

HUGHES HUBBARD & REED LLP
One Battery Park Plaza
New York, New York 10004
Telephone: (212) 837-6000
Facsimile: (212) 422-4726

Attorneys for James W. Giddens,
Trustee for the SIPA Liquidation of MF Global Inc.

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re

MF GLOBAL INC.,

Debtor.

Case No. 11-2790 (MG) SIPA

**TRUSTEE'S FIRST INTERIM REPORT FOR THE PERIOD
OCTOBER 31, 2011 THROUGH JUNE 4, 2012**

TABLE OF CONTENTS

I. INTRODUCTION	1
II. PROCEDURAL BACKGROUND	3
III. FINANCIAL CONDITION OF ESTATE.....	3
IV. CLAIMS ADMINISTRATION.....	3
V. ACCOUNT TRANSFERS.....	5
VI. MARSHALING OF CUSTOMER AND NON-SEGREGATED UNALLOCATED PROPERTY	9
VII. FORMER MFGI AFFILIATE MATTERS.....	13
VIII. RETURN OF MISDIRECTED FUNDS.....	16
IX. TRUSTEE’S INVESTIGATION.....	16
X. GOVERNMENT AND THIRD PARTY INVESTIGATIONS.....	17
XI. LITIGATION.....	17
XII. DATA MANAGEMENT	18
XIII. TAX MATTERS	19
XIV. EXECUTORY CONTRACTS.....	20
XV. INTERNAL CONTROLS AND BOOKKEEPING	20
XVI. PROFESSIONAL RETENTION	21
XVII. COMMUNICATIONS WITH CUSTOMERS	21
XVIII. REDUCTION OF REAL ESTATE, STAFF, AND OTHER ADMINISTRATIVE EXPENSES	22
XIX. CONCLUSION	23

TO THE HONORABLE MARTIN GLENN,
UNITED STATES BANKRUPTCY JUDGE:

I. INTRODUCTION

The Trustee's primary mission in the first seven months of this liquidation has been to process customer claims and return property to customers to the maximum extent possible through a combination of emergency bulk transfers and an expedited claims process, in accordance with the Orders and direction of this Court, and in consultation with SIPC, Congressional committees, the SEC, and the CFTC. Pursuant to the Court's Orders, the Trustee has transferred to domestic commodity customers 72 percent of the value of their property segregated pursuant to section 4d of the Commodity Exchange Act, and has transferred substantial portions (and in many cases all) of the securities accounts of former MFGI customers. The Trustee has now determined virtually all commodity claims and will, to the extent possible, shortly commence making interim distributions authorized by the Court to both 4d commodity customers and those former customers with claims for property secured in foreign depositories pursuant to 17 C.F.R. § 30.7. The Trustee will also shortly complete issuing letters of determination on all securities claims, the bar date for which expired only on June 2, 2012.

The Trustee intends to make further distributions to the maximum extent that the pools of segregated customer property or property allocated to those pools may permit. Before making further distributions, the Trustee must reserve for disputed claims. Presently, slightly more than ten percent of public commodity customer claims have not become final, and some of these are or may potentially be disputed. In addition, substantial claims for which the Trustee must reserve have been asserted by former affiliates of MFGI—primarily the Chapter 11 Debtors and the UK Administrators.

In addition to these contingencies, the pools of segregated property in the Trustee's control are insufficient by a currently estimated \$1.6 billion to permit a 100 percent distribution to former customers of MFGI. The primary cause of the shortfall in 30.7 commodity customer property results from funds being held by the UK Administrators, which are the subject of litigation commenced in the UK courts scheduled for trial in early spring of next year. A 100 percent distribution of 4d commodity customer property would require recoveries from third parties, as outlined in the Trustee's Investigative Report, filed simultaneously with this Interim Report. Full distributions may well require allocation of currently non-segregated, unallocated property that the Trustee has been marshaling, as required by SIPA, the Commodity Exchange Act, and CFTC regulations.

The first seven months of this liquidation have been marked by extensive operational, administrative, and staffing demands. These demands included the account transfers, the claims process, the many motions and Congressional and regulatory requests made in the liquidation, and the investigation and analysis of what happened at MFGI and the extent of, and reason for, the shortfall in customer property. Many of these steps have been substantially completed in the first seven months of this liquidation. The Trustee is now taking steps to reduce accounting and other professional resources and support, and thereby reduce attendant expenses, and expects that the liquidation will proceed on a somewhat more routine, less exigent basis.

1. James W. Giddens (the “Trustee”), as trustee for the liquidation of MF Global Inc. (“MFGI”) under the Securities Investor Protection Act (“SIPA”), 15 U.S.C. §§ 78aaa *et seq.*,¹ respectfully submits this First Interim Report (this “Report”) in accordance with the terms of the Order of the Court entered on November 23, 2011 (ECF No. 423), and pursuant to SIPA § 78fff-1(c).

2. This Report covers the period from October 31, 2011 through June 4, 2012 (the “Report Period”). Concurrently with this Report, the Trustee is filing his Report of the Trustee’s Investigation and Recommendations (the “Investigative Report”), which provides information on the progress of the Trustee’s investigation into MFGI’s demise.

3. This Report, along with a complete docket, regular progress updates, and substantial other information about this liquidation, may be found on the Trustee’s website, www.mfglobaltrustee.com.

II. PROCEDURAL BACKGROUND

4. On October 31, 2011 (the “Filing Date”), the Honorable Paul A. Engelmayer, of the United State District Court for the Southern District of New York, entered an Order (the “MFGI Liquidation Order”) pursuant to SIPA in the case captioned *Securities Investor Protection Corp. v. MF Global Inc.*, Case No. 11-CIV-7750 (PAE).

5. The MFGI Liquidation Order, *inter alia*: (i) appointed James W. Giddens as Trustee for the liquidation of the business of MFGI pursuant to SIPA § 78eee(b)(3); (ii) appointed Hughes Hubbard & Reed LLP counsel to the Trustee pursuant to SIPA § 78eee(b)(3); and (iii) removed the case to this Court as required for SIPA cases by SIPA § 78eee(b)(4) (the “SIPA Proceeding”).

III. FINANCIAL CONDITION OF ESTATE

6. Information relating to the financial condition of the MFGI estate is contained in Exhibit 1.

IV. CLAIMS ADMINISTRATION

7. The Trustee has sought to return customer property to customer claimants as quickly as possible by overseeing three bulk transfers within three months of the Filing Date and by expediting claims reconciliation so that substantially all timely commodity customer claims—more than 26,000 claims—have been determined. For statistical data regarding the claims process, see Exhibit 2. The Court has now approved an interim distribution on allowed commodity customer claims (*see* ECF No. 1450), which the Trustee is in the process of implementing.

1. Subsequent references to SIPA throughout this Report will omit “15 U.S.C.”

8. The Trustee has already distributed over \$4 billion to former MFGI retail commodity customers who held segregated property by way of three Court-approved bulk transfers (*see* Section V.A, *infra*). In addition, the Trustee received Court approval to sell and transfer substantially all of the securities accounts at MFGI (*see* Section V.B, *infra*).

