STOCKBROKERS AND FINANCIAL ADVISERS CONFERENCE 2017

ASX CEO DOMINIC STEVENS

GROWING AUSTRALIA'S INVESTMENT SUPERMARKET

24 MAY 2017

Good morning and thank you for inviting me to speak at your conference.

While I've only been CEO of ASX for less than 10 months, I have worked in various parts of the financial services industry for 30 years. This provides me with some perspective on the opportunities available to ASX and the broader financial services community.

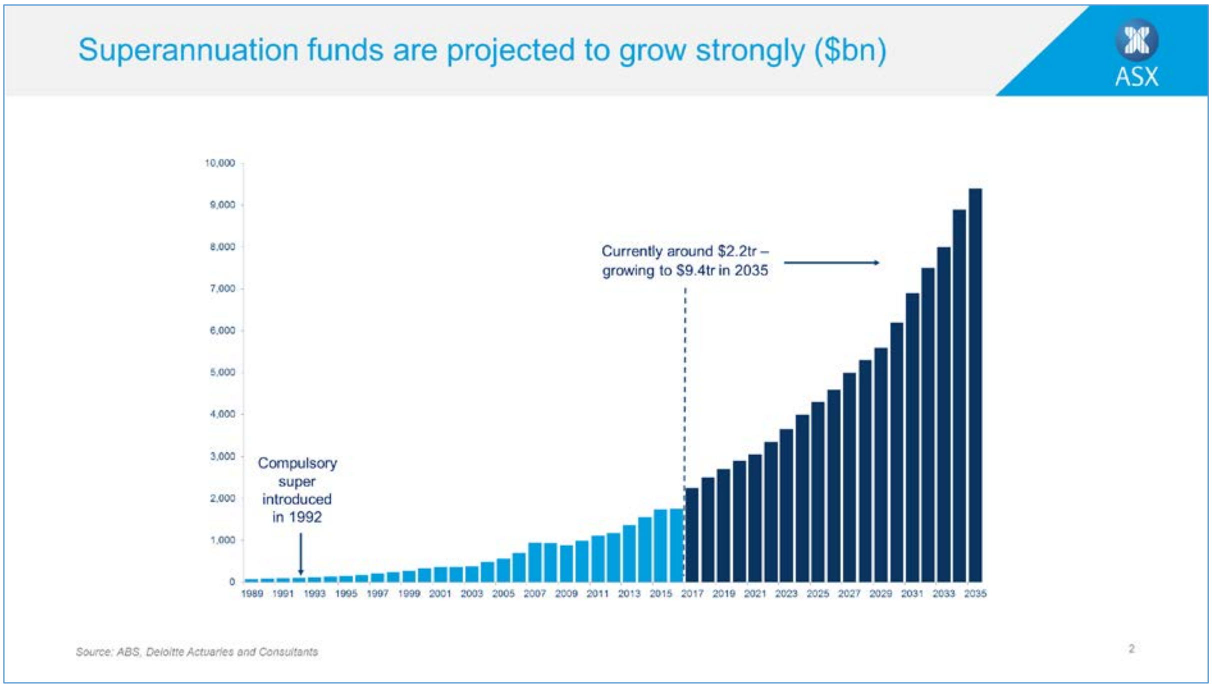
One of the key lessons I've learned is that to stay in business you've got to keep raising the bar for your customers - through better service and new products.

Today, I'd like to talk about a topic consistent with that theme: growing Australia's investment supermarket. It's a matter of interest to all of us. It's been a focus at ASX for a number of years. And it's likely to remain so for at least two reasons:

1. The dynamics of Australia's savings system will ensure the flow of funds into our industry looking for a home will increase … and increase substantially.
2. And following from that, we will all benefit by working together to create world-class value-added products to satisfy this flow of funds.

Today, I will focus on those two areas. I'll give a quick recap of the size of the opportunity and then look at how ASX and the industry can collaborate to grow the investment supermarket.

Prior to ASX I was CEO of Challenger Ltd. It required me to be attuned to the financial and demographic trends within our savings system.



Looking at this slide - if we go back to 2007, 10 years ago and just prior to the GFC, the world was booming and the Australian super system was worth an impressive $1 trillion or so.

Since then it's added circa $1 trillion of assets to be over $2 trillion. However, if we look 10 years into the future, growth is likely to be closer to three trillion.

