Edited Transcript of ASX HY 2013

Media Q&A

21 February 2013

Andrew White from 'The Australian':

Just wondering, with many of your business initiatives you are required to give away revenue or share it with some of your clients. There was some reasonably strong growth in the listings business. It seems sort of out of step with what is actually happening in the market. Do you have any scope to raise prices there?

Elmer Funke Kupper, ASX Managing Director and CEO:

We said on the page that deals with that, that we announced a fee review last year and made some adjustments to our fees. What we also said is that we tended to look at our fees every five to seven years. We think in today's world you must look at your fees every year. That process is on the way because this is the time of the year that we do that. But I can't say what we are going to do with our fees. We did see reasonable growth in secondary capital raisings - $22.5 billion was up 4%, that's not a bad number.

What we would like to see is more IPOs. That is one of the reasons we advocate flow-through shares because the pipeline of investment and commercialisation in both mining and bio-tech and life sciences is not sufficiently strong. We need as a country to do better and then we win over time as we see more IPOs. So we made a fee adjustment last year. We haven't decided what we will do this year.

Andrew White from 'The Australian':

Can you quantify that; how much the adjustment was?

Elmer Funke Kupper, ASX Managing Director and CEO:

No we haven't quantified that but it's not a particularly material number. Of course it would have helped a little bit. But in these numbers, if revenues are up 7% or 6% and volumes are up 4%, you can do the math to get the difference. However, our pricing has tiers and it's complicated. But that gives you some sense.

Andrew White from 'The Australian':

The other thing is the improved capital raising rules for small and mid-cap companies. How much did that contribute?

Elmer Funke Kupper, ASX Managing Director and CEO:

Relatively little. Relatively little because remember there are two things there. One is we are talking about relatively small companies. Relatively small companies raise relatively small amounts of money generally but if 500 raise money then it has a multiplier effect. But it's really about helping those companies succeed in an environment where money is harder to come by.

Remember we don't have a large venture capital business here in this market. We are not the United States in that respect. And of course as commodity prices have softened, mining investments are becoming more expensive to exploit and resources are harder to find, we need to find other ways to stimulate investment in that business. So this is a helpful rule.

It's low risk for investors. It's good for those companies and we are very pleased with the report we had from ASIC on that. We didn't get everything we wanted but that's life. It shows that if you have a healthy and robust relationship with the regulators you can actually make a difference and that is why we are doing this.

There is really no excuses for not doing these things because remember this is about the next seven, eight or 10 years - not just about the next half. And this is the front-door to Australia's economy and we need to make sure we are competitive. We are getting there.

We would like to see things like flow-through shares and accelerated depreciation - things that help commercialisation of innovation as well as start-up resource investments supported that way. It's easy for us to say this, as we are not the ones paying the bill. The Treasurer is. But we think it is a modest investment with a potentially big payoff over a seven or eight year period. We have been asked to support it and we are supporting it and recognising it's not up to us.

Andrew White from 'The Australian':
Where are you at with the ASX BookBuild?

Elmer Funke Kupper, ASX Managing Director and CEO:
As you know, we launched a consultation process on that last year. We have had some significant and very helpful feedback. Given that it was helpful and significant, we decided to put our head down and see if we can translate it into a better product. This is why you have to go through these consultations with your clients to make sure that what you deliver ultimately is going to be helpful.

We are relaxed about timing. We haven't quite decided when to launch that product. We want to make sure it has the best chance of success. I know some people write this up as if we are trying to compete with our clients. In fact it's not like that. This is a tool that our clients and the banks have available to work with companies that need to raise money.

They can do it the traditional way. Or they can use some modern technology that opens up access to a broader group of investors using the ASX BookBuild program. But if they don't use it, it won't get used. It's a series of tools we have on the shelf. In that sense it's like the 15% rule and the 25% rule. We need to continuously innovate and make better products available to our clients. If they use it, it's terrific. If they don't and find another way to do it, that's okay too.

We think there is some value in this, and so we will launch it at some point. But it's probably just a couple more months away to give it a better chance of success. For us it's about the growth in that capital raising number. This is about giving people the tools. Other tools could be simplification of the prospectus rule. All those things are part of programs to get the front doors as wide open as possible for investors.

I think we might move to questions on the phone.

Matthew Drummond from 'The Australian Financial Review':
There has been lots of debate since the Government's decision regarding clearing and settlement as to whether it makes your chances to participate in consolidation offshore more or less likely. What do you think?

