

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

December 2, 2011

The Honorable Mary Schapiro
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairman Schapiro:

As you know, on October 31, 2011, MF Global filed for bankruptcy—one of the largest bankruptcies in our country's history. The collapse reportedly was due to MF Global's inability to meet margin calls on its \$6.3 billion portfolio of "repo-to-maturity" contracts involving bonds issued by European governments. Notably, this collapse has led to thousands of frozen customer accounts—some of these customers are small business owners now unable to hedge their positions against price fluctuations. Moreover, the MF Global Bankruptcy Trustee reports that as much as \$1.2 billion in customer funds is missing.¹ I am writing to examine the effectiveness of coordination among MF Global's governmental regulators and the self-regulatory organizations (SROs) of which it is a member, and the Securities and Exchange Commission's (SEC's) role in the supervision of MF Global.

I am concerned about the effectiveness, individually and collectively, of the regulators and SROs that regulate MF Global's core business (the SEC, the Commodity Futures Trading Commission (CFTC), the National Futures Association (NFA), the Financial Industry Regulatory Authority (FINRA), Chicago Board Options Exchange (CBOE), and the Chicago Mercantile Exchange (CME)) and those responsible for MF Global's designation as a primary dealer (the Federal Reserve Bank of New York). The most recent 10-K securities filing by MF Global indicates problems with internal controls, including an unauthorized trading incident in 2008, and recent cuts in headcount, including cuts of compliance staff.² Recent reports indicate that the Bankruptcy Trustee will face significant problems locating missing client funds because of the poor quality of MF Global's records.³ It has also been reported that FINRA required MF Global to increase its net capital pursuant to SEC Rule 15c3-1 specifically because of MF Global's repo-to-maturity transactions.⁴

¹ Nov. 21, 2011, Press Release available at <http://dm.epiq11.com/MFG/Project/default.aspx>

² See <http://www.sec.gov/Archives/edgar/data/1401106/000119312511145663/d10k.htm>

³ MF Global Trustee Says Shortfall Could Exceed \$1.2 Billion, available at <http://dealbook.nytimes.com/2011/11/21/mf-global-trustee-estimates-shortfall-could-be-more-than-1-2-billion/>

⁴ MF Global – Slayed by the Grim Repo?, available at <http://currents.westlawbusiness.com/Article.aspx?id=3a6afdcc-59b3-46f4-9fb1-c126ab1f0f2a&src=RSS>

In sum, different information was known by multiple regulators and SROs that might have, if aggregated and shared, been used to identify the risk at MF Global earlier or might have mitigated the consequences of its collapse.

Please provide the following documents (defined in Attachment A), in three separate groups that correspond to the numbered requests below, in the manner described in Attachment B:

1. All documents and internal communications related to MF Global.
2. All external communications related to MF Global that occurred between SEC and any SRO, federal or state regulator, government body, or Federal Reserve Bank, including but not limited to CFTC, FINRA, CME, CBOE, NFA, or the Federal Reserve Bank of New York.
3. All communications that occurred between SEC and MF Global.

The time period covered by this request is March 1, 2010, through November 1, 2011. Please provide the requested information on a rolling basis, but in no event later than 5:00 p.m. EDT on December 9, 2011.

Sincerely,



RANDY NEUGEBAUER

Chairman

Subcommittee on Oversight and Investigations

cc:

The Honorable Spencer Bachus
The Honorable Barney Frank
The Honorable Michael Capuano
The Honorable Scott Garrett
The Honorable Maxine Waters
The Honorable Frank Lucas

ATTACHMENT A

1. The terms "document" or "record" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded, and whether original or copy, including, but not limited to, the following: memoranda, reports, expense reports, books, manuals, instructions, financial reports, working papers, records, notes, letters, notices, confirmations, telegrams, receipts, appraisals, pamphlets, magazines, newspapers, prospectuses, inter-office and intra-office communications, electronic mail (e-mail), contracts, cables, notations of any type of conversation, telephone call, meeting or other communication, bulletins, printed matter, computer printouts, teletypes, invoices, transcripts, diaries, analyses, returns, summaries, minutes, bills, accounts, estimates, projections, comparisons, messages, correspondence, press releases, circulars, financial statements, reviews, opinions, offers, studies and investigations, questionnaires and surveys, and work sheets (and all drafts, preliminary versions, alterations, modifications, revisions, changes, and amendments of any of the foregoing, as well as any attachments or appendices thereto), and graphic or oral records or representations of any kind (including without limitation, photographs, charts, graphs, microfiche, microfilm, videotape, recordings and motion pictures), and electronic, mechanical, and electric records or representations of any kind (including, without limitation, tapes, cassettes, disks, and recordings) and other written, printed, typed, or other graphic or recorded matter of any kind or nature, however produced or reproduced, and whether preserved in writing, film, tape, disk, videotape or otherwise. A document bearing any notation not a part of the original text is to be considered a separate document. A draft or non-identical copy is a separate document within the meaning of this term.
2. The terms "communication" or "correspondence" means each manner or means of disclosure or exchange of information, regardless of means utilized, whether oral, electronic, by document or otherwise, and whether in a meeting, by telephone, facsimile, email, regular mail, telexes, releases, or otherwise.
3. The terms "and" and "or" shall be construed broadly and either conjunctively or disjunctively to bring within the scope of this request any information which might otherwise be construed to be outside its scope. The singular includes plural number, and vice versa. The masculine includes the feminine and neuter genders.
4. The terms "person" or "persons" mean natural persons, firms, partnerships, associations, corporations, subsidiaries, divisions, departments, joint ventures, proprietorships, syndicates, or other legal, business or government entities, and all subsidiaries, affiliates, divisions, departments, branches, or other units thereof.
5. The term "identify," when used in a question about individuals, means to provide the following information: (a) the individual's complete name and title; and (b) the individual's business address and phone number.
6. The term "referring," "relating," "relate," or "regarding" as to any given subject, means anything that constitutes, contains, embodies, reflects, identifies, states, refers to, deals with or is pertinent to that subject in any manner whatsoever.

ATTACHMENT B

1. The Committee requests that you send documents in electronic form (e.g. CD, memory stick, or thumb drive).
2. Documents produced in electronic format should also be organized, identified, and indexed electronically.
3. Electronic document productions should be prepared according to the following standard:
 - (a) All documents shall be in searchable .PDF format.
4. Documents produced to the Committee should include an index describing the contents of the production. To the extent more than one CD, hard drive, memory stick, thumb drive, box or folder is produced each CD, hard drive, memory stick, thumb drive, box or folder should contain an index describing its contents.
5. Documents produced in response to this request shall be produced together with copies of file labels, dividers or identifying markers with which they were associated when they were requested.
6. When you produce documents, you should identify the paragraph in the Committee's request to which the documents respond.
7. If compliance with the request cannot be made in full, compliance shall be made the extent possible and shall include an explanation of why full compliance is not possible.
8. In the event that a document is withheld on the basis of privilege, provide a privilege log (e.g. a Vaughn Index) containing the following information concerning any such document: (a) the privilege asserted; (b) the type of document; (c) the general subject matter; (d) the date, author and addressee; and (e) the relationship of the author and addressee to each other.
9. This request is continuing in nature and consists of an on-going obligation. This request applies to any newly-discovered information. Any record, document, compilation of data or information, not produced because it has not been located or discovered by the return date, shall be produced immediately upon subsequent location or discovery.
10. All documents shall be Bates-stamped sequentially and produced sequentially.