



ASTC Settlement Rules

Guidance Note No. 9

KEY TOPICS

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ASTC Settlement Rules

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Cross Reference

1. ASTC Guidance Note No. 03 – Disciplinary Proceedings
2. ASTC Guidance Note No. 06 – Issue of Management Letters

MONITORING COMPLIANCE - Investigations

Purpose

The purpose of this Guidance Note is to promote awareness among ASTC (“Participants”) of the practices and procedures followed by ASX Investigations and ASX Enforcement when conducting an investigation under the ASTC Settlement Rules (“Rules”) concerning a Facility User.

This Guidance Note does not address ASTC’s practices and procedures in relation to disciplinary proceedings, which may be commenced by ASTC following an ASTC investigation. That topic is addressed in a separate Guidance Note titled ‘ASTC Disciplinary Proceedings’.

Background

Investigatory Obligations and Powers

ASTC considers that one of its core functions is to promote and maintain a high level of market integrity in the interests of market participants and the broader economic community.

ASTC is also obliged by Section 821A of the Corporations Act to the extent it is reasonably practicable to do so, do all things necessary to ensure that the facility’s services are provided in a fair and effective way and have adequate arrangements for supervising the settlement facility including arrangements for supervising the settlement facility including arrangements for monitoring and enforcing compliance with the facility’s operating rules.

The Rules provide ASTC with broad powers to monitor, investigate and obtain information from Facility Users in the course of complying with its Corporations Act obligations and for the purpose of promoting and maintaining market integrity.

Pursuant to Rules 12.1.1 and 12.1.2, ASTC may require a Facility User to provide any information known to the Facility User and provide or permit inspection at the offices of the Facility User or any other place notified by ASTC of any records which may relate to a matter which is the subject of an ASTC investigation.

Pursuant to Rule 12.1.3, during an investigation ASTC may also require a Facility User to cause one or more of its Employees to appear before ASTC or a Tribunal for interview in connection with matters relating to the business of the Participant.



Guidance Note

History

Amended:
30 October 2006

Introduced:
11 March 2004
Introduction of New
Rule Book

Who conducts ASTC investigations?

ASTC investigations are carried out by ASX Investigations, which forms part of ASX Market Supervision. ASX Investigations frequently conducts formal interviews and calls for the production of documents during the course of its investigations.

Who refers matters to ASX Investigations?

ASX's Surveillance unit, which also forms part of ASX Market Supervision, calls for information and the production of documents in carrying out its role of monitoring trading on ASX markets. Surveillance refers matters of possible regulatory concern regarding Facility Users to ASX Investigations, which, after an initial assessment, may commence an investigation. Other ASX units which request Facility Users to provide ASTC with information, as part of satisfying ASTC's obligation to monitor compliance with its Rules, include Compliance Services and Risk Management and Derivatives. These units may also refer matters of possible regulatory concern to ASX Investigations for assessment and possible investigation.

ASTC Investigatory Powers

ASTC's investigatory powers under the Rules, in particular its powers to require Facility Users to produce documents and to cause its Employees to appear for interview, may be enforced under sections 822C and 1101B of the Corporations Act. If a Facility User fails to comply with a direction from ASTC to produce documents or appear for interview, ASTC may apply to a court under those provisions for orders that it does so.¹ As the Rules have contractual force (see section 822B of the Corporations Act), ASTC may also treat a failure to comply with such a direction as a breach of contract and seek redress from a court for such a breach.

A failure by a Facility User to comply with a direction from ASTC in the course of an investigation, may also constitute a breach of the Rules. ASTC may elect to bring disciplinary proceedings in respect of any such failure.

Procedures During Investigations

Where a matter is referred to ASX Investigations for investigation, ASX Investigations makes an initial assessment as to the seriousness of the allegations and whether the matter warrants an investigation.

ASX Investigations considers the available information and may approach the Facility User concerned for further documents and information, with a view to preparing an 'Inspection/Investigation Report'.



Notification of and Scope of Investigations

The Rules do not oblige ASTC to notify a Facility User that its conduct is being investigated. However, ASTC's practice is to notify a Facility User at an appropriate time that its conduct in relation to a particular matter is being investigated.

When ASTC advises a Facility User that an investigation is under way, it will inform the Facility User as to the general subject matter of the investigation and, if known, the date range within which the circumstances being investigated are believed to have occurred. ASX Investigations' primary task is to ascertain the relevant facts concerning the circumstances which are being investigated. Having regard to ASTC's general obligation to monitor compliance with the Rules, ASX Investigations will not necessarily limit its inquiries to the information referred to it for investigation. Nor is it ASX Investigations' role to limit its inquiries to only those facts which might support a preconceived view as to whether a particular breach of the Rules has occurred.

