

MF Global Ltd.
Form 10-Q
November 06, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the QUARTERLY PERIOD ended September 30, 2009

or

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

For the transition period from _____ to _____

Commission File Number 001-33590

MF GLOBAL LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

98-0551260
(I.R.S. Employer
Identification No.)

Clarendon House
2 Church Street

Hamilton HM11, Bermuda
(Address of principal executive offices)

Registrant's telephone number, including area code: (441) 296-1274

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of common shares outstanding of the registrant as of September 30, 2009, was 121,530,594.

Table of Contents

MF GLOBAL LTD.

INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	<u>Unaudited Consolidated Statements of Operations</u>	3
	<u>Unaudited Consolidated Balance Sheets</u>	4
	<u>Unaudited Consolidated Statements of Cash Flows</u>	5
	<u>Unaudited Consolidated Statement of Changes in Equity</u>	7
	<u>Unaudited Consolidated Statements of Comprehensive Income</u>	8
	<u>Notes to the Unaudited Consolidated Financial Statements</u>	9
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	63
Item 4.	<u>Controls and Procedures</u>	67

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	68
Item 1A.	<u>Risk Factors</u>	72
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	73
Item 3.	<u>Defaults Upon Senior Securities</u>	73
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	74
Item 5.	<u>Other Information</u>	74
Item 6.	<u>Exhibits</u>	75

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements and Supplementary Data
MF GLOBAL LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Dollars in thousands, except share data)**

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
Revenues				
Execution only commissions	\$ 79,647	\$ 106,969	\$ 158,935	\$ 226,032
Cleared commissions	262,795	370,682	522,320	744,855
Principal transactions	40,182	69,235	85,893	132,396
Interest income	100,835	272,259	213,024	618,078
Other	9,374	14,322	23,012	25,963
Total revenues	492,833	833,467	1,003,184	1,747,324
Interest and transaction-based expenses:				
Interest expense	35,082	171,726	71,208	410,523
Execution and clearing fees	146,257	220,965	288,392	453,668
Sales commissions	59,452	67,888	120,024	135,591
Total interest and transaction-based expenses	240,791	460,579	479,624	999,782
Revenues, net of interest and transaction-based expenses	252,042	372,888	523,560	747,542
Expenses				
Employee compensation and benefits (excluding non-recurring IPO awards)	164,409	214,561	337,078	425,226
Employee compensation related to non-recurring IPO awards	9,168	17,237	18,013	34,981
Communications and technology	28,663	31,474	55,821	63,900
Occupancy and equipment costs	9,766	11,229	19,467	21,484
Depreciation and amortization	14,241	13,993	27,859	28,158
Professional fees	17,380	19,034	37,382	50,054
General and other	21,382	31,824	59,713	47,319
IPO-related costs	23	5,267	894	10,735
Impairment of goodwill	618		1,160	
Total other expenses	265,650	344,619	557,387	681,857
Gains on exchange seats and shares	10,606	15,765	11,244	15,117
Loss on extinguishment of debt			9,682	
Interest on borrowings	9,987	21,986	20,512	36,203
(Loss)/income before provision for income taxes	(12,989)	22,048	(52,777)	44,599

Edgar Filing: MF Global Ltd. - Form 10-Q

(Benefit)/provision for income taxes	(4,977)	11,201	(19,403)	17,927
Equity in income/(loss) of unconsolidated companies (net of tax)	310	(754)	930	(1,632)
Net (loss)/income	(7,702)	10,093	(32,444)	25,040
Net income attributable to noncontrolling interest	631	682	1,041	1,238
Net (loss)/income attributable to MF Global Ltd.	\$ (8,333)	\$ 9,411	\$ (33,485)	\$ 23,802
Dividends declared on preferred stock	7,678	3,238	15,356	3,238
Cumulative and participating dividends		2,677		3,985
Net (loss)/income applicable to common shareholders	\$ (16,011)	\$ 3,496	\$ (48,841)	\$ 16,579
(Loss)/earnings per share (see Note 11):				
Basic	\$ (0.13)	\$ 0.03	\$ (0.40)	\$ 0.14
Diluted	\$ (0.13)	\$ 0.03	\$ (0.40)	\$ 0.14
Weighted average number of common shares outstanding:				
Basic	123,254,930	120,503,557	123,087,787	120,279,627
Diluted	123,254,930	120,503,557	123,087,787	120,279,627

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

Table of Contents**MF GLOBAL LTD.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Dollars in thousands, except share data)**

	September 30, 2009	March 31, 2009
Assets		
Cash and cash equivalents	\$ 796,794	\$ 639,183
Restricted cash and segregated securities	9,641,583	9,670,494
Securities purchased under agreements to resell (including \$16,823,662 and \$0 at fair value, respectively)	21,596,697	12,902,670
Securities borrowed (including \$2,918,328 and \$0 at fair value, respectively)	12,084,932	8,624,906
Securities received as collateral	53,013	54,488
Securities owned (\$9,008,449 and \$3,202,430 pledged, respectively)	11,587,792	3,605,908
Receivables:		
Brokers, dealers and clearing organizations	2,692,686	2,473,341
Customers (net of allowances of \$24,552 and \$24,585, respectively)	579,886	415,532
Affiliates		95
Other	40,681	36,884
Memberships in exchanges, at cost (market value of \$20,886 and \$19,375, respectively)	6,565	6,370
Furniture, equipment and leasehold improvements, net	67,917	62,717
Intangible assets, net	136,608	151,688
Other assets	208,812	191,359
TOTAL ASSETS	59,493,966	38,835,635
Liabilities and Equity		
Short-term borrowings, including current portion of long-term borrowings	152,291	148,835
Securities sold under agreements to repurchase (including \$8,201,513 and \$0 at fair value, respectively)	32,403,380	14,271,698
Securities loaned	4,747,119	5,951,679
Obligation to return securities borrowed	53,013	54,488
Securities sold, not yet purchased, at fair value	5,142,509	2,884,591
Payables:		
Brokers, dealers and clearing organizations	2,414,169	1,077,379
Customers	12,242,492	11,766,390
Affiliates		1,602
Accrued expenses and other liabilities	191,182	293,207
Long-term borrowings	698,681	938,007
TOTAL LIABILITIES	58,044,836	37,387,876
Commitments and contingencies (Note 13)		
Preference shares, \$1.00 par value per share; 200,000,000 shares authorized;		
1,500,000 Series A Convertible, issued and outstanding, cumulative	96,167	96,167
1,500,000 Series B Convertible, issued and outstanding, non-cumulative	128,035	128,035
EQUITY		
Common shares, \$1.00 par value per share; 1,000,000,000 shares authorized,		
121,494,897 and 120,723,046 shares issued and outstanding, respectively	121,495	120,723

Edgar Filing: MF Global Ltd. - Form 10-Q

Treasury shares	(202)	(97)
Receivable from shareholder	(29,779)	(29,779)
Additional paid-in capital	1,353,921	1,335,449
Accumulated other comprehensive loss (net of tax)	(9,931)	(24,015)
Accumulated deficit	(224,982)	(191,497)
Noncontrolling interest	14,406	12,773
TOTAL EQUITY	1,224,928	1,223,557
TOTAL LIABILITIES AND EQUITY	\$ 59,493,966	\$ 38,835,635

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

Table of Contents**MF GLOBAL LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(Dollars in thousands, except share data)**

	Six months ended September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	\$ (32,444)	\$ 25,040
Less: Net income attributable to noncontrolling interest	1,041	1,238
Net (loss)/income attributable to MF Global Ltd.	\$ (33,485)	\$ 23,802
Adjustments to reconcile net (loss)/income attributable to MF Global Ltd. to net cash provided by operating activities:		
Gains on sale of exchange seats and shares	(257)	(14,705)
Depreciation and amortization	27,859	28,158
Stock-based compensation expense	36,683	53,428
Bad debt expense	(615)	8,695
Deferred income taxes	(18,222)	(13,638)
Equity in (income)/losses of unconsolidated affiliates, net of tax	(930)	1,632
Dividend received from unconsolidated affiliates	2,106	
Income attributable to noncontrolling interests, net of tax	1,041	1,238
Loss on extinguishment of debt	9,682	
Gain on disposal of furniture, equipment and leasehold improvements		(2)
Impairment of goodwill	1,160	
Write-down of capitalized professional fees		1,820
Amortization of debt issuance costs	3,905	4,151
Decrease/(increase) in operating assets:		
Restricted cash and segregated securities	89,868	1,491,349
Securities purchased under agreements to resell	(8,694,026)	3,620,104
Securities borrowed	(3,460,012)	(2,964,233)
Securities owned	(7,981,196)	3,995,976
Receivables:		
Brokers, dealers and clearing organizations	(181,858)	(8,072,983)
Customers	(157,813)	1,021,065
Affiliates		(36,789)
Other	(3,367)	(2,507)
Other assets	(10,380)	(23,305)
Increase/(decrease) in operating liabilities:		
Securities sold under agreements to repurchase	18,131,682	(4,211,489)
Securities loaned	(1,204,560)	2,160,389
Securities sold, not yet purchased, at fair value	2,257,918	1,102,490
Payables:		
Brokers, dealers and clearing organizations	1,331,427	3,139,527
Customers	393,622	(1,265,155)
Affiliates		23,865
Accrued expenses and other liabilities	(118,035)	4,104
Net cash provided by operating activities	\$ 422,197	\$ 76,987

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

Table of Contents**MF GLOBAL LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS, continued****(Unaudited)****(Dollars in thousands, except share data)**

	Six months ended September 30,	
	2009	2008
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions (Note 3)	\$ (1,160)	\$ (4,883)
Proceeds from sale of memberships in exchanges	257	20,999
Purchase of memberships in exchanges		(1,369)
Purchase of furniture, equipment and leasehold improvements	(15,807)	(15,222)
Proceeds from sale of furniture, equipment and leasehold improvements		27
Net cash used in investing activities	(16,710)	(448)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bridge financing		(1,300,000)
Proceeds from other short-term borrowings, net	3,452	61,961
Proceeds from liquidity facility borrowings		350,000
(Repayment)/proceeds of two-year term facility	(240,000)	240,000
Issuance of convertible notes		210,000
Payment of debt issuance costs	(791)	(42,483)
Issuance of preference shares		300,000
Payment of preference shares issuance costs		(67,460)
Proceeds from Man Group for indemnification of tax expense		3,200
Distribution to minority interest		(634)
Payment of dividends on preference shares	(15,356)	(3,238)
Net cash used in financing activities	(252,695)	(248,654)
Effect of exchange rates on cash and cash equivalents	4,819	(22,095)
Increase/(decrease) in cash and cash equivalents	157,611	(194,210)
Cash and cash equivalents at beginning of period	639,183	1,481,084
Cash and cash equivalents at end of period	\$ 796,794	\$ 1,286,874
SUPPLEMENTAL NON-CASH FLOW INFORMATION		
Securities received as collateral	1,474	187,826
Obligation to return securities borrowed	(1,474)	(187,826)

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

Table of Contents**MF GLOBAL LTD.****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****(Unaudited)****(Dollars in thousands, except share data)**

	Common Shares	Treasury Shares	Receivable from Shareholder	Additional paid-in capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrolling interest in subsidiaries	Total Equity
Equity at March 31, 2009	\$ 120,723	\$ (97)	\$ (29,779)	\$ 1,335,449	\$ (24,015)	\$ (191,497)	\$ 12,773	\$ 1,223,557
Stock-based compensation				36,683				36,683
Net loss attributable to MF Global Ltd.						(33,485)		(33,485)
Net income attributable to noncontrolling interest							1,041	1,041
Foreign currency translation					14,084		592	14,676
Shares issued	772	(105)		(1,355)				(688)
Windfall benefit to Man Group				(1,500)				(1,500)
Dividend distributions				(15,356)				(15,356)
Equity at September 30, 2009	\$ 121,495	\$ (202)	\$ (29,779)	\$ 1,353,921	\$ (9,931)	\$ (224,982)	\$ 14,406	\$ 1,224,928

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

Table of Contents**MF GLOBAL LTD.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)****(Dollars in thousands, except share data)**

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
Net (loss)/income	\$ (7,702)	\$ 10,093	\$ (32,444)	\$ 25,040
Foreign currency translation adjustment	6,219	(12,580)	14,676	(15,604)
Comprehensive (loss)/income	\$ (1,483)	\$ (2,487)	\$ (17,768)	\$ 9,436
Comprehensive income/(loss) attributable to noncontrolling interest	481	(288)	1,633	(487)
Comprehensive (loss)/income attributable to MF Global Ltd.	\$ (1,964)	\$ (2,199)	\$ (19,401)	\$ 9,923

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

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(Dollars in thousands, except share data)****Note 1: Organization and Basis of Presentation**

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

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

The unaudited consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) and include the consolidated accounts of MF Global Ltd. and its subsidiaries. Management believes that these unaudited consolidated financial statements include all normally recurring adjustments and accruals necessary for a fair presentation of the unaudited consolidated statements of operations, balance sheets, cash flows, changes in equity and comprehensive income for the periods presented. Certain prior year amounts have been reclassified to conform to current year presentation.

On April 1, 2009, the Company adopted two new accounting standards each of which is effective for the Company's fiscal year ending March 31, 2010 and interim periods within such fiscal year. These standards require retrospective application and resulted in an adjustment to prior period financial statements. The first standard discusses accounting for noncontrolling interests in consolidated financial statements and resulted in a \$12,773 increase to total equity for the year ended March 31, 2009 due to adoption. The second standard discusses accounting for convertible debt instruments that may be settled in cash upon conversion including partial cash settlement and resulted in a \$242 decrease to Net income attributable to MF Global Ltd. for the three and six months ended September 30, 2008, \$1,002 decrease to total assets, \$6,993 decrease to total liabilities and a \$5,991 increase to total equity for the year ended March 31, 2009 due to adoption.

All significant intercompany balances and transactions between the Company's entities have been eliminated in consolidation. Transactions between the Company and Man Group plc (Man Group) and its affiliates up to September 30, 2009 are herein referred to as related party transactions. During the three months ended September 30, 2009, Man Group sold, pursuant to a variable forward sale agreement, its remaining investment in the Company of approximately 18.4% and, as such, transactions between Man Group and the Company will no longer be separately disclosed as related party transactions as of September 30, 2009 and for periods thereafter. Man Group, a U.K. corporation, is the former parent company of MF Global Ltd. prior to the Company's completion of certain reorganization, separation and recapitalization transactions leading up to the Company's initial public offering in July 2007 (the IPO). The Company's policy is to consolidate all entities of which it owns more than 50% unless it does not have control. Investments in entities in which the Company generally owns greater than 20% but less than 50%, and exercises significant influence, but not control, are accounted for using the equity method of accounting. As of September 30 and March 31, 2009, the Company had a 19.5% equity investment in Polaris MF Global Futures Co., Ltd.

Note 2: Summary of Significant Accounting Policies***Use of estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. The

nature of the Company's business is such that the results of any interim period may not be indicative of the results to be expected for a full year.

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

Cash and cash equivalents

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

Restricted cash and securities segregated under federal and other regulations

Certain subsidiaries are obligated by rules mandated by their primary regulators, including the SEC and CFTC in the U.S. and the FSA in the U.K., to segregate or set aside cash or qualified securities to satisfy regulations, promulgated to protect customer assets. Also included within Restricted cash and segregated securities are fixed cash deposits of \$50,933 and \$48,630 as of September 30 and March 31, 2009, respectively, which are held as margin for the issuance of bank guarantees to satisfy local exchange requirements for day-to-day clearing. In addition, most of the subsidiaries are members of clearing organizations at which cash or securities are deposited as required to conduct day-to-day clearance activities. At September 30 and March 31, 2009, the Company was in compliance with its segregation requirements.

Collateral

The Company enters into collateralized financing transactions and matched book positions principally through the use of repurchase agreements and securities lending agreements. In these transactions, the Company receives cash or securities in exchange for other securities, including U.S. government and federal agency obligations, corporate debt and other debt obligations and equities. The Company records assets it has pledged as collateral in collateralized borrowings and other arrangements on the consolidated balance sheets when the Company is the debtor, in accordance with the accounting standard for transfers and servicing of financial assets and extinguishments of liabilities.

The Company obtains securities as collateral principally through the use of resale agreements, securities borrowing agreements, customer margin loans and other collateralized financing activities to facilitate its matched book arrangements, inventory positions, customer needs and settlement requirements. In many cases, the Company is permitted to sell or repledge securities held as collateral. These securities may be used to collateralize repurchase agreements, to enter into securities lending agreements or to cover short positions. As of September 30 and March 31, 2009, the fair value of securities received as collateral by the Company, excluding collateral received under resale agreements, that it was permitted to sell or repledge was \$14,331,445 and \$9,693,486, respectively. The Company sold or repledged securities aggregating \$6,423,517 and \$7,396,382, respectively. Counterparties have the right to sell or repledge these securities. See Note 5 for a description of the collateral received and pledged in connection with agreements to resell or repurchase securities.

Held-to-maturity securities

Held-to-maturity securities consist primarily of U.S. government treasury securities, agency debentures and corporate obligations. The Company classifies securities as held-to-maturity that are owned by its non broker-dealer entities when it has the positive intent and the ability to hold the securities until maturity. These securities are carried on an amortized cost basis on the consolidated balance sheet in Securities owned or Restricted cash and segregated securities. See Note 7 for the analysis of held-to-maturity securities in these two categories. The Company designates these securities as held-to-maturity at the time of purchase and re-evaluates the designation at each balance sheet date.

Noncontrolling interests

On April 1, 2009, the Company adopted a new accounting standard which requires the Company to present noncontrolling interests (previously referred to as minority interests) as a separate component of total equity on the Company's consolidated balance sheet. The adoption of this standard required retrospective application to the Company's historical financial statements. See Note 1 for further details. The Company

Edgar Filing: MF Global Ltd. - Form 10-Q

consolidates the results and financial position of entities it controls, but does not wholly own. As of September 30, 2009, the Company owned 70.2% of MF Global Sify Securities India Private Limited, 75.0% of MF Global Financial Services India Private Limited and 73.2% of MF Global Futures Trust Co. Ltd. As of September 30 and March 31, 2009, noncontrolling interest recorded in the consolidated balance sheets was \$14,406 and \$12,773, respectively.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)*****Recently issued accounting pronouncements***

In September 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU No. 2009-12). The guidance in ASU No. 2009-12 amends certain sections in ASC 820 which discusses accounting for fair value measurements and disclosures. The amendments permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value is calculated in a manner consistent with U.S. GAAP for investment companies as of the reporting entity's measurement date. The amendments also require disclosures by major category of investment to be determined on the basis of the nature and risks of the investment. The Company will adopt ASU No. 2009-12 in the third quarter of fiscal 2010 and record its investment in an alternative fund in accordance with the requirements of this update.

In August 2009, the FASB issued ASU No. 2009-5, *Measuring Liabilities at Fair Value* (ASU No. 2009-5). This Update provides amendments to ASC 820, for the fair value measurement of liabilities. It requires a reporting entity to measure the fair value of a liability using certain valuation techniques when a quoted price in an active market for the identical liability is not available. A reporting entity is not required to include a separate input or adjustment relating to the existence of a restriction that prevents the transfer of a liability when fair valuing that liability. The amendments in this Update also clarify the hierarchy of the fair value measurements to be used for a quoted price in an active market for the identical liability at the measurement date as well as for the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required. The Company will adopt ASU No. 2009-5 in the third quarter of fiscal 2010 and is currently evaluating the impact it will have on its consolidated financial statements upon adoption.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*, which was superseded by ASC 105. In September 2009, the FASB also issued ASU No. 2009-01, *Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168 - The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASU No. 2009-01). ASC 105 and ASU No. 2009-01 establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date, the Codification superseded all then-existing, non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in ASC 105 and ASU No. 2009-01 will become non-authoritative. ASC 105 and ASU No. 2009-01 are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted ASC 105 and ASU No. 2009-01 in the second quarter of fiscal 2010 and made reference to accounting and reporting standards in its consolidated financial statements in accordance with ASC 105 and ASU No. 2009-01 upon adoption.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 requires an enterprise to determine the primary beneficiary (or consolidator) of a variable-interest entity (VIE) based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. SFAS No. 167 changes the consideration of kick-out rights in determining if an entity is a VIE which may cause certain additional entities to now be considered VIEs. SFAS No. 167 is effective at the start of a company's first fiscal year beginning after November 15, 2009. The Company will adopt SFAS No. 167 in the first quarter of fiscal year 2011 and is currently evaluating the impact it will have on its consolidated financial statements upon adoption.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 aims to improve the visibility of off-balance sheet vehicles currently exempt from consolidation and addresses practical issues involving the accounting for transfers of financial assets as sales or secured borrowings. SFAS No. 166 also introduces the concept of a participating interest, which will limit the circumstances where the transfer of a portion of a financial asset will qualify as a sale, assuming all other derecognition criteria are met. Furthermore, it clarifies and amends the derecognition criteria for determining whether a transfer qualifies

Edgar Filing: MF Global Ltd. - Form 10-Q

for sale accounting. SFAS No. 166 is effective as of the beginning of an entity's first annual reporting period beginning after November 15, 2009. The Company will adopt SFAS No. 166 in the first quarter of fiscal year 2011 and is currently evaluating the impact it will have on its consolidated financial statements upon adoption.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, which was superseded by ASC 260-10-45 (ASC 260-10-45). The guidance in ASC 260-10-45 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. ASC 260-10-45 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company adopted ASC 260-10-45 in the first quarter of fiscal 2010 with no material impact to its consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which was superseded by ASC 470-20. ASC 470-20 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The Company adopted ASC 470-20 in the first quarter of fiscal 2010. See Note 1 for further details on the impact of adoption.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*, which was superseded by certain sections in ASC 810. ASC 810 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company adopted the guidance in the first quarter of fiscal 2010. See Note 1 for further details on the impact of adoption.

Note 3: Goodwill and Intangible Assets

During the three and six months ended September 30, 2009, earn-out payments of \$615 and \$1,160, respectively, were made relating to prior acquisitions, which are accounted for as additional purchase consideration. As of September 30, 2009, the Company had one remaining arrangement that could result in further contingent, or earn-out, payments. These payments are based on earnings in future years, subject to maximum and minimum amounts. If the minimum earn-out is not reached at the end of 5 years (to 2012), the Company's obligation to pay the earn-out can extend for up to 10 years, to 2017, subject to a remaining maximum of approximately \$71,000.

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

In performing Step 1 of the analysis, the Company compared its net book value to its estimated fair value. In determining the estimated fair value, the Company performed a discounted cash flow analysis using management's current business plans, which factored in current market conditions including contract and product volumes and pricing as the basis for expected future cash flows for the first five years and a 1% growth rate for the cash flows thereafter. Management used a weighted average cost of capital (WACC) of 11.78% as its discount rate in this analysis. The WACC was derived from market participant data and estimates of the fair value and yield of the Company's debt, preferred shares, and equity as of the testing date. The WACC represents the yield of the Company's financial instruments as currently stated. A discounted cash flow model involves the subjective selection and interpretation of data inputs and, given market conditions at September 30, 2009, there was a very limited amount of observable market data inputs available when determining the model.

Based on the results of Step 1 of the analysis, the Company determined its goodwill was impaired, as the fair value derived from the discounted cash flow model was less than the Company's book value at September 30, 2009. Then, based on the results of Step 2 of the analysis, the Company determined that its market capitalization and the computed fair value from Step 1 of the analysis was less than the estimated fair value

Edgar Filing: MF Global Ltd. - Form 10-Q

of the Company's balance sheet and therefore recorded a charge of \$1,160 in the six months ended September 30, 2009 to write-off the entire amount of the Company's goodwill. As discussed, the Company has an earn-out

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

arrangement that could result in additional goodwill being recorded in future periods. The Company will continue to assess its goodwill annually or whenever events or changes in circumstances indicate that an interim assessment is necessary.

The change in Goodwill is as follows:

Balance as of March 31, 2009	\$
Addition	1,163
Impairment	(1,160)
Foreign currency translation	(3)
Balance as of September 30, 2009	\$

Intangible assets, subject to amortization as of September 30 and March 31, 2009 are as follows:

	September 30, 2009	March 31, 2009
Customer relationships		
Gross carrying amount	\$ 257,775	\$ 257,775
Accumulated amortization	(129,032)	(116,234)
Net carrying amount	128,743	141,541
Technology assets		
Gross carrying amount	31,388	31,388
Accumulated amortization	(25,097)	(22,933)
Net carrying amount	6,291	8,455
Trade names		
Gross carrying amount	2,827	2,827
Accumulated amortization	(1,253)	(1,135)
Net carrying amount	1,574	1,692
Total	\$ 136,608	\$ 151,688

The amortization included in Depreciation and amortization for the three and six months ended September 30, 2009 was \$7,848 and \$15,721, respectively. The amortization expense for these assets for the next five fiscal years is approximately \$31,190, \$26,766, \$21,424, \$21,383 and

Edgar Filing: MF Global Ltd. - Form 10-Q

\$20,967, respectively. No triggering events were identified during the six months ended September 30, 2009 that required an impairment assessment for the Company's intangible assets.