According to Deloitte's analysis, looking even further forward to 2035 - the pool of funds may be as high as $9.4 trillion, an increase of over $7 trillion from today.

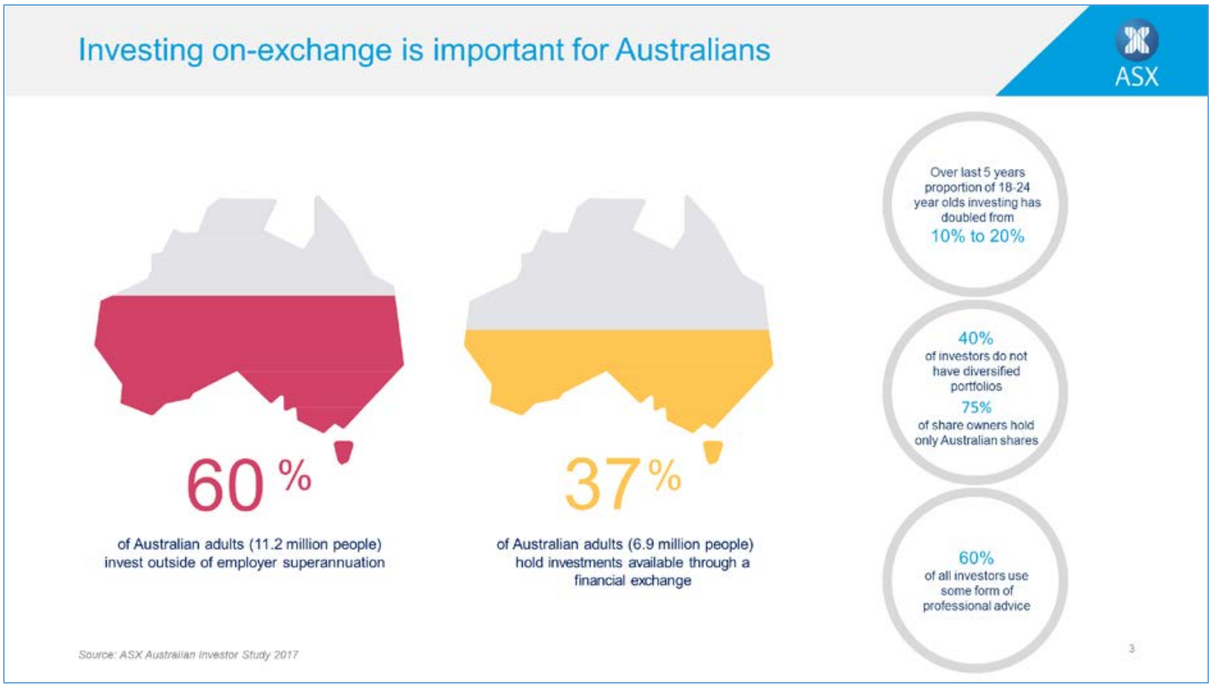
The biggest question for me and I believe for all of us is – where is all this money going to go?

Some of it will be re-invested in existing businesses, increasing their value. However, it is clear that there is a massive flow of funds that will need to find a home in financial assets over the next decade and beyond.

It would be a tragedy if our industry did not rise to the occasion and capture this growth in funds by enlarging the investment supermarket for investors. ASX wants to work with you on ways to keep those funds onshore, within yours and ASX's ecosystem. We all want those assets to be originated and managed in Australia.

Not only is the pool of savings big - and likely to get a lot bigger - but the makeup of the pool is changing too. This is borne out in the latest *ASX Australian Investor Study* launched last week, the 16th in a series begun in 1986.

Let me point out a few findings from the study that are relevant to the discussion today.



- The headline number is that 60% of adult Australians – or 11.2 million people – hold investments outside of their institutional super funds.

- 37% of adult Australians - or 6.9 million people - hold investments available through an exchange such as ASX. This number has been relatively stable over the last five years.

- Exchange available investment products like shares, ETFs, mFunds, warrants, futures and options are more common investment choices than non-exchange products like cash or property.

- ETFs, international shares and SMSF are growth areas. In fact, 15% of adult Australians have a SMSF and 30% of investors that don't are planning to set one up in the future. If it plays out, this is a profound change and an opportunity for all of us here.

