



Monday 27 August 2012

MDP CIRCULAR 2012- 03

**DISCIPLINARY MATTER – CITIGROUP GLOBAL MARKETS
AUSTRALIA PTY LTD**

Citigroup Global Markets Australia Pty Ltd ("Citigroup") has paid a penalty of **\$30,000** in order to comply with an infringement notice given to it by the Markets Disciplinary Panel.

Background and circumstances

Citigroup is alleged to have contravened subsection 798H(1) of the *Corporations Act 2001* (the Act) by reason of contravening Rule 5.9.1 of the *ASIC Market Integrity Rules (ASX Market) 2010* ("MIR 5.9.1"), which provides:

"A Market Participant must not do anything which results in a market for a Product not being both fair and orderly, or fail to do anything where that failure has that effect."

On the evidence before it, ASIC's Markets Disciplinary Panel was satisfied that:

- 1) At 9:52:59 on 20 May 2011 ("the Relevant Day"), Citigroup's Portfolio Trading desk received an order to buy 219,231 shares of Fantastic Holdings Limited (ACN 004 000 775) ("FAN") on behalf of a client. At 10:10:00, Citigroup's Sales Trading desk received an order from a client to sell 119,231 shares of FAN at \$2.40.
- 2) The two Orders were given to a Citigroup Designated Trading Representative ("DTR") who decided to execute a crossing. The market for FAN at this time was \$2.32/\$2.42/\$2.42 (Bid/Ask/Last Traded Price) and there was a total of 20,732 FAN in the bid schedule at prices between \$1.71 and \$2.32.
- 3) At 10:27:53, the DTR entered a Priority Crossing ("the Relevant Order") for 119,231 ordinary shares of FAN at a price of \$0.024 instead of \$2.40. Following its entry, the erroneously priced Relevant Order, transacted with the 20,732 FAN in the bid schedule at prices between \$1.71 and \$2.32. Citigroup executed a crossing of the residual 98,499 FAN at \$0.024.
- 4) As a result of the Relevant Order, the price of FAN fell from \$2.42 to \$0.024. This represented a decrease of 99% in the price of FAN.

By reason of Citigroup's placement of the Relevant Order on the Relevant Day, the Markets Disciplinary Panel has reasonable grounds to believe that Citigroup has contravened MIR 5.9.1 and thereby contravened subsection 798H(1) of the Act.

Relevant factors

Factors that were considered in determining the penalty and remedy to be applied in relation to the alleged breach included:

- MIR 5.9.1 is aimed at ensuring a fair, open and transparent trading system, with a strict obligation imposed on Market Participants which requires that Participants do not do anything which results in a market for a product not being fair and orderly;
- The conduct appears to have been inadvertent on the part of the Citigroup DTR, rather than deliberate or reckless. Whilst it is accepted that the Relevant Order was entered in error, the DTR failed to enter the Relevant Order with appropriate care;
- On the Relevant Day, the DTR had recently moved to a new seat in the dealing room, using a new computer not set up with the appropriate pre-set limits and warnings of the DTR's previous computer, that would have triggered an alert when the Relevant Order was made and could have prevented it going into the market;
- Citigroup contacted the ASX within eighty seconds of the entry of the Relevant Order. Citigroup acknowledged that the Relevant Order was erroneously entered into the Market and pursuant to ASX Operating Rules requested that ASX Market Control contact the counterparties to the buy side of the six Market Transactions in order to facilitate a cancellation of those trades;
- The timely action taken by Citigroup in contacting ASX Market Control enabled resolution of the error and resumption of normal trading in FAN;
- Citigroup has co-operated with ASIC and attempted to address concerns arising from the investigation, by way of engagement with ASIC;
- Citigroup did not derive any actual or potential benefit from the contravention, nor did Citigroup cause any actual or potential damage to a third party;
- Citigroup agreed not to contest the matter, thereby saving time and costs that would otherwise have been expended;
- No relevant action has been taken against Citigroup in relation to the market integrity rules. However, Citigroup contravened ASX Market Rule 14.1.1 on 1 March 2010, which was the predecessor to MIR 5.9.1.

The Markets Disciplinary Panel ("the MDP")

The MDP is a peer review body that exercises ASIC's power to issue infringement notices and accept enforceable undertakings in relation to alleged breaches of the market integrity rules. The market integrity rules are made by ASIC and apply to market operators, market participants and prescribed entities under the regulations.

Additional regulatory information

Pursuant to subparagraph 7.2A.15(4)(b)(i) and (ii) of the Corporations Regulations 2001, Citigroup has complied with the infringement notice, such compliance is not an admission of guilt or liability, and Citigroup is not taken to have contravened subsection 798H(1) of the Corporations Act.

Further information on market integrity infringement notices, the market integrity rules or the MDP is available in Regulatory Guide 216 – *Markets Disciplinary Panel* and Regulatory Guide 225 – *Markets Disciplinary Panel Practices and Procedures* or at <http://www.asic.gov.au> under "markets-supervision", "markets –market integrity rules" and "Markets Disciplinary Panel".