

SFE NOTICE NO.

073/06

Date of Issue: 30 June 2006
Effective Date: Immediate

Disciplinary Action Imposed by the Business Conduct Committee upon BrokerOne Pty Limited

Pursuant to Operating Rule 5.12, Sydney Futures Exchange Limited (the Exchange) advises that its Business Conduct Committee (the Committee) has determined the following:

BrokerOne Pty Limited (BrokerOne) has been fined \$10,000 (exclusive of GST) for a failure to comply with the following:

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

The above failure to comply was highlighted following preliminary investigations of an incident on 31 August 2005 by SFE Business Operations, combined with two complaints from market participants expressing concern regarding large fluctuations in the volume of the bid and offer in the Three Year Commonwealth Treasury Bond Futures contract. Further enquiries identified that a client of BrokerOne was responsible for the unusual order activity.

Upon further investigation, Exchange Compliance & Surveillance staff identified that the client (who had been provided with direct market access by BrokerOne via a third party trading system) had repeatedly entered numerous orders and built up large order books over a one and a half hour period during an overnight trading session. The order books reflected multiple orders at and close to the current bid and/or offer of the market. Despite two separate requests by Exchange staff to BrokerOne and one directly to the client, the client was able to continue the practice of entering and cancelling these multiple orders which constituted large proportions of the tradeable volume in the market over this period.

In making its determination, the Committee was of the view that BrokerOne's failure to identify the situation in a timely manner, its lack of effective action when notified by the Exchange of the situation and its lack of robust procedures to escalate and address the situation constituted a serious failure of Prudent Risk Management.

In making its determination as to penalty (including its recommendation of public notification of the disciplinary action taken), the Committee took into account the following key factors:

- The potential financial impact and/or reputational risk for BrokerOne, its guarantor Clearing Participant and the Exchange arising out of BrokerOne's client's actions, all of which was exacerbated by the failure of BrokerOne to identify, escalate or manage this incident;
- Subsequent remedial action taken by BrokerOne, including the introduction of new systems and procedures to assist in monitoring of clients' activities and in particular, to address overnight trading risk management; and
- That public notification would more effectively reinforce to BrokerOne and the market the seriousness with which the Committee viewed the incident and the importance of Participants maintaining prudent and pro-active risk management of trading activity.



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