- More and more young people are investing. Over the past five years the proportion of 18-24 year-olds investing has doubled from 10% to 20%, and the proportion of 25-34 year-olds investing has increased from 24% to 39% over the same period. This is very encouraging.

- Interestingly, according to the survey young investors are more risk averse than older investors - 81% of investors under 35 are seeking guaranteed or stable returns from their investments, whereas 41% of investors over 55 are comfortable with some variability in their investment returns.

- 40% of investors do not have diversified portfolios, with 75% of share owners holding Australian shares only. Again, there's another opportunity for the industry.

- 65% of those who traded in the last 12 months used non-advice brokers and online trading platforms. Yet 60% of all investors use some form of professional advice - be it financial planner, full-service broker, accountant and/or lawyer.

- Pleasingly, all investor groups have a common focus on long-term goals, with retirement and wealth accumulation front of mind for all age groups.

There are valuable insights beneath the headline numbers that provide opportunities and challenges for the financial and investment community - including ASX.

More information on the 2017 *ASX Australian Investor Study* is available from ASX's conference stand in the foyer outside this room.

A clear finding from the study is the healthy appetite of retail investors for on-exchange products.

To cater for this, ASX is working hard to grow the investment supermarket for investors. An obvious example is the increasing number of exchange-traded products listed on the exchange.

These have grown over the last five years from 69 products valued at $5.5 billion to more than 200 products valued at over $28 billion today. These ETPs are enabling investors to get efficient exposure to a variety of asset classes at a low cost, both from a management fee point of view and from an overall industry point of view. This is because they reduce the need for KYC/AML checking that might have occurred if investors had bought unlisted products from multiple vendors.

Similar advantages are offered by the mFund service. It's another example of ASX working with customers to grow the investment supermarket. Thanks to mFund, access to unlisted managed funds is considerably easier.

Lengthy forms and the need to collect AML information multiple times are things of the past. It's now faster and more convenient for investors to broaden their portfolio. Investors can buy and sell units in mFund via the same broking services they use to transact shares.

Earlier this year ASX received regulatory approval to expand the range of investment products retail clients can apply for and redeem through the mFund service. The ability to offer longer-form funds makes the mFund service more attractive to brokers, advisers and their clients, including those in the growing SMSF sector.

There are now 56 fund managers offering 173 funds via 18 distribution points on the mFund service, with funds under management exceeding $320 million. Since the start of the FY17 financial year, the FUM has more than doubled.

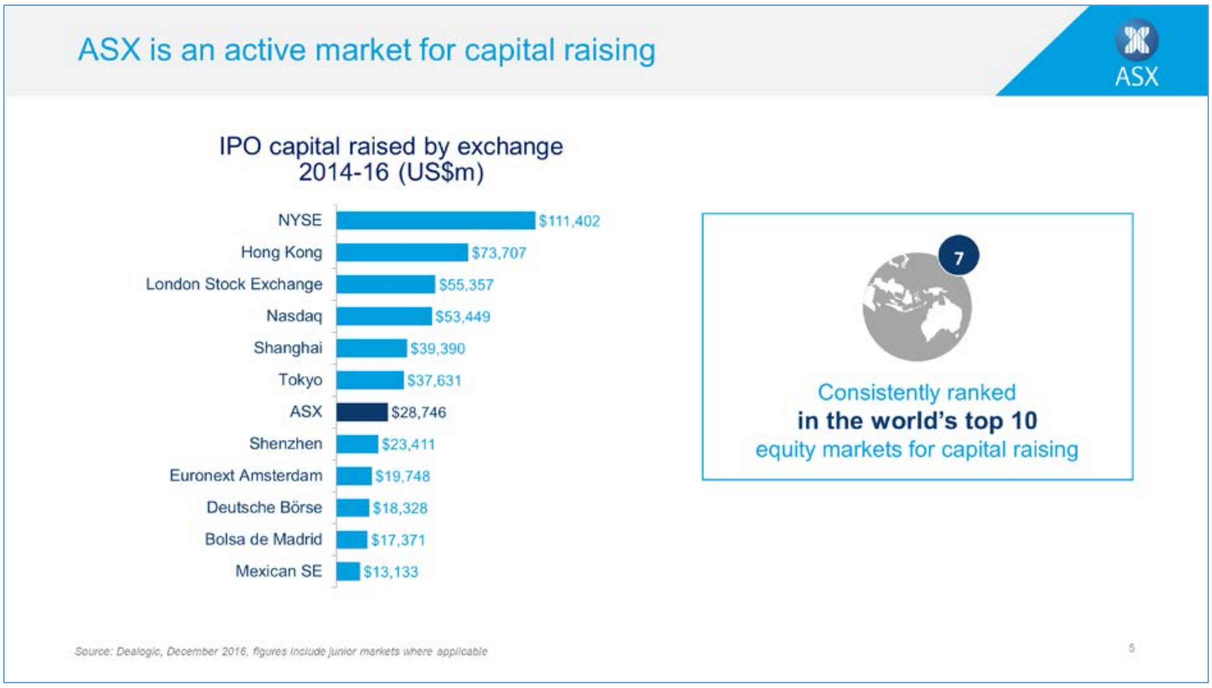
Its continued growth needs your continued support. The prize should be worth it. The Rice Warner study we commissioned a few years back found that the potential saving to the industry if mFund was universally embraced could be up to $200 million per annum.

