

**To:** The CFTC

August 9, 2012

**From:** James Gellert, CEO, Rapid Ratings International Inc.

**Regarding:** RIN number: 3038-AD87, Reforming the Futures Market

Rapid Ratings joins end users in the futures industry in welcoming the aggressive reform initiative that the CFTC has undertaken for the further protection of customer assets. After the calamities of MF Global and Peregrine, the need for new assurances looms large.

However, maximizing the protection of customer assets will always be more than a matter of improving the logistics of an FCM's cash management. Maximizing protection will always require a better understanding of the financial and operating climate under which the individual FCM conducts its business, because it is this climate that determines how strong the temptation becomes to ignore prudence and fiduciary responsibility in the first place.

It remains to be seen exactly how far in advance of its bankruptcy filing MF Global began invading segregated funds. It may have been recurring or intermittent or non-existent before October 2011. But the melting away of MF Global's revenue base over the course of the prior few years should have been an unmistakable sign of the growing tensions underlying its franchise. Likewise, a full understanding of the risk posture that MF Global assumed in acquiring and maintaining its gigantic European sovereign debt positions – positions familiar to the New York dealer community – could only have been achieved by reference to how precarious MF Global's balance sheets and income statements had become before Governor Corzine even arrived there. The collateral requirements attending these aggressive new positions were formidable under the best of circumstances. The threat of a collateral emergency was likewise ever-present. Certainly anyone who knew of the trades and who read what Rapid Ratings had to say repeatedly about MF Global's financial health also knew there was serious ongoing risk of downgrades elsewhere and large new collateral demands from repo counterparties as a consequence.

Far worse than a year's mad gamble in European sovereigns were Peregrine's decades of willful theft and misrepresentation. Enabling the crime was the futures industry's longstanding complacency in conducting business with privately held companies that offered customers and third parties little or no financial reporting on which serious judgments of creditworthiness could take place.

Would Mr. Wasendorf have been as ready to invent financials if his customers had demanded full, audited balance sheets and income statements all along? Would Mr. Wasendorf have been able to compose such reports with sufficient skill as to withstand rigorous third-party

examination over twenty years? Rapid Ratings recalls that, by applying large numbers of interrelated calculations to the published reports of Enron, our firm was able to detect vivid inefficiencies entirely inconsistent with the investment grade ratings that Enron enjoyed from the larger rating agencies – inefficiencies that later turned out to have been the result of commingling accurate and fabricated reporting lines.

Service, relationship quality, direct access and other factors that have traditionally underlain the selection of an FCM are unlikely to remain sufficient for that purpose any longer. Today's watchwords are transparency and viability. Rapid Ratings rates thousands of private firms in various industries on exactly the same metrics as we rate public companies. We are prepared to add any number of private FCMs to our present list of 70-plus public FCM-parents – if need be, we can rate these private firms without releasing their financials to the public. We have teamed with the Commodity Customer Coalition to deliver our judgments to its entire membership on a complimentary basis over the course of the next three months, as members adjust further to the FCM industry's recent shocks.

Coalition members will need to digest a wide range of Financial Health Ratings that we assign to the industry's parent companies, all the way from 17-*Very High Risk* to 81-*Low Risk*, on a scale of zero to 100. (Note: MF Global was at 23 when it filed.) We expect that Coalition members will migrate to FCMs with higher parent ratings and away from FCMs with lower parent ratings – and certainly away from private FCMs that resist increased financial disclosure of the sort that futures customers now want for their own and third-party analysis.

Effective reform of the futures market will be a matter of both improved rulemaking by the CFTC and developing Best Practices among market constituents. Deterring and detecting fraud and other malfeasances will be more than a matter of having sturdy new CFTC-mandated plumbing in place. These critical jobs also call for having sharp-eyed and independent inspectors on site, regularly examining each and every building connected to that plumbing and knowing where foundations are most vulnerable.

Thank you,

James H. Gellert  
CEO, Rapid Ratings International

## Appendix A

### Testimony Concerning: *The Collapse of MF Global: Part 2*

**James H. Gellert**  
**Chairman and CEO**  
**Rapid Ratings International, Inc.**

**Before the United States House of Representatives**  
**Committee on Financial Services,**  
**Subcommittee on Oversight and Investigations**

**February 2, 2012**

On behalf of Rapid Ratings' employees, shareholders and subscribers, I would like to thank Chairman Neugebauer, Ranking Member Capuano and members of the Subcommittee for asking me to submit testimony for the hearing entitled *The Collapse of MF Global Part 2* before the United States House of Representatives' Committee on Financial Services, Subcommittee on Oversight and Investigations.

MF Global's failure was the latest collapse of a previously respected financial institution to catch much of the market off guard. Rapid Ratings International, Inc. (Rapid Ratings) is pleased to share our understanding of the MF Global deterioration, insight into why the Rapid Ratings Financial Health Rating (FHR™) system provided years of early warning and our conclusions as to why the traditional, issuer-paid rating agencies failed to provide similar service. Finally, we highlight the problems facing rating industry reform and explain our support for the ratings affirmations bill discussion draft released by Subcommittee member, Congressman Fitzpatrick.

### Introduction

Outside of the futures world MF Global may have been little known, but inside it was a very large player,<sup>1</sup> and its demise and aftermath constitute the most shocking event ever to occur in the futures industry. Contributing to the unfortunate story is that this was an entity perceived by many in the market as a strong credit, in part because it carried "investment grade" ratings from the "Big Three" rating firms (Standard & Poor's, Moody's and Fitch) until days prior to its failing.

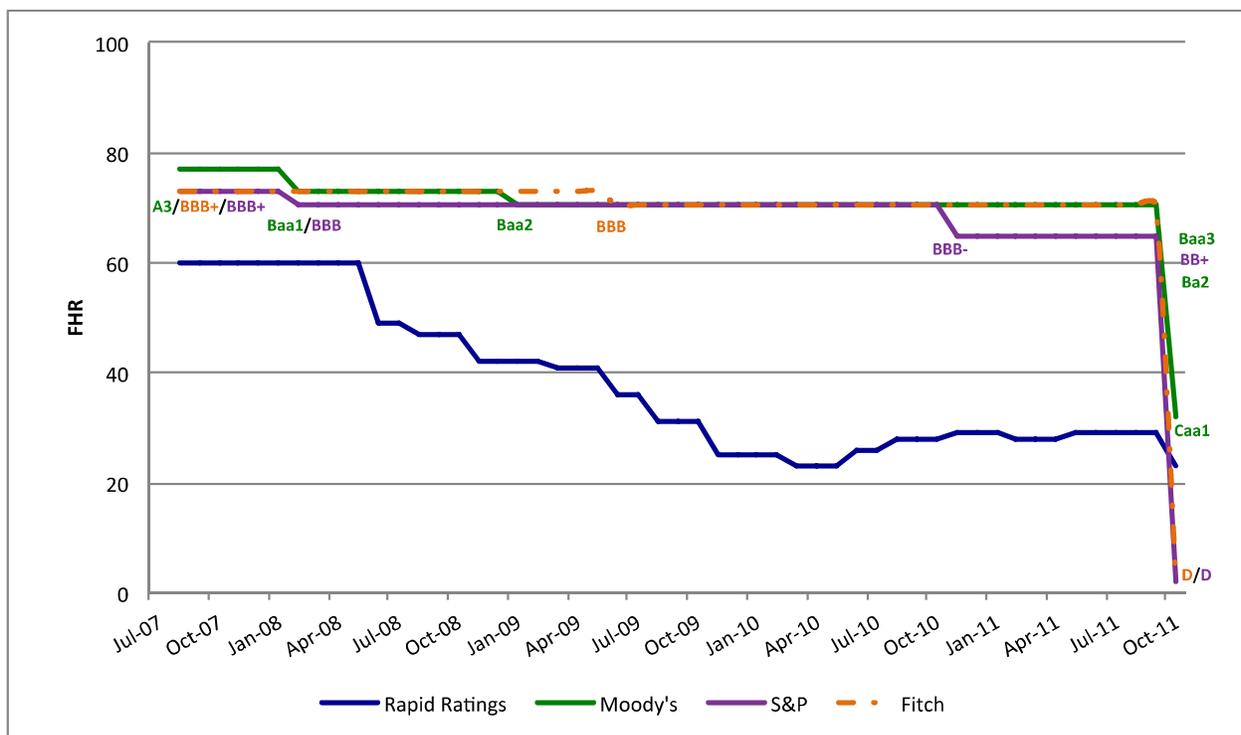
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<sup>1</sup> MF Global was the eighth-largest U.S. futures broker, and a big player in global commodity markets. (Saphir, Ann. "MF Global Client Accounts were not protected: regulator." *The Globe and Mail* 10 Nov 2011. <http://m.theglobeandmail.com/globe-investor/mf-global-client-accounts-were-not-protected-regulator/article2221277/?service=mobile>)

Rapid Ratings, however, had MF Global rated as a High Risk firm since June 2009. In fact, on our Financial Health Rating (FHR) scale (0/worst – 100/best), MF Global was downgraded from a 41 to a 36 on June 29, 2009, carried an FHR of 29 into October 2011, and then dropped even further to a 23 based on the quarterly figures released the week of the MF Global bankruptcy filing. While Financial Health Ratings do not have a direct translation to the alpha scales used by the Big Three, MF Global’s 29 and 23 are the approximate equivalents of CCC and CCC-, that is to say, our ratings were between eight and ten alpha notches below where the Big Three agencies had MF Global rated during this period.

For context, over the last 20 years, the greatest concentration of defaults occurred at a 26 on the FHR scale and approximately 90% at 40 and below, which we consider our High Risk and Very High Risk categories. Often Rapid Ratings’ FHRs are described as proxies for how well a company is able to withstand an internal or external shock. Companies with higher FHRs are generally stronger, more efficiently run entities with more flexibility and resiliency. Companies with lower FHRs are less healthy and have a significantly higher likelihood of failure. For more than two years (since June 29, 2009), we continuously gave significant warning to our clients that MF Global had the characteristics of a firm at high risk. And even before that our system was alerting the market of the declining health of MFG (see Figure 1).

**Figure 1: Rapid Ratings, Standard & Poor’s, Moody’s and Fitch ratings of MF Global on the FHR™ Equivalency Scale<sup>2</sup>**



<sup>2</sup> The graph above plots S&P, Moody’s and Fitch ratings based on their approximate equivalents on the Rapid Ratings FHR scale. Rapid Ratings first rated MF Global on January 27, 2009. The previous ratings are retrospective ratings using only data from that time period.

