



ASIC

Australian Securities & Investments Commission

Market & Participant Supervision

2011 Annual Stockbroker's Conference

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May 2011



Market supervision update

- Overview of activity since the transfer of supervision
- Information security and corporate advisers
- Market integrity issues
- Market surveillance technology
- Participant supervision issues

Market supervision report – 1 August 2010 – 30 April 2011

- 45,000 alerts – consistent with the ASX experience
- Matters referred to ASIC Deterrence:
 - 32 Market matters - Potential market misconduct matters, including insider trading, market manipulation
 - 9 Participant matters – Order records, unauthorised trading, trust money, supervision
- 26 pre-emptive actions – disruptive algorithms, trading strategies, ETF pricing away from underlying
- 15 remediations – inadequate controls, unauthorised trading

Market matters referred to deterrence

Potential breaches

- 22 insider trading
- 1 market manipulation (now 5)
- 2 continuous disclosure
- 7 market integrity rules

Insider trading issues

Sources of potential insider trading found

- Corporations
- Investment bank
- Vendor
- Top tier accounting firms

Market integrity issues

Retail trading in ETFs

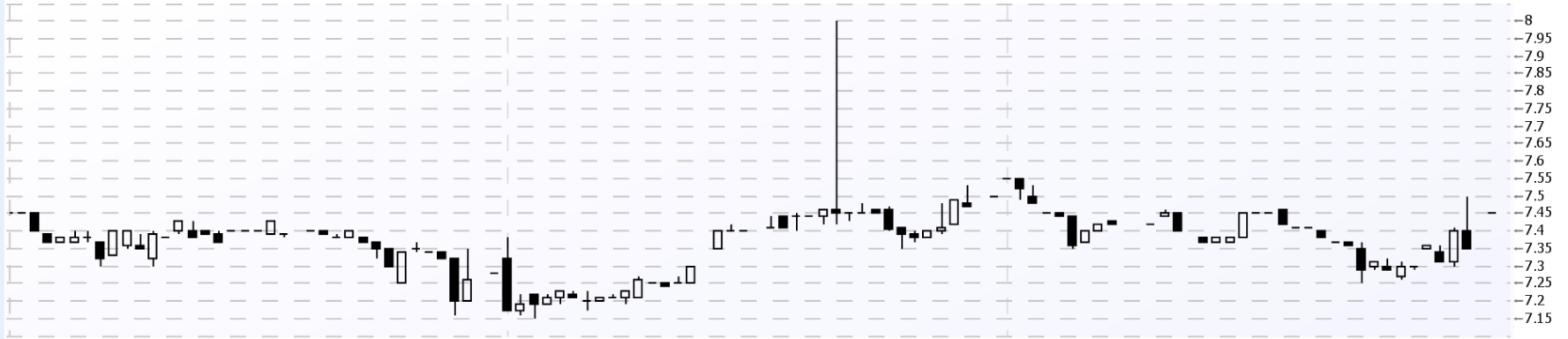
SFY.AXW: 2:44:58: 46.16, 46.16, 46.16, 46.16