Elmer Funke Kupper, ASX Managing Director and CEO:
Of course there is only so much we can say about industry consolidation. We are largely observers right now. I think it is fair to say that what we saw two, three, four years ago was a series of attempts by large diversified exchanges to get together. ASX/Singapore is an example of that. New York/Frankfurt was an example of that. Toronto/London was an example of that.

They all failed for different reasons. In our case regulatory, and I guess political sensitivity, at that point. In the case of London and Toronto it was the Canadian shareholders that had a different view. In the case of New York and Germany, it was the competition regulator in Europe. So lots of different reasons but the same end result.

We then had a pause for a period. Not much happened. What we are now starting to see is consolidation taking place again but in a different way with a slightly more specialist focus, at least for the time being.

So what are the examples of that? The examples of that are London Stock Exchange buying a majority stake in the London Clearing House - specialist activity in clearing that has some global relevance and helps the exchange diversify.

Hong Kong buying the London Metals Exchange - that's about commodities trading and derivatives. And of course most recently ICE (the Intercontinental Exchange), unknown to some people, but one of the most successful derivative exchanges in the world, has just made an offer for the New York Stock Exchange.
Why did they want to buy the New York Stock Exchange? Not because of the big board in America but because the New York Stock Exchange owns a very attractive derivative business in Europe called Liffe. It's like our futures exchange and normally you would expect it to be part of the London Stock Exchange. In that case it isn't, it's part of the New York Stock Exchange.
And so what you can see is these sorts of specialist businesses trying to strengthen themselves in their specialist areas. I can't predict what is going to happen next. But we think it is just a sign that consolidation of financial markets is continuing. I have been on-the-record before on that continuing. That we should stay close as a country to what's happening around the world because this is not about the ASX, it's about the relevance of our markets and the services we provide our clients here, and making sure that we have a healthy market that is not run from overseas alone.

So right now we are observers. There is nothing to talk about. If you look at the decisions that have been made in Australia, because your question is really what has happened recently in Australia. Is it helping you, hindering you, or is it neutral? I think on balance what we've seen over the last couple of years is creating greater clarity about the conditions that the regulators and the policy-makers would like to see in financial markets.

Remember when we tried the Singapore Exchange transaction, this is before my time of course, it came very quickly and the debate about what matters in financial markets, what happens in risk and systemic risk, and

service to investors, that debate hadn't been had. What we are now seeing on the back of that, and on the back of all the changes in regulations, that is starting to become clearer and I think clarity is helpful.

Let me give you two examples of why I think that. On the back of the Singapore transaction, the regulator said 'we believe we don't have enough rights to control your clearing and settlement operations if something goes wrong'. 'It doesn't matter who owns it but we now have greater step-in rights if something goes horribly wrong to take control of that'. We are critically important to Australia's financial markets. Now nothing will go wrong, but just in case. That is something that simply has to be fixed and it is going to be fixed. We agree with it, we support it, it's going to be fixed. It wasn't fixed at the time.

The Treasurer's decision on cash equities clearing and settlement that you saw 10 days ago creates greater clarity because if you read the detail of what the Council of Financial Regulators said, they said cash equities is an important domestic business that has significant retail participation, it is therefore systemically important to our market, we would like that to happen here and we are comfortable that the way we are doing it is of a very high quality and relatively efficient, but, of course ASX, 'make sure you get your act together and deal with your clients the right way and have a Code of Practice'.

That is creating a lot of clarity about the way policy-makers and regulators look at different parts of our business. In that same review they said when it comes to the over-the-counter markets and interest rates swaps for example, we accept that it is a more competitive global business so we are developing a service in competition with the London Clearing House. It's not a secret that it is a higher risk investment. We believe it's important that it's here. I have a different view to the regulators. I think we must have an Australian service available for interest rates swaps clearing because the numbers are absolutely enormous and you don't want to put all your eggs in the London basket. So we want to have it available here but we accept that for the time being that it is a competitive business.

All of that is creating clarity for our businesses and clarity is something that businesses can work with - whether they want to make their investments or whether they want to consolidate. We don't want to consolidate today but we do want to make investments, so I think the environment is a lot clearer. We have all learned a lot about the way financial markets operate globally over the last three years. I think that is tremendously helpful for us as a company to make our investments. And it will be tremendously helpful should there ever come a day that we want to do something bigger. At the moment there is nothing to talk about.

It's a long answer but I think it's important because I think today's world is different. I think the understanding is better - it's more tangible, the interaction is better, the quality is better and that can only be helpful. It doesn't mean you can do anything, it just means everybody has a deeper understanding.

