

News

NEWS HOME

TOP STORIES

AG NEWS

U.S. & WORLD NEWS

RECENT FEATURES

THE BEST OF DTN/PF

BLOGS

AUDIO & VIDEO

TOWN HALL

COMMERCIAL NEWS

DOW JONES

AP ONLINE NEWS

NEWSROOM

NEWS SEARCH

NEWS ARCHIVE

MY FAVORITES

DTN INFOMAIL

PREMIUM SERVICES

Minding Ag's Business

**Marcia Zarley Taylor** DTN Executive Editor
Bio | Email

Monday 12/12/11

Waiting Game for MF Global

Bystanders may be losing sight of the main issue with the MF Global bankruptcy and why it matters to anyone with a brokerage account. In an address to the DTN-Progressive Farmer Ag Summit last week, Jeffrey Hainline, chairman of Bloomington, Ill.-based Advance Trading Company, reminded attendees that the main issue is the safety and security of funds held in customer accounts. The precedent applies far beyond MF Global.

In other words, if you leave your dry cleaning at a shop that later goes bankrupt, your wardrobe shouldn't become the assets of the failed business and the subject of creditor claims. Sadly that is the legal precedent now being tested in a New York bankruptcy court.

"The foundation of customer protection for commodity customers is segregation of customer funds," Hainline quoted a CFTC counsel. "Commodity brokers must have...the full amount they owe each customer, in a segregated account, every moment of every day." That's not just good business, it's the law under the Commodity Exchange Act, he said, and it is meant to ensure the firm has funds available even if customers demanded payment en masse. (Technically, funds can be transferred, but only if replaced by adequate collateral.)

Hainline is intimately aware of the chaos that an estimated \$1.2 billion in missing MF Global customer funds has caused. His brokerage firm represents 3,000 elevators, ethanol plants, farmers and others, and most of its trades were cleared by MF Global. He also serves on the National Grain and Feed Association Risk Management Committee monitoring the case.

Even in the final days of the Lehman Brothers debacle when officials were desperate for cash, no one pilfered the accounts of the firm's customers, the New York Times reported 12/10. Strict internal controls are supposed to exist so a single person can't tap segregated funds even if they were willing to break the law, the Times' James B. Stewart reported. Typically this requires that transfers from segregated accounts be approved by the firm's chief financial officer and chief compliance officer, so it's not a low-level decision and there are multiple checks and balances in place.

[http://www.nytimes.com/...](http://www.nytimes.com/)

Normal checks and balances failed customers this time, but farmers' can't afford to opt out of risk management just because their margin accounts are at risk, Hainline said. Corn futures tumbled 73 cents per bu. between 10/28 and 12/7, so he figures a 2,000-acre corn grower with a 170-bu. yield would have lost \$248,200 if his downside was not protected. In other words, this is no time to rely on a cash-only sales strategy.

CME Group's Chief Operating Officer Bryan Durkin told country elevator operators in Chicago today that the exchange will not guarantee the remaining one-third of funds still missing from customer accounts.

Hainline and many other brokers I've interviewed think that attitude is self-defeating and it will ultimately affect how much customers trust the system. They believe the \$7 billion fund that CME touts on their website as securing the safety and soundness of trades gave customers a false sense of protection that CME needs to correct.

"CME can't afford to have their customers injured," Hainline told me last week. He's hoping that any funds improperly held by JP Morgan and other banks can be "clawed back" into bankruptcy and returned to customers. He's also hopeful that legislation will be adopted to establish customer protections-

Blog Home Pages

[Market Matters Blog](#)[Technically Speaking](#)[Fundamentally Speaking](#)[Ag Policy Blog](#)[Minding Ag's Business](#)[Ag Weather Forum](#)[Ethanol Blog](#)[Production Blog](#)[Harrington's Sort & Cull](#)[Machinery Chatter](#)[South America Calling](#)[An Urban's Rural View](#)[Editors' Notebook](#)

December 2011						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Recent Blog Posts

[Merry Christmas, Landlords](#)[Waiting Game for MF Global](#)[MF Global's Superdome Moment](#)[Year of Reckoning for Cash Rent](#)[Don't Fall for Tax Trap Accounting](#)[Crop Insurance Compliance Ahead?](#)[Crop Insurance Finalizes Pay Rates](#)[Crazy Sioux County Land Auction Strikes Again](#)[Crop Insurance Close to Setting Final Payments](#)[RMA Grants Yield Drag Relief](#)[Shrinking the Crop Insurance](#)[Deductible](#)[Don't Push Land Panic Button Yet](#)[Inflammatory Fertilizer Prices](#)[Hunting for Mr. Right?](#)[More on Pension Fund Landlords](#)[Fertilizer Deja Vu](#)["I" States Top Cash Rent Battleground](#)[Cheap Credit Continued](#)[Elvis-Style Interest Rates](#)[Cope with Cash Rent Mood Swings](#)



**Marketing
through Mayhem**
Friday, January 20
Ankeny, Iowa

Join a team of top marketing professionals in this hands-on workshop designed to help you create the best grain marketing plan for your operation.

Register today!



To learn more
▶ **Click here**

-and that MF Global customers will be covered retroactively. But the third line of defense would be for CME Group and other exchanges to honor the missing accounts. CME's earnings alone are up tenfold since 2001 and will top \$1 billion in calendar 2011, Hainline said.

Unfortunately for the victims, such a move would be "unwise" and the CME has a "fiduciary responsibility" to its shareholders, Durkin told a meeting of country elevators Monday. So the waiting game continues for MF Global customers. Let's just hope this doesn't drag on as long as the three years Bernie Madoff's clients have been waiting for the \$11 billion they are missing in that Ponzi scheme.

Follow me on Twitter at www.twitter/MarciaZTaylor

© Copyright 2011 DTN/The Progressive Farmer, A Telvent Brand. All rights reserved.

Posted at 3:56PM CST 12/12/11 by Marcia Zarley Taylor

Comments (1)

Legal stealing. Why were these guys giving testimony in congress and not facing charges in court? If this was bad what will keep stock market from being raided?

Posted by Walker Thomas at 9:51AM CST 12/15/11

Post a Blog Comment:

Name: Nick Scalise

Your Comment:

Post Comment

DTN reserves the right to delete comments posted to any of our blogs and forums, for reasons including profanity, libel, irrelevant personal attacks and advertisements.



OUR PARTNERS:



[Logout](#)



Sign-Up

- Newsletter
- Webinars
- Ag Summit

Help & Information

- Advertising Information
- DTN Customer Service
- Legal
- Contact
- Feedback

Site Navigation

- Home
- Markets
- Weather
- News
- Crops
- Livestock
- Equipment
- Farm Business
- Land Management
- Ag Policy
- Farm Life
- DTN Marketspace
- DTN Instant
- News Archive

©2002-2011 DTN. All Rights Reserved. DTN is a registered trademark and the property of DTN. All other trademarks are the properties of their respective owners.