



SFE NOTICE NO.

094/10

Date of Issue:

30 June 2010

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## DISCIPLINARY MATTERS

The ASX Disciplinary Tribunal ('the Tribunal') has determined the following:

Stonebridge Futures Pty Limited ('Stonebridge') has been fined at total of **\$165,000** (plus GST) for four contraventions of the SFE Operating Rules.

At the time of the contraventions Stonebridge was known as Tricom Futures Services Pty Limited ('Tricom'). Tricom was renamed Stonebridge in July 2009.

The most serious misconduct included breaches of the margin call requirements including not making initial margin calls or calls on variation margins. Other contraventions included Stonebridge failing to include required details in its internal order records, failing to include sufficient detail in its Error Reports, and failing to record client conversations.

Stonebridge did not contest the contraventions before the Tribunal.

The determination of the Tribunal is summarised as follows:

### Contravention 1: Client Orders

Stonebridge breached SFE Operating Rule 2.2.23(a) on 14 occasions between March and May 2008 by failing to include all required details in its internal order records.

Penalty: \$30,000 (plus GST)

### Contravention 2: Error Trades

Stonebridge breached SFE Operating Rule 2.2.23(c) by failing to include sufficient detail on its Error Report relating to one order on 7 May 2008.

Penalty: \$5000 (plus GST)

### Contravention 3: Calling Initial Margin, Calling Variation Margin, Time for Payment of Margins

Stonebridge breached SFE Operating Rule 2.2.27 on 9 occasions on 9 April 2008 in relation to orders placed for three separate clients. The margin deficit for the day on those positions was approximately \$95,000, \$177,000 and \$135,000 respectively. Instead of calling the margins from the respective clients, the Stonebridge employee transferred the positions to Stonebridge's house account. The Stonebridge house account became responsible for the payment of margins to the Exchange. Stonebridge met these margin payments and consequently no initial or variation margins were called on the positions held for 9 April 2008 until 11 April 2008.

Penalty: \$100,000 (plus GST)

### Contravention 4: Mandatory Recording of Information by the Exchange and its Participants

Stonebridge breached SFE Operating Rule 2.2.28(a) on 26 occasions from March 2008 to May 2008 by virtue of no audio records for the associated orders being available.

Penalty: \$30,000 (plus GST)



**Total penalty imposed: \$165,000 (plus GST)**

Due to the number and complexity of the contraventions, the details of the circumstances of this matter are set out in Attachment A.

**The following factors, among other things, were taken into account when determining penalty:**

- a) The disciplinary history of Stonebridge (under its previous name of Tricom);
- b) Stonebridge agreed at an early stage not to contest the facts of the Contraventions;
- c) The majority of the misconduct was self-reported in a timely manner (with the exception of Contravention 2);
- d) The Tribunal accepted that the misconduct the subject of these Contraventions was largely due to the actions of one Stonebridge employee who was subsequently dismissed; and
- e) Stonebridge has generally improved its corporate culture of compliance.

**The Tribunal noted the following:**

**Contravention 1**

- The Tribunal categorised this breach as a Level 2 Serious Contravention with an indicative penalty range of \$20,000 to \$100,000 (plus GST).
- The Tribunal was satisfied that Stonebridge has taken important remedial steps regarding the issues identified with its order records and that there has been general improvement in Stonebridge's compliance culture.
- While Stonebridge is responsible for the conduct of all of its employees, the conduct the subject of this contravention was performed by one employee whose employment was subsequently terminated.
- For these reasons the Tribunal considered that a fine of \$30,000 (plus GST) is an appropriate sanction.

**Contravention 2**

- The Tribunal categorised this breach as a Level 1 Contravention of Concern with an indicative penalty range of a Censure to \$20,000 (plus GST).
- The Tribunal considered that the misconduct was a minor error report contravention and was an isolated occurrence.
- For these reasons the Tribunal imposed a fine of \$5000 (plus GST).

**Contravention 3**

- The Tribunal categorised this breach as a Level 2 Serious Contravention with an indicative penalty range of \$20,000 to \$100,000 (plus GST).
- The Tribunal noted a number of serious aggravating factors in relation to this conduct and subsequently imposed the maximum sanction available for a Level 2 Contravention.
- The Tribunal noted that the misconduct was intentional, deliberate and opportunistic in that it was a direct attempt by the Stonebridge employee to avoid three clients paying margins on positions. While Stonebridge is responsible for the conduct of all of its employees, the misconduct involved one employee whose employment was subsequently terminated.



- The contravention had the potential to threaten the integrity and efficiency of the market. By transferring the positions to Stonebridge's suspense account, Stonebridge, rather than the clients, became responsible for the payment of margins to the Exchange.
- The misconduct was self-reported and subsequently Stonebridge has taken steps to improve its capacity to monitor and detect such misconduct.
- Due to the seriousness of the contravention, the Tribunal imposed a fine of \$100,000 (plus GST).

