

ONTARIO

**SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

IN THE MATTER OF THE BANKRUPTCY OF
MF GLOBAL CANADA CO., OF THE CITY OF
TORONTO, IN THE PROVINCE OF ONTARIO

**THIRD REPORT OF THE TRUSTEE
(DECEMBER 16, 2011)**

THE BANKRUPTCY

1. On November 2, 2011 an Application for Bankruptcy Order was issued by the Canadian Investor Protection Fund (“CIPF”) against MF Global Canada Co. (“MF Canada”). CIPF is a customer compensation body within the meaning of Section 253 of the *Bankruptcy and Insolvency Act* (the “BIA”).
2. On November 4, 2011 MF Canada consented to the immediate making of a Bankruptcy Order and KPMG Inc. was appointed as trustee in bankruptcy of MF Canada (the “Trustee”). As a result, the Trustee has a mandate to administer the estate of MF Canada in accordance with the BIA, including Part XII thereof.

PURPOSE OF THE REPORT

3. The purpose of this Report is to provide an evidentiary basis upon which this Honourable Court can make an order:
 - (a) pursuant to section 187(1) of the BIA extending the time for sending notice in respect of the first meeting of creditors in the estate of MF Canada to January 27, 2012;
 - (b) amending paragraph 4 of the Customer Representative Counsel Order dated November 14, 2011 to extend the deadline for notifying the Customer Representative Counsel and the Trustee to “opt out” of representation by the Customer Representative Counsel from December 14, 2011 to January 31, 2012; and
 - (c) approving the Third Report of the Trustee and the activities of the Trustee referred to therein.

4. In preparing this Report, including certain of the schedules hereto as described in greater detail below, the Trustee has relied, without any independent verification, on information contained in the books and records of MF Canada and information provided to the Trustee by various contract counterparties providing clearing, back office and support arrangements for the operations of MF Canada. The Trustee has not audited, reviewed or otherwise verified the information provided to it but has taken various steps to confirm the reasonableness and accuracy of such information from such third parties. Therefore, reliance by any third party on the information provided for in this Trustee's Report and in the appendices shall be subject to the foregoing qualifications.

BACKGROUND OF MF CANADA

5. The background to MF Canada was described in detail in paragraphs 5-17 of the First Report of the Trustee dated November 11, 2011 (the "**First Report**"), a copy of which is attached hereto (without Schedules) as **Schedule "A"**. In addition, a copy of the Second Report of the Trustee dated November 23, 2011 (the "**Second Report**") (without Schedules) is attached hereto as **Schedule "B"**. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the First Report and the Second Report.

UPDATE ON TRUSTEE'S ACTIVITIES

6. Since the filing of the Second Report, the Trustee has been involved in the following matters:

- (a) **Closing of account transfer transaction with RBC Dominion Securities Inc. ("RBCDS")** - On November 29, 2011, the conditions to closing set out in section 5.2 of the Account Transfer and Support Agreement (the "**Transfer Agreement**") were satisfied or waived by the Trustee and RBCDS and the transactions contemplated by the Transfer Agreement were completed to the satisfaction of the Trustee. Accordingly, the Trustee delivered to RBCDS the Certificate attached as Schedule "A" to the Account Transfer, Support and Vesting Order on November

29, 2011 and filed the Certificate with the Court. A copy of the Trustee's Certificate, as filed with the Court, is attached hereto and marked **Schedule "C"**.

As noted in the Transfer Agreement, the Trustee and RBCDS were authorized to exclude certain customer accounts from the account transfers – defined in the Transfer Agreement as Excluded Accounts. A copy of the list of Excluded Accounts as at the time of the execution of the Transfer Agreement has been provided to the Customer Representative Counsel. Certain of the Excluded Accounts were transferred to RBCDS pursuant to the Trustee's authority under section 259 of the BIA in order to facilitate the account holder of the Excluded Account to access any open contract positions as quickly as possible in the circumstances. The Trustee has been in contact with all of the Customers holding the Excluded Accounts.

- (b) **FX Customer Payments** - In accordance with the FX Customer Payment Order dated November 8, 2011, the Trustee delivered cheques representing the estimated Net Equity amounts to all FX Customers. Paragraph 11 of the FX Customer Payment Order contemplated that the Trustee would deliver the Net Equity payments and the FX Customer Documents to each FX Customer by prepaid ordinary mail at the address last shown for such FX Customer in the books and records of MF Canada. The Trustee made arrangements with the Customer Representative Counsel for the collection of the cheque payable to Callidus Capital Corporation from the Trustee. Other Net Equity payments and FX Customer Documents to FX Customers in amounts payable in excess of \$100,000.00 were sent to the applicable FX Customer by courier. The balance of the Net Equity payments and FX Customer Documents were sent to the applicable FX Customer by prepaid ordinary mail on or before December 1, 2011. In total, the Trustee delivered 2,480 cheques to FX Customers summarized as follows: (i) 2,133 cheques to US retail FX Customers; (ii) 275 cheques to Canadian retail FX Customers; and (iii) 72 cheques to corporate FX Customers.

- (c) **Recovery of Cash/Collateral of MF Canada** - Although substantially completed, the Trustee continues its efforts to recover and deposit into accounts in the name of the Trustee all of the cash and collateral that is the property of, or payable to, the estate. The Trustee has recovered funds from Royal Bank of Canada, HSBC Bank Canada, The Canadian Depository for Securities Ltd. (“CDS”), Canadian Derivatives Clearing Corporation (“CDCC”), ICE Clear Canada, Inc., Fidelity Clearing Canada ULC (“Fidelity”), Forex Capital Markets, LLC, Forex Capital Markets Limited and BNY Mellon Clearing, LLC (“BNYMC”) and certain of these parties (CDCC, Fidelity, BNYMC), along with National Bank Correspondent Network and MF Global UK Limited (In Administration) continue to owe funds to the estate of MF Canada and an accounting for all proceeds payable to the estate. The Trustee will continue its efforts to recover all of the funds payable to the estate and an accounting for all such proceeds.
- (d) **Reconciliation of Account Transfers** - The Trustee has completed its reconciliation with respect to all of the Transferred Accounts and the collateral transfer to RBCDS in connection with the transfer of the Transferred Accounts. The Trustee continues to deal with RBCDS in connection with certain adjustments that are required with respect to particular accounts
- (e) **Contact with Customers** - The Trustee has continued to work with RBCDS in connection with the efforts to contact all of the Customers relating to the Transferred Accounts. While a significant number of Customers have not contacted RBCDS in response to those efforts, the Trustee and RBCDS are continuing their efforts.
- (f) **Leased Premises** - The Trustee continues to occupy the leased premises located at 123 Front Street West, Toronto (the “Toronto Premises”). MF Canada subleased the Toronto Premises from Citibank pursuant to a sublease that terminates on December 30, 2011. MF Canada entered into a new lease with Oxford Properties Group Inc. (“Oxford”) dated July 25, 2011 for a term that

commences on May 1, 2012 with the right of early occupation. The Trustee has met with Oxford and informed Oxford of the Trustee's intention to be in occupation of the Toronto Premises until, at a minimum, January 31, 2012. The Trustee has paid occupation rent for November 2011 and will pay occupation rent, in arrears, for December 2011. The Trustee is continuing its discussions with Oxford with respect to its occupation and eventual exit from the Toronto Premises. On December 7, 2011, the Trustee received a letter from Magil Laurentian Realty Corporation, the Mandatory for the landlord (the "**Landlord**") for the leased premises located at 800 Rue Du Square Victoria, in the City of Montreal (the "**Montreal Premises**") advising the Trustee that certain arrears of rent had to be paid by December 13, 2011 or the Landlord would terminate the lease for the Montreal Premises. The Trustee delivered a letter to the Landlord of the Montreal Premises through the Trustee's counsel on December 13, 2011 advising the Landlord of the terms of the Order issued by the Court on November 8, 2011 prohibiting landlords from interfering with the Trustee's occupation and advising that the Trustee was reviewing the Landlord's request for payment. A copy of the letter is attached as **Schedule "D"**. The Trustee remains in occupation of the Montreal Premises and has made a preliminary decision to vacate the Montreal Premises on or before December 31, 2011. The Trustee has paid occupation rent for November 2011 and will pay occupation rent, in arrears, for the period it is in occupation for December 2011.

