FUTURES
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A year after MF Global failure, customers safer than before collapse

By Terrence A. Duffy
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For more than 160 years, no customer had ever lost a penny as the result of default by a futures industry clearing member. MF Global's failure last October, followed by fraud at PFGBest nine months later, shattered this uninterrupted legacy of trust in our industry. It was a sharp wake-up call for those of us – in both the private and public sectors – whose most important job is to keep our markets safe and secure. Prior to these events, we operated under the unchallenged assumption that firms would not break rules and regulations to misuse customer funds. The segregation of customer funds had been sacrosanct since the 1800s. One transgression would have been unacceptable, and yet in the last year we saw this happen twice. Our market participants need, expect and deserve a marketplace they can rely on for price discovery and risk management across all asset classes. Restoring confidence and protecting customers when using our markets are essential.

Our collective marketplace is too important to the fabric of the world economy to allow these issues to fester. That is why our industry took decisive action. We are demanding even more transparency and more accountability. As a result, a year later we are a better industry and our customers are safer than before.

CME Group Executive Chairman and President Terrence Duffy

New Requirements Enhance Safety

CME Group worked with the National Futures Association, the Commodities Futures Trading Commission and others to adopt and employ several new requirements designed to deter misuse of any customer funds – futures or cleared over-the-counter derivatives. Among other things, the requirements include:

- Stepped-up surprise reviews of customer segregated funds that have led to nearly 50 "spot reviews" since May 1.
- Daily segregation reporting by all futures commission merchants since May 1, resulting in over 10,000 daily customer computations to date at CME alone.
- More than 500 submissions since July 1 detailing how each firm is investing its segregated customer funds.
- The "Corzine rule" which holds CEOs and CFOs accountable for disbursements of more than 25% of excess segregated funds held at the firm level.
- Electronic account balance confirmations and, still to come, new rules providing CME and NFA direct, real-time online access to firms' customer segregated fund balances at any time.

The bankruptcy process of returning customer property can never move fast enough for those who, through no fault of their own, are unable to operate their businesses. But, progress has been made. As an industry leader and provider of the broadest range of benchmark futures and options contracts, CME Group guaranteed $550 million to the MF Global trustee. This helped to accelerate the distribution of customer funds in the early days of the bankruptcy. CME Trust has pledged $50 million of its assets to cover our customers' losses that remain after the Trustee's distribution process is completed. In addition, we created a $100 million fund to provide further protection for U.S. family farmers, family ranchers and their cooperatives that hedge their business in our futures markets. This is particularly important since our nation's food producers were so hard hit by the [MF Global and PFG] failures. And, next month, CME Group will begin the process of paying over $2 million in benefits to nearly 200 farmers, ranchers and cooperatives that used CME Group markets and suffered losses in the failure of PFG.

More Improvements to Come

This week, during an anniversary none of us ever wished for, almost 4,000 futures industry participants will gather in Chicago for one of the industry's important annual conferences. We will continue to work together as an industry to learn from the past year. But the more important work is forward-looking. Regulators and the industry must carefully weigh the benefits of even the most far-reaching proposals that could enhance protection for customers' segregated funds – and we will.

For in the end, that's the most important element. We must continue to take responsible action to restore confidence in the derivatives markets that so many rely on for their risk-management needs – and that a global economy depends on for growth.

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