9. While effecting the bulk transfers, with the goal of returning customer property as promptly and efficiently as possible, the Trustee sought Court approval of and implemented a claims process in accordance with SIPA, the commodity broker liquidation provisions of chapter 7 of the Bankruptcy Code (11 U.S.C. §§ 761–767, the “Commodity Broker Liquidation Provisions”), and 17 C.F.R. §§ 190.01–190.10 (the “Part 190 Regulations”). The claims process was put into motion within weeks of the Bankruptcy Court’s Order of November 23, 2011 (the “Claims Process Order,” ECF No. 423), which, among other things, approved the forms and procedures for filing, determining, and adjudicating claims. On December 2, 2011, in accordance with SIPA § 78fff-2(a)(1) and 17 C.F.R. § 190.02(b)(4), 74,763 claims packages were distributed by mail to former MFGI customers and other potential claimants, and the claims forms were also posted on the Trustee’s website (www.mfglobaltrustee.com). The Trustee also published notice of the commencement of the claims process in *The New York Times*, *Chicago Tribune*, *Financial Times*, and *The Wall Street Journal* (*see* ECF No. 759).

10. The Trustee provided claimants with the option to file claims manually or electronically. Pursuant to SIPA § 78fff-2(a)(3), 17 C.F.R. § 190.02(d), and the Claims Process Order, commodity customer claims and securities customer claims seeking maximum protection under SIPA must have been received on or before January 31, 2012. All claims must have been received by June 2, 2012; no claim of any kind will be allowed unless received by the Trustee on or before June 2, 2012.

11. The Trustee developed an efficient claims administration program to determine the validity of claims and their net equity in accordance with SIPA, the Commodity Broker Liquidation Provisions, and the Part 190 Regulations. The Trustee has established a dedicated team of professionals who research and determine claims and provide regular progress reports to the Trustee.

12. The Trustee has also established two electronic claims registers online at the Trustee’s website (www.mfglobaltrustee.com)—a customer claims register and a general creditor claims register. Both registers provide the public access to all claims submitted in the SIPA Proceeding while providing appropriate protection for claimants’ personal information.

13. The Trustee’s goal and aspiration is to return as close to 100 percent of allowed net equity claims as possible for customer property while maximizing value for all creditors. However, the size and timing of distributions on customer claims remains dependent on the resolution of the major contingencies facing the Trustee, including matters pertaining to MF Global UK Ltd. and MF Global Holdings Ltd. (*see* Section VII, *infra*). A full distribution may also require successful litigation or negotiated resolution of claims against third parties and allocation of property from other sources to customer

property as required by the Commodity Exchange Act, Commodity Futures Trading Commission (“CFTC”) regulations, and SIPA.

14. Because of the need to reserve for these contingencies, the Trustee is currently able to make only a partial distribution. To this end, on March 15, 2012, the Trustee filed his Motion to Approve First Interim Distribution for Allowed Commodity Futures Claims (the “First Interim Distribution Motion,” ECF No. 1086), which the Court approved on April 26, 2012 (the “First Interim Distribution Order,” ECF No. 1450), authorizing the Trustee to “take any and all actions reasonably necessary to consummate the distributions contemplated by this Order.” First Interim Distribution Order at 3. The Court-approved first interim claims distribution will be made on a rolling basis to those public customers who filed claims and have agreed with the Trustee’s determination of their claims, including the amounts and the classes of customer property underlying their claims. First Interim Distribution Motion at ¶ 19. Customers who object to any aspect of the Trustee’s determination of their claims will still be afforded their due process rights to have the Court hear their objections where the dispute cannot be resolved by mutual agreement without judicial intervention. *Id.* Ultimately, upon final resolution of a disputed claim, either by judicial order or negotiation, the claimant will be entitled to receive his or her pro rata share under the first interim claims distribution and any subsequent interim or final distributions. *Id.*

V. ACCOUNT TRANSFERS

A. Commodity Futures Customer Account Transfers

15. Within hours of commencement of this SIPA Proceeding, the Trustee began the unprecedented task of transferring MFGI’s former customers’ commodity futures accounts through three bulk transfers.² Within days, the Trustee transferred approximately three million open commodity futures contracts, with notional values exceeding \$100 billion, and associated clearing level margin for tens of thousands of accounts, or about 40 percent of the total futures market volume. Within eight weeks of the Filing Date, approximately \$4 billion in customer margin had been transferred on a pro rata basis to nearly all former MFGI commodity futures customers,³ allowing these former customers, during the eighth largest bankruptcy in United States history, to receive a seventy-two cent on the dollar recovery before they had even filed claims.

-
2. These transfers pertained only to commodity futures transactions undertaken through U.S. exchanges governed under section 4d of the Commodity Exchange Act and related property (such trades and property, “Section 4d Property”). *See* 7 U.S.C. § 6d.
 3. Not included in these transfers were commodity futures transactions on non-domestic exchanges. Persons trading in the United States through MFGI affiliates, as well as the affiliates themselves, and customers with accounts worth less than \$1,000 were also not included in the FCM Account Transfers.

16. After seeking and obtaining Court approval for each, the FCM Account Transfers were accomplished in three phases: (1) the Position Transfer,⁴ (2) the Cash-Only Transfer,⁵ and (3) the True-Up Transfer⁶ (collectively, the “FCM Account Transfers”). Account transfers relating to former MFGI customers using letters of credit as margin for commodity futures trading activity were handled separately to avoid the undue burden on those customers that drawing on those letters of credit might have caused. Accounts holding physical property were also separately and specially handled as part of the True-Up Transfer, with transfers to those customers occurring continuously into March of 2012.

Physical Property Issues

17. The Part 190 Regulations contain special provisions addressing the treatment of warehouse receipts, bills of lading, or other documents of title to physical commodities (“Physical Property”) or specific categories of cash related to the acquisition or delivery of Physical Property held by the debtor FCM on behalf of its customers (collectively, “Physical Customer Property”).

18. Physical Customer Property is a subset of “customer property” as defined in 17 C.F.R. § 190.08(a), and all customer property may only be returned to customers on a pro rata basis, by account class. However, because of the nature of Physical Customer Property—that it cannot always be divided to allow for a pro rata distribution—the Part 190 Regulations contain a procedure for the Trustee to offer the return of such indivisible Physical Customer Property, on an effective pro rata basis, as set forth in 17 C.F.R. § 190.08(d)(1). Essentially, the account holder may either post 100 percent of the value and take full possession of the Physical Customer Property or may post a deposit with the Trustee in the amount to which the value of the Physical Customer Property exceeds the pro rata share of the customer’s distribution “plus a reasonable reserve in the trustee’s sole discretion.” 17 C.F.R. § 190.08(d)(1)(ii). Physical Customer Property not

-
4. *See* Emergency Motion of James W. Giddens, Trustee for the Liquidation of MF Global Inc., for an Order Approving the Transfer of Certain Segregated Customer Commodity Positions and Extending the Trustee’s Authorization to Operate the Business of MF Global Inc. in the Ordinary Course (“Position Transfer Motion,” ECF No. 5); Order signed on November 2, 2011 Granting Emergency Motion of James W. Giddens, Trustee for the Liquidation of MF Global Inc., Approving the Transfer of Certain Segregated Customer Commodity Positions and Extending the Trustee’s Authorization to Operate the Business of MF Global Inc. in the Ordinary Course (“Position Transfer Order,” ECF No. 14).
 5. *See* Expedited Motion of James W. Giddens, Trustee for the Liquidation of MF Global Inc., for an Order Approving Further Emergency Transfers and Distributions to Customers (“Cash-Only Transfer Motion,” ECF No. 193); Order Granting Expedited Motion of James W. Giddens, Trustee for the Liquidation of MF Global Inc., for an Order Approving Further Emergency Transfers and Distributions to Customers (“Cash-Only Transfer Order,” ECF No. 316).
 6. *See* Expedited Motion to Approve Further Transfers and Distributions for MF Global Inc. United States Commodity Futures Customers (“True-Up Transfer Motion,” ECF No. 495); Order Granting Expedited Motion to Approve Further Transfers and Distributions for MF Global Inc. United States Commodity Futures Customers (“True-Up Transfer Order,” ECF No. 717).

reacquired from the estate must be liquidated, pursuant to 17 C.F.R. § 190.02(f) and § 190.02(f)(2)-(3).