Note 4: Receivables from and Payables to Customers

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

	September 30, 2009		March 31, 2009	
	Receivables from customers	Payables to customers	Receivables from customers	Payables to customers
Futures transactions	\$ 353,309	\$ 11,016,531	\$ 276,385	\$ 10,869,884
Foreign currency and other OTC derivative transactions	19,591	693,295	61,043	651,759
Securities transactions	182,258	529,744	65,471	242,609
Other	24,728	2,922	12,633	2,138
Total	\$ 579,886	\$ 12,242,492	\$ 415,532	\$ 11,766,390

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)****Note 5: Collateralized Financing Transactions**

The Company's policy is to take possession of securities purchased under resale agreements, which consist largely of securities issued by the U.S. government and federal agencies. The Company retains the right to re-pledge collateral received in collateralized financing transactions. As of September 30, 2009, the market value of collateral received under resale agreements was \$75,742,819, of which \$248,034 was deposited as margin with clearing organizations. As of March 31, 2009, the market value of collateral received under resale agreements was \$53,321,790, of which \$837,359 was deposited as margin with clearing organizations. The collateral is valued daily and the Company may require counterparties to deposit additional collateral or may return collateral pledged, as appropriate. As of September 30 and March 31, 2009, the market value of collateral pledged under repurchase agreements was \$93,339,828 and \$58,662,562, respectively. As of September 30 and March 31, 2009, there were no amounts at risk with a counterparty under repurchase agreements or resale agreements greater than 10% of equity.

Resale and repurchase transactions are presented on a net-by-counterparty basis when certain requirements related to the offsetting of amounts related to certain repurchase and resale agreements are satisfied. In addition, the Company entered into certain of these agreements that are accounted for as sales and purchases and de-recognized related assets and liabilities from the consolidated balance sheets. At September 30, 2009, resale and repurchase agreements of \$2,298,554 and \$14,220,701, respectively, at contract value, were de-recognized.

At September 30, 2009, certain of the Company's resale and repurchase agreements are carried at fair value as a result of the Company's fair value election. The Company elected the fair value option for those resale and repurchase agreements that were entered into on or after April 1, 2009, and that do not settle overnight or have an open settlement date or that are not accounted for as purchase and sale agreements (such as repo-to-maturity transactions). The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At September 30, 2009, the fair value of these resale and repurchase agreements was \$16,823,662 and \$8,201,513, respectively. Changes in the fair value of these transactions are recorded in Principal transactions in the consolidated statement of operations. During the three months ended September 30, 2009, the amount of gains and losses related to resale and repurchase agreements was \$7,077 of gains and \$3,643 of losses, respectively. During the six months ended September 30, 2009, the amount of gains and losses related to resale and repurchase agreements was \$12,083 of gains and \$6,569 of losses, respectively.

The Company has not specifically elected the fair value option for certain resale and repurchase agreements that are settled on an overnight or demand basis as these are carried at contract value, which approximates fair value.

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

Security type	Demand	Overnight	September 30, 2009			Total
			Less than 30 days	30 to 90 days	After 90 days	
U.S. government	\$ 2,476,534	\$ 19,454,968	\$ 1,874,067	\$ 4,297,929	\$ 444,134	\$ 28,547,632
U.S. corporations	121,175					121,175
Foreign governments	32,031	1,872,577	799,681	582,682		3,286,971
Foreign corporations	132,958	308,137	6,507			447,602
Total	\$ 2,762,698	\$ 21,635,682	\$ 2,680,255	\$ 4,880,611	\$ 444,134	\$ 32,403,380

Edgar Filing: MF Global Ltd. - Form 10-Q

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

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

Securities borrowed and securities loaned transactions are accounted for as collateralized financing transactions. These transactions facilitate the settlement process and may require the Company to deposit cash or other collateral with the lender.

The Company elected to record at fair value securities borrowed and securities loaned transactions that are entered into on or after July 1, 2009 that have a specific termination date beyond the business day following the trade date. At September 30, 2009, the fair value of these securities borrowed agreements was \$2,918,328. Changes in the fair value of these transactions are recorded in Principal transactions in the consolidated statement of operations. During the three and six months ended September 30, 2009, the amount of gains related to securities borrowed agreements was \$27. No securities loaned transactions were carried at fair value during the three and six months ended September 30, 2009. For transactions not elected for fair value measurement, the amount of cash collateral advanced or received is recorded.

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

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

	September 30, 2009		March 31, 2009	
	Receivables	Payables	Receivables	Payables
Securities failed to deliver/receive	\$ 138,433	\$ 295,131	\$ 531,270	\$ 518,814
Due from/to clearing brokers	920,186	2,367	529,542	93,056
Due from/to clearing organizations	1,139,568	267,900	1,297,902	314,681
Fees and commissions	1,410	55,953	1,034	58,892
Unsettled trades and other	493,089	1,792,818	113,593	91,936
Total	\$ 2,692,686	\$ 2,414,169	\$ 2,473,341	\$ 1,077,379

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

Securities owned and securities sold, not yet purchased include securities carried at fair value as well as certain marketable securities classified as held-to-maturity securities. Securities owned and securities sold, not yet purchased, which are held at fair value, consist of the following:

	September 30, 2009		March 31, 2009	
	Securities Owned	Securities Sold, Not Yet Purchased	Securities Owned	Securities Sold, Not Yet Purchased
U.S. government securities and federal agency obligations	\$ 4,672,036	\$ 3,852,592	\$ 3,195,431	\$ 2,757,372
Corporate debt securities and CDs	210,851	76,252	224,958	
Foreign government bonds	681,356	826,894	7,953	
Equities	390,330	383,470	153,538	124,209
Shares in exchanges held in excess of clearing rights	25,279		14,367	
Other	16,492	3,301	9,661	3,010

Edgar Filing: MF Global Ltd. - Form 10-Q

Total	\$ 5,996,344	\$ 5,142,509	\$ 3,605,908	\$ 2,884,591
-------	--------------	--------------	--------------	--------------

At September 30 and March 31, 2009, \$0 and \$149,442, respectively, of U.S. government securities and federal agency obligations owned by the Company were deposited as margin with clearing organizations.

Segregated Securities

At September 30 and March 31, 2009, the Company had segregated securities of \$7,655,199 and \$7,969,127, respectively, within Restricted cash and segregated securities. These amounts include securities purchased under agreements to resell that are subject to the segregation requirements of the CFTC and totaled \$4,364,767 and \$4,998,887 at September 30 and March 31, 2009, respectively.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)*****Held-to-Maturity Securities***

The Company has purchased certain securities for investment purposes and has the positive intent and ability to hold these securities to maturity. The Company has classified these securities as held-to-maturity securities and reported them on an amortized cost basis within Securities owned and Restricted cash and segregated securities on the consolidated balance sheet. At September 30, 2009, none of the held-to-maturity securities were impaired. The Company did not have any held-to-maturity securities in the year ended March 31, 2009.

The following table summarizes the carrying value, fair value and unrealized gains and losses of the held-to-maturity securities by type of security at September 30, 2009:

	Carrying Value	Fair Value	Securities Owned	
			Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	\$ 34,933	\$ 35,121	\$ 188	\$
Debt securities issued by the U.S. government and federal agencies	5,556,515	5,558,700	2,704	(519)
Total	\$ 5,591,448	\$ 5,593,821	\$ 2,892	\$ (519)

	Carrying Value	Fair Value	Segregated Securities	
			Gross Unrealized Gain	Gross Unrealized Loss
Corporate debt securities	\$ 146,895	\$ 147,912	\$ 1,017	\$
Debt securities issued by the U.S. government and federal agencies	2,807,216	2,810,165	3,307	(358)
Total	\$ 2,954,111	\$ 2,958,077	\$ 4,324	\$ (358)

Note 8: Borrowings

Short term borrowings consist of the following:

	September 30, 2009	March 31, 2009
Other short-term borrowings	\$ 142,500	\$ 142,500
Bank overdrafts	9,791	6,335
Total	\$ 152,291	\$ 148,835

Long-term borrowings consist of the following:

	September 30, 2009	March 31, 2009
9.00% Convertible Senior Notes due 2038	\$ 198,681	\$ 198,007
Two-year term facility		240,000
Other long-term borrowings	500,000	500,000
Total	\$ 698,681	\$ 938,007

Liquidity Facility

In the year ended March 31, 2008, the Company entered into a \$1,500,000 five-year unsecured committed revolving credit facility (the liquidity facility) with a syndicate of banks. Borrowings under this liquidity facility bear interest at a rate per annum equal to either, at the Company's option, (1) a designated fluctuating base rate or (2) a designated fluctuating alternative base rate equal to seven-day or one-, two-, three- or six-month LIBOR plus a margin of 0.31% per annum, at the Company's current senior unsecured non-credit enhanced rating from Standard & Poor's and Moody's. The Company pays a facility fee of 10 basis points per annum. In the event the Company's credit ratings are downgraded in the future, the terms of the liquidity facility would increase this fee to 12.5 basis points per annum. In addition, the Company paid an annual administration fee of \$75 in connection with the liquidity facility. The liquidity facility contains financial and other customary covenants. In general terms, and subject to certain exceptions, the Company has agreed to maintain a consolidated tangible net worth of not less than \$620,000 (plus 50% of the proceeds of certain equity offerings and 25% of the Company's consolidated positive net income for each completed fiscal year), and the Company has

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

agreed not to incur indebtedness through the Company's subsidiaries exceeding 10% of the Company's equity less goodwill and intangible assets, incur liens on its assets, merge or consolidate with (or dispose of substantially all of the Company's assets to) any person, engage in material new businesses, engage in transactions with affiliates except on arm's-length terms or fail to satisfy any regulatory net capital or financial resources requirement or comply with applicable laws or regulations. If the Company fails to pay any amount when due under the facility or to comply with its other requirements, if the Company fails to pay any amount when due on other material debt (defined as \$50,000 or more in principal) or other material debt is accelerated in whole or in part by the lenders, or upon certain events of liquidation or bankruptcy, an event of default will occur under the facility. Upon an event of default, all outstanding borrowings, together with all accrued interest, fees and other obligations, under the facility will become due and the Company will not be permitted to make any further borrowings under the facility. In June 2008, the Company borrowed \$350,000 under the liquidity facility and used the proceeds to pay down \$350,000 under the 364-day unsecured revolving credit facility (the "bridge facility"). In connection with this drawdown and the Two-Year Term Facility (discussed below), the Company agreed to increase the interest rate margin by 1.10% per annum on the \$500,000 outstanding. Other outstanding amounts under the liquidity facility bear interest with a margin of 0.31%. On January 16, 2009, the Company's agreed interest rate increased to 1.50% per annum on the outstanding balance, and the liquidity facility interest also increased to a margin of 0.40%, due to a downgrade in the Company's credit ratings. In the event the Company's credit ratings are further downgraded beyond a certain level, the rate on the \$500,000 outstanding will increase to a maximum of 1.85% and the rate on other outstanding amounts will increase to a maximum of 0.525%. As of September 30, 2009 and March 31, 2009, \$642,500 was outstanding under the liquidity facility with the remainder available to the Company as a committed facility. The Company intends to keep \$500,000 of the amount outstanding at September 30, 2009 under the liquidity facility as long term debt and as part of its capital structure, unless the Company replaces some or all of these borrowings with other long-term debt. In October 2008, Lehman Commercial Paper Inc., one of the participating banks with a total commitment amounting to \$75,000 under the liquidity facility filed for bankruptcy, and accordingly, the Company believes Lehman Commercial Paper Inc. will not fund the balance of its loan commitment, which is \$50,000.

On July 24, 2009, the liquidity facility was amended to enable the Company, if it elects to do so, to move its jurisdiction of organization at an appropriate time to the U.S. from Bermuda. The Company paid a one-time fee of approximately \$800. See the Liquidity and Capital Resources section under Management's Discussion and Analysis of Financial Condition and Results of Operations for further information.

At September 30, 2009, the Company was in compliance with its covenants under the liquidity facility.

Convertible Senior Notes

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

In connection with the issuance of the Convertible Notes, the Company also granted the initial purchasers of the Convertible Notes an option to purchase up to an additional \$60,000 aggregate principal amount of the Convertible Notes. On August 7, 2008, the initial purchasers exercised the option to purchase an additional \$60,000 of the Convertible Notes. The Convertible Notes mature in 2038, subject to redemption at the Company's option after five years and a right of holders to require repurchase every five years beginning five years after issue. The proceeds from the additional \$60,000 Convertible Notes were used to pay down a portion of the Two-Year Term Facility.

Edgar Filing: MF Global Ltd. - Form 10-Q

On March 26, 2009, the Company completed its cash tender offer to purchase its \$210,000 Convertible Notes at a purchase price equal to \$0.64 per \$1.00 of the principal amount. The Company validly repurchased \$5,000 in aggregate principal amount of the Convertible Notes. The Company paid \$3,326 in cash including accrued interest and related transaction costs. Additionally, the

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

Company expensed \$589 in unamortized costs. This resulted in a net gain of \$1,539 on the early extinguishment of debt, which was recorded in other revenue in the consolidated statements of operations for the year-ended March 31, 2009.

On April 1, 2009 the Company adopted a new accounting standard, which required retrospective application to the Company's financial statements for the fiscal year ending March 31, 2009 and interim periods within such fiscal year. This standard requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. The Company's Convertible Notes are impacted by this new accounting standard, and as a result this adoption was retrospectively applied to its consolidated financial statements from the issuance date of the Convertible Notes in June 2008. The Company retrospectively recorded a debt discount and a component of equity representing the value of the conversion option. The discount is being amortized over the expected five-year life of the Convertible Notes, resulting in a non-cash increase to interest expense in historical and future periods. See Note 1 for further details. As of September 30, 2009, the Convertible Notes have a remaining aggregate principal balance of \$205,000 and debt discount of \$6,319, both of which are recorded in Long-term borrowings on the consolidated balance sheet.

On July 18, 2008, in connection with the issuance of the Series A Preference Shares (as defined below), the Company entered into a replacement capital covenant, whereby the Company agreed for the benefit of certain of its debtholders identified therein, including initially the holders of the Company's Convertible Notes, that it would not redeem or repurchase the Series A Preference Shares on or before July 18, 2018 except from the proceeds of the issuance of certain qualified equity and/or equity-related securities and pursuant to the other terms and conditions set forth in the replacement capital covenant. As of the date of this report, the Company's only debt that receives the benefit of its obligations under the replacement capital covenant is the Company's Convertible Notes.

Two-Year Term Facility

On July 18, 2008, the Company entered into a credit agreement with several banks that provided for a two-year, \$300,000 unsecured term loan facility (the Two-Year Term Facility). On April 16, 2009, the Company paid the remaining outstanding balance of \$240,000 on the Two-Year Term Facility ahead of its maturity date of July 16, 2010 thus terminating all remaining obligations under the Two-Year Term Facility. In connection with the repayment of the Two-Year Term Facility, the Company recorded a loss on extinguishment of debt of \$9,682 related to the accelerated amortization of debt issuance costs.

Note 9: Stock-Based Compensation Plans

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

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

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

Net income for the three and six months ended September 30, 2009 and 2008 includes the following amounts related to the Company's stock-based compensation arrangements:

	Three months ended September 30,		Six months ended September 30	
	2009	2008	2009	2008
Compensation costs				
Employee compensation and benefits (excluding IPO awards)	\$ 9,344	\$ 8,145	\$ 18,575	\$ 18,446
Employee compensation related to non-recurring IPO awards	9,168	17,237	18,013	34,981
Total	\$ 18,512	\$ 25,382	\$ 36,588	\$ 53,427
Income tax benefits	\$ 5,841	\$ 7,979	\$ 11,681	\$ 16,400

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

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

Expected Volatility: Due to the lack of historical data for the Company's own shares, the Company based its expected volatility on a representative peer group that took into account the criteria: industry, market capitalization, stage of life cycle and capital structure.

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

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

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

	Six months ended September 30,	
	2009	2008
Expected volatility	55.0%	39.4%
Risk free interest rate	2.9%	3.2%
Expected dividend yield	0.0%	0.0%

Edgar Filing: MF Global Ltd. - Form 10-Q

Expected term

4.5 years

4.5 years

The following tables summarize activity for the Company's plans for the six months ended September 30, 2009:

	Options	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Share options outstanding as of April 1, 2009	10,133,869	\$ 25.27	5.5	\$ 598
Granted	1,236,138	5.82		
Forfeited and cancelled	776,055	19.55		
Share options outstanding as of September 30, 2009	10,593,952	23.42	5.2	3,110
Share options expected to vest as of September 30, 2009	10,252,908	23.70	5.2	2,839
Share options exercisable at September 30, 2009	5,574,695	\$ 28.10	4.9	\$

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

During the six months ended September 30, 2008, 2,113,416 options were granted and 1,643,132 were forfeited. The weighted-average grant-date fair value of options granted during the six months ended September 30, 2009 and 2008 was \$2.78 and \$5.04, respectively. No options were exercised during the six months ended September 30, 2009 and 2008.

	Awards	Restricted Share Units Weighted- Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2009	6,930,294	\$ 22.16
Granted	1,508,431	5.79
Exercised	637,419	19.23
Forfeited	132,124	28.97
Nonvested as of September 30, 2009	7,669,182	\$ 19.06
Total unrecognized compensation expense remaining	\$ 41,588	
Weighted-average years expected to be recognized over	1.3	

During the six months ended September 30, 2008, 986,139 restricted share units were granted, with a weighted average grant date fair value of \$12.00. During the six months ended September 30, 2008, 230,585 shares were exercised. The total fair value of restricted share units exercised during the six months ended September 30, 2009 and 2008 was \$12,258 and \$3,436, respectively.

	Awards	Restricted Shares Weighted- Average Grant Date Fair Value (per award)
Nonvested as of April 1, 2009	270,958	\$ 23.34
Granted	44,976	6.67
Vested	66,800	6.74
Nonvested as of September 30, 2009	249,134	\$ 24.78
Total unrecognized compensation expense remaining	\$ 2,037	
Weighted-average years expected to be recognized over	1.0	

During the six months ended September 30, 2008, 184,335 shares vested. The total fair value of restricted shares vested during the six months ended September 30, 2009 and 2008 was \$450 and \$5,477.

The Company has employee stock purchase plans in the U.S. and U.K. to provide employees with an opportunity to purchase shares from the Company at a discount and to pay for these purchases through payroll deductions. In the U.S., participants can withhold 1-15% of their eligible compensation; however, no participant can purchase more than 500 shares or total shares exceeding \$8 in fair market value. In the U.K., participants can withhold up to £0.25 per month over 3 to 5 years to purchase shares at a 20% discount from the price on the date of grant. These plans are accounted for as compensatory in accordance with the accounting standard for stock compensation. No shares were awarded from

these plans in the six months ended September 30, 2009 and 2008.

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

Note 10: Income Taxes

Effective Income Tax Rate

The effective income tax rate for the three and six months ended September 30, 2009 was approximately 38.3% and 36.8%, respectively, as compared to approximately 50.3% and 40.0% for the three and six months ended September 30, 2008. The decrease in the Company's effective tax rate for the quarter ended September 30, 2009 reflects profits being earned in lower-tax jurisdictions, partly offset by the tax effect of non-deductible expenses, the effects of certain non-recurring costs and one-time gains as well as the impact of a lower vesting date fair value on equity compensation awards granted. The Company's effective tax rate on ordinary operations (excluding discrete items) for the quarter ended September 30, 2009 was approximately 46.0%.

Uncertain Tax Positions

As of March 31, 2009, the Company had total unrecognized tax benefits of \$27,755. For the six months ended September 30, 2009, the Company has not decreased gross unrecognized tax benefits. The company increased gross unrecognized tax benefits by \$573 which includes \$331 of interest on previously-recorded unrecognized tax benefits. The total balance of unrecognized tax benefits of \$28,328 would, if recognized, affect the Company's effective income tax rate in future periods. It is expected that unrecognized tax benefits will decrease in the next 12 months by approximately \$1,092 as a result of expiring statutes of limitations or settlements.

Note 11: Earnings per Share

The Company computes earnings per share in accordance with the accounting standards, which discuss the accounting for earnings per share and participating securities and the two-class method. The Company's Series A Preference Shares are participating securities whereby the holder participates in undistributed earnings with common shareholders.

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

The Company uses the treasury stock method to reflect the potentially dilutive effect of the unvested restricted shares and unexercised stock options. In calculating the number of dilutive shares outstanding, the common shares underlying unvested restricted shares are assumed to have been delivered on the grant date. The assumed proceeds from the assumed vesting and delivery were calculated as the sum of (a) the amount of compensation cost attributed to future services and not yet recognized as of September 30, 2009 and (b) the amount of tax benefit, if any, that was credited to additional paid-in capital assuming vesting and delivery of the restricted shares. The tax benefit is the amount resulting from a tax deduction, if any, for compensation in excess of compensation expense recognized for financial statement reporting purposes.

The computation of earnings per share is as follows:

Edgar Filing: MF Global Ltd. - Form 10-Q

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
Basic and diluted earnings per share:				
Numerator:				
Net (loss)/income attributable to MF Global Ltd.	\$ (8,333)	\$ 9,411	\$ (33,485)	\$ 23,802
Less: Dividends declared for Series A Preference Shares	(4,022)	(1,207)	(8,044)	(1,207)
Cumulative and participating dividends		(2,677)		(3,985)
Dividends declared for Series B Preference Shares	(3,656)	(2,031)	(7,312)	(2,031)
Net (loss)/income applicable to common shareholders	\$ (16,011)	\$ 3,496	\$ (48,841)	\$ 16,579
Denominator:				
Basic and Diluted weighted average common shares outstanding	123,254,930	120,503,557	123,087,787	120,279,627
Basic and Diluted (loss)/earnings per share	\$ (0.13)	\$ 0.03	\$ (0.40)	\$ 0.14

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

Diluted loss/earnings per share is the same as basic loss/earnings per share for the three and six months ended September 30, 2009 and 2008 as the impact of outstanding stock awards, Convertible Notes and Series A and Series B Preference Shares is anti-dilutive. The Convertible Notes and Series A and Series B Preference Shares are weighted based on the period outstanding during the respective periods presented. The following table presents the potential shares excluded from the computation of diluted earnings per share because the effect would have been anti-dilutive:

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
Restricted share units and restricted shares	8,001,189	8,309,341	8,001,189	8,309,341
Share options	10,593,952	11,353,592	10,593,952	11,353,592
9.00% Convertible Notes	19,617,225	17,412,107	19,617,225	9,067,378
Series B Preference Shares	14,354,067	14,354,067	14,354,067	7,530,002
Series A Preference Shares	12,000,000	9,652,174	12,000,000	4,852,459
 Total	 64,566,433	 61,081,281	 64,566,433	 41,112,772

Note 12: Regulatory Requirements

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

One of the Company's subsidiaries, MF Global Inc, is required to maintain minimum net capital equal to the greater of the amount required by the SEC or CFTC, as defined. At September 30, 2009, the Company had net capital, as defined, of \$626,854, which was \$270,726 in excess of the minimum capital required to be maintained.

The Company is subject to certain notifications and other provisions of the net capital rules of the SEC regarding advances to affiliates, repayments of subordinated liabilities, dividend payments and other equity withdrawals. At September 30, 2009, the Company was in compliance with all of these provisions.

In accordance with the rules of the FSA in the U.K., the Company's FSA-regulated subsidiaries must comply with financial resources requirements, which since January 1, 2008, are subject to the requirements of the European Union's Capital Requirements Directive. The capital held is intended to absorb unexpected losses and a minimum requirement is calculated in accordance with a standard regulatory formula that addresses the exposure to counterparty credit risk, position/market risk, foreign exchange risk, operational risk and concentration risk. Counterparty risk is calculated as a percentage of unpaid customer margin for exchange traded business and an exposure calculation for off-exchange business. Position risk is calculated by applying percentages to positions based on the underlying instrument and maturity.