- (g) **The Website** - The Trustee has posted regular updates for Customers on the website established by the Trustee for the MF Canada bankruptcy - www.kpmg.ca/mfglobalcanada (the "**Website**"). Copies of the various customer updates posted on the Website from November 7, 2011 to December 5, 2011 are collectively attached hereto as **Schedule "E"**.

- (h) **Former Employees of MF Canada** - The Trustee continues to engage, as independent contractors, certain former employees of MF Global. The Trustee no longer required the services of any former employees in the Montreal office and

has terminated or not renewed their temporary engagements. The Trustee has paid all amounts owing to the former employees in the Montreal office pursuant to their engagement letters. The Trustee continues to use seven (7) former employees in the Toronto office to assist with the various matters in the administration process, including the reconciliation process and preparation of information and documents for the customer and creditor claims process.

EXTENDING TIME FOR SENDING NOTICE OF THE BANKRUPTCY

7. On November 8, 2011, the Court made an Order extending the period for sending the prescribed notice required by section 102(1) of the BIA to November 25, 2011. A copy of the Order is attached as **Schedule "F"**. On November 24, 2011, the Court made a further Order extending the period for sending the prescribed notice to December 22, 2011. A copy of the Order is attached as **Schedule "G"**.

8. The Trustee requires further time to prepare for calling of a meeting of creditors and the sending of documents and information relating to the Claims Process. The Trustee has continued to focus its efforts during the past several weeks on preparing information and documents with respect to the reconciliation and the verification of account statements to be used in connection with the Claims Process for Customers and creditors.

9. The Trustee's efforts to reconcile the Customer positions has been hampered from the start by the transfer out, immediately following the bankruptcy of MF Canada, of a number of client accounts by CME Clearing, the particulars of which are described in an Advisory Notice issued by CME Clearing on November 6, 2011, which states:

In conjunction with regulators and MF Global Inc. bankruptcy Trustee, CME Clearing completed a bulk transfer of customer positions and collateral to receiving clearing firms on Friday, November 4, 2011. The bulk transfer process was completed with the assistance of MF Global Inc, who supplied individual client account information.

CME Clearing has learned that account information pertaining to some clients of MF Global Canada was inadvertently included in the U.S. customer data provided to CME Clearing by MF Global. Such transfers of Canadian accounts were not authorized by Canadian regulators nor the Trustee of MF Global Canada. As a result, CME Clearing is

working under the Trustee's direction to transfer these accounts back to MF Global Canada prior to the market opening tomorrow, November 7, 2011. Position transfers for these accounts had been processed to Vision Financial Markets LLC, a U.S.-based clearing firm.

CME Clearing is working diligently to complete these transfers and asks clients to contact MF Global Canada, or its Trustee, for further information about their accounts.

10. Notwithstanding the above, the positions were not restored for several days and the Trustee has not been able to access any records for Customers with CME positions as at the date of bankruptcy that show the positions that were removed by CME Clearing. The Trustee is now trying to manually reconcile the accounts of Customers with CME positions as at the date of bankruptcy. This has been an extremely time-consuming and costly exercise.

11. It is the Trustee's view that the completion of the Trustee's efforts in connection with reconciling records and completing reconciliation of amounts paid out by RBCDS to Customers whose accounts had been liquidated and amounts paid to the FX Customers will allow the Trustee to refine the claims process documents so that the Trustee will have more precise information to provide the Customers in the quantification of the proper amount of their net equity claims as at the date of bankruptcy (including foreign exchange conversion). It is the Trustee's view that the additional time that it is dedicating to this process in advance of the start of the claims process will facilitate a more efficient and effective administration of the claims process.

12. In addition, the Trustee has the following reasons to request a further extension:

- (a) the Trustee requires additional time in order to prepare a preliminary report for the first meeting of creditors that addresses the interim matters accomplished including the Account Transfers, the completion of the FX Customer Payments and the payments made to Customers of Transferred Accounts by RCBDS (as noted above);
- (b) the access to the books and records through the Trustee of MF Global Inc. continues to be done on an "as requested" basis. The Trustee has requested further information with respect to assembling data to prepare a proper Statement

of Affairs but the process has not been completed. The Trustee has not yet had unrestricted access to the MF Canada server located on the premises of MF Global Inc. The Trustee expects that, with the additional time requested to send notice of the bankruptcy and prepare the Statement of Affairs, a more accurate representation with respect to the assets and liabilities can be presented to the creditors at the meeting of creditors;

- (c) the Trustee must prepare separate claims packages for various types of Customers and creditors so that the claims process can be conducted more efficiently, with due regard to account transfers and payments made to FX Customers.

13. The Trustee anticipates that it will be able to have the claims packages available for distribution to the creditors and customers of MF Canada on or before January 27, 2012. As a result, the Trustee is requesting that the Court make an Order extending the time for delivery of notice of the bankruptcy to January 27, 2012.

14. As noted above, substantially all of the Customers (excluding MF Global Inc.) will have been fully or substantially paid out or have received their net equity value in the Transferred Accounts (except in the case of Customers who do not have CIPF protection, in which case they have received approximately 80% of their net equity claim to the extent the net equity can be reasonably determined). The Trustee's preliminary information is that there are approximately \$2 million of outstanding liabilities of "trade creditors" and that, prior to its bankruptcy, MF Canada was paying its obligations on normal trade terms. The Trustee has received some inquiries from unsecured creditors and has been advising them of the status of the bankruptcy and referring them to keep monitoring the Website until they receive the claims package. Accordingly, it is the Trustee's view that there will be no prejudice to the further extension of time for sending of the notice.

CUSTOMER REPRESENTATIVE COUNSEL MATTERS

15. Paragraph 4 of the Customer Representative Counsel Order provided a deadline for Customers who did not wish to be represented by Stikeman Elliott LLP to opt out by providing

notice to Stikeman Elliott LLP and the Trustee by December 14, 2011. In particular, the Order provided:

4. **THIS COURT ORDERS** that any individual Customer who does not wish to be represented by the Customer Representative Counsel and to be bound by this Order and all other related orders which may subsequently be made in these proceedings shall by December 14, 2011, notify the Customer Representative Counsel and the Trustee in writing by facsimile, mail or delivery, in the form attached as **Schedule "A"** hereto, and shall thereafter not be so represented and shall represent themselves as an independent individual party to the extent they wish to appear in the Proceedings.

16. The Trustee and the Customer Representative Counsel have considered matters relating to the deadline of December 14, 2011 in the circumstances of the MF Canada bankruptcy (in particular the fact that that notice of the bankruptcy had not yet been delivered) and have agreed that the "opt out" date should be extended to January 27, 2012. On December 15, 2011 the Trustee posted a notice on the Website that the Trustee would be seeking an Order in the near future to amend, with retroactive effect, the Customer Representative Counsel Order to extend the "opt out" date from December 14, 2011 to January 27, 2012.

17. Pursuant to paragraph 2 of the Customer Representative Counsel Order, Callidus Capital Corporation ("**Callidus**") and XL Foods Inc. ("**XL**") were collectively appointed as the Customer Representative and each of Callidus and XL were, pursuant to paragraph 10 of the Customer Representative Order, permitted to resign. On December 1, 2011 Callidus resigned its position as Customer Representative, with immediate effect. Paragraph 10 of the Customer Representative Counsel Order authorizes the Trustee to appoint another Customer to replace Callidus. The Trustee has requested the advice of the Customer Representative Counsel if another Customer should be appointed but, at this time, it does not appear necessary to appoint a replacement. XL is currently the sole Customer Representative.

RELIEF REQUESTED

18. The Trustee requests that this Honourable Court make an Order providing authority for, *inter alia*:

- (a) an Order pursuant to section 187(1) of the *Bankruptcy and Insolvency Act* extending the time for sending notice in respect of the first meeting of creditors in the estate of MF Canada to January 27, 2012;
- (b) an order amending, *nunc pro tunc*, paragraph 4 of the Customer Representative Counsel dated November 14, 2011 to extend the deadline for notifying the Customer Representative Counsel and the Trustee to “opt out” of representation from December 14, 2011 to January 31, 2012; and
- (c) an order approving the Third Report of the Trustee and the activities of the Trustee referred to therein.

