

OCTOBER 2011 DEFAULT CASE STUDY

Moody's Analytics Quantitative
 Research Group

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Public Firm Default Report: MF Global Holdings Ltd (MF)

Default Event

On October 31, 2011, **MF Global Holdings Ltd** filed for bankruptcy protection after making bets on European sovereign debt. The company listed debt of \$39.7 billion and assets of \$41 billion as of the default date.

Company Profile

MF Global Holdings Ltd provides execution and clearing services for exchange-traded and OTC derivative products, non-derivative foreign exchange products, and securities in the cash market.

EDF Credit Measure and EDF Drivers

EDF value as of October 31, 2011: 17.92%

Traditional ratings, such as those used by major rating agencies, are currently more commonplace than default probabilities. Therefore, to help facilitate users' understanding, we translate the EDF credit measure into an equivalent Credit Category. MF Global's Credit Category (not an agency rating) at default was Caa3.

Figure 1. One-year MF Global Holdings Ltd's EDF Values.

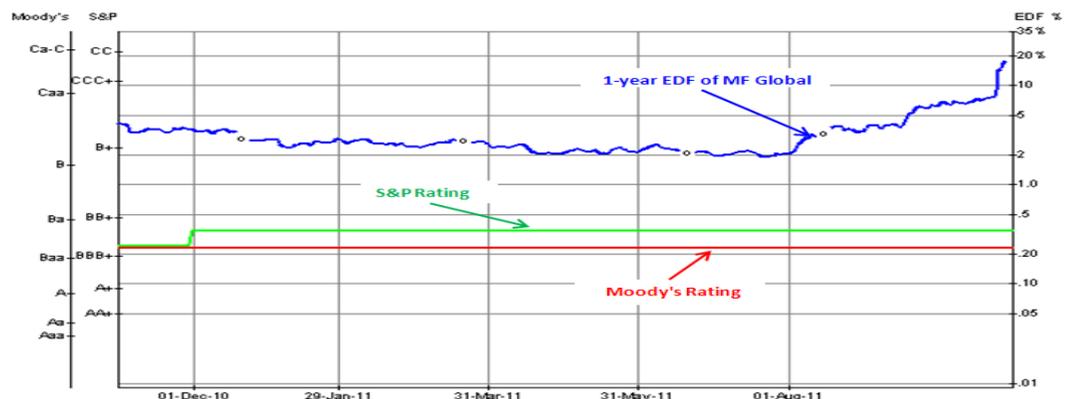


Figure 1 shows that MF Global Holdings Ltd's EDF credit measure had been increasing since August 2011, two months prior to its bankruptcy filing.

Figure 2. Drivers of MF Global Holdings Ltd's EDF Values

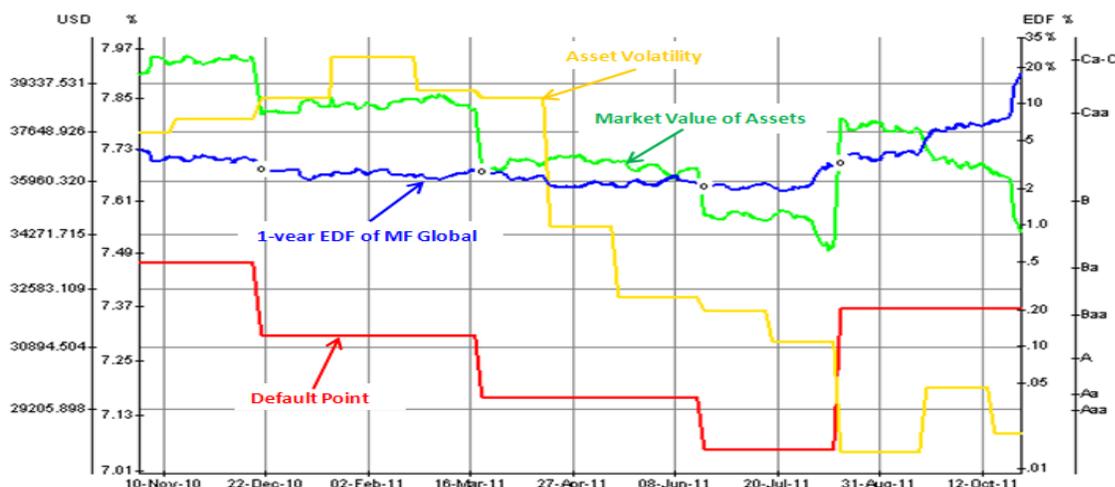


Figure 2 shows the time series of EDF values and EDF drivers, which includes market value of assets, asset volatility, default point, and market leverage. **Table 1** summarizes the EDF driver definitions.

In November 2010, the company's market value of assets was \$38 billion. MF Global's exposure to European sovereign debt damaged its core profitability and caused a high severity of losses on the company's balance sheet. In August 2011, the company sold \$325 million in senior unsecured notes to repay part of the \$1.2 billion revolving credit facility. As a result, the company's market value of assets decreased to \$35 billion while its default point climbed to \$32 billion. The company's asset volatility had remained above 7% since November 2010. Financial risk and deteriorating asset quality led the company to default.