At September 30, 2009, the Company's FSA-regulated subsidiaries had financial resources in total, as defined, of \$565,538, resource requirements of \$198,274 and excess financial resources of \$367,264. The Company is awaiting confirmation from the FSA regarding future capital requirements.

Edgar Filing: MF Global Ltd. - Form 10-Q

The Company is also subject to the requirements of other regulatory bodies and exchanges of which it is a member in other international locations in which it conducts business. The Company was in compliance with all of these requirements at September 30 and March 31, 2009.

Note 13: Commitments and Contingencies

Legal

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

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

Unauthorized Trading Incident of February 26/27, 2008

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

Class Action Suits. The Company, Man Group, certain of its current and former officers and directors, and certain underwriters for the IPO have been named as defendants in five actions filed in the United States District Court for the Southern District of New York. These actions, which purport to be brought as class actions on behalf of purchasers of MF Global stock between the date of the IPO and February 28, 2008, seek to hold defendants liable under §§ 11, 12 and 15 of the Securities Act of 1933 for alleged misrepresentations and omissions related to the Company's risk management and monitoring practices and procedures. The five purported shareholder class actions have been consolidated for all purposes into a single action. The Company made a motion to dismiss which has been granted, with plaintiff having a right to replead and/or appeal the dismissal. Plaintiffs made a motion to replead by filing an amended complaint, which was denied. Plaintiffs have appealed. Because the motion to dismiss was made before discovery, the litigation is in its early stages, and in the event plaintiffs successfully appeal the Company believes it has meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.

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

Commodity Futures Trading Commission Investigation. The CFTC has issued a formal order of investigation naming the Company and Mr. Dooley. The CFTC, in coordination with the Chicago Mercantile Exchange (CME), has been collecting documentation from the Company and taking depositions of its employees. The CFTC and CME investigation is ongoing and it is not yet certain what actions the CFTC and/or the CME might take. The Company established an accrual of \$10,000 in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to below under the captions, Commodity Futures Trading Commission Potential Action and CFTC Natural Gas Price Information Investigation. This is the Company's best estimate and there is no assurance that the \$10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures. The Company established an accrual of \$450 in the three months ended September 30, 2009 for the CME matter.

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

Edgar Filing: MF Global Ltd. - Form 10-Q

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

Commodity Futures Trading Commission Potential Action

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

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

any false, fictitious, or fraudulent statement to a board of trade. The Division of Enforcement staff contends that the Company and the individuals presented or participated in the submission of information to the exchange that falsely represented the dates on which the trades in question occurred. The Company and the individuals dispute the contentions of the Division of Enforcement staff and have submitted a written statement to the Division of Enforcement, setting forth the reasons why it believes no proceeding should be brought. It is not yet certain what action the CFTC will take. The Company established an accrual of \$10,000 in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to under the captions, *Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation* and *CFTC Natural Gas Price Information Investigation*. This is the Company's best estimate and there is no assurance that the \$10,000 accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

CFTC Natural Gas Price Information Investigation

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

Bank of Montreal (BMO)

On August 28, 2009, BMO instituted suit against the Company and its former broker, Joseph Saab (as well as a firm named Optionable, Inc. and five of its principals or employees), in the United States District Court for the Southern District of New York. In its complaint, BMO asserts various claims against all defendants for their alleged misrepresentation of price quotes to BMO's Market Risk Department (MRD) as independent quotes when defendants knew, or should have known, that David Lee, BMO's trader, created the quotes which, in circular fashion, were passed on to BMO through the Company's broker, thereby enabling Lee substantially to overvalue his book at BMO. BMO further alleges that the Company and Saab knew that Lee was fraudulently misrepresenting prices in his options natural gas book and aided and abetted his ability to do so by the Company's actions in sending price indications to the BMO MRD, and substantially assisted Lee's breach of his fiduciary duties to BMO as its employee. The facts underlying this action also relate to the on-going CFTC natural gas price information investigation described above in *CFTC Natural Gas Price Information Investigation*. The Complaint seeks to hold all defendants jointly and severally liable and, although it does not specify an exact damage claim, it claims CAD 680,000 (approximately \$635,900) as a pre-tax loss for BMO in its natural gas trading, and claims that it would not have paid brokerage commissions to the Company (and Optionable, Inc.), would not have continued Lee and his supervisor as employees at substantial salaries and bonuses, and would not have incurred substantial legal costs and expenses to deal with the Lee mispricing. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

Parabola/Tangent

In December 2006, Parabola/Tangent filed a claim in the Commercial Court in London against the Company and one of its brokers alleging alternatively fraudulent and negligent misrepresentation and breach of fiduciary duty in connection with execution-only accounts that were

Edgar Filing: MF Global Ltd. - Form 10-Q

active in the Company's London office between July 2001 and February 2002. The claimants sought £3,200 (approximately \$5,300) in damages and speculative claims, including claims for lost profits, of up to an additional £28,000 (approximately \$46,100). Mediation began in April 2008 but was not successful and a trial began in March 2009. In May 2009 a judgment was rendered in favor of the plaintiff and against the Company in the amount of £19,290 plus interest and costs. The Company has appealed this judgment. An expense of \$8,000 was recorded in the three months ended March 31, 2009 in connection with this litigation, based on the judgment rendered, after adjusting for insurance proceeds of \$23,500.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)***Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.*

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

Amacker v. Renaissance Asset Management Fund et. al.

In December 2007, the Company, along with four other futures commission merchants (FCMs), were named as defendants in an action filed in the United States District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that the Company and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor, which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of \$32,000, plus exemplary damages, from all defendants. All of the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference, the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek \$17,000 in claimed damages plus exemplary damages from all defendants. The Company filed a motion to dismiss the amended complaint which was granted by the court and appealed by the plaintiffs. The case is at its earliest stages so it is not possible to determine the Company's exposure, if any. In any event, the Company intends to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Leaderguard Matter

Proceedings had been instituted against the Company's U.K. subsidiary by the liquidator of Leaderguard Spot Forex Limited (LSF), a Mauritius based investment firm that became insolvent in March 2005. The Company's U.K. subsidiary (originally through GNI Limited and then Man Financial Limited) provided foreign exchange broking services to two companies in the Leaderguard group between 2001 and 2005. The claim alleged, inter alia, that the Company was complicit in assisting the directors of various Leaderguard group companies to breach fiduciary duties owed by such directors to their companies and that the Company knowingly benefited from assets received in breach of such fiduciary duties. The claim further alleged the Company is liable to account for funds lost through transactions executed by such directors with its U.K. company

Edgar Filing: MF Global Ltd. - Form 10-Q

which are alleged to amount to \$18,000. The Leaderguard liquidator dismissed the action on July 17, 2009. No provision for losses was recorded in connection with this matter.

Class Action Suit

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

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

Voiran Trading Limited

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

Sentinel Bankruptcy

The Liquidation Trustee (Trustee) for Sentinel Management Group, Inc. (Sentinel) sued MF Global Inc. in June 2009 on the theory that the Company's withdrawal of \$50,200 within 90 days of the filing of Sentinel's bankruptcy petition on August 17, 2007 is a voidable preference under Section 547 of the Bankruptcy Code and, therefore, recoverable by the Trustee, along with interest and costs. The Company believes there are substantial defenses available to it and it intends to resist the Trustee's attempt to recover those funds from the Company. In addition, to the extent the Trustee recovered any funds from the Company, it would be able to assert an offsetting claim in that amount against the assets available in Sentinel's bankruptcy case. The matter is in its early stages and litigation has just commenced. No provision for losses has been recorded in connection with this claim.

Agape World

In May 2009, investors in a venture set up by Nicholas Cosmo sued Bank of America and the Company, among others, in the United States District Court for the Eastern District of New York, alleging that the Company, among others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost \$400,000. The Company has made a motion to dismiss which is currently pending before the court. The litigation is in its earliest stages. The Company believes it has meritorious defenses and intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Phidippides Capital Management/Mark Trimble

In the late spring of 2009, the Company was sued in Oklahoma State Court by customers who were substantial investors with Mark Trimble and/or Phidippides Capital Management. Trimble and Phidippides may have been engaged in a Ponzi scheme. Plaintiffs allege that the Company materially aided and abetted Trimble's and Phidippides' violations of the anti-fraud provisions of the Oklahoma securities laws and they are seeking damages in excess of \$10 each. The Company made a motion to dismiss which was granted by the court. Plaintiffs have appealed. The Company believes it has meritorious defenses and intends to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Man Group Receivable

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

Company intends to pursue this claim vigorously.

Morgan Fuel/Bottini Brothers

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

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

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

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

The Bottinis asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against MFG, Market Services and Steven Bellino (an MFG employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim was also denied by the court and the Company has appealed that decision as well.

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

Other

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

Guarantees

U.S. GAAP requires the disclosure of representations and warranties which the Company enters into and which may provide general indemnifications to others. As of September 30, 2009, the Company has guaranteed loans to certain individuals for their purchase of exchange seats. In these arrangements, the Company can sell the exchange seats to cover amounts outstanding. As of September 30, 2009, the Company has not recorded a guarantee liability, as the fair value of the exchange seats exceeds any potential loss on these loans.

Additionally, in its normal course of business, the Company may enter into contracts that contain such representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote. The Company is a member of various exchanges and clearing organizations. Under the standard membership agreement, members are required to guarantee collectively the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities they have posted as collateral. However, the Company believes that the potential for the Company to be

Edgar Filing: MF Global Ltd. - Form 10-Q

required to make payments under these arrangements is remote, and accordingly, no liability has been recorded.

Other Commitments

Certain clearing-houses, clearing banks, and clearing firms used by the Company are given a security interest in certain assets of the Company held by those clearing organizations. These assets may be applied to satisfy the obligations of the Company to the respective clearing organizations. See Note 12 for further details.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)****Lines of Credit**

The Company has a \$1,500,000 five-year unsecured committed revolving liquidity facility. See Note 8 for further details. The Company also has uncommitted credit agreements with financial institutions, in the form of trading relationships, which facilitate execution, settlement, and clearing flow on a day-to-day basis for the Company's clients, as well as provide evidence, as required, of liquidity to the exchanges on which it conducts business. As of September 30 and March 31, 2009, the Company had \$7,000 and \$22,000 of issued letters of credit, respectively.

Note 14: Segment and Geographic Information

The Company has one reportable business segment, as defined by the accounting standard for disclosures about segments of an enterprise and related information. This standard requires a public enterprise to report financial information on a basis consistent with that used by management to allocate resources and assess performance. The Company is operated and managed by its chief operating decision maker on an integrated basis as a single operating segment.

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

	Three months ended		Six months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenues, net of interest and transaction-based expenses:				
North America	\$ 129,493	\$ 182,333	\$ 271,128	\$ 363,689
Europe	88,862	140,345	180,605	288,818
Rest of World	33,687	50,210	71,827	95,035
Total	\$ 252,042	\$ 372,888	\$ 523,560	\$ 747,542

Revenues, net of interest and transaction-based expenses are attributed to geographic areas based on the location of the relevant legal entities. Rest of world comprises primarily the Asia/Pacific region. No single customer accounted for greater than 10% of total revenues in the three and six months ended September 30, 2009 and 2008. Revenues, net of interest and transaction-based expenses by product have not been provided as this information is impracticable to obtain.

Note 15: Related Party Transactions

Subsequent to the IPO, Man Group held approximately 18.4% of the Company's outstanding common shares. During the three months ended September 30, 2009, Man Group sold all of its remaining investment in the Company's common shares pursuant to a variable forward sale agreement, after which it is no longer considered a related party. Income and expense transactions between Man Group and the Company are disclosed as related party transactions through September 30, 2009. The Company clears transactions on behalf of certain managed investment funds which are related parties of Man Group. The Company earned commission revenues by executing and clearing brokerage transactions for these investment funds as well as incurred net interest expense. The related party revenues, net of interest and transaction-based expenses, do not reflect the interest income earned from third parties from the reinvestment of related party fund balances by the Company.

The Company earns sublease income from Man Group for its use of certain office space. In addition, Man Group also charges lease expense to the Company for the use of office space. The Company also receives certain office services from Man Group that will continue for as long as the

Company leases office space from Man Group.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

Revenues earned from and expenses incurred with Man Group for the three and six months ended September 30, 2009, and 2008 are summarized as follows:

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
Revenues				
Cleared commissions	\$ 6,002	\$ 3,885	\$ 11,617	\$ 9,699
Interest income	127	139	291	198
Total revenues	6,129	4,024	11,908	9,897
Less: Interest expense	125	6,413	301	14,159
Revenues, net of interest and transaction-based expenses	6,004	(2,389)	11,607	(4,262)
Expenses				
Employee compensation and benefits	109		109	
Communications and technology	371	421	877	735
Occupancy and equipment costs	1,232	1,158	2,508	2,275
Professional fees		2,251	2	3,354
General and other	919	1,060	1,555	1,860
Total non-interest expenses	2,631	4,890	5,051	8,224
Total, net	\$ 3,373	\$ (7,279)	\$ 6,556	\$ (12,486)

The Company is party to a master separation agreement with Man Group, which was executed in connection with the IPO and which governs the principal terms of the separation of the Company's business from Man Group. The master separation agreement and other agreements contain important provisions regarding the Company's relationship with Man Group following the completion of the IPO, including provisions relating to non-competition and non-solicitation, access and confidentiality. Further, Man Group agreed to indemnify the Company against certain tax matters and the Company has agreed to pass certain stock compensation benefits to Man Group. As of September 30, 2009, the Company has recorded a \$1,500 payable to Man Group within equity in relation to the tax agreements between the Company and Man Group entered into in connection with the separation of the Company's business from Man Group.

Receivable and payable balances with Man Group are not classified as related party balances at September 30, 2009 due to Man Group's sale of its remaining investment in the Company. The Company had receivables and payables from Man Group of \$95 and \$1,602, respectively, at March 31, 2009. The Company has noted that an additional payment of \$29,779 is due to the Company from Man Group in connection with the recapitalization at the time of the IPO in fiscal 2008. As a result of this unresolved claim, at March 31, 2009, the Company recorded a receivable of \$29,779 in equity. The Company has made the request, Man Group has demanded arbitration, and the Company has agreed to an arbitration by the LCIA. If the claim is successful, the Company would expect to restore equity by the amount received from Man Group (if any), and if the claim is not successful the Company would expect to write off the receivable to additional paid in capital and not to increase equity. The reduction in equity does not affect amounts reported in the Company's earnings, income statement or cash position for any prior period.

Note 16: Convertible Preference Shares

Non-Cumulative Convertible Preference Shares, Series B

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

The Series B Preference Shares are convertible, at the holder's option, at any time, initially into 9.5694 common shares based on an initial conversion price of approximately \$10.45 per share, subject to specified adjustments. The conversion rate will also be adjusted upon the occurrence of certain make-whole acquisition transactions and other events. On or after July 1, 2018, if the closing price of the Company's common shares exceeds 250% of the then-prevailing conversion price for 20 trading days during any consecutive 30 trading day period, the Company may, at its option, cause the Series B Preference Shares to be automatically converted

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

into common shares at the then-prevailing conversion price. There is no beneficial conversion feature to be recognized at the issuance date of the Series B Preference Shares, however, given certain conditions, a beneficial conversion feature could be recognized in the future.

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

Cumulative Convertible Preference Shares, Series A

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

Under the terms of the Investment Agreement, J.C. Flowers agreed to purchase a minimum of 1,500 shares, for an aggregate value of \$150,000 and up to a maximum of 3,000 shares, for an aggregate value of \$300,000, of a newly authorized series of the Company's convertible preference shares, designated as 6.0% Cumulative Convertible Preference Shares, Series A at a stated offer price which was 100% of their liquidation amount or preference, i.e. \$100 per share. The Series A Preference Shares are convertible any time, at the option of the holder, into eight of the Company's common shares, representing an initial conversion price of \$12.50 per share.

Subject to certain exceptions, J.C. Flowers may not beneficially own 20% or more of the Company's outstanding common shares for a period of three years after the closing. Immediately prior to signing the definitive agreement with J.C. Flowers, the Company also amended its shareholder rights plan to exclude J.C. Flowers (including any affiliate of J.C. Flowers), after the first time it becomes the beneficial owner of 15% or more of the Company's common shares, and until such time as either it falls below the threshold or becomes the owner of 20% or more of the Company's common shares, from the provision that triggers the shareholder rights plan when any person acquires 15% or more of the Company's issued and outstanding common shares without approval of its board of directors.

The conversion rate and the conversion price are subject to adjustments in certain circumstances. Dividends on the Series A Preference Shares are cumulative at the rate of 10.725% per annum, payable in cash or common shares, at the Company's option, and holders will participate in common share dividends, if any. Dividends are payable if, as and when determined by the Company's board of directors, but if not paid they accumulate and dividends accrue on the arrearage at the same annual rate. Accumulated dividends on the Series A Preference Shares become payable in full upon any conversion or any liquidation of the Company. The Company will not be permitted to pay any dividends on or to repurchase its common shares during any period when dividends on the Series A Preference Shares are in arrears. Holders will have the right to vote with holders of the common shares on an as-converted basis. The Company may require the holders to convert the shares at any time after May 15, 2013 when the closing price of the common shares exceeds 125% of the conversion price for a specified period. If, prior to the first anniversary of the closing of the backstop commitment, the Company sells common shares or securities convertible into or exercisable for common shares at a price less than the conversion price on the Series A Preference Shares, the Company will pay J.C. Flowers a make-whole amount reflecting the difference in pricing, payable at its option in cash or common shares. In addition, if, prior to the first anniversary of the closing of the backstop commitment (or in any offering required under any future bank financings), the Company sells any other series of preference shares with a dividend rate above 5.45%, the dividend rate on the Series A Preference Shares held by J.C. Flowers will be increased

Edgar Filing: MF Global Ltd. - Form 10-Q

so as to equal 110% of the other series' dividend rate, with the increase to be payable at the Company's option in cash or common shares. In connection with the investment, J.C. Flowers was granted the right to appoint a director to the Company's Board of Directors. Pursuant to this right, on July 29, 2008, the Company appointed David I. Schamis to its board. In addition, if the Company fails to pay dividends on the Series A Preference Shares for six quarterly periods, whether or not consecutive, the Series A preference

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

shareholders will have the right as a class to elect two additional directors to the Company's board. See Note 8 for a discussion of the replacement capital covenant entered into in connection with the issuance of the Series A Preference Shares.

On April 28, 2009 and July 31, 2009, the Company's Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares in an aggregate amount of \$4,022 and \$3,656, respectively. These dividends had a record date of May 1, 2009 and August 5, 2009 and were paid on May 14, 2009 and August 17, 2009, respectively.

Note 17: Fair Value Measurements and Derivative Activity

Fair Value

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

This standard also requires the Company to consider its own credit spreads when measuring the fair value of liabilities, including OTC derivative contracts. The Company has considered the impact of counterparty credit risk in the valuation of its assets and its own credit spreads when measuring the fair value of liabilities, including derivatives.

Securities owned, Securities sold, not yet purchased, certain Securities purchased under agreements to resell, certain Securities sold under agreements to repurchase, certain Securities borrowed and derivative transactions are carried at fair value and are classified and disclosed in the following categories:

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

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

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

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

Edgar Filing: MF Global Ltd. - Form 10-Q

in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

In determining the appropriate fair value hierarchy levels, the Company performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

The following tables summarize the Company's financial assets and liabilities as of September 30, 2009 and March 31, 2009 by level within the fair value hierarchy:

	September 30, 2009				
	Level 1	Level 2	Level 3	Impact of Netting and Collateral (1)	Total
Assets					
Securities owned					
U.S. government securities and federal agency obligations	\$ 3,163,960	\$ 1,844,394	\$	\$	\$ 5,008,354
Corporate debt securities and certificates of deposit		210,851			210,851
Foreign government bonds	681,356				681,356
Equities	390,330				390,330
Shares held due to demutualization of exchanges			25,279		25,279
Other	6,153	10,339			16,492
Total securities owned (4)	\$ 4,241,799	\$ 2,065,584	\$ 25,279	\$	\$ 6,332,662
Derivative Assets					
Futures transactions	\$ 2,961,437	\$	\$	\$ (1,486,596)	\$ 1,474,841
Foreign currency and other OTC derivative transactions	101,059	1,420,117		(1,468,978)	52,198
Total derivative assets (2)	3,062,496	1,420,117		(2,955,574)	1,527,039
Securities borrowed (5) (6)		2,919,379			2,919,379
Securities purchased under agreements to resell (5)		46,258,938		(29,435,276)	16,823,662
Total assets at fair value	\$ 7,304,295	\$ 52,664,018	\$ 25,279	\$ (32,390,850)	\$ 27,602,742
Liabilities					
Securities sold, not yet purchased					
U.S. government securities and federal agency obligations	\$ 2,063,153	\$ 1,789,439	\$	\$	\$ 3,852,592
Corporate debt securities		76,252			76,252
Foreign government bonds	826,894				826,894
Equities	383,470				383,470
Other	3,074	227			3,301
Total securities sold, not yet purchased	\$ 3,276,591	\$ 1,865,918	\$	\$	\$ 5,142,509
Derivative liabilities					
Futures transactions	\$ 2,963,773	\$	\$	\$ 1,101,016	\$ 4,064,789
Foreign currency and other OTC derivative transactions	94,796	1,491,132		(971,567)	614,361

Edgar Filing: MF Global Ltd. - Form 10-Q

Total derivative liabilities (3)	3,058,569	1,491,132	129,449	4,679,150
Securities sold under agreements to repurchase (5)		37,636,789	(29,435,276)	8,201,513
Total liabilities at fair value	\$ 6,335,160	\$ 40,993,839	\$ (29,305,827)	\$ 18,023,172

- (1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.
- (2) Reflects derivative assets within Receivables from customers and Receivables from brokers, dealers, and clearing organizations. Excludes \$1,744,482, within Receivables from customers and Receivables from brokers, dealers, and clearing organizations which are accounted for at other than fair value. Excludes \$6,242 which is recorded in Securities owned.
- (3) Reflects derivative liabilities within Payables to customers and Payables to brokers, dealers, and clearing organizations. Excludes \$9,977,511 within Payables to customers and Payables to brokers, dealers, and clearing organizations which are accounted for at other than fair value. Excludes \$3,301 which is recorded in Securities sold, not yet purchased.
- (4) Includes \$336,318 of Securities owned which are held in segregation. These securities have been classified within Restricted cash and segregated securities in the consolidated balance sheet.
- (5) Excludes Securities borrowed, Securities purchased under agreements to resell and Securities sold under agreements to repurchase and Securities Borrowed, which are held at contract value.
- (6) Includes \$1,051 of interest receivable which is recorded in Receivables from brokers, dealers, and clearing organizations.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

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

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

Edgar Filing: MF Global Ltd. - Form 10-Q

- (2) Reflects derivative assets within Receivables from customers and Receivables from brokers, dealers, and clearing organizations. Excludes \$1,374,311 within Receivables from customers and Receivables from brokers, dealers, and clearing organizations which are accounted for at other than fair value. Excludes \$4,964 which is recorded in Securities owned.
- (3) Reflects derivative liabilities within Payables to customers and Payables to brokers, dealers, and clearing organizations. Excludes \$8,811,137 within Payables to customers and Payables to brokers, dealers, and clearing organizations which are accounted for at other than fair value. Excludes \$3,009 which is recorded in Securities sold, not yet purchased.
- (4) Includes \$2,970,240 of Securities owned which are held in segregation. These securities have been classified within Restricted cash and segregated securities in the consolidated balance sheet.

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

The table below provides a reconciliation of the beginning and ending balances for the major classes of assets and liabilities measured at fair value using significant unobservable inputs (Level 3). The table reflects gains and losses during the period for all financial assets and liabilities categorized as Level 3 as of September 30, 2009 and 2008. The net unrealized gain reflected in Level 3 assets should be considered in the context of the factors discussed below.

A derivative contract with Level 1 and/or Level 2 inputs is classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.

If there is one significant Level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., Level 1 and Level 2) is still classified as Level 3.

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

Gains or losses that have been reported in Level 3 resulting from changes in Level 1 or Level 2 inputs are frequently offset by gains or losses attributable to instruments classified in Level 1 or Level 2 or by cash instruments reported in Level 3 of the fair value hierarchy.