[SIGNATURE PAGE TO FOLLOW]

ALL OF WHICH IS RESPECTIVELY SUBMITTED this 16th day of December, 2011.

KPMG INC., in its capacity as trustee in
bankruptcy of MF GLOBAL CANADA CO.



Richard M. Harris
Senior Vice President

SCHEDULE “A”

Court File Number 31-OR-207854-T

ONTARIO

**SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE BANKRUPTCY OF
MF GLOBAL CANADA CO., OF THE CITY OF
TORONTO, IN THE PROVINCE OF ONTARIO**

**FIRST REPORT OF THE TRUSTEE
(NOVEMBER 11, 2011)**

THE BANKRUPTCY

1. On November 2, 2011 an Application for Bankruptcy Order was issued by the Canadian Investor Protection Fund (“CIPF”) against MF Global Canada Co. (“MF Canada”). CIPF is a customer compensation body within the meaning of Section 253 of the *Bankruptcy and Insolvency Act* (the “BIA”), constituted under a trust established under the laws of the Province of Ontario by self-regulatory organizations such as the Investor Industry Regulatory Organization of Canada (“IIROC”), to protect customers in the event of an insolvency of a regulated member. MF Canada is a “securities firm” within the meaning of Section 253 of the BIA.

2. On November 4, 2011 MF Canada consented to the immediate making of a Bankruptcy Order and KPMG Inc. was appointed as trustee in bankruptcy of MF Canada (the “Trustee”). A copy of the Bankruptcy Order is attached hereto as Schedule “A”. As a result, the Trustee has a mandate to administer the estate of MF Canada in accordance with the BIA, including Part XII thereof.

PURPOSE OF THE REPORT

3. The purpose of this Report is to provide an evidentiary basis upon which this Honourable Court can make an order:

- (a) authorizing the Trustee to enter into an Account Transfer and Support Agreement (the “Transfer Agreement”)¹ with RBC Dominion Securities Inc. (“RBCDS” or the “Transferee”) substantially in the form attached hereto for the transfer of the Customer Accounts, the Customer Property relating to the Customer Accounts, the Transferred Customer Account Agreements and the Transferred Customer Collateral with respect to the Transferred Accounts (the “Account Transfers”);

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Transfer Agreement. In the event of any inconsistency, the terms of the Transfer Agreement shall govern.

- (b) authorizing the Trustee to provide to RBCDS all necessary customer account or personal information contained in the documentation relating to the Transferred Accounts;
- (c) declaring that RBCDS, as Transferee of the Transferred Accounts shall not have any liability or responsibility for, *inter alia*, any claim of the customer against MF Canada, any customer account positions or customer property that is not transferred to RBCDS or for any claims provable (as that term is defined in Section 121 of the BIA) against MF Canada by reason of the transfer of the Transferred Accounts;
- (d) authorizing the Trustee to seek and use the assistance of any futures or derivatives clearing organizations, exchanges or other clearing organizations, custodians or other intermediary to facilitate the Account Transfers; and
- (e) appointing representative counsel for the Customers pursuant to the terms of the order attached to the Trustee's motion material.

4. In preparing this Report, including certain of the schedules hereto as described in greater detail below, the Trustee has relied, without any independent verification, on information provided to it through the course of its engagement by various parties including (but not limited to) IIROC, CIPF, the books and records of MF Canada and various contract counterparties providing clearing, back office and support arrangements for the operations of MF Canada. The Trustee has not audited, reviewed or otherwise verified the information provided to it but has taken various steps to confirm the reasonableness and accuracy of such information from such third parties. Therefore, reliance by any third party on the information provided for in this Trustee's Report and in the appendices shall be subject to the foregoing qualifications.

BACKGROUND OF MF CANADA

5. MF Canada was, prior to its suspension by IIROC (as described below) and the making of the Bankruptcy Order, the leading futures broker in Canada, based on client transaction

volume. MF Canada provided execution and clearing services for exchange-traded and over-the-counter derivative products as well as for non-derivative foreign exchange products and securities in the cash market. MF Canada operated across a broad range of trading markets, including interest rates, equities, currencies, foreign exchange (FX), metals, agricultural and other commodities (in the U.S. for Chicago Mercantile Exchange ("CME") and non-CME products). MF Canada offered to its clients, among other things, exchange-listed financial futures (stock index, bond, currency and short term interest rate swaps), commodities futures (energy, metal and agricultural), options, over-the-counter ("OTC") corporate FX forwards, on-line retail FX trading and equity trading (to both its institutional and retail clients). Preliminary information received by the Trustee indicates that all client collateral is accounted for. However, the Trustee is continuing its investigation and, at this time, the Trustee has not fully accessed the books and records of MF Canada, in the possession of MF Global Inc., which was providing back office support for MF Canada,

6. The business of MF Canada was carried out through several key business relationships, namely:

- (a) clearing services in the US for non-CME products were provided by its affiliate, MF Global Inc., through an Omnibus Account pursuant to an Omnibus Agreement with MF Canada;
- (b) clearing Services in the U.S. for CME related products were provided by BNY Mellon Clearing, LLC ("BNYMC") through an Omnibus Account pursuant to an Omnibus Agreement with MF Canada;
- (c) clearing services in Canada were provided through the Canadian Derivatives Clearing Corporation ("CDCC") and ICE Clear Canada Inc. ("ICE Canada");
- (d) foreign exchange transactions were cleared through a related entity, MF Global UK Ltd. ("MF Global UK");

- (e) MF Canada had a Type III introducing/carrying arrangement with Fidelity Clearing Canada ULC (“Fidelity”) for equity and bond trading (for both institutional and retail clients). MF Canada also utilizes the Fidelity arrangement for trading in other registered products.

as more particularly described in the diagram attached as Schedule “B”.

7. MF Canada is a member of CIPF. As a result, the accounts of customers, if eligible, are protected by CIPF for losses of property as a result of an insolvency of MF Canada up to a limit of \$1 million per customer for any combination of cash and securities. For this reason, and in accordance with Part XII of the BIA, the Trustee has worked closely with representatives of CIPF to review the affairs of MF Canada since its appointment in an attempt to reconcile customer accounts.

MF CANADA RELATED PARTIES

8. MF Canada is an indirect subsidiary of MF Global Holdings, Ltd. (“MF Holdings”) and MF Global Inc. a broker dealer in the US. On October 31, 2011, MF Holdings filed for protection under Chapter 11 of the United States Bankruptcy Code. On October 31, 2011 the Securities Investor Protection Corporation (“SIPC”) sought the appointment of a trustee under the *Securities Investor Protection Act* over MF Global Inc. (the “SIPC Trustee”). Various other affiliates have been placed in administrative proceedings around the world, the particulars of some of which are as follows:

- (a) MF Canada is related to MF Global UK, the UK arm of the MF Global structure. MF Global UK has been placed in administration under the Special Administration Regime in the UK and KPMG (in the UK) partners Michael Pink, Richard Fleming and Richard Heis have been appointed Special Administrators of MF Global UK.
- (b) On November 2, 2011, Patrick Cowley, Fergal Power and Lui Yee Man were appointed Joint and Several Provincial Liquidators (the “Provisional

Liquidators”) by the High Court of Hong Kong S.A.R. over MF Global Holdings HK Ltd. and MF Global Hong Kong Ltd.

- (c) On November 2, 2011, Messrs. Bog Yap Cheng Ghee, Peter Chay Fook Yuen and Roger Tay Puay Cheng were appointed as Provisional Liquidators of MF Global Singapore Pte. Limited.
- (d) On November 1, 2011, Christopher Robert Campbell, David John Frank Lombe, and Vaughan Neil Strawbridge were appointed Joint & Several Administrators pursuant to section 436A of the Corporations Act 2001 (UK) for MF Global Australia Limited, MF Global Securities Australia Limited and Brokerone Pty Limited.

