SENATE ENQUIRY

Re: The performance of the Australian Securities and Investments Commission (ASIC)

Supporting Information – Attachment 1.3

1.3 Trading and Regulatory Issues Identified by Research into Empirical Registry and Broker Data

<u>DISCLAIMER:</u> All Information presented as shareholder research has been sourced from broker trading records and Cudeco registry records. While the author considers the data to be accurate and the summaries presented as also being an accurate reflection of trading, no guarantees are given as to the reliability of data or any conclusions put forward. Shareholders and investors are encouraged to do their own Due Diligence and to make up their own minds in regard to any trends present in the trading data.

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1.3.1 THE LEGALITY OF ARTIFICIAL PRICES

The recent High Court judgement in regard to share price manipulation ties in with shareholder research that has identified anomalous trading and registry data and control over pricing levels over a period of at least 3.5 years.

Quote: <Reference Link>

> *"Today the High Court unanimously held that buying or selling shares on the securities exchange operated by ASX Limited, for the sole or dominant purpose of creating or maintaining a particular price, created or maintained an "artificial price" for those shares for the purposes of the offence of market manipulation under s 1041A of the Corporations Act 2001," the High Court said in its judgment summary.*

The High Court decision provides a benchmark and sets the precedent from which trading can be assessed in terms of illegal behaviours.

The High Court decision needs to be viewed in relation to the regulator's statements on July 31, 2013 regarding the collapse of Storm Financial.

Quote: <Reference Link>

> *ASIC chairman Greg Medcraft said the corporate regulator could only take action if there was sufficient evidence. "Clearly, we don't pursue every case," he told reporters in Brisbane on Wednesday on the sidelines of a Financial Services Council forum. "Sometimes we see a lot of harm, a lot of loss, we see a good case for moving ahead but if the evidence is not there, we can't pursue it. "People go 'they're absolutely guilty, guilty as sin'. We probably agree with them and often we'll take things to court, but the fact you enter court means the outcome is uncertain."*

And it also needs to be considered against the regulator's own findings in regard to CuDeco in May 2011, which have been summarized as follows (Refer Appendix 1, ASIC Complaint 2013-1 <LINK>)

> ASIC have devoted an unprecedented amount of time and resources into looking into the issues raised concerning CuDeco. The investigations have taken into account a fundamental analysis of the Company leading to a view that fluctuations in the share price are readily explained and that the share price is priced 'about right' at the current time. The investigations have also looked into share registry movements, short selling positions and the levels of churn and trading patterns associated with the stock. After extensive deliberation, ASIC does not believe that any breaches have occurred with the trading that has taken place in CuDeco or that there is sufficient evidence of any trading behaviours that would justify further investigation.

The clear direction provided by the High Court regarding what constitutes market manipulation provides great clarity to how glaring data anomalies concerning CuDeco need to be addressed. The dilemma for investors is that ASIC has asserted that it needs evidence in order to prosecute cases of illegal activity yet despite unprecedented levels of investigation regarding CuDeco, ASIC has found nothing worth pursuing. Clearly something is amiss as extensive research documented and submitted to ASIC by this researcher <LINK> demonstrates extraordinary levels of activity that can only be explained in terms of attempts to create an artificial market and to manage pricing levels.

It is extremely disappointing that the regulator came up with a 'no case to answer' finding in May 2011 regarding CuDeco based mainly on extraneous matters, not the specific data issues referred to it, yet research has demonstrated that share price manipulation has dominated trading and been responsible for the setting of artificial prices for a very extended period of time.

While full and proper assessments can only be achieved through the forensic auditing of accounts, research has shown that there is overwhelming evidence that share price manipulation is taking place in CuDeco, and other ASX companies, on a daily basis. And while the entities responsible for illegal trading behaviours are unable to be identified through publicly available data, the brokers they are acting through most certainly can be.

1.3.2 LIST OF FORMAL COMPLAINTS TO ASIC

Since the ASIC ruling in May 2011, where the research approach to address CuDeco issues was to refer anomalous data to the regulator for a quick resolution given their resources, access to full information, and expertise in market related matters, research has subsequently attempted to discover the reasons for anomalous data. The information gathered has been made available to interested investors and shareholders through an internet blog site www.scribd.com/cudeco_research so that they were aware of systemic trading issues not being addressed, and in a position to be able to make more fully informed decisions about their investments.

The research points overwhelmingly to share price manipulation with no other explanation coming close to explaining aberrant data trends. Yet the regulator has shown complete disinterest despite being referred to the blog research on over 20 occasions over at least an 18 month period and in recent times by the Company itself. Currently there are four detailed complaints sitting with ASIC. The complaints form part of this Senate Enquiry submission and are also available to interested investors via the internet. The reports which comprehensively demonstrate chronic share price manipulation issues in relation to CuDeco are:

- ASIC Complaint 2013 – 1 <Reference Link>
- ASIC Complaint 2013 – 2 <Reference Link>
- ASIC Complaint 2013 – 3 <Reference Link>
- ASIC Complaint 2013 – 4 <Reference Link>

Unfortunately, the complainant struggles to even receive acknowledgement of receipt of complaints for the most part, let alone having them dealt with in an expedient and professional manner.

The situation is rapidly becoming farcical as in recent commentary by ASIC Chairman Greg Medcraft (i.e., October 11, 2013) as reported by the Sydney Morning Herald <Reference Link> and on the ABC's Lateline TV program, he had the following to say in defending ASIC's role in regard to the Reserve Bank currency scandal.

- *ASIC tries to ensures that the market has the confidence of investors, particularly retail investors, and that they are well informed.*
- *ASIC attempts to also ensure that markets are fair, transparent and orderly.*
- *ASIC acts when there is significant impact on the market and when lots of people are losing lots of money, particularly retailers.*

The comments are not supported by the CuDeco situation where published research has demonstrated that manipulation is an overwhelming feature of daily trading in CuDeco with the same issues repeated in other ASX companies. Also, research has comprehensively demonstrated that the market is neither fair, nor transparent nor orderly in trading concerning the ASX generally, not just CuDeco. It has also drawn attention to the trading in June/July/August this year where around 8,000 investors had to stand idly by and watch half a billion dollars being stripped from the CuDeco's market capitalization with manipulative short selling playing a very major role. Yet the regulator has done nothing, and hasn't even acknowledged that there was a problem. The situation is made even more disappointing when a request from the company to be removed from the short selling list before the market collapsed wasn't even responded to.

1.3.3 SHARE MARKET MANIPULATION ISSUES GENERALLY

KEY POINTS

- Research using empirical broker and registry data has shown wide scale trading anomalies in regard to CuDeco which is repeated across other ASX stocks. Importantly, the anomalies aren't able to be explained satisfactorily other than through behaviours linked to share price manipulation.
- Share price manipulation is an indisputable fact for markets generally, with regulators around the world now imposing extremely large fines on the investment banks who have been rorting the system since well before the GFC. Bribery activity by high profile firms and the Reserve Bank also show that rules are being bent at the highest levels of power and influence.
- On the ASX, it seems that share market manipulation has gained acceptance as somehow being normal, or a fact of life in modern markets, if only because of an apparent tolerance by regulators and with convictions few in number and lightly dealt with whenever cases are prosecuted. It may also be because the activities where manipulation is able to take place are able to be easily camouflaged and therefore difficult to gather evidence. Also, if manipulative behaviours are connected to legal activity such as short selling it tends to provide a free get-out-of-jail card.
- The acceptance of manipulation as a legitimate approach to trading appears to have extended to the very top levels of governance in our financial markets with the market operator itself, i.e., the ASX, suffering the ignominy of having two of its Directors having to stand down because of illegal short selling activity.

In the above context, empirical trading data that consistently throws up anomalies needs to be taken notice of. Research findings have consistently drawn attention to 3 pillars of trading where operational flexibilities make share price manipulation eminently achievable.

They are:

- The system of trading;
- The system of settlements; and the
- The system of short lending and securities lending in general.

Crucially, the flexibilities inherent in the three systems can facilitate manipulation if only because of the opaqueness of dealings of a majority of the trading taking place. Also, it is possibly no coincidence that the majority of trading that lacks transparency is that associated with institutions.

In the case of CuDeco, institutional share registry movements at various times have represented 75% to 85% of the market. Next to nothing is known about these share movements in terms of the entities responsible for trades or the brokers used for buying and selling transactions. What is known is that the majority of trades by all brokers have to be on behalf of institutions to account for the volumes of registry flows that occur. As far as monitoring who is responsible for trades and being able to make entities accountable for their trading actions, practically all activity takes place in the dark. Individuals or corporations camouflaged within the nominee accounts of other entities which in turn are distributed across the nominee accounts of institutions, and where the owners of the entities are domiciled in foreign jurisdictions can make it awkward to be able to ask specific questions about particular trading actions.

However, the one given in modern markets is that share price manipulation issues would disappear overnight if initiatives were implemented that demanded full transparency in all levels of dealings.

Various aspects of trading where manipulative practices are able to occur are summarized in the following sections.

1.3.4.1 SPECIFIC TRADING ISSUES

The commentary that follows is extracted from previously published material such as in Research Paper 7.3 Pg. 20 concerning Billabong Corporation <LINK> but also has relevance to the trading taking place with CuDeco and other ASX stocks. Trading issue specific to CuDeco are also raised in ASIC Complaint 2013-1 Pg. 30 <LINK>. In assessing trading trends, it needs to be borne in mind that market manipulation can and does occur even though it mostly passes under the radar of regulators because of flexibilities that exist in current regulatory frameworks. Indeed, former deputy ASIC Commissioner Belinda Gibson has acknowledged as such. *...... algorithmic and high frequency trading is sometimes manipulative or illegal, but it is often simply predatory on other investors.*<LINK>

The fact that the majority of trading avoids substantial shareholder scrutiny provides a massive 'get out of jail card free' to entities who ensure that dubious trading practices do not trigger substantial shareholder disclosure requirements <Link for Substantial Disclosure Requirements>. Research has identified a large numbers of anomalies in a range of ASX stocks corresponding to the disclosures made by substantial shareholders. It focusses particularly on the widespread collusion that takes place amongst brokers, the extent of manipulative short selling that occurs regularly and the extent of insider activity and dubious takeover actions able to take place without rather obvious conflicts attracting regulatory scrutiny.

Trading that is kept under the radar of price movement and volume thresholds monitored by ASX market surveillance officers is generally able to escape scrutiny even if it has been associated with suspicious activity. Share price manipulation seems acceptable if prices are taken down incrementally and kept under say 10% each day. Cases in point are the 68% share price declines of Linc Energy during 2012 <Refer: Chapter 7.2 Pg. 19> and more recently the 66% fall in CuDeco between May 14 and August 8 this year. Both companies were sent single please explain notices on days that falls exceeded 10%, and even after it was confirmed that the falls were not company related, no effort was made to investigate highly dubious trading behaviours as falls continued to occur day after day.

Share price manipulation manifests in a variety of ways, where fund managers acting through groups of brokers and where brokers and entities acting in their own right are able to exercise control over the market. It is widespread throughout the ASX because the algorithmic systems responsible for control over prices are utilized by institutions in much of their trading.

A wide range of trading behaviours instrumental in manipulating prices have been able to flourish, principally because of the acute lack of transparency associated with the current trading and settlement system. A lax, generally unresponsive regulatory regime has helped as well.

Share price manipulation is embedded in all of the following trading activities taking place on the ASX on a daily basis:

- The selling of shares by entities back and forth to themselves or affiliated entities (formally or informally and referred to as trading churn) with orders distributed amongst a large number of brokers to camouflage the activity. Trading churn is generated by algorithms synchronously tuned by brokers acting for the same interests. It usually results in control over the market, the setting of artificial prices and little change to beneficial ownership. If tested in court the motivations behind the churning of stock are likely to be shown as non-genuine and therefore manipulative. The high levels of collusion required for the selling and subsequent retrieving of large parcels of shares, such as has occurred with CuDeco, and many other ASX stocks, also points to contrived, non-genuine markets.
- The re-balancing of holdings without price discovery through extensive use off-market transfers and through trades executed in Dark Pool venues.
- The use of Dark Pools for strategic trades thereby removing liquidity from the lit market which is then subject to volatility as genuine buyers and sellers attempt to fill orders in thinner markets.
- The implementation of particular trading agendas through designated brokers but with trading organized through other brokers in support, (e.g., buying or selling through one or more brokers but

churning stock through others in an attempt to control, manage or confuse the market. This activity was noted in ASIC Complaint 2013-2 coinciding with M&G building a major stake in CuDeco).

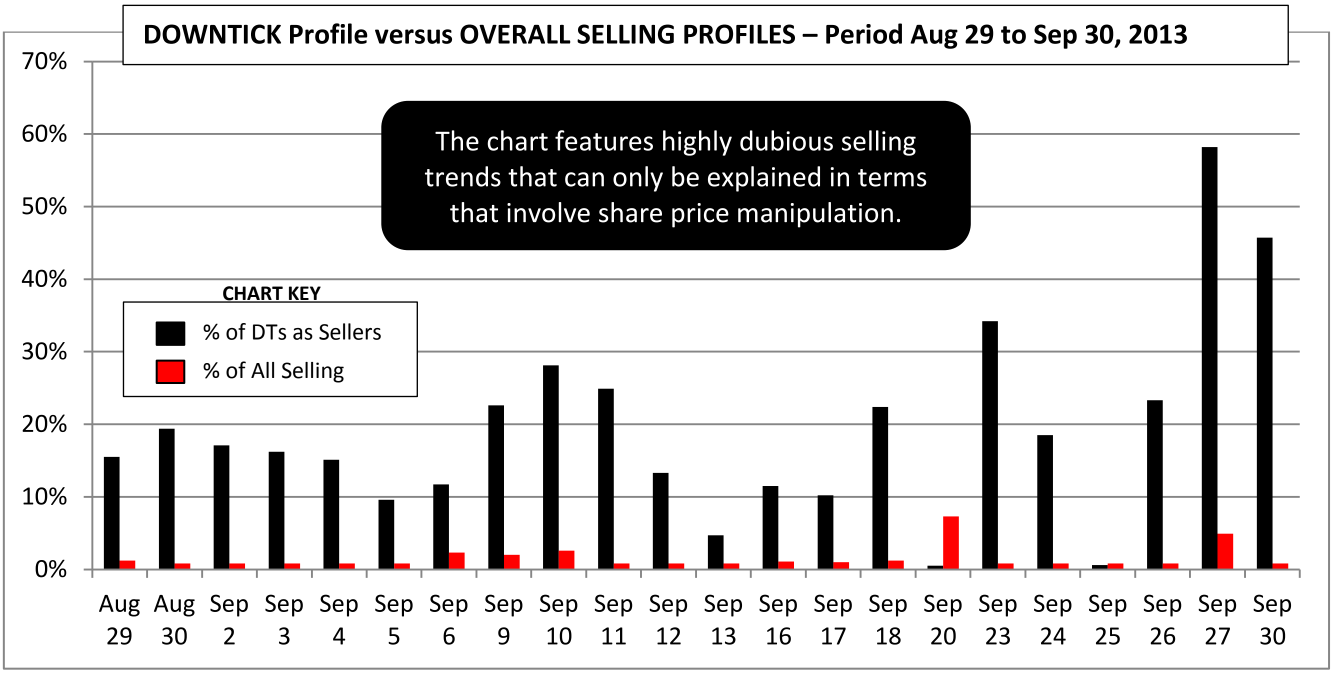
- The use of proprietary trading programs that deliver control over pricing levels, for example, by forcing Downticks between groups of brokers who are effectively colluding with their trading. The collusion is facilitated by HFT algorithms able to link designated sellers with preferred buyers and is usually characterized by either large numbers of small trades that lower prices, or by small broker crossings put through the market to achieve price reductions.

  The selling is seen to be targeting lower prices with brokers changing roles from one day to the next as prominent sellers. Such trading is highly manipulative, and was also shown to occur across other ASX companies in Attachment 1 .2, Pages 5 & 6.

  A further example of selling that has targeted lower prices is provided by a particular broker's selling activity regarding CuDeco over the recent period August 29 to September 30, 2013 as shown below.

  The large numbers of small Downtick trades that forced lower prices meant that the broker was responsible for a very large number of falls in price in daily trading, despite miniscule overall selling volumes put through the market.

  The behaviour is at extreme odds with the High Court ruling that regards genuine sellers as those looking to receive the best returns for sales. Of course, non-genuine selling implies manipulation.



- Control (again via trading algorithms) over the setting of prices during auctions.
- Using the system of short selling as a manipulative trading tool whereby downward pressure on the share prices occurs through short selling in the market and where adjustments to short exposures are achieved in off-market dealings. Such activity is unfair as it avoids fair price discovery. The activity also requires collusion by those with short exposures needing to cover, and those who are willing to supply shares off-market to help reduce exposures.
- Daily short selling on market and short covering on-market representing trading churn for the most part, where strategic relationships between brokers ensures that stock shorted into the market can be readily retrieved (i.e., buyers of stock are happy to put it back into the market where it can be re-claimed by the selling entity). Much of the activity represents a zero-sum game.
- Wrong-footing and panicking retail investors through tactics such as deliberately selling down announcements that herald major developments for the Company. A disappointing share price

reaction invariably takes away from the significance of an announcement and leads to investor confusion and angst. In the case of CuDeco the activity has been shown to occur over a period of 3.5 years.

- Registering substantial holdings of a single entity across multiple nominee accounts within an institution or across multiple accounts with multiple institutions. The arrangement provides the substantial holder various options to deliver buying and/or selling orders into the market with the market again compromised by non-genuine trading churn.
- Panicking investors by using large buy bids to support a share price and then suddenly selling into the bids to give the appearance of price weakness, but where the buying and selling has been between related parties.
- Capitalizing on trading volatility by entities engineering price falls in trading between themselves that lead to the margin limits of exposed investors being triggered causing irrational panic amongst retail investors, which in turn accelerates price falls.
- Camouflaging extensive levels of Wash Trade activity (i.e., no changes to beneficial ownership) by putting many of the trades through brokers with large numbers of retail clients and then settling on the net positions at the close of trading.
- Entities operating within, say, Commonwealth Securities camouflaged by retail investors while heavily targeting pricing levels with, for example, large numbers of small Downtick trades. The result is that falls in price are attributed to retail investors, not the sophisticated investors responsible and who have deliberately targeted lower prices.
- Taking advantage of a settlement system where the brokers used for high volumes of dubious institutional trades are not identified on the register, thus further camouflaging the trading activity.
- Taking advantage of unreliable reporting systems to disguise trading activity as evidenced by substantial changes in short positions not being matched by corresponding changes in stock lending & stock borrowing data, and where for example a large increase in open positions is usually not reflected on the register by corresponding falls in the lender's holding.
- The deliberate selling down of a holding to create volatility only to re-purchase shares as investors panic.
- The leaking of information to the media by Company insiders, such as in the case of Billabong, where the 'news' items so generated are used to justify specific trading agendas.
- Flooding the market with bids and offers that only stay for brief moments of time to encourage activity from genuine sellers (or buyers) at reduced bids or higher offers.
- Front running retail orders by changing the bid structure between the time the retail investor sends the order and the time it takes to reach the exchange. The activity results in retail sellers receiving less for their shares and paying more for purchases.
- The use of public forums to establish sentiment that supports particular trading agendas often achieved by groups of posters banding together to create maximum levels of confusion.
- The selling down of the share price through related interests or through genuine sales knowing that cheap placement shares will be forthcoming to replace those sold.
- The withdrawal of liquidity at critical times when for example a company-specific problem or a market sentiment issue (e.g., a strong downtrend on Wall Street overnight) might encourage selling. In that scenario the withdrawal of bids may cause a genuine seller in need of cash or pressured because of margin requirements, to chase prices lower as each time he sells into a buying bid, the bid is adjusted out of the way by the time the sell order reaches the exchange.

  In frustration and perhaps through necessity because of the need to raise funds, the seller may then target a lower buy order to try and get a fill, only to see it adjust too in the fraction of time his order is finding its way to the exchange. The lightning fast adjustments are afforded by HFT algorithms where the buyer may withdraw from the market altogether, or the buy order may be adjusted downwards or even involved in a crossing to a related party, whereby all actions effectively prevent the seller from getting a fill for his order. In such instances the notion that markets provide liquidity is farcical.

Such activity is particularly manipulative and can use genuine, motivated sellers to force prices dramatically lower. Examples include trading in CuDeco on August 18, 2010 following a resource upgrade and November 13, 2012 following a fund raising announcement. Both days saw extreme volatility with the share price taken dramatically lower amid confusions on Aug 18, and lower despite positive news on Nov 13. Anecdotal and empirical evidence both suggest share price manipulation was strongly at play, irrespective of the news events accompanying the price falls. Revealingly, on both occasions, sophisticated investors retained their holdings despite very extensive churning of stock.

- Justifying manipulative selling or buying due to index movements of the sector a stock belongs to, but where shares are simply traded back and forth between the same interests for no beneficial change to ownership.

Changes to major indexes are a primary driver of modern day markets, irrespective of the fundamentals associated with particular companies outside the index, and for that matter, individual company news. An article by broker Marcus Padley <Refer Link> refers to a small group of large stocks almost completely dominating the main index in a downward trend that occurred between May 2011 and August 2012. Just 20 stocks accounted for 97 per cent of the fall in the market or put another way, 10% of the stocks have dictated 100% of the performance of the ASX 500 index over the period.

Given that a select few stocks can control the direction of the entire market, means that individual stocks can be manipulated at will irrespective of news releases and any company developments achieved. It further helps to explain how good news is suppressed (i.e., it was the index that led prices lower) and it helps to explain why CuDeco has tended to have been harshly dealt with on days that the general market was down. Pressure from falls in the leading index can act as a cover for higher levels of manipulative activity in individual stocks. Short selling representing 91.3% of all selling in CuDeco on Aug 9, 2012, with all sales by institutions is a case in point (Refer ASIC Complaint 2013-1 Section 8.1.9.5 Pg. 106).

It is also interesting that as far as CuDeco is concerned, the managed, custodial holdings relating to the five investment banks on the register control at least 75% of all trading and at times up to 86% of all trading as measured by registry share flows. Yet the institutions represent only 0.1% of CuDeco's 8,000 shareholders. The situation focusses further attention on cartel-like activity being responsible for control over trading and creating an artificial pricing environment.

