



14 December 2011

Notice to all clients

Set out below is a brief update on key developments since our last notice dated 6 December 2011.

We continue to receive a large number of client questions regarding the timing and value of a first distribution of funds to clients. In my update of 6 December 2011, I set out the most current position however I have used this update to further clarify this complex matter and provide you with information regarding the issues we are facing.

1. Second meeting of the committee of creditors

The second meeting of the committee of creditors will be held on Thursday 22 December 2011. The purpose of this meeting will be to update the committee of events since the first meeting of the committee of creditors, held 2 December 2011.

In particular we will update the committee on our indicative timeline for the client claims process and first interim distribution. We will provide an update following this meeting to inform all clients and creditors of the key matters discussed.

2. Position of client pools

All of the positions for CFDs, Margin FX and Online FX have been closed out. Virtually all of the Futures positions have been closed, with the remaining open positions being minimal. The main recoveries and positions are:

Futures

- **ASX** – the close out information received from ASX is sufficient to calculate client positions. The funds of approximately \$34m are held by the ASX and continue to be the subject to dispute between MFGA and MFG(UK). We continue our dialogue with the Special Administrators of MFG(UK) for recovery of these funds
- **BNY Mellon** – All positions are closed and all required information has so far been made available. Since my update on 6 December 2011, a further \$9m of client funds has been received by the administrators from BNY Mellon. Since our appointment BNY Mellon has remitted a total of \$39m of MFGA client funds, with approximately \$500k still to be recovered.
- **Overseas affiliates** - No overseas MFGA affiliate close out information has been received. We are in constant dialogue with the various administrators and Trustees of the MF Global affiliates. We have made a request to these entities for the transfer of outstanding funds.

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3. Client statements

Within the next 1 to 2 days we will cease issuing daily client statements. As a result, **you will no longer receive a daily statement.**

The information provided in daily client statements may not be accurate and may provide an inaccurate impression of your position(s). Close out information received from counterparties has in many cases not been processed through the Company's client database. Further, we have received many requests from clients to turn off these statements.

Whilst the statement system will be turned off this does not alter your position, affect your rights as a client of MFGA, or any claim you may have against the Company.

As part of the claims process which we will seek to commence in early 2012, we expect to issue all clients with an up to date and accurate state of their position(s) as at 1 November 2011.

4. Client distributions

The most frequently question asked by clients relates to the repayment of monies and why the administrators are unable to quickly pay a partial distribution. There are three key issues currently delaying an interim distribution payment:

- Pooling (4.1)
- Valuation (4.2)
- Recovery (4.3)

Many of these issues are complex legal questions. Therefore we are proposing to seek directions from the Court, most likely in February 2012 when the Courts resume from the Christmas break. Until we have clear directions from Court it is difficult for the administrators to pay out a partial distribution.

Further information regarding these 3 key areas is provided below:

4.1. Pooling

"Pooling" refers to the identification of client monies by product type and currency. Client monies are held in segregated bank accounts. Segregated bank accounts are held for the four key "products groups" of client funds:

- CFDs
- Futures
- Online FX (MFG Trader)
- Margin FX

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In addition to the main product groups above, bank accounts are also held in foreign denominated currencies for each of the four product groups.

It is possible to further segregate the four main products above into sub-category products within each product group, albeit separate segregated bank accounts are not held for sub-category products e.g. all CFD sub-category products are co-mingled into one CFD client segregated bank account (by currency).

Pooling issues:

As noted above, it is possible to further disaggregate the four main product groups into sub-product groupings by clearing house or counterparty, albeit client monies are not segregated to this more detailed level.

It is not clear if client claims should be defined (or “pooled”) as a total product group, such as “futures”, or by sub-category within a product group e.g. “ASX futures”. If there were to be a shortfall from one counterparty, further segregation of the four main product groups to sub-category product group could ring-fence any losses incurred for non-recovery to the clients attributable to the sub-category of product group and not shared across that total product group.

Further, those clients that had no open positions as 1 November 2011 and only held cash with MFGA have argued that their claims should not be impacted by non-recovery of funds from open positions at the date of the appointment of administrators. Those clients who had open positions and have been impacted have argued the opposite.

4.2. Valuation

The valuation of the client position for the purpose of receiving a distribution of funds has become a hotly debated issue. The value of a client’s claim will vary depending on the “assumed” close out date (where a client held an open position).

Some market positions were taken out of the control of both the administrators and clients on 1 November 2011. However to physically close out the market positions the clearing house, hedge or counterparties took a number of days (or weeks) to close positions. In some cases positions were compulsorily closed by the counter parties whilst others were closed out or transferred (without collateral) in accordance with client instructions

In the period between the 1 November 2011 and the actual close out date of positions, some client’s have gained whilst others have seen their positions deteriorate. There have been a number of suggestions by clients on how to value positions for the purpose of distributing funds. The key two methodologies are:

- Value positions as at 1 November 2011 (date of appointment)
- Value positions at the actual close out date (post 1 November 2011)

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4.3. Recovery

This refers to the possibility that there will be a shortfall in recovery of funds. When combined with the issues regarding pooling and valuation, the pro's and con's of various methodologies can become heated between client pools.

5. Conclusions regarding early distribution of funds

We fully understand and appreciate the difficult position clients are in as a result of the administration of MFGA. We understand the urgency to which MFGA clients require repayment of monies. In this respect our aims and client expectations are aligned. It is not in the interest of the administrators or any of MFGA's stakeholders to unnecessarily delay this process.

As indicated in my last update of 6 December 2011, we expect to complete the claims process and attempt a first interim distribution in March / April 2012 once we have received directions from Court. Whilst we have set this as an indicative timetable we continue to assess all available avenues to the administrators and seek legal & Senior Counsel's advice on making a distribution to clients earlier than indicated where practically possible. This will be a topic of conversation with the creditors committee on 22 December 2011.

However, as hopefully clearly set out above, there are many complex areas that without Court directions limits our ability to pay out an interim distribution and could lead to unnecessary time and cost dealing with various legal challenges if we did so without directions.

6. Administrators remuneration

We discussed our actual and forecast fees in detail with the Committee of Creditors on 2 December 2011. The committee approved our initial fees from 1 November to 18 November. Our actual and forecast fees will be discussed with the Committee at each committee meeting.

Yours faithfully,
Chris Campbell Joint Administrator of the Companies