

SFE NOTICE NO. 113/05

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DISCIPLINARY ACTION IMPOSED BY THE MARKET PRACTICES COMMITTEE UPON

Fimat SNC TRADING AS Fimat AUSTRALIA

Pursuant to Operating Rule 5.12, Sydney Futures Exchange Limited (the Exchange) advises that its Market Practices Committee (the Committee), which is the market's front-line peer review committee, has determined the following:

Fimat SNC trading as Fimat Australia (Fimat) has been fined \$25,000 (exclusive of GST), being the maximum amount under current Committee powers, for a failure on 3 December 2004 to comply with the following:

- (i) Operating Rule 3.1.20(a)
[Post-Allocation Prohibition]
- (ii) Operating Rule 2.2.28(a)
[Mandatory Recording of Information]
- (iii) Operating Rule 2.2.23(a)
[Maintenance of Order Records and Accounting Records]
- (iv) Operating Rule 3.1.6
[Entering Orders without an Intent to Trade]
- (v) Operating Rule 3.1.16
[Acting in Accordance with Client Instructions and Client's Best Interests]

The Committee hearing procedures were utilised in respect of this matter and Fimat elected not to challenge the findings of the Committee.

The circumstances surrounding the breaches related to an error trade of 3003 lots in the December 2004/March 2005 3 Year Commonwealth Treasury Bond futures contract intra-commodity spread (the spread).

Fimat entered a spread order to sell 3003 at 0, representing 3000 based on client instructions and 3 added by Fimat, in order to assist in identifying the order in the queue. Upon trading the whole order with a single counterparty, Fimat identified that it had entered the wrong price and contacted the Exchange to request cancellation of the trade on the basis of an error. Whilst awaiting completion of processing of the error cancellation request, Fimat proceeded to enter a spread order without instruction into the Trading Platform on behalf of the counterparty to the error trade to pay 0 for 3003 spreads, in anticipation of the latter consenting to the cancellation (such that should the counterparty have agreed to cancel the trade, it would not have been disadvantaged in the order queue).

The counterparty to the error trade did not consent to the trade cancellation. Instead of withdrawing the new buy order from the market, Fimat proceeded to contact and offer to allocate 3000 sold spreads (that were not executed pursuant to instructions previously received) to interested clients. As parties agreed to accept the post allocated trades, the buy order was amended downward reflecting the remaining uncovered error volume. Having allocated 3000 sold spreads between two clients, the buy order was then amended to reflect a genuine order for 700 spreads (from one of the clients who had accepted allocation of 1500 spreads of Fimat's error), with a client identifier "mixed." The order for 703 spreads remained unfilled and was purged at the end of the trading session.

In reaching its finding, the Committee noted that Fimat, having had a request for a trade cancellation denied by the counterparty to the trade, should have ensured that any remedy undertaken was done with primary consideration being given to compliance with the Exchange's Operating Rules without being subject to cost/benefit analysis with respect to possible commercial impacts.

In addition, the Participant's entry into the Trading Platform of the original client order with a volume in excess of that specified by its client was regarded by the Committee as a deliberate breach of the Operating Rules, aimed at ascertaining queue position in the Trading Platform, regardless of whether it was the intention of the Participant to subsequently amend or trade the volume entered.

The Committee also observed that Fimat was unable to provide clear order records or voice recordings of the original order receipt, that Fimat had failed to self report any of the breaches identified and that Fimat had recently been subject to disciplinary action in relation to prior breaches of Operating Rules 2.2.23 and 3.1.16. Finally, the Committee noted that Fimat's senior management had, as a result of their direct involvement in the trading actions and decision-making in this matter, shown a disregard for the Operating Rules of the Exchange.



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