1.3.4.2 AN EXAMPLE OF SHARE PRICE MANIPULATION ACCOMPANYING INDEX VOLATILITY

Major market moves can certainly be initiated by influencing or manipulating the leading indexes. A case in point was the index volatility engineered on October 18, 2012 <Refer Link> where prices of major stocks including ANZ and Brambles were bid up prior to the open, adding $10 billion to the benchmark S&P/ASX 200 Index. However orders were withdrawn just seconds prior to the market opening leaving traders who bought at the opening high and dry and facing immediate losses. Those buyers would have been encouraged by the increase in the index pre-trade and would have placed bids accordingly.

Such an obvious manipulation with the selling into phoney index rises meant that sellers reaped the benefit of the hoax. The incident was investigated by ASIC assisted by the broker responsible for hosting the transactions, who was UBS Securities. Nothing ever materialized with either UBS clients or UBS market operators clearly responsible. No charges have been announced and it is not known if the entities responsible were ever identified or indeed contacted. The incident again demonstrates the Finkelstein assertion <Refer Link> which essentially stated *"lenient sentences for white collar crimes lead the public to conclude that there is "one law for the rich and another law for the poor".* Only on this occasion rather obvious misdemeanours didn't even make it to court.

1.3.4.3 EXAMPLES OF SHARE PRICE MANIPULATION ASSOCIATED WITH MEDIA REPORTING

Billabong Corporation

Research Paper 7.4 details several instances (from Pg. 41 onwards) of information leaked to the press, each time preparing the way for Billabong's share price to be taken substantially lower. The obvious insider trading activity seems to have avoided regulatory attention. A situation where the press provides information that not even the company is aware of, is highly suspicious and deserving of a thorough investigation, especially as it was an on-going theme with Billabong, not an isolated event. The Company was continually targeted by reduced Bids that were continuously withdrawn which meant that the share price was worked lower and lower. The news leaks and the Company's deteriorating earnings outlook and high debt levels were effectively allowed to camouflage highly manipulative trading behaviour.

Whitehaven Coal

Another example of news being used to camouflage highly manipulative trading behaviours was associated with a hoax involving environmental activist Jonathon Moylan early January 2013. Mr Moylan apparently sent an email to some news outlets stating that a $1.2 billion funding facility for a major coal project was being withdrawn for ethical reasons. The email featured the ANZ Bank logo. It was reported that the hoax was responsible for wiping $314 million off the value of Whitehaven. <REFERENCE LINK>. The share price fell from $3.52 to $3.21 before being placed in a trading halt, following which the Company confirmed that the news reports were bogus. Prices then recovered.

The incident is surrounded by several credibility issues:

- News outlets do not indiscriminately release information when it is sent to them, especially from unfamiliar sources and via unfamiliar emails.
- Banks do not divulge/announce decisions of a private nature concerning its clients.
- Brokers do not indiscriminately sell (and buy) on every bit of unsubstantiated news that hits the airwaves.
- Responsible brokers would have attempted to verify the information with the company before advising clients to exit the stock.
- The trading that took place could have also been the result of careful planning, and a sting operation, rather than genuine selling in response to spurious news.
- The losses referred to were only fleeting as the price recovered once the trading halt was lifted.
- ASIC was extremely vocal with threats of penalties of a 10 year jail sentence and/or a maximum fine of $495,000 if convicted of making false or misleading statements. It was an extreme over reaction and trading doesn't appear to have been investigated,.

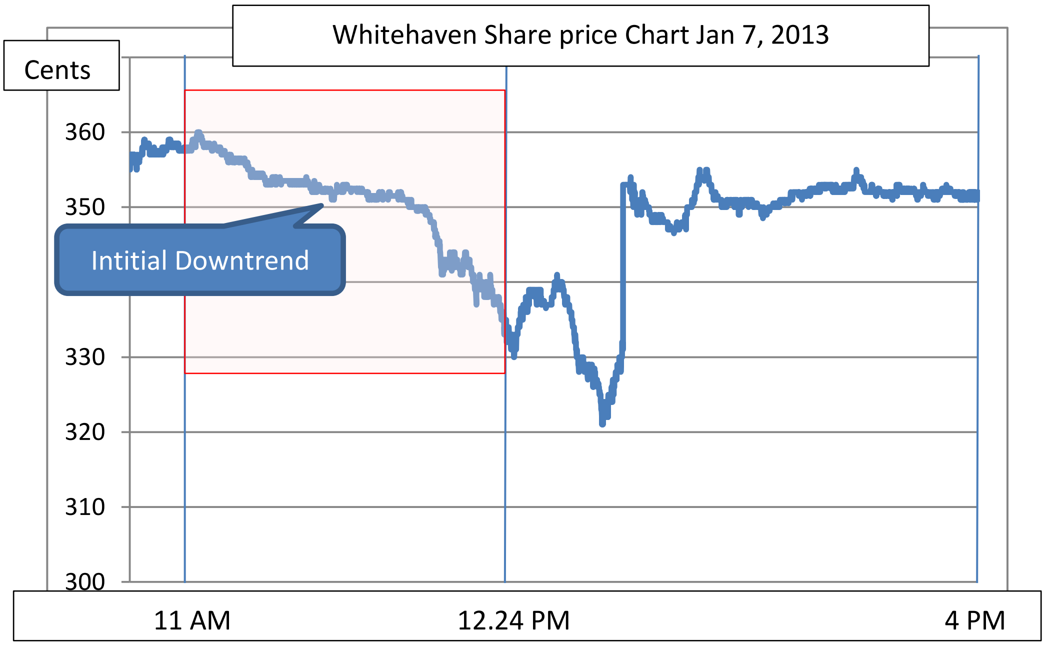
The leading broker on the day by value of trades was UBS with a market share of 24.6% followed by Morgan Stanley with 13%, Deutsche Bank 9.2% and Citigroup 7.5%. UBS churned stock with only 80,012 net purchases for the entire day. It would be interesting to know if the 2.31 million sales and 2.34 million buys put through the market by UBS contained any illegal wash trades or any illegal naked short sales, and who the clients were who traded so extensively on a confusing day. The point being it is not possible to find out without preparedness by the regulator to audit the accounts of the broker and audits are rarely, if ever, undertaken.

The leading net-buyers were Goldman Sachs (746K), Morgan Stanley (741 K), and Macquarie Insto (242K)

The leading net-sellers were JP Morgan (-705K), ITG Australia (-519K) and Instinet (-243K).

Institutions, or brokers trading on their own account, were obviously responsible for the volatility. It raises the possibility that the situation was taken advantage of. There could have been the possibility of institutional accounts being used a backdrop for trading with the winning trades allocated to broker house trading accounts. It is a harsh assessment but as demonstrated by the recent ASX Director resignations, anything is possible in today's market given the way they are allowed to operate.

A snapshot of trading is shown below with the initial falls in the share price occurring between 11 AM and around 12.24 PM before a light recovery followed by further falls.



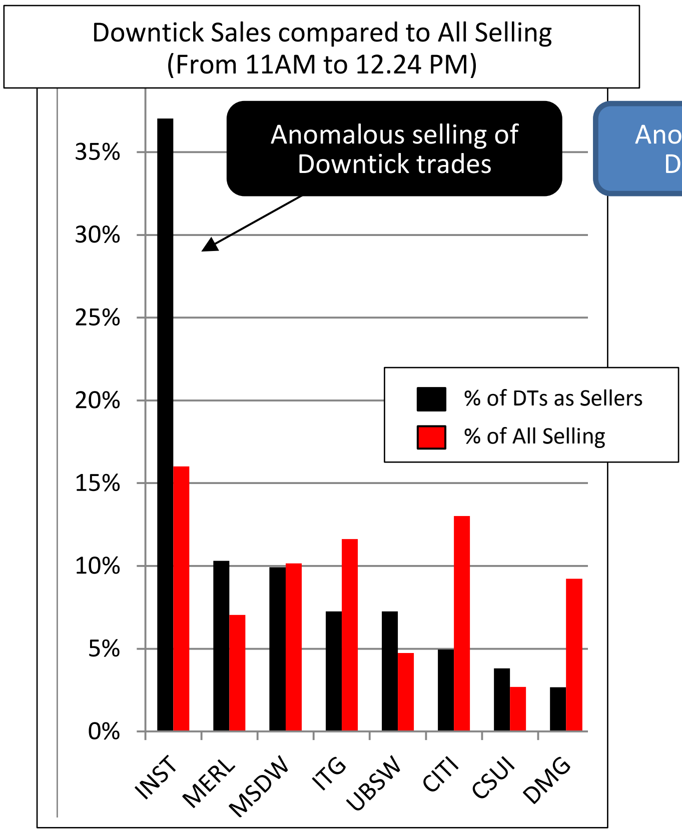
The trading during the initial share price take-down over the period spanning around 1.5 hours, is summarized below. The leading net-buyers and leading net-sellers were as follows:

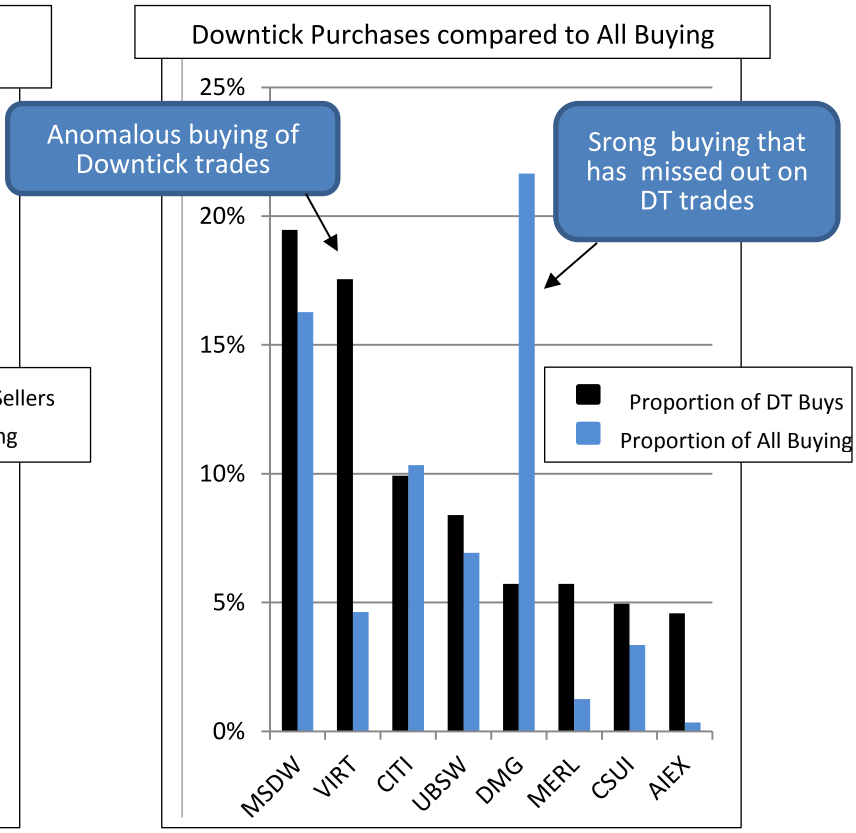
Broker	Sells	Buys	Net Buys
DMG	180,126	422,665	242,539
MSDW	198,100	317,460	119,360
MACQ	13,695	91,849	78,154
COMM	14,500	58,011	43,511
UBS	92,673	135,350	42,677
BELL	25,000	59,000	34,000
AIEX	0	31,408	31,408
BRLL	0	30,000	30,000
GS	51,082	73,623	22,541
Others	157,651	201,773	44,122
Totals	732,827	1,421,139	688,312

Broker	Sells	Buys	Net Sells
INST	312,543	38,752	-273,791
MERL	137,583	24,482	-113,101
JPM	85,106	6,221	-78,885
CITI	253,869	201,663	-52,206
TPPM	44,686	6,000	-38,686
ORDS	27,370	0	-27,370
ITG	227,029	200,456	-26,573
AIEX	31,500	6,740	-24,760
BTIG	20,000	0	-20,000
Others	79,041	46,101	-32,940
Totals	1,218,727	530,415	-688,312

The leading broker over the course of the day, UBS, was actually subdued as prices fell. It was Deutsche Bank and Morgan Stanley who were active as buyers during the 1.5 hour period, while Instinet and Merrill Lynch were active sellers. ITG strongly churned stock.

Given the share price falls that occurred, it is interesting to observe who the sellers of trades were that resulted in Downticks in price, and who the brokers were who purchased those transactions.

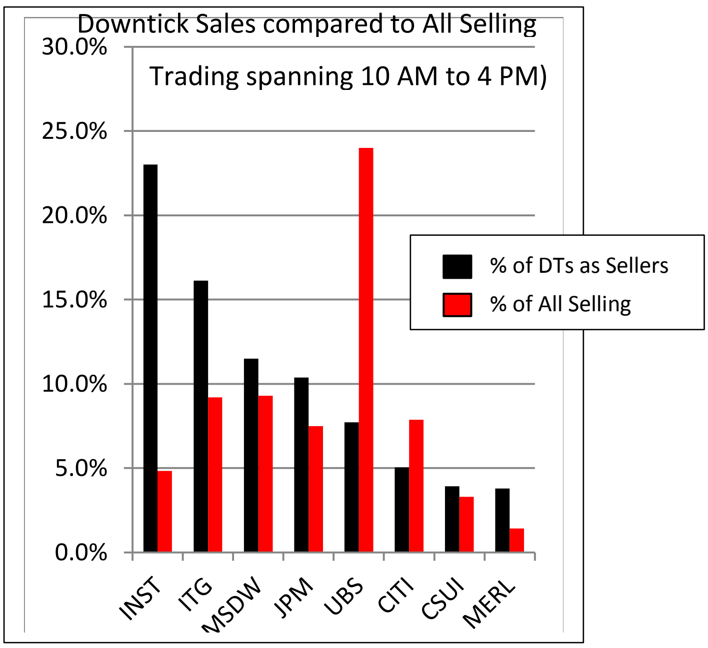


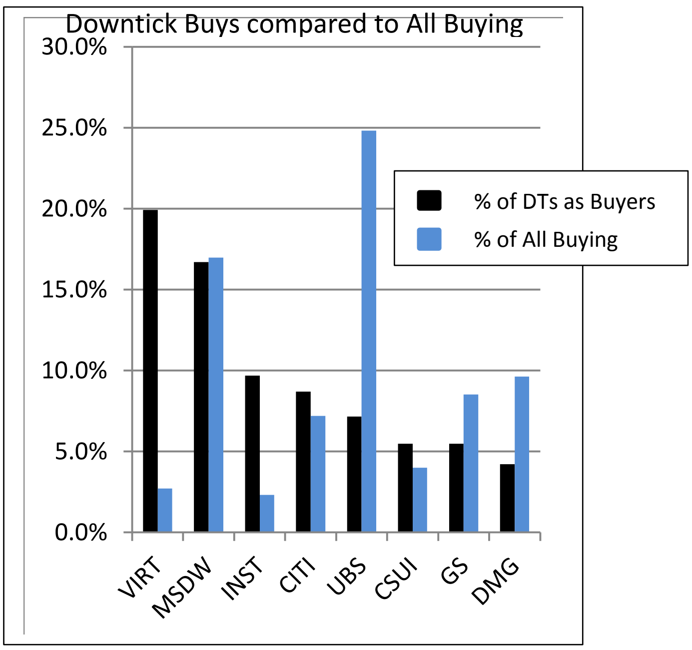


Surprisingly Instinet's aggressive selling of Downtick trades didn't end up with Deutsche Bank who was the strong purchaser in the market during the period. Instead it was Broker Virtu Financial who played an elevated role, even though its market share as a buyer was only minor. The patterns suggest a co-ordinated take-down with audits needed to identify who the clients of the leading brokers were. It could be revealing.

For example, the selling by Instinet could have been by the same client as the buying by Deutsche Bank. Other scenarios are also possible where the trading could have been far removed from genuine selling and genuine opportunistic buying because of perceived bad news.

Reasons to question what really occurred on January 7 are compounded when the Downtick trends over the course of the entire day's trading are also compared. The trends are shown below.

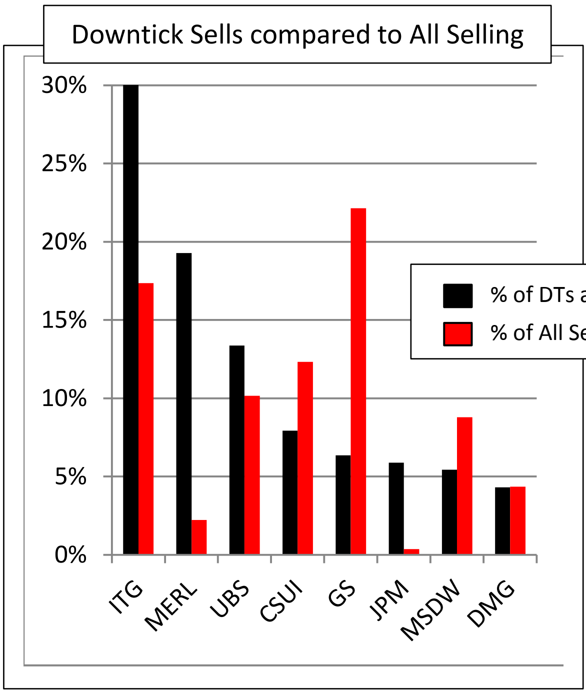




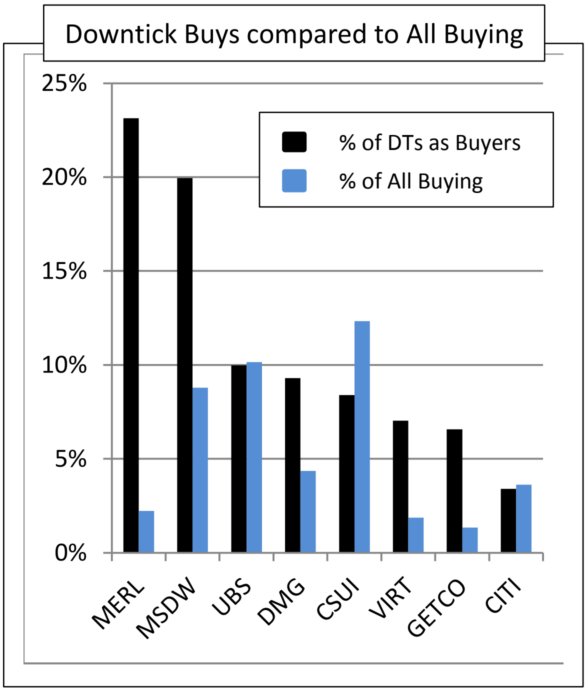
Instinet continued to be prominent with DT sales, and Virtu continued to be a leading buyer of the Downtick transactions over the entire day's trading.

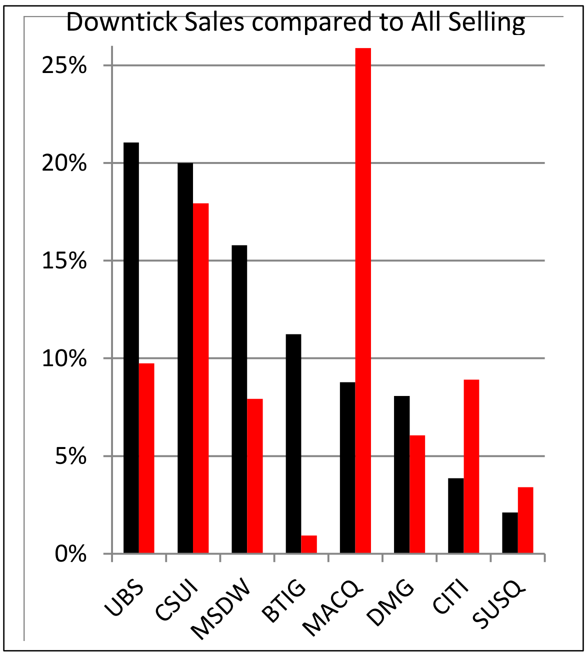
It is counterintuitive that Instinet with a market share over all selling of 4.8% and Virtu Financial with an overall market share of only 2.7% over all buying, could be as prominent as they were unless trades had been co-ordinated preferentially by algorithms. Co-ordination equates to manipulation as the selling and buying necessary to achieve such skewed distributions is likely to be non-genuine and artificially impacting the market. It also needs to be taken into account that Instinet has already been fined for spurious trading undertaken on behalf of institutions. <REFERENCE LINK>

Suspicions about control over trading by algorithms dispensing trades preferentially are supported on other days where anomalous distributions of trades between brokers are a common theme. It suggests collusion.

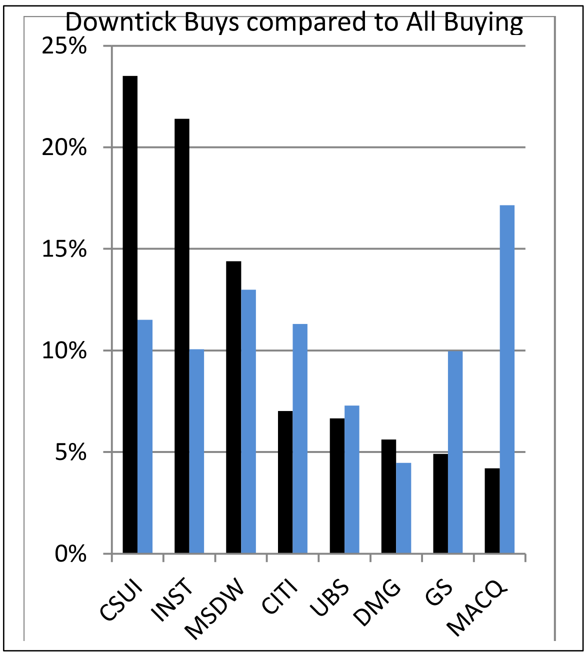


Jan 4, 2013
(Before hoax)





Jan 14,2013
(After hoax)



The trends require thorough investigation as similar skewed patterns are evident in trading in stocks right across the ASX, and often it is news that is used to provide cover for highly questionable trading activity.

1.3.5.1 FURTHER OBSERVATIONS 1: CARTEL-LIKE BEHAVIOURS

Entities acting within CuDeco institutional accounts have dominated trading with behaviours that suggest strong levels of co-operation and/or collusion rather than genuine competition in the market. Buying and selling for the same substantial interests has been dispersed across the entire network of brokers and has resulted in an extremely false market. High volumes of shares have been sold into the market and conveniently retrieved so that holdings have generally been maintained by institutions as a group, and sometimes increased at the expense of retail shareholders.