19. In an effort to expedite the return of Physical Customer Property, the Trustee sought and received Court approval to effect a pro rata distribution, corresponding to the True-Up Transfer. To implement this approved inclusion of Physical Property in the FCM Account Transfers, the Section 4d Property net liquidation value for each former customer was combined with the value of such customer's Physical Customer Property. Physical Customer Property was distributed outright so long as the value of the Physical Customer Property did not exceed 72 percent of the combined net liquidation value. In the event that the Physical Customer Property did exceed 72 percent of the combined net liquidation value, the customer was allowed to post a deposit, pursuant to 17 C.F.R. § 190.08(d), for the difference. The Trustee's application to the Court, and the authority granted to him thereunder, expressly reserved the issue of creating a potentially separate account class for Physical Customer Property.

20. Ultimately, by motion dated March 15, 2012, the Trustee sought the Court's approval for the identification and creation of a separate class of Physical Customer Property (a "Delivery Class") and the Court approved the creation of such a class by Order dated April 26, 2012.⁷ The identification and creation of this separate account class requires that the Trustee now separate the Physical Customer Property and Section 4d Property, and establish separate net liquidation values for each account class (and for each customer).

21. On April 6, 2012, the Court granted the Trustee's motion to approve the sale of the remaining Physical Property in the Trustee's possession to complete effecting the True-Up Transfer (*see* ECF No. 1281). Shortly thereafter, the Trustee sold the remaining Physical Property and completed the True-Up Transfer and the FCM Account Transfer process generally.

B. Securities Customer Account Transfers

22. While the Trustee's commodities team worked to effectuate expedited returns to commodity customers, the Trustee determined that transferring as many of MFGI's non-affiliate securities customer accounts as possible to other members of the Securities Investor Protection Corporation ("SIPC") would be in the best interests of the MFGI estate and would further the Trustee's duty to return customer property as expeditiously as possible. In accordance with SIPA § 78fff-2(f), the Trustee obtained the prior approval of SIPC to sell, transfer, and assign such accounts, pursuant to an expedited solicitation process.

23. On November 4, 2011, the Trustee posted a Notice of Trustee Accepting Proposals for the Transfer of Customer Securities Accounts of MF Global Inc. (the

7. Motion to Approve First Interim Distribution for Allowed Commodity Futures Claims ("First Interim Distribution Motion," ECF No. 1086); Order Granting Motion to Approve First Interim Distribution for Allowed Commodity Futures Claims ("First Interim Distribution Order," ECF No. 1450).

“Announcement”) on the MFGI docket (ECF No. 38) and the Trustee’s website, notifying prospective transferees of the opportunity to submit proposals for the transfer of MFGI securities customer accounts. That same day, the Trustee arranged through FINRA, the largest independent regulator of securities firms doing business in the United States, to have the Announcement distributed to the nearly 4,495 brokerage firms that FINRA regulates. In addition, the Trustee provided copies of the Announcement to companies that made inquiries about acquiring MFGI’s assets.

24. The Trustee received several inquiries in response to the Announcement. Six prospective transferees signed nondisclosure agreements in order to conduct due diligence. The Trustee established an electronic data room and arranged numerous diligence calls to explain the status of customer accounts and the transfer process.

25. Only a proposal received from Perrin, Holden & Davenport Capital Corp. (together with its clearing company Lek Securities Corporation, the “Transferee”) met the requirements set forth by the Trustee. The transaction negotiated with the Transferee resulted in the sale, transfer, and assignment of substantially all of MFGI’s customer securities accounts (the “Transferred Accounts”), except for (i) undersecured accounts (accounts with zero or negative net liquidation value), (ii) DVP/RVP accounts, (iii) accounts of any director, officer or five percent owner of MFGI or MF Global Holdings Ltd. (“MFGH”), (iv) subordinated accounts, and (v) all accounts of the affiliates of MFGI or MFGH.

26. By Order dated December 12, 2011, the Bankruptcy Court granted the Trustee’s motion as facilitating an expeditious return of securities accounts to MFGI’s former customers (ECF No. 718). Portions of 318 Transferred Accounts (having an aggregate value in cash and securities of approximately \$237 million) were transferred pursuant to the Order. Because of an indemnification by SIPC, approximately 80 percent of the 225 customer relationships with assigned Transferred Accounts realized a full return of their net equity claims within a few months of the Filing Date. The remaining customers received between 60 percent and 90 percent of their account value, depending upon the size of their accounts and their entitlement to SIPC protection. Notwithstanding the account transfers, all securities account holders maintained the right to file a formal proof of claim for any balance of securities or cash not transferred.

27. The Trustee’s securities team is presently assisting with the reconciliation of securities customer claims which have been filed to date and the preparation of letters of determination. The amount and timing of further distributions awaited the receipt of claims through the bar date of June 2, 2012, and will depend upon the scope and magnitude of objections received in response to the Trustee’s letters of determination, which are expected to be issued on a rolling basis over the coming weeks. Substantial amounts are presently reserved for the claims of the Chapter 11 Debtors, which total approximately \$556.5 million for securities claims; over the past month, the Trustee issued determination letters denying customer protection to these securities claims.

VI. MARSHALING OF CUSTOMER AND NON-SEGREGATED UNALLOCATED PROPERTY

A. Accounts Established Under Trustee Control

28. Immediately upon commencement of the SIPA Proceeding, the Trustee established accounts with the trust group of Union Bank, N.A. (“Union Bank,” f/k/a Union Bank of California, N.A.) to hold property marshaled by the Trustee for the various MFGI estates. These accounts were set up to accumulate cash and securities held by or for MFGI for its customers or for its own account. The prompt collection of MFGI property was necessary both to make it available for transfers and distributions to MFGI’s former customers and creditors and also to determine the exact amount of the shortfall of customer property.

29. Upon his appointment, the Trustee located and recovered MFGI property—whether FCM customer, broker-dealer customer, or non-segregated unallocated property. In the Report Period, the Trustee collected substantially all material U.S. dollar balances that were held in MFGI bank accounts at domestic banks. His efforts to collect remaining property of all types continues. The Trustee initiated, but has not yet completed, closure of all MFGI bank accounts that contained *de minimis* dollar balances on the Filing Date. Major foreign currency balances in bank accounts outside the U.S. have also all been marshaled.