IIROC SUSPENSION

9. The Chapter 11 filing by MF Holdings and appointment of the SIPC Trustee started a series of cascading events that caused immediate issues for the operations of MF Canada. These included:

- (a) MF Canada was unable to access funds and securities with a value of approximately \$55 million held in the Omnibus Account at MF Global Inc. as a result of the appointment of the SIPC Trustee;
- (b) BNYMC advised MF Canada on October 31, 2011 that, due to the uncertainties regarding the status of the affiliates of MF Canada, BNYMC would hold all excess funds in the Omnibus Account at BNYMC until it received guidance from the appropriate regulatory authorities or the court;
- (c) BNYMC advised MF Canada later on October 31, 2011 that events relating to MF Canada’s affiliates represented a “Material Adverse Change” under the Omnibus Agreement and demanded that additional margin be posted before the opening of trading on November 1, 2011; and

- (d) BNYMC subsequently advised MF Canada that funds would not be released from the Omnibus Account to MF Canada without direction from the appropriate regulatory authorities or the court.

10. As at November 1, 2011, BNYMC held approximately \$130 million of collateral which was placed there by MF Canada for transactions on behalf of MF Canada customers.

11. On October 31, 2011, IIROC delivered an "Early Warning Designation" letter to MF Canada which included the following terms:

Early Warning Restriction

In reference to IIROC Rule 30.3(iv), notice is hereby given that your firm is immediately restricted from the following activities unless the prior written consent of the Vice President, Financial & Operations Compliance has been obtained:

- (1) reduce your firm's capital in any matter including redemption, repurchase or cancellation of any of its shares;
- (2) reduce or repay any indebtedness which has been subordinated with the approval of IIROC;
- (3) directly or indirectly make any payments by way of loan, advance, bonuses, dividend, repayment of capital or other distribution of assets to any director, officer, partner, shareholder, related company or affiliate; or
- (4) increase non-allowable assets, unless a prior binding commitment to do so exists, or enter into any new commitments, which would have the effect of materially increasing the non-allowable assets of your firm.

12. On November 1, 2011, IIROC delivered a letter to MF Canada confirming that IIROC had determined, based on the most recent estimated weekly risk adjusted capital position of MF Canada in the amount of \$7.2 million as at October 26, 2011 and the inability of MF Global Inc. to remit excess margin collateral in the amount of \$25 million held in the "Canadian Omnibus Settlement" account at BNYMC, that MF Canada was capital deficient by approximately \$18 million. As a result, the early warning restrictions set out in the Early Warning Designation letter applied and MF Canada was further restricted from the transfer out of any customer assets or remittance of excess margin collateral held on behalf of MF Global Inc. IIROC required the capital deficiency of MF Canada to be rectified by no later than 3:30 p.m. EST on November 1, 2011 or suspension proceedings would commence.

13. MF Canada could not rectify its capital deficiency in a timely manner. On November 1, 2011, IIROC convened an expedited hearing to consider the suspension of the membership rights and privileges of MF Canada. MF Canada consented to an order for its suspension and that MF Canada immediately cease dealing with the public. The terms of the suspension provided that IIROC staff could undertake any action to facilitate the orderly transfer of client accounts, including liquidating trades.

14. The Trustee is informed by its counsel that Section 29 of the *Securities Act* (Ontario) ("OSA") provides that a firm's registration (under the OSA) is suspended if the self-regulatory organization ("SRO") (in this case IIROC) suspends membership, where membership in the SRO is a condition of the firm's registration under Ontario securities law. Further, operation of National Instrument 31-103, Section 10.2 directs that an IIROC suspension acts as a suspension by the Ontario Securities Commission ("OSC") of the firm's registration in the investment category. As a result, MF Canada was deemed to be suspended by the OSC.

15. As a result of the suspension by IIROC and the deemed suspension by the OSC, MF Canada was unable to deal with its clients unless and until the capital deficiency was corrected. Given the bankruptcy proceedings with respect to MF Global Inc. and MF Holdings, it did not appear that MF Canada had any ability to obtain assistance from its related parties to rectify the deficiency. In addition, the cause of the deficiency, namely the withholding of funds payable to MF Canada by MF Global Inc. and BNYMC pursuant to the Omnibus Agreements placed MF Canada in the position of being unable to address its capital deficiency.

16. As a result of the foregoing CIPF issued an Application for a Bankruptcy Order on November 2, 2011. A copy of the Application is attached as Schedule "C". Also on November 2, 2011, MF Canada filed a Notice of Intention to Make a Proposal ("NOI").

17. The Trustee has been informed that, subsequent to the issuance of the Application, a number of discussions were held between MF Canada, IIROC and CIPF. On the afternoon of November 4, 2011, MF Canada consented to the immediate making of a Bankruptcy Order. The Bankruptcy Order was issued at approximately 3:00 p.m. on Friday, November 4, 2011. The NOI proceedings were terminated by the terms of the Bankruptcy Order.

ACTIVITIES OF THE TRUSTEE

18. Immediately upon its appointment, the Trustee attended at the offices of MF Canada in Toronto and Montreal. Although the Trustee was able to secure the premises and conduct certain work related to the preservation of books and records, there was limited opportunity for the Trustee to obtain information from the employees regarding the affairs of MF Canada prior to the employees' departure for the weekend.

19. The Trustee attended at the premises of MF Canada during the weekend of November 5 and 6 and worked with its counsel to assemble engagement letters for the former MF Canada employees in order to obtain the assistance of critical personnel. As a result, substantially all of the critical support staff returned to work and have entered into engagement letters with the Trustee to assist the Trustee in connection with carrying out its duties under the BIA.

Securing Cash

Banking Facilities

20. The Trustee has notified MF Canada's banks of its appointment and advised that the accounts should be frozen. The Trustee has now opened its own bank account at CIBC's Main Branch in Toronto in order to facilitate day-to-day cash management. This account is in the name of "KPMG Inc., Trustee of the Estate of MF Global Canada Co. – A Bankrupt".

21. The Trustee controls signing authorities on all accounts.

Control Over Securities

Background

22. As a securities broker, MF Canada (or Fidelity pursuant to the relationship described in paragraph 6(e) above) essentially holds various securities on behalf of its customers (collectively, the "MF Canada Securities"). Such securities are registered in the name of MF Canada, Fidelity, where appropriate, or registered in the name of its customers (customer name securities as defined in section 251 of the BIA) and held by MF Canada.

23. The Trustee has provided a copy of the Bankruptcy Order to the various entities holding cash or securities for MF Canada, including CDS Clearing and Depository Services Inc. ("CDS"), CDCC, Ice Canada, the SIPC Trustee, BNYMC, CME, Fidelity, Forex Capital Markets ("FXCM"), Royal Bank of Canada, HSBC Bank Canada, JP Morgan and National Bank Correspondent Network ("NBCN") and has contacted each to insure that they only take instructions from the Trustee.

24. Based on the procedures completed to date, the Trustee believes there are no material unreconciled securities positions recorded in MF Canada's books of account.

Securing MF Canada's Accounting Books and Records

25. The Trustee obtained the cooperation of the IT personnel and obtained access to the Canadian IT environment and determined that the books and records are located in the U.S. with MF Global Inc. The Trustee has imaged the work stations at MF Canada's premises.

Review of Insurance

26. The Trustee is in the process of reviewing the current insurance policies of MF Canada. The Trustee has advised its broker to arrange for coverage.

Employees

27. Thirty-nine former employees of MF Canada were engaged by the Trustee on November 7, 2011. These include: (a) the employees that manage the securities movements; (b) employees that can perform customer account transfers and reconciliations; (c) the accounting staff; and (d) certain senior management. Included in the above figures are a total of 13 brokers who have been retained to support client communication. There are currently 20 former employees engaged at the head office in Toronto and 19 in Montreal.

28. Employees were paid their salary, commissions and vacation pay up to November 4, 2011 by MF Canada prior to the Trustee's appointment. The bankruptcy of MF Canada effectively terminated their employment.

Office Premises

29. MF Canada is currently operating out of 2 leased premises located at 1601 – 123 Front Street West, Toronto and 4100-800 Victoria Square, Montreal.

30. There appear to be a number of premises out of which MF Canada previously operated and in respect of which it has terminated its leases and may have sub-let the premises. The Trustee is reviewing the circumstances relating to these sub-leases.