As I will explain later, there are many reasons why our ratings were so much lower than the Big Three, but it seems difficult to justify that they maintained such high ratings on MF Global irrespective of our ratings. To the FHR system, which incorporates a global benchmarking of 62 financial ratios, MF Global is a remarkably simple story in many respects: It showed a declining performance since 2007 in various measures of revenue performance, profitability, debt service management, and working capital efficiency, and weak performance in leverage and cost structure. Between the years of 2007 and 2011, MF Global's revenue declined by 63%, from \$6.1b to \$2.2b. Its net profit declined by 142%, from \$190m to negative \$79m. In the last 16 quarters, MF Global had 10 quarters with recorded losses and the last 4 quarters saw losses grow by 68% over the previous 12 months, their most recent quarterly loss being a record at \$187m.

In the abstract, it is difficult to see this entity as being anything but in declining health. Yet, during the period 2007 to 2011 until the final week before MF Global's bankruptcy, Moody's ratings remained Investment Grade and only declined three notches (from A3 to Baa3), and S&P's Investment Grade ratings only declined two notches (from BBB+ to BBB-). In the five days prior to default, Moody's then downgraded two more times, to sub-investment grade Ba2 and then to Caa1 on the bankruptcy filing date.

Much has been made of the European sovereign bond trading bets made by former MF Global CEO, John Corzine. In December, Mr. Corzine testified that his bets on Euro sovereign debt were sound and ultimately would be proven correct and profitable. Nevertheless, these bets were market contrarian and exposed the firm to significantly greater risks than ever before, at a time when the firm's financial health could ill afford a shock and the market's sensitivity to financial institution risk was on high alert. The question is not whether the trades would have worked; it is whether they were appropriate in scale for this institution at this time. Many a trader has made money on contrarian bets; but this institution was historically a pure intermediary, assuming unprecedented risks in a volatile market while shifting business models with a low capital base. Thus, the firm became excessively exposed. In turn, the large rating agencies, watched by much of the market to provide signals of increased risk and vulnerability, failed to do either adequately.

Many are trying to understand why the Big Three rating firms maintained such high ratings despite the obvious evidence of declining health and increased risk-taking. Rapid Ratings incorporates no subjective factors into the FHR system, and we use only reported financial statements when rating public entities like MF Global.<sup>3</sup> Nevertheless, we were able to identify the risks that the Big Three did not identify, chose to disregard or deemed not to warrant material downgrades.

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<sup>3</sup> Rapid Ratings also rates thousands of private companies on behalf of clients. We use financial data provided to us by our clients or directly by the entities being rated on behalf of our clients.

We are not privy to the inner workings of the Big Three's ratings analyses of MF Global. However, in their various ratings reports and announcements on MF Global over the years, repeated themes emerge. These can be categorized as concern about:

- Risk management
- Lack of revenue diversification
- Declining profitability

Despite maintaining MF Global's investment grade ratings for years with only occasional small ratings movements, the agencies finally downgraded MF Global's ratings days and hours before the bankruptcy filing, with a list of rationales for their downgrades. What were they? The same items listed above. In other words, the Big Three offered no new information in downgrading MF Global. The quantum of exposures and losses may have grown, but ultimately, although the fundamentals of the credit story were known by the agencies, their warnings were inadequate until it was too late. That said, new information may suggest that at least one of the Big Three simply apparently did not pay attention to certain disclosures that may or may not have been factors in their ratings process earlier in 2011. Or perhaps the agency did not inquire about the details of the disclosures.<sup>4</sup>

Additionally, there are inherent conflicts of interest and other deficiencies of the Big Three's business model that appear to have contributed to the MF Global debacle. Those deficiencies are not new, rather they are the same issues that have caused examples of egregious ratings failure from Enron, to subprime-backed Collateralized Debt Obligations, to Monoline Insurers, to MF Global. The deficiencies, explored in greater depth below, are:

- The conflicts of interest in the issuer-paid ratings business model, including interaction with management like Mr. Corzine
- The failure of qualitative ratings to look at the agency's rated clients objectively on consistent, arms-length bases
- The favoring of "stable" ratings that results in infrequent ratings changes and less accuracy
- The lack of accountability for surveillance on outstanding ratings

MF Global has shaken the roots of the futures industry, but the case offers lessons far beyond this specialized portion of the capital markets. The futures industry players now understand what corporations globally have also begun to recognize: evaluating counterparty risk is more important than ever before. Doing so gives insight into the financial health and viability of

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<sup>4</sup> On January 29, 2012, Shahien Nasiripour wrote in the *Financial Times* that "Moody's Investors Service 'did not have any understanding' that MF Global, the failed futures broker, had placed a \$6.3bn proprietary bet on the debt of troubled European sovereigns until about a week before the brokerage filed for bankruptcy, despite MF Global's disclosure of the gamble some five months earlier in May." (Nasiripour, Shahien. "Ratings agencies to be quizzed over MF Global." *Financial Times* 29 Jan 2012. <http://www.ft.com/intl/cms/s/0/7546a9ee-4a88-11e1-8110-00144feabdc0.html>)

broker/dealers, depository institutions, customers, suppliers, third party solutions providers and any counterparty with which they do business.

There are few silver linings to the MF Global debacle. One small positive, however, is that we have a fresh example to allow scrutiny of the traditional rating agencies' role in the capital markets, the inherent conflicts and flaws in this system, and the patently obvious need to increase their accountability for their ratings product.

While we regularly outperform the traditional agencies in providing early warnings of companies' improving or deteriorating financial health, we do not take a view that the Rapid Ratings' system is simply "better" than others, nor do we believe that traditional ratings are always flawed. Ultimately, we have different business models and rating methodologies, but our ratings may be used by the same clients for similar purposes. We are proponents of having an open field for competition in the ratings business so institutional investors, regulators and all other users of ratings can choose amongst options that best suit their needs. A principal strategy for creating better results in the rating industry is for regulators and legislators to remove barriers to competition. That will provide market players a more diverse selection of rating products from which to choose.

The Big Three have received unprecedented support as private sector entities for years by virtue of being embedded in the investment community's workflow practices, in federal regulations, where historically the Big Three were effectively deputized as risk management agents, in state regulations, private contracts, bank pricing grids, pension parameters, institutional investors' internal risk guidelines and on and on. Nevertheless, change can happen with effort. As legislative and regulatory reform initiatives continue, and as Congress evaluates the effectiveness of Dodd-Frank, as it did when this Subcommittee met on July 27, 2011 at a hearing entitled "Oversight of the Credit Rating Agencies Post Dodd-Frank," enhanced competition in the rating industry, greater accountability of the Big Three, and reduced reliance on ratings must be principal objectives.

As the MF Global failure and this review demonstrate, diversification of opinion, methodology and business model are all healthy for the rating industry and critical to facilitating well-rounded investment management and risk management procedures in the capital markets. Any initiative that hinders these goals and continues to support the Big Three agencies' entrenched position actively works against reducing systemic risk and improving confidence in the financial markets. Any thoughtful initiative to improve the industry should be strongly considered.

Congressman Fitzpatrick's recent bill discussion draft is timely and pertinent to MF Global. Requiring Nationally Recognized Statistical Rating Agencies ("NRSROs") to stand by their product on a quarterly basis is a positive initiative. As MF Global shows us yet again, the Big

Three have a powerful place in the capital markets, yet almost no accountability when their ratings fail. They are not required to update ratings except when they feel it appropriate. They may indeed be timely on some ratings actions, but often they are not. The outside world has no way of knowing when they are being proactive, behind schedule or simply inattentive to maintenance of an existing rating. The bill's intent, we believe, is not to force ratings to change quarterly; it is to require that the agencies assure the market that they stand by their ratings quarterly. At a bare minimum, it should produce more confidence that the agencies are accountable. In some cases, like with MF Global, perhaps it would have encouraged earlier ratings changes, as agencies would be less inclined to give management benefit of the doubt, or to ignore the clear signs of a credit in decline.

### **Rapid Ratings' Methodology**

Rapid Ratings is a user-paid firm, not an issuer-paid agency. We utilize our proprietary, software-based system to rate the financial health of thousands of public and private companies and financial institutions quarterly (in countries where quarterly financials are available). Currently, we rate over 6,500 public, and thousands of private, companies from 71 countries. We use only financial statements, no market inputs, have no qualitative analysts, and have no contact in the rating process with issuers, bankers or advisors. We are not a Nationally Recognized Statistical Rating Organization (NRSRO). We have elected not to apply for the designation, considering it more a contingent liability than an asset. Our ratings have an impressive record of far outperforming the traditional issuer-paid rating agencies in innumerable cases, and also generally outperforming the prevalent market-based default probability models.

We rate companies irrespective of whether they are bond issuers. We also do not distinguish between those companies that are issuing new securities versus those who have securities outstanding. Unlike the Big Three, we are focused on providing quarterly updated ratings, as well as the highest accuracy, breadth of coverage and speed to market to reflect the changing financial health profiles of firms we rate. The Big Three are naturally focused on primary issuance, where they traditionally get paid the majority of their fees; risk surveillance of ratings already issued is a secondary focus. This is one of the great failings of the incumbent system, and a perfect example of where a new player employing an innovative methodology can provide great value relative to the status quo.

The Financial Health Rating is a strict metric of financial and operating efficiency, derived from the in-depth study of 62 ratios across six performance categories without reference to market inputs or management explanation. The FHR measures a company's sturdiness and ability to withstand shocks from the economy, industry trends, or its own discrete misfortunes. Clients using Rapid Ratings' FHRs on MF Global were in the unique position to know, well before the

bankruptcy filing, that MF Global had a weakened likelihood of surviving major reversals in its proprietary trading book, liquidity position or other shocks to the system.

### Financial Health Ratings of MF Global

When MF Global filed for bankruptcy on October 31, 2011, it was the fifth largest bankruptcy of a financial institution in American history (following Lehman Brothers Holdings Inc., Washington Mutual Inc., CIT Group Inc. and Consec Inc.<sup>5</sup>), and the eighth largest bankruptcy of any institution in American history.

