Edited Transcript of ASX HY 2010 Media Briefing

18 February 2010

Peter Smith – Financial Times:
Any commentary on new market entrants given we are getting a bit closer to that?

Robert Elstone, MD & CEO, ASX Ltd:
No. I mean you know who they are and we know who they are and no commentary as to how they are feeling or what they are doing. I am not sure it's a question I can really respond to intelligently to beyond that.

Andrew Robertson – ABC:
How would you characterise this result in terms of the volatility of it still out there?

Robert Elstone:
If you look at the composition of earnings during the half Andrew, as I gave guidance on it at our AGM last September, I indicated then that on a trend basis we were likely to see a reduction in net interest income. And we have seen that and, that is very much attributable to the reduction in volatility. So, with any reduction in both equity and interest rate market volatility it means we are carrying lower levels of risk collateral on which we earn lower returns. So, the net interest income has fallen away but I think more positively the underlying cash earnings at an EBITDA level have risen quite strongly as the market has recovered particularly given the 50% recovery in the index value between March of 09 and September of 09. And really that was probably the prerequisite to the recovery in IPOs that we saw in the 4th quarter of last year. So, I think it's been a half of two quarters but the ongoing trend and hence the confidence in my outlook statement for the balance of the financial year through to June is that of those two sources of income. I would far prefer to have stronger cash earnings and lower net interest income because what that's telling me is that the activity levels are far outpacing the level of volatility from which we risk manage our counter-party risk.

So, if you detect a more confident more bullish tone than would have been the case six months ago, I think that's because the revenue growth we observed was across all four of our core activities - capital raisings, cash market trade execution, derivative market trade execution and over the counter market services in Austraclear. So, the fact that all four areas of activity showed growth half on half or year on year and that seems to have carried through into the first six and a half weeks of this year makes us reasonably confident but I would restate without plagiarising what other key commentators, I think I saw Ken Henry saying this the other day, that whilst the worst is probably over, aftershocks are still possible and they could come from either the sovereign debt cloud that is looming, care of the price paid by governments having to bail out obviously threatened banks or it could come from other sources, but I think generally the level of confidence has returned. Whether it's at pre GFC levels would probably be a brave statement but compared to the really dark period which was about September 08 to March 09 I think we have seen a fairly strong recovery globally but it's been even stronger here in Australia.

Andrew Robertson:
Could I just ask a second question on a totally different issue on what Eric was saying about diversity? A lot of people might be surprised to hear that social issues fall under the ASX's remit and I am just wondering if you would like to comment.

Robert Elstone:
I will answer the first part and leave Eric to give you the proper answer. I was amazed when I saw the commentary at the time of the consultation paper that we were engaging in social engineering. I don't think we are engaging in that at all. I think what they are saying is that the likelihood that the male part of the population has cornered the market on wisdom and acumen is very, very remote. And I say that as a

male part of the population. So, I find it a stretch to say we are engaging in social engineering but I will let Eric continue.

Eric Mayne – Chief Supervision Officer, ASXMS:
Yes, the point I would make is ASX is one member of the Corporate Governance Council and this issue is being driven by the council. There are 21 members that have come together as a result of the recommendation by CAMAC in the diversity paper they put out where it really had asked the Council to have a look at it. So, really the council comes together, I chair that Council and ASX is one voice on that council. So, it's really technically incorrect to say that ASX is driving this issue. It doesn't drive the issue, the Council is doing it and ASX has a voice on that and on a personal level as well, you know you had more than half the population that are women and somehow you find that 8% in the top 50, 10% in the top 100 and 12% in the top 200 or actually I think it's the other way round. It's only when you get up to the top 50 it's about 12% have women represented on the boards. Now that's on one level quite a very poor figure given the level of quality that we have across and the diversity that you need to have on boards. So, I don't see it really as an issue necessarily that we wouldn't engage in and certainly ASX is one voice at the Council that voted to support this issue at the Council meeting and of all the matters that I have been sharing across the corporate governance council in the 5 years I have been in the job, this is the one issue that got the quickest yes vote around the table.

