



SFE Bulletin No: 003/05

From: SFE Corporation Limited ABN 74 000 299 392

Date of Issue: 5 January 2005

DISCIPLINARY ACTION IMPOSED BY THE BUSINESS CONDUCT COMMITTEE & THE MARKET PRACTICES COMMITTEE

Participants are advised, pursuant to Operating Rule 5.12 of disciplinary action taken by the Business Conduct Committee (BCC) and the Market Practices Committee (MPC), since the last Bulletin in August 2004. Participants will note that disciplinary action taken prior to 11 March 2004 was in accordance with former General By-Law G.11.36 and that from 11 March 2004 is in accordance with Operating Rule 5.6.1.

PARTICIPANT 1

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.13(ii)
[Failure to demonstrate Prudent Risk Management procedures]

The above failure to comply was identified following a referral from the Business Operations department of the Exchange. The investigation identified that the Full Participant had provided a client with a SYCOM® Interface with the Maximum Price Change limit set at the maximum (9,999). This allowed orders to be entered during the Pre-Opening period 100 basis points below the prior settlement price. It appeared that the order entered led to other market Participant's entering orders 100 basis points below the prior settlement price.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(c), the BCC imposed a fine of \$3,000 upon the Participant for failure to comply with the above.

In reaching its decision the BCC noted that the breach was brought to the attention of the Participant during an inspection. The BCC was concerned that the conduct of the Participant may have adversely affected the operation of a fair, orderly and transparent market and if not identified and promptly addressed by SFE's Business operations unit, could have caused a significant market disruption regarding price and the possible cancellation of orders traded.

PARTICIPANT 2

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 3.1.15
[Wash Trades]

The above failure to comply was self reported by the Participant.

The MPC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(f), the MPC resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision the MPC noted that the wash trade was not inadvertent and had been executed with intent.

INCIDENT TWO

1. Operating Rule 2.2.24
[Late lodgement of Daily Beneficial Ownership Reports]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The Delegate of the BCC (the Delegate) believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted that although the Participant had technical difficulties in submitting the file, it failed to institute any backup procedures that would ensure that the file would be supplied to the Exchange by 8.00am.

INCIDENT THREE

1. Operating Rule 2.2.24
[Late lodgement of Daily Beneficial Ownership Reports]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

The Delegate noted that although the Participant had previously failed to comply it had yet to be notified of the outcome of a similar breach (Incident Two above), therefore the penalty was not escalated.

INCIDENT FOUR

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.28 (a)(i)
[Mandatory Recording of Information]

The above failure to comply was identified following a routine review of roll orders by Compliance & Surveillance staff. Compliance and Surveillance staff requested audio records of the order, however the Participant advised it was unable to locate the telephone conversation for the order.

The Delegate believed that the Participant's failure to comply with the above warranted the imposition of disciplinary action and thus, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted that the breach occurred as a result of a technical fault on installation of equipment in the Participant's premises.

INCIDENT FIVE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.23
[Order Records and Accounting Records]

The above failure comply was identified following a routine review of roll orders by Compliance & Surveillance staff which indicated that some orders in the roll had been modified without the Participant maintaining internal records of instruction pertaining to the modification.

The Delegate believed that the Participant's failure to comply with the above warranted the imposition of disciplinary action and thus, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

PARTICIPANT 3

It was identified that the Participant failed to comply with:

1. Operating Rule 2.3.6(a)
[A Local Participant shall only be entitled to trade on its own behalf]

The above failure to comply was identified following a routine trading review by Compliance and Surveillance staff. The enquiry identified that the Local Participant entered orders on behalf of two separate accounts, only one of which was held in the Local Participant's name, the other account being a related account in which the Local had a beneficial (but not sole) interest.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the failure to comply.

In reaching its decision, the BCC took into consideration that whilst the breach of Operating Rule 2.3.6(a) is generally considered a serious offence, the BCC believed that there was no deliberate intent by the Local Participant to contravene the Operating Rules as it genuinely thought it was acting within the Operating Rules at the time.

