# MARKET ANNOUNCEMENT

**2010 ANNUAL GENERAL MEETING**
**ADDRESS BY CHAIRMAN AND MANAGING DIRECTOR AND CEO**

29 September 2010

## ADDRESS BY CHAIRMAN – DAVID GONSKI

Ladies and gentlemen,

It is a good thing I did not join the Board of ASX Limited (ASX) and become chairman two years ago to pursue a quiet corporate life. From global financial crisis, to supervisory transfer, to the prospect of market structure reform, there's rarely been a moment's idleness for ASX.

If I may quote from my own letter to shareholders in the 2010 Annual Report: change sits alongside death and taxes as one of life's certainties. Nothing stays the same for long. What matters, however, is how we respond to change, not change itself.

The experience of recent years has been enlivening for the ASX Board and for ASX personnel. The dynamic nature of the environment in which we operate is part of the attraction of ASX. It is a unique organisation, at the centre of Australia's capital markets and subject to extraordinary challenges and opportunities.

I thank all of you, our shareholders, on behalf of the Board, for your confidence and support.

Ours is not a 'set and forget' business. For ASX and its stakeholders, the times are always interesting.

Robert Elstone will elaborate on the performance of the company over the last 12 months shortly. But let me highlight the:

- 9.2% growth in revenue
- 6.1% rise in underlying profitability and
- 90% payout ratio for dividends from net profit after tax.

Let's not forget that last financial year's result was achieved alongside the smooth – but heavy workload - transfer of certain supervisory functions from ASX to ASIC on 1 August. This was completed less than 12 months after the Government announced that it was to happen.

I also acknowledge the difficulties endured and the challenges ahead. For example the:

- lingering effects of the GFC and other geopolitical issues continue to dampen investor confidence and create turbulence in global financial markets and

- first-term Labor Government's in-principle support for competition for trade execution services in Australia, which represent about 10% of ASX's total revenue, has had a dampening effect on ASX's share price over the last 12 months.

What did we talk about before the prospect of competition in the trade execution space loomed on ASX's horizon?

It is encouraging that commentary about changes to the competitive landscape is now focusing, and appropriately so, on the greater regulatory and market structure complexity that awaits us.

Instances of extreme movements in share prices over very short periods, such as occurred during the 'flash crash' in the US on 6 May this year, sharpened awareness that increased volatility and risk of market disruption are the prices that long-term investors may have to pay in markets with multiple execution venues.

This risk cannot easily be regulated away.  It is a trade-off for the potential benefits which might flow to investors and issuers from a proliferation of trading venues and trading styles.

The challenge for policymakers and regulators the world over is to engineer an outcome where the benefits outweigh the prospect of an uplift in volatility and risk of market disruption.  At a minimum, this involves limiting the scope for regulatory arbitrage whilst simultaneously encouraging robust competition between execution venues.

Increased volatility and flash crashes are an inevitable consequence of fragmentation. Realistically, all we can do is moderate their impact at the edges, not eliminate them.

One issue that we don't hear debated much – and it should be of uppermost interest to shareholders across the market, not only to those with a stake in ASX – is the question of what type of market do we want.  Do we want a market for short-term traders or long-term investors?

Australia is a nation where more than 40% of the adult population own shares; where almost half of our trillion dollar-plus retirement savings are invested in the domestic equity market.

Giving the green light to a proliferation of trading venues and trading styles might assist in stimulating liquidity or increasing speed of execution - but at what cost to one of the sharemarket's traditional and continuing critical functions?

In Australia, we have at least one major advantage – we can learn from the successes and stumbles overseas.

At this stage, it's impossible to predict what will happen in Australia.  ASX has no insight into the Government's timetable for change.

Despite the uncertainty, ASX's attitude is not to batten down the hatches and expect the worst.

Within our control is the preparedness of ASX for the changes ahead.  Our readiness to adapt to market developments and grasp the opportunities presented by change has been a hallmark of ASX's long history.  Be it embracing electronic trading in 1987, demutualising and self-listing in 1998, or merging with SFE Corporation in 2006.

'Renewal' is the word that sums up our approach.  Renewal of products, systems, pricing, staffing, even directors.  All have benefited from renewal this past year.

I would like to assure shareholders that ASX's Board and management understand the realities of the environment into which we are entering.

As Robert said when delivering ASX's full-year results last month, ASX is ready and well placed to compete as and when competition starts.

Since we last met, Trevor Rowe has retired from the main Board after almost nine years service, and two members of our ASX Compliance subsidiary board – Peter Jollie and Michael Shepherd – have also retired. I pay tribute to their achievements and thank them all for their contributions.

Joining the ASX Board in February this year was Jillian Broadbent. Jillian presents herself today for election and I'll say more about the positive role she is already playing when we come to that agenda item.

Ladies and gentlemen, Robert Elstone informed me recently that he will not be seeking to have his contract as Managing Director and Chief Executive Officer extended. His contract ends on 11 July 2011.

Robert has served us extremely well and I believe he can be very proud of, and we very thankful for, all of his achievements over a number of years.