ASX Investigations will not be in a position to express an opinion as to whether a breach of the Rules or the Corporations Act has occurred until at or near the conclusion of an investigation.

Access to Documents

At the commencement of and during an investigation, ASX Investigations may write to the Facility User requesting copies of particular documents or documents within a particular class, which may be relevant to the matters under investigation. Alternatively, ASX Investigations may elect to visit the Facility User's offices and request that its original documents be produced for inspection. In limited and appropriate circumstances, ASX Investigations may make such a visit with little or no notice, depending on the urgency of the matter and any other relevant circumstances.

In some instances, a matter concerning a Facility User which is being investigated by ASTC, may also be the subject of an investigation by ASIC. If relevant documents have already been provided by the Facility User to ASIC, ASX Investigations may seek to minimise inconvenience to the Facility User by obtaining access to those documents by arrangement with ASIC. In those instances, ASX Investigations will consult with the Facility User as necessary with a view to inspecting or obtaining copies of the documents in ASIC's possession.

ASTC Interviews

Obligation to Appear

In the course of an investigation, ASX Investigations may conduct interviews of Employees of the Facility User pursuant to Rule 12.1.3. That Rule requires a Facility User to cause its Employees to appear before ASTC and to give such information as may be required by ASTC relating to the business of the Facility User.

A refusal by an Employee to comply with a reasonable direction from a Facility User to appear before ASTC for interview may constitute a breach of the Employee's contract of employment, as well as being a breach of the Rules by the Facility User.



Conduct of Interview

Rule 12.1.3 interviews are conducted by ASX Investigations. The time and venue for an interview will be determined by ASX Investigations, usually after consultation with the Facility User.

Subject Matter of Interview

Prior to a Rule 12.1.3 interview, ASTC will notify the relevant Facility User of the general subject matter of the investigation. The Facility User should communicate this information to the interviewee before the interview takes place. In conducting an interview, ASX Investigations will be seeking the assistance of the interviewee in establishing the relevant facts concerning the matter under investigation. The information generally sought from an interviewee will relate primarily to his or her personal knowledge of the circumstances which are under investigation.

Obligation to Tell the Truth

The Rules do not require the interviewee to take an oath or make an affirmation. However, ASTC expects that the interviewee, to the best of their recollection, will answer truthfully all questions put by ASX Investigations in the interviewee's own words, consistent with a Facility User's obligation under the Rules to provide information to ASTC relating to its business.

Qualified Privilege

ASTC considers that statements made by interviewees in the course of Rule 12.1.3 interviews are protected in actions for defamation by a defence of qualified privilege, both at common law and by section 1100C of the Corporations Act.

Presence of Representatives of the Facility User

Rule 12.1.4 allows representatives of the Facility User (other than the person being interviewed) to be present at an interview of another person at the discretion of ASX Investigations. In permitting such attendance, ASX Investigations may do so subject to conditions, for example, that the person so attending first undertakes to keep the contents of the interview confidential until the conclusion of all interviews to be conducted during the investigation. It may be necessary, in some circumstances, for ASX Investigations to decline to permit a particular representative to be present, for example, where that representative is to be interviewed at a later stage of the investigation.

Presence of Legal Advisers

The practice of ASX Investigations is to permit, at its discretion, an interviewee's legal adviser and/or the Facility User's legal adviser, to be present during the interview, again possibly subject to conditions such as the prior provision of an undertaking as to confidentiality. ASX Investigations will afford such legal advisers an opportunity to address ASX Investigations on any relevant issue and, before the conclusion of the interview, to clarify any outstanding matters by asking the interviewee further questions regarding any of the matters on which he or she has been interviewed. ASX Investigations reserves the right to exclude from the interview any legal adviser who disrupts or obstructs the interview.



Recording of Interviews and Transcripts

ASTC's practice is to record Rule 12.1.3 interviews. A transcript of the recording may be prepared in cases where ASX Investigations forms a view that a transcript is necessary. Upon request, a copy of the transcript (or a copy of the recording if a transcript has not been prepared) will be provided to the Facility User, but usually not before the conclusion of all interviews conducted in the course of the investigation. A copy of the transcript (or the recording) may be provided to a Facility User at an earlier time upon request, subject to conditions such as an appropriate confidentiality undertaking.

When the transcript is provided to a Facility User, the interviewee and the Facility User will each be afforded an opportunity to correct any errors it contains.

ASTC does not require an examinee to sign his or her transcript of interview.