Many broad issues come up because of the MF Global collapse: The weaknesses in regulatory oversight of financial institutions, the deficiencies of accounting/auditing analysis, the lack of security of customer deposits, the challenge to the faith of farmers and others in using agricultural derivatives to hedge revenue fluctuations, the lack of confidence among futures market participants in counterparty financial risk, and once again, the lack of accountability of traditional rating agencies.

### What Rapid Ratings' System Saw and When

*See Appendix D for a timeline highlighting the events and ratings actions that preceded the collapse of MF Global.*

On March 23, 2010 Mr. Corzine<sup>6</sup> became CEO of MF Global at the invitation of his former Goldman Sachs colleague, J. Christopher Flowers,<sup>7</sup> who had earlier bought 6% of the firm in 2008 by helping it finance \$141 million in losses in unauthorized wheat trading.<sup>8</sup> Based on the FHR system, MF Global by March 2010 was already High Risk in debt service management, Very High Risk in both sales performance and overall profitability, mediocre in terms of leverage,<sup>9</sup> under-nourished in terms of equity-backing, and with sub-investment grade performance for both working capital efficiency (including liquidity) and cost structure. The rating changes after Q2 2010 are more marginal changes; the company took the big hits before Q3 2010 and never recovered.

<sup>5</sup> "20 Largest Public Company Financial Industry Bankruptcy Filings 1980-Present." BankruptcyData.com. Website.

[http://www.bankruptcydata.com/Research/Largest\\_Financial.pdf](http://www.bankruptcydata.com/Research/Largest_Financial.pdf)

<sup>6</sup> Former head of Goldman Sachs and former Governor of New Jersey.

<sup>7</sup> A wealthy former institutional banker with Goldman Sachs. Both men were considered to be well aware of the risks they were taking punting on Euro-sovereign bonds. (Cohan, William. "MF Signs Death Warrant for Short-Term Funding." *Businessweek* 15 Nov 2011.

<http://www.businessweek.com/news/2011-11-15/mf-signs-death-warrant-for-short-term-funding-william-d-cohan.html>)

<sup>8</sup> Dezember, Ryan. "MF Global and Chris Flowers: A Match Made for Rescue?" *Wall Street Journal* 30 Oct 2011.

<http://blogs.wsj.com/deals/2011/10/30/mf-global-and-chris-flowers-a-match-made-for-rescue/>

<sup>9</sup> MF Global's equity to assets ratio actually improved over the period 2006-2012, although leverage was excessive. The problem with MF Global's leverage was borrowing short to buy long positions in a poorly understood market combined with poor sales and profitability and hence debt service management performance, rather than over-leverage per se. However, unlike banks, U.S. brokerage firms are not subject to regulatory restrictions on leverage by federal authorities.

MF Global	2006	2007	2008	2009	2010	2011	2012
Equity/assets	1.1%	1.0%	2.6%	3.7%	2.7%	3.7%	3.3%

Mr. Corzine's strategy of shifting business activity from futures brokerage to a full service broker-dealer in the Goldman image was risky. It included proprietary trading that involved going against growing market sentiment in Euro-zone sovereign bonds by using short-term loans in the repo market to hold long positions. This only deepened the problems of MF Global, and ultimately directly and indirectly led to the collapse of the company.<sup>10</sup> Had MF Global offered a lower risk foundation, MF Global might have been able to withstand the failure of the new business strategy. As it was, Mr. Corzine inherited an unhealthy company and made it worse by some high-stakes gambles.

From the beginning of Mr. Corzine's tenure, MF Global was behind the Financial Health Rating eight ball. The firm was suffering in various performance categories within the FHR system: on Sales Performance, on Profitability, on Debt Service Management, as well as on financial strategy (borrowing short to hold long positions) and on business strategy (trying to beat the Euro-zone bond market while avoiding massive market, counterparty and regulatory concern about the magnitude of the exposure).

Because his business strategy was poorly calculated, or had insufficient time to turnaround the firm, those three factors deteriorated and led to further decline in the Financial Health Rating of the company. This made it much more likely that his short term lenders would become restless and then desert MF Global, just as similar lenders had deserted Bear Stearns and Lehman Brothers in 2008. More specifically, the key highlights were as follows:

- MF Global's **Overall Profit performance** (using 23 ratios) had not been low or moderate risk for the last six years and exhibited persistent deterioration and then stagnation in the Very High Risk zone. During 2006 through Q1 2009, the company's profit performance slipped from a medium risk peak of 59 in 2007 to 40, bordering on High Risk. Just one year later, in Q2 2010, MF Global's overall profit performance had become Very High Risk, falling to 12. The firm's profit performance remained in the Very High Risk area until it collapsed on October 31, 2011. See **Appendix A** for one example of a profit ratio that shows sustained deterioration and weakness across the period.
- MF Global's **Debt Service Management performance** (using 3 ratios) was below average and medium risk during the period 2006 through Q1 2010. In Q2 2010, MF's debt service management performance fell 29% (or 12 rating points) to become High Risk,

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<sup>10</sup> "MF ploughed money into an off-balance-sheet maneuver known as a *repo*, or sale and repurchase agreement. A repo involves a firm borrowing money and putting up assets as collateral, assets it promises to repurchase later. Repos are a common way for firms to generate money but are not normally off-balance sheet and are instead treated as "financing" under accountancy rules. MF Global used a version of an off-balance-sheet repo called a "repo-to-maturity." The repo-to-maturity involved borrowing billions of dollars backed by huge sums of sovereign debt, all of which was due to expire at the same time as the loan itself. With the collateral and the loans becoming due simultaneously, MF Global was entitled to treat the transaction as a "sale" under U.S. GAAP. This allowed the firm to move \$16.5 billion off its balance sheet, most of it debt from Italy, Spain, Belgium, Portugal and Ireland." (Elias, Christopher. "MF Global and the great Wall St re-hypothecation scandal." *Reuters News & Insight* 7 Dec 2011. [http://newsandinsight.thomsonreuters.com/Securities/Insight/2011/12 - December/MF\\_Global\\_and\\_the\\_great\\_Wall\\_St\\_re-hypothecation\\_scandal/](http://newsandinsight.thomsonreuters.com/Securities/Insight/2011/12 - December/MF_Global_and_the_great_Wall_St_re-hypothecation_scandal/))

and did not recover. A specific example of deterioration in this area is set out in **Appendix A**.

- MF Global's **Sales performance** (using 5 ratios) was a tale of mediocrity during 2006-2007 that became a story of High Risk in Q1 2009, Very High Risk in the 2009 year end results, and no improvement afterward. An example of the deterioration in performance is presented in **Appendix A**.

A key point about the FHR system is that because its early warnings had fully reflected emerging risk in 2008-2010, as the last minute shocks of the MF Global crisis emerged in October 2011 and the Big 3 ratings were making significant adjustments to move MF Global to a lower rating, Rapid Ratings' FHRs were adjusting very little. The advantage of Rapid Ratings' quarterly rating system is that it catches changes as they arise; it is not a "flatlining" metric that changes a long time after risks arise. The story of MF Global is one of a company that was weakening progressively during 2008-2010, and when Mr. Corzine's arrival brought on a new business strategy, it did not work. Given that the company was already weak, it could not recover or instill confidence in lenders for a new lease on life.

### **Insensitivity of Traditional Ratings**

#### *Ratings "Stability"*

The ratings story of MF Global inevitably turns to questions of ratings actions and their timing. Traditional agencies will say that they need to be careful when they take action against a company because their ratings changes will affect that issuer in the marketplace. To wit, a downgrade to below investment grade will force some institutional investors that are prohibited from holding sub-investment grade paper to liquidate holdings. Enough of these forced sellers and there is downward pressure on bonds' pricing, increasing their real or perceived risk in the market, increasing borrowing cost for the issuer and potentially putting even more stress on an issuer that is already distressed, thus aggravating or intensifying the original downgrade.

This is a real concern. It should not, however, be a categorical shield from responsibility for the traditional agencies, nor an excuse for them to be inactive or to give undue benefit of the doubt to a deteriorating issuer.

As stated in the preamble to Dodd-Frank<sup>11</sup> Subtitle C: "In the recent financial crisis, the ratings on structured financial products have proven to be inaccurate. This inaccuracy contributed significantly to the mismanagement of risks by financial institutions and investors, which in turn

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<sup>11</sup> United States. Cong. House of Representatives. *Dodd-Frank Wall Street Reform and Consumer Protection Act*. 111<sup>th</sup> Cong., 2nd sess. H.R. 4173. Washington: GPO, 2010. (508) <http://www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf>

adversely impacted the health of the economy in the United States and around the world. Such inaccuracy necessitates increased accountability on the part of credit rating agencies.” The accuracy of Big Three ratings has long been the subject of debate. That debate is strategically important because it makes the argument that accuracy is more important than the “stability” of ratings. The traditional issuer-paid firms have used “rating stability” as a shield to deflect attention from the challenge and charge of “inaccurate ratings.” Accurate ratings provide earlier warnings, stable ratings do not.

The Big Three produce “stable” ratings by means of “rating through the cycle.” The intent of rating through the cycle is to have ratings that reflect the longer-term perspective of an issuer at the conclusion of its cycle, rather than reflecting the intra-cycle conditions and performance variations of the company. The result, of course, is ratings that exhibit little or no change (flatlining) because the agency is not continually reflecting any ups and downs the issuer may experience over time. Only when the agency considers a truly material change to warrant a rerating will there be a change. Enron remaining investment grade until hours before it filed for bankruptcy, MF Global and countless other examples expose the costly Achilles heel of this methodology.

The Big Three typically defend this position by citing studies that suggest that the investment community wants ratings stability. While there are studies that document the opposite position, in fairness, many institutional investors do want to avoid volatility in rated portfolios given the inconvenience of frequent portfolio rebalancing and their ability to arbitrage stale ratings. Further, some regulators have supported the view that monitoring firms’ capital adequacy frequently is too burdensome on the firms and the regulators. Unfortunately, rating through the cycle means being less sensitive to the short-and medium-term changes in a credit that make it more or less healthy at any given time but that may be early indicators of long-term change. An unwarranted low rating primarily has opportunity cost implications. An unwarranted high rating, as with MF Global, can have material real dollar cost implications for lenders, investors and counterparties. Having widespread risk benchmarking correlated to these insensitive measures has real systemic risk impact.