A further initiative that has gained traction over the past 12–18 months, and which is beneficial to ASX, the industry and Australia more generally, is the growing attraction of technology listings and listings of offshore companies on the ASX.

As this slide shows - in the 2016 calendar year ASX completed 118 IPOs. That number would swell to around 200 if we added backdoor listings as well. What surprised me when looking at this was not how many IPOs ASX did, but how we compared with other major exchanges in the world: Nasdaq 84; London and Hong Kong in the 60s; the New York Stock Exchange at 38; and Singapore 16.

Among developed markets, ASX lists more companies than the exchanges in the world's largest economies. This gets people's attention. Why is it the case? Why does ASX and Australia's equity capital market business punch above their weight?

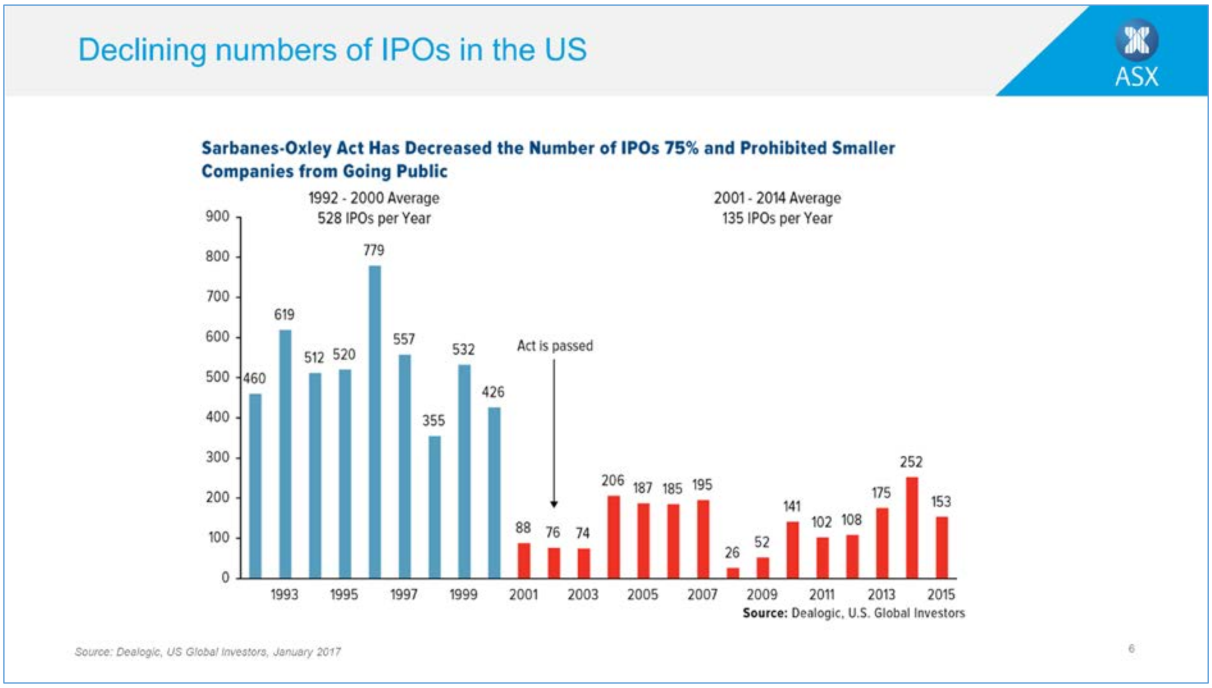
While ASX lists a lot of companies, we list a lot of smaller companies. Nevertheless, we still punch above our weight in value not just volume of capital raisings.