Communications

31. The Trustee has established communications with investors and other interested parties via a special website www.kpmg.ca/mfglobalcanada and via individual responses to telephone and email inquiries.

32. In addition, the Trustee has met, via conference call, with various custodians, exchanges and clearing houses with an interest in this matter in order to seek time to explore a bulk transfer arrangement such as is being proposed, before such parties initiated forced liquidation of MF Canada's clients' positions.

33. The Trustee has worked extensively with MF Canada's former staff, CIPF and regulators to obtain a better understanding of MF Canada's client positions, and sought to validate/confirm various positions with the appropriate custodians. The Trustee has worked closely with IIROC and CIPF officials to obtain knowledge and understanding of the work done and information gained by these organizations in the period leading up to the issuance of the Bankruptcy Order.

34. The Trustee met and spoke with various parties (including RBCDS) interested in accepting a complete or partial transfer of MF Canada's customers' positions.

NET EQUITY UNDER PART XII OF THE BIA

35. Under Part XII of the BIA, in the event of the bankruptcy of a securities firm, all cash and securities held by the firm, except for customer name securities but including cash and securities held in respect of customer RRSPs, are to be placed in a single customer pool fund for pro-rata distribution among all eligible customers based on the relative net equity in their accounts.

36. A customer of a securities firm under Part XII of the BIA has a claim against the customer pool for the amount of his or her "net equity". "Net Equity" is defined in Section 253 of the BIA as:

"net equity" means, with respect to the securities account or accounts of a customer maintained in one capacity, the net dollar value of the account or accounts, equal to the amount that would be owed by a securities firm to the customer as a result of the liquidation by sale or purchase at the close of business of the securities firm on the date of bankruptcy of the securities firm, of all security positions of the customer in each securities account, other than customer name securities reclaimed by the customer, including any amount in respect of a securities transaction not settled on the date of bankruptcy but settled thereafter, less any indebtedness of the customer to the securities firm on the date of bankruptcy including any amount owing in respect of a securities transaction not settled on the date of bankruptcy but settled thereafter, plus any payment of indebtedness made with the consent of the trustee after the date of bankruptcy.

37. Since its appointment, the Trustee has been working with MF Canada's former senior staff and CIPF staff to approximate the status of the customer pool fund as at November 4, 2011, the date of the Trustee's appointment. As described above, there are issues and uncertainties that make a precise quantification of the funded status of the pool impossible at this time. Based on the work conducted to date, the Trustee believes that the pool may be fully funded, depending on access to resources in foreign jurisdictions and before any provision for contingencies and administration expenses.

TRANSFER OF ACCOUNTS

38. When the Trustee commenced its review of the affairs of MF Canada, the customers of MF Canada had effectively been shut out of participation in the market and dealing with their customer accounts for five business days. In consultation with CIPF and the Trustee's advisors, the Trustee determined that the most immediate issue to address was to attempt to negotiate an

arrangement pursuant to which all, or substantially all, of the customer accounts could be transferred to a new securities firm.

39. In the afternoon of November 7, 2011, the Trustee met with RBCDS regarding its potential interest in the transfer of client accounts from the Trustee to RBCDS. As a result of the difficulty the Trustee had accessing information from the estate of MF Global Inc. and difficulties with the apparent transfer by CME of certain client positions of MF Canada by accident (as noted above), RBCDS was unable to commence its due diligence with respect to the books and records and client account summaries of MF Canada until the morning of November 8, 2011. The Trustee and RBCDS have worked as quickly as possible in the circumstances to attempt to obtain as much information as possible with respect to customer positions and the reconciliation of customer accounts over the course of the past 5 days. Prior to the completion of its due diligence and, as a result of the recognized urgency in this situation, RBCDS authorized its lawyers to begin engaging in the process of the preparation of documentation in contemplation of arrangements being negotiated for the transfer of customer accounts to RBCDS.

40. As a result of the various negotiations and discussions, the Trustee and RBCDS have negotiated a form of Transfer Agreement. A copy of the Transfer Agreement is attached hereto as Schedule "D". The salient points of the Transfer Agreement include as follows:

- (a) the Transferred Accounts (excluding the Excluded Accounts) are being transferred to RBCDS. This includes both customers' futures accounts, and the Fidelity Accounts;
- (b) with reference to customers' futures accounts (i) in respect of Customer Accounts that have, at Closing Time, net equity value of less than an agreed threshold, the Trustee will transfer all of the Transferred Customer Collateral and Customer Property held by or on behalf of the Customer Account; (ii) in respect of Customer Accounts that at Closing Time have a net equity value that is equal to or greater than an agreed threshold and, potentially, customer accounts classified as "pro accounts", the Trustee will transfer an amount that is equal to an agreed

percentage of the net equity value of the Customer Collateral and Customer Property;

- (c) except to the extent that section 262(2.1) of the BIA applies, the claim of the Transferred Customer in the customer pool fund shall be deemed to be paid, satisfied and reduced by the amount actually transferred to the Transferee pursuant to the Transfer Agreement;
- (d) the Trustee has agreed to indemnify RBCDS if it fails to deliver any Customer Collateral or Transferred Customer Property with respect to the Transferred Accounts;
- (e) the Trustee and RBCDS will work in good faith after the Closing Date to effect the orderly transfer of the Transferred Accounts, provide transitional support to RBCDS and carry out certain tax filings and reports; and
- (f) no liability for any claims of customers prior to the date of bankruptcy or the time of the transfer of the Transferred Accounts shall be transferred to RBCDS and RBCDS shall have no liability to any customers for any collateral that is not transferred to it by the Trustee,

all as described more particularly in the Account Transfer Support and Vesting Order.

41. As noted above, the Trustee is optimistic that the customer pool fund will prove to be fully funded. However, in the interim, the Trustee expressed concern with the requirement of RBCDS that it receive all of the collateral in customers' futures accounts at the date of transfer. The Trustee is satisfied that this is a reasonable request in the futures market. A failure to deliver all of the collateral in a customer's futures account would likely result in a collateral deficit for regulatory purposes and it would be difficult for any securities firm to accept thousands of new accounts in such circumstances. The Trustee and CIPF have reached an understanding whereby CIPF will provide financial support to the Trustee subject to various terms and conditions to enable the Trustee to make the payments of the value of the collateral as at the Closing Time for

all fully protected (by CIPF) customers' futures accounts and, tentatively approximately 80% for those certain customers' futures accounts that are not fully protected in the circumstances and pro accounts, if the customer pool fund requires money to meet claims that would otherwise be insured by CIPF. To the extent that it makes payments to the Trustee, CIPF will be provided with a claim in the customer pool fund, behind the costs of administration and claims of customers (other than deferred customers) as referred to in paragraph 262(1)(a) and (b) of the BIA.

42. It is possible that, by transferring the value of the Customer Property and the Transferred Customer Collateral as at the Closing Date, there may be certain customers with future positions in the account who receive more or less than the "net equity" value if calculated on the date of bankruptcy by a liquidation of all collateral, as appears to be contemplated by Part XII. Such differences arise by reason of the fact that futures positions are required to be settled in cash on the basis of marked-to-market valuations each day (including after bankruptcy). A liquidation of customers' futures positions at the date of bankruptcy could prove to be impractical, could adversely affect a number of customers, and could have a deleterious effect on the market. This is contrary to the purpose of Part XII of the BIA which is to protect customers. The Trustee has pursued a transaction that seeks to put customers in as close a position as they were in at the date of bankruptcy by transferring, *en bloc*, their positions and the cash and securities in kind, without a forced liquidation. This is the optimal approach in the Trustee's view. As there is a limit to the support that CIPF has agreed to provide, the Trustee must reserve its rights of recourse against any customer that might have received an amount in excess of its net equity as at the date of bankruptcy.

43. The Trustee notes that the Omnibus Account of MF Global Inc. is not being transferred. The Trustee will be dealing directly with MF Global Inc. (through the SIPC Trustee) in relation to this account.

