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Disciplinary Action Imposed by the Business Conduct Committee upon a Full Participant of the Exchange

Sydney Futures Exchange Limited (the Exchange) advises that its Business Conduct Committee (the Committee) recently considered matters self reported to it by a Full Participant of the Exchange in relation to the post allocation of trades to client accounts by a former Representative of the Participant.

It was identified by the Participant that on a number of occasions between May and November 2004, the Participant's representative initiated orders and trades in Exchange contracts without having specific client instructions to do so and without any authorisation to trade on a discretionary basis, following which the representative then allocated the trades to a number of clients.

The Committee resolved that the Participant failed to comply with the following:

- Operating Rule 3.1.20
(Post allocation)
- Operating Rule 3.1.16
(Failure to act in accordance with client instructions and client's best interests)
- Operating Rule 3.1.2
(Information to be input when orders are entered on the Trading Platform)

The Committee considered that the actions of the Participant's Representative constituted serious breaches of the Exchange Operating Rules and accordingly, imposed a fine of \$15,000 upon the Participant.

In making its decision, the Committee noted that the breaches arose out of the deliberate actions of a single Representative of the Participant over a period of months and expressed significant concerns at the

potential impact of those actions on both clients and the market in general. The Committee also expressed disappointment at the apparent attitudes and actions of a number of clients in accepting trades for which no order had been placed.

With regard to the Participant, the Committee acknowledged that it self reported the alleged breaches in a timely and efficient manner in accordance with its obligation to do so under the Operating Rules and, once the activities had been identified, took positive action to avoid a recurrence of events including the termination of the Representative's employment.

Accordingly, the level of penalty imposed reflected the Committee's recognition of the Participant's lack of complicity and demonstrated resolve to ensure ongoing compliance with the Operating Rules of the Exchange. In particular, the committee acknowledged the Participant's compliance culture and its timely response upon identifying the matter including initiation of a detailed and comprehensive internal investigation by the Participant to confirm the nature and extent of the inappropriate activity and open co-operation with the Exchange. Further, it was noted that the Representative's actions were neither perpetuated by the Participant nor indicative of any systemic weaknesses in the Participant's compliance controls and procedures, although some enhancements to the Participant's surveillance monitoring procedures were subsequently implemented and follow-up of staff non-attendance at compliance training has been improved.

In relation to the Representative, in accordance with its licence obligations, the Exchange has previously advised the Australian Securities and Investments Commission (ASIC) of the general circumstances of this serious market matter. As part of the standard notification to ASIC of the disciplinary action taken against the Participant, the Exchange has also recommended that further action be considered in respect of the individual concerned.

In notifying the market of its actions, the Committee wishes to reinforce to both Participants and clients that such activity will not be tolerated on the Exchange's markets.

The Committee also wishes to re-emphasise the obligation of Participants to ensure that their Representatives are aware of and act in compliance with the Operating Rules of the Exchange at all times. As a result of this ultimate accountability for the actions of their Representatives, any failure by a Representative to comply with the Operating Rules will necessarily result in any relevant disciplinary action being taken against the Participant by the Exchange. Further, in view of the importance of Participants taking anticipatory action to prevent their Representatives from breaching such market requirements, Participants can expect that they will incur a substantial fine in all instances where anything more could reasonably have been done to prevent a breach.

A handwritten signature in black ink, appearing to read "Anne T. Brown", is written over a horizontal line. A vertical red line is positioned to the right of the signature.

ANNE T. BROWN
GENERAL MANAGER, RISK AND COMPLIANCE

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