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Contents

Markets Disciplinary Panel Infringement Notice

Recipient: Citigroup Global Markets Australia Pty Limited

The recipient has complied with the infringement notice. Compliance is not an admission of guilt or liability; and the recipient is not taken to have contravened subsection 798H (1) of the Corporations Act 2001.

RIGHTS OF REVIEW

Recipients affected by the decision of the Markets Disciplinary Panel to give them an infringement notice under subsection 798H(1) of the *Corporations Act 2001* and Part 7.2A of the *Corporations Regulations 2001* administered by ASIC may have a right of review or may be entitled to have the infringement notice withdrawn. ASIC has published RG 216 to assist recipients to determine whether they have such rights – see RG 216.71 and RG 216.77 to 216.79. Copies of this document can be obtained from the ASIC website at www.asic.gov.au

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PART 7.2A OF THE CORPORATIONS REGULATIONS 2001 INFRINGEMENT NOTICE

To: Citigroup Global Markets Australia Pty Limited
Level 22, 2 Park Street
SYDNEY NSW 2000

TAKE NOTICE: The Australian Securities and Investments Commission ("ASIC") gives this infringement notice to Citigroup Global Markets Australia Pty Limited ACN 003 114 832 ("Citigroup") under regulation 7.2A.04 of the Corporations Regulations 2001 ("Regulations"). To comply with this notice Citigroup must:

Pay a penalty to ASIC, on behalf of the Commonwealth, in the sum of **\$40,000**.

This infringement notice is given on 20 November 2013.

The unique code for this notice as required by paragraph 7.2A.06(b) of the Regulations is MDP16686/13.

The terms defined in Rule 1.4.3 of the ASIC Market Integrity Rules (ASX 24 Market) 2010 ("MIR 1.4.3") have the same meaning when used in this notice, including those set out in the Appendix to this notice. Certain additional defined terms used in this notice are also set out in the Appendix to this notice.

Alleged contravention and penalty

Citigroup was a Market Participant in the Market operated by the Australian Securities Exchange Limited ("ASX") at the relevant time and was therefore an entity required by subsection 798H(1) of the *Corporations Act 2001* ("Act") to comply with the market integrity rules at that time.

Citigroup is alleged to have contravened subsection 798H(1) of the Act by reason of contravening Rule 2.2.1(1)(b) of the ASIC Market Integrity Rules (ASX 24 Market) 2010 ("MIR 2.2.1(1)(b)"), which provides:

"(1) Limits:

A Market Participant must demonstrate prudent risk management procedures, including, but not limited to:

(b) set and document maximum price change limits;"

On the evidence before it, the Markets Disciplinary Panel ("MDP") was satisfied that:

- 1) On 23 November 2011 at approximately 16:40:00, the ASX published the Daily Settlement Price ("DSP") for the January 2013 ASX 30 Day Interbank Cash Rate Futures Contract ("IBF3"), being 97.070.
- 2) At 17:26:32, a Client of Citigroup ("Citigroup Client") entered an Order to buy one December 2011/ January 2013 ASX 30 Day Interbank Cash Rate Futures Contract spread ("IBZ1F3") with a price differential of -15.0 points ("Initial Order") via Citigroup's Direct Market Access ("DMA") system. Despite the price of the Initial Order being of significant variation away from the prior IBF3 DSP of 97.070, the Initial Order was able to enter into the ASX Trading Platform as Citigroup's Automated Order Processing ("AOP") system (supplied by a third party software vendor) had a maximum price change limit set at the maximum of 999.9 basis points for ASX 30 Day Interbank Cash Rate Futures Contracts.
- 3) At 17:26:44 the Citigroup Client entered another Order via DMA, being an Order modifying the Initial Order by changing the price differential from -15.0 to -13.0 points for the one IBZ1F3 ("Amended Order"). The Amended Order created an implied offer of 95.900 for one IBF3.
- 4) At 17:26:57 the Citigroup Client entered yet another Order via DMA, this time being an Order modifying the Amended Order by increasing the volume from one to 200 IBZ1F3 at -13.0 points ("Relevant Order"). The Relevant Order created an implied offer of 95.900 for 200 IBF3.
- 5) At 17:31:44 another Market Participant entered an Order into the Trading Platform to buy 200 IBF3 at 95.900 which transacted with the Relevant Order resulting in the Trading of the December 2011 ASX 30 Day Interbank Cash Rate Futures Contract ("IBZ1") and IBF3, as follows:

| Contract | Deal No. | Buyer | Seller | Price | Volume |
|----------|----------|-----------|-----------|--------|--------|
| IBZ1 | 281 | Citigroup | | 95.770 | 200 |
| IBF3 | 282 | | Citigroup | 95.900 | 200 |

- 6) Deal 282 ("Relevant Deal") was the first Trade in IBF3 since publication of the DSP of 97.070. The Relevant Deal Traded at 95.900, being 117 points lower than the prior IBF3 DSP.
- 7) The Traded price of 95.900 placed the Relevant Deal in the Mandatory Cancellation Range as per rule [3210] of the ASX 24 Operating Rules.
- 8) On 24 November 2011, between approximately 08:00:00 and 08:30:00 during a review, Citigroup became aware of the Relevant Deal.
- 9) Between approximately 08:30:00 and 09:00:00, Citigroup contacted the ASX to request cancellation of the Relevant Deal. The ASX denied the request. At approximately 12:37:00, Citigroup sent a second request to the ASX requesting cancellation of the Relevant Deal which was again denied.

10) At approximately 17:10:00, during a phone call with ASX 24 representatives, Citigroup was advised that the ASX would not cancel the Relevant Deal under either of the following:

- rule [3210] of the ASX 24 Operating Rules and procedure 3210 of the ASX 24 Operating Rulebook Procedures which at the time relevantly stated:

"The Exchange will not enact the Exchange Cancellation of Erroneous Trades Rule if more than 60 minutes has elapsed since the time of trade execution or 10 minutes has elapsed since the close of trading on the relevant Trading Day, whichever is sooner."

- rule [3100] of the ASX 24 Operating Rules which relevantly states:

"The Exchange may take any action it considers necessary to ensure that a market for one or more Products is fair, orderly and transparent, including, without limitation...cancelling or amending any Transaction."

By reason of Citigroup's failure to demonstrate prudent risk management procedures by not setting and documenting maximum price change limits on 23 November 2011, the MDP has reasonable grounds to believe that Citigroup has contravened MIR 2.2.1(1)(b) and thereby contravened subsection 798H(1) of the Act.

Maximum pecuniary penalty that a Court could order

The maximum pecuniary penalty that a Court could order Citigroup to pay for contravening subsection 798H(1) of the Act by reason of contravening MIR 2.2.1(1)(b), is \$1,000,000.

The maximum pecuniary penalty that may be payable by Citigroup under an infringement notice given pursuant to subsection 798K(2) of the Act, is \$600,000.

Penalty under the Infringement Notice

The penalty payable under this infringement notice for the alleged contravention of subsection 798H(1) of the Act and therefore the total penalty that Citigroup must pay to the Commonwealth, is **\$40,000**.

The penalty is payable to ASIC on behalf of the Commonwealth. Payment is made by bank cheque to the order of the "Australian Securities and Investments Commission".

In determining this matter and the appropriate pecuniary penalty to be applied, the MDP took into account all relevant guidance, including ASIC Regulatory Guide 216—*Markets Disciplinary Panel*, and noted in particular the following:

- MIR 2.2.1(1)(b) is aimed at ensuring that all Market Participants must at all times have and maintain appropriate controls to ensure that Orders submitted by them into a Trading Platform do not interfere with the integrity of the market;
- Market Participants are specifically required to set and document appropriate pre-determined Order and/or position limits on each of their Client Accounts. Setting limits

at a maximum setting of 999.9 basis points is inadequate and does not demonstrate prudent risk management procedures as a Market Participant with DMA Clients;