Within reason, some ratings changeability may benefit the market. We are not promoting volatile ratings swings, but realistic changes can benefit the market, and in the extreme, even changes that have severe consequences for an issuer may have positive overall consequences. As default approached in the last 12 months, ratings on MF Global issued by Rapid Ratings were much more stable than those offered by the Big 3. The rule should be: change ratings when warranted, affirm them quarterly and reflect emerging reality. That will offer early warnings and rating stability that already encapsulates emerging risk as a crisis draws nearer.

In the case of MF Global, S&P, Moody’s and Fitch all maintained investment grade ratings on the company as it deteriorated. This was neither an early warning of inherent risks nor a

reflection of emerging risks. Moody's maintained an investment grade rating (Baa2) until four days before MF Global filed for bankruptcy, at which time it had downgraded the entity to Ba2, two notches below investment grade. It is possible that the Moody's downgrade accelerated MF Global's demise. But client withdrawals (including Koch Industries) from August through October<sup>12</sup> and regulatory intervention by FINRA, CME and CFTC was already providing a major alert, albeit a late one, that MF Global was in trouble before the Big Three acted. The downgrade to below investment grade may indeed have been an event from which MF Global couldn't recover, as counterparty liquidity may have dried up as a result of the regulatory intervention and the downgrade just as collateral calls were increasing. But as we now know, MF Global was already bleeding client funds before the regulators, and rating agencies made it worse. Market whispers in the equity market were a better early warning signal than either the regulators or the Big Three rating agencies. But if the downgrades had been issued earlier, the MF Global crisis could have unfolded differently. So if the traditional agencies argue downgrades should not happen before a crisis, what good are downgrades after a crisis?

The Subcommittee should consider the cost of accepting the Big Three's argument that they did not need to downgrade earlier. What is at stake is futures market stability, consumer confidence and potentially over \$1 billion in account holder funds. If Moody's or S&P had downgraded MF Global earlier, how much of segregated funds could have been saved? Assuming there was a direct cause and effect between Moody's downgrade and the death knell for MF Global, is it conceivable that an earlier precipitation of this event could have forestalled any activities that have led to capital loss for individual and institutional investors with funds that are still not located and possibly never recoverable?

A recently released working paper, *"Does the Bond Market Want Informative Credit Ratings?"* by Cornaggia and Cornaggia,<sup>13</sup> tackles the question as to whether market participants benefit more from relatively stable ratings utilizing traditional methodologies than from quantitatively derived ratings that are timely and accurate. Moody's Credit Ratings (MCRs) are employed as a proxy for the Big Three. Cornaggia and Cornaggia categorize the MCRs as compensated by issuers and based on qualitative analysis geared toward stability in rating levels that reflect only relative risk.

In order to test and benchmark MCRs, they select a rating system that provides contrast on multiple criteria. Cornaggia and Cornaggia write, "The Financial Health Rating (FHR) produced

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<sup>12</sup> Prezioso, Jeanine. "Insight: Clients who fled MF Global face clawback risk." *Reuters* 11 Nov 2011. <http://www.reuters.com/article/2011/11/11/us-mfglobal-clawback-f-idUSTRE7AA38A20111111>

<sup>13</sup> Jess Cornaggia, PhD, is an Assistant professor at Indiana University Bloomington - Kelley School of Business. Kimberly Rodgers Cornaggia, PhD, is an Associate Professor American University - Kogod School of Business. The authors' note reads: "To support our use of Rapid Ratings as an exemplar, we note its recognition by regulators, law makers, and market participants. RR was the only non-Big-3 credit rating agency invited to speak on the ratings competition panel at the SEC Roundtable in 2009 and to testify before both congressional bodies in the run up to the most sweeping change in rating agency regulation in history." (Cornaggia J, and Cornaggia, K. *Does the Bond Market Want Informative Ratings?* 2 May 2011. [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1705843&download=yes](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1705843&download=yes))

by Rapid Ratings (RR) is compensated by subscribers, based on quantitative models, and geared toward the timely release of information as it pertains to absolute credit risk.”<sup>14</sup>

In the body of the working paper, MCRs are tested rigorously for information content against FHRs. The authors write, “We document that among bonds that ultimately default, RR downgrades the FHR to speculative grade status long before the Moody’s credit rating follows suit.” The data tests speak to the magnitude of these findings: They demonstrate that Rapid Ratings is 2.9 years earlier than Moody’s.

One test in the study compared default frequencies among issues with investment grade ratings. The professors report a higher default frequency among issues with investment grade ratings according to the MCR compared to the FHR, writing “2.61% of defaulting firms had FHRs classified as investment grade one year prior to default.” The corresponding number of defaulting firms with investment grade MCRs is 5.67%.

Cornaggia and Cornaggia contextualize these findings with respect to Moody’s’ stated position that stable ratings help avoid market disruptions. They postulate that gradual ratings downgrades may have disrupted the financial markets less than the huge volatility spikes and losses of investor confidence that accompanied the too-late downgrades of Enron and AIG among others, which now includes MF Global. This bolsters the position of those who have claimed that over-reliance on traditional credit agency ratings increase vulnerability to sudden market shocks. This is a critical issue. Rapid Ratings provides early warnings that the market can absorb long before a crisis, whereas the Big Three provide ratings that can compound a crisis as it reaches its climax.

### *The Qualitative Unknown of Management Influence*

Another reason for the flatlining ratings from the Big Three is that downgrades aggravate their principal clients, the issuers, and issuers’ bankers, who feed significant revenue flows to the agencies. As issuer-paid agencies, the Big Three’s client was MF Global, not institutional investors. This means an issuer has unique access to the staff of its rating agencies and can present its vision of the future, explain how it is addressing weaknesses and exploiting strengths and, in the extreme, co-opt the raters.<sup>15</sup>

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<sup>14</sup> Gellert, James H. The United States of America. *Competition in the Credit Rating Industry: Are we asking the right questions and getting the right answers?* Washington: 2009. Web. 25 Jul 2011. <http://www.sec.gov/comments/4-579/4579-20.pdf>

<sup>15</sup> As reported by the *New York Times* in October 2008, documents used in a hearing of the House Committee on Oversight and Government Reform, Moody’s CEO Ray McDaniel said in an internal board presentation to Moody’s directors in October 2007, “Analysts and managing directors ‘are continually ‘pitched’ by bankers, issuers, investors.’ At times, he conceded, ‘we drink the Kool-Aid.’” (Morgenson, Gretchen. “Credit Rating Agency Heads Grilled by Lawmakers.” *New York Times* 22 Oct 2008. <http://www.nytimes.com/2008/10/23/business/economy/23rating.html>)

For certain the most egregious examples of this conflict have been in structured product ratings, not plain vanilla corporate ratings such as MF Global. However, it stands to reason that Mr. Corzine's star power was, at the margin, a positive influence on MF Global's ratings. How much so? We cannot tell. But in the face of the firm's clear indicators of deterioration, something powerful must have been weighing on the Big Three to justify their high ratings. In a report written by Moody's on March 23, 2010 commenting on the departure of MF Global's prior CEO and the arrival of Mr. Corzine as the new CEO, they state "Potential concerns about the unexpected nature of the leadership change are tempered by Mr. Corzine's decades of first-rate industry and leadership experience, as well as the reputational 'cache' and potential industry connections he would bring to MF." One can easily imagine that at least one of the Big Three gave the benefit of the doubt to MF Global's decisions and risk-taking based on their holding Mr. Corzine himself in high esteem.

### **Reform Initiative Addressing Ratings Accountability**

After myriad examples of ratings failures over the years, a new reform initiative is addressing this topic of stale ratings, ratings "surveillance" and the accuracy of ratings over time. Subcommittee member Congressman Fitzpatrick has released a discussion draft of a "Quarterly Attestation Requirement" Bill that targets these issues. This simple yet potentially wide-reaching Bill would be the first effort to make the Big Three agencies, as well as other NRSROs, explicitly "stand by their product." We would characterize this initiative as having high potential benefit with low regulatory cost. It is motivated by the following:

- Issuer-paid ratings have lost significant credibility.
- There are potential conflicts of interest in the issuer-paid revenue model and many market participants believe ratings inflation is the result.
- The issuer-paid firms have been slow to change ratings, as clearly evidenced by MF Global.
- The principal business model of issuer-paid firms is primarily focused on issuance (in other words, where they get paid) and less on "maintenance" or surveillance ratings, where there is less money and more work.
- The SEC has a challenge to oversee ratings performance, which will become harder if there are ultimately more NRSROs.

The Quarterly Attestation Requirement proposal is both simple in concept and potentially wide reaching in its benefits: Require NRSROs to positively affirm by statement filed with the SEC that they stand by each previously issued rating, or have made whatever ratings change is

appropriate given the changed quality of issuer/security, on a quarterly basis. If deemed to be too costly for the smaller NRSROs, an exemption could be granted with voluntary participation encouraged.

The **potential benefits** of this initiative are:

- **Greater transparency and timeliness:** Firms will not be able to hide behind the “our rating is good unless we say otherwise” positioning that permeates the market today. This may lead to fewer improperly aggressive/optimistic initial ratings.
- **Greater CRA commitment to their reputation:** Firms will have to properly reassure the market that their ratings have been reviewed and that the reputation of the firm is continuously at stake.
- **Greater sensitivity to risk changes:** Potentially more ratings will be changed over time as issuers’ credit quality in fact changes.
- **More active market participation by investors:** More frequent communication by agencies to the market about their ratings, whether those ratings change or not, may be a good market catalyst for investors to do more research and due diligence on their own. Over time, this reduces overreliance on the NRSROs.
- **More data for the SEC:** the SEC requires more data from which to analyze rating agency performance and to provide oversight of agencies’ implementation of new methodologies:
  - If there are significant discrepancies among agencies on an individual security or company rating, the SEC will have the ability to check into the accuracy of the ratings, but in a targeted way informed by NRSROs’ attestation reporting. This can be accomplished without an increased burden for the SEC.
  - Additionally, in the SEC’s 2011 first annual report on NRSRO oversight, the Commission identified instances of both large and small NRSROs that had reformed rating methodologies, but were slow to implement the new methods. This creates a discrepancy between the ratings they issue to the market and those their new methodology suggests are more accurate. Quarterly affirmations would compel an NRSRO to expeditiously implement new methodologies, affording the market the benefit of the theoretically improved rating insight.