Constant trading back and forth has also been augmented by adjustments made via Dark Pools or through off-market transfers which have avoided proper price discovery. The extensive activity away from the lit exchange has resulted in registry movements in some months of trading being close to double the amount of ASX buying and selling that has occurred. It represents extremely unorthodox trading and settlement activity as buying and selling generally involves a 1:1 correspondence between shares traded and registry share flows, not a 1:2 correspondence. (Note: The data allows for share flows associated with securities lending for covered short sales and are brought to attention in Chapters 6.2, 6.3 and 6.5 on the research blog) The artificial, non-genuine nature of trading is again reflected by the retention of holdings despite all of the trading churn taking place on the ASX accompanied by anomalous levels of share flows on the register. The situation demonstrates registry flows that are counterintuitive to how the system of changes of ownership is meant to work, especially when simplified to a situation where a genuine purchase of say 100 shares takes place. The register should result in an increase in someone's shareholding of 100 shares, not 200 shares.

Complicating the situation further is that in some months CuDeco registry activity has been just a fraction of the trading taking place on the ASX. In August 2010 registry share flows equated to just 46% of ASX buying and selling, and in November 2010, registry share flows equated to only 61% of ASX trading activity (Refer to Chapter 6.3 on the research blog). The absence of registry share flows corresponding to ASX buying and selling means that extremely large levels of buying and selling have occurred, estimated at around 90 million buys and sells, about which nothing is known. The trading in those months is also likely to contain significant volumes of illegal wash trades. Again using the simple example, a genuine sale of say 100 shares should result in a fall in someone's shareholding of 100 shares, not 50 shares.

Registry volumes have been shown to fluctuate from half the amount of ASX buying and selling to around double the amount of ASX buying and selling. It highlights a situation where trading and settlements are far from transparent (i.e., there is no way of identifying those responsible for aberrant trading trends without audits) and far from genuine, and yet the regulator hasn't been able to notice any problems.

There is also the issue that trading back and forth between related interests resembles 'a zero-sum game'. Profits from some trades are cancelled out by losses with other trades. Apart from impacting prices unfairly, such trading also suggests motives other than profits are responsible for the trading activity.

The spread of institutional influence across practically all brokers is revealed when attempting to reconcile institutional registry share flows with broker buying and selling. The result is that the majority of all broker transactions are required in order to balance the numbers. The spread of institutional influence is also reflected by one broker, UBS Securities, being responsible for a very high level of settlement transactions (i.e. 37.2%) compared to its own levels of buying and selling in the market (i.e. 5.4%). Many institutional trades from other brokers appear to be funnelled through UBS settlement accounts which again suggest cosy relationships between affiliates or trading partners and a compromised market.

While cartel activity is an issue for the regulator in terms of share price manipulation it is also an issue for the Australian Competition and Consumer Commission (ACCC) where cartel activity is also illegal. Their website clearly states that: *Businesses that make agreements with their competitors to fix prices, rig bids, share markets or restrict outputs are breaking laws and silently stealing from consumers and businesses by inflating prices, reducing choices and damaging the economy.* <LINK>

The penalties in place to address cartel activity are stated as:

For corporations, the maximum fine or pecuniary penalty for each criminal cartel offence or civil contravention (whichever applies) will be the greater of:

- $10,000,000
- three times the total value of the benefits obtained by one or more persons and that are reasonably attributable to the offence or contravention.

Where benefits cannot be fully determined, 10 per cent of the annual turnover of the company (including related corporate bodies) in the preceding 12 months.

The concerning features of irregularities with CuDeco trading are as follows.

1. The behaviours are being repeated across other ASX companies suggesting a heavily compromised ASX market.
2. The laws concerning trading covered under the Corporations Act and through the Australian Competition and Consumer Commission (ACCC) are being flaunted through the activities of entities that are heavily camouflaged by a trading and settlement that lacks transparency; and
3. ASIC, the official watchdog of the financial markets is not effectively performing the role entrusted to it by the Australian government on behalf of all Australians.

1.3.5.2 FURTHER OBSERVATIONS 2: Auction Pricing

A small group of brokers consistently identified as leading participants across all auctions concerning CuDeco, have been able to achieve complete control over auction outcomes. The control results from the use of trading algorithms designed to deliver strategic trading agendas rather than dispensing genuine orders for clients. The dominance by the group of brokers certainly identifies with market manipulation rather than genuine trading. Also evident in the behaviour of the group is a tendency to rotate roles as prominent broker from one auction to the next. At times they may be dominant buyers and at other times, they may be dominant sellers or they may even be prominent buyers and sellers within the same auction. Generally, the control over auctions relates back to transactions associated with institutional accounts. The stacking and/or the sudden withdrawal of bids that regularly occur in auctions also identify with attempts to create artificial prices and to control pricing outcomes, so must also be regarded in terms of market manipulation.

1.3.5.3 FURTHER OBSERVATIONS 3: Downticks

Brokers who are consistently dominant as the sellers of Downtick trades reveal trading agendas motivated by control over prices rather than genuine selling. The same group of brokers, who are prominent with Downtick sales, generally happen to be dominant as buyers of Downticks as well on other occasions, which further helps to facilitate downward movements in price.

A clear-cut indicator about broker involvement with setting artificial prices is the proportion of Downticks they have been responsible for on any given day compared to their market share of selling generally. A large proportion of daily Downtick sales achieved with only a small market share of all selling taking place rings warning bells. It means that pressure has been applied to the share price through large numbers of small trades that force lower prices but where the overall volume of such trades is comparatively minor. Broker algorithms are responsible for the trades. The trading appears even more dubious when the tiny parcels of shares used to force Downticks in price are the result of broker crossings emitted by algorithms which is often the case.

Logically, the proportion of Downtick trades caused by a broker selling into the market ought to be similar to their market share of selling generally, especially across long term data. However consistent trends by some brokers where large numbers of Downticks are usually matched by small amounts of selling suggest trading motivated to lower prices rather than to achieve the best returns for clients. It is a critical point as the High Court in a recent judgement has indicated that '*genuine sellers desire to maximize the returns from sales*'. Non-genuine selling is obviously manipulative as highlighted by copious numbers of examples from daily trading. (Refer ASIC Complaints 2013-1 through to 2013-4).

The same applies to where the involvement of brokers as buyers of Downtick trades is markedly different to their market shares as buyers generally. High levels of Downtick purchases compared to their overall buying market profiles, also suggest strong motivations to facilitate lower prices. Being able to buy at lower prices is generally a good outcome for a buyer but the anomalous levels of such purchases by particular brokers run at levels are far beyond good luck or skilful trading. The anomalies suggest collusion.

The reality is that it is <u>trading algorithms</u> that deliver downward pressure on prices through certain brokers forcing Downticks as sellers, and it is <u>algorithms</u> that also facilitate the downward movement by having other brokers accept the Downtick trades as purchasers. The situation is most definitely one of broker algorithms delivering trades from designated sellers to preferred buyers.

As it happens, the brokers responsible for Downticks as both sellers and buyers of Downtick trades, happen to be members of a small group who have emerged as prominent brokers in controlling pricing outcomes and who tend to rotate roles as prominent brokers from one day to the next. The rotation of roles strongly suggests collusion and cartel-like activity as all prominent brokers deal exclusively on behalf of institutions.

1.3.5.4 FURTHER OBSERVATIONS: Selling into Announcements**:**

Market sentiment can be controlled by ensuring that promising or even strong announcements result in minimal market impact. The brokers responsible for the selling down of announcements are readily identifiable as the brokers who have engaged in forcing Downticks as sellers on days where announcements are released. Such activity, when observed taking place by the same small group of brokers over long periods of time (i.e., 3.5 years), provides empirical evidence regarding attempts to create artificial pricing levels that reflect strategic trading agendas rather than company developments and company fundamentals. News is meant to be a driver of markets, so that consistently counterintuitive responses by the market to good news are in effect a strong indicator of share price manipulation.

The manipulative selling with CuDeco is borne out by selling in response to strong announcements such as securing access to rail facilities which is an obvious value-adding acquisition. The announcement (refer Case 24 Section 10, ASIC Complaint 2013-1) had nothing to do with copper resources and grades which have been the subject of constant confusion and conjecture following JORC estimates that appear to have failed to adequately address high grade copper anomalism.

Also, the selling down of announcements that clarified JORC issues and pointed to increased value such as:

- a substantially upgraded resource in June 2011;
- higher grades from initial bulk mining trials than suggested by JORC estimations;
- the granting of a long awaited mining license;
- new discoveries likely to result in increased resources;
- the gaining of a port facility at Townsville for the shipping of product;
- successful metallurgical trials;
- a successfully commissioned crushing circuit and successful trials in separating high grade native copper thus putting an end to uncertainties that have plagued the Company regarding the processing of this type of mineralization;
- Voids identified by JORC estimations actually being shown to carry significant levels of mineralization; and
- the likely early commencement of mining with sales of direct shipping ore, etc.

The selling down of such announcements by institutional interest makes no sense as the developments help to de-risk the project and enhance their investments very substantially. What the selling in response to announcements does do, is to point to a systematic attempt by certain interests to detract from market sentiment wherever possible. In short, share price manipulation.

1.3.5.5 FURTHER OBSERVATIONS: Wash Trades and Dark Trades

Wash Trades are illegal. However, with the use of algorithms, trades that achieve the same result as Wash Trades (i.e., no change to beneficial ownership) are able to take place without intervention by the market regulator. The fact that other brokers are involved when sales by an entity are recycled back and forth between a mix of brokers, before being repurchased by the original selling entity, appears to avoid being regarded as a Wash Trade. However the trading can most definitely result in artificial prices particularly if many of the brokers involved are colluding with their trading. Careful analysis through audits may reveal that all of the buying and selling associated with such trading activity that doesn't result in changes to ownership, is in effect akin to share price manipulation as defined by the High Court judgement. The reluctance by the regulator to conduct audits and to get to the bottom of dubious trading practices may in effect be sanctioning share price manipulation on a very large scale with implications for the entire market.

Dark Pools such as those run by the ASX itself and the one used by Commonwealth Securities heighten further concerns about transparency issues where the activity is likely to be facilitating dubious trading agendas, rather than the genuine exchange of shares. The ASX and ASIC have both voiced strong concerns about Dark Pools. Recent changes that have allowed dark pool exchanges provided there is an improvement in price compared to the lit market, have been reported to have reduced such activity, although it is very early to be declaring that problems have been resolved.

In addition to Dark Pool trades which get reported back to the exchange after execution, the transfers of large volumes of shares off-market that completely avoid price true discovery represent concerns that may also be supporting artificial pricing levels in the lit market. An example is the possibility of selling shares to trading affiliates at reduced prices to pressure the lit market only to retrieve the shares through off-market activity. Such transfers are not reported and may be responsible for some of the registry imbalances that have been noted.

1.3.5.6 FURTHER OBSERVATIONS: Short Selling

Short selling is legal on the ASX but practices associated with short selling that result in artificial pricing are illegal. The key to assessing whether provisions that allow shot selling are being abused is the impact on fair price discovery. If prices are inflated and short selling lowers them to more realistic levels, then any subsequent purchases to make a profit from the activity, is a legitimate trading activity. All market participants generally don't have a problem with such an arrangement.

The most obvious abuse of provisions that condone short selling were addressed in the introduction to the Senate Submission where collusion between custodians and hedge funds is likely to be responsible for both severe undervaluations of companies and large amounts of wealth removed from those with shares held under custodial arrangements.

Another example of the abuse of short selling provisions is where prices are reduced to artificial or undervalued levels through short selling, and then for exposed open short positions to be covered by activity that avoids price discovery. Research has demonstrated that it is common practice for large short positions to be unwound through off-market adjustments which avoid price discovery, not through the re-purchase of shares through the market. Also, short positions are sometimes covered through forcing prices lower to make companies vulnerable when having to raise capital, and then securing cheap placement stock from the company to cover positions. Dubious short selling practices are accepted almost without question by the regulator under the guise, 'short selling is legal' which it is. However, the recent High Court judgement would suggest that in some cases it represents share price manipulation through the imposing of artificial constraints on pricing levels, which happens to be viewed as illegal.

Abuses of short selling possibly represent the single most potent trading activity responsible for generating artificial pricing levels. Chronic undervaluations in a large number of ASX companies, including CuDeco, are the direct result of manipulative short selling practices. The impact of short selling on the share prices of a number of ASX 200 companies is provided as Appendix 1 and Appendix 2.

1.3.5.6.2 FURTHER ISSUES CONCERNING SHORT SELLING

Most of the issues associated with short selling itemized below are taken in from Research Paper 6.3 Sections 5 & 6 **<**Refer LINK**>**

Despite measures taken after the GFC to prevent the manipulative abuses occurring with naked short selling, there can be no doubt that short selling is still fraught with all sorts of concerns and that the framework for manipulative short selling is still very much in place. The fact that naked short selling was deemed illegal only after extensive use was made of it over several years culminating in a market collapse associated with the GFC, focusses attention on the suitability and business ethics of those in charge of our markets culminating in the recent stand down of 2 ASX Directors because of illegal short selling activity.

Right from the outset, naked short selling was clearly an unethical activity, yet it took a crisis for something to be done about it. And unfortunately, short selling issues continue to plague the integrity of our market.

Short selling issues as they impact ASX stocks generally and CuDeco in particular include:

- The regulator being unable to guarantee that reporting is accurate or to ensure that abuses are not taking place with short selling.
- The potential for naked short selling to be still taking place even if only on an intra-day basis.
- Stock lending agreements not necessarily being in place for daily short sales, with inappropriate use being made of pooled shares under management to cover for trades .
- The management of open short exposures off-market and with zero price discovery is a complete contradiction of what fair trading ought to be about.
  Exposed positions are able to be covered through:
  - cash adjustments at a mutually acceptable price, but with no guarantee that money actually changes hands;
  - shares being 'co-operatively' made available by colluding interests either in the lit market or through of-market exchanges;
  - the substitution of other securities for shares sold short; and
  - through company placements.
- The incorrect reporting of short selling activity which is responsible for chronic mismatches with open short position data when compared to:
  - ASX daily trading data;
  - ASX Stock Lending & Stock Borrowing data, and;
  - ASX Daily short selling data.
- The lack of correlation between changes to open short positions and changes to the Company register where gains and falls in institutional holdings should occur as stock is loaned out or stock is returned to repay loans.

- Institutions involved in being both the lenders of shares and buying back the shares sold short, thereby retaining control/ownership over shares lent out. A relatively static register regarding institutional holdings demonstrates the control retained over shares despite large increases in reported open short positions. The situation more or less guarantees that short covering will have minimal price impact when/if it occurs with mutually agreeable adjustments through non-transparent off-market transfers. The arrangement guarantees that prices can be taken wherever deemed necessary with institutions fully in control of exposed positions and able to avoid the impact of natural market forces.
- Large open positions in themselves provide an incentive for share price manipulation to ensure that exposed positions don't become even more exposed.
- Although an open short position of say 5.5 million shares for CuDeco or 2.93% of issued capital is not large in comparison to other companies, it has nevertheless been close to historic highs for CuDeco until very recently when open short positions increased to around 8 million shares for a short time. It also represents a significant development because of the small numbers of shares genuinely for sale at pricing levels where the increases to open short positions were established.
- The delayed reporting of Short Sales by the ASX (11 am the next trading day) and of Open Short Positions by ASIC (T plus 4) plays into the hands of entities engaging in dubious trading activities involving high levels of collusion. The arguments used to justify delayed reporting together with the arguments used to justify shorting itself don't take into account the propensity for entities to abuse the system. Nor does it take into account the inability of the system itself to effectively monitor and regulate short selling as per the waivers on official websites and glaring anomalies in reported data on a regular basis.
- The ability to avoid reporting requirements with short sales under $100,000 in value not having to be declared means that entities colluding with their trading and pursuing common trading agendas can put substantial levels of short sales through the market without reporting them. For example, a share price at $2 means that 49,999 shorts per entity needn't be reported, representing a very substantial portion of day-to-day trading on days where light volumes are involved.

1.3.5.6.3 IMPORTANT QUESTIONS CONCERNING SHORT SELLING

The following commentary was provided in Research Paper 7.3 in relation to Billabong Corporation but has just as much relevance to CuDeco and the apparent mismanagement of CuDeco holdings by the M&G Group.

<Extract: Refer LINK Paper 7.3 (Pg. 5)>

The system of stock lending and short selling receives support from Treasury, the ASX, ASIC and the establishment press with arguments mainly centring on the liquidity it is meant to provide. However apart from the fact that liquidity is elusive, particularly when it is really needed such as during times of financial crisis, the system of short selling raises questions that suggest it is fundamentally flawed in the way it operates.

The questions arising from research into ASX200 companies which have been stripped of considerable wealth over the last several years include:

1. Who, acting in good faith and with full knowledge of the risks entered into, would allow their shares to be borrowed to facilitate the massive devaluation of a Company they are significantly invested in?
2. What responsible fund manager, conscious of the need to perform against his/her peers while entrusted to increase the investment portfolio of clients, would facilitate short selling through the lending of client shares knowing that client portfolios would be substantially devalued by the activity?

3. Who would actively assist entities to cover large short exposures in such a way as to avoid any price impact when short sellers under pressure to cover would be expected to pay a premium to access large tranches of shares?
4. Has extensive stock lending created a situation where the focus by influential entities is to destroy value and to ensure that prices remain under pressure to manage exposures and to minimize the need for supplying additional collateral in the event of price increases?
5. How can market integrity be maintained for an industry that affects the financial welfare of so many people through compulsory superannuation, when vested interests choose to put their own interests ahead of the clients whose funds they manage;
6. Given the massive losses faced by superannuation funds in recent years and in the years following the GFC, who are the entities who have positioned themselves to benefit from the massive amounts of short selling that has occurred and where have those profits ended up?

It is difficult if not impossible to successfully answer questions such as the above without getting into issues of collusion, collaboration, abuse of funds under management and share price manipulation. There can be no doubt that the system of short selling has been hijacked by sophisticated investors who have sought to destroy wealth through lower share prices wherever possible, and to use other peoples' shares to position themselves. The system has placed markets in a vulnerable position and it is not at all surprising that short selling is the first casualty of volatile markets with Governments immediately taking steps to ban the practice. Why is the destructive influence associated with short selling only recognized in times of crises?

The CuDeco situation represents just another casualty of manipulative abuses being perpetrated in the name of legalized short selling practices, however there is a chance that with the recent High Court decision manipulative activities and artificial pricing outcomes that result, may provide an avenue to clean up the securities-lending industry. Certainly long overdue reforms are needed such as ensuring full transparency for market transactions and securities lending transactions and making managed funds exempt from stock lending. Short selling issues would evaporate overnight if hedge funds had to lend out their own shares and if collusion attracted heavy penalties.

1.3.5.6.4 A MEDIA ARTICLE CONCERNING SHORT SELLING FROM THE YEAR 2008

The issues concerning short selling and indeed securities lending have impacted markets at least since February 2008, when they were brought to attention in an article by Adele Ferguson <Traders Plunder Super>. The problems alerted back then were crucially important at the time and unfortunately they have been allowed to impact markets ever since. It provides a perspective on how lax market regulation has been and still is. The article is repeated below with some extremely relevant points highlighted.

THE Australian Securities Exchange is demanding a review of stock trading rules amid evidence that hedge funds are "borrowing" shares from superannuation funds to force down prices, a practice that is mauling retirement savings.

The call follows a volatile month on the share market, in which fluctuations have been magnified by short trading, a controversial technique used by traders to make profits out of a falling market.

Traders, such as hedge funds that exist to exploit market anomalies and volatility, have been borrowing large parcels of stock, mainly from superannuation funds.

Australia's $1.1 trillion superannuation industry warehouses its shares with "custodian" companies, which often offer a discount for the service if the fund allows the stock to be lent to third parties.

Borrowed shares can be used to take long or short positions - betting shares will rise or fall - or to manipulate voting at companies' annual meetings. The transactions are exempt from capital gains tax. Other countries allow stock lending but do not have the same tax exemptions available in Australia.

Stock lending cannot be traced and the ASX, which runs and regulates the Australian Stock Exchange and Sydney Futures Exchange, admits it has no idea what proportion of shares have been "lent" to traders.

David Bryant, group executive of investments at Australian Unity, which has $6.4 billion in funds under management, *likened the practice to leaving a car in a car park, which lends it to local hooligans who return it damaged. The owner is left with the mess. "It really is that simple," he said. "And if you put margin lending into the mix the practice adds to margin calls."*

A fund that wants to engage in short selling borrows a share and then sells it in the hope of repaying the loan of the shares by buying them back cheaper at a later date. The practice can put downward pressure on shares, triggering margin calls for investors who have borrowed to buy stock, potentially driving shares even lower.

ASX chief Rob Elstone said yesterday short selling was not the issue, but the related stock lending activity. "It lacks transparency and, depending upon how many links there are in the stock-lending chain, that has the potential to raise systematic risk issues," he said.

Mr Fiani, who runs Integrity Investment Management in Sydney said: "Investors get paid a small fee to lend out their securities to short sellers, who then proceed to destroy the value of their underlying securities that the investor owns. The ASX was a huge beneficiary of hedge fund and margin lending activity, all of which serves to increase the turnover in the market".

"I would like to see all regulatory roles moved out of the ASX, so that the ASX can focus on achieving better returns for its shareholders, without distraction from the regulatory responsibilities that often conflict with this objective."

Other fund managers, including Platypus chief investment officer Don Williams, said share lending should be curbed and regulated. He said stocks outside the top 100, which are illiquid and easier to manipulate, should not be available for share lending.

Relevant points

- While there have been changes since 2008, it would appear that the changes have been implemented to provide an impression that something is being done. In particular, data relating to short selling is now published, and regulatory duties have moved from the ASX to ASIC. However the data is completely unreliable and ASIC has been completely ineffective as demonstrated by research and by the fact that a Senate Enquiry into their operations has been deemed necessary. Importantly, the problems remain only they are on a much larger scale.
- Owners of shares in managed investments including superfunds, mutual funds and the like would be likely to withdraw consent immediately if they were to fully understand the explanations advanced by David Bryant and Mr Fiani – i.e. *other peoples shares are lent to be trashed in value before being returned.*
- Transparency was an issue back then and it is an even bigger issue now.
- What the article doesn't mention is the likely collusion that takes place between fund managers and custodians, or whether or not there is duplicity in roles where some holdings are able to be sacrificed in favour of others.
- The benefits to the ASX mentioned in the article and inaction by ASIC in the face of pressing problems, may be suggesting some sort of collusion at the top end of the market for the benefit of the investment banks. It is definitely no coincidence that the 'Top End of Town' happens to be intimately connected to securities lending, short selling, HFT algorithms, Dark Pools and unfair trading privileges all of which are associated with trading behaviours that are destroying market integrity.

