



Edited Transcript of ASX HY 06/07 Analyst Briefing

Q & A Session

15 February 2007

John Heagerty – ABN AMRO

I will just start with the most obvious question. On the updates to the synergy benefits, you mentioned previously \$14 to 18 million and you basically said you are going to achieve that this year already. Can you give us any guidance beyond that as to the potential depth for synergy benefits coming through?

Robert Elstone - Managing Director & CEO, ASX

What we have tried to do John, is raise the disclosure bar and you will see in the written word we have actually given expenditure guidance through to June. The reason we are not doing it for the following year is that I don't know. It's not that we know, and that we are not going to tell you, it's that I don't know. It is nothing simpler than that.

I will be working closely with Alan on really looking at the second half cost savings momentum. I have sufficient surety for Alan and I to sign up to that statement that was in the slide - that we will achieve \$14 to \$16 million of synergy savings by June this year instead of December 2008. So clearly we have accelerated the achievement, but I won't go further than that simply because I don't know. We won't put our budget together until about May. I think it goes to the May Board meeting. When I know in May, I may have more to say on that in the full-year results August release.

John Heagerty – ABN AMRO

Thanks and just on the acquisitions – obviously, you already referred to the fact that it is unlikely that ASX will be taken out for clear reasons, but there seems to be some reference to opportunities which you are looking at. Could you confirm that you are actually looking at some opportunities internationally? Obviously, I am not asking you to state anything specifically.

Robert Elstone - Managing Director & CEO, ASX

I think I would start from the premise that I get paid to look out the front window, not just on my lap or through the rear view mirror. I wouldn't be doing my job if I wasn't looking at opportunities, be they domestic expansion or cross border opportunities. I think the point I made in my written comments is that clearly, cross border exchange-based transactions are more complex because whilst capital markets are becoming ever more globally integrated in terms of flows, supervisory and regulatory regimes stay in distinctly national responsibilities. The execution of cross border transactions, the execution risk, and the execution challenge is very, very high. But it would be wrong to interpret that I have got something in mind or we have got our sights set on something. But I take it that I get paid to, as I say, look out the front windscreen of the car and observe what is going on in the sector globally and form a view on whether there is any value to be added to our shareholders from participation and I will keep doing that. I will keep saying that, and if the day dawns that I have something specific to say, we will put out an announcement because I will have Eric chasing me for (Listing Rule) 3.1 disclosure reasons. But apart from saying, I think the next question is likely to be – well, how active are you?

Well, I am very active because I read the papers and I pick up the phone and I occasionally fly around the world, but much more than that I wouldn't say.

John Heagerty – ABN AMRO

Thanks and just one final question if I may? Just on the gain sharing you referred to, particularly in the crossing side of things, can you tell us when we might find out more about that and how that might actually work in practice?

Robert Elstone - Managing Director & CEO, ASX

I think Alan responded in his verbal comments that we would expect to (discuss further). We put out a release in December where we foreshadowed the kind of gain sharing ratios for marginal revenue growth, so that's already in the public domain. What we didn't state in there was the uplift or the qualification thresholds to achieve those gain sharing ratios. I would imagine indicatively that I have got my head of business development in the audience today, though I think we are probably planning. I think Alan said a couple of months away. I would expect by around April we will be giving guidance on that issue, both to you as investment analysts and to the market users. Clearly, that is the issue on the back of the kind of results we are publishing. We will get the undivided attention of the market users, so I would expect us to be more transparent, certainly well ahead of the end of the financial year.

Chris Williams – UBS

Rob, I have got two very specific questions. The first one is on synergies. You note approximately \$19 million of provisions around occupancy. Can you please tell us how much of that relates to the co-location and the reduction of floors, i.e. changing the floor layout as opposed to provisions for future rental leases and therefore amounts that might be unwound in future periods?

Robert Elstone - Managing Director & CEO, ASX

Wow. Thank you for the question Chris, can I flick that to you Alan? I am not across that split.

Alan Bardwell – Chief Financial Officer, ASX

Well, let me give you a quick rundown. Essentially, the vast bulk of that charge is in terms of providing for future lease rentals - around 60% or 70%. The rest of it would be in terms of floors that we have basically integrated.