Most efforts to introduce legislation to reform ratings have been wide sweeping and have covered massive ground, such as the rating components of Dodd-Frank. The Fitzpatrick Bill is a straightforward and targeted initiative that warrants significant attention and consideration.

## Regulatory and Legislative Activities Affecting the Rating Industry

The more sweeping legislative and regulatory initiatives that have been put in place over the past five to six years are complex. They are also a mix of positive and counterproductive elements. Many of them are products of Dodd-Frank, the Securities and Exchange Commission's (SEC) implementing regulations and SEC rules implemented in 2009. The 2006 Credit Rating Agency Reform Act (CRA Act) is also a primary framework that instructs NRSRO criteria and activities.

Dodd-Frank does not do much to foster true competition in the market, and depending on how the SEC decides to implement its new oversight responsibilities, may even directly hinder it. The CRA Act and SEC rules also have idiosyncrasies that run counter to advancing industry reform. The problems include:

- **Material cost increases for smaller NRSROs evidenced by legal, administrative and compliance expenses, board compensation, insurance costs, and more:** These result from Dodd-Frank's emphasis on reporting requirements and legal liability for agencies, and are strong disincentives to becoming an NRSRO
- **Overreliance on NRSROs due to NRSRO references embedded in federal and state regulations, investment charters, bank agreements and others:** Dodd-Frank requires Federal agencies to remove references to NRSROs but that has yet to happen across agencies and only goes as far as the federal agencies. The problem is much deeper, and the embedding is much more prevalent beyond the federal level. There is also growing resistance from some quarters, for example banks<sup>16</sup>
- **Inadequate information availability under Sec Rule 17g-5:** SEC rule 17g-5 allows for an NRSRO to access the data used by another NRSRO hired to rate a structured product. This allows for unsolicited ratings and, in theory, more rating opinions in the market. But the rule only pertains to new issues, and not the information used by agencies to monitor all the outstanding ratings. Given there is *de minimis* new issuance in the structured market, this is of limited value. Also, this provision does not extend to Collateralized Loan Obligations, a still viable structured product type, because the underlying loans are out of the SEC's purview
- **Restrictive three-year qualification requirement for NRSRO application:** The CRA Act requires that a firm be providing ratings within an asset class for three years prior to applying for that asset class' NRSRO license. This effectively blocks most potential applicants from entering the business or expanding their business into a new asset class. This should be dropped or the SEC should have wide authority to waive the requirement
- **The ill-conceived Franken Amendment initiative:** Rotating agencies for structured product ratings is a flawed idea. The fundamental problems in structured product ratings going into the subprime crisis were conflicts of interest and an oligopolistic

<sup>16</sup> Braithwaite, Tom. "Banks warn rule change will hurt recovery." *Financial Times* 29 Jan 2012. <http://www.ft.com/intl/cms/s/0/a84eccea-4a79-11e1-8110-00144feabdc0.html#axzz1ktXgHP90>

paradigm within ratings. The Franken Amendment attempts to correct this by creating further conflicts of interest in the form of a committee of conflicted parties to administer the rotation of rating agencies; it also creates a slightly broader oligopolistic paradigm by rotating among the slightly broader group of firms with their structured product NRSRO license. Given the three-year requirement detailed above, new players would have a very challenging time becoming an NRSRO in structured products, making the loop of players in this asset class almost completely closed

- **An overall lack of intellectual property protection for newer rating agencies:** SEC implementation rules from Dodd-Frank may require disclosure of the IP underlying model-based ratings. Further, elements of Dodd-Frank that require agencies to disclose assumptions that can change ratings may facilitate attempts to reverse engineer model-based rating systems
- **Dangerous movement towards prescribing ratings “accuracy” criteria:** To try to increase ratings accuracy is a worthy goal, but Dodd-Frank and SEC rules could go too far by prescribing definitions for what is an accurate rating. This will ultimately lead to a homogenization of ratings, which offers new competitors fewer reasons to enter the market and greater systemic risk
- **Elimination of NRSRO’s Regulation FD exemption.** Pursuant to Section 939B of Dodd-Frank, the SEC was charged with amending Reg FD to eliminate exemptions for disclosure of material nonpublic information to NRSROs. We suspect the Big Three will claim that the loss of their Reg FD exemption due to Dodd-Frank is a reason why they were lacking information to downgrade MF Global in a timely fashion. Rapid Ratings’ ability to precisely and accurately identify deterioration in MF Global with only publicly available information should counter this claim.

These and other topics are explored in greater depth in Rapid Ratings’ prior testimonials to Congress and the U.S. Securities and Exchange Commission:

1. “Oversight of the Credit Rating Agencies Post Dodd-Frank.” 27 July 2011, United States House of Representatives Committee on Financial Services, Subcommittee on Oversight and Investigations. Testimony.  
<http://financialservices.house.gov/UploadedFiles/072711gellert.pdf>
2. “Transforming Credit Rating Agencies.” 30 September 2009, United States House of Representatives Committee on Financial Services, Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. Testimony.  
[http://financialservices.house.gov/media/file/hearings/111/gellert\\_testimony\\_on\\_transforming\\_credit\\_rating\\_agencies\\_final\\_09302009.pdf](http://financialservices.house.gov/media/file/hearings/111/gellert_testimony_on_transforming_credit_rating_agencies_final_09302009.pdf)
3. “Proposals to Enhance the Regulation of Credit Rating Agencies.” 5 August 2009, United States Senate Committee on Banking, Housing and Urban Affairs. Testimony.

[http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore\\_id=8fdc65ca-0cf8-4f65-869f-68ea727331c7](http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=8fdc65ca-0cf8-4f65-869f-68ea727331c7)

4. “Competition in the Credit Rating Industry.” 15 April 2009, SEC Roundtable to Examine Oversight of Credit Rating Agencies. Presentation. <http://www.sec.gov/comments/4-579/4579-20.pdf>

## Conclusion

MF Global’s demise was a terrible development for the market, and its aftermath a tragedy. It has affected Wall Street, the entire futures industry and quite literally Main Street, leaving farmers across the country insolvent. That customer funds are still missing months after the bankruptcy filing speaks to the complexity of the problems that led to this firm’s failure.

Ultimately, the story of MF Global is reasonably straightforward. A traditional and well-respected intermediary in the futures markets began to decline in its core business, and its financial health deteriorated. New management came in and began to diversify the business. In doing so, new risks were being taken with limited company capital. Instruments being traded with company capital were contrarian bets that ultimately spooked clients, regulators, shareholders and counterparty liquidity providers. These stakeholders worried about the capital base of the firm and began to require additional capital be added. All the while, the firm saw revenues deteriorating, profits turning to consecutive quarterly losses and weakening debt service management.

As a backdrop to all of this, the Big Three issuer-paid agencies, S&P, Moody’s and Fitch, maintained investment grade ratings on MF Global for years. Their ratings showed very little deterioration, despite the multitude of qualitative and empirical factors that pointed to decreased health and increased risk taking at the firm. In the end, Moody’s finally downgraded the firm to below investment grade, intensifying capital calls on the riskier trades. This helped precipitate the firm’s final spiral and ultimate bankruptcy.

There were many qualitative factors in the MF Global story, but what stands out are the quantitative ones that Rapid Ratings’ Financial Health Rating system used to provide early warnings of the firm’s deteriorating financial strength: weakening Sales Performance, Profit Performance and Debt Service Management. As a user-paid, not issuer-paid, firm, we have no contact with issuers, we do not factor any management star power or story into our ratings and we rate purely based on firms’ financial performance. This allows us to rate public and private companies consistently and objectively. MF Global’s ratings deteriorated markedly over the past few years and our system had rated them a High Risk entity since June 2009.

Whether the Big Three didn't properly evaluate the increasing evidence (including disclosures made by the firm as far back as May 2011) or determined there actually wasn't increased risk at MF Global, they failed to give adequate warning on the brokerage's failure. Once again, the market was ill served by flatlined ratings that did not adequately reflect the risk of a company. Not only were the Big Three slow in identifying risk at MF Global, they were highly correlated in their ratings products. The similarity in their ratings further illuminates the lack of unique information value in their product.

One of the Big Three, S&P, is asserting that it only relied on public filings for information on MF Global's trading positions.<sup>17</sup> But this doesn't explain why it neglected to analyze the disclosure and make inquiry about the positions, their implications and on whose behalf they were made. If a hallmark of their rating methodology is qualitative analysis, where was the quality of their analysis?

The MF Global example demonstrates yet again the importance of having up-to-date ratings that are not artificially inflated or maintained. It also highlights the glaring need for greater competition in the rating industry and the need to reduce market reliance on the Big Three firms.

Accurate early warnings of companies' financial health are essential. The legislative and regulatory environment must embrace competition as a critical goal in the effort to evolve the rating industry. That means making a serious commitment to removing the barriers to new entrants including the cost of compliance for smaller rating agencies. Investment managers, risk professionals and regulators, as well as many others, deserve to have multiple opinions and analytical inputs to incorporate in their decision-making processes. Certainly those who had our early warnings on MF Global were better served than those who relied exclusively on the Big Three agencies, whose ratings provided none. We also need a commitment to quarterly ratings so that there is greater transparency and accountability in the market. These steps will help reduce the dominance of the Big Three as they continue to promise much and deliver much less.

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<sup>17</sup> Faux, Zeke and Mattingly, Phil. "MF Global Said 'Never Been Stronger' a Week Before Failure." *Bloomberg* Jan 30 2012. <http://www.bloomberg.com/news/2012-01-30/mf-global-told-s-p-it-had-never-been-stronger-one-week-before-collapse.html>

**Appendix B**

Figure 2 below depicts the ratio net operating profit to shareholder equity, one of 23 profit ratios that demonstrate sustained deterioration and weakness in MF Global.