Table 1. Drivers for EDF Values

EDF DRIVERS	DEFINITION
Market Value of Assets	The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure
Default Point	The liabilities that matter in case of default. If the market value of assets falls below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debt. A firm's default point is a value close to its short-term liabilities plus half of its long-term liabilities
Market Leverage	Ratio indicating how much of the market value of assets is financed by debt. It is calculated as the default point/market value of assets
Asset Volatility	Standard deviation of the annual change in the market value of the assets

The two main EDF value drivers are asset volatility and market leverage. **Figure 3** depicts a meter showing the level of risk for each of the two measures. The levels are relative values, computed on the United States & Canada Large Financials Group.

Figure 3. United States & Canada Large Financials Group



Asset Volatility. EDF credit measures for the United States & Canada Large Financials Group issuers such as MF Global Holdings Ltd reflect an average of asset volatility levels during the past three years. As of the default date, MF Global Holdings Ltd's asset volatility was 7.09%, within the 50th percentile relative to the entire United States & Canada Large Financials Group.

Market Leverage. MF Global Holdings Ltd's market leverage is 93.32%, which falls within the 99th percentile of the entire United States & Canada Large Financials Group.

Relative Analysis

The relative analysis feature allows users to chart EDF, fundamental data, and bond values for a selected company or group relative to other companies and/or groups. Users may manually select their own list of peer companies or groups for comparison or view a Moody's Analytics' predefined peer list, based on an automated algorithm. To determine peers for each company, Moody's Analytics finds all of the companies that share the company's Bloomberg Subgroup. Users can also customize and save their own peer company and peer group choices for future use.

Figure 4. One-Year MF Global Holdings Ltd vs. US Security Brokers & Dealers Group

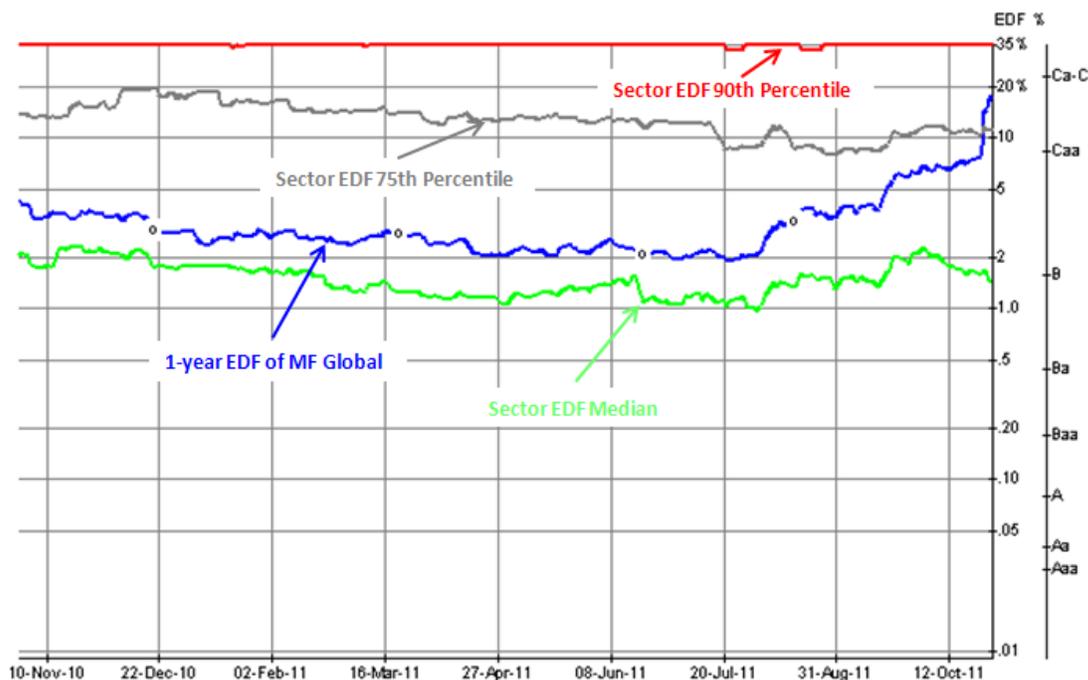


Figure 4 shows MF Global Holdings Ltd's EDF value had been between the median and the 75th percentiles of US Security Brokers & Dealers Group since November 2010. In October 2011, the company's EDF value surpassed the 75th percentiles of the group. The company defaulted in October 2011.

Conclusion

MF Global Holdings Ltd's EDF credit measure indicated high default risk before default occurred. Firm EDF values had been between the median and the 75th percentiles of US Security Brokers & Dealers Group since November 2010. In October 2011, the company's EDF value surpassed the 75th percentiles of the group. Financial risk and deteriorating asset quality led the company to default.

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