B. Recovery of Commodity Customer Property

30. In operation, MFGI’s FCM customer property was maintained at either DCOs or in segregated accounts, primarily at BMO Harris Bank N.A. (“Harris Bank”) and JPMorgan Chase Bank N.A. (“JPMC”).⁸ During the Report Period, the Trustee initiated and completed the FCM Account Transfers, as detailed in Section V.A, *supra*. With the Position Transfer complete in mid-November 2011, there was no longer a need to maintain customer property at the DCOs, and the Trustee sought and obtained its return. All customer property at DCOs as of the Filing Date that was not transferred to customers in the FCM Account Transfers is under the Trustee’s control at Union Bank. Property related to FCM customers’ trading on foreign futures exchanges was held at carrying brokers worldwide. In connection with the Trustee’s efforts to marshal these assets, the Trustee’s counsel sent letters to five carrying brokers and banks. As of the Report Date, two counterparties have agreed to return the assets, one has sufficiently shown that no assets were in MFGI’s account as of the Filing Date, and the Trustee’s counsel is in active negotiations with the other two to collect assets and close the accounts.

8. MFGI’s FCM also used, among others, US Bank, N.A. (“US Bank”), Wells Fargo Bank, N.A. (“Wells Fargo”), and the Royal Bank of Scotland (“RBS”), but at a significantly lesser volume than its primary banks.

31. MFGI maintained its customer and non-segregated broker-dealer property at JPMC, the Depository Trust & Clearing Corporation and its subsidiaries (“DTCC”),⁹ the Options Clearing Corporation (“OCC”), and the Bank of New York Mellon SA/NV (“BNYM”). JPMC was the bank and clearing broker for fixed income products. BNYM handled international fixed income and equity. Domestic equities were cleared through the various clearing subsidiaries of DTCC, while equity options were cleared through the OCC (where MFGI maintained a membership separate from its FCM membership). As described in Section V.B, *supra*, the Trustee initiated and completed transfers of broker-dealer customer accounts to a new broker-dealer and the remaining customer property has been or is being marshaled for return to former customers and creditors pursuant to SIPA.

32. Though the Trustee has been able to marshal considerable property, some sums still have not been returned to the Trustee. The Trustee is aware of all unreturned property and has reserved his right to collect it from these holdouts. A majority of the property not recovered is in the form of cash or cash equivalents, but some of the value derives from exchange memberships. The paragraphs below summarize the results of recovery efforts at the exchanges, clearinghouses, and banks.

C. CME Group Inc. (“CMEG”)¹⁰

33. MFGI property held or controlled by CMEG totals over \$175 million. The Trustee’s and CMEG’s attorneys have been discussing a proposed resolution that should secure the satisfaction of claims and return and disposition of property in a manner that respects the interests of all interested parties, including customers. Assuming an agreement is concluded in the near future, it will be presented to the Bankruptcy Court for review and approval, with notice provided to all parties. CMEG and the Trustee are discussing the sale of MFGI’s seats and CMEG shares as components of any global resolution.

D. Other Exchanges

34. Virtually all property has been recovered from the International Exchange, the Options Clearing Corporation, the Kansas City Board of Trade, the Minneapolis Grain Exchange, New York Portfolio Clearing, and the International Derivatives Clearing House. There are accountings pending for relatively small amounts withheld or in the process of being returned to the Trustee.

9. These subsidiaries are: Depository Trust Company (“DTC”), National Securities Clearing Corporation (“NSCC”), and Fixed Income Clearing Corporation (“FICC”), which has both a Government Securities Dealer (“GSD”) division and a Mortgage Backed Securities (“MBS”) division.

10. Exchanges owed by CMEG are: CME, the Board of Trade of the City of Chicago, Inc. (“CBOT”), the New York Mercantile Exchange, Inc. (“NYMEX”), and Commodity Exchange, Inc. (“COMEX”). Together these are the “CME Exchanges.”

E. Depository Trust & Clearing Corporation

35. DTCC complied with the Trustee's instructions to transfer customer property and securities, an amount valued at approximately \$96 million on the Filing Date. Following discussions with the Trustee, DTCC more recently agreed to return the majority (approximately \$40 million) of the non-segregated unallocated property it was holding. The parties continue to discuss DTCC's claims against the remaining amounts and a schedule for return of the final balance.

F. JPMorgan Chase Bank, N.A.

36. On November 9, 2011, the Trustee requested that JPMC return property—both customer and non-segregated unallocated assets—held in MFGI accounts at JPMC. JPMC subsequently returned over \$518 million of non-segregated unallocated assets and \$89 million of customer assets.¹¹ Return of the majority of MFGI non-segregated unallocated funds was made contingent upon the preservation of JPMC's set off rights and security interests, including a return of \$168 million on May 17, 2012, which was widely reported in the press. Affirmative claims which the Trustee is investigating and discussing with JPMC based on pre-Filing Date conduct are addressed in the Investigative Report.

G. Bank of New York - Mellon

37. In late December 2011, the Trustee began requesting that BNYM turnover to the Trustee or transfer MFGI assets (both customer and non-segregated unallocated assets) on deposit at BNYM (domestic and international). Owing in large measure to alleged competing claims of ownership over accounts from MF Global UK Ltd. and an alleged BNYM security interest in MFGI's property, it was not until late February 2012 that BNYM agreed to proceed with those transfers, which settled in mid-March.

38. Using Filing Date values, BNYM has returned, or transferred at the Trustee's request, a total of \$222 million. Customer property comprises \$43 million of this (\$27 million to Lek Securities Corp. and \$16 million to the Trustee). The Trustee recovered \$179 million in non-segregated unallocated property. Other matters involving BNYM are addressed in the Investigative Report.

H. Other Banks

39. Harris Bank, RBS, US Bank, and Wells Fargo complied with the Trustee's request for return of MFGI property in the weeks following the Filing Date, and have returned all funds in their accounts to the Trustee.

11. U.S. dollar value of assets determined using Filing Date values for securities and present date conversion rates for foreign currency.

I. Closeouts and Unwinds

40. The Trustee and his professionals have been working diligently on the recovery of value from the unwind of the financial products that were transacted at MFGI with broker-dealers, financial institutions, and other parties. These transactions include, but are not limited to, repurchase transactions, securities lending transactions, derivatives transactions, and to be announced (“TBA”) transactions. Many of these transactions were documented using the forms of Master Repurchase Agreement and Master Securities Lending Agreement of the Bond Market Association/Securities Industry and Financial Markets Association. The legal steps involved in the termination mechanics are thus well understood in the market and benefit from legal certainty.

41. In addition, on November 15, 2011, the Trustee released protocols, which were developed in consultation with SIPC, to set forth a uniform process for terminating and closing out certain of these transactions that may be subject to the safe harbor provisions of the Bankruptcy Code (*see* 11 U.S.C. §§ 362(b)(6), (7), (17), (27), 546, 555, 556, 559–562). The protocols set forth procedures for a counterparty (i) to terminate the transactions; (ii) to notify the Trustee of the manner and details of such termination; and (iii) if the counterparty owes MFGI a payment as a result of such termination, the instructions by which the counterparty should make payment.

42. To date, the Trustee’s efforts have resulted in the recovery of approximately \$78.66 million of non-segregated unallocated assets, which represents the partial or full resolution of financial products transactions with approximately 10 counterparties that owed termination amounts to MFGI.