Malcolm Maiden from Fairfax Media:
You mentioned that technical services is one of the parts of the business that is growing its revenue or did during this period. You also mentioned that you had CAPEX on the top of the normal CAPEX run rate to set that data centre up. Can you talk about technical services in an ROE sense. I assume it is still in an establishment phase but when does it cross over and start making money?

Elmer Funke Kupper, ASX Managing Director and CEO:
I am just going to refer to Ramy here because he can find the appendix faster than I can.

But if you look at that business, its $25 million today. We spent $30m-$35m building a data centre so that business has got relatively attractive returns. It is of course not just serving our cash equities business, it's also servicing our derivatives business. I have been very, very happy with the work the team has done to build that data centre. It's a world-class data centre for $35 million. It was commissioned and largely built before I arrived but I will happily take the credit for it because it has been a very good investment.

Ramy Aziz, ASX Chief Financial Officer:
That's right, it pays for itself and you have also got to remember that the data centre houses all of our own equipment, so the whole market operates out of there.

Elmer Funke Kupper, ASX Managing Director and CEO:
So, for example, we have moved a large technology activity from this building here in Sydney to our new data centre. We have collapsed the floors so there is a tangible saving in the space we have here that has gone to our data centre. So it is consolidating our own data centre and then adding space for our clients so from a return perspective that's pretty attractive.

Malcolm Maiden from Fairfax Media:
You say it earns a relatively attractive return - what is a relatively attractive return in the stock exchange?

Elmer Funke Kupper, ASX Managing Director and CEO:
Let's put it this way, we have a reputation of managing capital expenditure and expenses very tightly. So we operate our exchange with a CAPEX and expense base well below other exchanges around the world of a similar size. It's a real credit to my predecessor. We are investing a bit more now because that's the way of the world. So I would say we have a healthy return. Now our return on equity, if we do the raw numbers at the exchange levels, is in the order of 11.5%. I wouldn't call that a spectacular return on equity to be honest. It's okay. And we also recognise that in a world where clients are under pressure and competition is increasing, we will share the upside with our clients and I think that's okay, we take that into consideration.

Malcolm Maiden from Fairfax Media:
How much is it going to cost to develop that OTC clearing service and how big an opportunity do you see that?

Elmer Funke Kupper, ASX Managing Director and CEO:
I am not sure we have announced a number for that.

Ramy Aziz, ASX Chief Financial Officer:
No we haven't.

Elmer Funke Kupper, ASX Managing Director and CEO:
I won't mention a number. OTC clearing as a service is perhaps not the money-spinner that people think it is. It's important because it is a service that we must have for our clients. We have made it commercially very attractive to join and we think it's important that the end-users of that service, who are real investors in our markets, have the opportunity and a choice to keep their collateral in this country.

You may all recall the MF Global saga. MF Global, which was an intermediary, went under with quite a big bang overnight about 15 months or so ago and some Australian end-clients got caught out when they found out that their collateral was now sitting overseas. And they couldn't get it back. It took them more than a year. They still don't have it all back. They have got a large part of it back, but it's a year later. We would consider MF Global a relatively small event for the Australian marketplace. But for those clients, it was a big event.

If you now dial that forward to interest rate swaps, the numbers become very large very quickly. We believe it is important for the quality and security of our market that we have a service available here where people can have a choice to have their collateral in a market that is regulated, in an environment where they can get their hands on their money it if things go wrong. The chances of it going wrong are pretty small of course, but if it goes wrong you want to make sure the RBA and ASIC are in control and not someone in a far, far away place.

So we accept it is a competitive business today, that's the call the regulators and policy-makers have made. But if you ask me what does that mean for Australia's markets? I would say I think we need to have an Australian service available because we don't want to wake up one day with a real problem. So we are going to build it.

We are very happy that seven of our clients are helping us with that at the moment. They have a choice to connect ultimately. They may not, but I think it's unavoidable to make the investment and in fact on a company of our size, it's a very modest investment, even though I am not giving you a number. Let's put it this way, we are flagging up to $40m CAPEX per annum this year. That is not all that far above our past run rates - it was probably $25m to $30m but these are not material numbers for a market of our size. And the reason is that we have such a large installed base that we are adding services to. That's the nice thing about our business - we can do this relatively efficiently.

Well thank you again. In summary:

Underlying earnings are down a touch, driven by continued weakness in equity markets. That's stabilised for now. We will make no predictions on what happens next. We hope the world improves and that business starts to grow as well. In the meantime we are making the investments that we believe are necessary to deliver a world-class infrastructure to our clients.

Thank you for joining us and I hope you found that useful.