  Certainly, recent events with the Directors of the ASX fined for illegal short selling activity by the SEC and the Reserve Bank's Currency bribes coming to light, along with bribes by The Australian Wheat Board and Leighton's Mining, when combined by almost daily reports of corruption and fraud concerning the large investment Banks on the global stage, mean that problems within the Australian financial markets could run extremely deep.
- The following comment possibly fits well with High Court Judge Finkelstein's view of the treatment of white collar crime by the judiciary - *concessions granted to white collar fund managers and their hedge fund clients lead the public to conclude that the market represents an un-level playing field that advantages the rich over the poor.*

1.3.5.7 FURTHER OBSERVATIONS: Securities Lending (dubious Stock Lending Arrangements)

One of the great swindles in recent years has been the rorting of funds of Australian citizens through the lending out of their shares held in custodial accounts. Official spin provided in support of stock lending is typified by the following comments in an explanatory document commissioned by the Australian Securities Lending Association.

For the Australian institutional investor (such as a pension or superannuation fund, an insurance company, public unit trust or other kind of mutual fund, and some government bodies), securities lending is viewed widely as a natural adjunct and value-added service to the custody service provided by custody banks.

Although the incremental income typically is relatively small (though it can be significant in absolute terms), it offers the opportunity to the investor, with limited risk, to earn some incremental income and thereby effectively reduce their net custody fees. This is particularly relevant for a large portfolio, because it enables the institution effectively to provide a greater return for its clients.

In recent years, at the same time as 'incremental income' has been earned from securities held under custodial arrangements the value of those shares in many cases has been decimated. It makes reassurances about limited risk extremely misleading, given that the advice has proven to be grossly inaccurate.

TYPICAL TRENDS – Share Price versus Open Short Positions

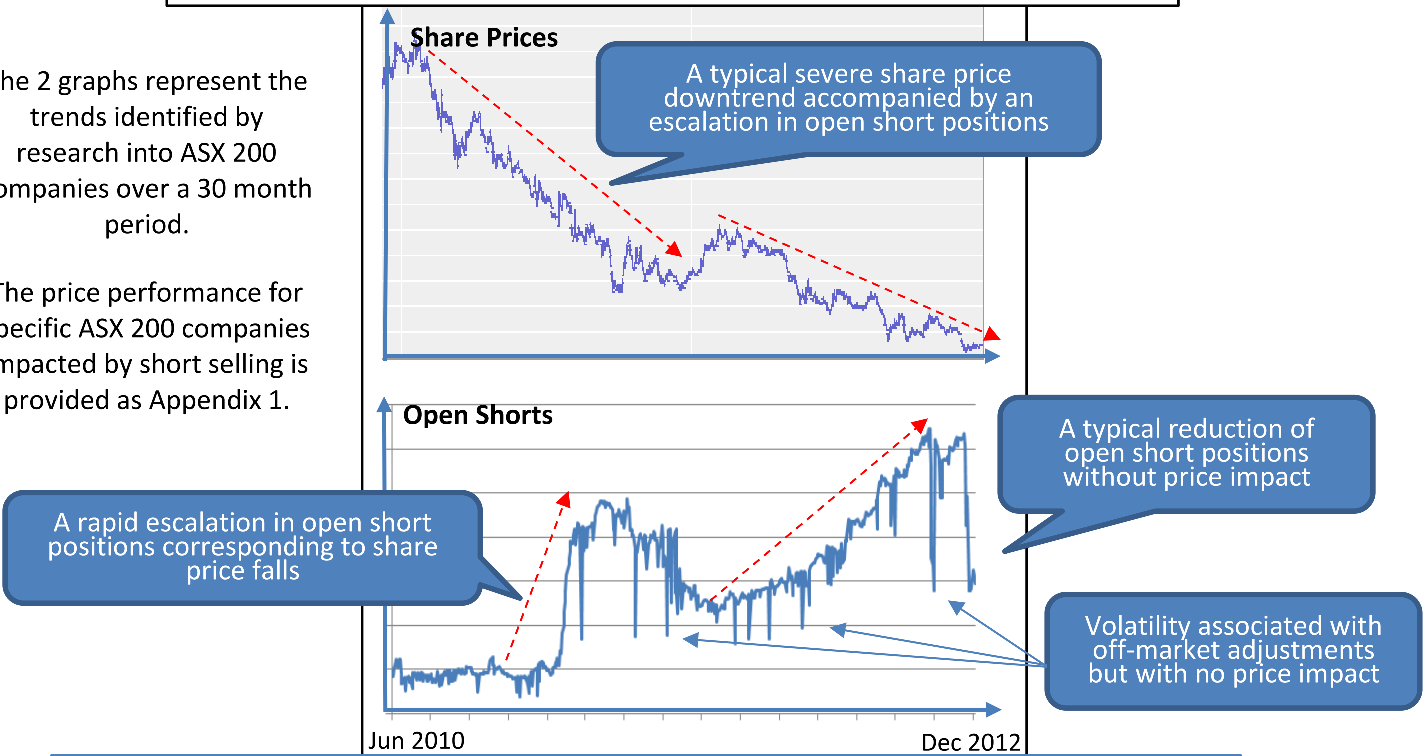
When share prices are displayed against open short position movements there are commonalities across all ASX 200 companies that have suffered large losses. The trends include

- An escalation in short selling over an extended period;
- Declining share prices;
- The covering of short positions without price impact; and
- Companies either becoming vulnerable to takeover or facing very difficult development issues because of low share prices and difficulties in raising finance.

SHARE PRICE versus OPEN SHORT POSITIONS: Jun 16, 2010, to Dec 31, 2012

The 2 graphs represent the trends identified by research into ASX 200 companies over a 30 month period.

The price performance for specific ASX 200 companies impacted by short selling is provided as Appendix 1.



Appendix 2 provides the charts of a number of ASX 200 companies where very substantial losses have corresponded to extensive short selling activity.

Appendix 1 provides the share price movements of a selection of ASX 200 companies over a period of 3 years. Losses have ranged between 50% and 92%. The period spans January 2010 up until the end of December, 2012.

The share price falls support the research findings by Royal Bank of Scotland (RBS) that estimated $72 billion was stripped from the market through short selling that occurred between June 2010 and January 2012 <Link: Short sellers ring up $72bn profit over 18 months>

TYPICAL COMPANY CHART - Lynas Corporation Ltd (LYC)

The impact of short selling on the share price is demonstrated for Lynas Corporation over the 2.5 year specified. It confirms the observations previously stated in regard to short selling where prices are reduced as open shorts build due to short selling, and the covering of short positions generally has negligible effect on the share price.

1.3.5.8 FURTHER OBSERVATIONS: Collusion Issues

The relationships between hedge funds, custodians and fund managers require a thorough investigation.

While the large profits that have accrued to hedge funds are acknowledged, how they are able to be so successful is little understood. Based on observed data , the following scenario may come close to explaining irregularities and the profits accruing to one sector being made possible by the disadvantaging of another.

The massive profits stripped from the market represent a re-distribution of wealth from owners of shares who are by and large the 'little people represented by mums and dads, Australian workers, overseas pension funds, small private investors etc. with their funds under management, to the corporate sector represented by hedge funds and the investment banks. The redistribution necessarily requires high levels of collusion between alpha fund managers and custodians, and a preparedness to disadvantage one class of investor for the exclusive benefit of others. The entire process is focussed on benefitting from the destruction of wealth with immense damage done to the market, the Australian economy and the national interest as foreign ownership over Australian assets is made easier through severe undervaluations.

Pooled investments or managed funds with the cash to buy shares that are sold short into the market are also likely to be managed by alpha fund managers. Thanks to compulsory superannuation disposable cash is rolling in on a daily basis. The former Labor Government's response to dwindling superannuation returns has been to bolster the 'wellspring of cash' through increased contributions. The shares sold short are willingly provided by the custody banks to alpha fund managers through securities lending arrangements. It is a cosy arrangement, with benefits for all if there are any profit sharing arrangements or if favours are reciprocated on a stock-by-stock basis. After all, there are precedents for collusion.

From a registry perspective, institutions (representing the holdings of custodians) are lending shares for short selling to other institutions (to be sold by alpha fund managers) and other institutions are buying the shares sold short (also directed by alpha fund managers). The arrangement explains why the register doesn't reflect changes to large increases or decreases in open short positions simply because ownership over the shares is retained by institutions as a group.

It goes a long way to explaining why short covering can take place without price impact, as the holdings are re-distributed agreeably off-market and without true price discovery. The arrangement necessarily involves high levels of co-operation (i.e., collusion) with pricing arrangements for off-market exchanges of shares somewhat arbitrary and/or artificial. As such the arrangement is highly manipulative.

The big losers in the exercise are the owners of shares with funds under management and the winners are the hedge funds and investment banks who are responsible for the short selling. Also disadvantaged are the contributors to the cash reserves used by alpha managers to purchase the shares sold short into the market. By colluding with the short sellers in facilitating covering off market and without fair price discovery, it means that they miss out on the price appreciation that would normally occur if short sellers had to go back to the market to re-purchase the shares. When their shares are made available for covering to take place off-market, and without proper price discovery, it means that client money is again being sacrificed for the benefit of those affiliates who sold short.

If the short sellers were forced into the market to cover, (i.e. to buy back the shares sold short) then their clients would stand to reap strong profits. But it rarely, if ever, happens judging by the number of charts of ASX 200 companies that show negligible price responses as large volumes of short positions are reduced. (Refer Appendix 2)

Of course alpha fund managers have other options for covering other than via off-market transfers.

They include:

- holdings accrued through the buying of shares sold short by their trading affiliates, then being put back into the market so that covering purchases can occur without necessarily impacting the price;
- if uncertainty and volatility can be cultivated in the market as with a poor earnings report (e.g., Billabong) or a misleading JORC resource (e.g., CuDeco) genuine holders can be forced into giving up their shares enabling short positions to be covered easily;
- making the company vulnerable through selling down its share price and then securing cheap placements to cover;
- entering into agreements where borrowed stock can be purchased. Cash adjustments can effectively convert stock lending loans to stock purchases so that no covering need take place at all.

All such arrangements necessarily involve high levels of co-operation and a preparedness to put aside the best interests of one class of clients, in favour of another class of clients and therein lies the problem.

Following on from the above scenarios, it is no coincidence that managed super funds have been under pressure because of poor returns since the GFC and some are struggling to cover their commitments to members. It is an indictment on the system that poor returns are likely to have subsidized the hedge fund profits estimated by RBS at around $72 billion dollars. <Refer: Short sellers ring up $72bn profit over 18 months>

The following article (June 2012) also draws attention to the end result of wide scale abuse of the provisions that allow short selling to take place on the ASX. <Link: Australian Super funds' losses among worst in world>

AUSTRALIA'S superannuation funds have lost a greater share of their members' funds since the global financial crisis than any other pension system in the advanced world, with the exception of Iceland.

It is probably no surprise that staff retirement funds for the likes of Goldman Sachs and Commonwealth Bank lead returns regarding earnings compared to funds offered by banks and wealth managers to the general public. It again suggests that one class of investor is being taken advantage of for the benefits of another. <Link: Bank staff funds top super list>

RETIREMENT funds for staff at Goldman Sachs and the Commonwealth Bank have topped an official list of the nation's best-performing super funds, as non-profit and in-house corporate funds maintain their track record of higher returns.

In contrast, funds offered by banks and wealth managers to the general public have underperformed over the past decade, according to a snapshot of the $1.4 trillion sector

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Investment strategies that allow those with privilege and access to other people's money to profit from destroying wealth simply don't compute with the interests of the great majority of Australian citizens who depend on markets being able to function with fairness, integrity and transparency and a regulator that is looking out for their interests. Unfortunately research based on empirical data overwhelmingly reveals that at the moment, it definitely isn't the case, and at has been that way for a very considerable period of time.

The Impact of Short Selling on Company Share Prices

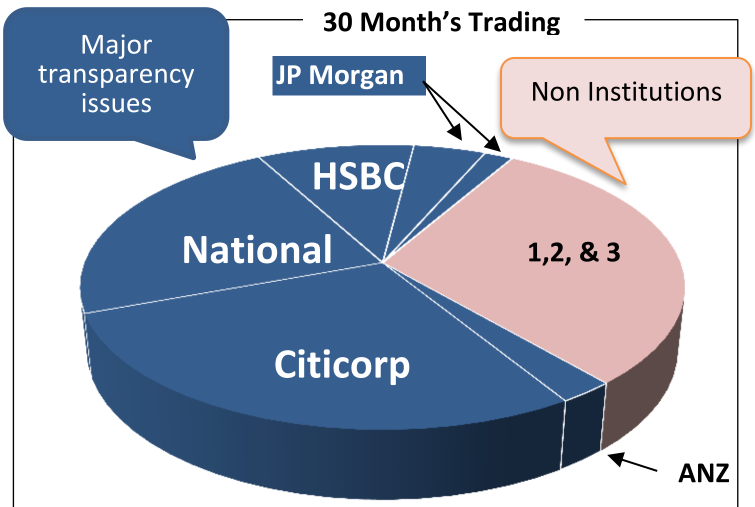
The impact of short selling on the market within the context of uncertain financial markets, is provided as Appendix 1 (which summarizes share price movements of a number of ASX 200 companies over a 3 year period) and Appendix 2 (which shows the charts of a selecion of ASX 200 Companies over a period of 30 months where share price trends are compared to corresponding trends in open short positions.

1.3.5.9 FURTHER OBSERVATIONS: Transparency Isssues

The extent of transparency issues is demonstrated by the charts for CuDeco contrasting registry movements over a 30 month period and a six month period. The blue pie chart segments highlight the registry activity of institutions where all trading as well as all dealings away from the lit market are non-transparent.

Despite trading behaviours that kept the share price under control for most of the time, the institutional presence on the register increased from 14.8% to 38.3%. It just so happens that trading that has pressured the share price has been associated with increased ownership of the company even if through placements.

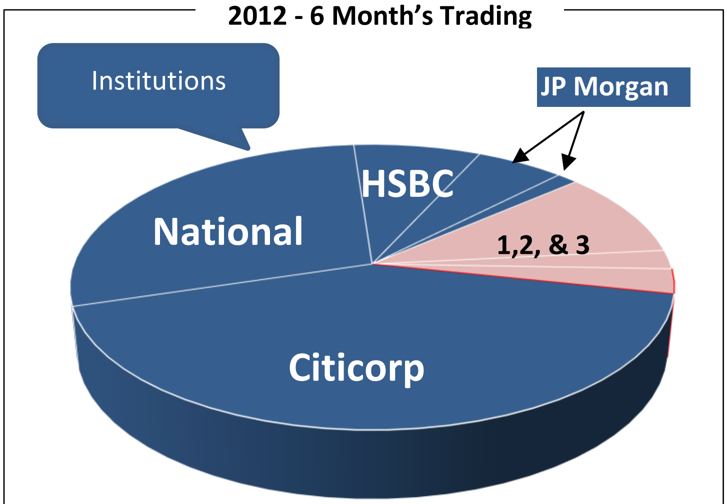
DOMINANCE OVER TRADING BY CuDECO's INSTITUTIONAL SHAREHOLDERS



Total Registry Movements

OFF	ON
438,800,819	439,011,283

30 Month's Trading
Jan 2010 through June 2012



Total Registry Movements

OFF	ON
67.874.628	68.022.177

6 Month's Trading
Jan 2012 through June 2012

KEY

Registry Activity Summary

	30 Months	6 Months (2012)
1. Retail	21.8%	9.7%
2. Corporate	7.0%	2.1%
3. CuDeco	1.6%	2.8%
4. Institutions	69.6%	85.3%

Jan 2010

Combined Institutional Holdings as at Jan 1, 2010

20,445,838 shares

(14.8% Ownership)

Accumulation

Placements + 39.2 M
Trading + 12.2 M

Jun 2012

Combined Institutional Holdings as at Jun 30, 2012

71,698,305 shares

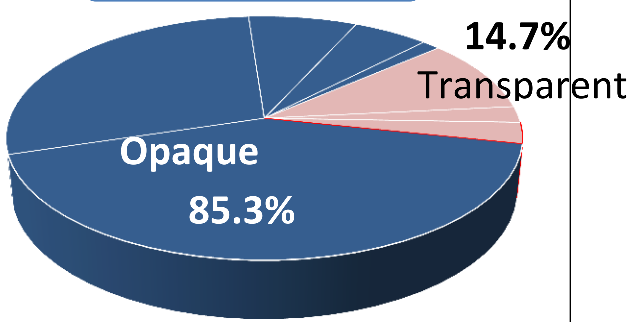
(38.3% Ownership)

The extent of transparency issues is particularly evident over the 6 month period from January to June 2012

Trading by institutions is opaque in that it cannot be reconciled to the brokers who have acted for them in the market.

Additional large volume transfers have also occurred off-market, about which nothing is known.

Jan to Jun 2012



All Non institutional trading including the company Buy Back are fully transparent where all shareholder buying and selling can be identified on the register.

COMMENT

Transparency issues are seen to be a major shortcoming of the current system of trading and settlements with extensive volumes of trades enshrouded in secrecy. Investors sitting within institutional accounts can act invisibly to the market whether by disguising buying and selling across multiple brokers or through exchanges of shares taking place in off-market dealings. The situation is made all the more difficult when entities spread their interests across multiple accounts across multiple institutions where even then they will often appear as a nominee entity reporting to a foreign jurisdiction. Layers of opaqueness run extremely deep with great difficulty in deciding who has been responsible for aberrant trading trends.

Yet ASIC are able to make determinations of no case to answer without being in possession of all the facts or as in some cases, possibly any of the real facts as they are reluctant to carry out audits.

1.3.5.10.1 FURTHER OBSERVATIONS: – Securities Lending

The other issue concerning transparency is that related to securities lending transactions. It is only through substantial shareholder notices that a glimpse of the extent of securities lending becomes evident. A regular event is that entities become substantial shareholders, not through buying shares in a company, but through the large scale borrowing of shares.

There is something intrinsically wrong with a system that allows substantial shareholder status to come about by entities looking to force prices lower through short selling and to capitalize on lower prices through the exploitation of shareholdings belonging to others, not their own. The destruction of value facilitated by securities lending has become a major focus of trading by sophisticated investors and has provided enormous incentive to control prices to actually protect large stock borrowings.

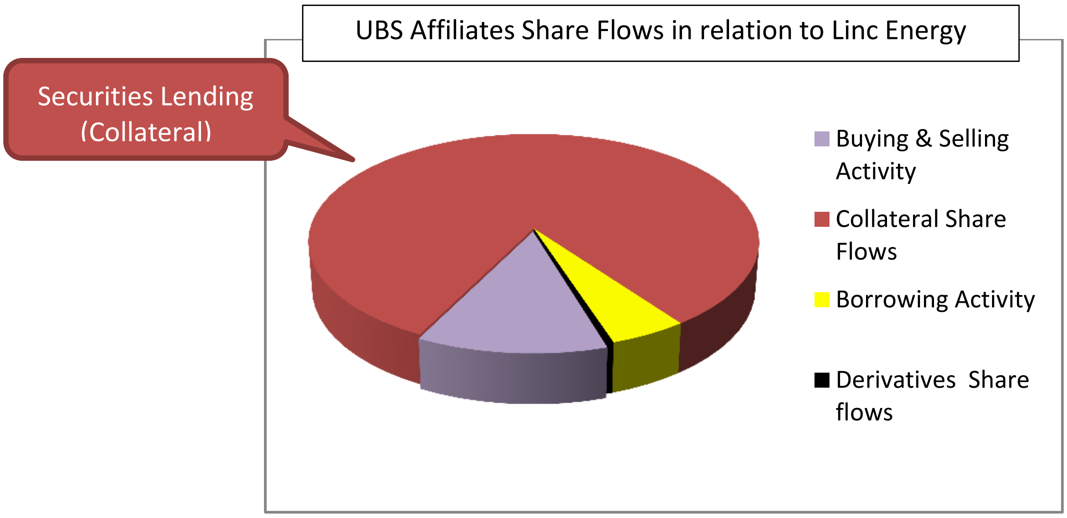
The incentives relate not only to managing the exposures to short positions established but to also preserve the value of collateral advanced in support of short selling. The sheer size of securities lending activity by some substantial holders very much portrays a tail wagging the dog situation where the traditional function of the market has been hijacked by those looking to destroy value in support of the exposures taken on. Yet, strangely, those exposures are both supported by the trading and lending activity of other major stakeholders knowing that their holdings will be massively devalued through their support. The entire arrangement is extremely dubious.

With the mindset and the trading practices of the most influential trading entities in the market, it would seem that the larger the losses that can be inflicted by short selling, then the larger the gains that can result for such entities. Unfortunately, they are sanctioned in their destructive agendas by regulators who see nothing wrong with their activities according to the frameworks they are given to supervise trading. The regulator also appears blinded to the harmful effect that the long term destruction of wealth has to the Australian economy and are not reporting systemic issues to Treasury for definitive action.

The following charts highlight the extent of share flows that can accompany securities lending, much of it in support of short selling or targeting companies in other ways such as through voting rights at AGMs.

1.3.5.10.2 SUBSTANTIAL NOTICES ASSOCIATED WITH LINC ENERGY <Reference Link Chapter 7.2 Pg. 16>

The chart compares UBS buying & selling in Linc Energy to share flows associated with Linc shares that are the result of securities lending transactions by UBS. In particular Linc shares owned by UBS Affiliates move IN and OUT of their accounts on the Linc register as collateral in support of other borrowings. It represents a very large proportion of their share flows not related to their buying and selling activity in respect of Linc.