- The breach had the potential to damage the reputation and integrity of the Market. Citigroup's maximum price change limit of 999.9 basis points for ASX 30 Day Interbank Cash Rate Futures Contracts was inadequate. It failed to prevent the Relevant Order from entering into the Trading Platform resulting in the Relevant Deal Trading at 95.900, being at a price 117 points lower than the prior IBF3 DSP of 97.070 and representing a value approximately \$600,000 away from fair value;
- The breach was careless on the part of Citigroup as it neglected to set and document maximum price change limits for the Citigroup Client, instead relying on its AOP system which had an inadequate maximum price change limit set at the maximum of 999.9 basis points for ASX 30 Day Interbank Cash Rate Futures Contracts;
- Citigroup's AOP system did not have the technological capability to host price movement filters as it only permitted the coding of a single hard price limit. Notwithstanding this, a Market Participant must demonstrate prudent risk management procedures by setting and documenting maximum price change limits. An inadequate maximum price change limit of 999.9 basis points for ASX 30 Day Interbank Cash Rate Futures Contracts does not represent prudent risk management procedure;
- The MDP emphasised that Market Participants ought to pay proper care and diligence in the setting and documentation of limits. This is a critical measure in maintaining the integrity of a market;
- Citigroup did not derive any actual or potential benefit from the breach;
- Citigroup requested cancellation of the Relevant Deal from the ASX on three separate occasions on 24 November 2011, but was denied on the basis of rules [3100] and [3210] of the ASX 24 Operating Rules at the relevant time;
- Citigroup informed ASIC of the breach at 5.30pm on 24 November 2011 and requested assistance in working with the ASX to cancel the Relevant Deal;
- Citigroup took the following remedial measures to prevent recurrence of the breach:
 - Immediately updated its AOP system's maximum price change limit setting for ASX 30 Day Interbank Cash Rate Futures Contracts;
 - Implemented through stages during the course of 2012, a new AOP system (supplied by another third party software vendor) incorporating a risk management tool with functionality for tailored volume and price limits;
 - Enhanced its Client setup manual in relation to the setting and review of risk management tools;
 - Enhanced its futures compliance manual in relation to the cancellation process;
 - Trained its futures sales and electronic execution teams on a number of issues including risk management setup and cancellation process; and

- Undertook a review of automated trading.
- Citigroup has no prior contraventions found against it by the MDP for non-compliance with the ASIC Market Integrity Rules (ASX 24 Market) 2010, but has been sanctioned by the ASX Disciplinary Tribunal on one occasion relating to non-compliance with the Operating Rules of the Sydney Futures Exchange (ASX Circular 080/10 dated 3 March 2010);
- Citigroup has one prior contravention found against it by the MDP for non-compliance with the ASIC Market Integrity Rules (ASX Market) 2010 (MDP Circular 2012–3 dated 27 August 2012) and has been sanctioned by the ASX Disciplinary Tribunal on two occasions relating to non-compliance with the ASX Market Rules (ASX Circular 477/09 dated 23 December 2009 and ASX Circular 076/10 dated 1 March 2010);
- Citigroup co-operated with ASIC throughout its investigation and did not dispute any material facts; and
- Citigroup agreed not to contest the matter, thereby saving time and costs that would otherwise have been expended.

Compliance with the Infringement Notice

Citigroup may choose not to comply with this infringement notice, but if Citigroup does not comply, civil proceedings may be brought against Citigroup in relation to the alleged contravention.

To comply with this infringement notice, Citigroup must pay the penalty within the compliance period. The compliance period:

- (a) starts on the day on which the infringement notice is given to Citigroup ; and
- (b) ends 27 days after the day on which the infringement notice is given to Citigroup;

unless an application is made for its extension.

Citigroup may apply to ASIC for an extension of time to comply with this notice under regulation 7.2A.09 of the Regulations. If Citigroup does so, and the application is granted, the compliance period ends at the end of the further period allowed.

If Citigroup applies for a further period of time in which to comply with this notice, and the application is refused, the compliance period ends on the later of:

- (a) 28 days after the day on which the infringement notice was given to Citigroup; and
- (b) 7 days after the notice of refusal is given to Citigroup.