43. The Trustee has established due diligence procedures for reconciling and collecting the close-out amounts due. These procedures include the following steps: (i) an analysis of MFGI’s books and records for the identification of trade population and a calculation of close-out amounts; (ii) a review of the relevant termination provisions of the agreement governing the transactions; (iii) a review of any applicable termination notice sent by the counterparty and an evaluation regarding the selection of valuation date; (iv) a review of the pricing and valuation data submitted by the counterparty; and (v) negotiations over any differences in valuation and/or methodology applied for purposes of valuation.

44. In addition to the counterparties who have reached out to the Trustee directly, the Trustee has identified a number of counterparties who owe amounts to MFGI as of the Filing Date, amounting to receivables between \$50 million and \$55 million in the aggregate. Following procedures similar to those described above, in the coming weeks, the Trustee will contact these counterparties to recover the amounts owed on a consensual basis wherever possible.

VII. FORMER MFGI AFFILIATE MATTERS

A. MF Global Holdings Ltd. Matters

45. The Trustee and his professionals have engaged in active discussions with the trustee (the “Chapter 11 Trustee”) for MFGH and its affiliated chapter 11 debtors (collectively, the “Chapter 11 Debtors”). Pursuant to these discussions, the Trustee’s professionals along with MFGI personnel have devoted hundreds of hours to producing data and documents voluntarily to the Chapter 11 Trustee, and answering questions posed by the Chapter 11 Trustee’s professionals in emails, conference calls, and in-person meetings.

46. To aid the Trustee’s investigation, the Trustee sought disclosure of documents in the possession of all current and former employees of the Chapter 11 Debtors. The Chapter 11 Debtors initially refused to comply with the Trustee’s requests and sought to limit disclosure in terms of custodians and relevant time periods. The Chapter 11 Debtors and, later, the Chapter 11 Trustee after his appointment, also sought to prevent or delay disclosure of documents on the grounds that MFGH and the other Chapter 11 Debtors enjoyed legal privileges separate and apart from MFGI. Through several agreements with the Chapter 11 Debtors and the Chapter 11 Trustee, following his appointment, the Trustee eventually obtained access to the documents he sought.

47. Substantial amounts are presently reserved for the claims of the Chapter 11 Debtors, which total approximately \$110.3 million for commodities claims and approximately \$556.5 million for securities claims. Over the past month, the Trustee issued determination letters denying customer protection to each of the securities claims. The Trustee’s financial consultants took significant steps towards determining the commodities claims filed by the Chapter 11 Debtors. The Trustee anticipates that the remaining claims will be allowed as non-public customer claims.

48. The Trustee has not yet filed intercompany claims against the Chapter 11 Debtors because no bar date has been established in their insolvency proceeding. The bar date for filing general creditor claims in the SIPA Proceeding was June 2, 2012 and these claims are being evaluated by the Trustee’s professionals.

B. MF Global UK Ltd. and Other Foreign Affiliate Matters

i. United Kingdom

49. MF Global UK Ltd. (“MFGUK”), based in London, was the principal European broker-dealer within MF Global. Prior to the Filing Date, there were extensive dealings between MFGI and MFGUK in the conduct of their businesses. MFGI, whether on its own behalf or on behalf of its underlying customers, traded futures and options outside the United States and Canada with or through MFGUK.

50. As a result of the insolvency of MFGUK, on October 31, 2011, certain partners of KPMG were appointed as the joint special administrators for MFGUK (the “JSAs”). Subsequent to their appointment, the Trustee and his professionals have worked

extensively with the JSAs and their professionals in developing and sharing information about MFGI and MFGUK relevant to the administration of the respective estates. In addition, the Trustee has retained legal counsel in the United Kingdom.

51. On January 6, 2012, the Trustee filed informal client and creditor claims with the JSAs for voting purposes at the general meeting of MFGUK's creditors. The Trustee's claims were objected to by the JSAs, and admitted for voting purposes only. On January 9, 2012, the Trustee's representatives attended the general meeting of MFGUK's creditors and the Trustee was elected as a client representative to MFGUK's creditors' committee.

52. On February 24, 2012, the Trustee executed an Information Exchange Agreement and Protocol with the JSAs that was intended to provide a robust exchange of documents between the two office holders regarding the various claims each office holder intended to make in the other's estate. Pursuant to this Protocol, the parties exchanged documents and information concerning their respective claims. That process officially concluded on March 31, 2012, although the parties continued to exchange information following that date.

53. On March 13, 2012, the Trustee filed an application in the English High Court for recognition of the SIPA Proceeding as a foreign main proceeding in accordance with the United Nations Model Law on cross-border insolvency. On March 27, 2012, the High Court granted the Trustee's application and issued a recognition order. The Trustee believes that this recognition will facilitate the Trustee's investigation of the insolvency of MFGI.

54. On March 30, 2012, pursuant to an agreement with the JSAs extending the Trustee's time to lodge his formal client claim form, the Trustee submitted his client claim of approximately \$911 million to the JSAs. This client claim includes approximately \$700 million in property that should have been secured for former MFGI customers pursuant to 17 C.F.R. § 30.7 ("30.7 Property"). The client claim also includes \$175 million transferred from MFGI to MFGUK on October 28, 2011, which originated from segregated customer funds in the U.S., and is further addressed in the Trustee's Investigative Report. The Trustee's position is that MFGI continues to be entitled to recover all 30.7 Property, whether on the grounds that the 30.7 Property constitutes client money or client assets, or on other grounds available under applicable regulatory rules and legal principles.

55. On May 25, 2012, the Trustee lodged his formal creditor claim of approximately \$462.8 million to the JSAs. The Trustee and his professional advisors continue to engage in discussions with the JSAs regarding the extent to which the JSAs will allow the Trustee's client and creditor claims. On June 1, 2012, counsel to the JSAs notified the Trustee's counsel that the JSAs dispute the Trustee's valuation and, specifically, the legal basis for that valuation. The JSAs propose to seek directions from the English High Court to resolve this dispute.

56. On May 3, 2012, at the urging of the Trustee, the JSAs made an application to the High Court seeking directions concerning whether the customer property that is the subject of the Trustee's client claim was or should have been segregated under English law. The Trustee has pressed the JSAs to agree to a litigation timeline that will have this litigation concluded expeditiously. At a directions hearing on June 1, 2012, the High Court, at the Trustee's urging for an early date, set the trial to begin on April 9, 2013.

57. The JSAs have also filed customer claims against MFGI, which, net of duplicate claims, assert approximately \$258 million in commodities claims and \$147 million in securities claims. The Trustee has issued letters of determination to the JSAs concerning all but one of these claims. The Trustee's professionals continue to exchange information with the JSAs' professionals concerning these claims.

ii. Canada

58. MF Global Canada Co. ("MFG Canada") was the Canadian broker-dealer within MF Global. Prior to the Filing Date, there were extensive dealings between MFGI and MFG Canada in the conduct of their businesses. As a result of the insolvency of MFG Canada, certain partners of KPMG were appointed as the Trustees for MFG Canada (the "Canadian Trustees"). The Trustee and his professionals have worked extensively with the Canadian Trustees and their professionals in developing and sharing information about MFGI and MFG Canada relevant to the administration of the respective estates. In addition, the Trustee has retained legal counsel in Canada.