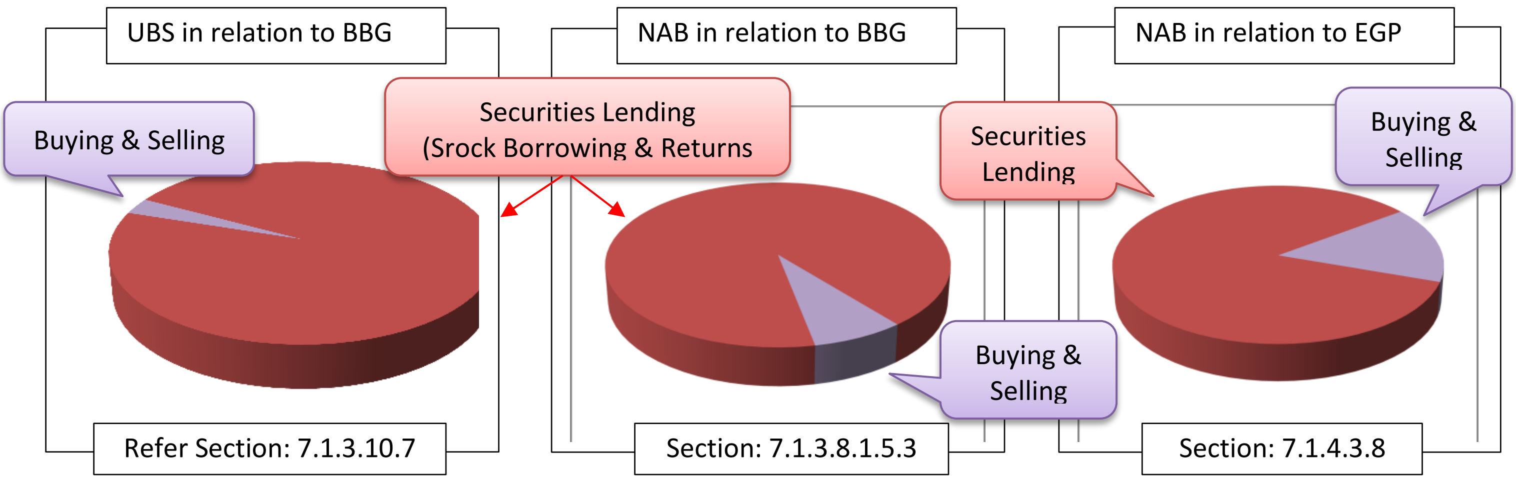


The UBS trading in Linc Energy has parallels to UBS trading in Billabong Corporation in regard to the high levels of securities lending share flows. However in regard to BBG, it has been UBS's stock borrowing that has been substantial rather than share flows associated with collateral such as the above regarding Linc.

NAB trading in both Echo Entertainment (EGP) and Billabong Corporation (BBG), both highlighted in Research Paper 7.1 <REFERENCE INK>, also show similar high volume securities lending share flows concerning borrowings that have only been brought to attention by substantial shareholder notices.

The charts below summarize trading by UBS and NAB in relation to Billabong, and also NAB in relation to Echo Entertainment, all as substantial shareholders. The charts reveal a disproportionate amount of securities lending share flows regarding the borrowing and returning of stock by substantial holders, compared to their buying & selling in the market.

The situation has enormous ramifications for market integrity with excessive lending likely to encourage attempts to control the market in an attempt to protect both exposed borrowings and the value of collateral advanced in support of borrowings. Control over the market would also be attempting to ensure that the exposures taken on through securities lending translate into winning trades.



APPENDIX 1

Share Price Performances of a Selection of ASX 200 Companies

The table looks at trading for a crossection of ASX200 companies between Jan 2010 and Dec 2012 and simply compares early highs established in 2010 to closing prices as at Dec 31, 2012.

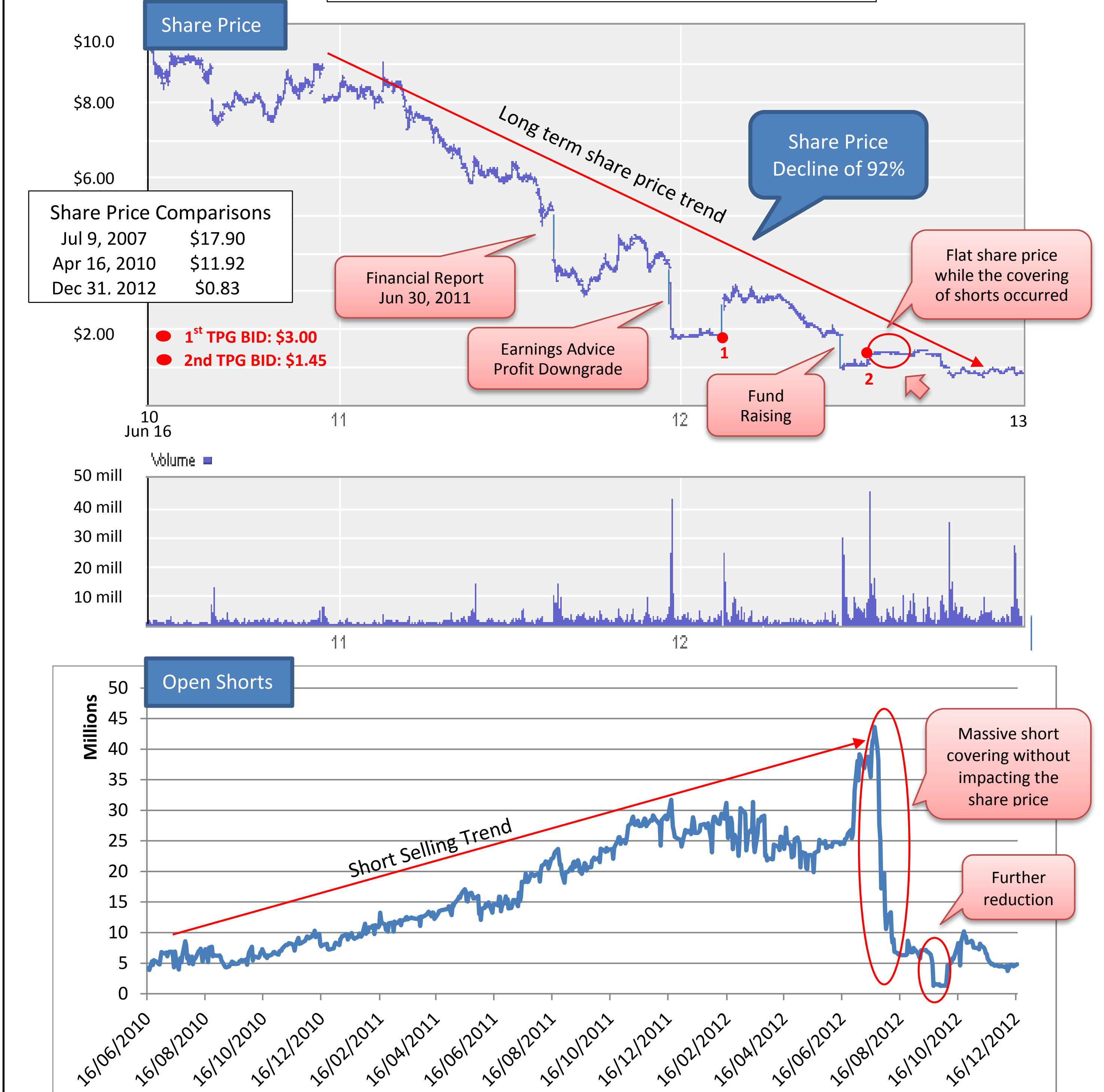
ASX 200 Company	ASX Code	High	Close	Change
WHITE ENERGY COMPANY LIMITED	WEC	$4.16	$0.24	-94.2%
BILLABONG INTERNATIONAL	BBG	$9.69	$0.84	-91.3%
INTREPID MINES LIMITED	IAU	$2.24	$0.22	-90.2%
APN NEWS & MEDIA LIMITED	APN	$2.24	$0.26	-88.4%
GINDALBIE METALS LTD	GBG	$1.47	$0.25	-83.0%
Pluton Resources	PLV	$1.23	$0.25	-79.7%
MIRABELA NICKEL LIMITED	MBN	$2.35	$0.48	-79.6%
GUNNS LIMITED	GNS	$0.78	$0.16	-79.5%
P PROPERTY GROUP	FKP	$0.94	$0.20	-78.7%
LYNAS CORPORATION LIMITED	LYC	$2.60	$0.58	-77.7%
MACMAHON HOLDINGS LIMITED	MAH	$0.87	$0.23	-74.1%
GRYPHON MINERALS LIMITED	GRY	$2.00	$0.52	-74.0%
BATHURST RESOURCES LIMITED	BTU	$1.26	$0.37	-70.6%
KINGSGATE CONSOLIDATED LIMITED	KCN	$12.15	$4.36	-64.1%
LINC ENERGY LTD	LNC	$3.14	$1.17	-62.7%
OZ MINERALS LIMITED	OZL	$17.80	$6.70	-62.4%
ALACER GOLD CORP.	AQG	$11.56	$4.94	-57.3%
SARACEN MINERAL HOLDINGS	SAR	$0.90	$0.39	-56.4%
DAVID JONES LIMITED	DJS	$5.25	$2.36	-55.0%
JB HI-FI LIMITED	JBH	$22.13	$10.35	-53.2%
ILUKA RESOURCES LIMITED	ILU	$18.90	$9.02	-52.3%
HARVEY NORMAN HOLDINGS	HVN	$3.94	$1.90	-51.8%
KAROON GAS AUSTRALIA LIMITED	KAR	$10.81	$5.30	-51.0%
ENERGY WORLD CORPORATION LTD	EWC	$0.75	$0.37	-50.7%
NEWCREST MINING LIMITED	NCM	$43.41	$22.18	-48.9%
QANTAS AIRWAYS LIMITED	QAN	$2.88	$1.49	-48.3%
ST BARBARA LIMITED	SBM	$2.79	$1.47	-47.3%
MYER HOLDINGS LIMITED	MYR	$3.96	$2.16	-45.5%
CSR LIMITED	CSR	$3.57	$1.96	-45.1%
AWE LIMITED	AWE	$2.13	$1.20	-43.7%
SUNDANCE RESOURCES	SDL	$0.62	$0.37	-40.3%
WESTERN AREAS NL	WSA	$7.20	$4.46	-38.1%
INTEGRA MINING LIMITED	IGR	$0.73	$0.50	-31.5%
WOTIF.COM HOLDINGS LIMITED	WTF	$7.82	$5.58	-28.6%
SANTOS LIMITED	STO	$15.74	$11.37	-27.8%
RIO TINTO LIMITED	RIO	$88.68	$66.01	-25.6%
BHP BILLITON LIMITED	BHP	$49.55	$37.10	-25.1%
CARDNO LIMITED	CDD	$8.40	$6.97	-17.0%
CUDECO LIMITED	CDU	$5.02	$4.30	-14.3%
IOOF HOLDINGS LIMITED	IFL	$8.06	$7.44	-7.7%
DISCOVERY METALS LIMITED	DML	$1.71	$1.63	-4.7%
BRAMBLES LIMITED	BXB	$7.41	$7.51	1.3%
SILVER LAKE RESOURCES LIMITED	SLR	$3.10	$3.32	7.1%
SIGMA PHARMACEUTICALS LIMITED	SIP	$0.70	$0.75	7.1%
FLIGHT CENTRE LIMITED	FLT	$25.00	$27.00	8.0%
DEXUS PROPERTY GROUP	DXS	$0.86	$1.01	17.4%
CARSALES.COM LIMITED	CRZ	$5.45	$7.44	36.5%
CSL LIMITED	CSL	$32.97	$53.90	63.5%
IRE RESOURCES NL	SFR	$3.31	$8.63	160.7%

APPENDIX 2

Share Price Trends versus Open Short Position Trends over a 2.5 Year Period

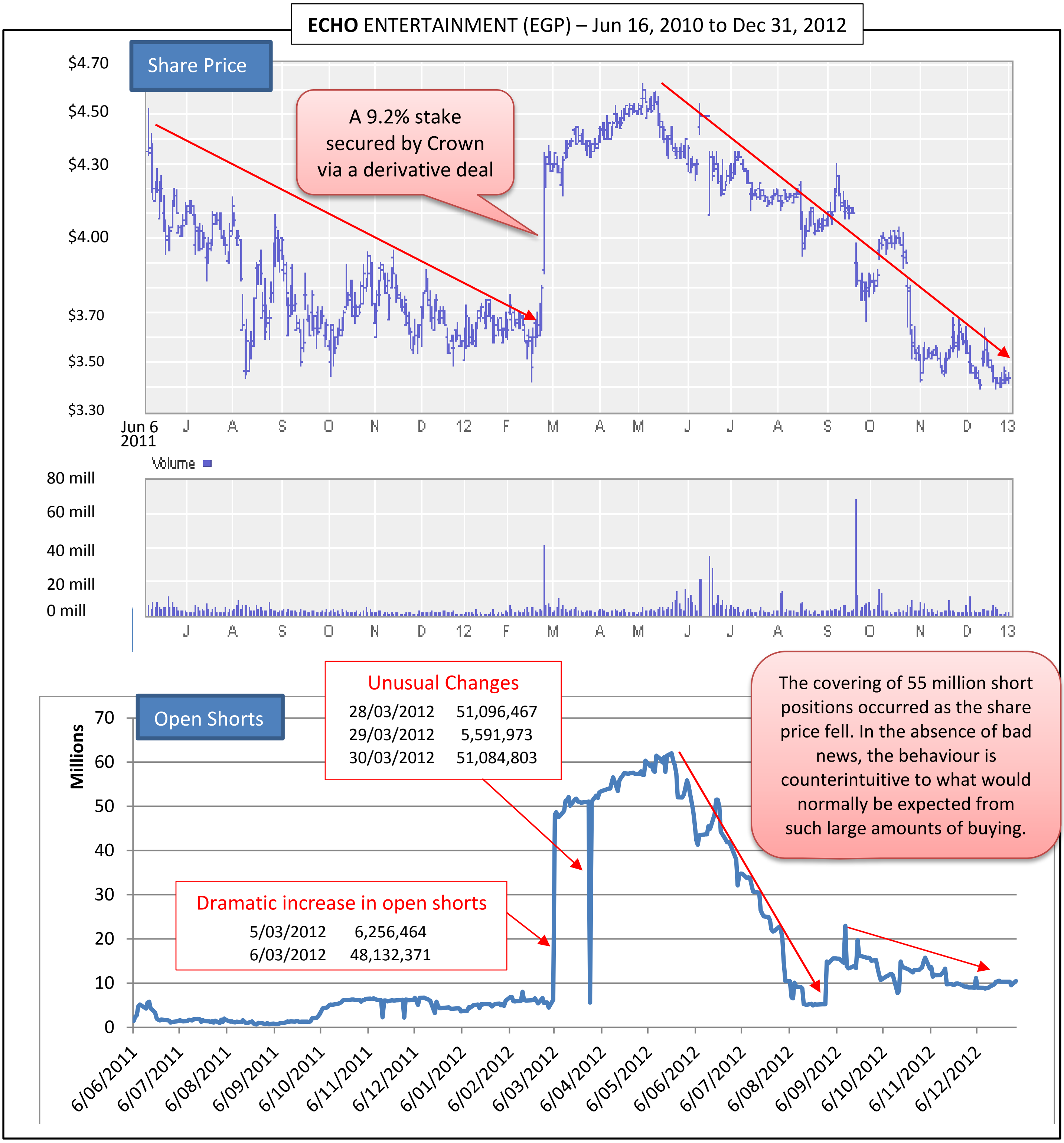
The charts of ASX200 companies that follow, compare share price trends over the period June 16, 2010 through December 31, 2012, to the trends in open short positions over the 30 month period. The impact of high levels of shorts on share prices helps to reveal how hedge funds were able to extract the $72 billion from the market by shorting as reported by Royal Bank of Scotland (RBS). <LINK>

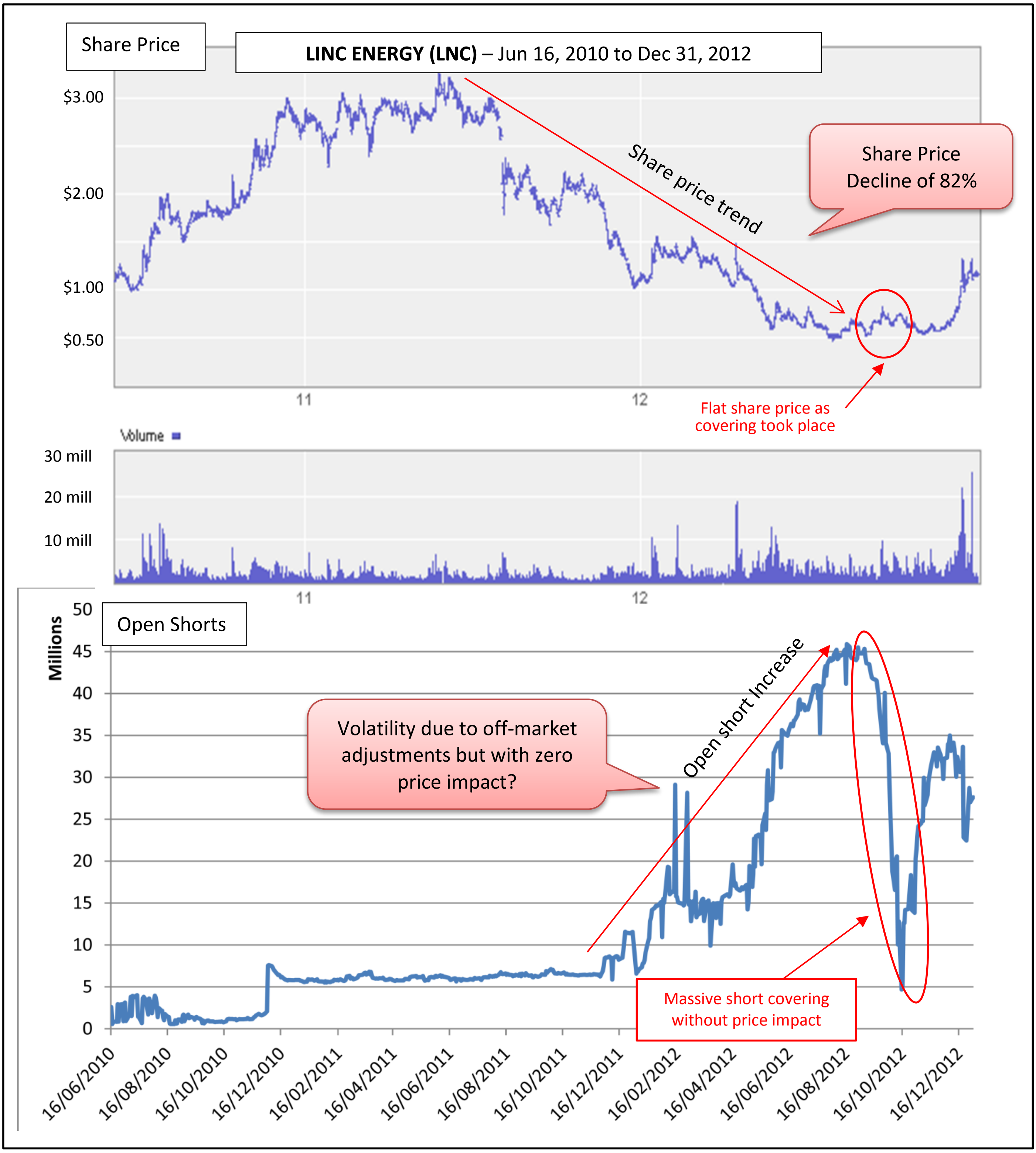
BILLABONG (BBG) – Jun 16, 2010 to Dec 31, 2012

