



MARKET ANNOUNCEMENT

24 April 2006

Update on ASX Pricing Review

On 15 December 2005, ASX announced the outcomes of its pricing review. The new price structure will commence on 1 July 2006. The continuation of the current pricing structure, particularly the Settlement Volume Rebate (SVR) for a further year to 30 June 2006, was to assist market participants with the costs of implementing the new Integrated Trading System (ITS).

Background

On 25 May 2005, ASX announced a pricing simplification and benchmarking review. That review was completed with the outcomes announced to the market on 15 December 2005.

The outcome of the pricing review was that ASX would alter its pricing structure from a predominantly volume-based system to more of a value-based system. There were three key reasons for the change. The new pricing regime will:

- Make ASX more competitive in attracting price-sensitive, global order flow, originating from, for example, Direct Market Access (DMA) trading and algorithmic traders. The changes also bring ASX closer in line with key regional exchanges Hong Kong, Singapore and Tokyo. Consistency with other markets is also important for attracting global order flow.
- Address key shortcomings in the current pricing schedule that impact customer satisfaction. These include establishing a tight alignment between ASX pricing and broker revenue drivers; ensuring ASX fees are predictable so brokers can accurately price new business; and simplifying or eliminating fees created through an unnecessarily complex pricing schedule.
- Remove the well-recognised unintended consequences that currently exist in the Settlement Volume Rebate (SVR).

In its 15 December 2005 announcement, ASX advised that it would consult further prior to the 1 July 2006 commencement of the new pricing regime. ASX has now completed this consultation, in particular with the largest liquidity providers.

New Pricing Model

As from 1 July 2006, the new price structure for equities trading, clearing and settlement will be:

- Trading – 0.28 basis points of trade value, capped at \$75.
- Clearing – 0.25 basis points of trade value, excluding crossed turnover.
- Settlement with payment instruction – unchanged at \$1.60.
- Settlement and transfers without payment instruction – \$0.90.
- A Volume Incentive Program of rebates for large liquidity providers.

In addition, ASX has reduced the number of price points for ancillary clearing and settlement services from 109 to less than 50. The simplified approach streamlines customer invoices and reduces pricing complexity.

Attached to this announcement is additional information for ASX participants and investors:

Attachment 1 – This attachment provides a sensitivity table showing the application of ASX's new pricing model assuming 3 different scenarios. Whilst ASX expects trading patterns to change following the introduction of the new pricing regime, sensitivities provided have been calculated assuming known historical trading patterns.

Attachment 2 – This attachment provides some key definitions necessary for the estimation and calculation of ASX's equities revenues and fees.

Attachment 3 – This attachment provides a guide for ASX Market Participants to estimate their ASX charges under the new equities fee structure.

Volume Incentive Program (VIP)

The VIP seeks to recognise the significant contribution to on-market liquidity of the largest ASX market participants and to incentivise these participants to further enhance liquidity. In line with these objectives, two hurdles are required to be met for the VIP to be payable – total billable¹ market turnover and total billable¹ participant turnover. As ASX advised, both hurdles will be re-set and announced prior to the commencement of each new financial year.

Accordingly, the VIP hurdles for the 2006-2007 financial year will be as follows:

- total market billable turnover – AU\$520 billion; and
- total individual participant billable turnover – AU\$50 billion.

The participant turnover hurdle will be the same for all participants.

A VIP rebate is payable to individual participants once both total billable market turnover and the participants' total billable turnover exceed the qualification hurdles. Once qualified, a participant is entitled to a rebate of 0.1 basis points on the value **above** the billable participant turnover hurdle for the 12 month period.

¹ Billable turnover for VIP calculations is total turnover less crossed trade turnover.

For example, using the above hurdles, if the 2006-2007 total billable market turnover was \$520 billion or above and the individual participant's total billable turnover was \$70 billion, then the participant would be entitled to 0.1 basis points of \$20 billion (the difference between actual turnover of \$70 billion, and the turnover hurdle of \$50 billion). This would equate to a rebate of \$200,000 for the individual participant.

Supplementary VIP

Subject to the satisfaction of both VIP hurdles, an individual market participant is eligible for a Supplementary VIP which is payable on that participant's total individual billable turnover².

ASX has allocated a total Supplementary VIP pool which will increase as market turnover grows, but the aggregate of all Supplementary VIP payments will be capped at \$8.5 million for 2006-2007. Individual participants who are eligible will receive an allocation from the Supplementary VIP pool at an average rate of 0.07 basis points of their **total** billable turnover. The actual Supplementary VIP rate will vary between participants based on actual trading behaviour.

The Supplementary VIP was introduced following ASX's consultation with participants, in particular the largest liquidity providers and recognises the further need to reward each of the largest liquidity providers and to address the disproportionate impact of the pricing schedule on each of them – hence the different Supplementary VIP rates between participants.