59. On January 31, 2012, the Canadian Trustees moved the Canadian Superior Court to determine the Trustee's net equity claim under Canadian law. Although the Trustee had not yet lodged his formal claim at that time, the Trustee's professionals had been in communication with the Canadian Trustees for some time and the parties had exchanged informal estimates of their claims. The Canadian Trustees' motion sought a determination of the net equity of the Trustee's claim and proposed to offset against the Trustee's claim all claims that the Canadian Trustees had made in the MFGI estate. The Trustee disputed the Canadian Trustees' proposal, as the bulk of both estates' claims concerned customer omnibus accounts that MFGI and MFG Canada had held on behalf of each others' customers.

60. On March 5, 2012, the Trustee made the following claims in the estate of MFG Canada: (i) a net intercompany receivable balance due to MFGI, as a creditor, of approximately \$0.5 million; (ii) a claim by MFGI, on its own behalf, as a foreign futures customer of MFG Canada, of approximately \$0.9 million; and, (iii) a claim by the Trustee on behalf of MFGI's foreign futures and foreign options customers of approximately \$103 million.

61. The Trustee and the Canadian Trustees have resolved their dispute without further litigation. A settlement agreement has been agreed to in principle between the Trustees, subject to approval by the Canadian Trustees' inspectors, and the Trustee's response to the Canadian Trustees' motion has been accordingly adjourned by consent.

Under the terms agreed upon by the Trustees, approximately \$62 million of customer property is scheduled to be returned to the MFGI estate upon approval of both the U.S. Bankruptcy Court and the Canadian Superior Court, and the Canadian Trustees will withdraw their claims in the MFGI liquidation.

iii. Other Former Affiliates

62. Several other former affiliated companies of MFGI have submitted customer claims. The Liquidator of MF Global Australia Limited filed commodities claims of approximately \$15 million and securities claims of approximately \$3 million. The Liquidator of MF Global Holdings HK Limited filed commodities claims of approximately \$9 million and securities claims of approximately \$0.003 million. Net of duplicates, the Liquidators of MF Global Singapore Pte. Limited filed commodities of approximately \$13 million and securities claims of approximately \$0.4 million. Letters of determination concerning each of these claims have been sent to the respective administrators. There appear to be no material disputes concerning these claims.

VIII. RETURN OF MISDIRECTED FUNDS

63. Shortly after the Filing Date, the Trustee began receiving reports of funds being sent to MFGI bank accounts in error, including funds intended for the benefit of parties that were previously MFGI customers, but whose accounts were transferred after the Filing Date (“Misdirected Wires”). In the normal course of business, financial institutions can recall funds sent in error with relative ease. However, because MFGI is in liquidation under SIPA, before returning any Misdirected Wires, the Trustee must investigate the underlying transfers and confirm that the funds were in fact sent in error and are not the property of the MFGI estate.

64. To facilitate the return of Misdirected Wires and to increase the overall efficiency of responding to requests for such returns, in November 2011, the Trustee implemented certain Court-authorized procedures (*see* ECF No. 417, the “Misdirected Wires Order”). The Trustee has also closed most of the bank accounts identified as having received Misdirected Wires, thereby reducing future requests for Misdirected Wire returns. To date, the Trustee has returned approximately \$15 million in misdirected wires. For additional information on the Misdirected Wire procedures, see the Misdirected Wires Order or the Trustee’s website (www.mfglobaltrustee.com).

IX. TRUSTEE’S INVESTIGATION

65. The Trustee has the specific and important duty to conduct an investigation and prepare a report concerning “the acts, conduct, property, liabilities, and financial condition of [MFGI], the operation of its business, and any other matter, to the extent relevant to the liquidation proceeding.” 15 U.S.C. §78fff-1(d). In furtherance of this duty, the Trustee obtained authority from the Court by Order dated November 4, 2011 to issue subpoenas (*see* ECF No. 34), and since then has been actively engaged in pursuing numerous avenues of investigation.

66. The first of the Trustee's investigative reports, his Preliminary Report on Status of His Investigation and Interim Status Report on Claims Process and Account Transfers (the "Preliminary Report," ECF No. 896), was completed and issued on February 6, 2012. The Preliminary Report addressed the broad topics of (i) what happened during the final days of MFGI; (ii) parties that were the immediate recipients of transfers from MFGI during the final days and weeks of operation; and (iii) an initial assessment of the factors that contributed to the deterioration of MF Global's liquidity position.

67. Concurrently with this Report, the Trustee is filing his second Investigative Report with the Court.

X. GOVERNMENT AND THIRD PARTY INVESTIGATIONS

68. The flow of requests to the Trustee for historical MFGI information from dozens of federal, state, and local government agencies continues. Cooperation with investigations by these agencies is of paramount importance to the Trustee and SIPC. In addition, the Trustee has received and is responding in due course to an ever-increasing number of non-party subpoenas issued in connection with various litigations and arbitrations across the United States. Together, the Trustee has responded to over 260 governmental and non-party requests for MFGI documents and information, and those requests continue and are expected to continue for the foreseeable future. Notwithstanding an appreciation for regulators' and litigants' need for MFGI historical information, the productions continue to be a significant expense and drain of resources.

Regulatory Matters

69. As a result of the complexities of administering MFGI's estate, the Trustee regularly meets and coordinates with the SEC, the Federal Reserve Bank of New York, the CFTC, FINRA, and the British Financial Services Authority. The Trustee is also terminating MFGI's former broker-dealer registrations with federal regulatory agencies, including the SEC and the National Futures Association, saving the MFGI estate from the costs associated with maintaining its registration status.

XI. LITIGATION

70. On the Filing Date, MFGI was party to several litigation proceedings in Illinois state court. Accordingly, the Trustee oversaw the filing in these cases of notices of the commencement of the SIPA Proceeding and the effect of the automatic stay provisions of 11 U.S.C. § 362 and the MFGI Liquidation Order (together, the "Automatic Stay"). Though the Automatic Stay does not apply to proceedings brought by MFGI, any counterclaims in such a proceeding are subject to the Automatic Stay. The Trustee may continue to pursue a few affirmative litigations, including an action commenced on May 21, 2009, *New Hampshire Ins. Co., et al. v. MF Global Inc.*, which existed prior to the initiation of the SIPA Proceeding. This claim involves insurance coverage for the "Dooley Incident" of unauthorized trading referenced in the Investigative Report.

71. Before this Court, the Trustee has had to oppose a number of motions seeking varied relief, including, among others, the extension of the bar date for commodity customers (ECF Nos. 925, 994), private party discovery (ECF Nos. 948, 993), and to compel the Trustee to avoid using futures commission merchants and derivatives clearing organizations (ECF Nos. 949, 996). Additionally, the Trustee continues to defend against, as one of several named defendants, an adversary proceeding commenced by a class of former employees of various MF Global entities who allege violations of the Federal and New York State Worker Adjustment Restraining and Notification (“WARN”) Acts, which require an employer to give 60 days and 90 days notice, respectively, of a plant closing or mass layoffs (Case No. 11-2880, ECF No. 42).

XII. DATA MANAGEMENT

72. For purposes of his investigation, as well as to respond to the numerous requests from legislators, law enforcement agencies, and regulators, the Trustee has undertaken extensive efforts to collect and preserve MFGI documents, data, and other information.

