Order is entered consists of this Order and the findings in this Order consented to in its Offer. MF Global consents to the Commission's issuance of this Order, which makes findings as set forth herein and orders that MF Global: (1) cease and desist from violating Regulation 166.3, 17 C.F.R. § 166.3 (2009); (2) pay a civil monetary penalty in the amount of ten million dollars ($10,000,000); and (3) comply with its undertakings as set forth in the Offer and incorporated in this Order.

Upon consideration, the Commission has determined to accept MF Global's Offer.

VI.

ORDER

Accordingly, **IT IS HEREBY ORDERED THAT**:

A. MF Global shall cease and desist from violating Regulation 166.3, 17 C.F.R. § 166.3 (2009);

B. MF Global shall pay a civil monetary penalty in the amount of ten million dollars ($10,000,000) within ten (10) days of the date of the entry of this Order. MF Global shall pay its civil monetary penalty by making electronic funds transfer, U.S. postal money order, certified check, bank cashier's check, or bank money order. If payment is to be made by other than electronic funds transfer, the payment shall be made payable to the Commodity Futures Trading Commission and sent to the address below:

Commodity Futures Trading Commission
Division of Enforcement
ATTN: Marie Bateman – AMZ-300
DOT/FAA/MMAC
6500 S. MacArthur Blvd.
Oklahoma City, OK 73169
Telephone 405-954-6569

If payment by electronic transfer is chosen, MF Global shall contact Marie Bateman or her successor at the above address to receive payment instructions and shall fully comply with those instructions. MF Global shall accompany payment of the penalty with a cover letter that identifies MF Global, and the name and docket number of this proceeding. MF Global shall simultaneously submit a copy of the cover letter and the form of payment to: (1) the Director, Division of Enforcement, Commodity Futures Trading Commission, at the following address: 1155 21st Street, N.W., Washington, D.C. 20581; and (2) the Chief, Office of Cooperative Enforcement, Division of Enforcement, Commodity Futures Trading Commission at the same address. In accordance with Section 6(e)(2) of the Commodity Exchange Act ("Act" or "CEA"), as amended, 7 U.S.C. § 9a(2) (2006), if this amount is not paid in full within fifteen (15) days of the due date, MF Global shall be prohibited automatically from the privileges of all registered entities, and, if registered with the Commission, such registration shall be suspended automatically until it has shown to the satisfaction of the Commission that payment of the full amount of the penalty with interest thereon to the date of the payment has been made; and

C. MF Global, including its subsidiaries and affiliates that operate in or provide services for commodity and/or commodity derivative trading in the United States ("MF Global Entities"), shall comply with the following undertakings:

1. <u>Cooperation With The Commission And Other Authorities</u>

MF Global shall continue to cooperate fully and expeditiously with the Commission and its staff, including the Division of Enforcement ("Division"), and MF Global's designated self-regulatory organization ("DSRO"), as well as other federal, state, or municipal authorities having jurisdiction, in the governmental or DSRO proceedings and/or investigations, or Commission administrative matters related to the underlying events that gave rise to the specific failure to supervise claims herein.

As part of such cooperation, MF Global agrees to comply fully, promptly, and truthfully with any inquiries or requests for information, including, but not limited to, requests:

a. for authentication of documents;

b. for any documents within MF Global's actual or constructive possession, custody, or control, including for inspection and copying of documents (subject to assertions of applicable privileges);

c. to urge their current (as of the time of the request) agents and employees to testify completely and truthfully;

d. to produce any current (as of the time of the request) officer, director, or employee of MF Global, regardless of the employee's location, to appear for interviews, depositions, and provide testimony, and to provide testimony or assistance at any trial related to the subject matters underlying the instant violations (subject to assertions of applicable privileges, including of Fifth Amendment rights); and

e. for assistance in locating and contacting any former (as of the time of the request) officer, director, or employee of MF Global.

Subject to applicable privileges, MF Global agrees that it will not act in any way that would limit its ability to cooperate fully with the Commission.