**Figure 2: MFG's Net Operating Profit After Taxes / Shareholders' Equity Ratio: 2006-2011**

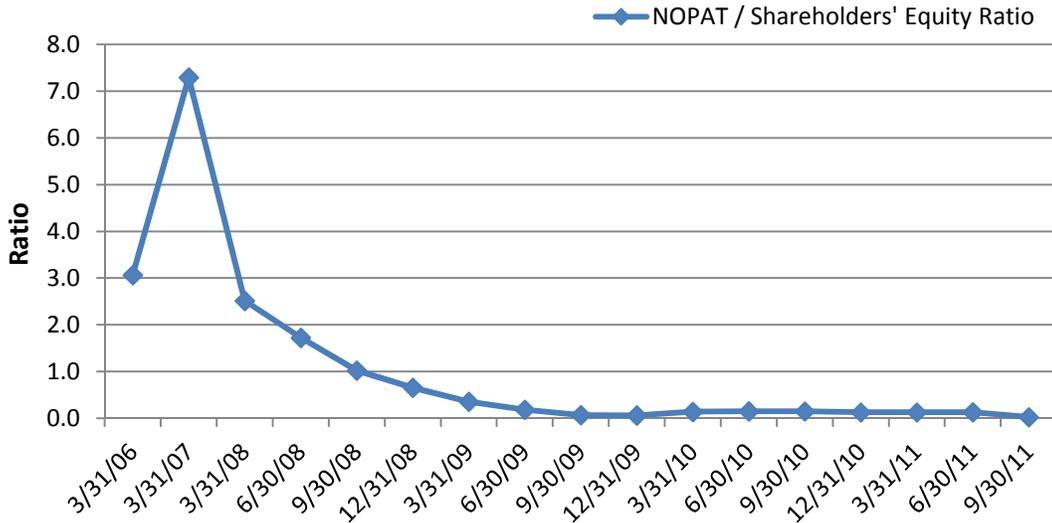
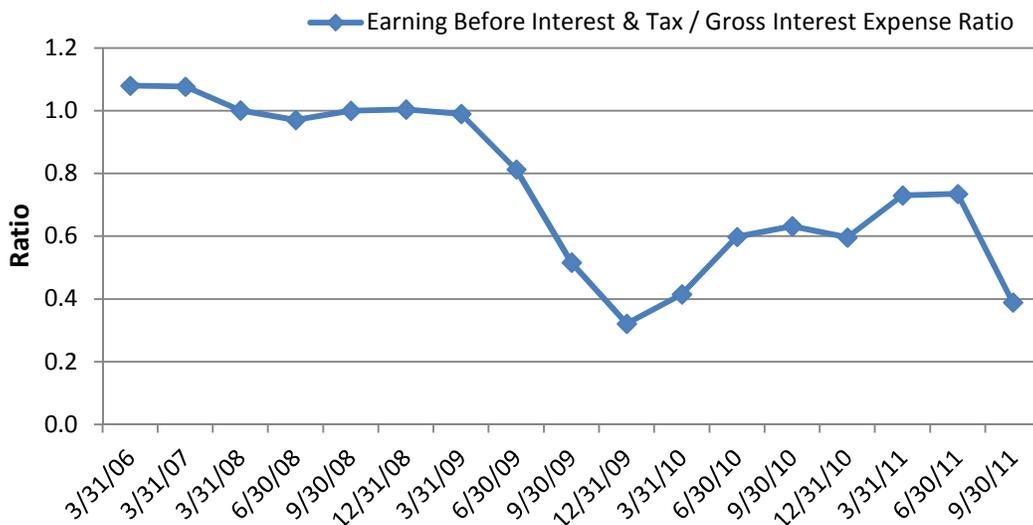


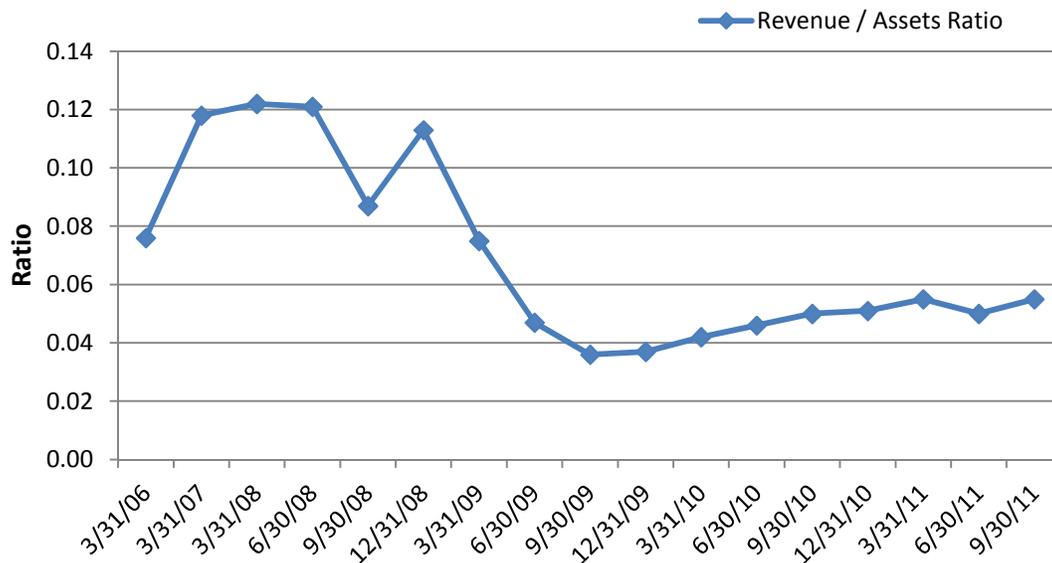
Figure 3 below presents a measure of MF Global's interest coverage ratio, one of three ratios that represent its declining Debt Service Management performance.

**Figure 3: MF Global's Interest Cover Ratio: 2006-2011**



An example of MF Global's deterioration in sales performance (one of five ratios) is presented in Figure 4 below.

**Figure 4: MF Global's Revenue / Total Assets Ratio: 2006-2011**



### Appendix C

Table 1 below highlights the major events during 2007-2011 that shaped the steady decline and collapse of MF Global. Items highlighted in yellow provide a quarterly snapshot of Rapid Ratings’ risk assessment of the financial health of MF Global over the course of five years. At key intervals there were major declines, and the FHR system provides reasons for those declines.

**Table 1: Timeline of events leading to the collapse of MF Global (Rapid Ratings actions in yellow)**

A	B	C
Date	Event	Rapid Ratings Risk Assessment
2007	Man Group sold its brokerage business, renamed MF Global, to focus on alternative investment management. <sup>18</sup> At that point, MF Global went public. MF Global was not a specialist in swaps, European bonds or proprietary trading, which later came to dominate its commercial activity.	FHRs from Rapid Ratings are below for each period
June 29, 2006	Rapid Ratings released a new rating for MF Global. <sup>19</sup> The company is not investment grade. This financial year data was issued by the new listed company, MF Global, after the Man Group divestment.	53 (12 pts below investment grade) (Medium Risk) retrospective
May 31, 2007	Both S&P (with a stable outlook) and Fitch rated MF Global as BBB+ (investment grade, three notches above junk). This was their first rating of MF Global.	53 (Medium Risk) retrospective
June 29, 2007	Rapid Ratings released a new rating for MF Global (up 7 points but still sub-investment grade). <sup>19</sup>	60 (Medium Risk) retrospective
July 24, 2007	Moody’s issued a solid investment grade rating for MF Global (A3).	60 (Medium Risk) retrospective
Feb 28, 2008	Moody’s issued a lower investment grade rating for MF Global (Baa1) – down one notch, and with a negative outlook.	60 (Medium Risk) retrospective
Feb 29, 2008	S&P rated MF Global as BBB (investment grade, two notches above junk) with a negative outlook.	60 (Medium Risk) retrospective
June 27, 2008	Moody’s issued an investment grade rating for MF Global (Baa1).	60 (Medium Risk) retrospective
June 29, 2008	Rapid Ratings released a new rating for MF Global (down 11 points). <i>Major factors in the decline were a deteriorating profit score, which dropped by 29% over the previous quarter, and a 16% decline in sales/revenue performance.</i> <sup>19</sup>	49 (Medium Risk) retrospective

<sup>18</sup> “History of Man Group.” Website. <http://www.mangroupplc.com/assets/pdf/media/timeline.pdf>

<sup>19</sup> Rapid Ratings first rated MF Global on January 27, 2009. The previous ratings are retrospective ratings using only data from that time period. A retrospective rating uses the financial data for the time period in question but is estimated some months or even years after the period. NO new information is used. This is a normal part of backtesting performance.

July 18, 2008	J.C. Flowers took a 6% preferred stake in MF Global three months after the firm took a \$141 million charge from unauthorized wheat trading. <sup>20,21</sup> On the same day, S&P removed the CreditWatch Negative designation.	49 (Medium Risk) retrospective
Aug 29, 2008	Rapid Ratings released a new rating for MF Global (down 2 points). <sup>22</sup>	47 (Medium Risk) retrospective
Dec 4, 2008	S&P affirmed the BBB rating but changed the outlook to negative.	42 (Medium Risk) retrospective
Jan. 16, 2009	Moody's issued an investment grade rating for MF Global (Baa2, downgraded 1 notch), with a stable outlook.	42 (Medium Risk) retrospective
Jan. 27, 2009	Rapid Ratings released a new rating for MF Global (down 5 points). <i>There were three generic areas of deterioration. The overall profitability score declined another 12.5% over the previous quarter, sales/revenue performance declined by 26% and there was a moderate weakening in working capital efficiency (including liquidity).</i>	42 (Medium Risk) retrospective
Feb 25, 2009	S&P affirmed the BBB rating and reiterated its negative outlook.	42 (Medium Risk) retrospective
March 1, 2009	Rapid Ratings released a new rating for MF Global (down 1 point).	41 (Medium Risk) retrospective
April 2009	The <u>Commodity Futures Trading Commission</u> warned the Fed in April 2009 it had uncovered major compliance issues regarding MF Global. This problem delayed the Fed's acceptance of MF Global as a primary broker until February 2011. <sup>23</sup> During that interval MF Global's financial health declined further and it became a High Risk company (see column C).	41 (Medium Risk) retrospective
June 17, 2009	Fitch issued an investment grade rating for MF Global (BBB).	41 (Medium Risk) retrospective
June 29, 2009	Rapid Ratings released a new rating for MF Global (down 5 points). <i>There were two generic areas of deterioration. The firm's profitability score declined by 21% over the previous quarter. Sales/revenue performance dropped by 22%. MF Global became High Risk for the first time (29 rating points below investment grade) and never recovered.</i>	36 (High Risk)
Aug 29, 2009	Rapid Ratings released a new rating for MF Global (down another 5 points) – High Risk.	31 (High Risk)
Sep 24, 2009	S&P affirmed the BBB rating and reiterated its negative outlook.	31 (High Risk)
Nov 6,	Moody's confirmed the rating at Baa2, but lowers the outlook to negative.	31 (High Risk)

<sup>20</sup> DeZemmer, Ryan. "MF Global and Chris Flowers: A Match Made for Rescue?" *Wall Street Journal* 30 Oct 2011.