73. Immediately following the commencement of the SIPA Proceeding, the Trustee deployed a team of professionals, including attorneys experienced in broker-dealer liquidations and expert consultants and forensic accountants from both Deloitte and Ernst & Young, to secure all MFGI premises, data, books, and records.

74. The preservation team was on the ground not only in New York and Chicago, but also five other locations across the U.S. to ensure that electronic data was preserved, systems and key hardware were maintained, and hard copy documents were secured.

75. As part of this effort, the Trustee’s professionals have, *inter alia*:

- Imaged nearly 975 desktop computers and laptops used by former MFGI employees;
- Collected an additional 2,300 hard drives from computers used by former MFGI employees;
- Collected and stored over 400 servers;
- Imaged over 100 third-party servers that contained MFGI data;
- Imaged or stored approximately 400 Blackberries;
- Exported key data systems;
- Collected and stored over 8,500 boxes of hard copy documents from MFGI’s offices.

76. All told, the amount of information preserved to date amounts to over 100 terabytes of data, the equivalent of approximately one-third of the contents of the Library of Congress.

77. In addition to the efforts to preserve documents and data that had been located in MFGI offices, the Trustee has also sent preservation notices to over 50 third parties and individuals, instructing them to preserve all MFGI documents and information in their possession.

XIII. TAX MATTERS

78. The Trustee's professionals are monitoring and responding to federal and state tax audits, coordinating responses to requests for tax-related information from federal and state authorities, and ensuring compliance with tax reporting requirements.

A. 1099 and Related Reporting

79. All required Forms 1099 for 2011 have been timely mailed to recipients and filed with the IRS. All Forms 1042-S required to be sent to foreign customers have been mailed to recipients; the summary and transmittal of such Forms 1042-S, made on Form 1042, will be filed with the IRS before September 15, 2012 (the deadline under a timely filed extension request). The Trustee has established a call center to answer customers' questions regarding these Forms; the toll-free call center number was printed on all Forms 1099 and Forms 1042-S, and appears on the Trustee's website.

80. All required Form W-2 reporting was timely completed by shared employees of MFGI and MFGH.

B. The MF Global Consolidated and Combined Groups

81. As of its tax year commencing April 1, 2011, MFGI is included in the consolidated federal income tax returns filed by the affiliated group of which MFGH is the common parent. For tax years prior to April 1, 2011, MFGI was similarly included in consolidated returns, but the common parent of the group in those years was MF Global Holdings USA, Inc. ("MFGH USA"). MFGH USA and the other members of the former MFGH USA group are currently included in the MFGH consolidated group. Under applicable U.S. Treasury regulations, the common parent of a federal consolidated group is the sole agent for the consolidated group and has authority to act with respect to all matters relating to the federal income tax liability of itself and the members of the group, including audits and refund claims. All members of the group are severally liable for all of the group's federal income tax liability for all periods during which they are members of the group. MFGI is a member of similar groups for purposes of income or franchise taxes in several states and cities, including New York State and New York City. Such a group is generally referred to for state law purposes as a "combined group;" a combined group files a combined return. The Trustee, with the help of his tax professionals, is analyzing the potential benefits to the MFGI estate that would result from MFGI's disaffiliation from the consolidated groups and "decombining" for New York State and City purposes.

C. Tax Audits and Refund Claims

82. The MFGH USA consolidated group was under federal income tax audit for its tax years 2007 to 2011 before the commencement of the SIPA Proceeding. On November 19, 2011, the group filed a federal refund claim for approximately \$22 million based on carryback of a net operating loss. The refund has not, as yet, been allowed. The audit is currently suspended while the IRS seeks the approval of the Joint Committee on Taxation to proceed.¹²

83. In addition, the IRS has assessed penalties against MFGI for years 2004 to 2008, totaling \$1 million or less, that relate to errors on certain information returns. The Trustee's professionals are working with a former MFGI employee to seek abatement of these penalties.

84. The Trustee's professionals maintain ongoing discussions with MFGH and representatives of MFGH as to the status of several audits and refund claims, and for purposes of exchanging information as needed to assist with tax compliance. With respect to all refund claims, the Trustee's professionals are evaluating MFGI's entitlement to a share of refunds (any checks generally would be issued to the relevant parent company in the first instance as a matter of tax law).

XIV. EXECUTORY CONTRACTS

85. Since the Filing Date, the Trustee's professionals have undertaken extensive analysis to ascertain whether MFGI executory contracts and unexpired leases would be beneficial to the MFGI estate and further the purposes of the liquidation or should be noticed for rejection for cost-savings. To date, the Trustee has noticed over 400 executory contracts, eliminating several million dollars of administrative expense. In order to conduct this review, the Trustee has sought and this Court has approved an extension of the time within which the Trustee may assume, assign, or reject MFGI executory contracts and unexpired leases, as provided in section 365(d)(1) of the Bankruptcy Code, to, and including, July 30, 2012 (*see* ECF No. 1533). Currently, the executory contract review work is nearly complete.

XV. INTERNAL CONTROLS AND BOOKKEEPING

86. The Trustee continues to employ professionals who oversee the performance of the major efforts and work-streams, provide guidance and review functions related to marshaling assets, assist with information and technological needs, support MFGI's operations, and provide consultative advice on various matters. The Trustee and his professionals continue to monitor MFGI's non-segregated unallocated assets, including soliciting and/or evaluating bids for such assets.

87. The Trustee's professionals have established certain daily, monthly, and ad hoc practices to support the continuous processing of MFGI's former business

12. Joint Committee approval is required because of the size of the claimed refund.

appropriate to the nature of the liquidation, though they are not comparable to that of an entity operating as a going concern.

XVI. PROFESSIONAL RETENTION

88. At the request of and in consultation with SIPC, nearly every professional firm and consultant retained by the Trustee, including the undersigned, has agreed to a voluntary “public interest discount” of ten percent or more from standard rates and has further agreed not to charge for a number of categories of expenses regularly paid to professionals in large bankruptcy proceedings, including overtime meals, internal copies, and after-hour travel services.

89. On February 9, 2012, the Court entered the Order Authorizing Employment of Haynes and Boone, LLP as Special Counsel, Nunc Pro Tunc to January 9, 2012 (ECF No. 903). Haynes and Boone has begun advising the Trustee on matters related to PricewaterhouseCoopers LLP (MF Global’s auditors).

90. Given the global nature of MFGI’s business and that MF Global insolvency proceedings have been commenced in numerous jurisdictions, the Trustee requires additional counsel to attend to certain matters. On February 9, 2012, the Court entered the Order Authorizing the Trustee to Retain and Employ Slaughter and May as English Counsel, Nunc Pro Tunc to December 21, 2011 (ECF No. 902). Slaughter and May is advising as to the Trustee’s and the MFGI estate’s rights, duties, and powers in connection with the MFGUK Special Administration (*see* Section VII.B.i, *supra*). The Trustee also retained Blake, Cassels, Graydon LLP, pursuant to Order Authorizing Employment of Counsel Utilized in the Ordinary Course (*see* ECF No. 906, Declaration of Disinterestedness of Linc A. Rogers on Behalf of Blake, Cassels, Graydon LLP), to serve as his Canadian counsel in connection with the MF Global Canada proceeding (*see* Section VII.B.ii, *supra*).

