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Contents

Markets Disciplinary Panel: Infringement Notice

Recipient: Citigroup Global Markets Australia Pty Ltd

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*.

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PART 7.2A OF THE CORPORATIONS REGULATIONS 2001 INFRINGEMENT NOTICE

To: Citigroup Global Markets Australia Pty Ltd
Level 23, 2 Park St
SYDNEY NSW 2000

Matter: MDP 843/16
Date given: 12 May 2017

TAKE NOTICE: The Australian Securities and Investments Commission (“ASIC”) gives this infringement notice to Citigroup Global Markets Australia Pty Ltd ACN 003 114 832 (“CGMA”) under regulation 7.2A.04 of the Corporations Regulations 2001 (“Regulations”).

To comply with this notice, CGMA must pay a penalty to ASIC, on behalf of the Commonwealth, in the sum of **\$50,000**.

Unless a contrary intention appears, capitalised terms used in this notice have the same meaning as those defined in Rule 1.4.3 of the ASIC Market Integrity Rules (ASX 24 Market) 2010 (“the Rules”) as in force at the time of the conduct.

Details of the alleged contraventions

1. CGMA was a Market Participant in relation to the Market operated by ASX at the relevant time and was required by subsection 798H(1) of the *Corporations Act 2001* (“the Act”) to comply with the Rules.
2. Rule 3.1.7(1) of the Rules relevantly provided:

... [A] Market Participant must not disclose any information about Orders or Expressions of Interest unless where otherwise permitted or required under these Rules or the law or exempted under Rule 3.1.7(2).
3. Rule 3.1.10 of the Rules relevantly provided:

... [A] Market Participant must not arrange the details of a potential Trade between two or more parties unless Market Participants have been made generally aware of all relevant details of the potential Trade, or unless specifically permitted otherwise under these Rules.
4. Rule 3.1.11 of the Rules relevantly provided:

A Market Participant must not execute or attempt to execute Trades with the intent to exclude other Market Participants or their Representatives.
5. The Markets Disciplinary Panel (“MDP”) was satisfied that the following conduct occurred on 17 July 2015:

- (a) before the commencement of the day trading session, an overseas-based client instructed the Chicago Sales Desk of Citigroup Global Market Inc (“Chicago Sales Desk”) to place a buy Order, on its behalf, for 700 December 2016 New Zealand 90 Day Bank Bill Futures Contracts (“BBZ6”) at 97.12;
- (b) The Chicago Sales Desk, using CGMA’s access to the ASX 24 Market, entered, cancelled, and subsequently re-entered several iceberg buy Orders with no resulting Trades;

(An “iceberg” Order is generated by an algorithm, which slices the Order into smaller orders and only submits one slice to the Trading Platform at a time. Only the slice is visible to other Market Participants and not the total size of the Order)

- (c) at 6:32:24 am, the day session trading having begun by this time, the Chicago Sales Desk contacted the Sydney Sales Desk of CGMA via Bloomberg chat to enquire about market makers for BBZ6 and to express an interest in buying 700 BBZ6 at a maximum price of 97.14;
- (d) at some time before 6:41 am, there was a face-to-face conversation between a trader based in Sydney employed by a Citibank group entity (“Sydney Rates Trader”), and the Sydney Sales Desk;
- (e) at 6:36:03 am, the Chicago Sales Desk placed an iceberg Order to buy 700 BBZ6 at 97.12 (“Buy Order 1”);
- (f) at 6:41:44 am, the Sydney Sales Desk entered an iceberg Order on behalf of the Sydney Rates Trader to sell 500 BBZ6 at 97.14 (“Sell Order 1”);
- (g) between 6:41:57 to 6:42:19 am, the Sydney Sales Desk indicated to the Chicago Sales Desk, via Bloomberg chat, the likelihood that there may be volume behind the visible part of Sell Order 1;
- (h) at 6:42:28 am, the Chicago Sales Desk cancelled Buy Order 1 and entered an iceberg Order to buy 700 BBZ6 at 97.14 (“Buy Order 2”), which transacted with Sell Order 1, amounting to a Trade of 500 BBZ6 at 97.14;
- (i) at 6:42:32 am, the Chicago Sales Desk cancelled the remainder of the iceberg Order comprising Buy Order 2 and placed a new iceberg Order to buy 200 BBZ6 at 97.12 (“Buy Order 3”);
- (j) at 6:42:35 am, the Chicago Sales Desk indicated to the Sydney Sales Desk, through Bloomberg chat, that the Chicago Sales Desk had bought 500 BBZ6 and that they “could use 200 more”;
- (k) between 6:42:34 and 6:42:51 am, the following conversation took place between the Sydney Sales Desk and the Sydney Rates Trader via CGMA’s squawk box:

Sydney Sales Desk: "Sold 500 [nickname of Sydney Rates Trader] thank you"
Sydney Rates Trader: "So he's got another 200 has he?"
Sydney Sales Desk: "Ahhh yeah"
Sydney Rates Trader: "Oh sorry. I've got another 200"