As you can see on the chart – Australia, which has the world's 19th or so biggest economy, regularly ranks between the fifth to seventh largest IPO market.

Canada, which has a slightly larger and similarly structured economy to ours, has a materially smaller IPO market.

Since the tech wreck of 2001 and the introduction of Sarbanes Oxley, the US market has seen a dramatic drop in IPOs; especially smaller IPOs given the large increase in regulatory costs.



As indicated by the red columns - the number of new company listings across all US listings venues has decreased markedly this century. Almost none of them are smaller IPOs, which made up a significant part of pre-2001 floats. This has benefited the Australian market where the new listings experience is very different.

It's worth noting that ASX and the Australian equity capital market have a long history of serving the needs of smaller, early-stage firms and acting like a venture capital provider. This is in addition to catering to larger, more mature corporations too.

Put this down, perhaps, to our market's experience with, and exposure to, the mining industry and its many cycles over more than 100 years.

This has led to the development of sophisticated ways of tracking financial progress, tailored disclosure codes, and efficient admission and capital raising rules to accommodate these inherently more speculative businesses.

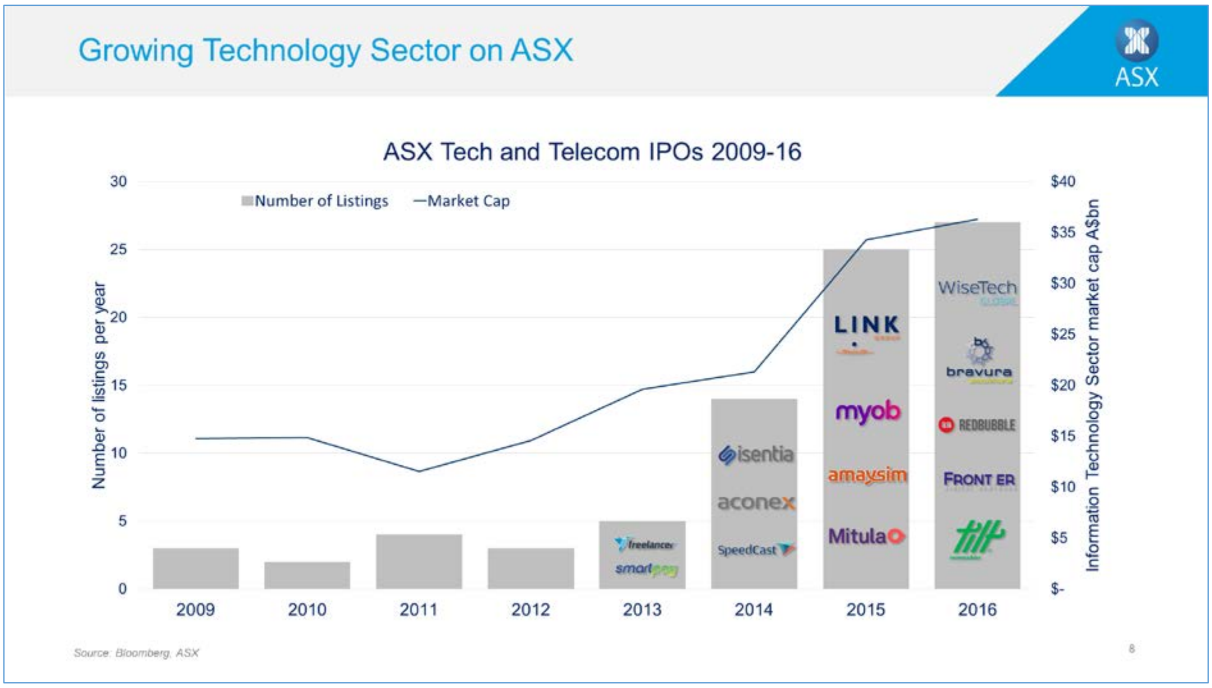
So, while US IPOs have been struggling and other advanced economies have not seen growth in their listings business, ASX has continued to expand its listing franchise. This has coincided with a somewhat dormant mining and resources sector, which has only recently begun to regain momentum.