MF Global designates Therese Doherty, Esq. of Herrick, Feinstein LLP to receive all requests for information pursuant to this undertaking. Should MF Global seek to change the designated person to receive such requests, MF Global shall give prompt written notice by Certified Mail to the Division.

2. <u>Independent Review And Assessment</u>

a. Assurance of Compliance with MF Global Undertakings and Prior Promontory Recommendations

MF Global's parent company, MF Global Ltd. ("Ltd"), through counsel to its Board Nominating and Corporate Governance Committee ("NGC"), engaged Promontory Financial Group LLC ("Promontory") to recommend to Ltd industry "best practices" in its risk management, supervision and compliance programs. Promontory has made recommendations to Ltd related to the commodity and commodity derivatives trading activities of MF Global, including MF Global Entities, that were approved by the NGC and which Ltd either has implemented or is in the process of implementing ("Promontory Recommendations").

b. Engagement

So as to assure the Commission that the Promontory Recommendations and the MF Global undertakings set forth in Section VI 3 hereof have been effectuated, MF Global has informed the Commission that Ltd intends to engage Eugene A. Ludwig, the President and Chief

Executive Officer of Promontory, to conduct reviews and assessments of both Ltd's implementation of the Promontory Recommendations and of MF Global's implementation of the undertakings in Section VI 3 hereof ("Reviews and Assessments"). A letter evidencing Mr. Ludwig's engagement, under Promontory's standard terms and conditions, will be signed within 30 days of the date of this Order. It is agreed by MF Global that Mr. Ludwig will use Promontory to effectuate the Reviews and Assessments.

c. Scope

The Reviews and Assessments shall consist of:

i. An initial Review and Assessment, commencing on or about January 2, 2010 covering the period from the date of the Promontory Recommendations through the date of completion of the initial Review and Assessment, anticipated to be March 1, 2010 (the "Initial Review and Assessment"); and

ii. A second Review and Assessment, commencing on or about January 2, 2011 covering the period from the completion of the Initial Review and Assessment to the completion of the second Review and Assessment, anticipated to be March 1, 2011 (the "Second Review and Assessment").

Each Review and Assessment shall cover:

iii. The implementation of the Promontory Recommendations;

iv. The implementation of the undertakings in Section VI 3 hereof;

v. The implementation of any additional or further recommendations made by Ltd's Audit Committee,[3] in its discretion, concerning MF Global's and/or MF Global Entities' risk management, supervision and/or compliance programs;

vi. The implementation of any additional recommendations as are deemed necessary by Promontory to ensure the effectiveness of MF Global's and/or MF Global Entities' risk management, supervision and/or compliance programs; and

vii. An evaluation of whether existing and future risk management, supervisory and compliance policies and procedures:

a) are generally effective in preventing and detecting any potential violations of the CEA or Regulations by any MF

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[3] Ltd's Audit Committee (the "Audit Committee") is composed of independent directors in full compliance with NYSE rules. It has taken over the responsibility for oversight of the Promontory Recommendations from the NGC.

Global or MF Global Entity director, officer, employee or agent;

b) address risk management, supervision and compliance of all commodity related activities of MF Global's officers, employees and agents; and

c) have the support of Ltd's management.

d. No Affiliation

For these purposes, Mr. Ludwig is completely independent of MF Global and the MF Global Entities and is not, and shall not be, treated for any purpose as an officer, employee, agent, or affiliate of MF Global, the MF Global Entities, the Commission or the Audit Committee. Mr. Ludwig shall not owe any fiduciary duty, or other duties or obligations of any kind, to MF Global and/or the MF Global Entities, or their directors, officers, employees, shareholders, bondholders or creditors. Mr. Ludwig will employ Promontory, the consulting firm of which he is Chief Executive Officer, to assist him in the appropriate and proper discharge of his duties. Ltd, MF Global and the MF Global Entities shall not employ Mr. Ludwig or Promontory for a period of two (2) years after the date that Mr. Ludwig's engagement terminates.

