# 2014 AGM QUESTIONS FROM SHAREHOLDERS

**Below are responses to the most frequently asked questions raised by ASX shareholders ahead of the 2014 ASX Limited Annual General Meeting, to be held on Tuesday 23 September 2014. Questions have been consolidated and are not reproduced word-for-word as submitted. These responses should be read in conjunction with the Chairman's and Managing Director and CEO's AGM addresses (available on the ASX website). Thank you to the shareholders who submitted questions.**

| **Company Performance and Strategy** | |
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| **Shareholder Questions** | **ASX Response** |
| Please comment on the reasons for ASX's capital raising in 2013 and how the money has been used. | ASX needed to raise capital to meet higher international capital standards so that offshore-headquartered customers could continue to use ASX's derivatives clearing house. Eight of ASX's 10 largest customers are international banks. To remain globally competitive, ASX must meet – and now does - the higher capital standards.<br>Most of the capital raised supports ASX's clearing operations. The remainder supports current and future growth initiatives.<br>Since the capital raising, ASX has received transitional relief from US and European regulators allowing it to provide clearing services to US and European banks operating in Australia. ASX has also been assigned a long-term credit rating of AA- from Standard & Poor's, confirming its position as one of the highest rated exchange groups in the world. |
| What are the Board's perspectives on global exchange consolidation and the opportunities for ASX? | Currently, there is nothing to talk about involving ASX consolidating with another exchange.<br>ASX attempted a merger with the Singapore Exchange but it was rejected on national interest grounds by the Australian Treasurer in April 2011. Since then, ASX has said that it continually evaluates opportunities in the exchange and adjacent sectors.<br>ASX believes exchange consolidation will continue around the world. We've seen this in North America recently with ICE's takeover of NYSE-Euronext.<br>It is important to build the strength of ASX's business. This is what management and the Board focus on. This will put ASX in the best possible position to participate in any future opportunity. |

| Company Performance and Strategy (continued) | |
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| **Shareholder Questions** | **ASX Response** |
| Does ASX have plans to seek representation on the board of IRESS? | ASX has been a long-term shareholder in IRESS since 2000, with a current shareholding of 19.2%. It is a well-run business and ASX is happy with the level of its shareholding.<br>Dividend income from ASX's shareholding was up 15.2% in FY14 to $10.8 million.<br>ASX has not sought board representation and has no current plans to do so. |
| Why has ASX made an offer to invest in Yieldbroker? | ASX has made a binding proposal to acquire a 49% stake in Yieldbroker for $65 million. If completed, ASX's stake will be non-controlling and Yieldbroker will remain independently managed.<br>The investment will be funded from ASX's existing cash resources and be broadly EPS neutral in the first full-year.<br>Yieldbroker operates an electronic market for the OTC trading of over 800 Australian and New Zealand debt securities and interest rate derivatives. More than 100 banks and other financial institutions are connected to its platform.<br>The partnership will bring together exchange-traded and OTC debt and interest rate derivatives markets. It reflects the global convergence of futures and OTC markets.<br>It will enable new services and efficiencies to be offered to our common customers, and help deliver the next generation of Australia's financial market trading infrastructure.<br>It continues the investments ASX has been making over the last two years, particularly in derivatives and post-trade services, to build globally competitive and relevant financial market infrastructure. |

| High Frequency Trading | |
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| **Shareholder Questions** | **ASX Response** |
| What impact does high frequency trading have on the Australian market and retail investors? | Good regulation has meant that HFT has not caused the same market problems in Australia as it has in the US. Other market regulators are looking closely at the mechanisms ASIC has put in place to see how they can be applied in their markets.<br><br>The regulatory settings that have had a positive impact in Australia include that maker-taker pricing is not permitted, meaning no customers are paid for order flow; and regulatory fees are applied to both orders and trades, putting an economic cost on high order-to-trade ratios, which is a typical characteristic of HFT.<br><br>The rise of HFT in the US has been fuelled by significant fragmentation of liquidity across 13 exchanges and numerous dark pools. This has been assisted by regulations that support the business models of HFT and the HFT exchanges.<br><br>Australia's regulators have prioritised the interests of end investors. The aggressive strategies prevalent overseas are uneconomic under Australia's regime. In Australia, the behaviour of HFT is more aligned with the broader market.<br><br>ASIC, in its major review of HFT in 2013, said that "speed of access to the market has always been contestable, from the days of physical proximity on the floor, when an open outcry system operated." Its "concern" is to ensure that facilities to access the market are made available "on a fair basis and on transparent terms."<br><br>ASX will continue to advocate regulatory settings that support end investors and long-term market quality. |