The contents of the interview may be relied on by ASX Investigations in preparing an Inspection/Investigation Report and, if so, a copy of the recording and/or transcript will be attached to a draft Inspection/Investigation Report provided to the Facility User for its comment at the conclusion of the investigation. The contents of the interview may also be relied on by ASTC at any disciplinary hearing which may subsequently take place before the Disciplinary Tribunal and Appeal Tribunal in relation to matters which were the subject of investigation.

Confidentiality

ASTC treats information which it receives from Facility Users pursuant to its investigatory powers as being confidential and seeks to maintain the confidentiality of that information in accordance with its obligations under the Rules. ASTC considers that the obligation to maintain the confidentiality of confidential information which becomes known in the course of an ASTC investigation also applies to Facility Users. Thus ASTC considers that its reports and records of interviews should not be disclosed to persons other than officers, employees or agents of a Facility User without ASTC's written consent.

Rule 3.8.1 obliges ASTC to take all reasonable measures to protect from unauthorised use or disclosure information provided to ASTC in confidence by or on behalf of an ASTC Participant pursuant to the Rules. Accordingly, ASTC seeks to ensure that all confidential information provided to it by ASTC Participants in the course of an investigation remains confidential in ASTC's hands, except for such limited disclosure permitted by the Rules as may be appropriate.

In particular, Rule 3.8.1 and 3.8.2 permit ASTC to disclose confidential information, which it obtains from ASTC Participants, to regulatory authorities (eg ASIC and the Reserve Bank of Australia) in relation to dealings in securities, pursuant to reciprocal arrangements with those regulatory authorities.

Limited disclosure outside ASTC, to persons such as expert witnesses and legal representatives, is also permitted when it is made for the purpose of monitoring compliance with or enforcing the Rules (eg when required for a disciplinary hearing before ASTC's Disciplinary Tribunal).

Disclosure to persons outside ASTC is also permitted under Rule 3.8.1 and 3.8.2, where ASTC is required to produce confidential documents for inspection pursuant to a court order. However, where ASTC considers that it would not be in the public interest for particular confidential information to be made public (eg where the disclosure could compromise an ASTC investigation or surveillance



methodologies), ASTC may seek to oppose such production, relying on the doctrine of public interest immunity.

ASTC may seek to place conditions on the persons to whom a permitted disclosure is to be made by, for example, restricting the number of individuals who may have access to the information and regarding what use may be made of the information.

Public Disclosure

ASTC's practice during an ongoing investigation is to refrain from commenting publicly on the substantive issues which are being examined by ASX Investigations in the course of the relevant investigation. However ASTC may, in appropriate cases, confirm publicly that a matter is the subject of an ASTC investigation, in particular where there is a substantial public interest involved or where ASTC considers that such an announcement will assist in promoting and preserving the integrity of ASTC's markets.

Legal Professional Privilege

In conducting an investigation under the Rules, pursuant to its obligations under the Corporations Act referred to above, ASTC seeks to ascertain all of the relevant facts and circumstances relating to the matter being investigated, with a view to promoting and preserving the integrity of its market.

Accordingly, and having regard to the difficulties often involved in ascertaining all of the relevant facts and circumstances, ASTC's powers under Rules 12.1.1 and 12.1.2 to require production of documents and disclosure of information from Facility Users are broad.

Where a Facility User is compelled, as part of an investigation under the Rules, to produce documents and disclose information to ASTC which they consider may be protected from production or disclosure by legal professional privilege, the Facility User should seek independent legal advice as to whether the privilege attaches to the documents and/or information in question.

Where a Facility User claims they are exempt from producing some of the documents or disclosing some of information that ASTC has requested on the basis that the documents or information are subject to a claim for legal professional privilege, they must inform ASTC of the nature of the documents or information and the basis upon which the claim for legal professional privilege is made.

Privilege Against Self-Incrimination

No exemption from disclosure is made in the Rules for relevant documents and information which a Facility User might seek to withhold from disclosure on the basis of a common law claim of privilege against self-incrimination. Documents and information which a Facility User might otherwise claim to be protected from disclosure on the grounds of a claim of privilege against self-incrimination must be disclosed to ASTC in the same way as any other relevant documents and information which are required for the purposes of an investigation.

ASTC notes that, quite apart from the position under the Rules, the common law does not in any event recognise an entitlement by corporations (as opposed to individuals) to rely on the privilege. Thus, for



Facility Users which are corporations, such a claim could not be maintained even if the availability of the privilege was not curtailed by the Rules.

Inspection/Investigation Reports

Is a Report Necessary?

