



Participant Circular

Date: 12 August 2002

Key topics

1. UBS Warburg Australia Equities Limited
2. Terrain Securities Pty Ltd

Reading List

Compliance Managers
Client Advisers (Brokers)
DTR Operators
Managing Directors
Office Managers
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DISCIPLINARY MATTERS

The Australian Stock Exchange Limited's National Adjudicatory Tribunal ("the Tribunal") has censured **UBS Warburg Australia Equities Limited ("UBS Warburg")** under Business Rule 13.5.1 with respect to its trading in April 2001 Fosters Brewing Group Limited Exchange traded call Options ("**FBGKO**") on 10 October 2000. The Tribunal accepted the voluntary surrender by UBS Warburg of the \$2,000 notional profit gained from its trading in FBGKO and found in this instance that UBS Warburg's conduct contravened the principles of fair dealing required of Participants in ASX's markets. UBS Warburg on a non-admission basis, elected not to contest the merits of the charge before the Tribunal.

The circumstances of this matter are as follows:

On 10 October 2000 UBS Warburg was an ASX Market Maker for FBGKO. On 10 October 2000 another Trading Participant ("**the Counterparty**") received a large order to sell FBGKO on behalf of a client. The Counterparty's representative had a number of telephone conversations with UBS Warburg's Options trader ("**the UBS Trader**") which at 12:16 pm resulted in the UBS Trader agreeing to buy 200 FBGKO at a premium of 15 cents from the Counterparty's selling client ("**the Agreement**"). The Agreement would be given effect to by the Counterparty executing a crossing of orders in the Options market ("**the Market**") between its selling client and UBS Warburg as buying client.

At 12:16 pm the Market for FBGKO was bid 14 cents/20 cents offer.

At 12:19:26 the Counterparty commenced selling FBGKO in the Market at a premium of 18 cents.

About 12:21:05 UBS Warburg, as Principal, offered to sell 100 FBGKO to the Market at a premium of 17 cents.

Between 12:21:06 and 12:21:08 another participant bought 100 FBGKO from UBS Warburg, at a premium of 17 cents.

At 12:22:15 UBS Warburg, as Principal, offered to sell an additional 100 FBGKO to the Market at a premium of 17 cents (this offer did not result in any trades and was subsequently deleted).

At 12:22:27, the Counterparty commenced a Cross Single Series Function in the Market that resulted at 12:22:40 in the Counterparty offering 350 FBGKO to the Market at a premium of 15 cents.

At 12:23:19 the Counterparty executed a crossing of 350 FBGKO at a premium of 15 cents that included crossing 200 FBGKO between the Counterparty's selling client and UBS Warburg.

The Tribunal took into account that:

- Day to day activity in the Market includes telephone price discovery and order matching;
- This matter was a one-off isolated incident and the first of its kind to be considered by the Tribunal;
- The Counterparty had sought buying interest from a small number of options traders other than UBS Warburg (and as a result also crossed FBGKO to other Market Participants). Prior to receiving and executing the order from UBS Warburg, the Counterparty did not disclose to UBS Warburg the size or other details of its selling client's order, but indicated it had sought buying interest from a number of other Market Participants;
- The UBS Trader when queried by the Counterparty about selling FBGKO between 12:12:06 and 12:21:08, misrepresented the circumstances of UBS Warburg's selling of FBGKO;
- The order flow and price information received by UBS Warburg was material and was not available to all Market Participants until at least 12:22:40 when the Counterparty offered 350 FBGKO to the Market at a premium of 15 cents;
- ASX rules are aimed at furthering the objectives of transparency, efficient price discovery and fairness;
- ASX Business Rule Guidance Note No.6/00 'Business Rule 7.5.4.1 Options Market – Trading Activities', sets out a number of principles for trading in the Market including that, *"participants must ensure that information they possess about another person's intention to deal is not used in a manner calculated to give them an unfair advantage over other participants in the market..."*;
- The UBS Trader was an experienced Options trader;
- UBS Warburg elected not to contest the charge before the Tribunal; and
- UBS Warburg made the following commitments to the Tribunal:
 - (1) In light of the circumstances of this matter, to review its policies and procedures with respect to its ASX's Options market operations.
 - (2) To conduct specific training sessions on the issues and business principles raised by the circumstances of this matter.

Terrain Securities Pty Ltd ("Terrain") has been fined a total of \$4,000 (plus GST) by the National Adjudicatory Tribunal in relation to a breach of ASX Business Rules 7.8.3.2 and 7.8.3.4(b).

The circumstances of this matter are as follows:

1. On 5 November 2001, 22 February 2002 and 7 March 2002, Terrain executed Special Crossings of orders for a Non-Standard Combination of Exchange Traded Options, where in order to achieve a Special Size, Terrain combined orders on both sides of the Option Transaction contrary to ASX Business Rule 7.8.3.4(b). In respect to these matters Terrain was fined \$2,000 (plus GST).
2. Terrain also breached ASX Business Rule 7.8.3.2 because it was not entitled to effect a Special Crossing of Orders under Business Rule 7.8.3.2 without first having complied with Business Rule 7.8.3.4(b) to achieve the Special Size required under Rule 7.8.3.2. In respect to these matters Terrain was fined \$2,000 (plus GST).
3. The National Adjudicatory Tribunal has also ordered Terrain to prepare a written compliance policy in respect of ASX Business Rule 7.8.3.4.