Citigroup may apply to ASIC for withdrawal of this notice under regulation 7.2A.11 of the Regulations. If Citigroup does so, and the application is refused, the compliance period ends 28 days after the notice of refusal is given to Citigroup.

Effect of issue and compliance with the Infringement Notice

The effects of compliance with this infringement notice are:

- (a) any liability of Citigroup to the Commonwealth for the alleged contravention of subsection 798H(1) of the Act is discharged;
- (b) no civil or criminal proceedings may be brought or continued by the Commonwealth against Citigroup for the conduct specified in the infringement notice as being the conduct that made up the alleged contravention of subsection 798H(1) of the Act;
- (c) no administrative action may be taken by ASIC under section 914A, 915B, 915C or 920A of the Act against Citigroup for the conduct specified in the infringement notice as being the conduct that made up the alleged contravention of subsection 798H(1) of the Act;
- (d) Citigroup is not taken to have admitted guilt or liability in relation to the alleged contravention; and
- (e) Citigroup is not taken to have contravened subsection 798H(1) of the Act.

Publication

ASIC may publish details of this infringement notice under regulation 7.2A.15 of the Regulations.



Susan Humphreys

Counsel to the Markets Disciplinary Panel

with the authority of a Division of the Australian Securities & Investments Commission

Dated: 20 November 2013

Note: Members of ASIC's Markets Disciplinary Panel constitute a Division of ASIC as delegates of the members of the Division for the purposes of considering the allegations covered by this notice.

Appendix – Defined Terms

The terms defined in MIR 1.4.3 have the same meaning when used in this notice, including:

"Client" means in relation to a Market Participant, any person, partnership or Corporation on behalf of whom the Market Participant enters, Acquires or Disposes of a Futures Contract or Option Contract, or on whose behalf the Market Participant proposes to enter, Acquire or Dispose of a Futures Contract or Option Contract or from whom the Market Participant accepts instructions to enter, Acquire or Dispose of Futures Contracts or Option Contracts.

"Contract" means a contract entered, Acquired or Disposed of on the Market or capable of being entered, Acquired, or Disposed of on the Market.

"Futures Contract" means a Contract designated as a "Futures Contract" by the Market Operator in the Market Operating Rules.

"Market" means the market operated by the Market Operator under *Australian Market Licence (Australian Stock Exchange Limited) 2002*.

"Market Operating Rules" means the Operating Rules of the Market, other than the Market Listing Rules.

"Market Operator" means Australian Securities Exchange Limited (ACN 000 943 377).

"Market Participant" means a participant in the Market admitted under the Market Operating Rules.

"Order" means an instruction to enter into a Contract, or an instruction to amend or cancel a prior instruction to enter into a Contract.

"Rules" means the ASIC Market Integrity Rules (ASX 24 Market) 2010.

"Trading Platform" means a facility made available by the Market Operator to Market Participants for the entry of Trading Messages, the matching of Orders, the advertisement of invitations to Trade and the reporting of transactions.

This notice adopts the following additional definitions of terms:

"Automated Order Processing" means the electronic process by which Orders are registered and routed in a Market Participant's trading system, and, if accepted for submission into a Trading Platform by the Market Participant submitted as corresponding Trading Messages without human intervention.

"Daily Settlement Price" means the official daily quotation for each Contract entered, acquired, or disposed of on a Market of the Exchange for each delivery or cash settlement month as determined by the Exchange for the purpose of margining and settling by the Approved Clearing Facility.

"Direct Market Access" means an Order submitted by a Client of a Market Participant into the Market Participant's trading system and subject to Automated Order Processing.

"Mandatory Cancellation Range" means the range set out in procedure 3200 of the ASX 24 Operating Rulebook Procedures as defined in rule [7100] of section 7 of the ASX 24 Operating Rules as at 23 November 2011.

"Trading Messages" means those messages submitted into a Trading Platform relating to trading functions, such as Orders, amendment or cancellation of Orders and the reporting or cancellation of transactions on the Trading Platform.