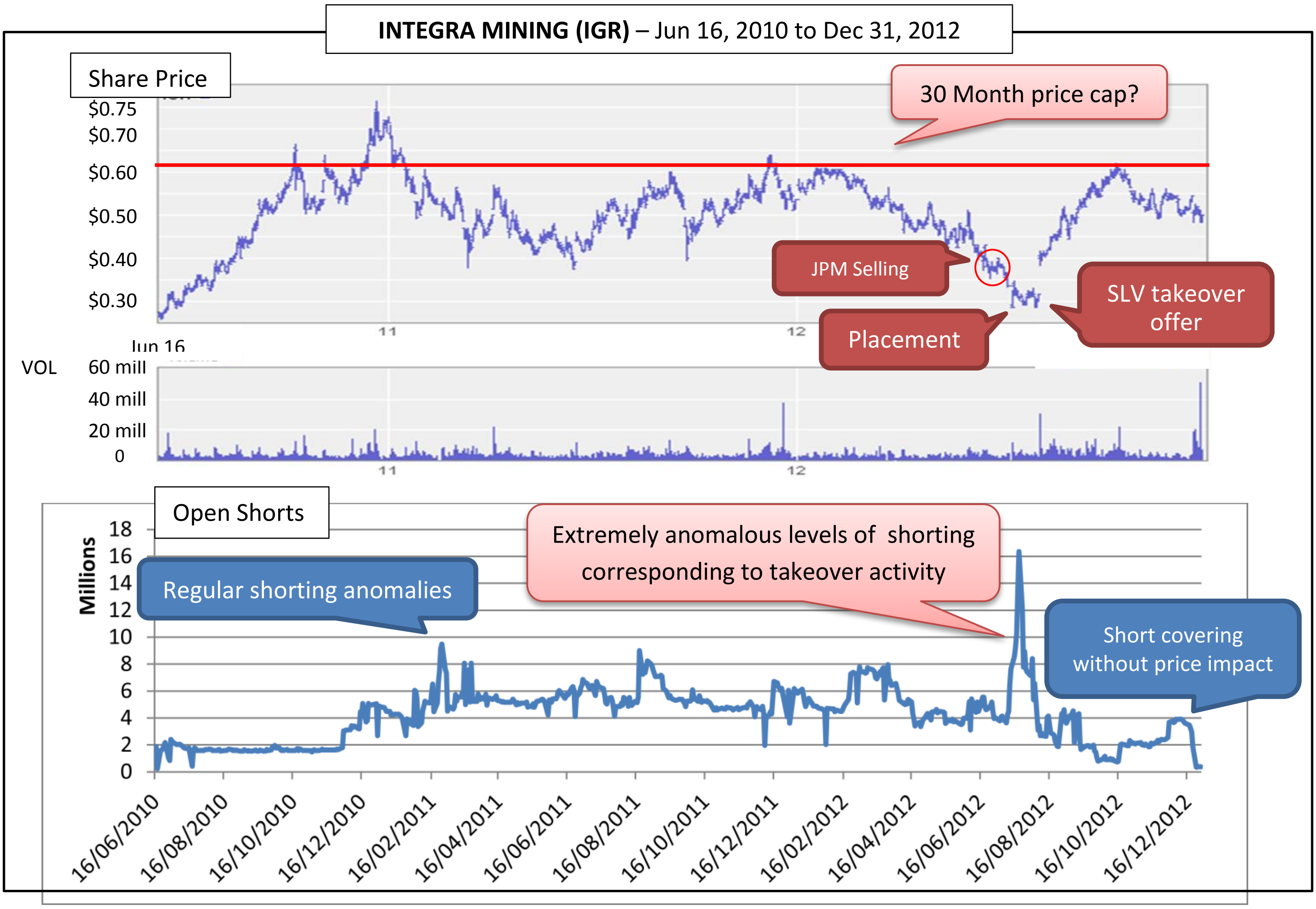


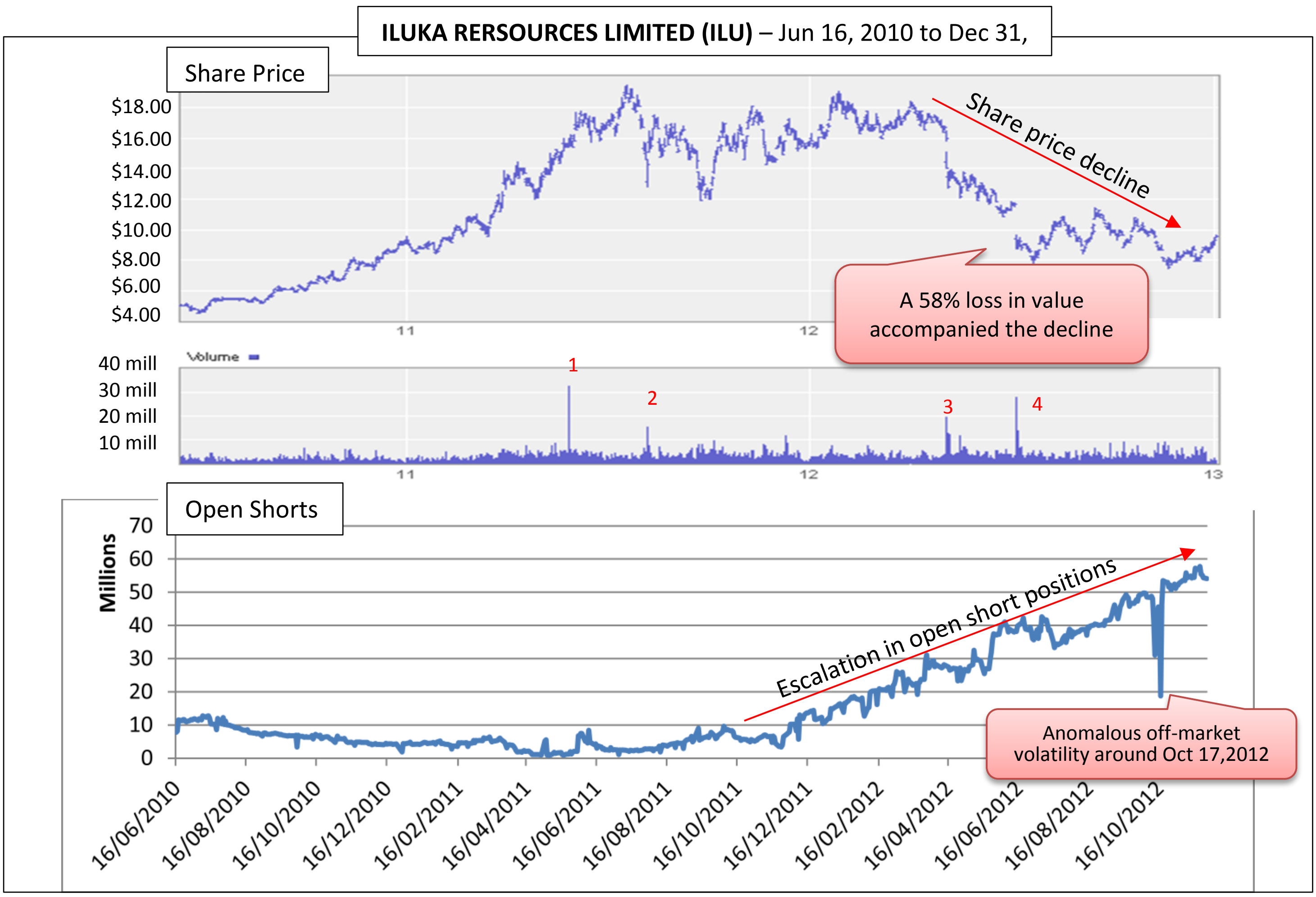
Similarly to the Lynas situation, the four key elements of trading in Billabong International have also been:

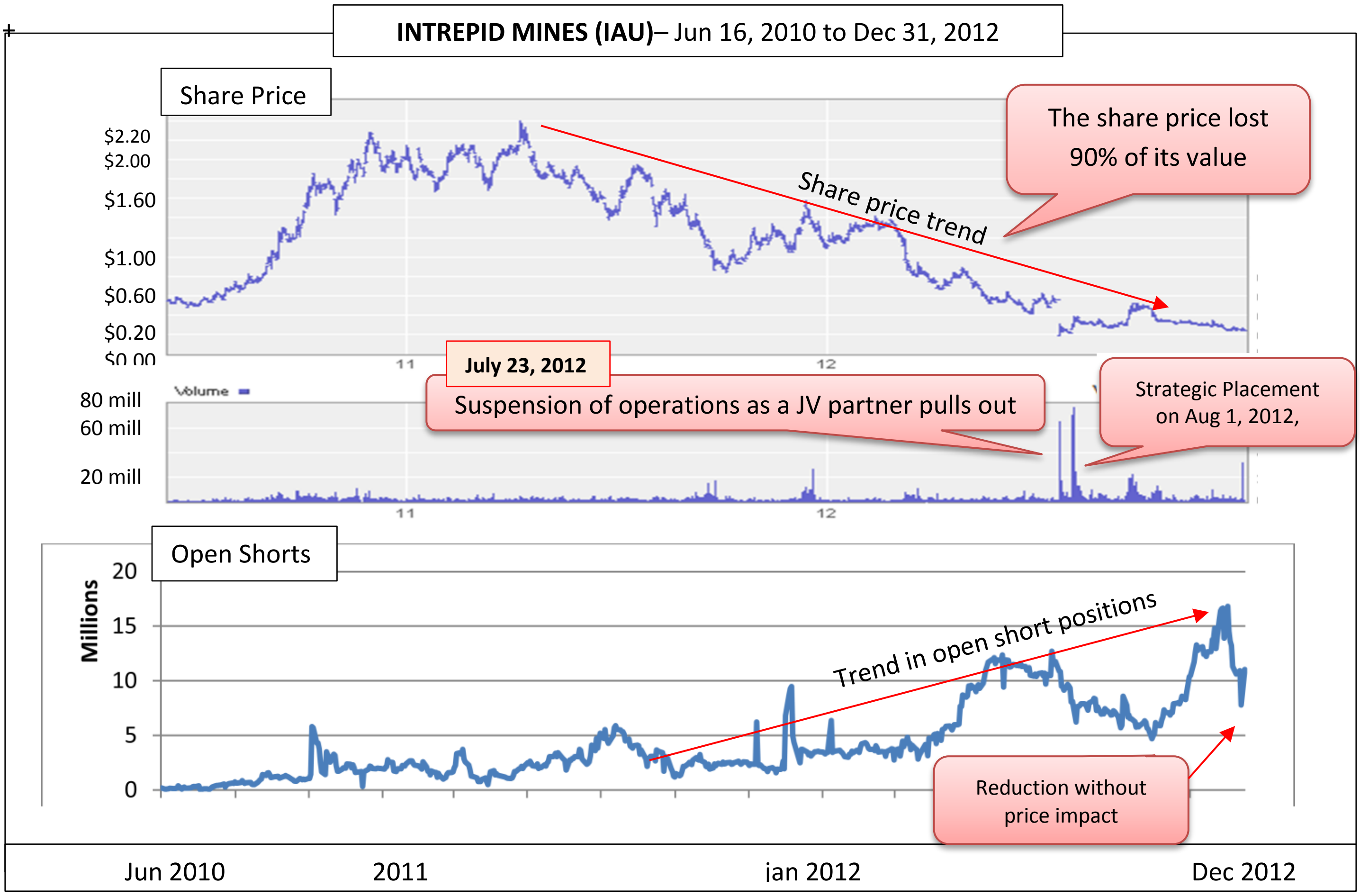
- the steadily increasing open short position over an extended period of time;
- continuous declines in the share price over the same period with the share price severely reduced in value;
- the removal of a large short position without impact to the share price, and;
- large volumes of back & forth trading churn not necessarily resulting in changes to ownership.

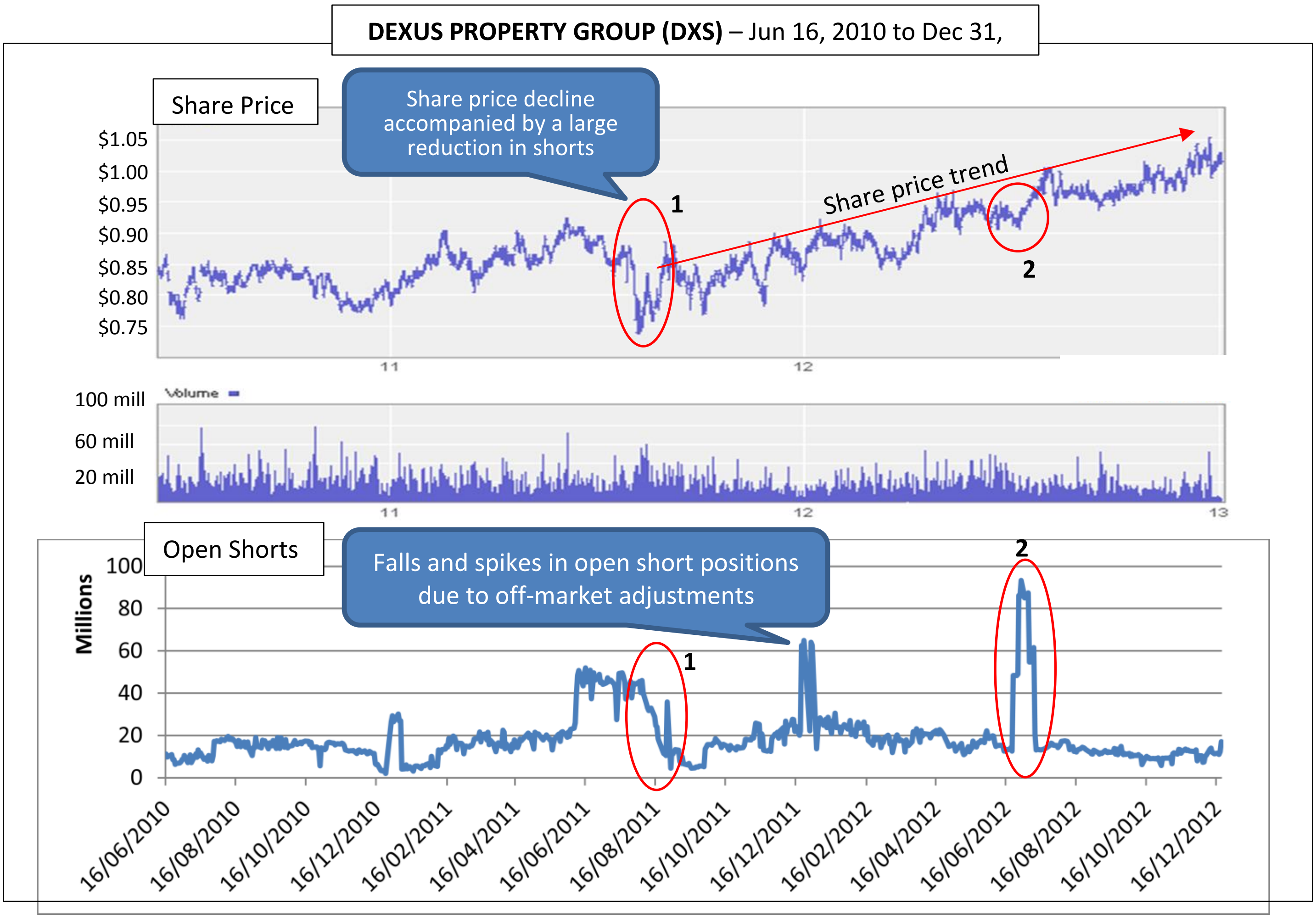

ECHO ENTERTAINMENT (EGP) – Jun 16, 2010 to Dec 31, 2012
Share Price
A 9.2% stake secured by Crown via a derivative deal
$4.70
$4.50
$4.30
$4.00
$3.70
$3.50
$3.30
Jun 6 2011
J A S O N D 12 F M A M J J A S O N D 13
Volume
80 mill
60 mill
40 mill
20 mill
0 mill
Open Shorts
Millions
70
60
50
40
30
20
10
0
Unusual Changes
28/03/2012 51,096,467
29/03/2012 5,591,973
30/03/2012 51,084,803
The covering of 55 million short positions occurred as the share price fell. In the absence of bad news, the behaviour is counterintuitive to what would normally be expected from such large amounts of buying.
Dramatic increase in open shorts
5/03/2012 6,256,464
6/03/2012 48,132,371
6/06/2011 6/07/2011 6/08/2011 6/09/2011 6/10/2011 6/11/2011 6/12/2011 6/01/2012 6/02/2012 6/03/2012 6/04/2012 6/05/2012 6/06/2012 6/07/2012 6/08/2012 6/09/2012 6/10/2012 6/11/2012 6/12/2012

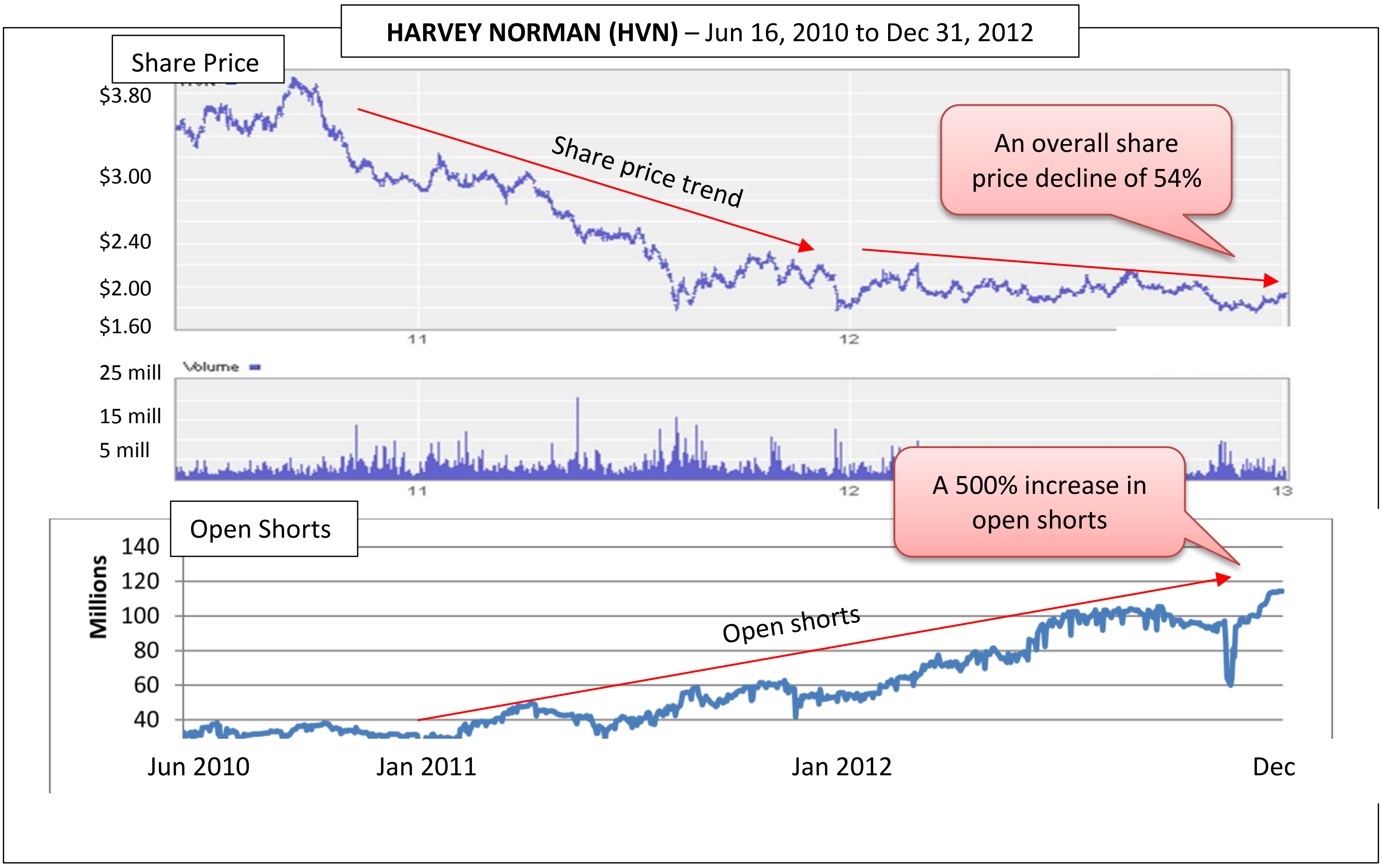

Share Price
LINC ENERGY (LNC) – Jun 16, 2010 to Dec 31, 2012
$3.00
$2.00
$1.00
$0.50
Share price trend
Share Price Decline of 82%
11
12
Flat share price as covering took place
Volume
30 mill
20 mill
10 mill
11
12
Millions
Open Shorts
50
45
40
35
30
25
20
15
10
5
0
Volatility due to off-market adjustments but with zero price impact?
Open short Increase
Massive short covering without price impact
16/06/2010
16/08/2010
16/10/2010
16/12/2010
16/02/2011
16/04/2011
16/06/2011
16/08/2011
16/10/2011
16/12/2011
16/02/2012
16/04/2012
16/06/2012
16/08/2012
16/10/2012
16/12/2012

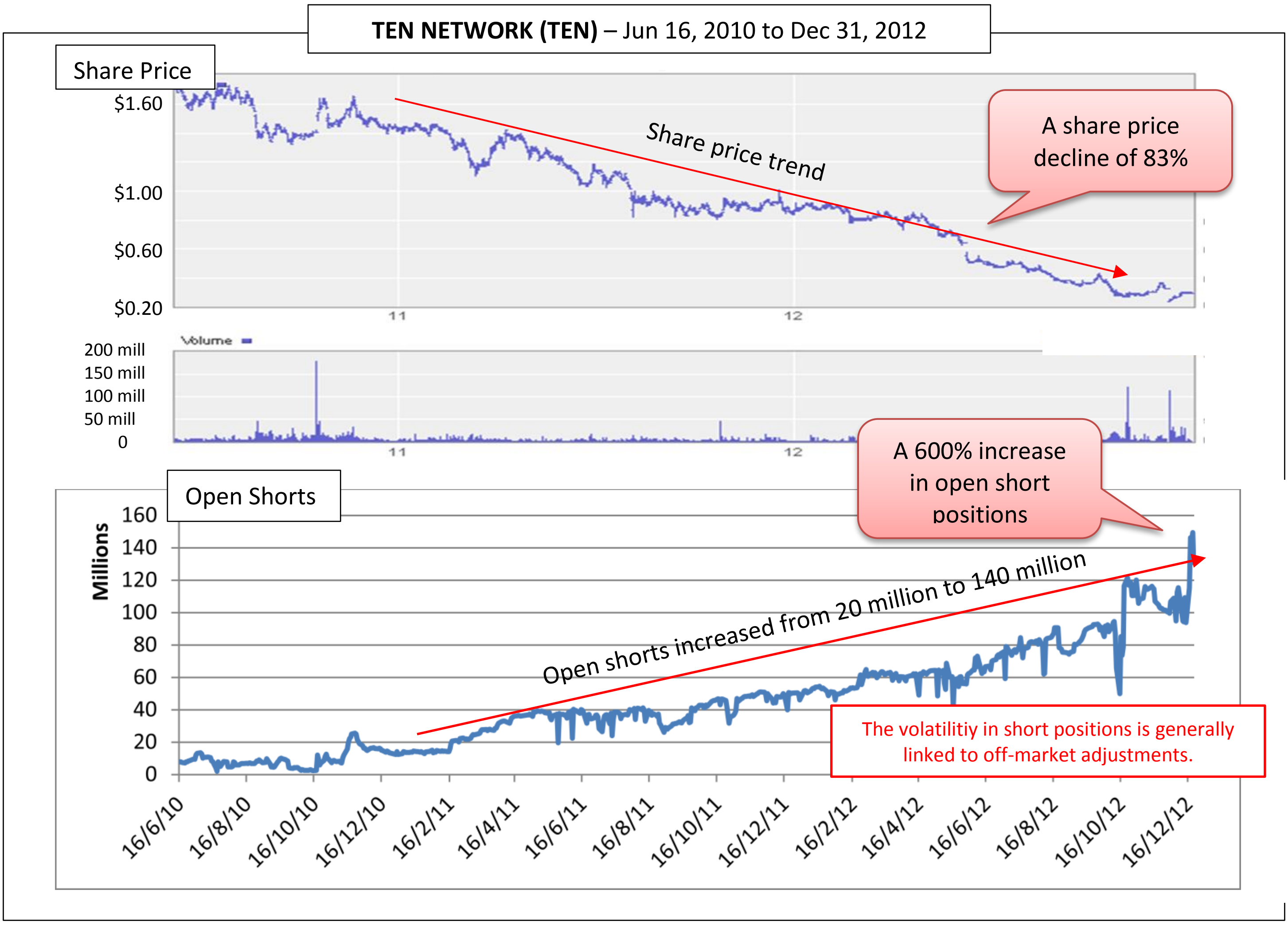

INTEGRA MINING (IGR) – Jun 16, 2010 to Dec 31, 2012
Share Price
30 Month price cap?
JPM Selling
Placement
SLV takeover offer
VOL
Open Shorts
Millions
Regular shorting anomalies
Extremely anomalous levels of shorting corresponding to takeover activity
Short covering without price impact