ASX will review the Supplementary VIP with each large liquidity provider at the end of 12 months (that is, the 4th quarter of the 2007 financial year).

Conclusion

ASX's equities revenues are impacted by both volume and price, and price is impacted by trading patterns³. As such, it is difficult for ASX to forecast the exact impact of the new pricing regime. However, based on current trading patterns and current levels of activity, ASX estimates that the new pricing regime will result in an increase in revenue of approximately \$10 million.

Overall, ASX is confident that the new pricing arrangements, including VIP rebates, strike an appropriate balance between the needs of all ASX stakeholders.

For further information

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² Billable turnover for VIP calculations is total turnover less crossed trade turnover.

³ Trading patterns include average trade size, proportion of crossed turnover, proportion of turnover above \$75 trade fee, concentration of trading and settlement activity.

Attachment 1 – Trading Scenarios

Note – Trading scenarios assume known historical trading behaviours which may change.

Scenario	1 105,000 average trades per day	2 115,000 average trades per day	3 130,000 average trades per day
Trading Behaviour Statistics			
Average turnover per day including crossings (\$ billion)	\$3.464 b	\$3.661 b	\$3.967 b
Total trading days	253	253	253
Percentage of turnover above \$2.679m (%) – capped at \$75	9.1%	8.8%	7.9%
Percentage of turnover crossed (%)	33.0%	32.1%	29.6%
Estimated Average Fees Per Trade (Two Sides)			
Trade fees	\$1.68	\$1.63	\$1.57
VIP	-\$0.09	-\$0.14	-\$0.21
Supplementary VIP	-\$0.19	-\$0.24	-\$0.26
Clearing fees	\$1.11	\$1.08	\$1.07
Settlement and Other CHES fees	\$1.41	\$1.33	\$1.22
Listed Entities	\$0.68	\$0.62	\$0.56
Total Average Fee Per Trade (two sides)	\$4.60	\$4.28	\$3.95
VIP Summary			
VIP (\$m)	\$2.4 m	\$4.2 m	\$6.8 m
Supplementary VIP (\$m)	\$5.0 m	\$6.9 m	\$8.5 m
Total VIP (\$m)	\$7.4 m	\$11.1 m	\$15.3 m
Estimated Net Trading and Clearing Fees as basis points			
Average basis points for trading and clearing (one side)	0.38 bps	0.37 bps	0.36 bps
Maximum basis points for trading and clearing ⁴ (one side)	0.53 bps	0.53 bps	0.53 bps

⁴ The difference between maximum and average basis points for trading and clearing due to VIP, trade fee capping (\$75) and no clearing fee for crossed trades.

Attachment 2 – Important Definitions

Equities – for the purpose of this announcement, equities includes equity, warrant and interest rate securities.

Trades – the sum of all trades for which trading revenue is payable, i.e. excluding trades for the execution of options.

Billable Turnover/Turnover – the sum of all turnover for which fees are payable:

- For trading – turnover adjusted for trade value above \$2.679 millions where \$75 cap applies;
- For clearing – turnover excluding crossed turnover.

Attachment 3 – Individual ASX Participant Fee Calculator

Given the new pricing schedule, a participant's equity fees are driven by the following variables:

- Value traded by participant i: x_i
- Value traded above cap⁵ by participant i: y_i
- Value traded crossed by participant i: z_i
- Number of settlements with payment instruction by participant i: a_i
- Number of settlements without payment instruction by participant i: b_i
- Supplementary VIP rate for the individual participant – r_i basis point

ASX total revenue from participant i is computed as follows⁶:

$$\begin{aligned}
 & \left[\frac{(x_i - y_i) \times 0.28}{10000} \right] + \left[\frac{(x_i - z_i) \times 0.25}{10000} \right] \\
 & - \left[\frac{(x_i - z_i - 50\text{billion}) \times 0.1}{10000} \right]_{\text{if } x_i - z_i > 50 \text{ billion, 0 otherwise}} - \left[\frac{(x_i - z_i) \times r_i}{10000} \right]_{\text{if } x_i - z_i > 50 \text{ billion, 0 otherwise}} \\
 & + a_i \times 1.60 + b_i \times 0.90
 \end{aligned}$$

⁵ Trading fees are capped at \$75 per side. Given the 0.28 basis point for trading, it means that value traded above \$2,678,571 per trade is not billed. y_i corresponds to the sum of trade values in excess of this figure per trade for participant i.

⁶ Since VIPs shall be paid if, and only if, the total trade value, excluding crossed trades, for the 2006-2007 financial year is over \$520 billion, the third and fourth terms of this equation are only relevant if this condition is met.