	Three months ended September 30,		Six months ended September 30,	
	2009	2008	2009	2008
Beginning balance	\$ 14,988	\$ 18,903	\$ 14,367	\$ (42,543)
Total realized and unrealized gains/(losses)	10,455	(619)	11,009	(1,952)
Purchases, sales and settlements, net	6	16	59	66,392
Transfers in and (out) of Level 3	(170)		(170)	(3,597)
Foreign currency translation			14	
Balance, end of period	\$ 25,279	\$ 18,300	\$ 25,279	\$ 18,300

The balance at September 30, 2009 is comprised of shares held due to the demutualization of exchanges. Total realized and unrealized gains or losses represent the total gains and losses recorded for the Level 3 assets and liabilities and are reported in Principal transactions on the consolidated statements of operations. Changes in the fair value hierarchy for a specific financial asset or financial liability may result in transfers in the hierarchy level.

The fair value of long-term borrowings at September 30 and March 31, 2009 was \$698,500 and \$824,400, respectively. The fair value of long-term debt was determined by reference to the September 30 and March 31, 2009 market values of comparably rated debt instruments.

Derivative Activity

The Company provides trade execution and clearing services for exchange-traded and over-the-counter derivative products. In connection with these trading activities, the Company may use derivative instruments to facilitate client transactions on a matched-principal basis. The Company may enter into derivative transactions generally in response to, or in anticipation of, client demand, primarily to facilitate the execution of existing client orders or in the expectation that future client orders will become available to fill the other side of the transaction. The Company may enter into derivative or other financial instruments to offset the exposure from client transactions. The Company may also use derivative instruments to hedge its own corporate exposure to changes in foreign currency and interest rate risks and to manage its liquid corporate assets. In accordance with the accounting standard for derivatives and hedging, the Company currently does not apply hedge accounting to its derivative activities.

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

Table of Contents**MF GLOBAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands, except share data)**

The following table summarizes the fair value of the Company's derivative contracts by major type on a gross basis as of September 30 and March 31, 2009:

	September, 2009			March 31, 2009		
	Derivative Assets ⁽¹⁾	Derivative Liabilities ⁽²⁾	Number of Contracts ⁽³⁾	Derivative Assets ⁽¹⁾	Derivative Liabilities ⁽²⁾	Number of Contracts ⁽³⁾
	(in thousands, except number of contracts)					
Derivative contracts						
Interest rate	\$ 832	1,336	4,922	\$ 552	\$ 783	405,875
Foreign exchange rate	615,172	615,202	5,707,564	470,797	500,923	2,751,635
Equity	60,936	78,681	816,391,167	41,188	94,978	416,101,028
Commodity	3,811,915	3,857,783	815,984	7,311,760	7,353,233	822,458
Total fair value of derivative contracts	\$ 4,488,855	\$ 4,553,002		\$ 7,824,297	\$ 7,949,917	
Impact of netting and collateral	2,955,574	(129,449)		6,304,771	3,914,276	
Total fair value	\$ 1,533,281	\$ 4,682,451		\$ 1,519,526	\$ 4,035,641	

- (1) Reflects derivative assets within Securities owned, Receivables from customers and Receivables from broker, dealers and clearing organizations. Excludes non-derivatives included in Securities owned and Receivables from customers and Receivables from broker, dealers, and clearing organizations.
- (2) Reflects derivative liabilities within Securities sold, not yet purchased, Payables to customers and Payables to broker, dealers and clearing organizations. Excludes non-derivative Securities sold, not yet purchased, Payables to customers and Payables to broker, dealers, and clearing organizations which are accounted for at other than fair value.
- (3) Contract equivalent is determined using industry standards and equivalent contracts in the futures market. OTC contract equivalents are determined by dividing OTC notionals by associated contract notionals. For minor currencies for which no futures contracts are traded, contract equivalents are determined to be equal to the USD notional divided by \$1,000, which is consistent with other minor currency futures contracts.

In the three and six months ended September 30, 2009, the Company executed and/ or cleared 393,731,414 and 822,474,826 of exchange traded futures and options, where the unrealized gain or loss is settled daily and there is no receivable or payable associated with the contract. These contracts are primarily cleared through commodity clearing corporations.

The table below summarizes the gains or losses relating to the Company's trading activities as reported in Principal transactions in the consolidated statements of operations for the three and six months ended September 30, 2009.

Type of Instrument	Three months ended	Six months ended
	September 30, 2009	September 30, 2009

Edgar Filing: MF Global Ltd. - Form 10-Q

Fixed income/ Interest rate	\$	10,922	\$	18,340
Foreign exchange		13,395		31,801
Equity		1,219		3,034
Commodity		11,959		27,844
Other		2,687		4,874
Total	\$	40,182	\$	85,893

Certain of the Company's derivative trading agreements contain provisions requiring the Company to post collateral according to the Company's long-term credit ratings. These terms are pursuant to bilateral agreements with certain counterparties and could require immediate payment or ongoing overnight collateralization on derivative instruments in net liability positions. As of September 30, 2009, the aggregate fair value of derivative agreements with credit-risk-related contingent features that were in a net liability position was \$12,271, for which the Company has posted collateral of \$3,209 in the normal course of business. If the Company's long term credit rating had a one-notch or two-notch reduction as of September 30, 2009, the amount of additional collateral that could be called by counterparties for these derivative agreements would be approximately \$5,779 or \$8,279, respectively.

Note 18: Subsequent Events

The Company has performed an evaluation of subsequent events through November 6, 2009, which is the date the financial statements were issued. On October 7, 2009, the Company launched a tender offer with respect to a one-time voluntary share option exchange program for eligible employees, which excludes the Company's executive officers and directors. The tender offer relates to an offer by the Company to exchange certain outstanding share options that were granted at the time of the Company's IPO in July 2007 and that have an exercise price of \$30.00 per share. The eligible share options may be exchanged for restricted share units, based on an exchange ratio equal to 11.6 to 1, upon the terms and conditions set forth in the Offer to Exchange Certain Outstanding Share Options for Restricted Share Units filed as an exhibit to the Schedule TO filed with the SEC on October 7, 2009. As the closing date

Table of Contents

MF GLOBAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands, except share data)

of the option exchange program is on November 10, 2009, the Company is currently unable to predict how many employees will elect the tender offer and the share price on that date; however the Company does not expect a material impact on its consolidated financial statements.

On October 30, 2009, the Company's Board of Directors declared a quarterly dividend on the Series A Preference Shares and Series B Preference Shares in an aggregate amount of \$4,022 and \$3,656, respectively. These dividends have a record date of November 5, 2009 and payment date of November 16, 2009.

As previously disclosed in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, to best support its business and growth strategies, and more specifically, its focus on diversifying its business within financial services, as well as to improve its position of, and increase its responsibility to respond to, its current and anticipated competitive and regulatory landscape, the Company has been in the process of evaluating whether to change its jurisdiction of incorporation from Bermuda to Delaware. On November 4, 2009, the Company filed a Registration Statement on Form S-4 with the Securities and Exchange Commission. The registration statement will register the common stock and preferred stock that would be issuable to the Company's existing shareholders of common shares and preference shares on a one-for-one basis upon completion of a domestication in accordance with Section 388 of the General Corporation Law of the State of Delaware and the concurrent discontinuance from Bermuda under the Companies Act 1981 of Bermuda. Upon the effectiveness of the domestication and discontinuance, the jurisdiction of incorporation with respect to the parent company, MF Global Ltd. would change from Bermuda to Delaware, and the name of MF Global Ltd. would change to MF Global Holdings Ltd. Although neither the domestication nor the discontinuance require shareholder approval, both the domestication and discontinuance are subject to the final approval of the Company's board of directors.

Table of Contents

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on our present beliefs and assumptions and on information currently available to us. You can identify forward-looking statements by terminology such as may, will, should, could, would, targets, goal, expect, intend, anticipate, believe, estimate, predict, potential, continue, or the negative of these terms or other comparable terminology. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. These risks and other factors include those set forth under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009. New factors emerge or develop from time to time, and it is not possible for us to predict all factors that may affect our business or prospects. Further, we are unable to assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement or risk factor.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Forward-looking statements in this report include, but are not limited to, statements about:

expectations regarding the business environment in which we operate and the trends in our industry such as changes in trading volume and interest rates;

our liquidity requirements and our ability to obtain access to necessary liquidity;

our ability to continue to provide value-added brokerage services;

our ability to capitalize on market convergence;

our ability to continue to diversify our service offerings;

our ability to pursue opportunities for enhanced operating margins;

our ability to expand our business in existing and new geographic regions;

our ability to continue to expand our business through acquisitions;

our ability to become a primary dealer;

the effects of pricing and other competitive pressures on our business as well as our perceptions regarding our business competitive position;

our accuracy regarding our expectations of our revenues and various costs;

Edgar Filing: MF Global Ltd. - Form 10-Q

exposure to client and counterparty default risks as well as the effectiveness of our risk-management;

our ability to retain our management team and other key employees;

fluctuations in interest rates and currency exchange rates and their possible effects on our business;

the likelihood of success in, and the impact of, litigation involving our business;

the impact of any changes in domestic and foreign regulations or government policy, including any changes or reviews of previously issued regulations and policies;

changes in exchange membership requirements;

our ability to increase the percentage of our revenues from the Asia/Pacific region;

changes in our tax rate;

our ability to maintain trading volumes and market share;

our ability to maintain our credit ratings;

our ability to maintain our existing technology systems and to keep pace with rapid technological developments;

our ability to retain existing clients and attract new ones; and

our plans to change our jurisdiction of organization from Bermuda to the U.S.

Table of Contents

We caution that you should not place undue reliance on any of our forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and except as required by law, we have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date of this report. New risks and uncertainties arise from time to time and it is impossible for us to predict those events or how they may affect us.

Table of Contents

MF GLOBAL LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

(Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help you understand MF Global Ltd. and its consolidated subsidiaries. Our MD&A should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes, included elsewhere in this Quarterly Report on Form 10-Q.

Business Overview

We are a leading intermediary offering customized solutions in the global cash and derivatives markets. We provide execution and clearing services for exchange-traded and over-the-counter, or OTC, derivative products, as well as for certain products in the cash market. We provide our clients with access to many of the largest and fastest growing markets and products throughout the world. Our clients include institutions, hedge funds and other asset managers, as well as professional traders and private clients. We act as an intermediary principally for five types of products: fixed income, commodities, foreign exchange, equities and interest rate products, and support a retail products group. We have offices in Bermuda, Chicago, Dubai, Geneva, Hong Kong, London, Mumbai, New York, Paris, Singapore, Sydney, Taipei, Tokyo, and Toronto among others. Our business model is global and product-driven, which allows us to centrally manage our resources while offering clients an expansive array of products across a broad range of markets and geographies. We operate and manage our business as a single operating segment. We do not manage our business by services or product lines, market types, geographic regions, client segments or any other exclusive category.

As a result of global market conditions and consistent with trading activity on major exchanges, the total volume of exchange-traded futures and options we executed and/or cleared decreased 21.1% from 501.4 million contracts in the three months ended September 30, 2008 to 395.8 million contracts in the three months ended September 30, 2009. The total volume of exchange-traded futures and options we executed and/or cleared decreased 20.9% from 1,044.0 million contracts in the six months ended September 30, 2008 to 825.5 million contracts in the six months ended September 30, 2009. This decline is in contrast to overall growth in our transaction volumes that we had experienced in prior years related to increased volatility in many of the markets in which we operate. For a discussion of the manner in which we calculate our volumes, see Factors Affecting our Results Trading Volumes and Volatility . Furthermore, in light of the efforts of the US government and the US Federal Reserve to stimulate the national economy, interest rates have decreased dramatically over the past year, which contributed to the decrease in our interest income from \$272.3 million and \$618.1 million in the three and six months ended September 30, 2008 to \$100.8 million and \$213.0 million in the three and six months ended September 30, 2009, respectively.

We derive revenues from four main sources: commissions from agency execution; commissions from clearing services; markups from principal transactions, primarily consisting of client trades executed on a matched-principal basis; and net interest income on (i) cash balances in our clients' accounts, most of which are maintained by our clearing clients to meet margin requirements as well as (ii) interest related to our fixed income and principal transactions activities.

In July 2007, we completed an initial public offering of our common shares, after certain reorganization, separation and recapitalization transactions conducted with Man Group, plc, (Man Group), and such transactions collectively, including the initial public offering (the IPO).

Significant Business Developments

Two-Year Term Facility

On July 18, 2008, we entered into a credit agreement with several banks that provided for a two-year, \$300.0 million unsecured term loan facility (the Two-Year Term Facility), which enabled us to prepay loans under our bridge facility that were otherwise due and payable on December 12, 2008. On April 16, 2009, we paid the outstanding balance of \$240.0 million on the Two-Year Term Facility ahead of its maturity date of July 16, 2010 thus terminating all remaining obligations under the Two-Year Term Facility. In connection with the early repayment of the Two-Year Term Facility, we recorded a loss on extinguishment of debt of \$9.7 million related to the accelerated amortization of debt

issuance costs. See Note 8 to our unaudited consolidated financial statements for further details.

Table of Contents*Factors Affecting Our Results*

Our business environment directly affects our results of operations. Our results of operations have been and will continue to be affected by many factors, including economic, political and market conditions, broad trends in the brokerage and finance industry, changes in the level of trading activity in the broader marketplace, price levels and price volatility in the derivatives, interest rate, equity, foreign exchange and commodity markets, legislative and regulatory changes and competition, among other factors. Specifically, our business has been impacted by turmoil in global markets during fiscal 2009 and the first half of fiscal 2010. Financial markets have experienced elevated levels of volatility due to concerns about the outlook for global growth and inflation. In addition, the global equity markets have experienced significant declines in the first quarter of fiscal 2010 compared to appreciation in the second quarter of fiscal 2010, mortgage and corporate credit spreads have widened and during our first quarter of fiscal 2010, the U.S. dollar appreciated against the Euro and British pound offset by depreciation of the British Pound during the second quarter. All of these factors have contributed to our results for the periods presented. Our revenues are substantially dependent on the volume of client transactions we execute and clear, the volatility in the principal markets in which we operate, as well as prevailing interest rates, each of which are described below.

Trading Volumes and Volatility

Our trading volumes are particularly dependent on our clients' demand for exchange-traded and OTC derivative products, which relate to interest rates, equities, foreign exchange and commodities. Demand for these products is driven by a number of factors, including the degree of volatility of the market prices of the underlying assets—that is, the extent to which and how rapidly those prices change during a given period. Higher price volatility increases the need for some clients to manage price risk and creates opportunities for speculative trading for others. While higher price volatility does not necessarily lead to increases in trading volumes, changes in the absolute price levels of financial assets or commodities can have a significant impact on trading volumes. The total volume of exchange-traded futures and options transactions we executed and/or cleared decreased 21.1% from 501.4 million contracts in the three months ended September 30, 2008 to 395.8 million contracts in the three months ended September 30, 2009 and decreased 20.9% from 1,044.0 million contracts in the six months ended September 30, 2008 to 825.5 million contracts in the six months ended September 30, 2009. In recent periods of high volatility, we experienced a decrease in professional trader volumes as these customers tend to reduce trading during periods of significant volatility; as volatility decreased somewhat during our first half of fiscal 2010; professional trader volume has begun to recover. In addition, during times of significant economic and political disruptions, clients may seek to manage their exposure to, or speculate on, market volatility. However, as was seen during fiscal 2009, extreme volatility and widespread uncertainty can impact a client's ability to take on or maintain positions, which has the effect of decreasing volumes.

All volume statistics presented herein for fiscal 2010 and 2009 include exchange-traded futures and options contract volumes as derived from our reporting systems, excluding intercompany volumes. We are continuing to enhance our reporting systems in order to improve the analysis of operating data generated by our business.

Interest

Our net interest income, calculated as interest income less interest expense, is directly affected by the spread between short-term interest rates we pay our clients on their account balances and the short-term interest rates we earn from cash balances we hold as well as the duration of the portfolio of client balances invested. Client balances can be impacted by a variety of exogenous factors, including changes in margin requirements at exchanges, market volatility, declining asset values, such as has been experienced in the energy markets, as well as changes in the composition of margin. Clients, for example, may elect to deposit securities, rather than cash, as margin, which will result in a reduction in our client balances because the securities deposited as margin are not carried on our balance sheet. As a result of these exogenous factors, client balances fluctuate, often significantly, from day to day and may not be indicative of future business.

Our net interest income is also directly affected by principal transactions, such as fixed income, securities lending and interest rate collateralized transactions. While spreads on these transactions have remained within a relatively constant range over time, they can widen or narrow when interest rate trends change, as was seen in the compression of spreads experienced during the first half of fiscal 2010 as compared to the end of fiscal 2009. Accordingly, we carefully monitor and seek to economically hedge our risk exposure as appropriate. In addition, a smaller portion of our interest income relates to client balances on which we do not pay interest and thus is directly affected by the absolute level of short-term interest rates. As a result, our net interest income is impacted by the level and volatility of interest rates, as well as the duration of the portfolio of client balances invested. Any fair value adjustments to the investments in which client balances are invested are not included in interest but presented in Principal transactions, although they

Table of Contents

form part of the return on client balances. Included within interest income is the interest we earn on our excess cash. Our interest on borrowings is also affected by changes in interest rates, which could increase or decrease the interest expense on our variable rate debt.

Results of Operations

Basis of Presentation

Management believes that our unaudited consolidated financial statements include normally recurring adjustments and accruals necessary for a fair presentation of the unaudited consolidated balance sheets, statements of operations, cash flows, changes in equity and comprehensive income for the periods presented. Certain prior year amounts have been reclassified to conform to current year presentation.

We operate and manage our business on an integrated basis as a single operating segment. We derive our revenues principally from execution and clearing services we provide to our clients, including interest income related to providing these services. While we provide these services to a diverse client base across multiple products, markets and geographic regions, we do not manage our business, allocate resources or review our operating results based on the type of client, product or trading market or the geographic region in which these services are provided. For information related to our geographic regions, see Note 14 to our unaudited consolidated financial statements.

On April 1, 2009, we adopted two new accounting standards each of which is effective for our fiscal year ending March 31, 2010 and interim periods within such fiscal year. These standards require retrospective application and resulted in an adjustment to prior period financial statements. The first standard discusses accounting for noncontrolling interests in consolidated financial statements and resulted in a \$12.8 million increase to total equity for the year ended March 31, 2009 due to adoption. The second standard discusses accounting for convertible debt instruments that may be settled in cash upon conversion including partial cash settlement and resulted in a \$0.2 million decrease to Net income attributable to MF Global Ltd. for the three and six months ended September 30, 2008, \$1.0 million decrease to total assets, \$7.0 million decrease to total liabilities and a \$6.0 million increase to total equity for the year ended March 31, 2009 due to adoption.

Table of Contents**Six Months ended September 30, 2009 Compared to the Six Months ended September 30, 2008**

(Amounts in millions except share data)	Six months ended September 30,		%
	2009	2008	Change
Revenues			
Execution only commissions	\$ 158.9	\$ 226.0	(29.7)
Cleared commissions	522.3	744.9	(29.9)
Principal transactions	85.9	132.4	(35.1)
Interest income	213.0	618.1	(65.5)
Other	23.0	26.0	(11.5)
Total revenues	1,003.2	1,747.3	(42.6)
Interest and transaction-based expenses:			
Interest expense	71.2	410.5	(82.7)
Execution and clearing fees	288.4	453.7	(36.4)
Sales commissions	120.0	135.6	(11.5)
Total interest and transaction-based expenses	479.6	999.8	(52.0)
Revenues, net of interest and transaction-based expenses	523.6	747.5	(30.0)
Expenses			
Employee compensation and benefits (excluding non-recurring IPO awards)	337.1	425.2	(20.7)
Employee compensation related to non-recurring IPO awards	18.0	35.0	(48.6)
Communications and technology	55.8	63.9	(12.7)
Occupancy and equipment costs	19.5	21.5	(9.3)
Depreciation and amortization	27.9	28.2	(1.1)
Professional fees	37.4	50.1	(25.3)
General and other	59.7	47.3	26.2
IPO-related costs	0.9	10.7	(91.6)
Impairment of goodwill	1.2	100.0	100.0
Total other expenses	557.4	681.9	(18.3)
Gains on exchange seats and shares	11.2	15.1	(25.8)
Loss on extinguishment of debt	9.7	100.0	100.0
Interest on borrowings	20.5	36.2	(43.4)
(Loss)/income before provision for income taxes	(52.8)	44.6	(218.4)
(Benefit)/provision for income taxes	(19.4)	17.9	(208.4)
Equity in income/(loss) of unconsolidated companies (net of tax)	0.9	(1.6)	156.3
Net (loss)/income	(32.4)	25.0	(229.6)
Net income attributable to noncontrolling interest	1.0	1.2	(16.7)
Net (loss)/income attributable to MF Global Ltd.	(33.5)	23.8	(240.8)
(Loss)/ earnings per share:			
Basic	\$ (0.40)	\$ 0.14	
Diluted	\$ (0.40)	\$ 0.14	
Weighted average number of common shares outstanding:			
Basic	123,087,787	120,279,627	
Diluted	123,087,787	120,279,627	

Table of Contents**Three Months ended September 30, 2009 Compared to the Three Months ended September 30, 2008**

(Amounts in millions except share data)	Three months ended September 30,		%
	2009	2008	Change
Revenues			
Execution only commissions	\$ 79.6	\$ 107.0	(25.6)
Cleared commissions	262.8	370.7	(29.1)
Principal transactions	40.2	69.2	(41.9)
Interest income	100.8	272.3	(63.0)
Other	9.4	14.3	(34.3)
Total revenues	492.8	833.5	(40.9)
Interest and transaction-based expenses:			
Interest expense	35.1	171.7	(79.6)
Execution and clearing fees	146.3	221.0	(33.8)
Sales commissions	59.5	67.9	(12.4)
Total interest and transaction-based expenses	240.8	460.6	(47.7)
Revenues, net of interest and transaction-based expenses	252.0	372.9	(32.4)
Expenses			
Employee compensation and benefits (excluding non-recurring IPO awards)	164.4	214.6	(23.4)
Employee compensation related to non-recurring IPO awards	9.2	17.2	(46.5)
Communications and technology	28.7	31.5	(8.9)
Occupancy and equipment costs	9.8	11.2	(12.5)
Depreciation and amortization	14.2	14.0	1.4
Professional fees	17.4	19.0	(8.4)
General and other	21.4	31.8	(32.7)
IPO-related costs	5.3	5.3	(100.0)
Impairment of goodwill	0.6	100.0	100.0
Total other expenses	265.7	344.6	(22.9)
Gains on exchange seats and shares	10.6	15.8	(32.9)
Interest on borrowings	10.0	22.0	(54.5)
(Loss)/income before provision for income taxes	(13.0)	22.0	(159.1)
(Benefit)/provision for income taxes	(5.0)	11.2	(144.6)
Equity in income/(loss) of unconsolidated companies (net of tax)	0.3	(0.8)	137.5
Net (loss)/income	(7.7)	10.1	(176.2)
Net income attributable to noncontrolling interest	0.6	0.7	(14.3)
Net (loss)/income attributable to MF Global Ltd.	\$ (8.3)	\$ 9.4	(188.3)
(Loss)/ earnings per share:			
Basic	\$ (0.13)	\$ 0.03	
Diluted	\$ (0.13)	\$ 0.03	
Weighted average number of common shares outstanding:			
Basic	123,254,930	120,503,557	
Diluted	123,254,930	120,503,557	

Table of Contents***Overview Year to Date Results***

Revenues, net of interest and transaction-based expenses, decreased \$223.9 million, or 30.0%, to \$523.6 million for the six months ended September 30, 2009 from \$747.5 million for the six months ended September 30, 2008. The decrease was primarily due to a 20.9% decrease in our total volumes of executed and/or cleared exchange-traded futures and option transactions from 1,044.0 million contracts for the six months ended September 30, 2008 to 825.5 million contracts for the six months ended September 30, 2009. The decrease of 218.5 million contracts in our total volumes of executed and/or cleared exchange-traded futures and option transactions was spread across many of our primary products, markets and geographic regions. The decrease in revenues, net of interest and transaction based expenses, was also due in part to lower net interest generated from client funds due to declining interest rates and the narrowing of short-term credit spreads. See [Supplementary Data](#) for further details.

Our other expenses, which refer to our expenses other than interest and transaction-based expenses, decreased \$124.5 million, or 18.3%, to \$557.4 million for the six months ended September 30, 2009 from \$681.9 million for the six months ended September 30, 2008. The decrease was primarily due to a reduction of \$88.1 million in employee compensation and benefits (excluding non-recurring IPO awards) which correlates with decreased net revenues, a reduction of \$12.7 million in professional fees comprised of audit fees, legal fees and other consulting fees, a reduction of \$17.0 million in stock-based compensation expense on our equity awards issued in connection with our IPO, a reduction of \$8.1 million in communications and technology costs and a reduction of \$9.8 million related to lower IPO-related costs. These reductions for the six months ended September 30, 2009 were offset by \$16.0 million in foreign exchange translation losses arising during the six months ended September 30, 2009. In contrast, we recorded foreign exchange gains of \$7.1 million for the six months ended September 30, 2008.