ILUKA RERSOURCES LIMITED (ILU) – Jun 16, 2010 to Dec 31,
Share Price
Share price decline
A 58% loss in value accompanied the decline
Volume
Open Shorts
Millions
Escalation in open short positions
Anomalous off-market volatility around Oct 17,2012


INTREPID MINES (IAU)– Jun 16, 2010 to Dec 31, 2012
Share Price
The share price lost 90% of its value
Share price trend
July 23, 2012
Suspension of operations as a JV partner pulls out
Strategic Placement on Aug 1, 2012,
Open Shorts
Millions
Trend in open short positions
Reduction without price impact
Jun 2010
2011
jan 2012
Dec 2012


DEXUS PROPERTY GROUP (DXS) – Jun 16, 2010 to Dec 31,
Share Price
Share price decline accompanied by a large reduction in shorts
Share price trend
Open Shorts
Millions
Falls and spikes in open short positions due to off-market adjustments


HARVEY NORMAN (HVN) – Jun 16, 2010 to Dec 31, 2012
Share Price
$3.80
$3.00
$2.40
$2.00
$1.60
Share price trend
An overall share price decline of 54%
25 mill
15 mill
5 mill
Volume
Open Shorts
Millions
140
120
100
80
60
40
A 500% increase in open shorts
Open shorts
Jun 2010
Jan 2011
Jan 2012
Dec


TEN NETWORK (TEN) – Jun 16, 2010 to Dec 31, 2012
Share Price
$1.60
$1.00
$0.60
$0.20
Share price trend
A share price decline of 83%
200 mill
150 mill
100 mill
50 mill
0
Volume
Open Shorts
Millions
160
140
120
100
80
60
40
20
0
A 600% increase in open short positions
Open shorts increased from 20 million to 140 million
The volatilitiy in short positions is generally linked to off-market adjustments.
16/6/10
16/8/10
16/10/10
16/12/10
16/2/11
16/4/11
16/6/11
16/8/11
16/10/11
16/12/11
16/2/12
16/4/12
16/6/12
16/8/12
16/10/12
16/12/12


PALADIN ENERGY LTD (PDN) – Jun 16, 2010 to Dec 31, 2012
Share Price
$5.00
$4.00
$3.00
$2.00
$0.50
Overall Share price decline
An 85% reduction in price
Volume
100 mill
80 mill
60 mill
40 mill
20 mill
0
Open Shorts
Millions
Open shorts have increased from 20 million to 90 million shares
A 350% increase in open short positions
16/06/2010
16/08/2010
16/10/2010
16/12/2010
16/02/2011
16/04/2011
16/06/2011
16/08/2011
16/10/2011
16/12/2011
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16/04/2012
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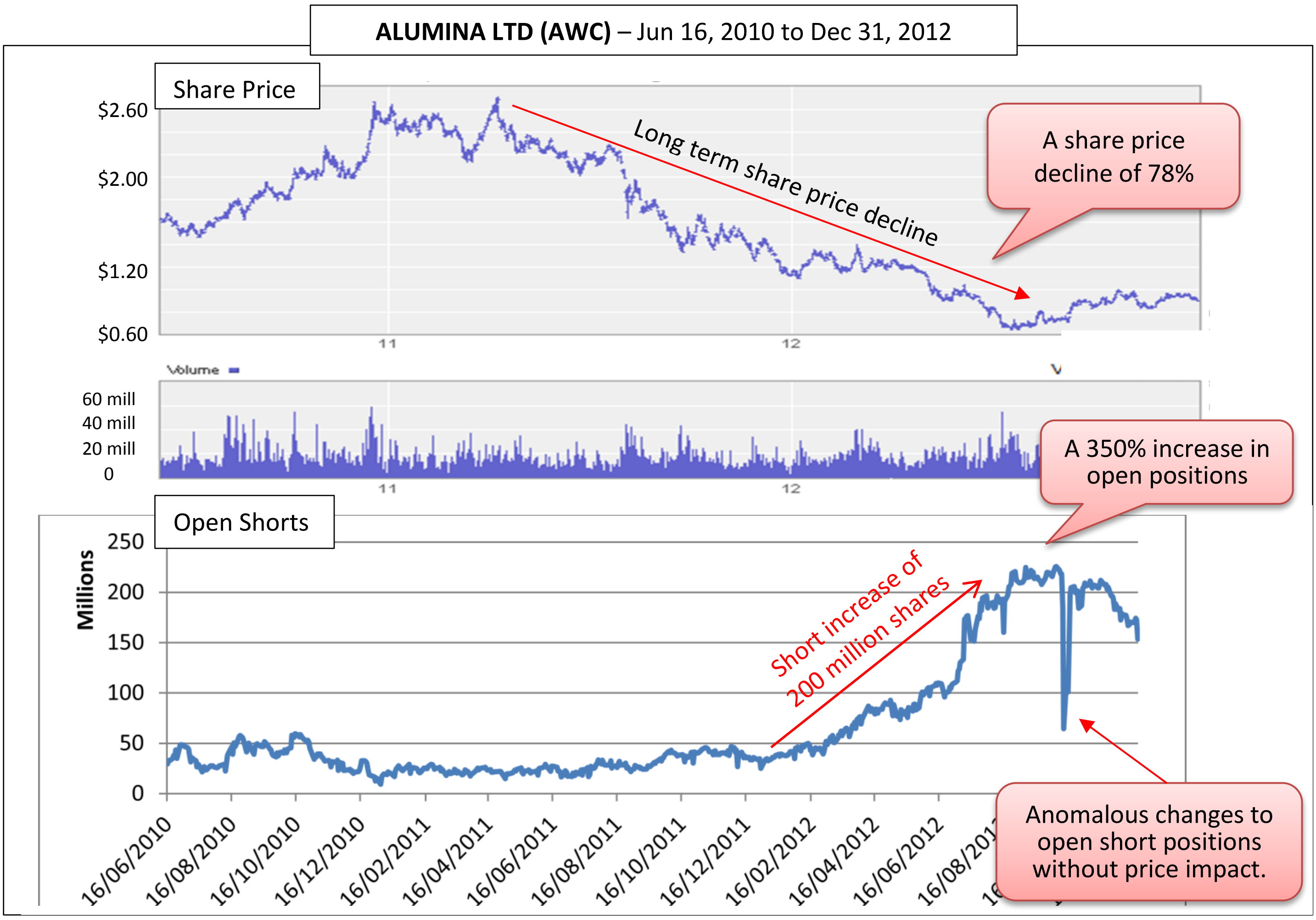
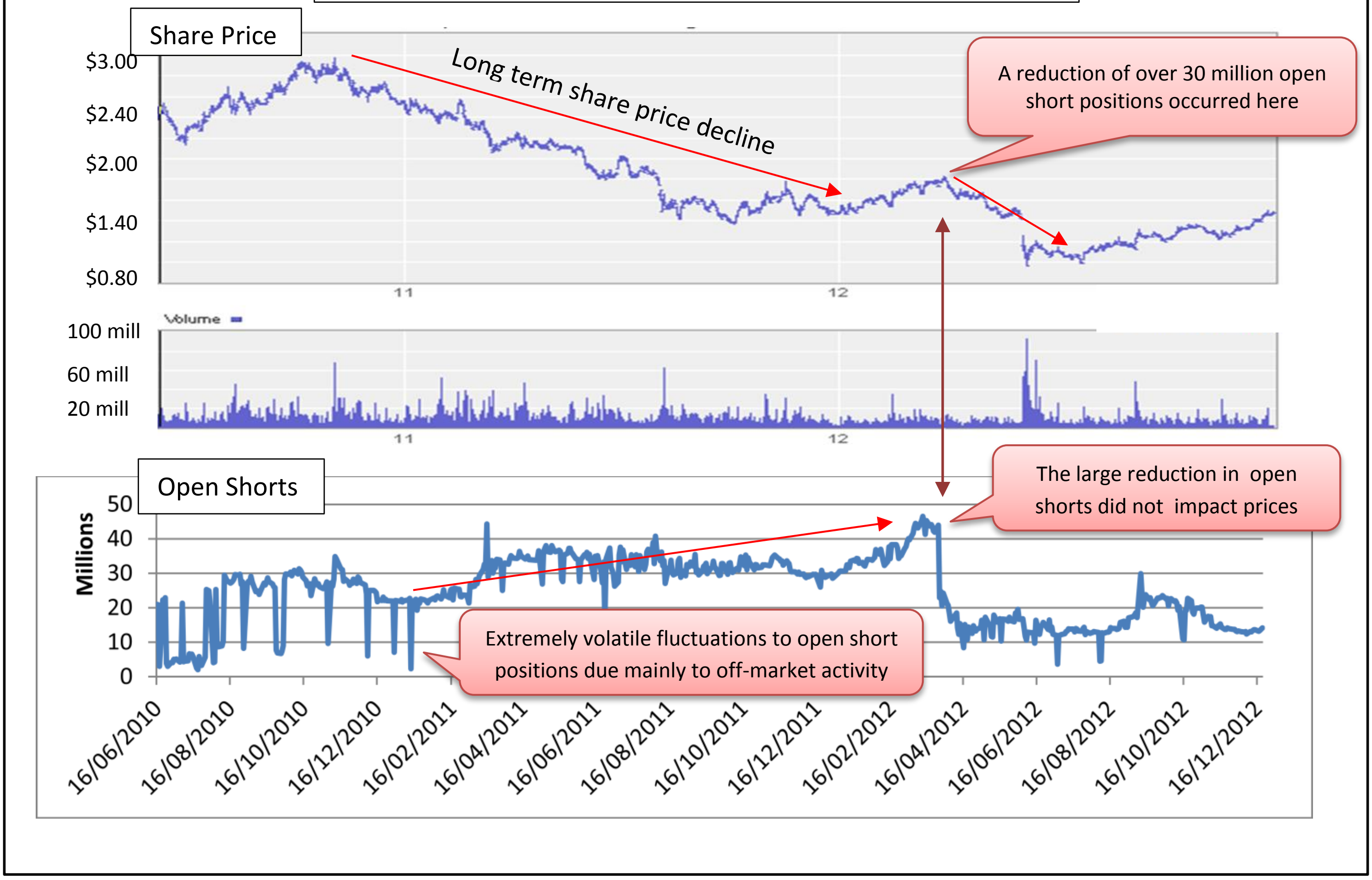
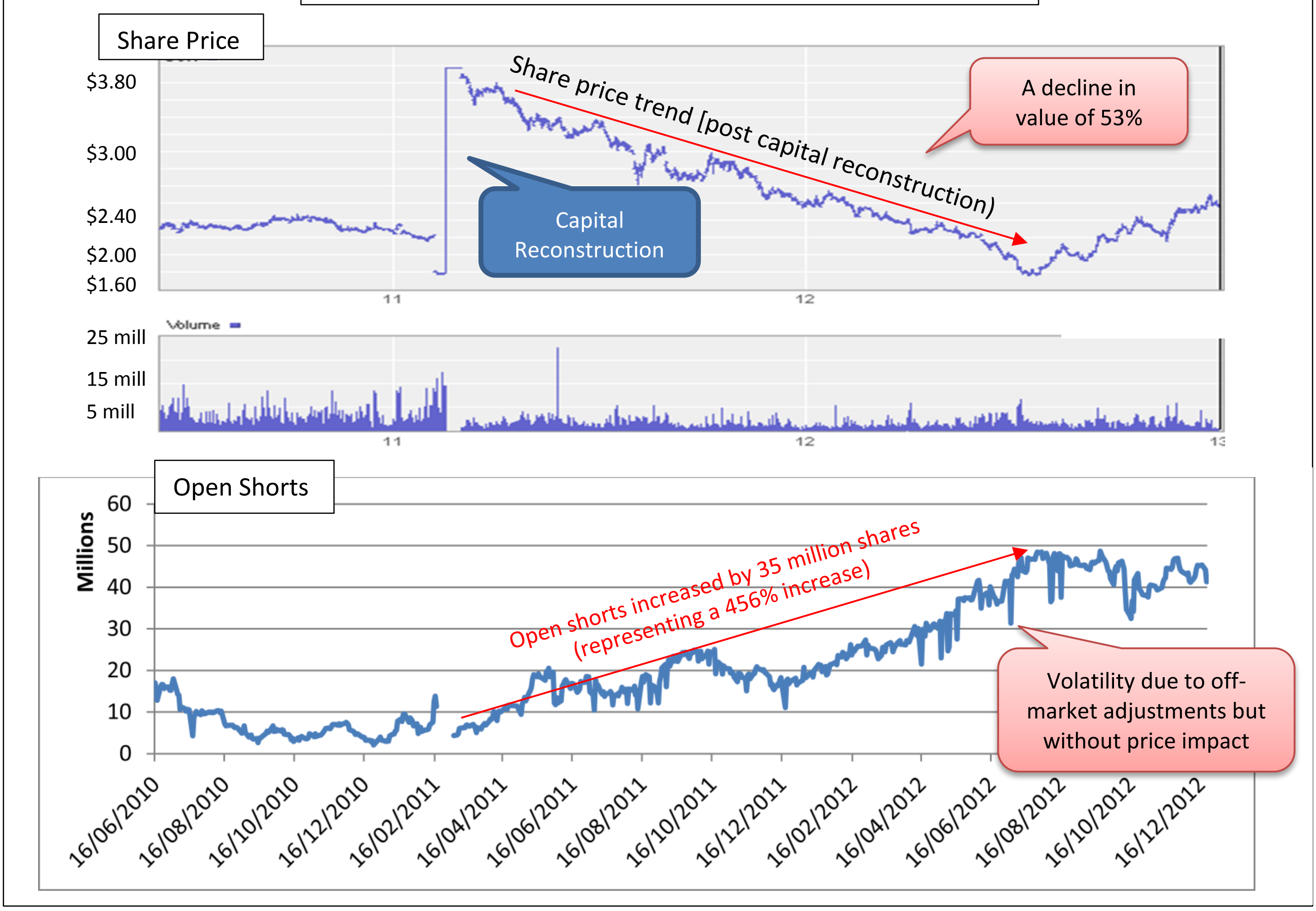
16/08/2012
16/10/2012
16/12/2012

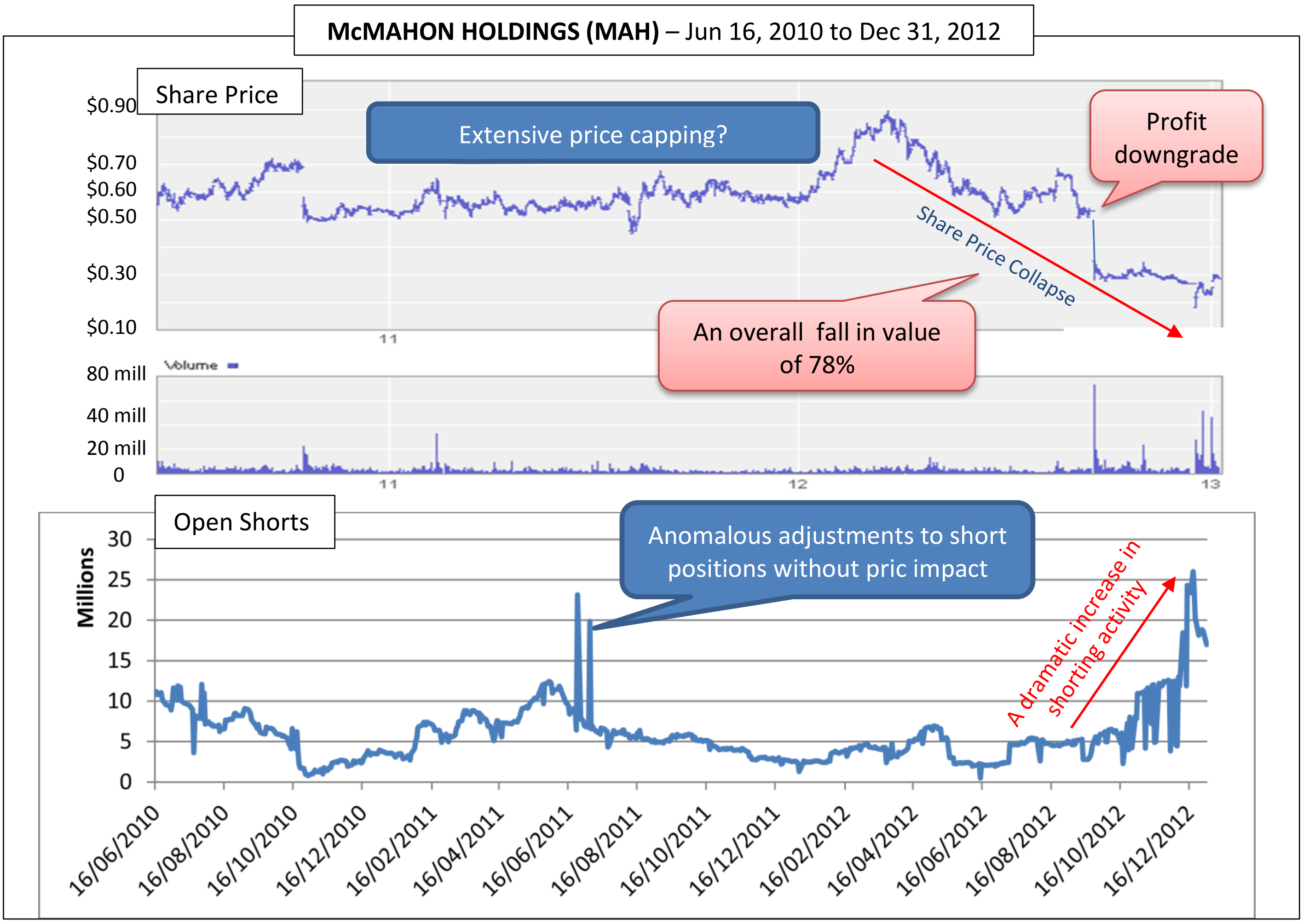

ALUMINA LTD (AWC) – Jun 16, 2010 to Dec 31, 2012
Share Price
$2.60
$2.00
$1.20
$0.60
Long term share price decline
A share price decline of 78%
Volume
60 mill
40 mill
20 mill
0
A 350% increase in open positions
Open Shorts
Millions
Short increase of 200 million shares
Anomalous changes to open short positions without price impact.

