NEW ZEALAND MARKETS
DISCIPLINARY TRIBUNAL

20 July 2012

ANNOUNCEMENT OF NZ MARKETS DISCIPLINARY TRIBUNAL

PUBLIC CENSURE OF CRAIGS INVESTMENT PARTNERS LIMITED (CIPL) BY NZ MARKETS DISCIPLINARY TRIBUNAL FOR BREACHES OF PARTICIPANT RULES 4.5.2, 8.8, 10.2.2 and 10.8.1

1. In a determination of the NZ Markets Disciplinary Tribunal (*the Tribunal*) dated 9 July 2012 (see separate announcement made today, 20 July 2012, for the full text of the determination), the Tribunal found that CIPL acted in breach of NZX Participant Rules 4.5.2, 8.8, 10.2.2 and 10.8.1 (*Rules*). The breaches occurred as a result of two separate orders which were entered in error into the NZX Trading System by a client of CIPL using Direct Market Access (*DMA*). Both orders created considerable market disruption.

2. On 2 August 2011, a DMA client used CIPL's trading system to enter a market order into the NZX Trading System to buy 640,000 Telecom Corporation of New Zealand Limited (*TEL*) shares (*the TEL order*). No price was specified for the TEL order. The TEL order was immediately matched against more than 17 sell orders and resulted in a change to the traded price of TEL shares from $2.68 to $3.31, a 23.5% increase. On investigation, NZX was advised by CIPL that its client had entered the TEL order in error. NZXMS put TEL into a trading halt and cancelled the trades directly arising from the TEL order, along with all the trades in TEL that occurred between the TEL order and the trading halt. This resulted in 52 trades being cancelled.

3. On 15 November 2011, again using CIPL's trading system, the same client entered a market order into the NZX Trading System to buy 30,000 Rubicon Limited (*RBC*) shares (*the RBC order*). The RBC order immediately matched against three sell orders, resulting in a change to the traded price of RBC from $0.39 to $0.58, a 48% spike. On becoming aware of the RBC order, NZX halted trading in RBC and contacted CIPL. CIPL advised NZX that the RBC order had been entered in error. NZX cancelled the trades resulting from the RBC order.

4. CIPL accepted that it failed to ensure that filters were set in its trading system at the time the TEL order was entered, and that it had therefore breached each of the relevant Rules with respect to that order.

5. CIPL denied that it had breached the Rules with respect to the RBC order. CIPL submitted that it had obtained an assurance from its trading system provider that the new filters it had requested for its DMA clients would be sufficient to stop a repeat of the market disruption if an order similar to the TEL order were placed again. As a result of an unknown software error

1

or 'bug' in the order system, however, the filters failed to stop the erroneous RBC order. In correspondence with NZX, CIPL's trading system provider accepted that the filters CIPL specified should have been sufficient to avert the RBC order, but that in this case the filters were ineffective due to a software error.

6. The Tribunal found all four breaches arising from the RBC order proved. The Tribunal noted that in light of Participant Rule 4.5.2, a participant cannot avoid responsibility for errors in its trades by pointing to the actions or inactions of a third party. Participants are responsible for their own trades; the Rules do not entitle them to point the finger at anyone else if things go wrong. CIPL was entitled to contract part of its order processing to an outside provider, but the effect of the relevant Rules is that each participant is responsible for errors associated with its trades.

7. The Tribunal determined that both sets of breaches fell within Penalty Band 5, which is designed for breaches of the Rules of a moderate nature, including provisions designed to ensure participants adhere to Good Broking Practice, and to ensure procedures are in place to prevent a breach of the Rules. Band 5 carries an indicative maximum penalty of $50,000 in the case of a corporate respondent.

8. The Tribunal determined that the breaches with respect to the TEL order fell towards the top end of Penalty Band 5. In the case of the TEL order there was a total failure to have appropriate filters in place, which resulted in the need to unwind a significant number of trades in shares of a high profile company. The failure was not explained. But for CIPL's prompt acknowledgement of the breaches, and the immediate and responsible steps it took to prevent a recurrence, a penalty at the very top end of Band 5 would have been appropriate.

9. The Tribunal found CIPL's culpability to be lower in the case of the RBC order, given that these breaches were the result of a technical failure. The Tribunal noted that the RBC breach serves as a reminder of the need to ensure that critical systems, like DMA filters, are robust, and are properly tested and monitored. If participants choose to utilise third party providers, they must also insist that those providers are similarly vigilant to ensure errors of this kind do not occur.

Penalty

10. One of the penalties the Tribunal imposed was a public censure.

11. The Tribunal also made the following orders:

   a. An order that CIPL pay to NZX, within 20 Business Days of the date of its decision, the **sum of $35,000** by way of penalty in respect of the TEL breaches.

   b. An order that CIPL pay to NZX, within 20 Business Days of the date of its decision, the **sum of $10,000** by way of penalty in respect of the RBC breaches.

   c. An **order** that CIPL pay, within 20 Business Days of the date of an invoice from NZX, the actual costs and expenses incurred by the Tribunal in considering this matter.

d.   An **order** that CIPL pay, within 20 Business Days of the date of an invoice from NZX, the actual costs and expenses incurred by NZX in relation to this matter.

Censure

12. The Tribunal hereby censures CIPL for its breaches of Participant Rules 4.5.2, 8.8, 10.2.2 and 10.8.1.

DATED   20 July 2012

David Boldt, Division Chairman, NZ Markets Disciplinary Tribunal