#### Contravention 4

- The Tribunal categorised this breach as a Level 2 Serious Contravention with an indicative penalty range of \$20,000 to \$100,000 (plus GST).
- The Tribunal noted the importance of mandatory recording of client conversations and the issues that can arise where this Rule is not strictly followed.
- The employee involved had conversations with clients via a mobile telephone that was not recorded; during these conversations the employee was taking orders from clients.
- The misconduct was limited to the actions of one Stonebridge employee whose employment was subsequently terminated.
- The general improvement in the compliance culture at Stonebridge.
- For these reasons the Tribunal imposed a fine of \$30,000 (plus GST)

#### **ASX Disciplinary Processes and Appeals Rulebook**

From 31 March 2008, the ASX Disciplinary Processes and Appeals Rulebook ('the Rulebook') established uniform disciplinary and appeal processes for the Licensees of the Australian Securities Exchange. The Disciplinary Tribunal has jurisdiction over disciplinary matters in relation to breaches of the ASX Market Rules, ASTC Settlement Rules, ACH Clearing Rules, ASX Listing Rules, Operating Rules of SFE, Clearing Rules of SFE and the Austraclear Regulations. Disciplinary sections previously included in the various ASX Operating Rules have been mostly removed and consolidated into the new Rulebook.

As the majority of the contravening conduct in this matter occurred after 31 March 2008, that being the effective time under the Rulebook, the Tribunal was bound by the sanction guidelines (Annexure A to the Rulebook) in making its determination as to sanction in this matter. The Tribunal also had due regard, where applicable, to the sanction guidelines in place prior to the introduction of the Rulebook.



## **Attachment A**

### **Contravention 1**

Stonebridge breached Operating Rule 2.2.23(a) on 14 occasions by failing to include all the required details in its internal order records. The following are brief details of those orders:

- On 6 March 2008, Stonebridge entered a stop loss sell order for which no execution details exist in either SYCOM or Primetrade and no execution details exist on a manually recorded order sheet;
- On 17 March 2008, Stonebridge submitted an order which was not recorded either manually or electronically;
- On 26 March 2008, Stonebridge entered a stop loss sell order for which no details exist in either SYCOM or Primetrade and no execution details exist on a manually recorded order sheet;
- On 26 March 2008, Stonebridge purged an order for which no execution details are recorded manually or electronically;
- On 27 March 2008, Stonebridge purged an order for which no execution details are recorded manually or electronically;
- On 27 March 2008, Stonebridge purged an order for which no execution details are recorded manually or electronically;
- On 27 March 2008, Stonebridge placed an order to buy for which no execution details exist in either SYCOM or Primetrade and no execution details exist on a manually recorded order sheet;
- On 31 March 2008, Stonebridge placed an order for which no execution details are recorded manually or electronically;
- On 15 April 2008, Stonebridge placed an order to buy for which no execution details are recorded manually or electronically;
- On 18 April 2008, Stonebridge placed an order for which no execution details are recorded manually or electronically;
- On 15 May 2008, Stonebridge placed an order to buy for which no execution details are recorded manually or electronically;
- On 16 May 2008, Stonebridge placed an order to sell, however Stonebridge incorrectly recorded the price on a manual order record sheet;
- On 16 May 2008, Stonebridge placed an order to buy with an associated stop order, however no details of the associated stop order are recorded manually or electronically; and
- On 21 May 2008, Stonebridge placed an order number for which no execution details are recorded manually or electronically.

Stonebridge self-reported the above conduct on 5 August 2008 and 3 September 2008.

### **Contravention 2**

Stonebridge breached Operating Rule 2.2.23(c) by failing to include sufficient detail on its Error Report relating to an order that traded on 7 May 2008.



The Error Report was provided by Stonebridge to ASX on 15 October 2008. The Error Report stated the following in relation to the relevant order:

*"it was a stop loss order, could not cancel in time b4 [sic] it got done"*

The Tribunal found that the Error Report contained insufficient detail in that it did not include an explanation as to the reason for the cancellation.

### Contravention 3

This Contravention related to three different clients of Stonebridge. The three clients held positions in APM8 and the margin deficit for the day on those positions were \$95,347.38, \$177,499.77 and \$135,408.22 respectively (the clients' positions).

The Stonebridge employee cancelled the clients' positions, effective 9 April 2009, and transferred the clients' positions to Stonebridge's suspense account. The aggregate position in APM8 was noted in Stonebridge's suspense account statement on 10 April 2008.

The Stonebridge employee thereafter cancelled the positions in the suspense account, effective 10 April 2008, and returned the clients' positions to the respective clients' accounts.

The three clients' account statements for 11 April 2008 showed the positions. Consequently, no initial or variation margins were called on the positions held for 9 April 2008 until 11 April 2008.

### Contravention 4

The Tribunal found that Stonebridge breached Operating Rule 2.2.28(a) between March 2008 and May 2008 by virtue of its failure to produce audio records of its representatives dealing with clients in relation to 26 orders during that period.

Stonebridge self-reported that one of its employees had conversations with clients via a telephone or mobile phone which was not recorded and that during those conversations the employee received orders from clients.

Therefore Stonebridge failed to record the trader's conversations with clients relating to clients' instructions on 26 occasions.

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