QANTAS AIRWAYS LTD (QAN) – Jun 16, 2010 to Dec 31, 2012



CSR LIMITED (CSR) – Jun 16, 2010 to Dec 31, 2012




McMAHON HOLDINGS (MAH) – Jun 16, 2010 to Dec 31, 2012
Share Price
Extensive price capping?
Profit downgrade
Share Price Collapse
An overall fall in value of 78%
$0.90
$0.70
$0.60
$0.50
$0.30
$0.10
80 mill
40 mill
20 mill
0
Volume
Open Shorts
Anomalous adjustments to short positions without pric impact
A dramatic increase in shorting activity
Millions
30
25
20
15
10
5
0
16/06/2010
16/08/2010
16/10/2010
16/12/2010
16/02/2011
16/04/2011
16/06/2011
16/08/2011
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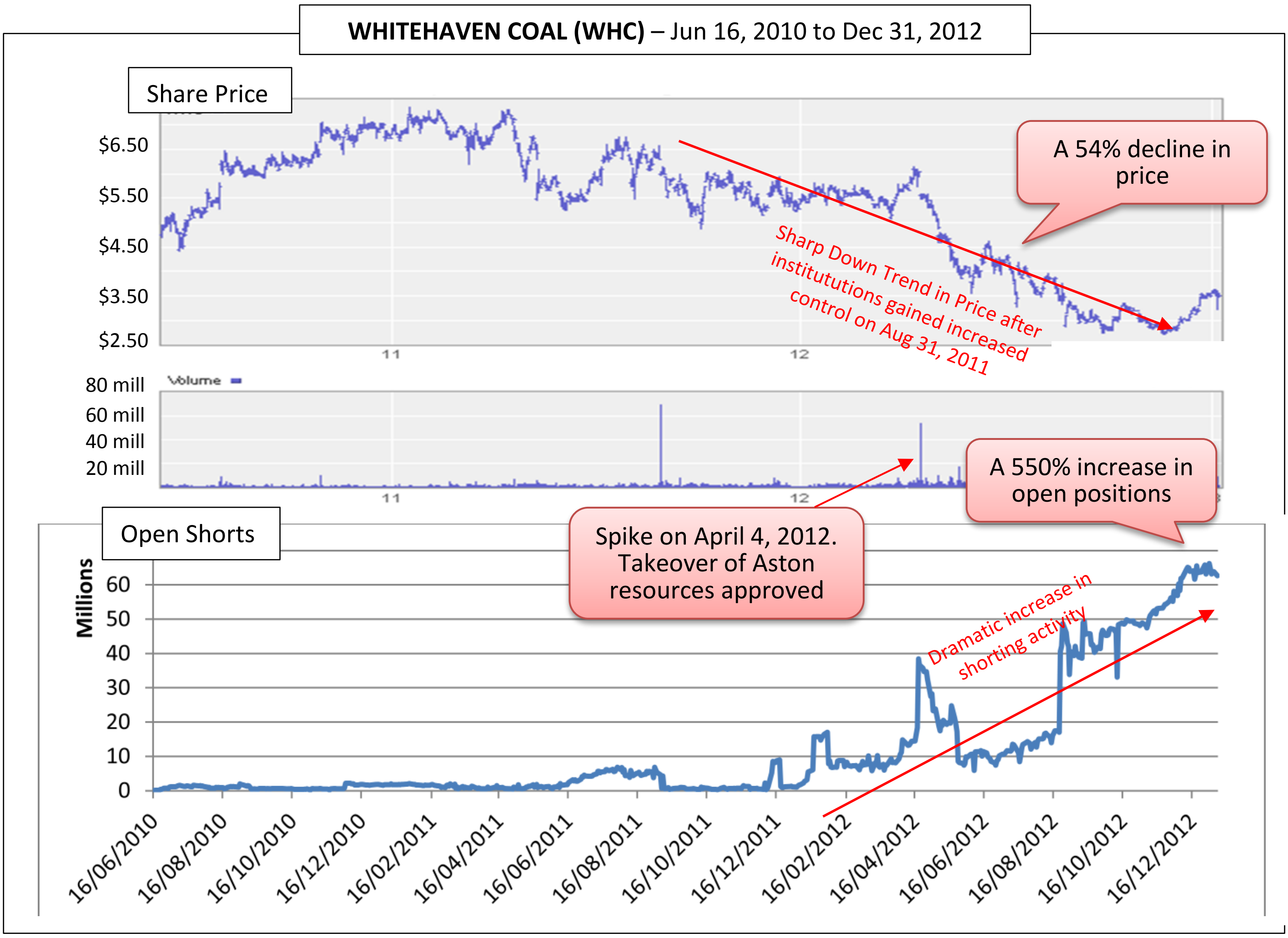
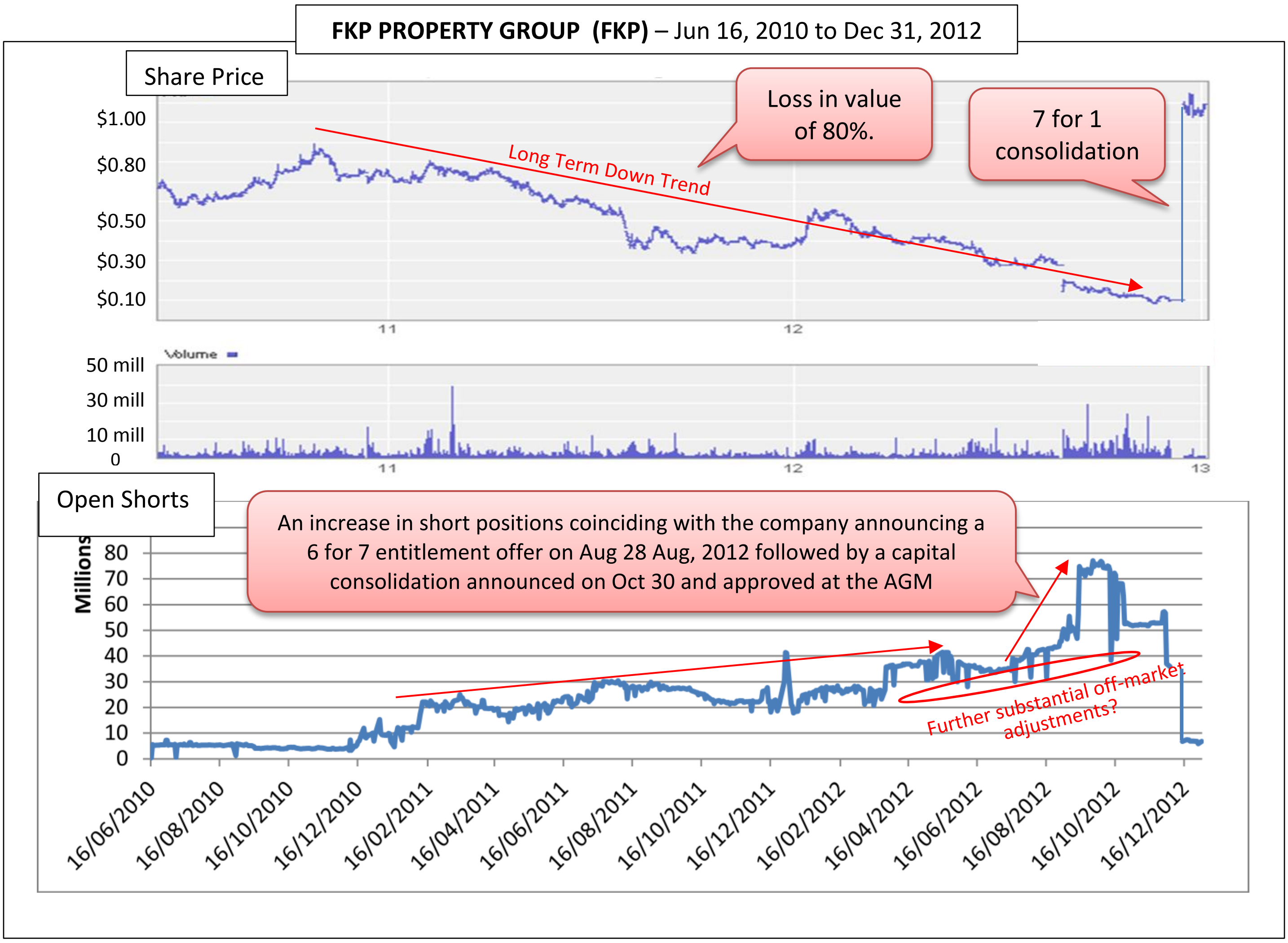
16/08/2012
16/10/2012
16/12/2012


WHITEHAVEN COAL (WHC) – Jun 16, 2010 to Dec 31, 2012
Share Price
$6.50
$5.50
$4.50
$3.50
$2.50
A 54% decline in price
Sharp Down Trend in Price after institutions gained increased control on Aug 31, 2011
80 mill
60 mill
40 mill
20 mill
Volume
A 550% increase in open positions
Open Shorts
Spike on April 4, 2012. Takeover of Aston resources approved
Dramatic increase in shorting activity
Millions
60
50
40
30
20
10
0
16/06/2010
16/08/2010
16/10/2010
16/12/2010
16/02/2011
16/04/2011
16/06/2011
16/08/2011
16/10/2011
16/12/2011
16/02/2012
16/04/2012
16/06/2012
16/08/2012
16/10/2012
16/12/2012


FKP PROPERTY GROUP (FKP) – Jun 16, 2010 to Dec 31, 2012
Share Price
Loss in value of 80%.
7 for 1 consolidation
Long Term Down Trend
$1.00
$0.80
$0.50
$0.30
$0.10
Volume
50 mill
30 mill
10 mill
0
11
12
13
Open Shorts
Millions
An increase in short positions coinciding with the company announcing a 6 for 7 entitlement offer on Aug 28 Aug, 2012 followed by a capital consolidation announced on Oct 30 and approved at the AGM
Further substantial off-market adjustments?
80
70
60
50
40
30
20
10
0
16/06/2010
16/08/2010
16/10/2010
16/12/2010
16/02/2011
16/04/2011
16/06/2011
16/08/2011
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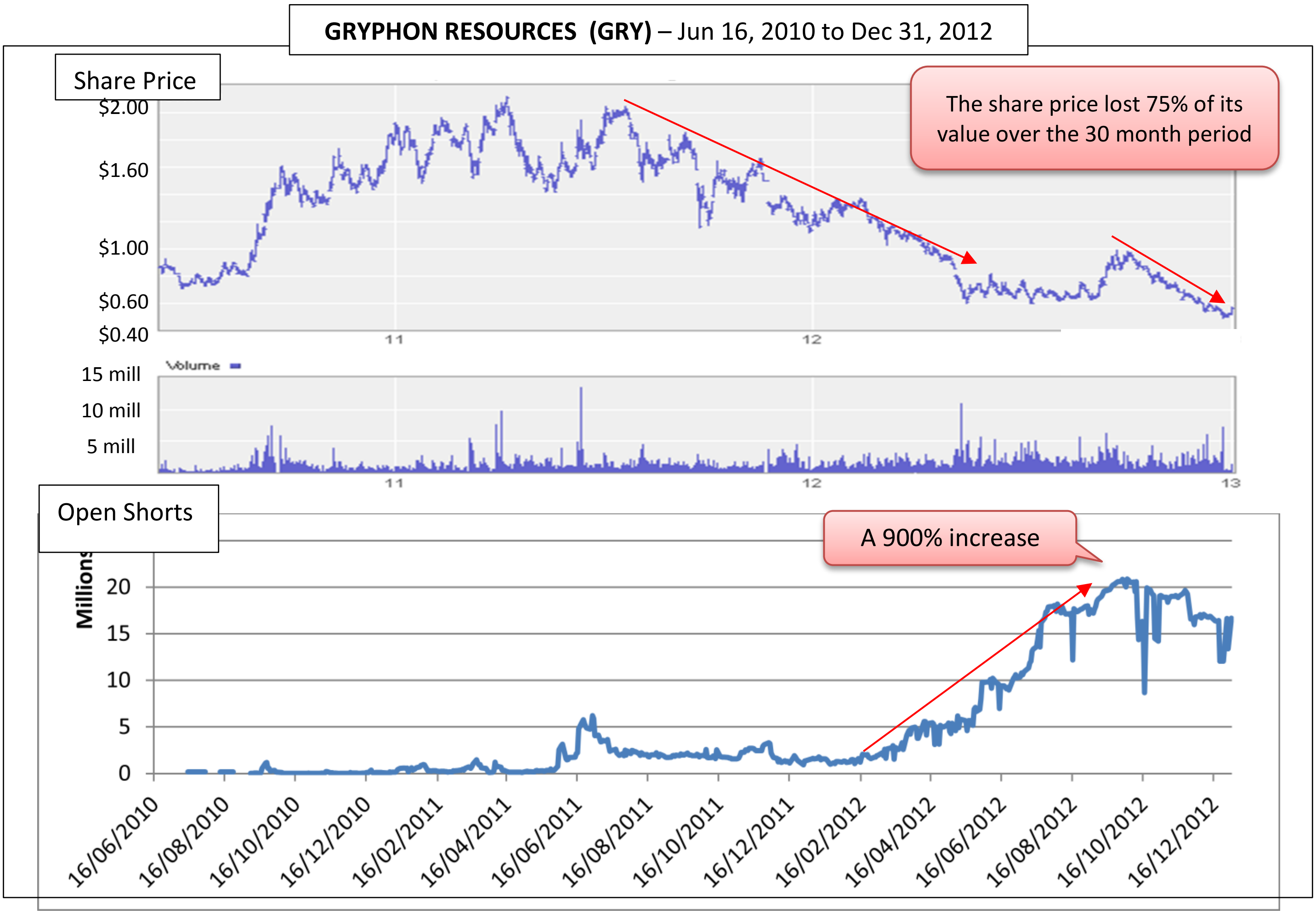
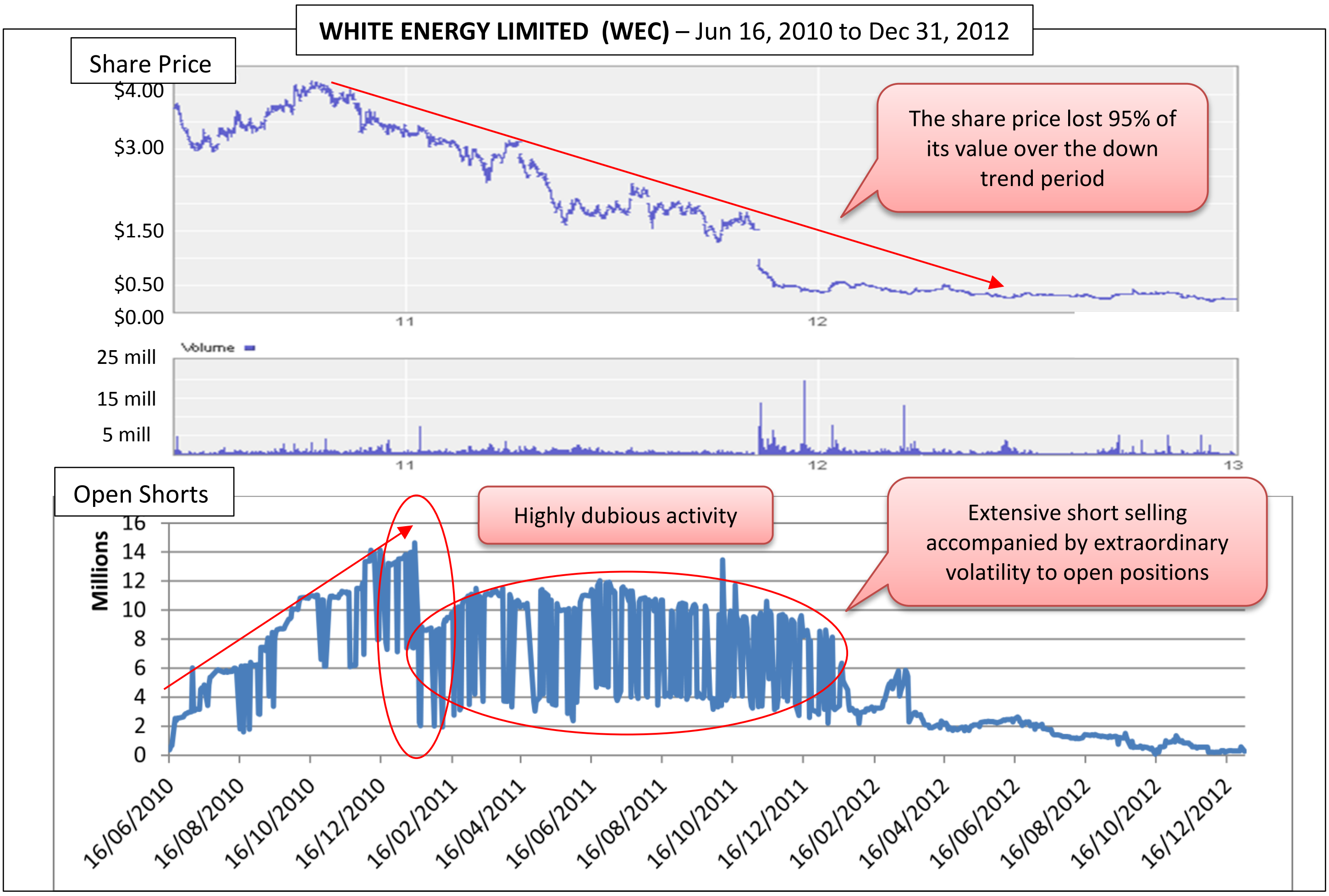
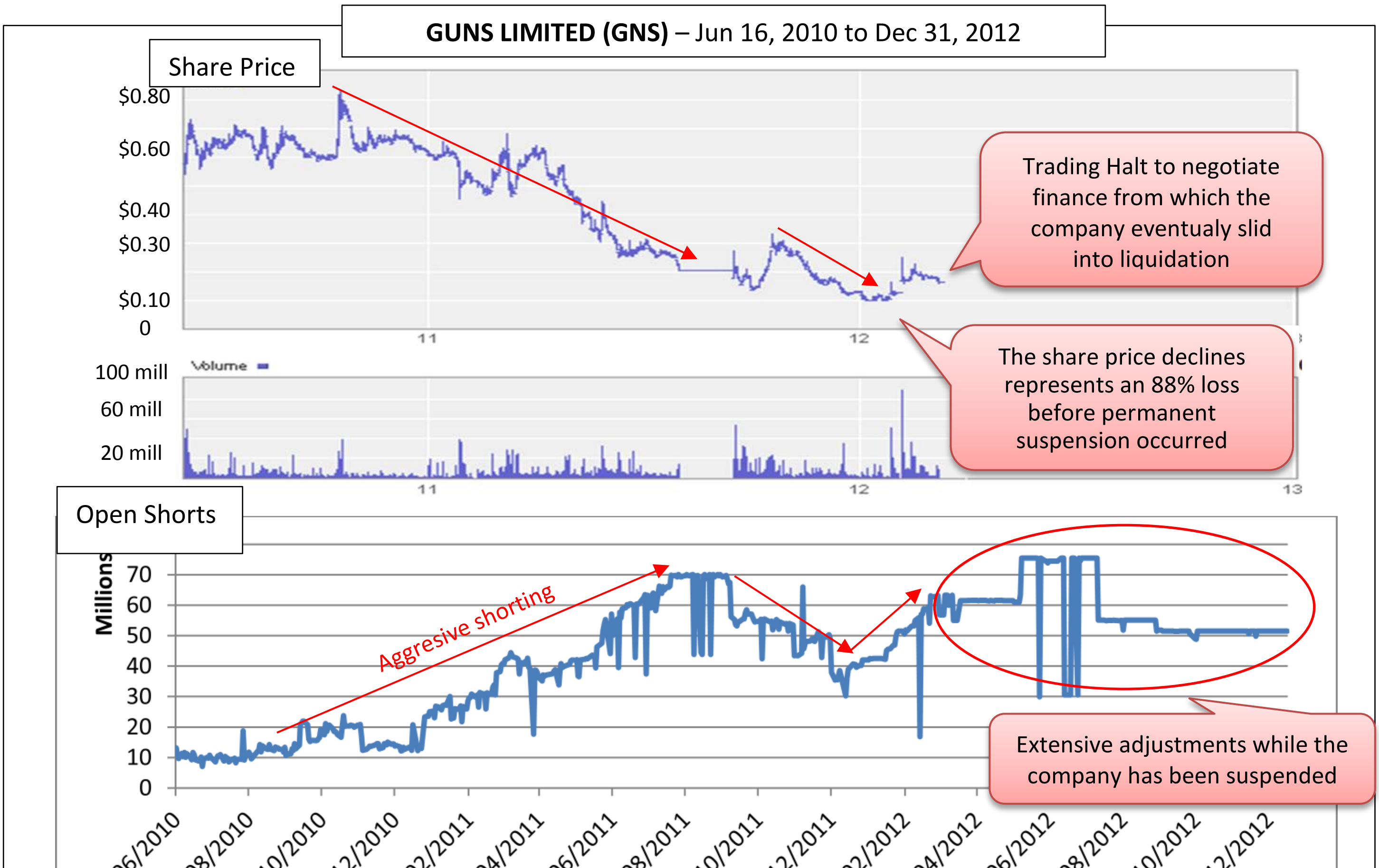
16/12/2012


GRYPHON RESOURCES (GRY) – Jun 16, 2010 to Dec 31, 2012
Share Price
The share price lost 75% of its value over the 30 month period
$2.00
$1.60
$1.00
$0.60
$0.40
Volume
15 mill
10 mill
5 mill
11
12
13
Open Shorts
Millions
A 900% increase
20
15
10
5
0
16/06/2010
16/08/2010
16/10/2010
16/12/2010
16/02/2011
16/04/2011
16/06/2011
16/08/2011
16/10/2011
16/12/2011
16/02/2012
16/04/2012
16/06/2012
16/08/2012
16/10/2012
16/12/2012

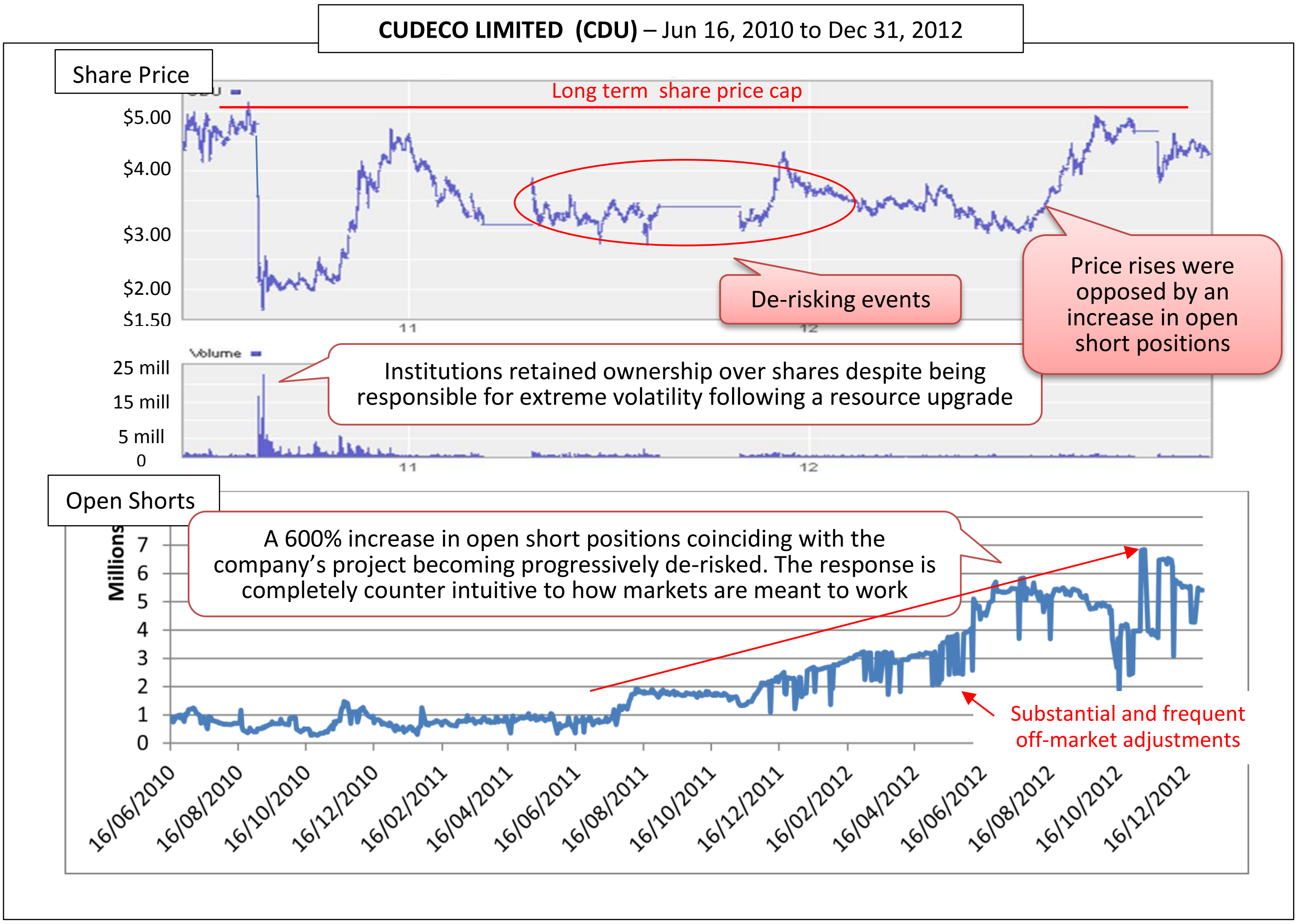




Links to Articles

[Former Gunns boss John Gay fined rather than jailed for insider trading]

[Gunns failure a story of corporate greed and hubris, say mill's critics]



De-risking events have included:

- Clarification regarding the resource (i.e., an upgrade in resources and impressive bulk mining trials featuring excellent high grade recoveries);
- Contracts negotiated to build the plant at Rocklands;
- Finance achieved, usually by placements at a premium to the share price;
- Mining license granted;
- Drilling success regionally and at depth.

Over the 3.5 year period covered by research, positive announcements have consistently been opposed by selling from institutional brokers