Andrew Robertson:
What's going to happen to companies that in your view aren't diversified enough or aren't into diversity enough - are they going to be delisted?

Eric Mayne:
No, no we don't get to that stage yet Andrew. I think what the benefit and the beauty of the principals and recommendations is that they are a flexible based system and they are the "if not why not". So, for companies that don't want to follow them they don't have to but, they are required then to explain to the market why they aren't following them and what is the alternate practice they have that they are following that is consistent with whatever the underlying policy is. And my sense over the years is that the level of corporate governance compliance or level of reporting on each of the recommendations continues to improve and I would see that this is an area that the corporate sector, especially the top 300 plus will be something that they will embrace and embrace warmly. If for whatever reason it turns out that there isn't a take-up in terms of the improvement in the level of percentage of women on boards, and that's why we are starting this year with a bench to identify what the gender mix of boards as at 30 June 2009 is so that when we come to 30 June 2012 we will know what the percentage is.

If there is no sufficient take-up then it will be up to the government to decide - 'well we need to have a stronger measure', we would need it to be something in a more compulsive way and the option would be that either it would ask the ASX to introduce a listing rule which would require companies to have a diversity policy and require companies to set targets and require companies to report against that and if they did not do that then ASX would be able to exercise its rights of suspension until such time as they did. So the next step from principal to listing rule is to get a more compliant, you know, more of a prod in their back to help them along the way in terms of listing rules. The next step after that would be legislation, which I think if the listing rule failed and if that was the option, the next option we would follow you would find that you probably would be looking at legislation on quotas. But my expectation is that I don't think we would get to that. I would hope and think over the next two to three years the level of women on boards and certainly in the top 200 companies would be significantly higher than what it is today.

Andrew Robertson:
Just finally how would you rate the ASX's performance on diversity?

Robert Elstone:
I normally don't like making self assessments but clearly a decision to appoint Jillian Broadbent to our board recently was a conscious decision to get more women on our board. I think we have something like 56 or 57% of our workforce is female, three of my eight direct reports are female and I would like that to be 4 or 5 as quickly as possible. Not because I am pro women but I think they do bring a very different skill set and a very different acumen. And just to repeat my earlier comment, I don't think men have got a monopoly on wisdom and capability and I would perhaps just echo Eric's sentiments about the 21 member council. But I can certainly convey Andrew, that the ASX representative on that council would have stated clearly that ASX sees a world of difference between diversity in a minority representation sense and diversity in a gender equality sense. I mean it's anomalous to put women in the same bracket

as other minority groups because they are 50% of the population. So, I think the fact that often they tend to be grouped in with genuine minorities is a bit of a misnomer and we think the gender equality issue really does need to be addressed and I emphasise addressed not fixed. I think all the Corporate Governance Council is trying to do is make sure that the processing of addressing becomes more transparent than historically has been the case.

Laurence Davidson - Kanga News:
Obviously you would be aware of moves that are afoot about regulatory and legislative level in terms of developing a listed retail bond market in Australia, it's a two part question. First of all perhaps you could tell me what the ASX is doing in terms of the ASIC consultation that's ongoing. And secondly on a more general forward looking level, how do you see the development of retail listed bonds within the strategy of the ASX going forward?

Robert Elstone:
Obviously both questions are very intertwined. In terms of the first part of your question on what we are doing in the space, I mean we have made a large number of written and verbal representations to Treasury on this topic. Particularly since the uplift in AOFM facilitated issuance of Commonwealth Government securities from the early part of last calendar year and we have said that it makes sense from the Government's and AOFM's point of view to diversify their sources of distribution. So, purely from a government fundraising perspective, it makes sense to widen the distribution pipes to make sure they can diversify their funding sources. But I think beyond that as we saw back in the time of the Costello-led bond market review, it's become common knowledge that the bond market - whether it's wholesale or retail financed, plays a number of critical functions for the wider economy. So just at the time that Government is looking to pursue or make a big push in infrastructure financing then I think you get these other reasons aside from purely fundraising.