e. No Defense Premised on Promontory Findings

MF Global and the MF Global Entities agree that Mr. Ludwig's and/or Promontory's Reviews and Assessments do not constitute a defense to any action that the Commission, MF Global's DSRO, or any federal, state or municipal entity having jurisdiction in the matter may elect to bring against MF Global or the MF Global Entities for such activities.

f. Cooperation

MF Global and the MF Global Entities shall require their directors, officers, employees, agents, and consultants to cooperate with Mr. Ludwig and Promontory in the Reviews and Assessments. If Mr. Ludwig and/or Promontory determines that a director, officer, employee, agent, or consultant of MF Global or a MF Global Entity fails to cooperate with them, they shall notify the Audit Committee. Further, MF Global and the MF Global Entities agree that any director, officer, employee, agent, or consultant may communicate with Mr. Ludwig and/or Promontory anonymously and that no director, officer, employee, agent or consultant shall be penalized in any way for providing information to Mr. Ludwig and/or Promontory.

g. Reports and Presentations

Mr. Ludwig and/or Promontory shall make their Reviews and Assessments as detailed above under "Scope", to the Audit Committee, in summary written form ("Reports") and in presentations to the Audit Committee. Mr. Ludwig and/or Promontory shall make a presentation to the Audit Committee on or before May, 2010, as to the Initial Review and Assessment, and on or before May, 2011, as to the Second Review and Assessment. Mr. Ludwig and/or Promontory shall provide the Audit Committee with the Reports in advance of the Audit Committee meetings at which they are to make presentations of the Reviews and Assessments. Thirty (30) days prior

to the time such presentations are to be given, MF Global shall extend via Certified Mail a written invitation to the Division to attend the relevant Audit Committee meeting as an observer. Any Report provided by Mr. Ludwig or Promontory is and shall remain confidential, available only to MF Global and for inspection by the Division (unless otherwise subject to an appropriate disclosure request under the CEA and/or applicable Regulations).

h. Access to Information

MF Global and the MF Global Entities shall cooperate fully with Mr. Ludwig and Promontory, each of which can take such reasonable steps as may be necessary to be fully informed about the operations of MF Global and the MF Global Entities within the scope of their responsibilities set forth above. To that end, MF Global and the MF Global Entities shall provide:

i. access to all files, books, records, personnel, and facilities that fall within the "Scope" above, subject only to a claim of work product and/or attorney-client privilege;

ii. the right to interview any current director, officer, employee, agent or consultant of MF Global or the MF Global Entities and to participate in any meeting concerning any matter within or relating to the duties of any current director, officer, employee, agent or consultant, subject only to a claim of work product and/or attorney-client privilege; and

iii. the right to observe MF Global's and/or the MF Global Entities' business operations that fall within the "Scope" above, subject only to a claim of work product and/or attorney-client privilege.

3. Policies and Procedures

MF Global undertakes to put into effect, to the extent not already in place, the following:

a. Enhanced risk monitoring procedures regarding supervision of any Branch Office Manager designed to notify senior management of potentially unlawful or excessive trading by Branch Office associated persons or other employees;-

b. Policies requiring training for Branch Office employees on MF Global's margin, credit and risk policies;

c. Either a "purchasing power" or "position" limit or other best practices risk mitigation system on all MF Global electronic order entry systems and the documentation (including the name of the approving person and the effective dates) of the processes and procedures by which any such limits are placed on electronic order systems and changes to any such limits;

d. Procedures regarding assessment and monitoring of risks posed by accounts/customer/employees with electronic direct market access capability;

e. Updating and strengthening the supervision of desks more effectively to deter and detect potential illegal or manipulative trading practices, including, but not limited to, procedures directed to market on close orders;

f. Updating and enhancing procedures requiring periodic compliance review of live and taped telephonic conversations to include requiring such review to occur periodically during the opening and closing periods of markets, and expiration of trading on futures contracts;

g. Policies and procedures to develop and implement an enhanced compliance audit program to ensure that each trading desk is audited on an annual basis and that the audit is designed to detect and deter potential violations of the Act and Regulations, including potential illegal or manipulative trading practices. The enhanced compliance audits procedures shall include (1) documentation that pre-office visit procedures have been followed and work-papers for the pre-office visit procedures are maintained; (2) review of a sampling of accounts of each desk by type, size and activity level for purposes of seeking to deter and detect trading patterns reflecting possible manipulative trading or other abusive or illegal trading practices; and (3) requirement that each desk head be interviewed.

