

ASX Disciplinary Matter – Citicorp Nominees Pty Ltd

ASX Limited's Chief Compliance Officer (“**CCO**”) has determined that Citicorp Nominees Pty Ltd (“**Citi**”) did not comply with the following ASX Settlement Operating Rules (“**ASX SR**”):

- ASX SR 6.8A.5(a), being its obligation to report its Securities On Loan Position;
- ASX SR 6.8A.5(c), being its obligation to report its Securities Committed Position;
- ASX SR 6.2.2, being its obligation to ensure that all information given to ASX Settlement is complete, accurate and not misleading; and
- ASX SR 4.18, being its obligation to have adequate resources and processes to comply with its obligations under the rules,

(the “**Contraventions**”). The CCO imposed a fine of \$30,000 (plus GST) for the Contraventions.

Defined terms have the meaning provided in the ASX SR, unless provided.

The circumstances of this matter are as follows:

On 2 June 2017, Citi provided written notification to ASX to advise that:

- i. Citi had not included data relating to offshore clients lending ASX securities through Non Participant Related Bodies Corporate in both its Securities On Loan Position reporting pursuant to ASX SR 6.8A.5(a) and its Securities Committed Position reporting pursuant to ASX SR 6.8A.5(c). The securities lending activity of Citi's direct custody clients had been captured and reported. Limited offshore client lending activity was also captured in the Securities Committed Position reporting where connected to the failed settlement program for local clients.
- ii. The Securities On Loan Positions had not been aggregated into the Securities Committed Position reporting as required. Securities held by direct custody clients of Citi available for lending had been captured.
- iii. Remediation of the daily Securities On Loan Position reporting to include offshore clients lending through Non Participant Related Bodies corporate was expected to be completed on 23 June 2017.
- iv. Remediation of the quarterly Securities Committed Position reporting to include the Securities On Loan Positions and offshore clients lending through Non Participant Related Bodies Corporate was expected to be completed on 30 September 2017.

Enquiries subsequent to Citi's notification to ASX indicated that:

- v. Reports for both the Securities Committed Position and the Securities on Loan Position had been inaccurate since the obligation commenced in 2010.
- vi. If looked at in terms of volume, it was likely that the omissions were material because:
 - a. For the Securities On Loan Position, the under-reporting appeared to have had a significant impact when considered as an average of the total amount of industry volume, based on ASX published reports.
 - b. For the Securities Committed Position, the report produced for the quarter ended 30 March 2017 (prior to remediation) indicated that Citi's total share volume reported

was less than half of reasonable estimates. This was the final submission before rectification of reporting.

- vii. Citi did not expect the variance it detected to be consistent throughout the entire period of non-compliance due to growth in the business as well as general market development.
- viii. Citi had not identified any adverse client impact, nor did the misreporting provide benefit to it. Citi did not believe the issue impacted its ability to conduct business as a Settlement Participant and was a genuine error. However, in addition to the materiality considerations above, the substantial period for which the reporting issue persisted was a factor in classifying this issue as 'material'.

In determining penalty, the CCO, among other things, took into account the following matters:

- (a) Notwithstanding that the Contraventions were inadvertent, unintentional, and did not cause Citi to derive a financial benefit, ASX was concerned that the issues with Citi's reporting were likely to have had a materially adverse impact on the integrity of the securities lending reporting regime and the reputation of ASX's clearing and settlement facility. The Reserve Bank of Australia (the "RBA") has published documentation detailing how securities lending information can be relied on, including to:
 - assist ASX in managing the settlement process;
 - assist both the ASX and participants in identifying potential settlement risks arising from securities-lending positions;
 - improve the quality of analysis of settlement fails;
 - lead to a better understanding of the way the market functions; and
 - ensure a balance in the availability of information to market participants.

In 2009, following industry consultation, the RBA amended the Financial Stability Standards to require ASX to collect and publish securities lending information to achieve greater transparency in securities lending information and to strengthen financial system stability. Accordingly, any errors in reporting of securities lending information could negatively impact ASX's reputation in this regard.

- (b) Citi's under-reporting of its daily and quarterly securities lending positions occurred over an extended period. This indicates weaknesses in Citi's compliance framework as it did not have processes in place to review and detect instances of non-compliance with the rules. Furthermore, it appears that a review had not been conducted to ensure that the requirements (which came into place in 2009) were implemented correctly.
- (c) ASX acknowledges that Citi undertook immediate and effective remediation of the breach once it was detected.
- (d) ASX has recorded a previous recent breach by Citi, relating to its failure to report securities lending information by the prescribed time in breach of ASX SR 6.8A.5, with respect to which a 'no-escalation' finding was issued.

Sanction Guidelines

The CCO determined that, given the circumstances in this matter, a fine of \$30,000 (plus GST) was an appropriate sanction.

The CCO is of the opinion that this sanction will act as a deterrent and appropriately serves the interests of ASX and its participants.