<http://blogs.wsj.com/deals/2011/10/30/mf-global-and-chris-flowers-a-match-made-for-rescue/>

<sup>21</sup> EDGAR Online – SEC Filings. MF Global Holdings Ltd. [http://google.brand.edgar-online.com/EFX\\_dll/EDGARpro.dll?FetchFilingHtmlSection1?SectionID=7951304-103135-117103&SessionID=HUjUFWRLX2lin47](http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHtmlSection1?SectionID=7951304-103135-117103&SessionID=HUjUFWRLX2lin47)

<sup>22</sup> Rapid Ratings first rated MF Global on January 27, 2009. The previous ratings are retrospective ratings using only data from that time period. A retrospective rating uses the financial data for the time period in question but is estimated some months or even years after the period. NO new information is used. This is a normal part of backtesting performance.

<sup>23</sup> Lynch, Sarah. "A Persistent MF Global won NY Fed dealer status." *Thompson Reuters News & Insight* 15 Dec 2011.

[http://newsandinsight.thomsonreuters.com/Legal/News/2011/12 - December/A\\_persistent\\_MF\\_Global\\_won\\_NY\\_Fed\\_dealer\\_status/](http://newsandinsight.thomsonreuters.com/Legal/News/2011/12 - December/A_persistent_MF_Global_won_NY_Fed_dealer_status/)

2009		
Nov 29, 2009	Rapid Ratings released a new rating for MF Global (down 6 points) – High Risk. <i>There were three generic areas of deterioration. The profitability score declined by a further 40% and sales/revenue performance dropped by another 20%. And for the first time there was a major decline in the debt service management capability of MF Global.</i>	25 (High Risk)
Dec 2009	The Commodities Futures Trading Commission imposed a \$10 million fine on MF Global for "significant supervision violations" arising from rogue trading. MF Global was ordered to enhance its internal controls. <sup>24</sup>	25 (High Risk)
March 1, 2010	Rapid Ratings released a new rating for MF Global (down 2 points) – High Risk (only 3 points above Very High Risk now).	23 (High Risk)
March 23, 2010	At the invitation of JC Flowers, a former Goldman Sachs colleague, Jon Corzine joined MF Global as CEO, and proceeded to shift its focus from assisting clients with their derivatives trading to proprietary trading on behalf of MF Global. Corzine significantly increased the risk exposure of the company because of, or in spite of, MF Global's current profitability problems.	23 (High Risk)
April 2010	The Euro-zone crisis emerged as interest rates rose dramatically on bonds issued by Greece, Portugal, and Ireland. The interest rate shocks for bonds issued by Spain and Italy followed in November 2010. In 2011, the Euro-crisis escalated significantly. Corzine saw this as a big opportunity, but the market did not agree.	23 (High Risk)
June 4, 2010	Rapid Ratings released a new rating for MF Global (up 3 points) – High Risk.	26 (High Risk)
Aug 12, 2010	Rapid Ratings released a new rating for MF Global (rose 2 points) – High Risk.	28 (High Risk)
Sept. 2010	MF Global began investing in sovereign bonds of Belgium, Italy, Ireland, Portugal and Spain.	28 (High Risk)
October 2010	The Q2 2011 financials (10Q) released by MF Global explicitly state that a reduction in its long-term credit rating would have led to repayment pressure from lenders. <sup>25</sup>	28 (High Risk)

<sup>24</sup> Lynch, Sarah. "A Persistent MF Global won NY Fed dealer status." *Thompson Reuters News & Insight* 15 Dec 2011.

[http://newsandinsight.thomsonreuters.com/Legal/News/2011/12 - December/A\\_persistent\\_MF\\_Global\\_won\\_NY\\_Fed\\_dealer\\_status/](http://newsandinsight.thomsonreuters.com/Legal/News/2011/12 - December/A_persistent_MF_Global_won_NY_Fed_dealer_status/)

<sup>25</sup> "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, 2010, the aggregate fair value of derivative agreements, with credit-risk-related contingent features that were in a **net liability position was \$13,668, for which the Company has posted collateral of \$19,740** in accordance with trading agreements. If the Company's long term credit rating had a one-notch or two-notch reduction, as of September 30, 2010, the amount of additional collateral that could be called by counterparties for these derivative agreements would be approximately \$1,901 and \$2,003, respectively. As of March 31, 2010, the aggregate fair value of derivative agreements with credit-risk-related contingent features that were in a net liability position was \$23,413, for which the Company has posted collateral of \$29,861 in accordance with arrangements. If the Company's long term credit rating had a one-notch or two-notch reduction as of March 31, 2010, the amount of additional collateral that could be called by counterparties for these derivative agreements would be approximately \$3,162." Using short term borrowing to finance long term positions had become much riskier since the collapse of Bear Stearns and Lehman Brothers in 2008. 10Q form for the quarterly period ended September 30, 2010, MF GLOBAL HOLDINGS LTD. Compare that their statement a year earlier in the Q2 2010 filing: "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

Nov 11, 2010	Rapid Ratings released a new rating for MF Global (up one point) – High Risk.	29 (High Risk)
Nov 24, 2010	S&P downgraded MFG to BBB-, the lowest investment grade category.	29 (High Risk)
Dec 2010	PricewaterhouseCoopers encouraged MF Global to make public its euro-sovereign bond investments. By the end of the year, MF Global had invested \$1.5bn in these bonds. <sup>26</sup>	29 (High Risk)
Feb 2, 2011	In January, the CFTC conducted a review of MF Global’s candidacy for being a Primary Broker (assessing audited financial reports and tax returns in an on-site visit). This led to a Fed memo in January 2011 stating that MF Global "demonstrated a clear ability" to meet the Fed's standards. <sup>27</sup> The FRBNY approved MF Global as a primary dealer on Feb 2, 2011. This placed MF Global in very exclusive company. <sup>28</sup> What risk vetting procedures were used by the Fed in making this decision? <sup>29</sup> Only Primary dealers are permitted to trade directly with the Federal Reserve Bank of New York. They have an important position in the U.S. repurchase market, conducting repos in proprietary trading and helping the Fed manage monetary policy by trading in the repurchase market. This was a huge boost to MF Global’s credibility and would have helped MF Global attract more customers <sup>30</sup> at a time when the fundamentals strongly indicated the company was High Risk.	29 (High Risk)
Feb 3, 2011	Moody’s affirmed its Baa2 rating of MFG with a negative outlook.	29 (High Risk)
Feb 9, 2011	Rapid Ratings released a new rating for MF Global (down one point) – High Risk.	28 (High Risk)

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.” *Notice the significant increase in the level of collateral required, roughly matching the beginning of Corzine’s tenure as CEO and the end of his first year as CEO. There were no similar requirements incorporated in the Q2 2008 quarterly filing. This footnote provides a quick snapshot of how quickly things changed once Corzine was running MF Global.*

<sup>26</sup> Lucchetti, Aaron and Steinberg, Julie. “Corzine Rebuffed Internal Warnings on Risks.” *Wall Street Journal* 6 Dec 2011.

<http://online.wsj.com/article/SB10001424052970204083204577080723935363452.html>

<sup>27</sup> Lynch, Sarah. “A Persistent MF Global won NY Fed dealer status.” *Thompson Reuters News & Insight* 15 Dec 2011.

[http://newsandinsight.thomsonreuters.com/Legal/News/2011/12 - December/A\\_persistent\\_MF\\_Global\\_won\\_NY\\_Fed\\_dealer\\_status/](http://newsandinsight.thomsonreuters.com/Legal/News/2011/12 - December/A_persistent_MF_Global_won_NY_Fed_dealer_status/)

<sup>28</sup> BNP Paribas Securities Corp.; Barclays Capital Inc.; Cantor Fitzgerald & Co.; Citigroup Global Markets Inc.; Credit Suisse Securities (USA) LLC; Daiwa Capital Markets America Inc.; Deutsche Bank Securities Inc.; Goldman, Sachs & Co.; HSBC Securities (USA) Inc.; Jefferies & Company, Inc.; J.P. Morgan Securities LLC; Merrill Lynch, Pierce, Fenner & Smith Incorporated; Mizuho Securities USA Inc.; Morgan Stanley & Co. Incorporated; Nomura Securities International, Inc.; RBC Capital Markets, LLC; RBS Securities Inc.; SG Americas Securities UBS Securities LLC. (“Fed approves MF Global and SG Americas Securities as Primary Dealers.” *RepoWatch* 2 Feb 2011. <http://repowatch.org/2011/02/02/fed-approves-mf-global-and-sg-americas-securities-as-primary-dealers/>)

<sup>29</sup> This issue was raised in December 2011 by the Chairman of the House Financial Services Oversight Sub-committee, Randy Neugebauer: “We also have concerns with the apparent lack of due diligence conducted by the Federal Reserve Bank of New York in bestowing its primary dealer designation on MF Global - even as the firm consistently lost money.”