The other area of benefit would be that annuity product development would be enhanced by having risk-free benchmarks for perhaps longer dated maturities than the existing three and ten year concentration of Commonwealth Government bonds - so our representations have been voluminous. We will respond to the ASIC consultation and the initiatives there in terms of perhaps lighter touch prospectus requirements, particularly where issuers of debt happen to be equity-listed already. Our longer term strategy is basically, to make sure that our existing infrastructure assists the government in every way possible - that's both for the bonds to be retail listed, retail traded, retail cleared and retail settled.

So, to basically apply the wholesale market model to the retail end of the spectrum, I suspect the workload for us once a Government decision or a commitment to a retail bond market is made is probably only six or nine months in duration. So, I think the real issue is the Government's level of commitment and my reading of the tea leaves on that is that it's fairly likely to happen because it makes sense for all those longer term reasons - both to diversity funding but also to enhance other policy initiatives like infrastructure funding and age pension annuity product development. I think there are multiple benefits associated with getting retail involvement. It will also help their parallel initiative for a corporate bond market to perhaps get more of a 'tail wind' and that is a chicken and egg scenario because I suspect a retail CGS market would acclimatise household investors that get used to buying Commonwealth Government securities to then get more used to buying corporate bonds where they can earn higher spreads. So we are committed conceptually, philosophically and hopefully once the Government makes its strategy decisions we will be committed in a practical sense to assist the Government in every way possible.

Any other questions from anyone on the floor? If not, I think we will open it up to those that have been listening on the telephone either in Sydney, Melbourne or any other ports of call.

Matthew Drummond - Australian Financial Review:
Robert could you please elaborate on your comments in the analysts briefing about the capital spend that brokers will have to make to access the new service offerings, both your own and competitor exchanges.

Robert Elstone:
There are probably a number of layers Matthew to my response. I think I made a couple of comments this morning. One is that I think if the market structure evolves to a multi-market operation then that will unequivocally kick off something of a technological arms race because it will introduce complexity that's several multiples higher than the status quo because brokers will need to connect to multiple platforms rather than to the singular platform of the ASX.

The second part is that complexity, that technological complexity will also be a function of what the evolving evolution of the regulatory framework says and by that I really mean what are the ASIC market integrity rules likely to be in relation to short selling, best execution type rules which will largely dictate the amount of re-routing of orders and trades that need to occur in the market. So, my comments Matthew were partly around multiplicity of market platforms will just increase the technology workload but then secondly in turn that technology workload, the degree of complication will also be a function of the actual rules framework that ASIC will have responsibility for. So, my inference this morning was that all of the brokers, both the large end bulge bracket firms through to the mid-tier and the small brokers are going to have a substantially higher technology spend. And I think probably the larger brokers have the existing resources both human and financial to spend on that arms race whereas for some of the smaller brokers it's going to be about two issues: one is their state of readiness as the trade execution sphere becomes more complicated and more demanding and then secondly their financial ability to stay in the game as the rate of technology spend escalates. So, I hope I am giving you a good answer to a good question but unfortunately it is going to be challenging both in terms of state of participant readiness and their ability to keep pace with the refreshing of technology that they are going to have to do.

Matthew Drummond:
Could I ask a quick follow on question if I may. Do you foresee an option for brokers to simply offer the ability to trade on the multiple exchanges but not to actually access things like VolumeMatch or Pure Match or those sort of more bells and whistles services?

Robert Elstone:
Well I think on the whole, even within our own proposed more diversified offering, particularly if we also offer a smart order routing capability, then by definition we will try and take most of the complexity facing the brokers away from them by making it very easy depending upon the functionality they want to achieve, the fastest and lowest cost route to getting their trades matched. That's one of the reasons why we will participate in smart order routing ourselves. But at the end of the day I think, subject to the market integrity rules, I think brokers need to start gearing up for much higher levels of complexity, much higher levels of technology spend, even if their business models are relatively simple.

Eric Johnstone - Fairfax Media:
Good afternoon gentlemen, last time we met the ASX was talking about compensation potentially from having some of its technology - its supervision technology taken away, what's the status for that?