URGENCY

44. The Trustee has received several other enquiries from regulated securities firms with an interest in the transfer of certain aspects of the MF Canada business to them. The Trustee has pursued the Account Transfer and Support Agreement arrangements with RBCDS primarily because it provides the fastest transfer of substantially all customer positions and collateral as quickly as possible. This is the most optimum approach to attempt to minimize further delay and disruption to customers that are attempting to deal with their accounts. There is risk of loss that will be borne solely by the customer for any continued delay. Accordingly, any further delay to attempt to obtain a series of individual transactions that could result in the transfer of accounts could potentially harm the customers and the estate. In addition, to the extent that any customer that has had its account transferred to RBCDS but does not wish the account to remain at RBCDS, the Transfer Agreement does not contain any restrictions on the further transfer of accounts away from RBCDS to a securities firm of the customer's choice.

45. The Trustee and CIPF have been contacted by a number of significant customers who have expressed frustration and hardship in connection with the delay in accessing their accounts. While the Trustee was unable to address any of the issues relating to the delay prior to the appointment of the Trustee on November 4, 2011, the Trustee is now in a position to take all reasonable steps possible and permitted by the BIA and Part XII thereof, with the assistance and authorization of the Court, to facilitate the immediate transfer of the Transferred Accounts. Any other outcome would undoubtedly cause delay and risk to the customers.

46. RBCDS has committed substantial resources and assembled a large transaction team to conduct the necessary due diligence on an expedited basis in order to work with the Trustee as quickly as possible. The primary objective of protecting customer account positions and arranging for the immediate transfer of accounts requires the support of the transferee, CIPF, IIROC and the resources of the Trustee. For this reason, the proposed transaction to transfer the Transferred Accounts to RBCDS is, in the view of the Trustee, the best possible alternative in the circumstances.

47. For the reasons set out above, it is urgent that the motion to approve the Transfer Agreement and the transfer of the accounts be heard as soon as possible.

48. CIPF and IIROC are supportive of the structure and timing of the proposed transaction with RBCDS.

REPRESENTATIVE COUNSEL FOR THE CUSTOMERS

49. The Trustee is seeking a representation order for the customers of MF Canada (excluding MF Global Inc.). There are various reasons why the Trustee is of the view that it is appropriate for representative counsel for the customers of MF Canada (“**Customer Representative Counsel**”) to be appointed:

- (a) In order to take all reasonable steps to try to protect customer positions in a timely way, the Trustee has been focussing its efforts on completing the Transfer Agreement with RBCDS. If approved by the Court, the Transfer Agreement will be closed forthwith after approval and one of the most significant matters in the estate for the customers will have been completed before the customers have had a reasonable opportunity to consider their positions and retain counsel. The appointment of Customer Representative Counsel would allow the positions of the customers to be considered and advanced in connection with the carrying out of the Account Transfers;
- (b) It is possible that many of the customers do not have the resources to retain counsel or that the amount that is held by MF Canada would not warrant retaining a professional advisor. The appointment of the Customer Representative Counsel for all customers would alleviate the financial risk to each of the customers who would otherwise be obliged to retain their own professional advisor;
- (c) There is a substantial amount of commonality in the interests of the customers, which can effectively be advanced by Customer Representative Counsel;

- (d) The proposed representation order would promote the interests of judicial economy by providing a mechanism whereby the interests of customers could be advanced by a single Customer Representative Counsel;

50. The representation order sought by the Trustee is the appointment of Stikeman Elliott LLP as Customer Representative Counsel. Stikeman Elliott LLP has agreed to accept an appointment as Customer Representative Counsel pursuant to the form of draft order attached to the Trustee's motion record. Stikeman Elliott LLP has advised that it has no conflict in acting. The Trustee has been advised that Stikeman Elliott LLP was approached by a significant customer of MF Canada, Callidus Capital Corporation (Callidus") and that Callidus has agreed to be a "Representative Customer".

51. Stikeman Elliott LLP has extensive expertise in the regulatory, capital markets and securities areas, as well as particular expertise in a wide variety of insolvency matters. To the knowledge of the Trustee, the excerpt from the firm's website is accurate and indicative of the firm's expertise:

Stikeman Elliott LLP is one of Canada's leading business law firms, with offices in Toronto, Montreal, Ottawa, Calgary and Vancouver as well as in London, New York and Sydney. The firm is recognized as a Canadian leader in each of its core practice areas - corporate finance, M&A, corporate-commercial law, banking, structured finance, real estate, tax, insolvency, competition/antitrust, employment and business litigation - and is regularly retained by domestic and international companies in a wide range of industries including financial services, insurance, technology, telecommunication, transportation, manufacturing, mining, energy, infrastructure and retail. It was named as the 2011 Canadian Law Firm of the Year by the International Financial Law Review.

52. In contemplation of the appointment of Stikeman Elliott LLP as Customer Representative Counsel, members of Stikeman Elliott LLP have been provided with drafts of the various agreements and draft orders and have been able to provide comments on the documents as they have developed. Stikeman Elliott LLP has been involved in certain of the "all-party" discussions regarding the proposed Account Transfers.

RECOMMENDATION

53. The Trustee seeks this Honourable Court's direction with respect to the approval of the transfer of the Transferred Accounts as described in the Transfer Agreement. In order to accomplish such transfers and allow the approximately 1500 remaining active customers to regain access to their cash and securities, the Trustee recommends that this Honourable Court make an Order providing authority for, *inter alia*:

- (a) the approval of the Transfer Agreement substantially in the form attached as Schedule "D" to the Report;
- (b) that the Trustee be authorized to execute, deliver, implement and fully perform any and all obligations, instruments, documents and papers in connection with the Transfer Agreement and to take any and all actions reasonably necessary to consummate the Account Transfers;
- (c) that the Trustee be authorized to complete the Account Transfers to RBCDS pursuant to the Transfer Agreement (the "Transferee");
- (d) that the Account Transfers, to the extent completed by the Trustee, be approved as a necessary step to implement the efficient administration of the bankruptcy of MF Canada and neither, the Trustee, IIROC, CIPF, the Representative Customer and the Customer Representative Counsel shall have any liability in connection with the carrying out or facilitating of the Account Transfers;
- (e) that, pursuant to clause 7(3) of the *Canada Personal Information Protection and Electronic Documents Act*, the Trustee be authorized to provide to the Transferee any of the customer account or personal information contained in the books and records of MF Global Canada that is necessary for the Transferee to carry out the Account Transfers;

- (f) that the Transferee shall not have any liability whatsoever in connection with: (i) any claim by any person against MF Canada; (ii) any Customer Account Positions or customer property that is not transferred to the Transferees by the Trustee; (iii) any liability for anything that occurred before the Customer Account Positions were transferred to the Transferee; (iv) any claims provable (as that term is defined in section 121 of the *Bankruptcy and Insolvency Act*) against MF Canada by reason of such transfer, all as more particularly described in the Account Transfer Support and Vesting Order;
- (g) that neither the Transferee nor their affiliates, successors or assigns (i) shall be deemed, as a result of any action taken in connection with the Account Transfers to be a successor to MF Canada; or (ii) is acquiring or assuming any liability, warranty or other obligation of MF Canada;
- (h) authorizing the Transferee, in respect of any Transferred Account, to request additional margin or collateral or to liquidate open positions as a result of insufficiency of the related Transferred Customer Collateral;
- (i) that Stikeman Elliott LLP be appointed as Customer Representative Counsel pursuant to the terms of the draft order attached to the Trustee's motion record;
- (j) that the Trustee may from time to time apply to this Court for advice and directions in the discharge of the Trustee's powers and duties hereunder;
- (k) That, prior to the appointment of inspectors, the Trustee is authorized to enter into support agreements with CIPF to facilitate the Account Transfers; and
- (l) that advances or payments by CIPF under such arrangements shall form part of the customer pool fund and repaid from same, provided that the customer pool fund allocated to non-protected customers shall be calculated to exclude CIPF support;

- (m) that the First Report of the Trustee, and the activities of the Trustee described therein be approved; and
- (n) seeking the aid and recognition of any court or administrative body in Canada or elsewhere to assist the Trustee, its employees and agents in the carrying out of the provisions of this order and the discharge of the Trustee's powers and duties hereunder.

All as set out and more particularly described in the form of the Account Transfer, Support and Vesting Order attached with the Trustee's motion material.

[SIGNATURE PAGE TO FOLLOW]

ALL OF WHICH IS RESPECTIVELY SUBMITTED this 10th day of November, 2011.