| Director Elections | |
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| **Shareholder Questions** | **ASX Response** |
| Why are there no women standing for Board membership? | ASX has an ongoing process of Board renewal, which is intended to ensure that the Board has the right mix of skills, experience and diversity for its effective functioning. As part of this process, the Board has set a target of 33% female representation among non-executive directors by the end of FY16.<br><br>The most recent appointments of Dominic Stevens and Damian Roche bring deep financial markets experience and strong customer connectivity to the Board.<br><br>The process of renewal is continuing. The Board is confident it will meet its diversity target and maintain the right mix of skills and experience to guide ASX. |

| Director Elections (continued) | |
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| **Shareholder Questions** | **ASX Response** |
| Why were Dominic Stevens and Damian Roche appointed to the Board in advance of the AGM? | ASX identified Dominic Stevens and Damian Roche as candidates who would provide skills and experience which the Board was seeking. They are expert in financial markets and understand the needs and challenges of ASX's customers locally and internationally. They have already made strong contributions to Board discussions.<br><br>The ASX Listing Rules permit companies to appoint directors in advance of an AGM, provided those directors stand for election at the next AGM. Many listed companies appoint directors in this way. This gives boards the immediate benefit of new director skills and experience, while giving shareholders time to consider the new directors and vote on their appointments. |
| Peter Warne has a substantial workload on public company boards and other bodies. What steps has the Board taken to satisfy itself that he should be re-appointed for an additional term? | Peter Warne brings a unique and highly valued set of skills to the ASX Board. He has deep skills and extensive experience across derivatives, debt, clearing and financial markets. He is a valued member of the Board and makes important contributions, particularly to the working through of complex regulatory and business issues.<br><br>The Board reviewed Mr Warne's other commitments prior to making a recommendation that shareholders support his re-election. Although Mr Warne is Chairman of OzForex and Australian Leisure and Entertainment Property Management, these smaller companies do not require the time commitment that his role does at ASX.<br><br>Mr Warne has a strong attendance record at ASX Board and Committee meetings, having attended 60 out of 61 meetings over the past three years, and is an active contributor to the regular Board workshops. He has a similar attendance record for his other board roles.<br><br>Mr Warne will address the ASX AGM about his ongoing capacity to contribute to the ASX Board.<br><br>As part of its review of his independence, the Board considered the length of Mr Warne's service on the ASX Board. The Board's considerations are on page 19 of the 2014 Annual Report. While the Board has an ongoing process of Board renewal, as demonstrated by the appointments of Heather Ridout, Dr Ken Henry, Dominic Stevens and Damian Roche over the past two years, the Board made an informed and deliberate decision to support Mr Warne's re-election having formed the judgement that this was in the best interests of shareholders. |

| Dividends | |
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| **Shareholder Questions** | **ASX Response** |
| Please comment on ASX's share price and dividend growth over recent years, and their prospects. | Market forces determine share prices, which are impacted by many factors – some external, such as the Global Financial Crisis; others company specific, such as ASX's capital raising and financial performance, and investor assessments of ASX's long-term strategic positioning.<br><br>In the eight years since the merger with the SFE (from 1 September 2006 to 1 September 2014), the ASX share price has risen more than 14% - higher than the All Ordinaries Index, which has grown 11%.<br><br>ASX directors work in the interests of shareholders. Since the ASX-SFE merger, the ASX Board has paid out 90% of underlying earnings as dividends. |
| Please explain the company's dividend policy and whether dividends are expected to increase?<br><br>When will the dividend reinvestment plan be re-opened?<br><br>Would ASX consider offering a share top-up facility for shareholders with less than 500 shares to purchase shares at discounted prices and with no brokerage? | The current dividend policy is to pay 90% of underlying earnings as dividends. This policy has been unchanged since the ASX/SFE merger in 2006. The policy is subject to review prior to the declaration of dividends. Underlying earnings refers to reported net profit after tax adjusted for any items regarded as significant. These items may include, but are not limited to, costs associated with a major business reorganisation or acquisition.<br><br>ASX does not provide any guidance on future earnings or its future dividend policy.<br><br>The dividend reinvestment plan is used as a capital management tool. Application of the DRP is considered along with the declaration of dividends each six months.<br><br>Offering shares to a limited number of shareholders at a discount is not considered equitable to all shareholders. ASX does not have such a facility in place. |
| Why did the ASX allow a cum-dividend and ex-dividend market for franking credits not available to international shareholders? What are the tax implications? | ASX sets up a corporate action for all listed entities that announce a dividend or distribution. The corporate action follows the prescribed timetable in the Listing Rules for dividends and distributions. It establishes a basis of quote for the entity's securities reflecting when its securities do, and do not, carry the entitlement to receive the dividend or distribution through to and including the record date.<br><br>The taxation consideration and consequences for any shareholder, whether they be Australian resident or foreign resident shareholders, is a personal matter for which they should take advice from an adviser before making a decision about their investment to acquire shares or units.<br><br>The Australian Taxation Office has issued a public ruling to confirm that 'dividend washing' - involving arrangements that enable a taxpayer who effectively holds a single parcel of shares to obtain double franking credits – is not allowable under Australian tax law. |