[http://newsandinsight.thomsonreuters.com/Legal/News/2011/12\\_December/A\\_persistent\\_MF\\_Global\\_won\\_NY\\_Fed\\_dealer\\_status/](http://newsandinsight.thomsonreuters.com/Legal/News/2011/12_December/A_persistent_MF_Global_won_NY_Fed_dealer_status/)

<sup>30</sup> “Fed approves MF Global and SG Americas Securities as Primary Dealers.” *RepoWatch* 2 Feb 2011. <http://repowatch.org/2011/02/02/fed-approves-mf-global-and-sg-americas-securities-as-primary-dealers/>

March 2011	Michael Roseman, Chief Risk Officer of MF Global, opposed Corzine's strategy to invest in the euro-sovereign bond market. The Board supported Corzine. Roseman resigned as a result. <sup>31</sup>	28 (High Risk)
May 23, 2011	Rapid Ratings released a new rating for MF Global (1 point higher) – High Risk.	29 (High Risk)
May 2011	PricewaterhouseCoopers signed off on its annual audit of MF Global. It was paid \$12 million for this service. <sup>32</sup> MF Global publicly revealed that it had \$6.3bn invested in sovereign bonds from Belgium, Italy, Ireland Portugal and Spain. This prompted FINRA in June to require MF Global (MF Global's US subsidiary) to increase its capital reserves. <sup>33</sup> FINRA had questioned MF Global's use of Generally Accepted Accounting Principles (GAAP) to justify reporting its euro-sovereign bond exposure off balance sheet. <sup>34</sup>	29 (High Risk)
July 2011	The MF Global share price began a precipitous 4-month decline. Street talk in the equity market about MF Global risks preceded Big 3 rating agency downgrades to junk by almost 4 months.	29 (High Risk)
 <p><b>MF Global Holdings Ltd</b>  <b>\$0.08</b>  <b>\$-7.46</b>      -99.00%      At market close 01/24/2012</p> <p>7.00 6.00 5.00 4.00 3.00 2.00 1.00 0.00</p> <p>July      Sep.      Nov.</p> <p>Source: Reuters      The New York Times</p>		
Aug 8 2011	Rapid Ratings released a new rating for MF Global (unchanged).	29 (High Risk)
Aug-Oct 2011	According to Reuters, MF Global's segregated accounts (client money) "...shrank by \$1.5 billion in August alone, government data showed. Another \$1.8 billion fled over the following two months, according to preliminary estimates. In total, customers pulled out more than a third of their accounts in the three months leading up to MF Global's downfall, much of that in the frenzied final days, traders reckon. For instance, privately held Koch Industries -- whose businesses make it a leading commodities trader -- sent	29 (High Risk)

<sup>31</sup> Scott, Joelle. "Roseman and Woodford: The Foreboding Michaels of MF Global and Olympus." *Forbes* 7 Dec 2011.

<http://www.forbes.com/sites/corporateresolutions/2011/12/07/roseman-and-woodford-the-foreboding-michaels-of-mf-global-and-olympus/>

<sup>32</sup> McKenna, Francine. "MF Global: 99 Problems And Auditor PwC Warned About None." *Forbes* 2 Nov 2011.

<http://www.forbes.com/sites/francinemckenna/2011/10/31/mf-global-99-problems-and-auditor-pwc-warned-about-none/>

<sup>33</sup> "MF Global's Big Bet...And Its Collapse." *New York Times Dealbook* 12 Dec 2011. Graphic.

<http://graphics8.nytimes.com/images/2011/12/12/business/dealbook/12global-graphic2/12global-graphic2-custom2.jpg>

<sup>34</sup> Dunkley, Jamie. "US Regulators have been monitoring MF Global for months." *Telegraph* 2 Nov 2011.

<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/8865899/US-regulators-have-been-monitoring-MF-Global-for-months.html>

	a letter to trading partners on October 3 saying it was switching eight accounts from MF Global to Mizuho Securities USA.” <sup>35</sup>	
Sept 30, 2011	At the end of September 2011, MF Global had a net long exposure of \$6.3bn in BIIPS sovereign bonds (Belgium, Italy, Ireland, Portugal and Spain). Their average weighted maturity was December 2012, which was within the period of coverage by the European Financial Stability Facility that expires in June 2013. One of the wrinkles was that MF Global had entered into a swap arrangement financed to maturity (repo-to-maturity). Short-term loans were underpinning these long-term bond investments, and bonds were used as collateral by MF Global for the short-term loans.	29 (High Risk)
Oct 24, 2011	Moody’s downgraded MF Global to Baa3, the lowest investment grade level. S&P downgrades MF Global to BBB-, the lowest investment grade level.	29 (High Risk)
Oct 24-28, 2011	Counterparties were pressuring MF Global to post more collateral on derivatives trades and likely started reducing the company’s repo financing lines. <sup>36</sup>	29 (High Risk)
Oct 25, 2011	MF Global announced its biggest quarterly loss (\$191.6 million for the previous quarter) since it went public in 2007.	29 (High Risk)
Oct 26, 2011	S&P changed the rating from BBB- with a stable outlook to BBB- with a negative outlook.	29 (High Risk)
Oct 27, 2011	Fitch Ratings downgraded the ratings of MF Global Holdings Ltd. to BB+/B from BBB/F2. The reasons it gave are instructive: “Today’s rating actions reflect MF’s continued challenges in establishing a sustainable level of profitability and improving its leverage profile...In addition, the firm’s increase in principal and, to a lesser extent, proprietary trading activities has elevated the firm’s traditional risk profile. These increased risk-taking activities have resulted in sizeable concentrated positions relative to the firm’s capital base, leaving MF vulnerable to potential credit deterioration and/or significant margin calls. While Fitch notes that the firm has made some progress in rationalizing its capital structure, the firm’s persistently weak earnings and leverage are no longer consistent with an investment grade financial institution.” <sup>37</sup> <i>Comment by Rapid Ratings: Our models indicate that MF Global’s profitability problem had started in 2008 and it showed persistent losses and deterioration since then. MF Global’s ability to service its debt dropped into the High Risk zone in 2010 and stayed there.</i>	29 (High Risk)
Oct 27, 2011	Moody’s downgraded MF Global to junk (Ba2), with the following comments: “The tactical decision to assume this outsized proprietary	

<sup>35</sup> Prezioso, Jeanine. “Insight: Clients who fled MF Global face clawback risk.” *Reuters* 11 Nov 2011.

<http://www.reuters.com/article/2011/11/11/us-mfglobal-clawback-f-idUSTRE7AA38A20111111>

<sup>36</sup> Cohan, William. “MF Signs Death Warrant for Short-Term Funding.” *Businessweek* 15 Nov 2011. <http://www.businessweek.com/news/2011-11-15/mf-signs-death-warrant-for-short-term-funding-william-d-cohan.html>

<sup>37</sup> Gongloff, Mark. “MF Global Falls Again After Fitch Downgrade to Junk.” *Wall Street Journal* 27 Oct 2011.

<http://blogs.wsj.com/marketbeat/2011/10/27/mf-global-falls-again-after-fitch-downgrade-to-junk/>

	position highlights the core profitability challenges faced by MF Global, and the scope of the re-engineering challenge facing the firm's management" <sup>38</sup> <i>Comment by Rapid Ratings: The profitability problem was an old one not a new one, while the large proprietary risky positions began in March 2010 after Mr. Corzine came aboard.</i>	
Oct 29-30, 2011	The Commodity Futures Trading Commission and Interactive Brokers (Connecticut) raised questions about MF Global's capital adequacy and the location of about \$1 billion in client funds. This led to Interactive Brokers aborting a potential deal to purchase MF Global. <sup>39</sup> According to Bloomberg, CME noticed a shortfall in MF Global's segregated client funds on Oct 31 but delayed telling the Commodity Futures Trading Commission, the CME Group's regulator, until the next day. <sup>40</sup>	29 (High Risk)
October 31, 2011	MF Global filed for bankruptcy. <sup>41</sup> The largest creditors were JPMorgan Chase (\$1.2 billion, but it was syndicated) and Deutsche Bank (\$325 million). Moody's downgraded MF Global to Caa1 (High Risk). Fitch and S&P downgraded MF Global to D (default). MF Global (COO Abelow) in its bankruptcy court filing blamed regulators (Commodity Futures Trading Commission, the Securities and Exchange Commission and the Financial Industry Regulatory Authority). FINRA in particular raised concerns about MF Global's US broker-dealer's need for much more capital and raised its concerns about MF Global's \$6.3 billion stake in short-term debt from European sovereign bonds. This led to margin calls, downgrades and collapse, said MF Global. <sup>42</sup>	29 (High Risk)
Nov 1, 2011	Rapid Ratings downgraded MF Global further based on newly released financials from the previous quarter. The company continued to be High Risk through to its bankruptcy.	23 (close to Very High Risk)
Nov 4, 2011	Mr. Corzine announced his resignation from MF Global as CEO and indicated he would not seek severance payments.	
Dec 13, 2011	Mr. Corzine's testimony to the Senate Agriculture Committee: "I never gave any instructions to misuse customer money, never intended to give any instructions or authority to misuse customer funds, and I find it very hard to understand how anyone could misconstrue what I've said as a way to misuse customer money." <sup>43</sup> No evidence to the contrary has surfaced.	

<sup>38</sup> "Ahead of the Bell: Moody's Downgrades MF Global" *Businessweek* 28 Oct 2011.

<http://www.businessweek.com/ap/financialnews/D9QLA5P00.htm>

<sup>39</sup> Protess, Ben. "Regulators Investigating MF Global" *New York Times* 31 Oct 2011. <http://dealbook.nytimes.com/2011/10/31/regulators-investigating-mf-global/>

<sup>40</sup> Leising, Matthew. "CME May Face 'Liability' In MF Global Disclosure, Goldman's Harris Says." *Bloomberg* 17 Nov 2011.

<http://www.bloomberg.com/news/2011-11-17/cme-may-face-liability-related-to-mf-global-disclosure-goldman-sachs-says.html>

<sup>41</sup> US broker-dealers are not protected by Chapter 11 whereby regulatory shelter from creditors is provided. Broker-dealers only have two choices in the event of severe distress: (1) liquidate all assets, or (2) takeover by another firm.

<sup>42</sup> Spicer, Jonathan. "MF Global collapses under euro zone bets." *MSN Money* 31 October 2011. <http://money.msn.com/business-news/article.aspx?feed=OBR&date=20111031&id=14453289>

<sup>43</sup> "USA Exchanges: CME boss seems to rebut Corzine over funds." *Economist Intelligence Unit* 14 Dec 2011.

[http://www.eiu.com/index.asp?layout=ib3Article&article\\_id=198667204&country\\_id=1530000153&pubtypeid=1132462498&industry\\_id=640001064&category\\_id=&rf=0](http://www.eiu.com/index.asp?layout=ib3Article&article_id=198667204&country_id=1530000153&pubtypeid=1132462498&industry_id=640001064&category_id=&rf=0)

Dec 14, 2011	Jill Sommers, the leader of the CFTC review of MF Global’s collapse, revealed that her team knows where the missing money went, adding, “Now it’s just [a question of] finding out which ones of those transactions are legitimate and which ones of them are illegitimate.” <sup>44</sup>	
Dec 15, 2011	Moody’s withdrew its rating for MF Global.	

<sup>44</sup> Doering, Christopher. “Exclusive: Regulators know where MF Global funds went.” *Reuters* 14 Dec 2011. <http://www.reuters.com/article/2011/12/14/us-mfglobal-cftc-idUSTRE7BD20L20111214>