XVII. COMMUNICATIONS WITH CUSTOMERS

91. The Trustee has continued to maintain channels of communication with customers, creditors, and the public to the extent that he can do so without detracting from his duties to marshal and return property, and without compromising the confidentiality of investigatory and recovery efforts.

92. The Trustee’s website (www.mfglobaltrustee.com) is frequently updated with reports on the progress of the liquidation, statements on various issues, and court filings. The Trustee has also organized a call center with a standby roster of attorneys to answer inquiries quickly and address concerns where possible. To date, the Trustee’s professionals have responded to over 16,000 inquiries through the general call center. Additionally, the Trustee’s professionals have now established two specialized call centers dedicated to inquiries relating to claims determinations and tax matters.

93. The Trustee or his lead counsel have also voluntarily appeared before Congress, upon request, four times, in addition to participating in conference calls and meetings with Congressional staff and constituents. Finally, the Trustee has previously

filed or delivered orally to the Court several reports relating to his investigation, the claims process, and the general status of the liquidation (*see* ECF Nos. 835, 896, 977).

XVIII. REDUCTION OF REAL ESTATE, STAFF, AND OTHER ADMINISTRATIVE EXPENSES

94. As of the Filing Date, MFGI was the named tenant under ten real property leases. The Trustee promptly rejected and/or surrendered eight of the ten real property leases as of November 1, 2011 for office space in New York, Chicago, Boston, San Francisco, Dallas, Washington, D.C., and Kansas. With respect to one of the two remaining real property leases in Chicago, the Trustee was successfully able to negotiate for partial surrenders of space in order to maintain necessary operations for the wind down of MFGI's business. The final portion of the space at the Chicago location was due to be surrendered by the end of May 2012. The last real property lease was set to be rejected by the end of May 2012. The savings resulting from the rejection of all MFGI real property leases is, in the aggregate, approximately \$118 million.

95. All lease terminations and negotiations for occupancy beyond lease terminations were conducted in a manner that has enabled the Trustee to preserve all physical and electronic records and to maximize recovery for the disposition of personal property.

96. The Trustee has also entered into a lease for office space in New York City, which is used to conduct his operations.

97. Under the Trustee's supervision, the MFGI estate has greatly reduced its employees and corresponding payroll. On October 31, 2011, MFGI employed 1,312 employees. Payroll and payroll taxes for the pay period ending October 31, 2011 totaled \$15,675,216. The Trustee hired several hundred former MFGI or MFGH employees on a temporary basis to provide necessary assistance. As of May 15, 2012, this number was reduced to 19 employees. Payroll and payroll taxes for the pay period ending May 15, 2012 totaled \$274,148.57.

Winding Down the Chicago Office

98. Prior to the liquidation, approximately 600 employees worked in MFGI's Chicago offices (collectively the "Chicago Office"), carrying out a variety of core FCM functions including sales, margining, client relations, and IT support. The Chicago Office was also the central location for MFGI's accounting and treasury operations.

99. Immediately after the liquidation commenced, on November 1, 2011, the Trustee sent a small team of lawyers to Chicago, Illinois, to liquidate MFGI's Chicago Office and assist in customer transfers and other projects. In less than five months, the Trustee's team unwound Chicago operations, vacated and consolidated Chicago real estate, and assisted with all aspects of the liquidation.

100. Since MFGI was no longer operating, the Trustee terminated all Chicago (and New York) employees as of November 15, 2011. Starting that same day, the

Trustee retained a skeletal staff of 90 former MFGI Chicago employees for a period of three months to assist with the liquidation. At the end of the three months, the Trustee retained 35 of the former MFGI staff for an additional two months. Thereafter, the Trustee retained one former MFGI Chicago employee, a facilities manager, who assisted with the final close of the Chicago Office and disaster-recovery site outside Chicago.

Additional Reduction of Expenses

101. As noted above, the Trustee is taking other steps to reduce professional staffing and administrative expenses commensurate with the reduced scope of the liquidation now that many expedited activities have been completed or substantially progressed.

XIX. CONCLUSION

102. The foregoing report represents a summary of the status of this SIPA Proceeding and the material events that have occurred from October 31, 2011 through June 4, 2012. It will be supplemented and updated with further interim reports.

Dated: New York, New York
June 4, 2012

Respectfully submitted,

HUGHES HUBBARD & REED LLP

By: /s/ James B. Kobak, Jr.
A member of the firm

One Battery Park Plaza
New York, New York 10004
Telephone: (212) 837-6000
Facsimile: (212) 422-4726

Attorneys for James W. Giddens,
Trustee for the SIPA Liquidation of
MF Global Inc.

EXHIBIT 1

Financial Condition of the Estate:

Commodity Customer Property Pools

Description	Amount in US Dollars in Millions (as of April 27, 2012)		
	4d Commodity Customers	30.7 Commodity Customers	Delivery Class Customers
Amount of Claims Filed	\$ 8,605 ¹	\$ 1,162	\$ N/A ²
Estimated Obligations from MFGI Books and Records	6,007	866	107
Assets Marshaled to Date	5,224 ³	90	121
Assets Transferred or Distributed	4,061	–	90
Assets Remaining	1,163	90	31

The bar date for filing securities⁴ and general creditor claims was June 2, 2012 and these claims are being evaluated by the Trustee's professionals.

1. This amount does not include a \$150 trillion asserted claim that was filed late, has no support in MFGI's books and records or on its face, and that the Trustee has moved to expunge (ECF No. 1785).
2. Delivery Class Customers asserted claims relating to Physical Customer Property in terms of that property (e.g., five gold certificates), not in a dollar amount.
3. This amount reflects certain changes to valuation methodologies and other adjustments since the filing of the Trustee's Sixty Day Report on January 12, 2012 (ECF No. 835).
4. As of April 27, 2012, the Trustee had received approximately \$1.4 billion in securities claims, excluding a \$49.1 billion asserted claim that has no basis in MFGI's books and records or on its face, and that the Trustee has moved to expunge (ECF No. 1785).

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

Financial Condition of the Estate: Overview of Non-Segregated Unallocated Assets

Summary of Non-Segregated Unallocated Assets as of April 27, 2012

Unaudited (in Millions)

Cash and Cash Equivalents	\$	494
Securities		528
Total Non-Segregated Unallocated Assets on Hand	\$	1,022

The Trustee believes a significant portion of these assets will need to be allocated to commodities and securities customers at a future date under principles and in amounts that will be established by motion subject to Court approval.

EXHIBIT 2

Overview of the Claims Process

	Commodity Customer Claims (as of June 1, 2012)
Total Timely Claims Asserted	26,792
Claims Allowed	25,619
Claims Denied	608
Claims Reclassified	73
Total Determined Claims¹	26,300
Claims Determined and Final	23,277
Claims Still Subject to Objection	2,839
Objected to Claim Determinations	184
Letters of Determination Sent²	23,869

The bar date for filing securities and general creditor claims was June 2, 2012 and these claims are being evaluated by the Trustee's professionals.

1. Of the 492 commodity customer claims not yet determined, 217 relate to foreign accounts and could not be determined because of the absence of financial information needed from the joint special administrators for MF Global UK Ltd. to value open foreign futures contracts at their liquidation.
2. The number of letters of determination sent is lower than the number of claims determined because some of the claims are duplicative of other claims and therefore do not require separate letters of determination.

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.