After ASX Investigations has considered all relevant information which becomes available during an investigation, a view is formed as to whether any regulatory issues which arose during the investigation regarding the Facility User's business or conduct are of sufficient concern to warrant the preparation of a formal "Inspection/Investigation Report". As part of that process, ASX Investigations may consult with the Facility User regarding his or her understanding of the relevant factual circumstances. In some instances ASX Investigations may prepare a written statement of facts and seek confirmation from the Facility User as to whether it agrees that the facts stated are correct.

Draft Report

If a view is formed that any regulatory issues arising are of sufficient concern, ASX Investigations prepares an Inspection/Investigation Report in draft form, which sets out the relevant facts and issues. The Draft Report may include ASX Investigations' tentative view as to whether a breach of the Rules or the Corporations Act may have occurred. Documents relied on by ASX Investigations in preparing the Draft Report are attached to the Draft Report.

The Draft Report is provided to the Facility User to afford it an opportunity, if it chooses, to provide ASX Investigations with written comments on the Report's contents within a reasonable time.

Any comments received are taken into account by ASX Investigations in forming a considered opinion of the matter and in finalising the Report. A full copy of the Facility User's comments are attached to the Final Report. ASX Investigations may also choose to respond specifically to some of the Facility User's comments, either in a separate attachment to the Final Report or in the body of the Final Report. After ASX Investigations has taken into account any comments received, or if no comments are received within the time specified, ASX Investigations will finalise and sign the Report as a Final Report.

Final Report

A copy of the Final Report is provided to the Facility User and to relevant members of ASTC's management. ASTC may have regard to the contents of the Report in considering whether to issue a Contravention Notice against the Facility User pursuant to Rule 12.4.6 for hearing before the Disciplinary Tribunal. However, any opinion of ASX Investigations which may be expressed in the Report will not be the sole determinant of whether a Contravention Notice is issued or of the ambit of that Notice.

Those are matters which are wholly within the discretion of ASTC, having regard to its regulatory obligations and all other relevant circumstances. For less serious matters, the Report may be considered by the Disciplinary Tribunal as ASTC's delegate under Rule 12.3.7 without a formal Contravention Notice being prepared and without the Facility User and ASX Enforcement being present (known as an expedited disciplinary proceeding). A Facility User may choose to, but is not obliged to, provide ASTC with any comments it may wish to make regarding the contents of the Final Report at any time, whether



before or after a Contravention Notice (if any) is issued or a matter is assigned to an expedited disciplinary proceeding.

Effect and Status of Final Report

It is important to note that ASX Investigations' opinion in a Final Report as to whether a breach of the Rules or the Corporations Act has occurred will not necessarily result in disciplinary action being commenced by ASTC against the Facility User concerned. Nor does it follow if disciplinary action is commenced, that ASTC's Disciplinary Tribunal will adopt or agree with the Final Report in the course of a disciplinary hearing. If the Final Report is taken into account in the course of a disciplinary hearing, it is entirely a matter for the Disciplinary Tribunal as to how much weight it will give to the Report and to any other evidence which is placed before it by ASTC or by the Facility User. However, ASTC's practice is to seek to rely on the facts and circumstances set out in a Final Report, including any attachments to the Report, at hearings before the Disciplinary Tribunal and during expedited disciplinary proceedings.

Procedural Fairness

ASTC's practice when conducting an investigation regarding the conduct of a Facility User is to have regard to and comply with the requirements of procedural fairness to the full extent that those requirements apply to investigations by ASTC². The requirements of procedural fairness will also vary according to the circumstances of each matter. In conducting its investigations, ASTC is conscious that a balance needs to be achieved between the legitimate interest and expectations of a Facility User and ASTC's obligation to preserve the integrity of its investigations in the public interest and to maintain the integrity of its facility.

Qualification

ASTC has published this note to promote commercial certainty, and to assist Facility Users. Nothing in this note necessarily binds ASTC in the application of the Rules in a particular case. In issuing this note, ASTC is not providing legal advice and Facility Users should obtain their own advice from a qualified professional person in respect of their obligations. ASTC may replace this Guidance Note at any time without further express notice to any particular person. Readers should contact ASTC to ensure they have the latest version.

¹ *Australian Stock Exchange Ltd v Hudson Securities Pty Ltd* (2000) 35 ACSR 55

² *McLachlan v Australian Stock Exchange Ltd and Anor* (1998) 30 ACSR 26 at 36; *Shaw Stockbroking Ltd v Australian Stock Exchange Ltd* (1998) 26 ACSR 702 at 718-9.