h. Effective communications policies to all MF Global directors, officers, employees, agents and, to the extent applicable, consultants, so that they are aware of MF Global's compliance policies and procedures regarding compliance with the CEA and Regulations;

i. A clearly articulated corporate policy that requires any director, officer, employee, agent or, to the extent applicable, consultant who is aware of any violation of law or any unethical conduct, which has not been reported to an appropriate federal, state or municipal agency having jurisdiction over the matter, to either (i) report such violation or conduct to any MF Global Compliance officer, who may bring the matter to the MF Global General Counsel for a legal determination of appropriate action, or (ii) report such violation or conduct through MF Global's whistle blower policy, if the person wishes to remain anonymous;

j. A clearly articulated corporate policy that requires the MF Global Compliance and/or Legal Department affirmatively to investigate and document violations of the CEA or Regulations, or alternatively that requires an investigation under MF Global's whistle blower policy;

k. Enforcement of appropriate disciplinary and investigative procedures to address matters involving violations or suspected violations of the CEA, Regulations, the MF Global risk monitoring program or MF Global's compliance manuals;

l. Policies and procedures to require updating of policies and procedures to address recent events or issues in the industry, including case law concerning acts and practices violative of the CEA and Regulations, as appropriate.

m. Establishment of both a physical and electronic centralized location or source of information that contains all then current processes, policies and procedures related to compliance with the CEA and Regulations;

n. A clearly stated and uniform corporate policy articulating that adherence to MF Global's compliance policies and procedures will be a component in the compensation calculus for all employees, including managers and senior managers;

o. A training program on an annual basis concerning the requirements of the CEA and Regulations to be given to MF Global professional staff, including all directors, officers, risk managers, compliance personnel, and employees involved in any aspect of MF Global and/or the MF Global Entities' commodity and/or commodity derivatives businesses, including, but not limited to, associated persons, brokers, traders and sales assistants. MF Global's training program will be updated at least annually to address any recent events or issues in the industry, including recent case law concerning acts and practices violative of the CEA and Regulations, as appropriate. Such training program shall include:

    (i) Mandatory training for all directors, officers, risk managers, compliance personnel, legal personnel, and the head of each subsidiary business, division and/or group, to be completed within one hundred and twenty (120) days of the employee's start date in one of the aforementioned positions, regarding corporate and compliance policies, and procedures involving the CEA and Regulations;

    (ii) Annual training for all MF Global professional staff, including directors, officers, risk managers, compliance personnel, legal personnel, brokers, traders, sales assistants and associated persons regarding corporate and compliance policies, and procedures involving the CEA and Regulations, including but not limited to training and education concerning abusive and manipulative trading practices and the indicators of such practices.

    (iii) The creation and maintenance of documentation that the required individuals noted above have fulfilled their compliance training; and

p. A policy requiring the approval by the MF Global Compliance Department of any MF Global employee's outside employment.

4. Public Statements

Neither MF Global nor any of its agents or employees under its authority or control shall take any action or make any public statement denying, directly or indirectly, any finding in this Order, or creating, or tending to create, the impression that this Order is without a factual basis; provided, however, that nothing in this provision shall affect MF Global's (i) testimonial obligations; or (ii) right to take positions in other proceedings to which the Commission is not a party. MF Global shall undertake all steps necessary to ensure that all of its agents and employees under its authority or control comply with this undertaking.

The provisions of this Order shall be effective on this date.

By the Commission:

David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission

Dated: December 17, 2009