The Board has resolved to embark upon a process (which will include appointing an executive search firm) to find Robert's successor. This search will include candidates from both within ASX and from outside.

To assist in this process, Robert's contract will be amended to allow ASX to terminate it so that it ends either three months before or after (at the Board's discretion) the 11 July 2011. This will give the Board the flexibility to ensure that we have the time to find and install a new CEO. It also ensures the ability for that new CEO to take up his or her position should they wish to do so prior to 11 July next year.

We have agreed to pay Robert a lump sum of $750,000 in return for this flexibility and in recognition of the fact that he has not received any new grant of performance rights under the Group's long-term incentive plan since December 2007.

ASX will keep the market informed of material developments in the search for a new CEO as they arise.

Having the right skills, offering fresh ideas and continually improving apply at all levels of ASX, including at the level of the Board. As chairman, I have been blessed by directors who are hard-working, expertly qualified and function as a team. As your custodians, we have never lost sight of acting in the best interest of shareholders.

Nor has ASX lost sight of its market leadership role. Sometimes our stances generate controversy. At other times they are plainly the right thing to do. Encouraging greater gender diversity on company boards and in senior management is an example of the latter.

It's not social engineering, as some critics have complained. Put simply, it's harnessing the talent from a hitherto massively untapped resource.

Earlier this month the Australian Institute of Company Directors published research finding that, for the first time, 10% of directors of ASX 200 companies were women. It made news across Australia. Think about it – a ratio of one in 10 was deemed newsworthy. There's still a long way to go. And a lot of talent waiting to be tapped.

At ASX, women make up 45% of our total workforce. Thirty-two percent of senior managers are female as are 25% of our non-executive directors. ASX will continue to identify and appoint female talent; in fact, talent of either gender and from a deep diversity pool.

ASX staff work in challenging circumstances and under enormous pressure. They work professionally, skilfully and with dedication – both to the company and the market. I said it last year and it bears repeating: from the CEO down, the business is in excellent hands.

Let me give you one small example of this.

A recent Australasian Investor Relations Association survey found that the ASX website was the most important electronic communication vehicle among retail investors for investment information.

Come what may next year and beyond, the qualities that make our website vital for so many investors – such as reliability, transparency and trustworthiness – will endure. These are core ASX values that infuse everything we do.

I now introduce Robert.

## ADDRESS BY MANAGING DIRECTOR AND CEO – ROBERT ELSTONE

Thank you David and good morning ladies and gentlemen.

In the ASX Annual Report released on 19 August I wrote that the ASX Group of companies achieved resilient financial, operational and compliance performance in FY10, in a market environment that remained challenging despite improved conditions following the global financial crisis of the prior year.

The past year also involved the heavy workload transfer of responsibility for real-time trading activity and participant conduct on licensed markets from ASX to ASIC. Despite the workload and the tight timeframe, this was achieved without disruption to ASX's ongoing activities, particularly its monitoring and enforcement duties.

Additionally, much of the last 12 months was spent planning for our investments in next generation technology platforms and a new data centre.

As ever, underpinning ASX's financial performance has been the soundness of our operational systems and processes. This included near 100% availability levels of ASX's trade execution, clearing and settlement infrastructure, and the smooth functioning of ASX's market operations, risk management, and surveillance and compliance activities.

In the near three months since ASX's end of financial year (July-September 2010), activity highlights (compared to the same period last year) include:

- an uplift in new listings (25 compared to 12) with a more robust pipeline of listing prospects

- a marked reduction in secondary capital issuance - but this has more to do with the extraordinary circumstances that gave rise to all-time record issuance in the prior year and the consequent lag in demand for new capital with now healthier corporate balance sheets at work

- a small fall in the value of equity market trading activity (down 4%) - albeit the level of activity in Australia has been highly correlated with equivalent trading levels in many of the developed markets in the northern hemisphere

- a marked uplift in stock option trade activity (up 7%) and a strong recovery in futures market trade activity (up 36%).

David has outlined ASX's views on competition for trade execution services and I have spoken extensively on the subject too. I'd like to underline David's words that it is encouraging that commentary about changes to the competitive landscape is now focusing on the greater regulatory and market structure complexity that awaits us.

It is in everyone's best interests that we go into the next phase of the equity market's development with our eyes wide open. This is especially so given some of the unintended consequences of parallel trends in overseas markets, poignantly illustrated by the 'flash crash' events in the US equity markets last May, about which a final diagnostic report is shortly to be issued by the US regulator, the SEC, five months after the market chaos. The flash crash bears testimony to the downside of market structure complexity. Had those events occurred at a quarter-end and flowed into closing unit prices for 401(k) retirement savings plans, the impact would have been felt beyond the trading community, with genuine savers and investors joining the panic.

In a country like Australia, with substantially higher rates of direct retail investor participation in the share market and a disproportionately large private pension model (relative to the size of the population), the public policy stakes and expectations 'bar' for the corporate regulator to avoid anything resembling a flash crash-type event here (or to preside over other types of unintended consequences), in the name of competition, are very high indeed.

