

From: Vaughan Groves [mailto:vaughan.groves@asic.gov.au]
Sent: Tuesday, 9 June 2009 7:40 PM
To: [REDACTED]
Subject: Storm Financial [SEC=UNCLASSIFIED]

Dear [REDACTED]

As discussed earlier this evening, please find below our detailed response in respect to the assertion that ASIC "gagged" Storm Financial:

- ASIC did not give instructions to gag Storm.
- As part of the investigations we conducted in the week commencing 15 December 2008, ASIC became concerned about the advice Storm was continuing to provide to clients who were in negative equity.
- This advice was to the effect that the clients did not need to meet their margin calls or repay their indebtedness because the banks were at fault. ASIC was concerned that this advice was coloured by the collapse of the Storm model and that clients were better off seeking independent advice about their affairs. ASIC was concerned that Storm was giving potentially conflicted and incorrect advice to Storm clients in a negative equity position.
- On or around 18 December 2008, following communication of our concerns that we thought this advice was inappropriate, Storm said it would cease contact with all its clients over the Christmas period rather than enter into the enforceable undertaking. Such action had not been previously requested by ASIC and was a decision made by Storm.

Oral response given at Parliamentary Joint Committee

- ASIC was looking to negotiate an enforceable undertaking with Storm around 15 December, after Storm had been experiencing problems for some time. By October, Storm had been speaking with the CBA looking to get more funds to prop up the company and help out investors. As the market kept falling, Storm put out a letter seeking authorisation to switch clients' investments into cash. In December ASIC was making inquiries and announced our investigation on 12 December.
- An enforceable undertaking (EU) was a way for Storm to agree to address ASIC's concerns without going through a lengthy court process.
- ASIC was concerned that the Cassimatises were not giving clients the right advice, they were suggesting that they could sue the CBA and get the clients' money back and telling them not to deal with the banks.
- The EU was about getting Storm clients to other advisers, however, we did not ultimately execute an EU and Storm went into administration.
- Unfortunately Storm has exaggerated this as an excuse for what went wrong.

Yours sincerely