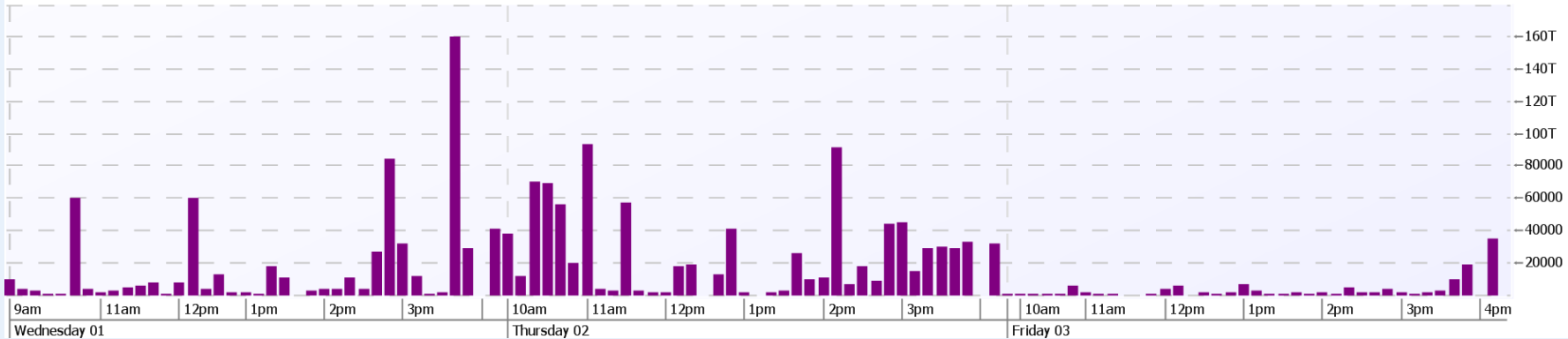
Market integrity issues

Increase in spikes caused by algorithms

AZT.ASX: 7.45, 7.45, 7.45, 7.45



Vol: 34557



Market integrity issues

10 issues with algorithms – August – December 2010

EHL.ASX: 0.89, 0.89, 0.89, 0.89



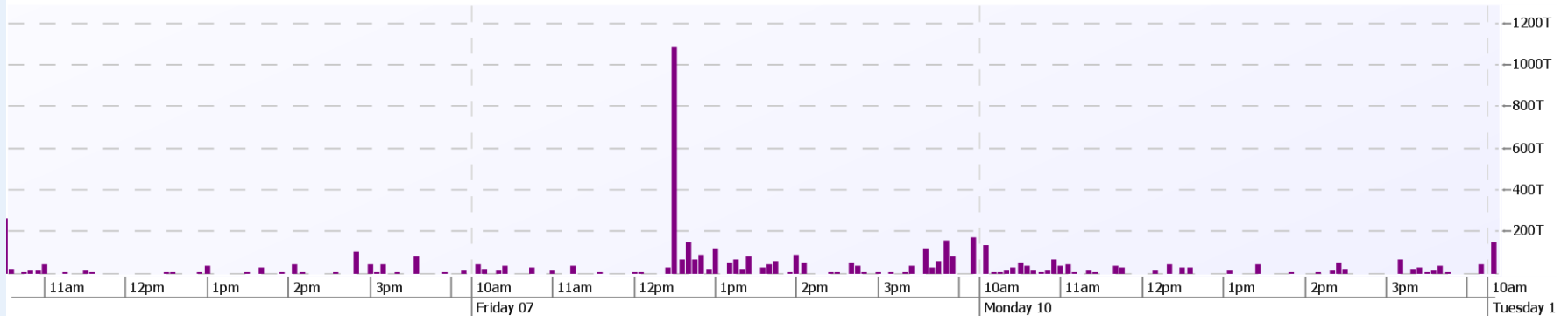
Market integrity issues

25 issues with algorithms – January - April 2011

UNS.ASX: 0.825, 0.825, 0.82, 0.82



Vol: 15392



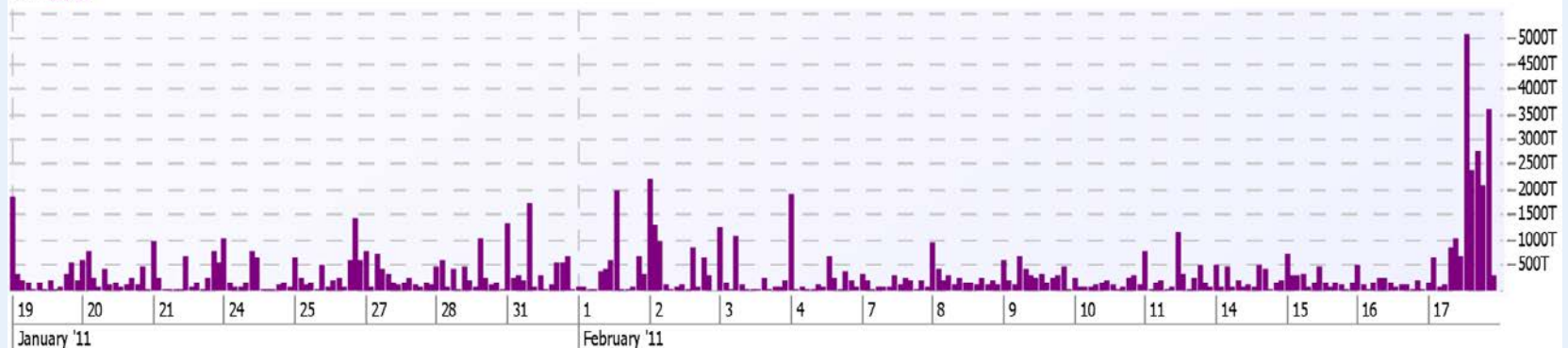
Market integrity issues

Stop loss order algorithm

CFE.ASX: 0.685, 0.685, 0.685, 0.685



Vol: 283.2T



Market integrity issues – over-facilitation

| Market Integrity Notice |



March 4, 2005

No. 2005-004

Suggested Routing: Trading, Legal & Compliance

DOUBLE PRINTING AND THE ENTRY OF ORDERS

Prohibition on "Double Printing"

Market Regulation Services Inc. ("RS") considers that "double printing" creates a false or misleading appearance of trading activity contrary to the provisions of Rule 2.2 of the Universal Market Integrity Rules ("UMIR") that prohibits a manipulative or deceptive method of trading. The term "double printing" occurs when two trades are made on a marketplace when only one trade was necessary to execute an order.

RS issued Market Integrity Notice 2003-002 on January 13, 2003 dealing with the issue of "double printing" and Market Integrity Notice 2003-007 on March 27, 2003 dealing with order marking. To assist Participants in complying with the prohibition on "double printing", this Market Integrity Notice provides additional examples of how orders should be handled and marked, particularly when there are multiple marketplaces