This slide shows that the mining sector slice of IPOs - depicted as dark blue - has become a proportionally smaller category within overall IPOs on ASX in recent years.

It also suggests that when the mining sector rebounds, as it has started to do, there will be a solid non-mining IPO platform to complement it. This underlines the vibrancy and resilience of our market. And highlights the expanded range of options for investors.

So what have been the drivers of this resilience?

Firstly, ASX has helped satisfy the demand for capital from growing technology companies over the past five years.

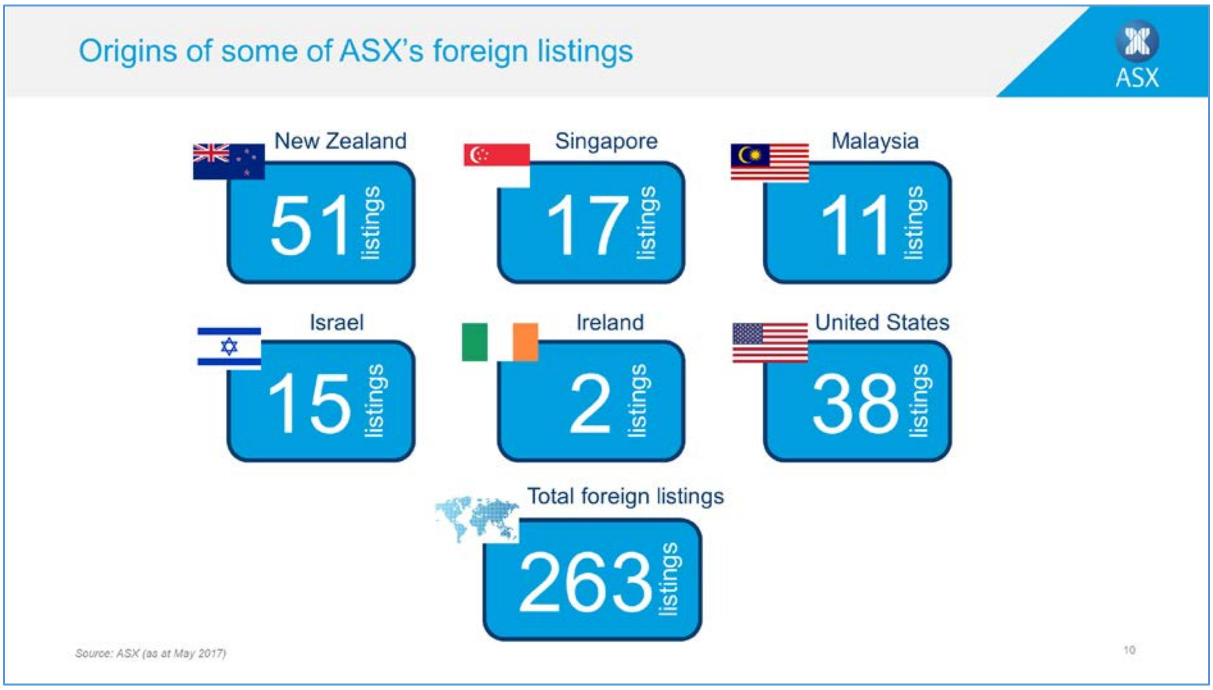


Up to 2012, we saw less than five IPOs a year in this space. Since then, we've seen 5 to more than 25 per annum, which has swelled the ranks of technology listings on ASX to more than 200. Technology has become ASX's third largest industry sector by number of listings. That in turn makes it easier and more attractive for other technology companies to come and list here. A critical mass of companies means there is more analyst research, more media coverage and a growing local investor appetite.

The second, and more startling recent trend has been the attraction of foreign companies to ASX.

In the past 3-4 years, ASX has pursued a strategy of looking outside our borders for listings candidates. This began with the primary or dual listing of New Zealand companies on ASX.