PARTICIPANT 4

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.25
[Failure to execute and maintain a valid Client Agreement Form]; and
2. Operating Rule 3.4.7
[Failure to have Client Authorisation for Block Trade]

The above failures to comply were identified following a routine trading review by Compliance and Surveillance staff of trades executed using the Block Trading Facility.

The BCC believed that the above failures to comply warranted the imposition of disciplinary action and therefore:

- i. in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the breach set out in point 1 above; and
- ii. in accordance with Operating Rule 5.6.1(f), the BCC resolved that the identified breach set out in point 2 above be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration the fact that with regard to the Participant's failure to execute and maintain a valid Client Agreement Form, following the execution of the Block Trade the Participant immediately put in place a "Give-Up" Agreement with the Client and that the Participant advised in a letter to the Exchange that it was effectively self-reporting this matter.

The BCC noted that with regard to the Participant's failure to have Client Authorisation for the Block Trade, following the execution of the Block Trade, the Participant immediately obtained written authorisation to the Block Trade on the Client's behalf.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 3.2.2(a)
[Failure to lodge strip trade details into SFEIN within 10 minutes]

The above failure to comply was identified following a referral by the Exchange's Business Operations staff advising that the details of the Strip were not entered into SFEIN until one hour 48 minutes after the above trade occurred.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision the Delegate noted that the Participant did not enter the details into SFEIN for one hour and 48 minutes, which delayed both the confirmation by another Participant of the trade details and registration by the Exchange's Business Operations department.

INCIDENT THREE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.25
[Client Agreement Documentation not executed];
2. Operating Rule 2.2.23(a)
[Failure to properly maintain internal records of instruction]; and
3. Operating Rules 3.1.2(b) and (c)
[Failure to enter a client identifier]

The above failures to comply were identified as part of a routine compliance inspection of the records and procedures of the Participant.

The Delegate believed that the above failures to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failures to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate took into consideration the fact that the breaches noted above were generally administrative, technical or inadvertent in nature. The Delegate further noted that the risk to and impact on the Participant's clients and the market generally, in relation to the breaches, was low.

PARTICIPANT 5

INCIDENT ONE

It was identified that the former Participant failed to comply with:

1. Operating Rule 2.2.18(g)
[Failure to lodge Statement of Net Tangible Assets, and Annual Audit Certificate by due date]

The above failure to comply was a result of the former Participant failing to submit its Return by the due date.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the failure to comply.

In reaching its decision, the BCC took into consideration that the Participant had been in breach of Operating Rule 2.2.18(g) previously with respect to its 31 March Certificate, which was Brought to the Notice of the Participant.

INCIDENT TWO

It was identified that the former Participant failed to comply with:

1. Operating Rule 2.2.18(c)(ii)
[Failure to Lodge Monthly Financial Return by due date]

The above failure to comply was a result of the former Participant failing to submit its return by the due date.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the failure to comply.

In reaching its decision, the BCC took into consideration that the Participant had been in breach of Operating Rule 2.2.18(c)(ii) previously with respect to its July 2003 Return, which was Brought to the Notice of the Participant.

PARTICIPANT 6

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.24(a)
[Late Lodgement of Daily Beneficial Ownership Reports]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted that the Daily Beneficial Ownership Report (DBOR) representing NZD-denominated contracts was not submitted in a machine readable form, approved by the Exchange. It was noted that Bulletin 11/04, issued 3 March 2004, was explicit in regard to the required format relevant to this issue.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 3.3.5(a)
[Procedures Prior to Order Entry on the Trading Platform]

The above failure to comply was identified following a routine review of reports conducted by Compliance and Surveillance staff.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate found that by virtue of the Participant failing to include all necessary information material to the structure of the strategy (i.e. the omission of the delta), the market may have been disadvantaged in its ability to participate in any subsequent trades.