Robert Elstone:
No status at all. Because as I responded to those questions in the analysts briefing session it simply hasn't become an issue yet because Eric and his people and my own people involved in handling the preparation for the transfer, being so preoccupied with the logistical aspects of the transfer that the issue hasn't yet come up the agenda. So, no further comment.

Eric Johnstone
But its still a live issue in terms of it is something you will be seeking on behalf of ASX?

Robert Elstone:
It's still a live issue with ASX.

Julian Bajkowski - Australian Financial Review:
Hi Robert, I would like to get a bit of clarity around this new platform for managed funds and whether or not that has been factored into some of the technology expenditure that you flagged - I think it's 25 to 30 million in CAPEX per year over the next 2 years. Is that platform included in that figure?

Robert Elstone:
Yes it is.

Julian Bajkowski:
And what would you benchmark the cost of that at roughly?

Robert Elstone:
I think probably we are at too early a stage, I mean we are almost at the sort of concept design stage of that particular service offering but we are not imagining it to be a material percentage of that 25 to 30 million guidance but I would expect to be more transparent about that when it's got beyond the proof of

concept development stage. So round about August this year when we are announcing our final results, I think we can be more definitive then. But our expectation is that it's not a large project and its one that we should be able to deliver either late this year or in the first half of next year subject to other project priorities.

Alison Bell - Australian Associated Press:
Apologies I missed the analysts briefing this morning, so sorry if you have already answered this. But I am just interested in your revenue proportion - proportion of total revenue from your derivatives trading. Firstly, what is the proportion? And secondly, how would you expect that to change over 2010 given the numbers of traders in the market and market volatility?

Robert Elstone:
I won't answer the first question because I don't have the number on the top of my head but it's out there public in our release this morning. The second question is easier to answer Alison, in the sense of my written commentary clearly stated that we saw a recovery and I think the numbers I have quoted at the start of this session clearly indicate that both our single stock option derivatives and our futures and option derivatives have grown substantially. Mostly in double digits in the first six and a half weeks of this year and I think that's really a function of there being less volatility. There's clearly been some return of risk appetite both in financial intermediaries and in investors. So, my expectation would be as long as that confidence is maintained and volatility doesn't blow out to the kind of record levels it did at the back end of calendar 08 I would expect derivatives trading as a percentage of our overall trade execution revenue to grow from its current levels. But it will be very much a function of what happens to volatility which in turn I think will be largely bound up with sovereign debt concerns during the early months of this year. But I think we stay optimistic on a long run view about derivatives trading percentages of our overall revenue growth. There will be periodic quarter on quarter or half on half periods of stability or even reduction but I think we are fundamentally confident that derivatives will continue to grow at a faster rate than probably underlying cash markets will.

Alison Bell:
A second question on the issue of the proportion of women in listed companies. I am interested in your comments and am just wondering what response you would have to those companies who say it's just too difficult to source enough women with the talent required at board level.

Robert Elstone:
That may well be an accurate statement coming from the people who make it. It may be an accurate statement today but I think everything Eric spoke about that the Corporate Governance Council is trying to achieve is to make sure that that is not an accurate statement in five years time, seven years time or 10 years time because intuitively it can't be correct. So, I think the issue is just timing and how long it takes and what seeds of change need to be sowed to make sure that there is more gender balance - whether it's on boards, chief executives and senior executive teams. And I think that's what the whole Corporate Governance Council consultation process is about. It's not trying to achieve a pre-determined outcome, it's simply trying to change the status quo because the status quo doesn't really make a lot of sense.

Sonali Paul - Reuters:
You talked about being fairly confident about the IPO pipeline and you also mentioned secondary raising is also to continue as solid flow like you had. I am just wondering, would you still expect it to be as strong as it was in terms of secondary raisings? Would you expect it to be as strong as it was in the December half?

No I wouldn't. And I said that in the briefing this morning, that I think we are beginning to see a change in mix effect that was probably predictable a few months ago. The secondary raisings were dominated for a six or nine month period by these large jumbo placements and accelerated entitlement offer issues. That appears to have levelled out a little bit, but I think inevitably the mid-cap and small cap stocks will maintain the demand for secondary capital raisings at a relatively healthy level. But I don't think we will see a re-run in the second half of what we saw in the first half in terms of the quantum of capital raised, but it will be more diversified probably across a larger number of smaller companies.