There are now more than 50 Kiwi companies on our board, representing $65 billion of market capitalisation. Naturally, this has been good for ASX and for local brokers and investors. And it's been good for the New Zealand companies too. These companies now have access to a deeper pool of capital; their stock is often included in major investable indices; and they're experiencing improved liquidity.



As you can see in this slide – it's not just New Zealand companies. Companies from all over the world are listing on our market.

As I'm sure you've read in the media, Israel has been a successful focus of late. In the last 12 months, ASX has been part of three educational and promotional delegations to Israel. This has translated into 15 Israeli listings on ASX, across a variety of industry sectors and with many more in the pipeline.

ASX is developing a 'sweet spot' capability for listing companies in the $50-500 million market capitalisation range. Many companies in this range feel they'd be lost on NYSE or Nasdaq.

The depth of ASX's market's liquidity, sophisticated investor base, flexibility of our rules and quality of our corporate governance standards are among the most attractive features. The new admission criteria introduced in December 2016 lifted the bar for entry to ASX while still providing a pathway for companies to list and access capital across their lifecycle.

You might be thinking – this is all good for ASX, but where do I come in? Well, let's consider a couple of case studies.

Both the Irish health tech company Oneview and Hong Kong-based satellite service provider Speedcast listed on ASX in recent years.

Both were in the 'sweet spot' range of market capitalisation - Oneview had a market cap of $135 million at listing and Speedcast was worth $235 million. And both have grown strongly in value since listing. In fact, Speedcast has come back to the market and raised more capital on ASX.

Because of their success here, both companies have expanded their Australian operations with extra staff and sales resources. We estimate that just these two companies alone have generated combined fees of between $20-30 million for the broader industry - for legal, accounting, underwriting and other miscellaneous services. Only a small part of that fee pool represents listing fees paid to ASX.

Listings such as these two companies generate benefits across the whole economy. When ASX attracts a company to list in Australia a multiplier effect is created.

Income is generated for the lawyers and the bankers and the brokers who arrange and underwrite the transaction and who continue to service the company and trade its securities. Many of these companies establish a presence in Australia and need ongoing skills locally to manage their listing, creating ongoing employment.

In addition, by listing foreign companies, we are providing product for Australian investors to get exposure to offshore markets.

The critical mass attracted to ASX has allowed Australia to compete globally for business. With this initiative, we as an industry are exporting our skills as a financial centre and as a source of capital to the world.

As they say, liquidity begets liquidity. The more of this we do the greater the potential growth.

Consider the alternative: if ASX, in partnership with other service providers in this room, was not a vibrant and competitive exchange, with critical mass, Australia would be missing out on the opportunities I've described; we'd lament losing our home-grown companies to other exchanges and markets, taking their IP and jobs with them.

The number of foreign companies listed on ASX has doubled in the last four years - there are now more than 200 of them. But it's still early days. Other exchanges could easily turn their attention back to this part of the market. For the time being we are working hard to raise our profile overseas and promote the attractions of joining the ASX 'supermarket'.

The best and most effective advocates for Australia are often the foreign companies that are already here. The CEO of one of our recently listed Israeli companies offered to tell others publicly about the benefits of an ASX listing. He had rejected Nasdaq (too big), London's AIM (second board equals second class) and further VC funding (not sustainable), before concluding ASX was the best choice.

That's a powerful message. It means that local investors - your clients - can now access a growing range of international companies, many of which are in fast growing, high tech industries that have traditionally been hard to get exposure to in Australia. This is providing alpha opportunities to local retail investors and fund managers alike.

I've focused most of my speech on the listings business. The success of attracting foreign companies is one of the more obvious ways that ASX has been growing the investment supermarket. There have been other initiatives too, designed to give investors greater choice and control or bring efficiency and global connectivity to the industry.

The futures participants in the audience will know that in March this year ASX successfully implemented a new futures trading system. This replaced the bespoke SYCOM platform that had been in place, with periodic updates, since the late 1990s.