What matters now - to ASX, its shareholders and the market generally - is ASX's readiness to operate in any evolving market structure.

Allow me to repeat what I said at our full-year results briefing and as mentioned again by David: I am quite confident that ASX will be ready and well placed to compete as and when competition for trade execution services starts, as long as the playing field is level. But, we don't know when that will be or what the new market rules will definitively look like.

ASX will continue to respond as more of the regulatory framework becomes visible in a way that – hopefully – preserves the interests of long-term institutional and retail investors (as well as listed companies) alongside other stakeholders pressing for change that have substantially shorter market participation time horizons and very different objectives.

ASX has taken some significant steps already. These include:

- an almost halving of the headline equity market trade execution fee
- the introduction of new order-type trade execution functionality for the equity market (with more to come)
- an imminent upgrade to the futures trading platform and a new generation equities trading platform and
- a commitment to build a state-of-the-art data centre to meet business continuity and co-location service requirements.

In response to some questions from retail shareholders about share price performance since the ASX/SFE merger four years ago, I provide the following metrics.

Over that four-year period (on a June 2006 to June 2010 comparison) for the merged company:

- revenue has grown by $138 million (up 30%)
- cash operating expenses have fallen by $35 million (down 20%)
- net profitability has risen by $118 million (up 55%) and
- dividends to shareholders are $117 million higher (up 64%).

This financial performance has been achieved during a four-year period of significant increases in the scale, volatility and intensity of market activity and regulatory oversight and, consequently, on the demand for services provided by ASX to its wider stakeholders of listed companies, participant brokers and end users.

For example, over the same four-year period the:

- number of listed entities has grown by 262 (up 14%)

- number of equity market transactions processed each day is up by a staggering 318%

- ASX's rules facilitated record levels of secondary capital issuance vital to the health of a majority of its major listed companies and, arguably, therefore, to the performance of the real economy and

- ASX's clearing and settlement infrastructure withstood the stress of the most significant financial crisis in living memory.

As noteworthy is that order execution latency in the Australian equity market has been reduced – as a consequence of ASX's ongoing investment in upgraded technology over the past four years:

- from 70,000 microseconds in mid-2006 (bearing in mind that there are 1 million microseconds in a second)

- to 3,500 microseconds today and

- is set to go under 500 microseconds when ASX's new ASX Trade platform goes live in November this year.

In other words, the latency of order execution (one of the key measures of trading efficiency) in the equity market by the end of 2010 will be less than 1% of what it was just four years earlier.

To put these statistics into an everyday context, consider that the blink of a human eye takes on average 350,000 microseconds, or roughly a third of a second. The uplift in ASX's order execution latency ability will have increased from 12 orders per blink of an eye back in 2006 to close to 800 orders per blink of an eye by the end of this year.

Put in these terms, the scale of the regulatory challenge to design market rules that minimise the threat to market integrity introduced by new regulatory complexity is a serious one. That is not to say that responding to that challenge cannot be done (or shouldn't be done), but that it should be done carefully and with clear objectives and appropriate checks and balances.

In terms of what market complexity means for ASX shareholders, it is important to understand that the ASX share price over much of the past year has reflected regulatory uncertainty and proposed public policy settings. It has been less reflective of the current underlying performance fundamentals of the company, its growth prospects or the diversified nature of its revenue streams. The recovery of the ASX share price over recent days was the subject of a market announcement released yesterday.

It is understandable that both sell and buy-side analysts would focus on revenue downside risks attributable to any change in market structure. It is harder for those same analysts to focus on some of the opportunities brought about by that change, such as the opportunity to unbundle existing services and introduce new ones, once the fog of regulatory uncertainty is lifted. But lifted, hopefully, in a manner and time frame where new systemic risks for market operators, participants, issuers and investors of capital are not introduced, nor where the pursuit of competition in 'lit' markets merely accelerates the growth of less well regulated 'dark' liquidity pools. This, however, cannot be guaranteed, either by policy makers or a corporate regulator focused on enacting fundamental changes to the equity market's architecture.

I believe ASX is well-prepared to meet upcoming challenges and to prosper next year and beyond. My commentary in the Annual Report warrants repeating: our competitive positioning and human resources are in good shape.

In the past six months we have put in place an organisational structure with the executive bench strength fit for the next era of ASX. I have indicated to the Board that it is also time to address the issue of CEO succession, well in advance of the expiry of my term as Managing Director and CEO.

By the time I step down in 2011, I will have had stewardship of ASX for five years, in addition to my six years earlier at the helm of the former SFE – a collective period of 11 years as CEO of two public companies that became one, both operating critical infrastructure for Australia. In my view, a new era for ASX should be accompanied by new ASX leadership.

Whilst David has kindly acknowledged my contribution from the Board's perspective, no CEO operates in an executive vacuum. So I pay tribute to ASX's talented and collegial senior management team – past and present - and to the Group's entire staff who year-on-year, and in the face of often quite disparate stakeholder demands, apply themselves with diligence, determination and great skill.

I now hand proceedings back to David.

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