Sonali Paul:
And also just in terms of the outlook for the rest of the year - I hope this is not a really stupid question but you are talking about the volatility being a major factor, is it better for you when its more volatile?

Robert Elstone:
It depends on the degree of volatility. If volatility at the moment is at historically normal levels then clearly we are probably a beneficiary of volatility. If it were to go outside of those normal bounds and go back to anything like what it was in the September - December quarter of 08, I think that would be not only bad for the ASX but probably bad for the banking system and bad for the real economy. So, I think everything is relative on volatility. At its current level it's within historical norms albeit at the high end of historical norms and the paradox with the earlier lady's question around our derivatives trading is that clearly, normally derivatives trading as a percentage of revenue will go up the more volatility there is until the volatility becomes so great that capital gets withdrawn from the ability to trade derivatives. So you end up with this potential catch 22 risk. But given the rate of recovery in the real economy and given the green shoots of confidence recovery that we saw in the second half of last year and in the first six and a half weeks of this year, I think we would be reasonably confident that volatility is more likely to track within its normal ranges during 2010.

The only big unknown is how serious and all pervasive - the current question mark over sovereign debt pressures may become.

Sonali Paul:
So you are saying the uncertainty over the sovereign debt issues could raise volatility to the more sort of dangerous levels?

Robert Elstone:
I think if you look at the things that drive volatility tends to be exogenous shocks which take the system by surprise but under most normal market circumstances there is normally an underlying driver. And I think the driver of what should dominate the outlook for volatility over the next year or two will be developments that unfold in the sovereign debt space.

Scott Rochfort - Sydney Morning Herald:
A question for Eric on your comments a bit earlier in relation to saying 10%-20% of your supervision staff would be available to transfer across to ASIC. Is that people who are actually willing to go across or is that people who are available?

Eric Mayne:
I am expecting it will be people who are available because obviously they will have the opportunity or the choice assuming that they receive an offer from ASIC to transfer across. It will be their decision as to whether they accept that offer, so it's a percentage on availability.

Scott Rochfort:
Do you think it will be an issue that the fact that maybe people at ASIC don't get paid as much as people at the ASX?

Eric Mayne:
Probably not in a position to answer that, I am not that familiar with the ASIC pay scales. But I don't think it will be at a relative sense that much of an issue, certainly at the low management level is my understanding.

Scott Rochfort:
So you are happy to stay at the ASX?

Eric Mayne:
Yes.

John Durie - The Australian:
You will have to excuse me if this has already been asked and it is following on from Scott's question. In the analysts' presentation I think you said that there were going to be 10 to 20 staff leaving but the cost saving was only going to be - I have got written down 3% or something like that?

The 10 to 20% was the guidance on the likely head count reduction within ASXMS John. There was no comment made about cost reduction.

John Durie:
10 to 20; well if you have 106 now and you are going to be down to say 80 to 90, what are the rest of those guys going to do?

Robert Elstone:
Everything that Eric has been talking about which is the oversight of listed companies and all the other activities that will stay ongoing because we have the ongoing license obligations to keep them.

Eric Mayne:
John we have for example 46 staff that do listed entity supervision alone so that's half of the number.

John Durie:
What do you mean listed entity?

Eric Mayne:
It's supervision of all the 2100 companies, their compliance with the listing rules and also the IPOs, secondary capital raisings, restructures - all that work is still done by market supervision.

John Durie:
So what will be the cost saving?

It depends whether you take 10% of 106 you get 10 staff, if you take 20% you get 20 staff. If you take an average of 15, just depends on what those people get paid and we don't have that data off the top of our head but that's probably likely to be somewhere between one and a half and two million dollars.

John Durie:
So it's not going to be huge?

Eric
No.

John Durie:
When it was first announced, you were thinking it wouldn't work that well, how do you think it is going to work now?

Eric Mayne:
I don't really think that's a relevant question for us. I mean we are not going to be the people doing the work so it's more a question for ASIC.

There are no further questions.