PARTICIPANT 7

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.13(a)(i)
[Prudent Risk Management]

The above failure to comply was self reported by the Participant.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(f), the BCC resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration that the Participant had self reported the matter and has since introduced regular reviews of all connections to the Exchange to avoid any recurrence of the breach. Further, the BCC noted that the Participant took immediate steps to suspend its clients' trading activity and rectify the oversight following discovery that appropriate limits were not in place. Finally, the BCC noted that although dollar based limits were not entered into the system, all client activity had been subject to volume per order limits and maximum price change limits.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 3.3.5(a)
[Pre-Negotiated Business Rules - Procedures Prior to Order Entry on the Trading Platform]

The above failure to comply was identified following a routine review of reports conducted by Compliance and Surveillance staff that highlighted concerns regarding trades executed under the Pre-Negotiated Business Orders Rules. It was noted that the Participant did not include the delta, which would have limited the ability of other parties to enter a bid or offer into the Trading Platform.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

INCIDENT THREE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.24
[Late lodgement of Daily Beneficial Ownership Report]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted the Participant's response, that although able to produce the relevant report, back office confusion led staff to believe that the file had been sent when this was not the case. The Delegate noted that new procedures have been put in place to prevent a recurrence.

INCIDENT FOUR

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.13(a)(i) and (ii)
[Prudent Risk Management]

The above failure to comply was self reported by the Participant.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(f), the BCC resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration that the Participant had self reported the matter upon identification and has since introduced procedures to avoid any recurrence of the breach. Further, the BCC noted that only one client had a live link to the Exchange and that during the period November 2002 to March 2004 the trading activity had been between 1 and 10 lots per day with the exception of the contract expiry Roll. Finally, the BCC noted that the Participant performed daily monitoring, controlling and reporting of trading exposures, limits administration and daily production of market risk reports.

PARTICIPANT 8

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 3.2.2(a)
[Failure to lodge strip trade details into SFEIN within 10 minutes]

The above failure to comply was identified as a result of a complaint by another Participant.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted the Participant's submission that this was the result of a miscommunication between the front and back office. The Delegate also noted that procedures have since been amended to ensure that front office personnel input strip trades into SFEIN upon execution and notify back office staff when the trades have been executed.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.24
[Late Lodgement of Daily Beneficial Ownership Report]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(c), the BCC imposed a fine of \$1,500 upon the Participant for the failure to comply.

In reaching its decision, the BCC noted that it had imposed fines of \$500, \$1,000 and \$1,000 upon the Participant for similar breaches at its meetings of 4 September 2003, 30 March 2004 and 29 April 2004 respectively and noted that the Participant had not claimed in accordance with procedures as per Operating Rule 2.2.24 that the failure to lodge these reports by the required time was “beyond its control.”

INCIDENT THREE

It was identified that the Participant failed to comply with:

1. Operating Rule 3.1.9
[Aggregation of Orders];
2. Operating Rule 3.1.7
[Orders to be Transmitted as Soon as Received]; and
3. Operating Rule 3.1.16
[Acting in Accordance with Client Instructions and Client’s Best Interests]

The above failures to comply were identified following a routine review of reports conducted by Compliance and Surveillance staff.

The MPC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(c), the MPC imposed a fine of \$2,000 upon the Participant for failure to comply with the above.

In reaching its decision, the MPC reminded the Participant that client orders are to be represented in the market in accordance with both Client instructions and the Operating Rules of the Exchange. Accordingly, based on the requirements of Operating Rule 3.1.7 and the associated Policies, Determinations and Procedures, the MPC noted that the Participant should have represented both client orders, in full or in part, in the market upon their receipt. In this instance, as the orders were not received and recorded simultaneously, they were unable to be aggregated and the Participant should have entered separate orders for each client, distinguishable by the assignment of a unique Client Identifier, allocating any executed trades to the client for whom the order was entered.