- (l) at 6:43:04 am, the Sydney Sales Desk entered an iceberg Order on behalf of the Sydney Rates Trader to sell 200 BBZ6 at 97.14 ("Sell Order 2");
 - (m) at 6:43:08 am, the Chicago Sales Desk cancelled Buy Order 3 and entered a new iceberg Order to buy 200 BBZ6 at 97.14 ("Buy Order 4"), and which transacted with Sell Order 2, resulting in a Trade of 200 BBZ6 at 97.14. The Trade represented 8.6% of the open interest in BBZ6 for the day;
 - (n) at 6:45 am, another Market Participant entered an Order to sell 100 BBZ6 at 97.14. There was no further market activity on ASX 24 Market in relation to BBZ6 until 9:23:07 am.
6. The MDP had reasonable grounds to believe that CGMA contravened subsection 798H(1) of the Act on three occasions by contravening Rules 3.1.7(1), 3.1.10 and 3.1.11 in relation to the conduct of CGMA on 17 July 2015:
- (a) in relation to Rule 3.1.7(1), a reasonable inference could be drawn from the details and sequence of the Orders and the conversation that occurred between the Sydney Sales Desk of CGMA and the Sydney Rates Trader via CGMA's squawk box, that the Sydney Sales Desk disclosed to the Sydney Rates Trader information about Buy Order 4 before that Order had been submitted to the Trading Platform of the ASX 24 Market;
 - (b) in relation to Rule 3.1.10, a reasonable inference could be drawn from the details and sequence of the Orders, having regard to the same squawk box conversation, that CGMA, through the Sydney Sales Desk, had arranged the details of a potential Trade between the Chicago Sales Desk (on behalf of its overseas client) and the Sydney Rates Trader (on behalf of a Citibank group entity), which resulted in a Trade of 200 BBZ6 at 97.14 arising from the matching of Sell Order 2 and Buy Order 4;
 - (c) in relation to Rule 3.1.11, a reasonable inference could be drawn that CGMA, through the Sydney Sales Desk, in executing the Trade of 200 BBZ6 at 97.14 arising from the matching of Sell Order 2 and Buy Order 4, intended to exclude other Market Participants.
7. In determining the appropriate penalty, the MDP took into account the following mitigating factors. First, the conduct did not damage the integrity of the ASX 24 Market in relation to BBZ6. Second, the conduct was a single course of conduct. Third, CGMA derived minimal benefit from engaging in the conduct. Fourth, CGMA co-operated with ASIC in relation to this matter. Fifth, CGMA also subsequently undertook remedial action to prevent recurrence of the conduct, including refresher training sessions for its futures traders, covering the Rules that had been allegedly contravened in this matter.

8. CGMA has been sanctioned by the MDP on two prior occasions in July 2012 and November 2013, but both of those matters involved conduct of a different kind to this matter.
9. The penalties payable under this infringement notice for the three alleged contraventions of subsection 798H(1) of the Act on 17 July 2015 are as follows:
 - (a) by reason of contravening Rule 3.1.7(1)—\$31,250;
 - (b) by reason of contravening Rule 3.1.10—\$15,625;
 - (c) by reason of contravening Rule 3.1.11—\$3,125.
10. The total penalty payable is \$50,000. The MDP, in specifying the penalties payable for each alleged contravention, took into account that the alleged contraventions arose from a single course of conduct. Had the alleged contraventions not arisen from a single course of conduct, the MDP would have been minded to specify penalties of \$45,000, \$22,500 and \$10,000 by reason of contravening Rules 3.1.7(1), 3.1.10 and 3.1.11 respectively.

Other information

The maximum pecuniary penalty that a Court could order CGMA to pay for contravening subsection 798H(1) of the Act is:

- by reason of contravening Rule 3.1.7(1)—\$1,000,000;
- by reason of contravening Rule 3.1.10—\$100,000;
- by reason of contravening Rule 3.1.11—\$100,000.

The maximum pecuniary penalty payable by CGMA under an infringement notice in relation to the alleged contravention of subsection 798H(1) of the Act is:

- by reason of contravening Rule 3.1.7(1)—\$600,000;
- by reason of contravening Rule 3.1.10—\$60,000;
- by reason of contravening Rule 3.1.11—\$60,000.

Compliance with the infringement notice

To comply with this infringement notice, CGMA must pay the penalty within the compliance period. The compliance period starts on the day on which this notice is given to CGMA and ends 27 days after the day on which it is given. Payment is made by bank cheque to the order of “Australian Securities and Investments Commission”.

The effects of compliance with this infringement notice are:

- (a) any liability of CGMA to the Commonwealth for the alleged contraventions of subsection 798H(1) of the Act is discharged; and
- (b) no civil or criminal proceedings may be brought or continued by the Commonwealth against CGMA for the conduct specified in the infringement notice as being the conduct that made up the alleged contraventions of subsection 798H(1) of the Act; and

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

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

CGMA may apply to ASIC for withdrawal of this notice under regulation 7.2A.11 of the Regulations; and for an extension of time to comply under regulation 7.2A.09 of the Regulations.

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



Grant Moodie

Special Counsel to the MDP
with the authority of a Division of ASIC

Note: Members of the 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.