Loss before provision for income taxes was \$52.8 million for the six months ended September 30, 2009 compared to income of \$44.6 million for the six months ended September 30, 2008. This loss was primarily due to decreased revenues, net of interest and transaction-based expenses, the \$9.7 million loss on extinguishment of debt that we incurred in relation to the repayment of the Two-Year Term Facility and a decrease of \$3.9 million in gains on exchange seats and shares. The loss was partially offset by the decrease in other expenses mentioned above and a decrease of \$15.7 million in interest on borrowings.

We recorded a net loss of \$33.5 million for the six months ended September 30, 2009 compared to net income of \$23.8 million for the six months ended September 30, 2008. Net loss is impacted by the items discussed above, plus a decreased effective tax rate resulting from a greater percentage of profits being generated in lower-tax jurisdictions partially offset by the effects of non-deductible expenses and a lower vesting date fair value on equity compensation awards granted at IPO. The tax rate on ongoing operations increased for the six months ended September 30, 2009 compared to the six months ended September 30, 2008, which resulted in increased tax benefits.

Overview Quarterly Results

Revenues, net of interest and transaction-based expenses, decreased \$120.9 million, or 32.4%, to \$252.0 million for the three months ended September 30, 2009 from \$372.9 million for the three months ended September 30, 2008. The decrease was primarily due to a 21.1% decrease in our total volumes of executed and/or cleared exchange-traded futures and option transactions from 501.4 million contracts for the three months ended September 30, 2008 to 395.8 million contracts for the three months ended September 30, 2009. The decrease of 105.6 million contracts in our total volumes of executed and/or cleared exchange-traded futures and option transactions was spread across many of our primary products, markets and geographic regions. The decrease in revenues, net of interest and transaction based expenses, was also due in part to lower net interest generated from client funds due to declining interest rates and the narrowing of short-term credit spreads. See [Supplementary Data](#) for further details.

Our other expenses, which refer to our expenses other than interest and transaction-based expenses, decreased \$78.9 million, or 22.9%, to \$265.7 million for the three months ended September 30, 2009 from \$344.6 million for the three months ended September 30, 2008. The decrease was primarily due to a reduction of \$50.2 million in employee compensation and benefits (excluding non-recurring IPO awards) which correlates with decreased net revenues, a reduction of \$8.0 million in stock-based compensation expense on our equity awards issued in connection with our IPO, a reduction of \$2.8 million in communication and technology costs, a reduction of \$5.3 million related to lower IPO-related costs and a reduction of \$10.4 million in general and other expenses.

Loss before provision for income taxes was \$13.0 million for the three months ended September 30, 2009 compared to income of \$22.0 million for the three months ended September 30, 2008. This loss was primarily due to decreased revenues, net of interest and transaction-based expenses and a decrease of \$5.2 million in gains on exchange seats and shares which was partially offset by the decrease in other expenses mentioned above as well as a decrease of \$12.0 million in interest on borrowings.

Table of Contents

We recorded a net loss of \$8.3 million for the three months ended September 30, 2009 compared to net income of \$9.4 million for the three months ended September 30, 2008. Net loss is impacted by the items discussed above, plus a decreased effective tax rate resulting from a greater percentage of profits being generated in lower -tax jurisdictions partially offset by a lower vesting date fair value on equity compensation awards granted at IPO. The tax rate on ongoing operations increased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008, which resulted in increased tax benefits.

Revenues*Execution-only Commissions***Year to Date Results**

Execution-only commissions decreased \$67.1 million, or 29.7%, to \$158.9 million for the six months ended September 30, 2009 from \$226.0 million for the six months ended September 30, 2008. This decrease was partly due to an 18.1% decrease in our volume of execution-only exchange-traded futures and options transactions from 298.6 million contracts for the six months ended September 30, 2008 to 244.5 million contracts for the six months ended September 30, 2009. Volumes continue to be negatively impacted by the depressed economic climate, as some institutional customers have reduced their risk appetite as well as pricing pressure and increased activity through electronic trading as clients shift from floor based to screen based execution. Our overall commissions also decreased as we experienced reduced trading activity from middle market and smaller clients, whose rates tend to be more profitable.

Quarterly Results

Execution-only commissions decreased \$27.4 million, or 25.6%, to \$79.6 million for the three months ended September 30, 2009 from \$107.0 million for the three months ended September 30, 2008. This decrease was partly due to a 20.9% decrease in our volume of execution-only exchange-traded futures and options transactions from 142.8 million contracts for the three months ended September 30, 2008 to 113.0 million contracts for the three months ended September 30, 2009. Volumes and commissions continue to be negatively impacted by market turmoil, pricing pressure and increased activity through electronic trading as clients shift from floor based to screen based execution.

*Cleared Commissions***Year to Date Results**

Cleared commissions decreased \$222.6 million, or 29.9%, to \$522.3 million for the six months ended September 30, 2009 from \$744.9 million for the six months ended September 30, 2008. This decrease was primarily due to a decrease of 22.1% in our volume of cleared exchange-traded futures and options transactions from 745.4 million contracts for the six months ended September 30, 2008 to 581.0 million contracts for the six months ended September 30, 2009. We experienced a decrease in execution and clearing volumes across almost all products, markets and regions as a result of market dislocation, most notably from professional traders who tend to reduce trading during periods of significant volatility. Equities have also continued to have lower volumes as equity markets stabilize as compared to last year.

Quarterly Results

Cleared commissions decreased \$107.9 million, or 29.1%, to \$262.8 million for the three months ended September 30, 2009 from \$370.7 million for the three months ended September 30, 2008. This decrease was primarily due to a decrease of 21.1% in our volume of cleared exchange-traded futures and options transactions from 358.6 million contracts for the three months ended September 30, 2008 to 282.8 million contracts for the three months ended September 30, 2009. We experienced a decrease in execution and clearing volumes across almost all products, markets and regions as a result of market dislocation, most notably from professional traders who tend to reduce trading during periods of significant volatility. Equities have also continued to have lower volumes as equity markets stabilize as compared to last year.

Table of Contents*Principal Transactions****Year to Date Results***

Principal transactions decreased \$46.5 million, or 35.1%, to \$85.9 million for the six months ended September 30, 2009 from \$132.4 million for the six months ended September 30, 2008. Principal transactions do not reflect the net interest income earned from principal transactions and related financing transactions, which is included in interest income and expense. Net interest income earned from these transactions was \$78.7 million for the six months ended September 30, 2009 compared to \$61.4 million for the six months ended September 30, 2008. When factoring in net interest income from principal transactions and related financing transactions, which is how management views the business, principal transactions revenues decreased \$29.2 million, or 15.1%, to \$164.6 million for the six months ended September 30, 2009 from \$193.8 million for the six months ended September 30, 2008. The decrease in principal transactions was attributable to reduced matched principal brokerage in foreign exchange and commodities markets which moved from \$109.8 million in the six months ended September 30, 2008 to \$73.6 million for the six months ended September 30, 2009. See [Supplementary Data](#) for further quarterly information on principal transactions revenues.

Quarterly Results

Principal transactions decreased \$29.0 million, or 41.9%, to \$40.2 million for the three months ended September 30, 2009 from \$69.2 million for the three months ended September 30, 2008. Principal transactions do not reflect the net interest income earned from principal transactions and related financing transactions, which is included in interest income and expense. Net interest income earned from these transactions was \$35.9 million for the three months ended September 30, 2009 compared to \$24.9 million for the three months ended September 30, 2008. When factoring in net interest income from principal transactions and related financing transactions, which is how management views the business, principal transactions revenues decreased \$18.0 million, or 19.1%, to \$76.1 million for the three months ended September 30, 2009 from \$94.1 million for the three months ended September 30, 2008. The decrease in principal transactions was attributable to reduced matched principal brokerage in foreign exchange and commodities markets which moved from \$57.0 million in the three months ended September 30, 2008 to \$33.0 million for the three months ended September 30, 2009. See [Supplementary Data](#) for further quarterly information on principal transactions revenues.

*Interest Income, Net****Year to Date Results***

Interest income, net, decreased \$65.8 million, or 31.7%, to \$141.8 million for the six months ended September 30, 2009 from \$207.6 million for the six months ended September 30, 2008. This decrease was primarily due to declining interest rates, but was partially offset by an increase in net interest generated from principal transactions and related financing transactions as described further below. The average federal funds rate in the United States decreased from 1.5% during the six months ended September 30, 2008 to 0.2% during the six months ended September 30, 2009. Net interest from client funds and excess cash decreased 56.7% from \$146.1 million for the six months ended September 30, 2008 to \$63.2 million for the six months ended September 30, 2009 due to (i) reduced rates earned on excess cash during the six months ended September 30, 2009, (ii) narrower spreads earned on client funds as we reduced the duration of our investment portfolio of client balances from last year to ensure we had significant liquidity in the current volatile environment to meet client needs and (iii) clients withdrawing some of their excess cash since last year, consistent with the trend in the market, to increase liquidity during these volatile times. The decline in interest income, net, was partially offset by a 28.2% increase in net interest generated from principal transactions and related financing transactions from \$61.4 million for the six months ended September 30, 2008 to \$78.7 million for the six months ended September 30, 2009. This increase was due to the wider spreads earned by our fixed income products during the six months ended September 30, 2009, consisting of both repurchase and reverse repurchase transactions and stock borrowing and lending activities. See [Supplementary Data](#) for further information on the components of net interest income.

Quarterly Results

Interest income, net, decreased \$34.8 million, or 34.6%, to \$65.7 million for the three months ended September 30, 2009 from \$100.5 million for the three months ended September 30, 2008. This decrease was primarily due to declining interest rates, but was partially offset by an increase in net interest generated from principal transactions and related financing transactions as described further below. The average federal funds rate in the United States decreased from 1.5% during the three months ended September 30, 2008 to 0.2% during the three months ended September 30, 2009. Net interest from client funds and excess cash decreased 60.4% from \$75.6 million for the three months ended September 30, 2008 to \$29.9 million for the three months ended September 30, 2009 due to (i) reduced rates earned on excess cash during the three months ended September 30, 2009, (ii) narrower spreads earned on client funds as we reduced the duration of our investment portfolio of client balances from last year to ensure we had significant liquidity in the current volatile environment to meet client needs and (iii) clients withdrawing some of their

Edgar Filing: MF Global Ltd. - Form 10-Q

excess cash since last year, consistent with the trend in the market, to increase liquidity during these volatile times. The decline in interest income, net, was

Table of Contents

partially offset by a 44.2% increase in net interest generated from principal transactions and related financing transactions from \$24.9 million for the three months ended September 30, 2008 to \$35.9 million for the three months ended September 30, 2009. This increase was due to the wider spreads earned by our fixed income products, consisting of both repurchase and reverse repurchase transactions and stock borrowing and lending activities. See [Supplementary Data](#) for further information on the components of net interest income.

Other Revenues***Year to Date Results***

Other revenues decreased \$3.0 million, or 11.5%, to \$23.0 million for the six months ended September 30, 2009 from \$26.0 million for the six months ended September 30, 2008. This decrease was primarily due to the reduction in recharges to clients for local taxes in certain European markets and decreased ancillary third-party fees received from clients and other counterparties for the use of various trading systems, data and other back-office and support services, all of which were affected by declining trading volumes. These decreases were offset by a \$3.2 million settlement we received in relation to litigation regarding our prior acquisition of Refco assets.

Quarterly Results

Other revenues decreased \$4.9 million, or 34.3%, to \$9.4 million for the three months ended September 30, 2009 compared to \$14.3 million for the three months ended September 30, 2008. This decrease was primarily due to the decrease of recharges to clients for local taxes in certain European markets and decreased ancillary third-party fees received from clients and other counterparties for the use of various trading systems, data and other back-office and support services, all of which were affected by declining trading volumes.

Transaction-based Expenses***Execution and Clearing Fees******Year to Date Results***

Execution and clearing fees decreased \$165.3 million, or 36.4%, to \$288.4 million for the six months ended September 30, 2009 from \$453.7 million for the six months ended September 30, 2008. This decrease was primarily due to a 20.9% decrease in our volume of executed and/or cleared exchange-traded futures and options transactions from 1,044.0 million contracts for the six months ended September 30, 2008 to 825.5 million contracts for the six months ended September 30, 2009. During the six months ended September 30, 2009, we experienced decreased transaction volumes, which spread across many of our primary markets, products and geographic regions. Our execution and clearing fees are not fixed, but instead are calculated on a per-contract basis, and vary based on the market on which transactions are executed and cleared. Not all transactions that generate execution-only revenue generate corresponding execution or clearing fees, while some matched principal transactions do. Included within execution and clearing fees are losses due to transactional errors, which increased slightly from 0.9% of revenues, net of interest and transaction based expenses, for the six months ended September 30, 2008 to 1.0% of revenues, net of interest and transaction based expenses, for the six months ended September 30, 2009, primarily due to an error related to interest rate products.

Quarterly Results

Execution and clearing fees decreased \$74.7 million, or 33.8%, to \$146.3 million for the three months ended September 30, 2009 from \$221.0 million for the three months ended September 30, 2008. This decrease is in line with the decrease in commissions and was primarily due to a 21.1% decrease in our volume of executed and/or cleared exchange-traded futures and options transactions from 501.4 million contracts for the three months ended September 30, 2008 to 395.8 million contracts for the three months ended September 30, 2009. During the three months ended September 30, 2009, we experienced decreased transaction volumes, which spread across many of our primary markets, products and geographic regions. Our execution and clearing fees are not fixed, but instead are calculated on a per-contract basis, and vary based on the market on which transactions are executed and cleared. Not all transactions that generate execution-only revenue generate corresponding execution or clearing fees, while some matched principal transactions do. Included within execution and clearing fees are losses due to transactional errors, which decreased from 0.9% of revenues, net of interest and transaction based expenses, for the three months ended September 30, 2008 to 0.5% of revenues, net of interest and transaction based expenses, for the three months ended September 30, 2009.

Table of Contents*Sales Commissions****Year to Date Results***

Sales commissions decreased \$15.6 million, or 11.5%, to \$120.0 million for the six months ended September 30, 2009 from \$135.6 million for the six months ended September 30, 2008. This decrease was primarily due to declining trading activity as a result of lack of client confidence in the markets, unstable market conditions and investors not trading with the same frequency during the six months ended September 30, 2009 as compared to the same period last year. Depending on the specific arrangements with introducing brokers, decreased volumes from retail clients transacting through introducing brokers usually result in a proportionate decrease in commissions paid to brokers. However, a large part of our business is not generated by introducing brokers and therefore not all changes to volumes result in a proportionate change to sales commissions.

Quarterly Results

Sales commissions decreased \$8.4 million, or 12.4%, to \$59.5 million for the three months ended September 30, 2009 from \$67.9 million for the three months ended September 30, 2008. This decrease was primarily due to declining trading activity as a result of lack of client confidence in the markets and investors not trading with the same frequency during the three months ended September 30, 2009 as compared to the same period last year. Depending on the specific arrangements with introducing brokers, decreased volumes from retail clients transacting through introducing brokers usually result in a proportionate decrease in commissions paid to brokers. However, a large part of our business is not generated by introducing brokers and therefore not all changes to volumes result in a proportionate change to sales commissions.

Other Expenses*Employee Compensation and Benefits (Excluding Non-Recurring IPO Awards)****Year to Date Results***

These expenses refer to all employee compensation, including stock based compensation expense for equity instruments, but excludes restricted shares and restricted share units issued in connection with the IPO. Employee compensation and benefits (excluding IPO awards) decreased \$88.1 million, or 20.7%, to \$337.1 million for the six months ended September 30, 2009 from \$425.2 million for the six months ended September 30, 2008. This decrease was primarily due to reduced variable compensation paid to employees based on sales, volume and profit contributions, as well as a reduction in termination expenses from \$16.5 million for the six months ended September 30, 2008 to \$3.5 million for the six months ended September 30, 2009, offset in part by incremental increases in payroll expenses due to increased headcount. Fixed producer and professional compensation as a percentage of total employee compensation and benefits (excluding IPO awards) was 57.6% in the six months ended September 30, 2009 compared to 45.2% in the six months ended September 30, 2008. Excluding termination costs, the ratio of fixed producer and professional compensation as a percentage of total employee compensation and benefits (excluding IPO awards) was 56.6% in the six months ended September 30, 2009 compared to 41.3% in the six months ended September 30, 2008. Employee compensation and benefits (excluding IPO awards), as a percentage of revenues, net of interest and transaction-based expenses, increased to 64.4% in the six months ended September 30, 2009 from 56.9% in the six months ended September 30, 2008. Excluding termination costs, employee compensation and benefits (excluding IPO awards), as a percentage of revenues, net of interest and transaction based expenses increased to 63.7% in the six months ended September 30, 2009 from 54.7% in the six months ended September 30, 2008.

Quarterly Results

These expenses refer to all employee compensation, including stock based compensation expense for equity instruments, but excludes restricted shares and restricted share units issued in connection with the IPO. Employee compensation and benefits (excluding IPO awards) decreased \$50.2 million, or 23.4%, to \$164.4 million for the three months ended September 30, 2009 from \$214.6 million for the three months ended September 30, 2008. This decrease was primarily due to reduced variable compensation paid to employees based on sales, volume and profit contributions, as well as a reduction in termination expenses from \$11.0 million for the three months ended September 30, 2008 to \$1.5 million for the three months ended September 30, 2009, offset in part by incremental increases in payroll expenses due to increased headcount. Fixed producer and professional compensation as a percentage of total employee compensation and benefits (excluding IPO awards) was 58.4% in the three months ended September 30, 2009 compared to 45.8% in the three months ended September 30, 2008. Excluding termination costs, the ratio of fixed producer and

Table of Contents

professional compensation as a percentage of total employee compensation and benefits (excluding IPO awards) was 57.4% in the three months ended September 30, 2009 compared to 40.7% in the three months ended September 30, 2008. Employee compensation and benefits (excluding IPO awards), as a percentage of revenues, net of interest and transaction-based expenses, increased to 65.2% in the three months ended September 30, 2009 from 57.5% in the three months ended September 30, 2008. Excluding termination costs, employee compensation and benefits (excluding IPO awards), as a percentage of revenues, net of interest and transaction based expenses increased to 64.6% in the three months ended September 30, 2009 from 54.6% in the three months ended September 30, 2008.

*Employee Compensation and Benefits Related to Non-Recurring IPO Awards****Year to Date Results***

These expenses refer to stock-based compensation expense for restricted shares and restricted share units issued in connection with the IPO. Employee compensation and benefits related to non-recurring IPO awards decreased \$17.0 million, or 48.6%, to \$18.0 million for the six months ended September 30, 2009 from \$35.0 million for the six months ended September 30, 2008. This decrease is primarily attributable to the accelerated vesting of certain awards in prior periods as well as the impact this period of reduced expense from forfeitures last year. In addition, we experienced a decrease in non-vested restricted shares caused by a decrease in the number of restricted shares granted during the six months ended September 30, 2009. These expenses are considered non-recurring and directly attributable to the IPO.

Quarterly Results

Employee compensation and benefits related to non-recurring IPO awards decreased \$8.0 million, or 46.5%, to \$9.2 million for the three months ended September 30, 2009 from \$17.2 million for the three months ended September 30, 2008. This decrease is primarily attributable to the accelerated vesting of certain awards in prior periods as well as the impact this period of reduced expense from forfeitures last year. In addition, we experienced a decrease in non-vested restricted shares caused by a decrease in the number of restricted shares granted during the three months ended September 30, 2009. These expenses are considered non-recurring and directly attributable to the IPO.

*Communications and Technology****Year to Date Results***

Communications and technology expenses decreased \$8.1 million, or 12.7%, to \$55.8 million for the six months ended September 30, 2009 from \$63.9 million for the six months ended September 30, 2008. This decrease was due to reduced software licensing and maintenance costs, a reduction in outsourced computer services and decreased telecommunication expenses resulting from the consolidation of the CBOT and CME exchange floors which now require less equipment. In addition, we experienced reduced market data research and communications expenses, reflecting fewer client trades during the six months ended September 30, 2009 as compared to the same period last year. This caption also includes software licenses and costs related to our trading systems. Communications and technology, as a percentage of revenues, net of interest and transaction-based expenses, increased to 10.7% for the six months ended September 30, 2009 from 8.5% for the six months ended September 30, 2008.

Quarterly Results

Communications and technology expenses decreased \$2.8 million, or 8.9%, to \$28.7 million for the three months ended September 30, 2009 from \$31.5 million for the three months ended September 30, 2008. This decrease was due to reduced software licensing costs and decreased telecommunication expenses resulting from the consolidation of the CBOT and CME exchange floors which now require less equipment. In addition, we experienced reduced market data research and communications expenses, reflecting fewer client trades during the three months ended September 30, 2009 as compared to the same period last year. This caption also includes software licenses and costs related to our trading systems. Communications and technology, as a percentage of revenues, net of interest and transaction-based expenses, increased to 11.4% for the three months ended September 30, 2009 from 8.4% for the three months ended September 30, 2008.

Table of Contents*Occupancy and Equipment Costs****Year to Date Results***

Occupancy and equipment costs decreased \$2.0 million, or 9.3%, to \$19.5 million for the six months ended September 30, 2009 from \$21.5 million for the six months ended September 30, 2008, primarily due to higher costs incurred during the six months ended September 30, 2008 as a result of relocating to new leased premises in London. This decrease was offset by increased costs due to the renewal of existing leases and leasing of additional office space in New York and Chicago. Occupancy and equipment costs, as a percentage of revenues, net of interest and transaction-based expenses, increased to 3.7% for the six months ended September 30, 2009 compared to 2.9% for the six months ended September 30, 2008.

Quarterly Results

Occupancy and equipment costs decreased \$1.4 million, or 12.5%, to \$9.8 million for the three months ended September 30, 2009 from \$11.2 million for the three months ended September 30, 2008, primarily due to higher costs incurred during the three months ended September 30, 2008 as a result of relocating to new leased premises in London. This decrease was offset by increased costs due to the renewal of existing leases and leasing of additional office space in New York and Chicago. Occupancy and equipment costs, as a percentage of revenues, net of interest and transaction-based expenses, increased to 3.9% for the three months ended September 30, 2009 compared to 3.0% for the three months ended September 30, 2008.

*Depreciation and Amortization****Year to Date Results***

Depreciation and amortization slightly decreased \$0.3 million, or 1.1%, to \$27.9 million for the six months ended September 30, 2009 from \$28.2 million for the six months ended September 30, 2008 due primarily to reduced amortization expense on intangible assets as a result of certain impairments in fiscal 2009. Depreciation and amortization, as a percentage of revenues, net of interest and transaction-based expenses, increased to 5.3% for the six months ended September 30, 2009 from 3.8% for the six months ended September 30, 2008.

Quarterly Results

Depreciation and amortization increased \$0.2 million, or 1.4%, to \$14.2 million for the three months ended September 30, 2009 from \$14.0 million for the three months ended September 30, 2008. Depreciation and amortization, as a percentage of revenues, net of interest and transaction-based expenses, increased to 5.6% for the three months ended September 30, 2009 from 3.8% for the three months ended September 30, 2008.

*Professional Fees****Year to Date Results***

Professional fees decreased \$12.7 million, or 25.3%, to \$37.4 million for the six months ended September 30, 2009 from \$50.1 million for the six months ended September 30, 2008 due primarily to the non-recurrence of \$6.7 million of legal and consulting fees that are included in the six months ended September 30, 2008 and which were incurred in relation to a one-time broker-related loss in fiscal 2008. In addition, we reduced professional fees through enhanced internal accounting, legal and regulatory processes and by internalizing certain functions as reflected in increased headcount. Professional fees, as a percentage of revenues, net of interest and transaction-based expenses, increased to 7.1% for the six months ended September 30, 2009 compared to 6.7% for the six months ended September 30, 2008.

Quarterly Results

Professional fees decreased \$1.6 million, or 8.4%, to \$17.4 million for the three months ended September 30, 2009 from \$19.0 million for the three months ended September 30, 2008 due primarily to the non-recurrence of \$0.7 million of legal and consulting fees that are included in the three months ended September 30, 2008 and which were incurred in relation to a one-time broker-related loss in fiscal 2008. In addition, we reduced professional fees through enhanced internal accounting, legal and regulatory processes and by internalizing certain functions as reflected in increased headcount. Professional fees, as a percentage of revenues, net of interest and transaction-based expenses, increased to 6.9% for the three months ended September 30, 2009 compared to 5.1% for the three months ended September 30, 2008.