PARTICIPANT 9

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. General By-Law G.13.1 and General By-Law G.3.14(f) of the Exchange’s Business Rules, by virtue of an apparent failure to comply with Section 1209(5) of the Corporations Act 2001 (Cth) in relation to incidents prior to 11 March 2004 [Clients’ Segregated Accounts Provisions]; and

2. Operating Rule 2.2.26(d) of the Exchange's Operating Rules in relation to incidents post 11 March 2004.

The above failures to comply were self reported by the Participant.

The BCC believed that the above failures to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the failures to comply.

In reaching its decision, the BCC took into consideration, pursuant to Operating Rule 2.2.10(b) the quality and extent of self-reporting by the Participant and that this was a repeat offence in relation to Clients' Segregated Accounts. It was noted that the issues had since been addressed with the Participant's Bank and Operations department respectively. The BCC also recognised that the matters detailed in the Participant's letter to the Exchange were a result of errors on behalf of the Participant's Bank. However, the BCC noted that it remains the Participant's responsibility to act in accordance with the Exchange's Rules.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.24(a)
[Late lodgement of Daily Beneficial Ownership Report]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate acknowledged the Participant's submission that an oversight in the back office of its overseas Operations led to the reports not being encrypted and sent to the SFE in accordance with SFE Operating Rules. The Participant further acknowledged that the first report sent did not contain the relevant information. The Delegate also noted that the Participant's overseas Operations have implemented measures to ensure that there is no recurrence in the future.

INCIDENT THREE

It was identified that the Participant failed to comply with:

1. General By-Laws G.3.16(u) and G.13.1 and General By-Law G.3.14(f), by virtue of an apparent failure to comply with Section 1209(19) of the Act
[Depositing House Funds into a Clients' Segregated Account];
2. General By-Law G.27(a)(i)
[Failure to Record Telephone Lines];
3. General By-Law G.3.16(n) and General By-Law G.3.14(f), by virtue of an apparent failure to comply with Section 1266(7) of the Act
[Failure to properly maintain internal records of instruction]; and
4. Trading Rules TR.11.5(f) and (i)
[Failure to enter a client identifier].

The above failures to comply were identified as part of a routine inspection of the records and procedures of the Participant, by Compliance and Surveillance staff.

The BCC believed that the above failures to comply warranted the imposition of disciplinary action and therefore:

- i. in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the breaches set out in points 1 to 2 above; and
- ii. in accordance with Operating Rule 5.6.1(f), the BCC resolved that the breaches set out in points 3 to 4 above, be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration the fact that the breaches noted above were generally administrative, technical or inadvertent in nature. The BCC further noted that the Participant had an excellent compliance record in self reporting similar breaches and had previously advised of procedural changes to reduce the likelihood of any future recurrences.

PARTICIPANT 10

It was identified that the Participant failed to comply with:

1. General By-Law G.3.16(u) and G.13.1 and General By-Law G.3.14(f), by virtue of an apparent failure to comply with Section 1266(4) of the Act
[Failure to deposit Client Funds into a Clients' Segregated Account]; and
2. General By-Law G.3.16(c)
[Failure to correctly disclose monies in the Statement of Client Funds]

The above failures to comply were identified as part of a routine inspection of the records and procedures of the Participant, by Compliance and Surveillance staff.

The BCC believed that the above failures to comply warranted the imposition of disciplinary action and therefore:

- i. in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the breaches set out in point 1 above; and
- ii. in accordance with Operating Rule 5.6.1(f), the BCC resolved that the above breach set out in point 2 be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration the fact that the breaches noted above were generally administrative, technical or inadvertent in nature.. The BCC further noted that the Participant had an excellent compliance record in self reporting similar breaches and had previously advised of procedural changes to reduce the likelihood of any future recurrences.