**KPMG INC., in its capacity as trustee in
bankruptcy of MF GLOBAL CANADA CO.**



**Richard M. Harris
Senior Vice President**

TOR01: 4770109: v7

SCHEDULE “B”

ONTARIO

**SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE BANKRUPTCY OF
MF GLOBAL CANADA CO.,
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO**

**SECOND REPORT OF THE TRUSTEE
(NOVEMBER 23, 2011)**

THE BANKRUPTCY

1. On November 2, 2011 an Application for Bankruptcy Order was issued by the Canadian Investor Protection Fund (“CIPF”) against MF Global Canada Co. (“MF Canada”). CIPF is a customer compensation body within the meaning of Section 253 of the *Bankruptcy and Insolvency Act* (the “BIA”), constituted under a trust established under the laws of the Province of Ontario by self-regulatory organizations such as the Investor Industry Regulatory Organization of Canada (“IIROC”), to protect customers in the event of an insolvency of a regulated member. MF Canada is a “securities firm” within the meaning of Section 253 of the BIA.

2. On November 4, 2011 MF Canada consented to the immediate making of a Bankruptcy Order and KPMG Inc. was appointed as trustee in bankruptcy of MF Canada (the “Trustee”). A copy of the Bankruptcy Order is attached hereto as Schedule “A”. As a result, the Trustee has a mandate to administer the estate of MF Canada in accordance with the BIA, including Part XII thereof.

PURPOSE OF THE REPORT

3. This is the Second Report to the Court of the Trustee¹. The First Report, dated November 11, 2011 and the Supplement to the First Report dated November 13, 2011 were filed with the Court in connection with the Trustee’s motion to obtain the Account Transfer Support and Vesting Order. Copies of the Reports have been posted on the Trustee’s website at www.kpmg.ca/mfglobalcanada. The purpose of this Second Report is to provide an evidentiary basis upon which this Honourable Court can make the orders requested by the Trustee:

¹ Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the FX Payment Order attached as Schedule “B” to the Trustee’s Notice of Motion.

- (a) pursuant to section 187(1) of the *Bankruptcy and Insolvency Act* extending the time for sending notice in respect of the first meeting of creditors in the estate of MF Canada to December 22, 2011;
- (b) authorizing the Trustee to send, by ordinary mail, to each FX Customer of MF Canada, a cheque payable to the FX Customer in the amount of the Net Equity Calculation and the FX Customer Documents providing the background/support for such payment;
- (c) that the payment shall be credited against the Net Equity of such FX Customer; and
- (d) addressing certain other administrative matters relating to the re-direction of MF Canada's mail to the Trustee.

4. In preparing this Report, including certain of the schedules hereto as described in greater detail below, the Trustee has relied, without any independent verification, on information provided to it through the course of its engagement by various parties including (but not limited to) IIROC, CIPF, the books and records of MF Canada and various contract counterparties providing clearing, back office and support arrangements for the operations of MF Canada. The Trustee has not audited, reviewed or otherwise verified the information provided to it but has taken various steps to confirm the reasonableness and accuracy of such information from such third parties. Therefore, reliance by any third party on the information provided for in this Trustee's Report and in the appendices shall be subject to the foregoing qualifications. It is important to understand that the administration of the estate is still in its preliminary stages and the Trustee has not had complete access to the books and records of MF Canada. As a result, the Trustee has not made any conclusions or opinions regarding the outcome of the administration of the estate.

5. All dollar amounts referenced herein are Canadian dollars, unless otherwise stated.

UPDATE

6. On November 14, 2011, the Trustee made a motion to the Court for an Order to approve the form of Account Transfer and Support Agreement negotiated between the Trustee and RBC Dominion Securities Inc. (“RBCDS”) in connection with the proposed transfer of substantially all of the “non-FX” customer equity and commodities accounts of MF Canada to RBCDS. Pursuant to an Account Transfer Support and Vesting Order dated November 14, 2011, the Court approved the form of Account Transfer and Support Agreement (the “Transfer Agreement”) and authorized the Trustee to complete the transactions contemplated therein. A copy of the Account Transfer Support and Vesting Order is attached as Schedule “B”. On November 14, 2011, the Court also made the Customer Representative Counsel Order appointing Stikeman Elliott LLP as Customer Representative Counsel. A copy of the Customer Representative Counsel Order is attached as Schedule “C”.
7. The Trustee and RBCDS entered into the Transfer Agreement dated November 17, 2011, a copy of which is attached as Schedule “D”.
8. The Trustee has focused its efforts on completing the account transfers contemplated by the Transfer Agreement and completing the reconciliation with respect to the transfer of futures and commodities positions to RBCDS, as well as the supporting collateral held in the customer accounts. The reconciliation process continues and is expected to be completed shortly. The Trustee has also been directing its resources to seeking authorization to make the FX Customer Payments and preparing to make such payments if so authorized, as described more particularly below.
9. The “FX Customers” of MF Canada were not included in the transaction contemplated by the Transfer Agreement. “FX Customers” include all persons that appear on the books and records of MF Canada as a “customer” (as that term is defined in section 253 of the BIA) of MF Canada as at the date of bankruptcy who dealt in online foreign exchange (“FX”) or corporate FX trading through or with MF Canada. The Trustee has been reviewing the books and records of MF Canada that it has access to in order to clarify and reconcile the “net equity” (as that term is defined in section 253 of the BIA) positions of the FX Customers.

FX CUSTOMER PAYMENTS

10. The books and records of MF Canada indicate the following parameters with respect to the FX Customers:

Type of Customer	Number of Customers	Average Account Net Equity (approx.)	Total Net Equity (approx.)
Online/Retail FX Customers	2,500 (approx.)	\$4,400	\$8.2 million (U.S.) \$2.7 million
Corporate FX Customers	71	\$93,100	\$6.6 million

11. The Trustee has determined that MF Global U.K. Ltd. ("MF Global UK") supplied MF Canada with computer access to enable MF Canada to print statements for corporate FX Customers. MF Canada's access has been terminated and the Trustee is unable to print statements as of November 4, 2011. However, the Trustee is able to replicate the data to produce a summary that contains the information otherwise set out on a MF Global statement.

12. The Trustee has been informed by former employees of MF Global that, prior to the date of bankruptcy, MF Global did not send out periodic statements to the "online FX" or "retail FX" customers because these customers could log on to MF Canada's website and view the status of their accounts online at any time. As a result, the preparation of "account statements" is a manual process that will take considerable time for the Trustee to prepare. The Trustee has confirmed that online/retail FX Customers continue to have online access to view their accounts.

13. Accordingly, the Trustee proposes to include, with the mailing to online/retail FX Customers of the FX Customer Payments, an instruction letter in the form attached hereto as Schedule "E" and a summary of account information supporting the amount of the Net Equity Calculation (the "Retail FX Account Letter and Summary"). The Retail Account Letter and Summary contains a notice to the online/retail FX Customers asking that they log on to their accounts and confirm the information on the statement.

14. The Trustee proposes to include, with the mailing to corporate FX Customers of the FX Customer Payments, an instruction letter in the form attached hereto as Schedule "F" and a summary of account information supporting the Net Equity Calculation (the "Corporate FX Account Letter and Summary").
15. The Trustee is proposing a distribution to FX Customers pursuant to the terms of the draft Order attached as Schedule "B" to the Trustee's Notice of Motion (the "FX Customer Payment Order"), the particulars of which are as follows:
- (a) the Trustee shall, within 7 days after the making of an Order approving the FX Customer payment, mail to each (i) online/retail FX Customer, the Retail FX Account Letter and Summary and a cheque payable to the FX Customer in the amount of the Net Equity Calculation; and (ii) corporate FX Customer the Corporate FX Account Letter and Summary and a cheque payable to the FX Customer in the amount of the Net Equity Calculation;
 - (b) in the event the cheque is deposited, the FX Customer's Net Equity shall be deemed to be credited by the amount of the Net Equity Payment without prejudice to the FX Customer's ability to assert a claim for additional Net Equity or other claims in the Estate;
 - (c) the Trustee shall be entitled to rely on the books and records in making the Net Equity Calculation; and
 - (d) the making of the Court Order shall be without prejudice to the Trustee's right to seek to recover from any FX Customer any amount by which the FX Customer's Net Equity Calculation by the Trustee exceeds its actual Net Equity.
16. As noted above, the amount payable to the FX Customers is approximately \$17.5 million. The Trustee currently appears to have sufficient assets in the customer pool fund to pay the estimated net equity claims of all Customers, including the FX Customers. In any event, all of the proposed recipients of the FX Customer Payments appear to be fully covered by CIPF

coverage in the event that there was a shortfall in the "customer pool fund" (as defined in section 261 of the BIA) and the Trustee is making the necessary arrangements to coordinate the payments from the estate with CIPF in the event that any portion of the payments would constitute amounts paid by CIPF in the event of a shortfall in the estate.