Chris Williams – UBS

Thank you. The second question, another very specific one. It relates to the NZX initiative. We note the inclusion of crossings in the rebates structure that ASX has made. My question is, is ASX's only response to this around fees or are there other things you can do to perhaps address market concerns about the initiative?

Robert Elstone - Managing Director & CEO, ASX

The answer is yes, there are other things we can do. On the first question, I think (the assumption) is probably wrong because several of you have quizzed me on this in the weeks leading up to Christmas. It would be wrong to make the assumption that we have included crossings in the rebate qualification model that we have in mind, simply because of the NZX ECN, that would be quite wrong.

What's behind that comment is because, I think, the inclusion of crossings has come about because of the much deeper understanding, certainly that I have got and other relevant executives have got. The more that we have drilled into this issue, as we had to given the volume versus value heat that got generated in the middle of last year, the more we have drilled into the number of variables that drive the evolution of market micro-structures all around the world, as well as in our market. I am not going to fall into the classic CEO trick of blaming predecessors and past regimes, but we think it probably wasn't very smart to exclude crossings in the first place. It is easy to interpret it as step one of several steps of responses. I think would be the wrong interpretation. So the first part of your question, there

are other things we can do. Don't ask me what they are because I am not going to tell you. Thanks Chris.

Steven Kench – QIC

Sorry, just back on the subject of cost. Just for clarification, with these things, there is always an actual run rate versus annualised savings. Can you just clarify the \$14 to \$16 million - is that an actual number for 2007 or a run rate?

Robert Elstone - Managing Director & CEO, ASX

Run rate.

Steven Kench – QIC

And in terms of actual?

Robert Elstone - Managing Director & CEO, ASX

That guidance is pretty much in the written word in the release.

Steven Kench – QIC

OK then, the \$4.6 million, that is an actual or a run rate?

Robert Elstone - Managing Director & CEO, ASX

That's an actual and that's why it was in Alan's waterfall chart.

Steven Kench – QIC

I haven't had a chance to go through the release yet - is there discussion around staff numbers?

Robert Elstone - Managing Director & CEO, ASX

Yes, there is, I think Alan quoted that the head count movement from June 30 to December 31 2006 was a reduction in head count of 89 people. If you could gross that up, a further 28 people that were in Orient Capital, you get 117 so it was extremely sizeable.

Steven Kench – QIC

And my final question, just around the clearing house integration. If you could just provide some colour around that in terms of timings and efficiencies you expect to get out of that?

Robert Elstone - Managing Director & CEO, ASX

Good question Steven. I wish I could give you some colour in terms of timing, however I can't give you that colour. There are probably a couple of areas of pre-requisite things that need to happen in order to facilitate some version of CCP integration across the two clearing houses.

When we use the term 'CCP integration', it doesn't necessarily follow that what will come out at the end of the process is a single clearing house. CCP integration may well entail down the track, some form of mutual recognition regime or margin offset regime which effectively achieves the same outcome without having the extra hurdle. There are certain prerequisites. There is a stream of dialogue with the RBA which is stock standard quarterly reporting under our financial stability standards, and that really revolves around ex-post explanation of notional excesses of derivatives clearing risk to make sure that the risks we are reporting to the central bank are well and truly managed in either a collateral or a fixed capital sense. So that's really an ongoing education to get the bank comfortable that the risk management in both independent clearing houses is quite robust.

Outside of that, the two prerequisites for me and the Board to get clarity around which version of CCP integration we will get to, is that at the moment, it is an accident of history having ADI status clearers in

SFE and non-ADI status clearers in ACH. So you can't merge the two if you have got separate entity clearing participants for each market.

We need to achieve a degree of traction and we are getting that traction with the Commonwealth Treasury - it requires regulatory change to go through the parliament. We are getting support from APRA, and I think there is sufficient goodwill in the regulatory community to help us achieve comparable ADI status clearers.

The second judgement we would need to make, and I mean the timeline there, is probably realistically all of this year to achieve that because we are talking about parliamentary processes not getting signatures on pieces of paper.