Table of Contents*General and Other**Year to Date Results*

General and other expenses increased \$12.4 million, or 26.2%, to \$59.7 million for the six months ended September 30, 2009 from \$47.3 million for the six months ended September 30, 2008. This increase was due primarily to a \$23.1 million change in foreign currency translation expenses, as reflected in a move from gains of \$7.1 million during the six months ended September 30, 2008 to losses of \$16.0 million during the six months ended September 30, 2009. This loss during the six months ended September 30, 2009 included (i) a \$4.1 million currency translation loss related to the Parabola litigation, which was recorded in May 2009, but applied retrospectively to March 31, 2009, due to accounting requirements and (ii) a \$16.0 million currency translation loss driven by a 10% adverse movement of the British Pound to U.S. Dollar exchange rate and a 9% adverse movement of the Euro to U.S. Dollar exchange rate. There were also higher legal settlement expenses of \$4.4 million for various cases. This increase in expenses was offset by lower travel and entertainment costs of \$3.6 million, lower advertising costs of \$1.2 million as well as lower bad debt expense, which decreased from \$8.3 million of expenses for the six months ended September 30, 2008 to a credit of \$0.6 million for the six months ended September 30, 2009. This decrease was primarily due to the bankruptcy of Lehman Brothers and the resulting bad debt provision during the six months ended September 30, 2008. Bad debts provision was released for 0.1% of revenues, net of interest and transaction based expenses for the six months ended September 30, 2009 compared to an expense of 1.1% for the six months ended September 30, 2008. General and other expenses, as a percentage of revenues, net of interest and transaction-based expenses, increased to 11.4% for the six months ended September 30, 2009 from 6.3% for the six months ended September 30, 2008.

Quarterly Results

General and other expenses decreased \$10.4 million, or 32.7%, to \$21.4 million for the three months ended September 30, 2009 from \$31.8 million for the three months ended September 30, 2008. This was due primarily to lower bad debt expense of \$9.3 million, which decreased from \$8.7 million of expense for the three months ended September 30, 2008 to a credit of \$0.6 million for the three months ended September 30, 2009. This decrease was primarily due to the bankruptcy of Lehman Brothers and the resulting bad debt provision during the three months ended September 30, 2008. Bad debts provision was released for 0.2% of revenues, net of interest and transaction based expenses for the three months ended September 30, 2009 compared to an expense of 2.3% for the three months ended September 30, 2008. In addition, there were lower travel and entertainment costs of \$1.8 million and lower insurance premiums of \$2.3 million. These decreases in expenses were offset by a \$2.5 million decrease in currency translation gains and \$2.6 million in increased legal settlement expenses for various cases. General and other expenses, as a percentage of revenues, net of interest and transaction-based expenses remained constant at 8.5% for both the three months ended September 30, 2009 and September 30, 2008.

*IPO-related Costs**Year to Date Results*

We incurred costs of \$0.9 million and \$10.7 million, or approximately 0.2% and 1.4% of our revenues, net of interest and transaction-based expenses, for the six months ended September 30, 2009 and 2008, respectively, in connection with the IPO, which we refer to as IPO-related costs. These costs consist primarily of legal, accounting and consulting fees. The current year costs are primarily related to continuing compliance with the Sarbanes-Oxley Act. We expect these costs will continue to decline in future periods.

Quarterly Results

We incurred minimal costs during the three months ended September 30, 2009 compared to \$5.3 million, or approximately 1.4% of our revenues, net of interest and transaction-based expenses for the three months ended September 30, 2008, in connection with the IPO, which we refer to as IPO-related costs. These costs consist primarily of legal, accounting and consulting fees. The current year costs are primarily related to continuing compliance with the Sarbanes-Oxley Act. We expect these costs will continue to decline in future periods.

Table of Contents

Impairment of Goodwill

Year to Date Results

We recorded an impairment charge of \$1.2 million in the six months ended September 30, 2009 based on our impairment testing of goodwill during the six months ended September 30, 2009. Our assessment of our goodwill identified triggering events that required an impairment analysis to be performed. As a result of our analysis, we determined all of our goodwill was impaired. There was no such impairment charge recorded in the six months ended September 30, 2008.

Quarterly Results

We recorded an impairment charge of \$0.6 million in the three months ended September 30, 2009 based on our impairment testing of goodwill during the three months ended September 30, 2009. Our assessment of our goodwill identified triggering events that required an impairment analysis to be performed. As a result of our analysis, we determined all of our goodwill was impaired. There was no such impairment charge recorded in the three months ended September 30, 2008.

Gains on Exchange Seats and Shares

Year to Date Results

Gains on exchange seats and shares decreased \$3.9 million to \$11.2 million for the six months ended September 30, 2009 from \$15.1 million for the six months ended September 30, 2008. The amount of unrealized gains recorded is based on the fair market value movements of the remaining excess seats and shares we own. Absent future demutualizations or changes in trading requirements, we do not expect to recognize material amounts of gains on exchange seats and shares in future periods.

Quarterly Results

Gains on exchange seats and shares decreased \$5.2 million to \$10.6 million for the three months ended September 30, 2009 from \$15.8 million for the three months ended September 30, 2008. The amount of unrealized gains recorded is based on the fair market value movements of the remaining excess seats and shares we own. Absent future demutualizations or changes in trading requirements, we do not expect to recognize material amounts of gains on exchange seats and shares in future periods.

Loss on Extinguishment of Debt

Year to Date Results

Loss on extinguishment of debt was incurred as the result of the early repayment of the Two-Year Term Facility in April 2009. In repaying the Two-Year Term Facility prior to its scheduled maturity, we incurred a loss on the early extinguishment of debt of \$9.7 million in the first quarter of fiscal 2010. The loss has been disclosed separately within our unaudited consolidated statement of operations for the six months ended September 30, 2009.

Interest on Borrowings

Year to Date Results

Interest on borrowings decreased \$15.7 million, or 43.4%, to \$20.5 million for the six months ended September 30, 2009 from \$36.2 million for the six months ended September 30, 2008. This decrease was primarily due to lower levels of outstanding debt and a decrease in interest rates, particularly the LIBOR rate. Interest from borrowings, as a percentage of revenues, net of interest and transaction-based expenses, decreased to 3.9% for the six months ended September 30, 2009 from 4.8% for the six months ended September 30, 2008.

Quarterly Results

Interest on borrowings decreased \$12.0 million, or 54.5%, to \$10.0 million for the three months ended September 30, 2009 from \$22.0 million for the three months ended September 30, 2008. This decrease was primarily due to lower levels of outstanding debt and a decrease in interest rates, particularly the LIBOR rate. Interest from borrowings, as a percentage of revenues, net of interest and transaction-based expenses,

decreased to 4.0% for the three months ended September 30, 2009 from 5.9% for the three months ended September 30, 2008.

Table of Contents**Provision for Income Taxes***Year to Date Results*

Income taxes decreased \$37.3 million from a tax expense of \$17.9 million for the six months ended September 30, 2008 to tax benefits of \$19.4 million for the six months ended September 30, 2009. Our effective income tax rate was 36.8% for the six months ended September 30, 2009, down from 40.0% for the six months ended September 30, 2008. The decrease in the effective tax rate primarily relates to a greater percentage of our profits being earned in lower-tax jurisdictions, partially offset by the tax effect of non-deductible items, and a lower vesting date fair value on equity compensation awards. Our effective tax rate on ongoing operations was approximately 46.0% for the six months ended September 30, 2009 compared to 30.8% for the six months ended September 30, 2008.

Quarterly Results

Income taxes decreased \$16.2 million from a tax expense of \$11.2 million for the three months ended September 30, 2008 to tax benefits of \$5.0 million for the three months ended September 30, 2009. Our effective income tax rate was 38.3% for the three months ended September 30, 2009, down from 50.2% for the three months ended September 30, 2008. The decrease in the effective tax rate primarily relates to a greater percentage of profits being generated in lower-tax jurisdictions partially offset by a lower vesting date fair value on equity compensation awards granted and the effects of non-deductible items. Our effective tax rate on ongoing operations was approximately 46.0% for the three months ended September 30, 2009 compared to 30.8% for the three months ended September 30, 2008.

Supplementary Data

Principal transactions do not reflect the net interest income earned from principal transactions and related financing transactions, which is included in interest income and expense, although management views the business including such amounts.

The table below calculates total principal transactions revenue, including the net interest generated from financing transactions related to principal transactions:

	For the three months ended					
	June 30, 2008	Sept 30, 2008	Dec 31, 2008	Mar 31, 2009	June 30, 2009	Sept 30, 2009
Principal transactions	\$ 63.2	\$ 69.2	\$ 109.9	\$ 45.3	\$ 45.7	\$ 40.2
Net interest generated from principal transactions and related financing transactions	36.5	24.9	51.4	37.4	42.8	35.9
Total principal transactions revenue	\$ 99.7	\$ 94.1	\$ 161.3	\$ 82.7	\$ 88.5	\$ 76.1

The table below provides an analysis of the components of net interest income:

	For the three months ended					
	June 30, 2008	Sept 30, 2008	Dec 31, 2008	Mar 31, 2009	June 30, 2009	Sept 30, 2009
Net interest generated from client payables and excess cash	\$ 70.5	\$ 75.6	\$ 46.5	\$ 34.3	\$ 33.3	\$ 29.9
Net interest generated from principal transactions and related financing transactions	36.5	24.9	51.4	37.4	42.8	35.9
Total net interest income	\$ 107.0	\$ 100.5	\$ 97.9	\$ 71.7	\$ 76.1	\$ 65.8

The table below calculates net revenues from client funds and excess cash:

Edgar Filing: MF Global Ltd. - Form 10-Q

	For the three months ended					
	June 30, 2008	Sept 30, 2008	Dec 31, 2008	Mar 31, 2009	June 30, 2009	Sept 30, 2009
Net interest generated from client payables and excess cash	\$ 70.5	\$ 75.6	\$ 46.5	\$ 34.3	\$ 33.3	\$ 29.9
Principal transactions revenues from investment of client payables	(0.9)	2.1	31.1	(7.8)	0.2	2.7
Total net revenues from client payables and excess cash	\$ 69.6	\$ 77.7	\$ 77.6	\$ 26.5	\$ 33.5	\$ 32.6

Table of Contents**Liquidity and Capital Resources**

We have multiple sources of liquidity. We expect our primary liquidity needs over the next 12 months to be for working capital, debt service obligations and preferred dividend obligations. We believe we will have sufficient liquidity to meet these obligations given our expected cash flows from operations and our available sources of liquidity. Our available sources of liquidity as of September 30, 2009 included: (i) our committed \$1,500.0 million five-year unsecured revolving liquidity facility with various banks, which terminates in June 2012, under which we currently have \$642.5 million outstanding (\$857.5 million of which is undrawn at September 30, 2009); (ii) available excess cash in our regulated subsidiaries, the withdrawal of which is subject to regulatory approval; and (iii) available excess cash held in the bank accounts of non-regulated subsidiaries. In October 2008, Lehman Commercial Paper Inc., one of the participating banks under our \$1,500.0 million five-year unsecured revolving liquidity facility, with a total commitment amounting to \$75.0 million, filed for bankruptcy and, accordingly, we believe Lehman Commercial Paper Inc. will not fund the balance of its loan commitment, which is \$50.0 million. In addition, we have customer collateral, which is not included on our balance sheet and non-segregated customer payables, that can be re-hypothecated by us, and which we consider an additional layer of liquidity. We also rely on uncommitted lines of credit from multiple sources to fund our day-to-day clearing operations. Further, on September 25, 2009, we filed a registration statement with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, we may sell securities, including common or preference shares, debt securities, and warrants to purchase common or preference shares or debt securities, in one or more offerings. Any sale of such securities would be dependent upon market conditions around the time of sale and there can be no assurance that we will sell any such securities. As noted in this registration statement, unless otherwise specified in an applicable prospectus supplement or other offering material, we intend to use the net proceeds from the sales of the securities for general corporate purposes.

On April 16, 2009, we repaid the remaining outstanding balance of \$240.0 million on the Two-Year Term Facility ahead of its maturity of July 2010 thus terminating all remaining obligations under the Two-Year Term Facility. See Note 8 to our unaudited consolidated financial statements for further information.

Working Capital Needs

Our cash flows are complex, interrelated and highly dependent upon our operating performance, levels of client activity and financing activities. We view our total working capital exclusive of non-earning assets and inclusive of our long-term borrowings. Our working capital decreased from March 31, 2009 to September 30, 2009 primarily due to the early repayment of the Two-Year Term Facility.

As of September 30 and March 31, 2009, total working capital was calculated as follows:

	September 30, 2009	March 31, 2009
	(Dollars in millions)	
TOTAL ASSETS	\$ 59,494.0	\$ 38,835.6
Less Non-earning assets:		
Receivables Other	40.7	36.9
Memberships in exchanges, at cost	6.6	6.4
Furniture, equipment and leasehold improvements, net	67.9	62.7
Intangible assets, net	136.6	151.7
Other assets	208.8	191.4
Subtotal non-earning assets	460.6	449.0
Less Total liabilities:	58,044.8	37,387.9
Add Borrowings	851.0	1,086.8
TOTAL WORKING CAPITAL	\$ 1,839.6	\$ 2,085.5

Our primary requirement for working capital relates to funds we are required to maintain at exchanges and clearing organizations to support our clients' trading activities. We require that our clients deposit collateral with us in support of their trading activities, which we in turn deposit with

exchanges or clearing organizations to satisfy our obligations. These required deposits

Table of Contents

account for the majority of our working capital requirements and thus our primary use of working capital is funded directly or indirectly by our clients. As discussed in Note 12 to our unaudited consolidated financial statements, we are subject to the requirements of the regulatory bodies and exchanges of which we or our subsidiaries are a member or with which we conduct business. The regulatory bodies and exchanges each have defined capital requirements we must meet on a daily basis. We were in compliance with all of these requirements at September 30, 2009 and March 31, 2009.

We have satisfied our primary requirements for working capital in the past from internally generated cash flow and available funds. We believe that our current working capital is more than sufficient for our present requirements. In OTC or non-exchange traded transactions, the amount of collateral we post is based upon our credit rating. Pursuant to our trading agreements with certain liquidity providers, if our credit rating falls, the amount of collateral we are required to post may increase.

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from counterparty defaults on large transactions due to futures, foreign exchange or securities failures or clients going to delivery without proper instructions or the delayed receipt of client funds. Historically, these timing differences have been funded either with internally generated cash flow or, if needed, with short-term borrowings.

As discussed above, we rely on uncommitted lines of credit from multiple sources to fund day-to-day clearing operations. If these lines of credit are not available to us, we may have to reduce our clearing business, which may negatively impact our revenues.

As a matter of policy, we maintain excess capital to provide liquidity during periods of unusual market volatility, which has been sufficient historically to absorb the impact of volatile market events. Similarly, for our brokerage activities in the OTC markets, involving transactions we broker as principal rather than as agent, we have adopted a futures-style margin methodology to protect us against price movements. A futures-style margin methodology allows us to reduce the amount of capital required to conduct this type of business because we are able to post client deposits, rather than our own funds, with clearing organizations or other counterparties, if required. In determining our required capital levels, we also consider the potential for counterparty default on a large transaction, which would require liquidity to cover such default, or a settlement failure due to mismatched settlement instructions. In many cases, other stock or securities can be pledged as collateral for secured lending to guard against such failure. As a result, we are able to execute a substantial volume of transactions without the need for large amounts of working capital.

Funding for purposes other than working capital requirements, including the financing of acquisitions, has been provided either through internally generated cash flow or through specific long-term financing arrangements.

Credit Facilities and Sources of Liquidity

As described above, we have a \$1,500.0 million five-year unsecured committed liquidity facility, which we refer to as our liquidity facility with a syndicate of banks. As of September 30, 2009, we had \$642.5 million in outstanding borrowings. We intend to keep \$500.0 million of the amount outstanding at September 30, 2009 under the liquidity facility as long term debt and as part of our capital structure, unless we replace some or all of these borrowings with other long-term debt. The remaining \$857.5 million is available to us as a committed facility. In addition to this \$500.0 million, we have a further \$142.5 million outstanding under the liquidity facility.

The liquidity facility expires on June 15, 2012. Borrowings under this liquidity facility bear interest at a rate per annum equal to either, at our option, (1) a designated fluctuating base rate or (2) a designated fluctuating alternative base rate equal to seven-day or one-, two-, three- or six-month LIBOR plus a margin of 0.40% per annum, at our current senior unsecured non-credit enhanced credit rating from Standard & Poor's and Moody's. We pay a facility fee of 10 basis points per annum. Effective June 13, 2008, in connection with the Two-Year Term Facility and drawdown on the liquidity facility, we increased the interest rate margin by 1.10% per annum only on \$500.0 million outstanding under the liquidity facility. On January 16, 2009, the agreed interest rate increased to 1.50% per annum on the outstanding balance due to a change in our credit ratings. In the event our credit ratings are further downgraded beyond a certain level, the rate on the \$500.0 million outstanding will increase to 1.85% and the rate on other outstanding amounts will increase to 0.525%. The liquidity facility contains financial and other covenants. In general terms, and subject to certain exceptions, we have agreed to maintain a consolidated tangible net worth of not less than \$620.0 million (plus 50% of the proceeds of certain equity offerings and 25% of our consolidated positive net income for each completed fiscal year), and we have agreed not to incur indebtedness through our subsidiaries, incur liens on our assets, merge or consolidate with (or dispose of substantially all of our assets to) any person, engage in material new businesses, engage in transactions with affiliates except on arm's-length terms or fail to satisfy any regulatory net capital or financial resources requirement or comply with applicable laws or regulations. If we fail to pay any amount when due under the facility or to comply with its other requirements, if we fail to pay any amount when due on other

Table of Contents

material debt (defined as \$50.0 million or more in principal) or other material debt is accelerated in whole or in part by the lenders, or upon certain events of liquidation or bankruptcy, an event of default will occur under the liquidity facility. Upon an event of default, all outstanding borrowings, together with all accrued interest, fees and other obligations, under the liquidity facility will become due and we will not be permitted to make any further borrowings under the liquidity facility. At September 30, 2009, we were not in default of our covenants under the liquidity facility.

As previously disclosed, in connection with our evaluation of whether to move our corporate domicile from Bermuda to Delaware, and to afford us flexibility in our decision-making, we obtained an amendment to our liquidity facility to allow us to move (but does not require us to move) our corporate domicile from Bermuda to Delaware by means of a discontinuance, creating a new holding company or similar corporate transaction.

We also have other credit agreements with financial institutions in the form of trading relationships, which facilitate execution, settlement, and clearing flow on a day-to-day basis for our clients, as well as provide evidence, as required, of liquidity to the exchanges on which we conduct business. As of September 30, 2009, we had \$7.0 million of issued letters of credit.

As of September 30, 2009, due primarily to the repayment of our Two-Year Term Facility and in part to an increase in our non-earning assets, our long-term capital decreased to \$1,769.3 million from \$2,019.6 million, as of March 31, 2009. Management views long-term capital as all sources of debt and equity from our consolidated balance sheet which includes excess capital. The decrease is primarily attributable to the repayment of the Two-Year Term Facility during our second fiscal quarter. Our available liquidity and long-term capital decreased by \$55.1 million from \$3,672.6 million for the fiscal year ended March 31, 2009 to \$3,617.5 million for the six months ended September 30, 2009. An analysis of our liquidity position is as follows:

(Dollars in millions)		
	September 30, 2009	March 31, 2009
Client Assets		
Non-Segregated Payables to customers	\$ 1,068.7	\$ 921.5
Non-Segregated Collateral	476.0	515.0
	1,544.7	1,436.5
Undrawn Liquidity Sources		
Liquidity Facility Undrawn Portion ⁽¹⁾	857.5	857.5
	857.5	857.5
Long-Term Capital		
Equity	1,224.9	1,223.6
Preferred Shares (Notional Value)	300.0	300.0
Liquidity Facility	500.0	500.0
Term Loan		240.0
Convertible Notes (Par Value)	205.0	205.0
Less: Non-Earning Assets ⁽²⁾	(460.6)	(449.0)
	1,769.3	2,019.6
Less: Required Capital	(554.0)	(641.0)
Total Available Liquidity and Long-Term Capital⁽³⁾	3,617.5	3,672.6

⁽¹⁾ In October 2008, Lehman Commercial Paper Inc., one of the participating banks with a total commitment amounting to \$75.0 million under our \$1,500.0 million five-year unsecured revolving liquidity facility filed for bankruptcy and, accordingly, we believe Lehman Commercial Paper Inc. will not fund the balance of its loan commitment, which is \$50.0 million. This amount excludes \$142.5 million, which is the short-term portion of the total \$642.5 million outstanding under the liquidity facility.

⁽²⁾

Edgar Filing: MF Global Ltd. - Form 10-Q

Non-earning assets consists of other receivables, memberships in exchanges, furniture, equipment and leasehold improvements, goodwill, intangible assets and other assets.

- (3) These amounts represent the sum of our available liquidity sources and committed and uncommitted long-term capital.

Table of Contents*Analysis of Cash Flows*

We prepare our consolidated statement of cash flows in accordance with U.S. GAAP. This may not reflect our daily cash flows or impact of our clients' transactions on our working capital position. The following tables present, for the periods indicated, the major components of net increases/ (decreases) in cash and cash equivalents:

(Dollars in millions)	Six months ended September 30,	
	2009	2008
Cash flows from:		
Operating activities	\$ 422.2	\$ 77.0
Investing activities	(16.7)	(0.4)
Financing activities	(252.7)	(248.7)
Effect of exchange rate changes	4.8	(22.1)
Net increase in cash and cash equivalents	\$ 157.6	\$ (194.2)

Operating Activities

Net cash provided by operating activities was \$422.2 million in the six months ended September 30, 2009, compared to \$77.0 million in the six months ended September 30, 2008. Net cash from operating activities primarily consists of net income adjusted for certain non-cash items, including depreciation and amortization, gains on sale of exchange seats and shares, stock-based compensation expense and deferred income taxes, as well as the effects of changes in working capital. Additionally, during the six months ended September 30, 2009, we recorded a loss on extinguishment of debt of \$9.7 million related to the early repayment of the Two-Year Term Facility. We also recorded impairment charges of \$1.2 million related to goodwill. Working capital results in the most significant fluctuations to cash flows from operating activities, primarily reflecting (1) the levels of our collateralized financing arrangements, including repurchase and resale agreements, securities borrowing/lending transactions, securities owned and securities sold, not yet purchased, (2) the levels of our restricted cash and (3) payables to customers due to margin and contractual commitments. Collateralized financing arrangements often result in significant fluctuations in cash flows, as cash is often received or used as collateral in these arrangements and therefore, the level of activity in these transactions at period-end directly impacts our cash flows from operating activities, without a specific correlation to our revenues or net income. Therefore, if cash provided under collateralized financing arrangements increased from one period to the next, this will be reflected as a cash outflow from operating activities. In the six months ended September 30, 2009, and 2008, these arrangements resulted in net cash provided of \$4,773.1 million and net cash used of \$1,395.2 million, respectively. These net positions were offset by changes in securities owned and securities sold, not yet purchased in the six months ended September 30, 2009, and 2008, resulting in net cash used of \$5,723.3 million and net cash provided of \$5,098.5 million, respectively. Overall, in the six months ended September 30, 2009, the movements in these collateralized financing arrangements drove the increase in cash flows from operating activities. Furthermore, our levels of restricted cash also impact our operating cash flows, which for the six months ended September 30, 2009 resulted in net cash provided of \$89.9 million compared to \$1,491.3 million for the six months ended September 30, 2008.

