



**Australian
Competition &
Consumer
Commission**

Our Ref: C2006/119
Contact Officer: Baethan Mullen
Contact Phone: (02) 6243 1369

PO Box 1199
Dickson ACT 2602
470 Northbourne Ave
Dickson ACT 2602
ph (02) 6243 1111
fax (02) 6243 1199
www.accc.gov.au

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Donald Robertson
Partner
Frechills

By Facsimile: (02) 9322 4000

Dear Mr Robertson

Re: Proposed merger between ASX and SFE

I refer to your letter of 19 January 2006 regarding the above matter.

The ACCC has considered the information provided by you in relation to the proposed acquisition on a confidential basis. Based on that information the ACCC's preliminary view is that the proposed acquisition does not appear to raise competition concerns pursuant to section 50 of the Trade Practices Act.

This preliminary view has been formed without the benefit of market inquiries due to your client's confidentiality requirements. Consequently the ACCC intends to conduct market inquiries to assist its consideration of the competition issues once such inquiries can be made.

The ACCC's inquiries will seek to confirm the following submissions:

- that the ASX and SFE are not significant competitors particularly because of the existence of network effects;
- that the proposed merger is unlikely to affect product innovation;
- that the proposed merger is unlikely to raise vertical concerns; and
- that, in relation to index options, retail investors trade on the ASX and institutional investors invest on the SFE.

Market inquiries would also seek information on the following issues:

- The extent to which the merged entity might be competitively constrained by alternatives to trading on the ASX/SFE, such as internalisation, off-book, over the counter, alternative trading systems and overseas exchanges; and
- Whether the ASX faces pressure from brokers and investors (particularly large institutional investors) in setting its fees.



I would be grateful if you would advise me in writing if your client intends to proceed with the proposed acquisition and, if so, when the ACCC is free to make market inquiries.

If you wish to discuss this matter, please do not hesitate to contact Baethan Mullen on (02) 6243 1369.

Yours sincerely

A stylized handwritten signature consisting of a vertical line, a horizontal line at the top, and a curved line at the bottom.A cursive handwritten signature that appears to read 'Baethan'.

Tim Grimwade
General Manager
Mergers & Asset Sales Branch