PARTICIPANT 11

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.28(a)
[Mandatory Recording of Information]; and
2. Operating Rule 3.1.2
[Information to be Input when Orders Entered on the Trading Platform]

The above failures to comply were identified following a routine review of roll orders by Compliance & Surveillance staff.

The Delegate believed that the above failures to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, in regard to item 1 the Delegate noted that due to a technical malfunction in the Participant's voice recording equipment, it failed to record instructions received from its clients for the period of

13-28 September 2004. The Delegate further noted that the breach was self reported by the Participant following the request for information made by the Exchange's Compliance & Surveillance staff. In regard to item 2, the Delegate noted that the Participant did not enter a Client Identifier within 10 minutes as is a requirement of the Operating Rules.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.28(a)
[Mandatory Recording of Information]

The above failure to comply was identified following a routine review of SYCOM® cancelled trades by Compliance & Surveillance staff in which it was noted that a trade was cancelled on the basis that counterparty approval had been obtained. The Participant was unable to provide confirmation of client approval.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted that due to a technical malfunction in the Participant's voice recording equipment, it failed to record instructions received from its clients. The Delegate further noted that the breach was self reported by the Participant and although the Participant had failed to comply it had yet to be notified of the outcome of a similar breach (Incident One above), therefore the penalty was not escalated.

PARTICIPANT 12

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.24
[Late lodgement of Daily Beneficial Ownership Reports]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.24
[Late Lodgement of Daily Beneficial Ownership Reports]; and
2. Operating Rule 2.2.24 by virtue of a failure to comply with the terms of an exemption granted under Operating Rule 5.2.2(c)
[Late Lodgement of Daily Beneficial Ownership Reports]

The above failures to comply were a result of the Participant failing to submit the required report within the prescribed time.

The BCC believed that the above failures to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the identified failures to comply.

In reaching its decision, the BCC noted that a similar matter had been Brought to the Notice of the Participant in June 2004 by the Delegate. It also noted that although an attempt was made to send the reports by the prescribed time, the Participant failed to recognise that the reports had not been delivered successfully and did not implement alternative submission mechanisms prior to the prescribed time.

PARTICIPANT 13

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 3.1.2(b)(ix)
[Failure to enter a client identifier into the Trading Platform within 10 minutes after entering an order]

The above failure to comply was self reported by the Participant on a timely basis.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted that the Participant had self reported a failure of its third party Order System to transmit modified client IDs through to the Trading Platform (SYCOM®). The Delegate also noted the Participant's Order System had been amended to prevent further breaches occurring and also that alternative records were maintained in the Participant's office and were available upon request.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 3.3.5(a)
[Procedures Prior to Order Entry on the Trading Platform]

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the matter be Brought to the Notice of the Participant.

In making its decision the Delegate noted that the Participant failed to follow Pre-negotiated Business Order Rules by not sending a Request for Quote via the Message Facility.

PARTICIPANT 14

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 3.2.2(a)
[Failure to lodge strip trade details into SFEIN within 10 minutes]

The above failure to comply was identified following SFE Business Operations' notification that the Participant's representative failed to enter the details of the Strip trade into SFEIN until two and three quarter hours after the trade occurred.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted that the Participant was repeatedly asked by SFE Business Operations staff to enter the details into SFEIN over a period of two and three quarter hours by either telephone or by the SYCOM® Message Facility.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 3.1.13
(Pre-Arrangement)

The above failure to comply was identified as a result of a complaint by another Participant.

The MPC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(f), the MPC resolved that the identified failure to comply be Brought to the Notice of the Participant.

In determining the level of penalty the MPC noted that this type of breach would normally warrant a more severe penalty, however the MPC acknowledged that the failure to comply appeared to have occurred due to an inadvertent oversight, in relation to the Block Trade Rules. However, the MPC was also of the view that these rules had not changed fundamentally since their introduction in early 2001 and remain clear in respect of their requirements, therefore that the Participant's Representative, having worked in this market for many years, should have been more familiar with them.

