



SFE NOTICE NO.

055/07

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Disciplinary Action Imposed by the Market Practices Committee

DISCIPLINARY ACTION IMPOSED BY THE MARKET PRACTICES COMMITTEE UPON

Macquarie Bank Limited

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

Macquarie Bank Limited (Macquarie) has been fined \$30,000 (exclusive of GST) for a failure on 18 December 2006 to comply with the following:

- (i) Operating Rule 3.1.20(a)
[Post-Allocation Prohibition]

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

The circumstances surrounding the breach related to an error trade of 4000 lots in the March 2007 Overnight Options on Three Year Commonwealth Treasury Bond Futures contract.

Macquarie had instructions from its client in relation to the Overnight Options on Three Year Commonwealth Treasury Bonds. The standing instructions required that the Client be contacted prior to levelling for final confirmation of release of the orders. In this instance Macquarie was not able to contact the Client before levelling for the final confirmation and erroneously released the orders that subsequently traded in the market. The failure to withdraw the orders resulted in a sell of 2000 Calls and a sell of 2000 Puts. Macquarie contacted the client from whom it had the standing instructions and offered the trade to it. The client refused to accept the trade and the Participant established the trade as an error. The Participant subsequently traded out of the calls and contacted four (4) clients to offer them the put side of the transaction. The four (4) clients accepted the trades. The following day, the Participant made a decision not to physically allocate the trades to the client's accounts, but to maintain the trades in its error account and cash adjust the clients to affect the same financial outcome, thereby ensuring no financial loss to the clients. The Participant's decision to not physically allocate the trades to its clients account did not however prevent post-allocation occurring as the 'offer' to allocate the trades is equally a breach of the post-allocation rule.

In reaching its finding, the Committee acknowledged the self-report by the Participant, however, felt that had the Exchange not initiated an enquiry into the trades, that a self-report may not have been forthcoming. The Committee also noted the Participant's Compliance area had not been consulted, and in fact were not aware of the incident prior to receipt of the Exchange's initial enquiries.

The Committee was concerned with regard to the actions of the Participant's Representatives who offered the trades initially to the Client who placed the original instruction, then to four other Clients who ultimately accepted the trades. The Committee was also concerned with the actions of senior management who were present and aware of the activities of its Representatives in the overnight options market and did not at the time take action to stop the post allocation of the trades. Furthermore, the Committee noted that senior management, having subsequently considered the ramifications of its Representatives' actions the following day,

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determined that the trades should not be allocated to the Clients (the Participant cash-adjusting its Clients instead) believing incorrectly that this would ensure that it remained in compliance with the post-allocation rule. The Participant did not seek input or advice from its Compliance area.

The Exchange wishes to reiterate that both an allocation of a trade or the offer to allocate a trade that has not been obtained pursuant to instructions previously obtained from a Client are both clear breaches of the Operating Rules and that the Exchange takes such breaches seriously.

Should you have any enquiries please contact me on (02) 9227 0223 or robert.coaldrake@asx.com.au.

A handwritten signature in black ink, appearing to read 'Robert Coaldrake', written in a cursive style.

Robert Coaldrake
Senior Manager, Futures Compliance and Surveillance