| Remuneration | |
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| **Shareholder Questions** | **ASX Response** |
| A number of questions and comments were received about ASX's executive remuneration framework. The questions covered:<br>• CEO remuneration<br>• ASX's bonus and long-term incentive plans and performance hurdles<br>• Remuneration mix for senior executives<br>• Methodology for calculating grants of performance rights<br>• Whether the Board would allow performance rights with a relative total shareholder return (TSR) hurdle vest if the hurdle was met but there was negative TSR performance [from 2013 AGM]. | The ASX Board and Remuneration Committee monitor the operation of the executive remuneration framework. The Board seeks to achieve a framework consistent with good governance considerations and market practice, which also aligns the remuneration outcomes for the senior management team with ASX's strategy and objectives. In doing so, the Board takes into account that many areas of ASX's business are driven by market activity levels that are outside of management's control.<br><br>Over the next year the Board will review the operation of, and participation in, the executive remuneration framework. Engagement with shareholders has already started. Any changes will be outlined in next year's remuneration report.<br><br>The Board has an overriding discretion to increase or decrease the number of performance rights which vest by up to 20%. The discretion exists because different events could occur over a performance period which the Board may wish to consider before determining the number of performance rights to vest. It would not be appropriate for the Board to limit its discretion at this time without reviewing the full context for any vesting. |
| Will the Board adopt a non-executive director shareholding policy? | The Board has discussed the trend for companies to adopt non-executive director shareholder policies, and is expected to implement a shareholding policy for the ASX Board in FY15.<br><br>The policy of the Australian Shareholders' Association has been taken into account in formulating the guideline level of ASX shareholding that directors should achieve over time. |

| Other Matters | |
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| **Shareholder Questions** | **ASX Response** |
| A number of questions related to shareholder communications and the AGM, including:<br>• Whether ASX should rotate its AGM between capital cities<br>• The type of resolutions put to the AGM<br>• Reducing the size of shareholder mailings. | ASX continually reviews its processes so that it communicates concisely, accurately and in plain language with its shareholders. Shareholder feedback is a valuable part of this. In FY14, the reduction in the size of the Annual Report saved over 120,000 pages.<br>The Board periodically discusses how to promote ASX and its services to all its shareholders. In addition to the resolutions ASX is required by law to put shareholders at the AGM, the Board sees the AGM as an opportunity to showcase ASX's innovations to shareholders. This can be done effectively and affordably by holding the AGM at ASX's head office in Sydney. |
| Has the ASX decided to remain at its existing Bridge Street premises? | Yes. ASX has recently concluded a review of its property requirements and will remain at its head office in Bridge Street, Sydney, for a further 10 years.<br>ASX has been at Bridge Street for 15 years and will refurbish the premises. |
| What disaster recovery and business continuity plans does the company have and what steps does it take to address external risks? | ASX is a provider of critical financial markets infrastructure for Australia. One of its key licence obligations is to have robust disaster recovery and business continuity plans in place. These are tested regularly by ASX and reviewed annually by ASIC and RBA. The 2014 assessments of ASX by both regulators found that ASX is meeting its obligations.<br>ASX has primary and backup technology and data centre sites. Their locations were chosen after considering a range of factors, including access to essential services, such as power and transport, and the risk of natural disasters, such as flooding and earthquake. |
| [Question to the auditor] What is the value of the $2.3 billion in intangible assets for goodwill on the balance sheet and is it possible that it will be written off? | [As this question does not relate to the conduct of the audit or the content of the auditor's report, the response below has been provided by management.]<br>The goodwill in ASX's accounts reflects the ASX/SFE merger in 2006 and the acquisition of d-cypha in 2013. The amounts booked as goodwill were calculated in accordance with applicable accounting standards.<br>At each half and year-end, the Audit and Risk Committee reviews the carrying value of goodwill. It is satisfied with the carrying amounts and that no impairment charge arose during the year. Note 14 in the 2014 financial statements sets out the impairment testing and assumptions used by ASX.<br>The external auditor reviews management's goodwill analysis as part of the audit. |