PARTICIPANT 15

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Trading Rule TR.8A.2(a)
[Failure to demonstrate prudent risk management procedures for SYCOM® Traders]; and
2. Trading Rule TR.27.4(a)
[Failure to demonstrate prudent risk management procedures for client accounts]; and
3. General By-Law G.3.16(c)
[Failure to correctly disclose monies in the Statement of Client Funds]

The above failures to comply were identified as part of a routine inspection of the records and procedures of the Participant, by Compliance and Surveillance staff.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore:

- i. in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the breaches set out in points 1 and 2 above; and
- ii. in accordance with Operating Rule 5.6.1(f), the BCC resolved that the breach set out in point 3 above be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration the fact that the breaches noted above were generally administrative, technical or inadvertent in nature. The BCC further noted that the risk to and impact on the Participant's clients and the market generally, in relation to the breaches, was low. However, the BCC directed SFE Compliance and Surveillance staff to review the Participant's risk management limits over the succeeding three months to ensure the changes had been made.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.24
[Late Lodgement of Daily Beneficial Ownership Reports]

The above failure to comply was a result of the Participant failing to submit the required report within the prescribed time.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate took into consideration that the Participant had genuinely attempted to send the correct file on time.

PARTICIPANT 16

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. General By-Law G.20(a) and G.22(a)
[Failure to Call and Receive Margins];
2. General By-Laws G.3.16(u) and G.13.1 and General By-Law G.3.14(f), by virtue of an apparent failure to comply with Section 1209(4A) of the Act
[Failure to Designate a Clients' Segregated Account];
3. General By-Law G.28(d)
[Failure to Maintain Adequate Records of Error Trades];
4. General By-Law G.27(a)(i)
[Mandatory Recording of Information];
5. General By-Laws G.3.16(u) and G.13.1 and General By-Law G.3.14(f), by virtue of an apparent failure to comply with Section 1209(19) of the Act
[House Funds incorrectly Deposited into a Clients' Segregated Account]; and
6. General By-Law G.37(d)
[Late Lodgement of Reportable Position Files]

The above failures to comply were identified as part of a routine inspection of the records and procedures of the Participant, by Compliance and Surveillance staff.

The BCC believed that the above failures to comply warranted the imposition of disciplinary action and therefore:

- i. in accordance with Operating Rule 5.6.1(d), the BCC resolved to impose a Reprimand upon the Participant for the breaches set out in points 1 & 2; and
- ii. in accordance with Operating Rule 5.6.1(f), the BCC resolved that the above breaches set out in points 3 to 6 be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration the fact that while the breaches noted in points 1 & 2 were generally serious enough to attract a financial penalty, the dramatic improvement in the Participant's overall compliance as well as the pro-active approach indicated by recent external compliance and back office reviews merited some amelioration of the penalty.

In reaching its decision for points 3 to 5, the BCC took into consideration the fact that the breaches were technical or inadvertent in nature. The BCC further noted that the risk to and impact on the Participant's clients and the market generally, in relation to the breaches, was low.

With regard to point 6 the BCC expressed an expectation that the Participant would work to ensure the implementation and maintenance of robust processes for the timely and accurate submission of Daily Beneficial Ownership Reports.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.18(c)
[Failure to correctly disclose monies in the Statement of Client Funds]

The above failure to comply was identified as part of a limited inspection of the accounting records and procedures of the Participant, by Compliance and Surveillance staff.

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(f), the BCC resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the BCC took into consideration the fact that the breach noted above was generally administrative, technical or inadvertent in nature. The BCC further noted that there had been no apparent intent in relation to the breach and that the Participant had been requested to submit a correctly completed September 2004 Statement of Client Funds.