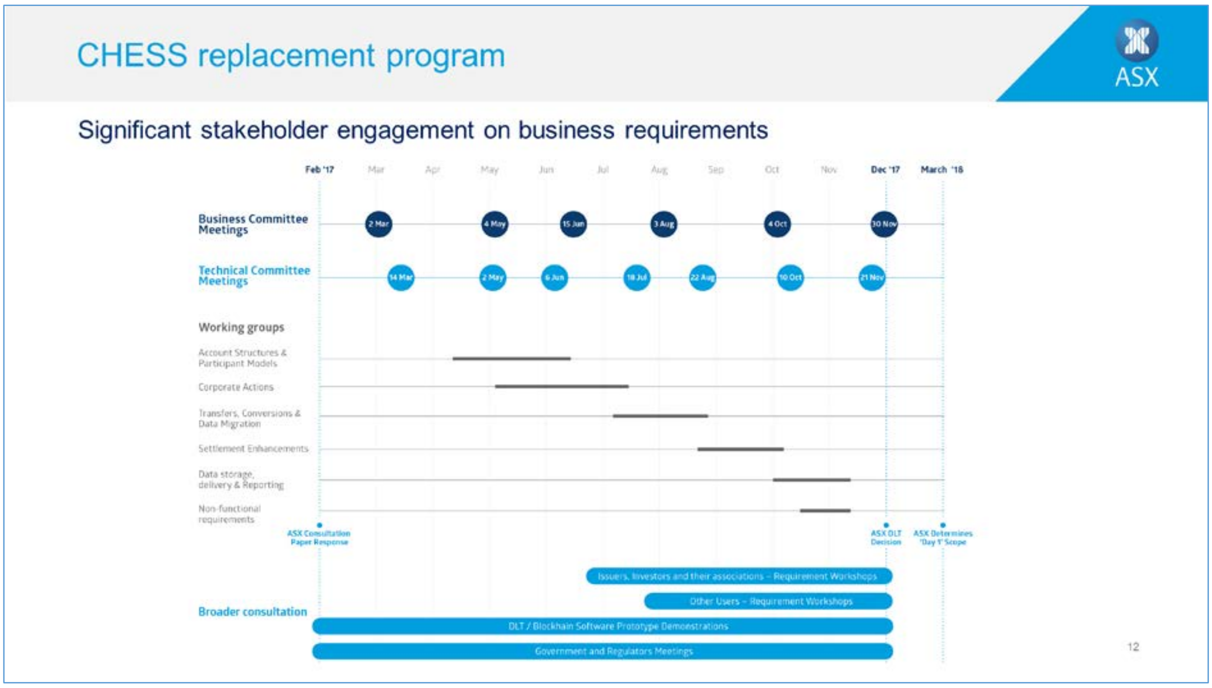
This contemporary new system provides customers with richer functionality and reduced development and maintenance costs. It also offers a fresh way of working with our customers, with functionality allowing ASX to diagnose and discuss issues proactively with customers.

I'd like thank the industry for the extensive two-year development and testing program undertaken in close collaboration with ASX. This played a key role in the smooth go-live in March.

ASX is investing in the cash equities side of the business too. This includes the work currently underway to consider options to replace CHESS.

CHESS is the system that underpins the post-trade processes of Australia's equity market. It is a critical piece of market infrastructure that provides risk management and operational benefits to a wide range of stakeholders. CHESS has been a highly robust and reliable platform for over 20 years. Its replacement may provide a once in a generation opportunity to significantly reduce costs across the system and improve operating efficiencies for the industry.

Your input continues to be welcome. Hence the extensive consultation and engagement program, which has been expanded due to the high interest from stakeholders from all parts of the industry.



This slide captures the major steps and timelines in the program. There is ongoing engagement with brokers, clearers, registries, custodians and their service providers, along with issuers and investors. This is to enable ASX to understand what our stakeholders want from the new system and ensure that it meets the highest regulatory and operational standards.

The Stockbrokers and Financial Advisers Association is an important contributor to this process.

It's well known that we're exploring the potential of blockchain, or distributed ledger technology, as a possible replacement for CHESS. I feel I can leave much of that detail to the next speaker - Blythe Masters - given Blythe is CEO of Digital Asset Holdings, one of the world's pre-eminent authorities in this area and ASX's partner on the project.

ASX has a strong partnership with DAH and together we are developing an enterprise-grade DLT system. We remain on track to make a decision on its suitability at the end of the year.

This is a major investment by ASX in infrastructure that positions Australia's market for the future. There is a real opportunity to deliver material benefits for the whole industry. We are determined to get it right.

And on that note, I will leave it there. Thank you for your attention this morning and for your ongoing collaboration. I look forward to ASX and the industry continuing to work together.