Table of Contents

Our client activities generate or use operating cash flows, which we finance through yield enhancement activities discussed below. There has been a change in our balance sheet from March 31, 2009 to September 30, 2009, and we analyze the changes to our client activities and how we have financed this as follows:

(Dollars in billions)	9/30/2009	3/31/2009	Change
Drivers of Liquidity Client Activity			
Receivables Customers, net of allowances	\$ 0.6	\$ 0.4	\$ (0.2)
Payables Customers	(12.2)	(11.9)	0.3
Receivables Brokers, dealers, and clearing organizations	2.7	2.4	(0.3)
Payables Brokers, dealers, and clearing organizations	(2.4)	(1.1)	1.3
Net sources/(uses)			1.1
Yield Enhancement Activities			
Cash and cash equivalents	0.8	0.7	(0.1)
Restricted cash and segregated securities	9.6	9.7	0.1
Securities purchased under agreements to resell	21.6	12.9	(8.7)
Securities sold under agreements to repurchase	(32.4)	(14.4)	18.0
Net			9.3
Securities borrowed	12.1	8.6	(3.5)
Securities loaned	(4.8)	(6.1)	(1.3)
Net			(4.8)
Securities owned, at fair value	11.5	3.6	(7.9)
Securities sold, not yet purchased, at fair value	(5.2)	(2.9)	2.3
Net			(5.6)
Net funding sources/(uses)			(1.1)
Net cash inflow/(outflow)			\$ (0.0)

Investing Activities

Net cash used in investing activities was \$16.7 million during the six months ended September 30, 2009, compared to \$0.4 million for the six months ended September 30, 2008. In general, our investing activities primarily relate to acquisitions and proceeds received from the sales of exchange seats and shares, offset by the purchases of exchange memberships and furniture, equipment and leasehold improvements. In the six months ended September 30, 2009, we used cash of \$15.8 million to purchase furniture, equipment and leasehold improvements and \$1.2 million as contingent consideration for historical acquisitions. In the six months ended September 30, 2008, we received cash of \$21.0 million from the sale of exchange seats and shares, which was offset by \$4.9 million used as additional contingent consideration for the acquisition of FXA Securities, Ltd. in June 2007, as well as \$15.2 million to purchase furniture, equipment and leasehold improvements.

Financing Activities

Net cash used in financing activities was \$252.7 million during the six months ended September 30, 2009, as compared to \$248.7 million for the six months ended September 30, 2008. For the six months ended September 30, 2009, these financing activities mainly related to the early repayment of the outstanding balance under the Two-Year Term Facility of \$240.0 million and the payment of preferred dividends of \$15.4 million, which was offset by an increase of \$3.5 million in other short-term borrowings. For the six months ended September 30, 2008, our financing activities primarily related to changes in our capital structure. These activities included drawing down \$350.0 million from the

Edgar Filing: MF Global Ltd. - Form 10-Q

liquidity facility for purposes of paying down a portion of the \$1,400 million bridge facility taken out in connection with the IPO. In addition, during that period, we issued \$210.0 million in aggregate principal amount of 9.00% Convertible Senior Notes due 2038 (Convertible Notes) and \$150 million in aggregate liquidation preference of 9.75% Non-Cumulative Convertible Preference Shares, Series B, which yielded proceeds of \$128.9 million, net of issuance of costs in each case, which was partially offset by a repayment of other short-term borrowings of \$35.8 million.

Table of Contents***Dividend Policy***

We currently do not intend to pay any cash dividends on our common shares in the foreseeable future. We intend to retain all our future earnings, if any, to fund the development and growth of our business. Any future determination whether or not to pay dividends on our common shares will be made, subject to applicable law, by our board of directors and will depend upon our results of operations, financial condition, capital requirements, regulatory and contractual restrictions, our business and investment strategy and other factors that our board of directors deems relevant.

Replacement Capital Covenant

On July 18, 2008, in connection with the issuance of the Cumulative Convertible Preference Shares, Series A (the Series A Preference Shares), we entered into a replacement capital covenant, whereby we agreed for the benefit of certain of our debtholders identified therein, including initially the holders of our Convertible Notes, that we would not redeem or repurchase the Series A Preference Shares on or before July 18, 2018 except out of the proceeds from the issuance of certain qualified equity and/or equity-related securities and pursuant to the other terms and conditions set forth in the replacement capital covenant. As of the date of this report, our only debt that receives the benefit of our obligations under the replacement capital covenant is our Convertible Notes. This description of the replacement capital covenant is a summary and does not purport to be a complete description of all the terms and it is qualified in its entirety by reference to the replacement capital covenant, which was filed on July 18, 2008 with our Current Report on Form 8-K as Exhibit 1.1 filed.

Contractual Obligations

Other than the early repayment of the Two-Year Term Facility discussed above, there were no other material changes to the contractual obligations table as stated in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009.

Off-Balance Sheet Arrangements and Risk

We are a member of various exchanges and clearing organizations. Under standard membership agreements, members are required to guarantee the performance of other members and, accordingly, if another member becomes unable to satisfy its obligations to the exchange, all other members would be required to meet the shortfall. Our liability under these arrangements is not quantifiable and could exceed the cash and securities we have posted as collateral. However, management believes that the potential for us to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried in the accompanying consolidated balance sheets for these arrangements.

Our client financing and securities settlement activities require us to pledge client securities as collateral in support of various secured financing sources, such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return client securities pledged as collateral, we may be exposed to the risk of acquiring securities at prevailing market prices in order to satisfy our client obligations. We control this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, we establish counterparty limits for such activities and monitor compliance on a daily basis.

In the normal course of business, our client activities involve the execution, settlement and financing of various client transactions. These activities may expose us to off-balance sheet risk in the event our client or the other broker is unable to fulfill its contracted obligations and we have to purchase or sell the financial instrument underlying the contract at a loss. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is our policy to review, as necessary, the credit standing of each counterparty with which we conduct business. See *Liquidity and Capital Resources* *Credit Facilities and Sources of Liquidity* above for discussions of letters of credit issued to our clients.

Other Recent Developments

In June 2009 we advanced our strategy of diversifying our product offerings by launching our Alternative Investment Strategies (AIS) group. The AIS group will provide qualified retail and institutional investors with access to the managed futures sector through a direct asset placement program of managed accounts. In addition to the direct access placement program, the AIS group intends to enter the fund management business with the launch of a managed futures fund, which we expect will diversify our revenue sources with revenue that is less dependent on market conditions.

Table of Contents

Fair Value of Financial Instruments

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

We adopted the provisions of a new accounting standard as of April 1, 2008. This new standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. For financial instruments measured at fair value, changes in fair value are recognized in earnings within Principal transactions in the consolidated statements of operations. Consistent with market convention, we mark our financial instruments based on product class which is generally bid or mid price. Fair value measurements are not adjusted for transaction costs.

Credit risk is a component of fair value and represents the loss we would incur if a counterparty or an issuer of securities or other instruments we hold fails to perform under its contractual obligations to us, or upon a deterioration in the credit quality of third parties whose securities or other instruments, including OTC derivatives, we hold. To reduce our credit exposures in our operating activities, we generally enter into agreements with our counterparties that permit us to offset receivables and payables with such counterparties and obtain margin and/or collateral from the counterparty on an upfront and ongoing basis. We monitor and manage our credit exposures daily, as discussed in Item 3, Quantitative and Qualitative Disclosures about Market Risk. We have considered the impact of counterparty credit risk in the valuation of our assets and our own credit spreads when measuring the fair value of liabilities, including derivatives.

Securities owned, Securities sold, not yet purchased, certain Securities purchased under agreements to resell, certain Securities sold under agreements to repurchase, certain Securities borrowed and derivative transactions are carried at fair value and are classified and disclosed in the following categories:

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

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

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

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

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

Table of Contents

In determining the appropriate fair value hierarchy levels, we perform a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. Refer to Note 17 to the consolidated financial statements, Fair Value Measurements and Derivative Activity, for the analysis prepared as of September 30, 2009.

Critical Accounting Policies and Estimates

The preparation of our unaudited consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our unaudited consolidated financial statements and on the reported amounts of revenues and expenses during the reporting period. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. We consider these accounting estimates to be critical because changes in underlying assumptions or estimates could have the potential to materially impact our financial statements. We believe that certain of these policies are critical because they are important to the presentation of our financial condition and results. On an ongoing basis, we evaluate our estimates and assumptions, particularly as they relate to accounting policies that we believe are most important to the presentation of our financial condition and results of operations. We regard an accounting estimate or assumption to be most important to the presentation of our financial condition and results of operations where the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and the impact of the estimate or assumption on our financial condition or operating performance is material.

Our critical accounting policies and estimates are summarized in Item 7 of our 2009 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU No. 2009-12). The guidance in ASU No. 2009-12 amends certain sections in ASC 820, which discusses accounting for fair value measurements and disclosures. The amendments permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value is calculated in a manner consistent with U.S. GAAP for investment companies as of the reporting entity's measurement date. The amendments also require disclosures by major category of investment to be determined on the basis of the nature and risks of the investment. We will adopt ASU No. 2009-12 in the third quarter of our fiscal 2010 and recorded our investment in an alternative fund in accordance with the requirements of this update.

In August 2009, the FASB issued ASU No. 2009-5, *Measuring Liabilities at Fair Value* (ASU No. 2009-5). This Update provides amendments to ASC 820, for the fair value measurement of liabilities. It requires a reporting entity to measure the fair value of a liability using certain valuation techniques when a quoted price in an active market for the identical liability is not available. A reporting entity is not required to include a separate input or adjustment relating to the existence of a restriction that prevents the transfer of a liability when fair valuing that liability. The amendments in this Update also clarify the hierarchy of the fair value measurements to be used for a quoted price in an active market for the identical liability at the measurement date as well as for the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required. We will adopt ASU No. 2009-5 in the third quarter of our fiscal 2010 and are currently evaluating the impact it will have on our consolidated financial statements upon adoption.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*, which was superseded by ASC 105. In September 2009, the FASB also issued ASU No. 2009-01, *Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168 - The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASU No. 2009-01). ASC 105 and ASU No. 2009-01 establishes the FASB Accounting Standards Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date, the Codification superseded all then-existing, non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in ASC 105 and ASU No. 2009-01 will become non-authoritative. ASC 105 and ASU No. 2009-01 are effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted ASC 105 and ASU No. 2009-01 in the second quarter of our fiscal 2010 and made reference to accounting and reporting standards on our consolidated financial statements in accordance with ASC 105 and ASU No. 2009-01 upon adoption.

Table of Contents

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 requires an enterprise to determine the primary beneficiary (or consolidator) of a variable-interest entity (VIE) based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. SFAS No. 167 changes the consideration of kick-out rights in determining if an entity is a VIE which may cause certain additional entities to now be considered VIEs. SFAS No. 167 is effective at the start of a company's first fiscal year beginning after November 15, 2009. We will adopt SFAS No. 167 in the first quarter of fiscal year 2011 and are currently evaluating the impact it will have on our consolidated financial statements upon adoption.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140* (SFAS No. 166). SFAS No. 166 aims to improve the visibility of off-balance sheet vehicles currently exempt from consolidation and addresses practical issues involving the accounting for transfers of financial assets as sales or secured borrowings. SFAS No. 166 also introduces the concept of a participating interest, which will limit the circumstances where the transfer of a portion of a financial asset will qualify as a sale, assuming all other derecognition criteria are met. Furthermore, it clarifies and amends the derecognition criteria for determining whether a transfer qualifies for sale accounting. SFAS No. 166 is effective as of the beginning of an entity's first annual reporting period beginning after November 15, 2009. We will adopt SFAS No. 166 in the first quarter of fiscal year 2011 and are currently evaluating the impact it will have on our consolidated financial statements upon adoption.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, which was superseded by ASC 260-10-45 (ASC 260-10-45). The guidance in ASC 260-10-45 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. ASC 260-10-45 is effective for financial statements issued for fiscal years beginning after December 15, 2008. We adopted ASC 260-10-45 in the first quarter of fiscal 2010 with no material impact to our consolidated financial statements.

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, which was superseded by ASC 470-20. ASC 470-20 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. We adopted ASC 470-20 in the first quarter of fiscal 2010. See Note 1 for further details on the impact of adoption.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51*, which was superseded by certain sections in ASC 810. ASC 810 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. We adopted the guidance in the first quarter of fiscal 2010. See Note 1 for further details on the impact of adoption.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to numerous risks in the ordinary course of our business and effective risk management is critical to the success of our business. We have a comprehensive risk management structure and processes to monitor, evaluate and manage the principal risks we assume in conducting our business. The principal risks we face include:

market risk;

credit risk;

regulatory capital risk;

liquidity risk; and

operational risk.

Market Risk

Market risk is defined as the risk of loss that arises from fluctuations in values of, or income from, assets and liabilities as a result of movements in market rates or prices. We are exposed to a degree of market risk inherent in conducting our business and managing the assets and liabilities of our global operations including, interest rate and foreign exchange risk and, to a lesser extent, equity and commodity risk.

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments that we hold. We are exposed to interest rate risk on various forms of debt that we owe, client cash and margin balances and positions we carry in fixed income securities, equity securities, options and futures. To manage the assets and liabilities of our company and related interest obligations we invest in various financial instruments in accordance with our internal risk policy.

Any changes in interest rates can adversely change our interest income relative to our interest expenses. Where we invest in financial instruments, the interest rate risk is closely managed, and we may seek to mitigate the associated interest rate risk by using a combination of cash instruments and listed and OTC derivatives to hedge our exposure.

Foreign exchange risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments and the value of our assets located outside of the United States. We are exposed to movements in foreign exchange rates since we must keep part of our assets and liabilities denominated in foreign currencies to meet operational, expense, regulatory and other obligations of our non-U.S. operations.

Our revenues and expenses are denominated primarily in U.S. dollars, British pounds and Euros. The largest percentage of our revenues is denominated in U.S. dollars while a large portion of our non-U.S. dollar expenses is denominated in British pounds. As a result, our earnings can be affected by changes in the U.S. dollar/British pound and U.S. dollar/Euro exchange rates and to a lesser extent to other currencies including those of the Asia Pacific region. We may seek to mitigate our exposures to foreign currency exchange rates through hedging transactions.

The table below shows the approximate increase in our other expenses for the six months ended September 30, 2009 due to instantaneous adverse movements in currency exchange rates of 10% on our major currency exposures against the U.S. dollar:

Adverse exchange rate movement against the U.S. dollar	Approximate increase in General and Other expenses (in millions)
---	---

Edgar Filing: MF Global Ltd. - Form 10-Q

British pound	10%	\$	5.4
Australian dollar	10%	\$	0.7
Euro	10%	\$	0.6
Singapore dollar	10%	\$	0.6

Further, although we generally execute transactions on a matched principal basis, the market risk exposure reflected in the value-at-risk measure noted below includes the risk associated with limited interest rate, foreign exchange, equity and commodity positions taken for our own account to support and facilitate client orders as well as limited relative value positions taken by the business.

Table of Contents**Value-At-Risk**

Value-at-risk is an estimate of the potential loss in value of our principal positions due to adverse market movements over a defined time horizon within a specified confidence level.

As of September 30, 2009, our end-of-day historical simulation value-at-risk for our financial instrument positions, estimated at a 95% confidence level over a one-day time horizon, was \$4.1 million. This calculation excludes exchange shares, U.S. treasury securities deposited at commodity clearing organizations, our held-to-maturity portfolio and investments of segregated client funds.

The modelling of the risk characteristics of our principal positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no standard methodology for estimating value-at-risk, and different assumptions and/or approximations could produce materially different estimates of value-at-risk.

We use the historical simulation approach to estimate our value-at-risk, which involves constructing a distribution of hypothetical daily changes in the value of our positions based on market risk factors embedded in the current portfolio and historical observations of daily changes in these factors. Our method uses historical data in simulating potential changes in market risk factors.

It is implicit in a historical simulation value-at-risk methodology that positions will have offsetting risk characteristics, referred to as a diversification benefit. We measure the diversification benefit within our portfolio by historically simulating how the positions in our current portfolio would have behaved in relation to each other based on historical market conditions (as opposed to using a static estimate of a diversification benefit, which remains relatively constant from period to period). Thus, from time to time there will be changes in our historical simulation value-at-risk due to changes in the diversification benefit across our portfolio of financial instruments.

Value-at-risk measures have inherent limitations including:

historical market conditions and historical changes in market risk factors may not be accurate predictors of future market conditions or future market risk factors;

value-at-risk measurements are based on current positions, while future risk depends on future positions;

value-at-risk measurements are based on a one day measurement period and do not fully capture the market risk of positions that cannot be liquidated or hedged within one day; and

value-at-risk is not intended to capture worst case scenario losses and we could incur losses greater than the value-at-risk amounts reported.

The table below presents the quarterly average, minimum and maximum trading value-at-risk.

Risk Categories ⁽¹⁾ (Dollars in thousands)	Average	September 30, 2009	
		Minimum	Maximum
Energy	\$ 160	\$ 53	\$ 243
Equities	214		320
Foreign Exchange	181	78	261
Interest Rate	4,414	3,982	5,273
Metals	177	160	198
Agricultural products	136	72	203
Diversification effect ⁽²⁾	(841)	(395)	(1,260)

Total	\$ 4,441	\$ 3,950	\$ 5,238
-------	----------	----------	----------

- (1) Engaging in matched-principal transactions and other transactions exposes us to market risk. We take positions for our own account primarily to facilitate the execution of existing client orders or in anticipation that future client orders will become available to fill the other side of the transaction. In the future, we may increase our principal trading activities and, as a result, our exposure to market risk, as reflected in our trading value-at-risk, could increase.
- (2) The difference between total value-at-risk and the sum of the value-at-risk for the six risk categories. This arises because the market risk categories are not perfectly correlated.

Table of Contents

Credit Risk

Credit risk is the possibility that we may suffer a loss from the failure of clients or counterparties to meet their financial obligations at all or in a timely manner. Our business, acting as both an agent and principal in providing execution and clearing services for listed and OTC transactions, exposes us to credit risk. Sources of our exposure to credit risk are described under Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, and includes exposure to:

Counterparties with whom we place both our own funds or securities and those of our clients;

Issuers of the securities that we hold for our own account, either directly or indirectly;

Client and counterparty losses arising from adverse market moves that they are unable or unwilling to meet;

Clients and counterparties to whom we extend financing lines;

Clients and counterparties through clearing and settlement operations;

Clients who owe us commissions; and

Credit concentration risks.

In addition to the exposures described above and as discussed in the risk factors section of our Annual Report on Form 10-K, we are also exposed to risks arising from doing business in international markets that may increase our counterparty and customer risk. For example, local laws could be unfavorable to our business or favor our customers, competitors and counterparties in an unanticipated manner; local laws or potentially unstable or adverse political climates may increase the difficulty in enforcing the contractual obligations of our clients; and the regulatory requirements in some of the markets in which we operate may not be clearly defined and subject to unexpected changes, which could hinder or prevent us from seeking recourse in the event of counterparty or client default.

Our exposure to the credit risks associated with our clients' trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Our credit exposures arise both in relation to contractual positions that are essentially fixed in amount, such as bank deposits, and also in relation to derivative contracts whose values change as market prices change. For such derivative contracts, the credit risk does not depend solely on the current value of the contract, but also on the potential value of the exposure (net of any margin held as collateral).

Our default risks include both pre-settlement and settlement risk. Pre-settlement risk is the possibility that, should a counterparty default on its obligations under a cash or derivative contract, we could incur a loss when we cover the resulting open position because the market price has moved against us. Settlement risk is the possibility that we may pay or release assets to a counterparty and fail to receive the settlement in turn.

Our sources of credit risk are managed and controlled as follows:

We have an independent global credit function that performs credit reviews of our counterparties and clients. The credit process includes undertaking due diligence, financial analysis, reviewing past and intended trading activities, as well as internally rating our clients. The credit review process also includes assigning counterparty or client level trading and position limits, issuer limits, country limits and other types of credit limits to control and limit our credit exposure to individual counterparties as well as to credit concentrations. The limits that are assigned are reflective of the various elements of the assessed credit risk and are revised given changes in the credit profile of the counterparty.

Edgar Filing: MF Global Ltd. - Form 10-Q

For margined transactions, a large portion of our clearing business, our clients are required to maintain margin accounts with collateral to support their open trading positions. Most clients are required to cover initial and variation margin requirements within 24 hours. Our principal credit risk arises when we must pay the required margin to exchanges as a clearing member before we receive margin from clients during this period. Although we initially establish each client's margin requirement at the level set by the respective exchanges, we have the ability to increase the requirements to levels we believe are sufficient to cover their open positions. However, where a client's trading activity or adverse market changes may cause that client's margin collateral to be inadequate to support their trading obligations, we are exposed to a potential credit loss. To assess the adequacy of margins in changing market environments we conduct a variety of stress tests and, if required, intra-day margin calls are made on clients that reflect market movements affecting client positions. We also generally reserve the right to liquidate any client position immediately in the event of a failure to meet a margin call.

Table of Contents

When we act as clearing broker we are responsible to our client for the performance of the other party. The risk that our client's counterparty may fail to perform as expected is mitigated when we clear through an exchange or clearinghouse because the exchange or clearinghouse becomes the other party to our transaction. However, if a clearing member defaults on its obligations to an exchange or clearinghouse in an amount larger than its margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of other clearing members. Therefore, if we are a member of a clearinghouse or exchange, we could incur losses resulting from the defaults of other market participants. Although we set limits to control these exposures at the exchange and clearinghouse, the risk is inherent in our business and is largely controlled and influenced by the regulatory bodies that impose rules on the exchanges and clearinghouses.

In line with market practices, we may grant secured (collateralized) and unsecured financing to some of our clients subject to various regulatory and internal requirements to enable them to post initial and variation margin as well as to provide financing in re-purchase agreement transactions. Generally, the financing lines we provide to clients and counterparties are uncommitted lines which we can rescind at any time and are granted based on the supporting information such as client financials, ratings, and credit due diligence.

Many of our exposures with clients and counterparties are subject to netting agreements which reduce the net exposure to us.

For execution-only clients, our principal credit risk arises from the potential failure of our clients to pay commissions (commission risk). We are also exposed to the risk that a clearing broker may refuse to accept a client's trade, which would require us to assume the positions and the resulting market risk. In such cases, the positions are reconciled with the broker or liquidated.

In addition to the credit review process, we employ a number of stress-testing and other techniques to closely monitor the market environment and our client's risk of default based upon the exposure created by their open positions. These techniques may include:

establishing risk parameters based on analysis of historical prices and product price volatility;

intra-day and end-of-day risk limit, position and trade monitoring to identify any accounts trading beyond pre-set limits and parameters;

market risk analysis and evaluation of adequacy of margin requirements for traded products; and

intra-day stress analysis for material market moves or accounts with material position taking.

Regulatory Capital Risk

We are required by various domestic and foreign governmental bodies and self-regulatory organizations responsible for overseeing our business activities to maintain specified minimum levels of regulatory capital in some of our operating subsidiaries. If not properly monitored and adjusted, our regulatory capital levels could fall below the required minimum amounts set by our regulators, which could expose us to various sanctions ranging from fines and censure to imposing partial or complete restrictions on our ability to conduct business.

To mitigate this risk, we continuously evaluate the levels of regulatory capital at each of our operating subsidiaries and adjust the amounts of regulatory capital as necessary to ensure compliance with all regulatory capital requirements. Regulatory authorities may increase or decrease these requirements from time to time. We also maintain excess regulatory capital to accommodate periods of unusual or unforeseen market volatility, and we intend to continue to follow this policy. In addition, we monitor regulatory developments regarding capital requirements and prepare for increases in the required minimum levels of regulatory capital that may occur from time to time in the future. For example, we are currently awaiting confirmation from the United Kingdom's Financial Services Authority on the level of future European capital requirements, which are being changed as a consequence of the rule changes arising from the implementation of the European Union's Capital Requirements Directive on January 1, 2008.

Liquidity Risk

In normal conditions, our core business, providing execution and clearing brokerage services, does not generally present a substantial cash liquidity risk—that is, the risk that in the normal course of business we are unable to generate cash resources to meet our payment obligations as

they arise. However, we may be exposed to cash liquidity risk under adverse market conditions or unexpected events.

Under adverse market conditions, our cash liquidity risk related to our exchange clearing activity may be heightened to the extent that we are required to satisfy obligations relating to open client positions that exceed the amount of collateral available in their

Table of Contents

margin accounts. We seek to mitigate this possibility by observing all relevant exchange margin requirements, and maintaining our own, in many cases more stringent, margin requirements, which are intended to ensure that clients will be able to cover their positions in most reasonably foreseeable economic environments.

To manage our liquidity risk we have established a liquidity policy that seeks to ensure that we maintain access to sufficient, readily available liquid assets and committed liquidity facilities. These are available to both our unregulated and regulated subsidiaries to ensure that we can meet our financial obligations as they become due under both normal and adverse market conditions. We also evaluate the impact of adverse market conditions on our liquidity risk and adjust our liquid assets appropriately.