PARTICIPANT 17

It was identified that the Participant failed to comply with:

1. Operating Rule 2.2.18(c)(ii)
[Lodgement of Quarterly Financial Return]

The above failure to comply was a result of the Participant failing to submit the Return by the due date.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

PARTICIPANT 18

It was identified that the Participant failed to comply with:

1. Operating Rule 3.3.5(a)
[Procedures Prior to Order Entry on the Trading Platform]

The above failure to comply was identified following a routine review of reports conducted by Compliance and Surveillance staff that highlighted concerns regarding trades that had been crossed to the exclusion of other market Participants. It was noted that the Participant did not include the delta in its message to the market, which would have allowed other parties to enter a bid or offer into the Trading Platform.

The Delegate believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.5(a)(ii), the Delegate resolved that the identified failure to comply be Brought to the Notice of the Participant.

In reaching its decision, the Delegate noted that the issue had been addressed in a recent SFE Bulletin and that the oversight led to other market participants being unable to participate in the trade due to lack of necessary information.

PARTICIPANT 19

It was identified that the Participant failed to comply with:

1. Clearing Operating Rule 63A(b)
[Failure to take delivery of stock]

The BCC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Clearing Operating Rule 10.3(ii), the BCC imposed a fine of \$1,000 upon the Participant for the failure to comply.

In reaching its decision, the BCC acknowledged that whilst it appeared that the bank session on the day in question was extended and that the Participant may not have been able to on-sell the stock, the BCC were strongly of the opinion that this had no bearing on the Participant's overriding obligation to comply with the principles and regulatory environment applicable in a central counterparty clearing model.

PARTICIPANT 20

INCIDENT ONE

It was identified that the Participant failed to comply with:

1. Operating Rule 3.1.6;
(Entering Orders without an Intent to Trade)
2. Operating Rule 3.1.14; and
(Trading to the Exclusion of Others)
3. Operating Rule 3.1.7.
(Orders to be Transmitted as Soon as Received)

The above failure to comply was initiated following a complaint lodged by another Participant who was concerned as it had been at the front of the queue on the bid at 1 point in the September 2004 Three Year Commonwealth Treasury Bond overnight 9474 put contract.

The MPC believed that the above failures to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(c), the BCC imposed a fine of \$2,500 upon the Participant for failure to comply with the above.

In reaching its decision, the MPC noted that the Participant's actions represented serious breaches of SFE's Operating Rules. The MPC noted that the Participant's Representative aided the client by deliberately 'holding out' the order until 2 seconds before the market pre-open levelling phase with the intention to get the client set at 1. The MPC further noted that although the client was an experienced trader and would have been aware of the risk of executing a trade at 1.5 points, the Participant Representative's actions were not reflective of acceptable market conduct as he effectively took action which indicated intent to 'queue jump'.

INCIDENT TWO

It was identified that the Participant failed to comply with:

1. Operating Rule 3.1.10
(Disclosure)

The above failure to comply was a self reported by the Participant on a timely basis and related to an incident of disclosure regarding a trade conducted in the Three Year Commonwealth Treasury Bond October 2004 serial options contract by the Participant.

The MPC believed that the above failure to comply warranted the imposition of disciplinary action and therefore, in accordance with Operating Rule 5.6.1(c), the MPC imposed a fine of \$1,000 upon the Participant.

In reaching its decision, the MPC noted that the Participant disclosed information that was not known to the entire market. The MPC also noted that whilst the Three Year Serial options are a prescribed contract with regard to the Pre-Negotiated Business Orders Rules, the Participant did not hold the appropriate pre-negotiation authorisation from its clients to pre-negotiate on their behalf.

Please note that all fines imposed by the BCC and MPC, as noted above, are stated exclusive of Goods & Services Tax.

Should you have any queries please contact Ms Michelle Wagner on 9256-0580 or mwagner@sfe.com.au.

A handwritten signature in black ink, appearing to read 'Michelle Wagner', with a stylized flourish extending from the bottom right.

MICHELLE WAGNER
MANAGER, COMPLIANCE & SURVEILLANCE