trading the same securities. These examples are provided for guidance only and illustrate RS's position under specific scenarios. If a Participant is unclear on how to handle or mark an order in a particular situation, the Participant is encouraged to contact RS for guidance.

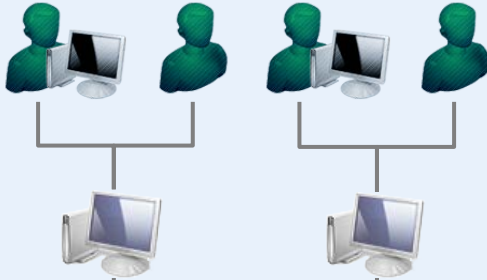
Market integrity issues

Inter-market Surveillance Group

- Quote stuffing
- Momentum ignition
- Market makers – passive v momentum traders
- Professional insider trading networks
- Market controls
- Greater use of technology and post-trade surveillance

Market surveillance technology

Traders & Customers (DMA)



Trading



Post-Trading



- Broad access to records and other market participant documents
- Direct and independent access to trading, clearing and settlement databases
- Centralized information at customer level
 - Bid and Ask must be sent through the trading system with the customer / representative account ID
 - Customer ID must be sent to the clearing system (T+0 for derivatives / T+1 cash market)
- Supervision of BM&FBOVESPA's operating activities

Participant supervision issues

Potential breaches

- Poor order record keeping
- Client trust monies / client segregated accounts
- Adequate supervision of functions by RE's
- Inappropriate financial product offerings
- Supervision of representatives
- Late submission of notifications/applications

Participant supervision issues

Other issues

- Waiver/relief applications – lead time required
- Unauthorised trading
- Risk management arrangements in relation to business growth
- Local Australia requirements need to be considered in global businesses