



Should I Sell My MF Global Claim?

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As described in a previous FarmDoc Daily article [here](#) MF Global failed on October 31, 2011 with a shortfall in customer funds of \$1.2 billion (since increased to \$1.6 billion) affecting approximately 38,000 futures accounts. A large percentage of these accounts were held by individuals and entities in the agricultural sector.

The bankruptcy trustee has returned approximately 72 cents of every dollar that should have been in those customer accounts at the time of the failure. The outcome of the remaining 28 cents, which combined across all 38,000 accounts adds up to that billion-dollar-plus figure, is still an open question. The deadline for former customers to file formal claims with the bankruptcy court was January 31. However, recent news reports indicate a number of firms have stepped forward and are offering to buy the bankruptcy claims of former MF Global customers.

The purchase of outstanding claims by some third party is a fairly common practice. There is an active trade in the buying and selling of certain types of insurance settlements and court judgments. A related practice involves the purchase of multi-year lottery payments for a single lump sum. The selling point used in all of these activities is that the buyer assumes all the risk and uncertainty, and the seller (in this case, a former MF Global customer waiting to receive some type of payment through the bankruptcy court) receives a payment from the buyer right away (within 7 to 10 business days, in the case of former MF Global customers).

In return for assuming this risk of a payout from the bankruptcy process and for making immediate payment, the buyer pays the seller some discounted amount of the full claim. This discount represents the time value of money on the payment, plus some factor representing the probability that the claim will be paid, either in full or in part. For lottery payments and other types of annuities this calculation is fairly straightforward, and it is relatively simple to determine the so-called "fair value" of a future payment or series of payments.

For example, the Illinois State Lottery "Lotto" game pays a minimum of \$2 million to a single winner in 26 equal annual payments: the first payment now, and additional payments each year for the next 25 years. If there is no risk that each of those annual installments will be paid, then the only information needed to find the fair value are the amount of each payment (\$2 million divided by 26), the number of years until the final payment is received (25), and an interest rate (long-term Treasury bonds are currently yielding

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around 2.75%). Using this information and a standard formula, \$2 million paid over the next 25 years would be worth about \$1.46 million if paid in a single lump-sum payment today.

Solving this problem becomes much more difficult if you don't know how much any future payment will be – or even if there will be any future payment – and when that future payment will be received. Therefore, it is interesting that several firms are offering to buy these bankruptcy claims from former MF Global customers. One firm has offered a lump-sum payment equal to approximately 57% of the value of their claim, which translates to 16 cents of the remaining 28 cents. There are several other firms with competing offers, including one that pays a smaller percentage up-front but includes a percentage of any future payout from the bankruptcy trustee.

How should former MF Global evaluate these offers? There is no obvious answer to this question, but anyone who is thinking of selling their claim should consider the following points as they make a decision.

First, the firms who buy these claims do this strictly as a business – one specializes in bankruptcy restructurings, another is an investment group – and do not have any formal role in the bankruptcy process. To clarify this point, the bankruptcy trustee issued the following “Message Regarding Claims Trading” on February 1:

“Both commodities futures and securities customer claims and general creditor claims may be transferred in the [MF Global] liquidation proceeding. To receive notices and distributions with respect to a transferred claim, notice of a claim transfer (if any is required to be filed with the bankruptcy court) must be provided in accordance with Bankruptcy Rule 3001(e).”

“The Trustee neither encourages nor discourages claims trading. Potential transferors and transferees of claims should make their own independent evaluation of whether to enter into a claims trade based upon the public record in this case. The Trustee notes that a properly transferred claim merely provides the transferee with the right to pursue distributions on account of such claim. It is not a determination of the validity, amount or priority of such claim, nor of any claim or defense that the Trustee may have with respect to that claim or as against the transferor or transferee of such claim.”

Second, the fact that one of these firms is offering to pay 57% indicates they believe there is a better than 50:50 chance of payment through the MF Global bankruptcy process. The range of possibilities includes a 57% probability of a full payment and a 100% probability of a 57% payment. If you believe the actual chances are better, then it may be worthwhile to decline the offer, maintain your claim and wait for the bankruptcy case to play out. If you believe the actual chances are worse, then it might be prudent to accept the offer and sell your claim.

Third, there are several firms willing to buy these claims, so be sure to shop around. One or more of these firms already may have contacted you, since the list of former MF Global customers who have filed claims and the amounts of those individual claims is a matter of public record. Competition for sellers always forces buyers to sharpen their pencils, so be sure to check out other offers rather than simply accept the first one that comes along.

Finally, before accepting any offer, have a financial advisor, accountant, attorney or other professional “run the numbers” and make sure a particular offer makes sense for you and your situation. Such factors as the size of your claim and your personal financial condition can have a big influence on the “right” answer for you.