Our policy requires that we have sufficient liquidity to satisfy all of our expected cash needs for at least one year without access to the capital markets. In June 2007, we entered into a \$1,500.0 million five-year revolving unsecured credit facility with a syndicate of banks (\$857.5 million of which is undrawn at September 30, 2009). In October 2008, Lehman Commercial Paper Inc., one of the participating banks of the aforementioned credit facility, with a total commitment amounting to \$75.0 million, filed for bankruptcy and, accordingly, we believe Lehman Commercial Paper Inc. will not fund the balance of its loan commitment, which is \$50.0 million. We also have other uncommitted credit agreements with financial institutions in the form of trading relationships to support the business in respect of settlement and intra-day requirements. We anticipate accessing these facilities and credit lines from time to time.

Operational Risk

Operational risk is defined as the risk of loss or other adverse consequence arising from inadequate or failed internal processes, people and systems or from external events. Consistent with our competitors, our operations are exposed to a broad number of these types of risks which could have a significant impact on our business. To mitigate loss, we have established an independent operational risk department designed to ensure application of a globally consistent operational risk management framework. We are also implementing firm-wide policies, standards and processes for risk identification, assessment, mitigation and reporting in order to create a more transparent and accountable operational risk environment.

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

As a diversified financial services firm, we also rely on an extensive technology platform that includes the utilization of vendor services and software as well as internally developed applications. We mitigate our technology exposures through the implementation of standard controls, contractual agreements and performance monitoring. More broadly, we have an on-going business continuity management program designed to enable the organization to recover and restore business activities in the event of a disaster or other business disruption.

As deemed prudent, we seek to mitigate the financial effect of certain operational risk events through insurance coverage and may hold economic capital to absorb potential losses.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of and for the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

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

Unauthorized Trading Incident of February 26/27, 2008

One of our brokers, Evan Dooley, trading for his own account out of a Memphis, Tennessee branch office through one of our front end order entry systems, Order Express, put on a significant wheat futures position during the late evening of February 26, 2008 and early morning of February 27, 2008. The positions were liquidated at a loss of \$141.0 million on February 27, 2008. The trades were unauthorized and because the broker had no apparent means of paying for the trades, we, as a clearing member of the exchange, were required to pay the \$141.0 million shortfall. The exchange and regulators were immediately notified, the broker was promptly terminated, and a public announcement of the loss was made by us the next day. As a result of this unauthorized trading incident:

Class Action Suits. We, Man Group, certain of our current and former officers and directors, and certain underwriters for the IPO have been named as defendants in five actions filed in the United States District Court for the Southern District of New York. These actions, which purport to be brought as class actions on behalf of purchasers of MF Global stock between the date of the IPO and February 28, 2008, seek to hold defendants liable under §§ 11, 12 and 15 of the Securities Act of 1933 for alleged misrepresentations and omissions related to our risk management and monitoring practices and procedures. The five purported shareholder class actions have been consolidated for all purposes into a single action. We made a motion to dismiss which has been granted, with plaintiff having a right to replead and/or appeal the dismissal. Plaintiffs made a motion to replead by filing an amended complaint, which was denied. Plaintiffs have appealed. Because the motion to dismiss was made before discovery, the litigation is in its early stages, and in the event plaintiffs successfully appeal we believe we have meritorious defenses. Therefore, no provision for losses has been recorded in connection with this matter.

The U.S. Attorney's Office, Chicago Examination. The U.S. Attorney's Office in Chicago, Illinois is examining Mr. Dooley and the unauthorized trades. We have been cooperating with the U.S. Attorney's Office, which has informed us that we are not a target of their investigation, and that Mr. Dooley is a target.

Commodity Futures Trading Commission Investigation. The CFTC has issued a formal order of investigation naming us and Mr. Dooley. The CFTC, in coordination with the Chicago Mercantile Exchange (CME), has been collecting documentation from us and taking depositions of our employees. The CFTC and CME investigation is ongoing and it is not yet certain what actions the CFTC and/or the CME might take. We established an accrual of \$10.0 million in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to below under the captions, "Commodity Futures Trading Commission Potential Action" and "CFTC Natural Gas Price Information Investigation". This is our best estimate and there is no assurance that the \$10.0 million accrual will be sufficient for these purposes or that the CFTC will not require remedial measures. We established an accrual of \$0.5 million in the three months ended September 30, 2009 for the CME matter.

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

Insurance Claim. We filed a claim under our Fidelity Bond Insurance (the Bond), which provides coverage for wrongful or fraudulent acts of employees, seeking indemnification for this loss. After months of investigation, our Bond insurers have denied payment of this claim based on certain definitions and exclusions to coverage in the Bond. They have also initiated an action against us in the Supreme Court of the State of New York seeking a declaration that there is no coverage for this loss under the Bond. We

Edgar Filing: MF Global Ltd. - Form 10-Q

believe the insurers' position to be in error and have filed a counterclaim in order to seek to enforce our right to payment in court.
Commodity Futures Trading Commission Potential Action

In May 2007, our U.S. operating subsidiary, MF Global Inc., formerly known as Man Financial Inc, and two of our individual employees received what is commonly referred to as a "Wells notice" from the staff of the Division of Enforcement of the CFTC. The notice relates to two trades that we executed in 2004 for a customer and reported to NYMEX. In the notice, Division of Enforcement

Table of Contents

staff indicated that it is considering recommending to the Commission that a civil proceeding be commenced against us and the two individuals, in which the Commission would assert that we and the two individuals violated Section 9(a)(4) of the Commodity Exchange Act, which generally prohibits any person from willfully making any false, fictitious, or fraudulent statements or representations, or making or using any false writing or document knowing the same to contain any false, fictitious, or fraudulent statement to a board of trade. The Division of Enforcement staff contends that we and the individuals presented or participated in the submission of information to the exchange that falsely represented the dates on which the trades in question occurred. We and the individuals dispute the contentions of the Division of Enforcement staff and have submitted a written statement to the Division of Enforcement, setting forth the reasons why we believe no proceeding should be brought. It is not yet certain what action the CFTC will take. We established an accrual of \$10.0 million in fiscal 2008 to cover the potential CFTC civil monetary penalties in this matter and the two matters referred to under the captions, *Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation* and *CFTC Natural Gas Price Information Investigation*. This is our best estimate and there is no assurance that the \$10.0 million accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

CFTC Natural Gas Price Information Investigation

We have been cooperating in an investigation conducted by the U.S. Attorney's Office in the Southern District of New York, which has brought an indictment in a related matter, and by a New York County Grand Jury. The CFTC and the SEC have also been involved in the investigation and each has brought cases in related matters. The investigation centers around trading by a market making energy trader at Bank of Montreal (BMO) who allegedly mismarked his book. One of our brokers did business with the BMO trader and used bid and offer prices for forward OTC trades the BMO trader sent to him as a basis for prices which our broker disseminated to our customers, including BMO, as price indications that reflected a consensus. We have been told that neither we nor our broker are targets of the Grand Jury investigation. In connection with this investigation, we have been served by the CFTC with a Wells notice in anticipation of civil charges against the broker under the anti-fraud provisions of CFTC Regulation 33.10 and us with derivative liability for the broker's actions. The CFTC investigation is ongoing and it is not yet certain what action the CFTC may take against us or our broker. We established an accrual of \$10.0 million in fiscal 2008 to cover the potential of CFTC civil monetary penalties in this matter and the two matters referred to above under the captions, *Unauthorized Trading Incident of February 26/27, 2008 Commodity Futures Trading Commission Investigation* and *Commodity Futures Trading Commission Potential Action*. This is our best estimate and there is no assurance that the \$10.0 million accrual will be sufficient for these purposes or that the CFTC will not require remedial measures.

Bank of Montreal (BMO)

On August 28, 2009, BMO instituted suit against us and our former broker, Joseph Saab (as well as a firm named Optionable, Inc. and five of its principals or employees), in the United States District Court for the Southern District of New York. In its complaint, BMO asserts various claims against all defendants for their alleged misrepresentation of price quotes to BMO's Market Risk Department (MRD) as independent quotes when defendants knew, or should have known, that David Lee, BMO's trader, created the quotes which, in circular fashion, were passed on to BMO through our broker, thereby enabling Lee substantially to overvalue his book at BMO. BMO further alleges that we and Saab knew that Lee was fraudulently misrepresenting prices in his options natural gas book and aided and abetted his ability to do so by our actions in sending price indications to the BMO MRD, and substantially assisted Lee's breach of his fiduciary duties to BMO as its employee. The facts underlying this action also relate to the on-going CFTC natural gas price information investigation described above in *CFTC Natural Gas Price Information Investigation*. The Complaint seeks to hold all defendants jointly and severally liable and, although it does not specify an exact damage claim, it claims CAD 680.0 million (approximately \$635.9 million) as a pre-tax loss for BMO in its natural gas trading, and claims that it would not have paid brokerage commissions to us (and Optionable, Inc.), would not have continued Lee and his supervisor as employees at substantial salaries and bonuses, and would not have incurred substantial legal costs and expenses to deal with the Lee mispricing. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

Parabola/Tangent

In December 2006, Parabola/Tangent filed a claim in the Commercial Court in London against us and one of our brokers alleging alternatively fraudulent and negligent misrepresentation and breach of fiduciary duty in connection with execution-only accounts that were active in our London office between July 2001 and February 2002. The claimants sought £3.2 million (approximately \$5.3 million) in damages and speculative claims, including claims for lost profits, of up to an additional £28.0 million (approximately \$46.1 million). Mediation began in April 2008 but was not successful and a trial began in March 2009. In May 2009 a judgment was rendered in favor of the plaintiff and against us in the amount of £19.29 million plus interest and costs. We have appealed this judgment. An expense of \$8.0 million was recorded in the three months ended March 31, 2009 in connection with this litigation, based on the judgment rendered, after adjusting for insurance proceeds of \$23.5 million.

Table of Contents*Eagletech Communications Inc., et al. v. Citigroup, Inc. et al.*

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

Amacker v. Renaissance Asset Management Fund et. al.

In December 2007, we, along with four other futures commission merchants (FCMs), were named as defendants in an action filed in the United States District Court in Corpus Christi, Texas by 47 individuals who were investors in a commodity pool (RAM I LLC) operated by Renaissance Asset Management LLC. The complaint alleges that we and the other defendants violated the Commodity Exchange Act and alleges claims of negligence, common law fraud, violation of a Texas statute relating to securities fraud and breach of fiduciary duty for allegedly failing to conduct due diligence on the commodity pool operator and commodity trading advisor, having accepted executed trades directed by the commodity trading advisor, which was engaged in a fraudulent scheme with respect to the commodity pool, and having permitted the improper allocation of trades among accounts. The plaintiffs claim damages of \$32.0 million, plus exemplary damages, from all defendants. All of the FCM defendants moved to dismiss the complaint for failure to state a claim upon which relief may be granted. Following an initial pre-trial conference, the court granted plaintiffs leave to file an amended complaint. On May 9, 2008, plaintiffs filed an amended complaint in which plaintiffs abandoned all claims except a claim alleging that the FCM defendants aided and abetted violations of the Commodity Exchange Act. Plaintiffs now seek \$17.0 million in claimed damages plus exemplary damages from all defendants. We filed a motion to dismiss the amended complaint which was granted by the court and appealed by the plaintiffs. The case is at its earliest stages so it is not possible to determine our exposure, if any. In any event, we intend to vigorously defend this matter. No provision for losses has been recorded in connection with this litigation.

Leaderguard Matter

Proceedings had been instituted against our U.K. subsidiary by the liquidator of Leaderguard Spot Forex Limited (LSF), a Mauritius based investment firm that became insolvent in March 2005. Our U.K. subsidiary (originally through GNI Limited and then Man Financial Limited) provided foreign exchange broking services to two companies in the Leaderguard group between 2001 and 2005. The claim alleged, inter alia, that we were complicit in assisting the directors of various Leaderguard group companies to breach fiduciary duties owed by such directors to their companies and that we knowingly benefited from assets received in breach of such fiduciary duties. The claim further alleged we are liable to account for funds lost through transactions executed by such directors with our U.K. company which are alleged to amount to \$18.0 million. The Leaderguard liquidator dismissed the action on July 17, 2009. No provision for losses was recorded in connection with this matter.

Class Action Suit

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

Table of Contents

Voiran Trading Limited

On December 29, 2008, we received a letter before action from solicitors on behalf of Voiran Trading Limited (Voiran) which has now brought an LME arbitration proceeding. The letter and arbitration proceeding alleges that our U.K. affiliate was grossly negligent in advice it gave to Voiran between April 2005 and April 2006 in relation to certain copper futures contracts and claims \$37.6 million in damages. This litigation is in its very earliest stages. No provision for losses has been recorded in connection with this matter.

Sentinel Bankruptcy

The Liquidation Trustee (Trustee) for Sentinel Management Group, Inc. (Sentinel) sued MF Global Inc. in June 2009 on the theory that our withdrawal of \$50.2 million within 90 days of the filing of Sentinel s bankruptcy petition on August 17, 2007 is a voidable preference under Section 547 of the Bankruptcy Code and, therefore, recoverable by the Trustee, along with interest and costs. We believe there are substantial defenses available to us and we intend to resist the Trustee s attempt to recover those funds from us. In addition, to the extent the Trustee recovered any funds from us, we would be able to assert an offsetting claim in that amount against the assets available in Sentinel s bankruptcy case. The matter is in its early stages and litigation has just commenced. No provision for losses has been recorded in connection with this claim.

Agape World

In May 2009, investors in a venture set up by Nicholas Cosmo sued Bank of America and us, among others, in the United States District Court for the Eastern District of New York, alleging that we, among others, aided and abetted Cosmo and related entities in a Ponzi scheme in which investors lost \$400.0 million. We have made a motion to dismiss which is currently pending before the court. The litigation is in its earliest stages. We believe we have meritorious defenses and intend to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Phidippides Capital Management/Mark Trimble

In the late spring of 2009, we were sued in Oklahoma State Court by customers who were substantial investors with Mark Trimble and/or Phidippides Capital Management. Trimble and Phidippides may have been engaged in a Ponzi scheme. Plaintiffs allege that we materially aided and abetted Trimble s and Phidippides violations of the anti-fraud provisions of the Oklahoma securities laws and they are seeking damages in excess of \$0.01 million each. We made a motion to dismiss which was granted by the court. Plaintiffs have appealed. We believe we have meritorious defenses and intend to vigorously defend this matter. No provision for losses has been recorded in connection with this matter.

Man Group Receivable

In late April 2009, we formally requested that Man Group (our largest shareholder at the time and former parent company) make a payment of \$29.8 million that Man Group owes to us in connection with the recapitalization of our balance sheet at the time of the IPO in fiscal 2008. Man Group has demanded arbitration and we have agreed to an arbitration by the London Court of International Arbitration. As a result of this unresolved claim, at March 31, 2009, we recorded a receivable of \$29.8 million in equity. If we prevail in our claim, we would expect to restore our equity by the amount we receive from Man Group (if any) and, if we are not successful, we would expect to write off the receivable to additional paid in capital and not to increase our equity. The reduction in equity does not affect amounts reported in our earnings, our income statement or our cash position for any prior period and we do not expect the resolution of the claim, whether favorable to us or not, to affect our earnings or our income statement for the current or any future period, although any amounts we recover would increase our cash position. This matter is in its very earliest stages and we intend to pursue this claim vigorously.

Morgan Fuel/Bottini Brothers

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

MF Global Market Services LLC v. Anthony Bottini, Jr., Brian Bottini and Mark Bottini, FINRA No. 08-03673. On October 6, 2008, Market Services commenced an arbitration against the Bottinis before the Financial Industry Regulatory Authority (FINRA) to

Edgar Filing: MF Global Ltd. - Form 10-Q

recover \$8.3 million, which is the amount of the debt owed to Market Services by Morgan Fuel after the liquidation of the swap transactions. Each of the Bottinis executed a guaranty in favor of Market Services personally and unconditionally guaranteeing payment of the obligations of Morgan Fuel upon written demand by Market Services. Market Services asserted a claim of breach of contract based upon the Bottinis' failure to honor the guarantees.

Table of Contents

Morgan Fuel v. MFG and Market Services, FINRA No. 08-03879. On October 21, 2008, Morgan Fuel commenced a separate arbitration proceeding before FINRA against MFG and Market Services. Morgan Fuel claims that MFG and Market Services caused Morgan Fuel to incur approximately \$14.2 million in trading losses. Morgan Fuel seeks recovery of \$5.9 million in margin payments that it allegedly made to Market Services and a declaration that it has no responsibility to pay Market Services for the remaining \$8.3 million in trading losses. Morgan Fuel contends that MFG and Market Services should not have allowed Morgan Fuel to enter into, or maintain, the swap transactions. The Supreme Court of New York for the County of New York has temporarily stayed the arbitration commenced by Morgan Fuel on the ground that there is no agreement to arbitrate. The motion for a permanent stay was denied and we have appealed that decision.

The Bottinis asserted a third-party claim against Morgan Fuel, which in turn asserted a fourth-party claim against MFG, Market Services and Steven Bellino (an MFG employee) in the arbitration proceeding commenced by Market Services. A motion to stay the fourth-party claim was also denied by the court and we have appealed that decision as well.

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

Other

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

Item 1A. Risk Factors

For a discussion of our potential risks and uncertainties, see information in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2009, filed with the SEC, which is accessible on the Securities and Exchange Commission's Website at sec.gov. The information presented below supplements, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report on Form 10-K for the period ended March 31, 2009. If any of the risks discussed in our 2009 Form 10-K or this Form 10-Q actually occur, our business, financial condition, operating results or cash flows could be materially adversely affected.

RISKS RELATING TO THE CHANGE IN OUR JURISDICTION OF INCORPORATION***Our Corporate Effective Tax Rate may increase as a result of the Domestication.***

We intend to change the jurisdiction of incorporation of our parent company, MF Global Ltd., from Bermuda to Delaware, which change is referred to as the Domestication. We have recently begun taking steps to effect the Domestication, such as filing a registration statement on Form S-4, for the purpose of registering our outstanding common shares and preferred shares, which on the effective date of the Domestication, will automatically convert on a one-for-one basis into common and preferred stock that will comprise our parent's authorized capital as a Delaware entity. There can be no assurance that the Domestication will be successful, but if it is, our parent's organizational documents will change and will be governed by Delaware law rather than Bermuda law.

In addition, if the Domestication is successful, we will become subject to U.S. tax on our income and capital gains and our corporate effective tax rate may increase significantly, which could materially impact our financial results, including our earnings and cash flow, for periods after the Domestication. Our corporate effective tax rate, which fluctuates significantly from period to period, is based upon the application of currently applicable income tax laws, regulations and treaties, as well as current judicial and administrative interpretations of these income tax laws, regulations and treaties, in various jurisdictions, including many other than the jurisdiction where our parent is organized and domiciled. If our parent's jurisdiction of incorporation were to remain Bermuda, then under current Bermuda law, we would not be subject to tax on our income or capital gains under Bermuda law at least until after March 28, 2016 pursuant to an undertaking from the Minister of Finance of Bermuda pursuant to the Exempt Undertakings Tax Protection Act 1966, as amended, even if Bermuda enacted any legislation imposing tax computed on income or capital gains.

The highest statutory corporate tax rate for U.S. federal income tax purposes is 35%. Our effective tax rate for purposes of financial reporting may, however, vary significantly from the statutory rates under which we operate (including the U.S. statutory rate that would apply after the Domestication) because of, among other things, timing differences in the recognition of income and expense

Table of Contents

for U.S. GAAP and tax purposes, and differences in how each jurisdiction in which we operate treats the same item of income or expense. We are unable to predict the impact of the Domestication on our effective tax rate going forward. In addition, the tax laws of the United States and other jurisdictions could change in the future, and those changes could cause a material increase in our effective tax rate at a later date as well.

We plan to change the jurisdiction of incorporation of our parent to improve our position in light of, and increase our flexibility to respond to, the current and anticipated competitive and regulatory landscape and to become a primary dealer for the Federal Reserve Bank of New York, but we have no control over the changes in the regulatory landscape nor can we offer any guarantee that the Federal Reserve Bank of New York will approve our application to become a primary dealer.

We are changing the jurisdiction of incorporation of our parent in order to improve our position in light of, and increase our flexibility to respond to, the current and anticipated competitive and regulatory landscape. We believe that changing our corporate domicile from Bermuda to Delaware will give our existing and potential clients, creditors and other counterparties greater comfort that we are fully subject to the current and evolving U.S. regulatory regime. However, we have no control over the direction or extent of the financial reforms that are now under consideration in Congress or their potential impact upon our business plans and future earnings.

Changing the jurisdiction of incorporation of our parent would also facilitate our becoming a primary dealer for the Federal Reserve Bank of New York (the Federal Reserve). In order to become a primary dealer under the existing rules of the Federal Reserve, a company must be incorporated in an approved jurisdiction, a category that includes Delaware but does not currently include Bermuda. However, we have received no assurance from the Federal Reserve that we will be approved as a primary dealer if we change our jurisdiction of incorporation, and we cannot guarantee that we will become a primary dealer or assure you as to the timing of any such event. If our application is denied, our business plans and future earnings potential could be adversely affected. Moreover, even if we become a primary dealer, there is no assurance that we will be able to realize potential new benefits to our business or that any such benefits would not be offset by new costs or risks associated with acting as a primary dealer.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Table of Contents**Item 4. Submission of Matters to a Vote of Security Holders**

MF Global Ltd. held its annual general meeting of shareholders on August 13, 2009. A brief description of each matter voted on and the results of the shareholder voting are set forth below:

1. The election of eight directors:

Nominee	For	Against	Abstain
Alison J. Carnwath	107,172,951	10,581,271	994,313
Bernard W. Dan	108,772,690	9,442,943	532,902
Eileen S. Fusco	108,208,967	9,556,494	983,074
Martin J. Glynn	90,304,925	27,442,281	1,001,329
Edward L. Goldberg	105,148,680	12,599,157	1,000,698
David I. Schamis	108,265,214	9,477,833	1,005,488
Lawrence M. Schloss	90,301,877	27,441,727	1,004,931
Robert S. Sloan	87,428,530	30,325,392	994,613

2. Approve the implementation of a one-time share option exchange program for employees, other than executive officers and directors.

For	Against	Abstain	Broker Non-Votes
74,195,243	21,691,829	38,195	22,823,268

3. Approve PricewaterhouseCoopers LLP as the Company's independent auditor for fiscal 2010, and to authorize the Board of Directors, acting by the Audit Committee, to determine the independent auditors' fee.

For	Against	Abstain	Broker Non-Votes
117,962,468	241,622	544,445	Zero

Item 5. Other Information

As previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, to best support our business and growth strategies, and more specifically, our focus on diversifying our business within financial services, as well as to improve our position of, and increase our responsibility to respond to, our current and anticipated competitive and regulatory landscape, we have been in the process of evaluating whether to change our jurisdiction of incorporation from Bermuda to Delaware. On November 4, 2009, we filed a Registration Statement on Form S-4 with the Securities and Exchange Commission. The registration statement will register the common stock and preferred stock that would be issuable to our existing shareholders of common shares and preference shares on a one-for-one basis upon completion of a domestication in accordance with Section 388 of the General Corporation Law of the State of Delaware and the concurrent discontinuance from Bermuda under the Companies Act 1981 of Bermuda. Upon the effectiveness of the domestication and discontinuance, the jurisdiction of incorporation with respect to our parent company, MF Global Ltd. would change from Bermuda to Delaware, and the name of MF Global Ltd. would change to MF Global Holdings Ltd. Although neither the domestication nor the discontinuance require shareholder approval, both the domestication and discontinuance are subject to the final approval of our board of directors.

Table of Contents**Item 6. Exhibits**

Exhibit Number	Description
10.1	Form of Restricted Share Unit Award Agreement (Share Option Exchange) (Incorporated by reference to Exhibit 99.(A) (I)(IV) MF Global Ltd. s Tender Offer Statement in Schedule TO, filed on October 7, 2009)
10.2	Amended and Restated Employment Agreement between MF Global Ltd. and Thomas Connolly, dated August 12, 2009
10.3	Amended and Restated Employment Agreement between MF Global Ltd. and Michael Roseman, dated August 21, 2009
10.4	Letter Agreement, dated July 18, 2008, relating to \$1,500,000,000 Liquidity Facility
12.1	Computations of Ratio of Earnings to Fixed Charges
31.1	Certification of Bernard W. Dan, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of J. Randy MacDonald, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Bernard W. Dan, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.2	Certification of J. Randy MacDonald, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

Table of Contents

SIGNATURES

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

MF GLOBAL LTD

By: /s/ Bernard W. Dan
Name: **Bernard W. Dan**
Title: **Chief Executive Officer**

By: /s/ J. Randy MacDonald
Name: **J. Randy MacDonald**
Title: **Chief Financial Officer**

Date: November 6, 2009