ADMINISTRATIVE MATTERS

17. On November 8, 2011, the Court made an Order extending the period for sending the prescribed notice required by section 102(1) of the BIA to November 25, 2011. A copy of the Order is attached as Schedule "G".

18. As noted above, the Trustee has focused its efforts during the past two weeks on transferring the "Transferred Accounts" under the Transfer Agreement and reconciling the positions and collateral for the transfers contemplated by the Transfer Agreement. In addition, the Trustee has made arrangements for the transfer of positions and collateral with respect to several of the "Excluded Accounts" that were not transferred pursuant to the Transfer Agreement and carried out the work connected with seeking authorization to make the FX Customer Payments and preparing for the implementation of the distribution if so authorized.

19. In the event that the FX Customer Payment Order is made, the Trustee will be able to distribute the estimated net equity with respect to the FX Customers. This will mean that, within the next several weeks, almost all of the customers of MF Canada will have received, either through the transfer of their account or direct payment, an amount representing the Trustee's calculation of all of their Net Equity claims as at the date of bankruptcy (for those Customers with CIPF protection) or as much as 80% of the calculation of their net equity as at the date of bankruptcy (for those Customers that do not have CIPF protection).

EXTENSION OF TIME TO SEND NOTICE OF THE BANKRUPTCY

20. The Trustee requires a further extension of the period required to send notice of the bankruptcy and the claims package to creditors. The reasons for the request for a further extension are set out below:

- (a) the Trustee requires additional time in order to prepare a preliminary report for the first meeting of creditors that addresses the interim matters accomplished including the Account Transfers and the completion of the proposed FX Customer Payments;
- (b) the access to the books and records through the Trustee of MF Global Inc. continues to be done on an "as requested" basis. The Trustee has requested further information with respect to assembling data to prepare a proper Statement of Affairs but the process has not been completed. The Trustee has not yet had unrestricted access to the MF Canada server located on the premises of MF Global Inc. The Trustee expects that, with the additional time requested to send notice of the bankruptcy and prepare the Statement of Affairs, a more accurate representation with respect to the assets and liabilities can be presented to the creditors at the meeting of creditors;
- (c) the Trustee has also been working with the various third parties and intermediaries in the MF Canada business to recover funds held by third parties such as CDS Clearing and Depository Services Inc. and Canadian Derivatives Clearing Corporation (among others). These processes are now substantially complete (although some "holdbacks" continue to be held by such parties). However, the Trustee requires additional time to reconcile and report on the status of matters to the creditors in the Trustee's Preliminary Report to Creditors for the first meeting of creditors;
- (d) the Trustee has been reviewing the books and records to assemble the information necessary to make the proposed FX Customer Payments; and
- (e) the Trustee must prepare separate claims packages for customers and creditors so that the claims process can be conducted more efficiently, with due regard to account transfers and payments made to FX Customers.

21. The Trustee anticipates that it will be able to have the claims packages available for distribution to the creditors and customers of MF Canada on or before December 22, 2011. As a result, the Trustee is requesting that the Court make an Order extending the time for delivery of notice of the bankruptcy to December 22, 2011.

22. As noted above, substantially all of the customers (excluding MF Global Inc.) will have been fully or substantially paid out within the next several weeks. The Trustee's preliminary information is that there are approximately \$2 million of outstanding liabilities of "trade creditors" and that, prior to its bankruptcy, MF Canada was paying its obligations on normal trade terms. Accordingly, it is the Trustee's view that there will be no prejudice to the further extension of time for sending of the notice.

RECOMMENDATION

23. The Trustee requests that this Honourable Court make an Order providing authority for, *inter alia*:

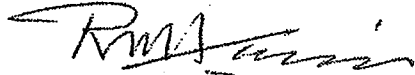
- (a) an Order pursuant to section 187(1) of the *Bankruptcy and Insolvency Act* extending the time for sending notice in respect of the first meeting of creditors in the estate of MF Canada to December 22, 2011;
- (b) authorizing the Trustee to send, by ordinary mail, to each FX Customer of MF Canada, the Retail FX Account Letter and Summary or Corporate FX Account Letter and Summary (as applicable) and a cheque payable to the FX Customer in the amount of the Net Equity Calculation as at the Date of Bankruptcy;
- (c) that the Net Equity Payments shall be credited against the Net Equity entitlement of such FX Customer;
- (d) approving the Second Report of the Trustee and the activities of the Trustee referred to therein; and

(c) addressing certain other administrative matters relating to forwarding mail to the Trustee from MF Canada's offices.

- All of which are described more particularly in the draft Orders attached as Schedule "A" and "B" to the Trustee's Notice of Motion herein.

ALL OF WHICH IS RESPECTIVELY SUBMITTED this 23rd day of November, 2011.

**KPMG INC., in its capacity as trustee in
bankruptcy of MF GLOBAL CANADA CO.**



Richard M. Harris
Senior Vice President

TOR01: 4779993: v5

SCHEDULE “C”

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

IN THE MATTER OF THE BANKRUPTCY OF
MF GLOBAL CANADA CO.,
OF THE CITY OF TORONTO, IN THE PROVINCE OF ONTARIO

TRUSTEE'S CERTIFICATE

RECITALS

A. Pursuant to an Order of the Honourable Mr. Justice Colin L. Campbell of the Ontario Superior Court of Justice (the "Court") dated November 4, 2011, KPMG Inc. (the "Trustee") was appointed as the trustee in bankruptcy of the estate of MF Global Canada Co. (the "Corporation").

B. Pursuant to an Order of the Court dated November 14, 2011, the Court approved the Account Transfer and Support Agreement made as of November 17, 2011 (the "Account Transfer and Support Agreement") between the Trustee, as transferor, and RBC Dominion Securities Inc., as transferee (the "Transferee") and provided for the vesting in the Transferee of the Corporation's and the Trustee's right, title and interest in and to the Transferred Accounts, which vesting is to be effective with respect to the Transferred Accounts upon the delivery by the Trustee to the Transferee of a certificate confirming: (i) that the conditions to Closing as set out in Section 5.2 of the Account Transfer and Support Agreement have been satisfied or waived by the Trustee and the Transferee; and (ii) the transactions contemplated by the Account Transfer and Support Agreement have been completed to the satisfaction of the Trustee.

C. Unless otherwise indicated herein, terms with initial capitals have the meanings set out in the Account Transfer and Support Agreement.

THE TRUSTEE CERTIFIES the following:

1. The conditions to Closing as set out in Section 5.2 of the Account Transfer and Support Agreement have been satisfied or waived by the Trustee and the Transferee; and
2. The transactions contemplated by the Account Transfer and Support Agreement have been completed to the satisfaction of the Trustee.
3. This Certificate was delivered by the Transferee at 3 pm (Toronto Time), November 29, 2011.

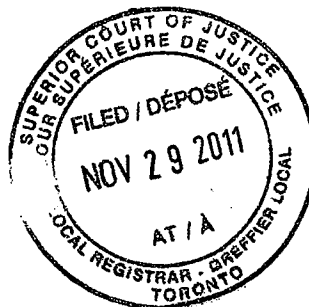
**KPMG INC., in its capacity as Trustee in
Bankruptcy of the estate of MF GLOBAL
CANADA CO., and not in its personal or
corporate capacity**

Per: _____

Name: Richard M. Harris

Title: Senior Vice-President

TOR01: 4786757: v1



SCHEDULE “D”