The second hurdle for us philosophically, is bound up with the decision whether we would want to adopt omnibus account structures and risk mutualisation in cash equities markets, which is equivalent to futures markets. That's probably a bigger judgement for us to make and that maybe, that second hurdle is one of the reasons why we don't eventually move to full blown corporate CCP integration. The real argument for this is that there are potentially capital benefits to users associated with migrating towards a mutual offset or mutual recognition regime, but the prerequisite to that is getting alignment of legal entity clearing participants across both ASX and the SFE-traded markets. It's not going to be quick, yet it shouldn't be many, many years down the track either.

So it's really those two streams Steven. It's getting the RBA progressively comfortable as to the risk management profiles of both independent clearing houses and then working with them to form a judgement as we also migrate into hopefully comparable ADI status clearers. At the end of the day which I suspect might be late this year or early next year, we'll form a judgement on which version of integration we are going to go for.

Alex Chau – Credit Suisse

I have got two questions as well and I suspect given your answer to the previous question, the depth of that, I suspect I know what the answer will be anyway but I will ask it. It's in relation to the clearing house responsibilities. I just want to ask philosophically how you see that linked in with the Exchange in the long run. I guess it backgrounds our question if you look internationally, in particular derivative exchanges, Deutsche Boerse and Euronext have talked about separating their clearing house functions from the exchange functions. I just wanted to see philosophically whether you would contemplate that?

Robert Elstone - Managing Director & CEO, ASX

I am a believer in the integrated business model. If I weren't a believer in that I probably wouldn't have been supportive of the ASX / SFE merger transaction. So I think the likelihood that we would seek to break up the group and sever vertical integration is actually very low. Now the pundits would say, oh that's because of the strength of the franchise that being vertically integrated represents. I also think that is true by the way. I also think the market efficiency benefits of being vertically integrated are palpably real and something gets lost in any severance decision, but this horizontal versus vertical integration debate has been going on in Europe I think through the, I can't pronounce the Italian gentleman's name, I think it's the Giovanni report, and the issues are actually extremely complex but philosophically I am not favourably disposed towards a horizontal integration model. You have a second question Alex?

Alex Chau – Credit Suisse

Second question is related to fees. Unfortunately, I have to ask a question about the value and volume debate. I guess you pushed forward some very useful sensitivity in the last couple of years in regards to the actual fee increases on the old and new pricing system. I haven't been through the results pack, and I wonder if you could give us that same sensitivity? I recall the last full year results was something like 7 ½% to 8%, the old versus the new.

Robert Elstone - Managing Director & CEO, ASX

I can't recall whether we have actually provided the same sensitivity in the latest, not to the same extent. I think we have taken our disclosure as far as we want to take it, and given the flavour of Alan's

charts on volume versus value and my comments, I tend to think that we are sort of asking analysts really not to get over this topic. It is a legitimate line of enquiry, but I think we would have failed in our release today if we don't convince you that the issues surrounding market micro-structure that drive a revenue line of exchanges, in the kind of world that we are moving into, of quite a seismic shift in large order facilitation. What's happening to that traditional model with DMA will suggest to me that I think we've moved on to some degree from that. I would like to double check and perhaps take it offline in a meeting with you Alex as to whether we have or haven't provided that sensitivity analysis again. I don't believe that we have. Next question or perhaps I should ask anyone that may be on the telephone that has a question.

Mike Younger – Citigroup

Rob, unfortunately a three fold question again. Firstly, what the annualised affect would be of the cost reduction which is already in place, and the extent to which the former management team's view of \$15 to \$20 million of cost savings by fiscal 2008 might well be achieved. The second question is with regard to synergy and whether, if at all, we will see consolidation of the trading platforms between SFE and ASX. The third relates to IRESS and whether you can discuss the holding in IRESS in the context of its core nature to ASX.

Robert Elstone - Managing Director & CEO, ASX

Thanks Mike. I think on the first question, I will just re-state what I have already said. What's in the release is an actual break-up of merger synergies and non-merger related cost savings. There is a statement in the slide and it is repeated in the written word, about the earlier timing achievement of the \$14 to \$16 million of merger synergies by about June of this year. That June number then becomes an annualised number and we are not going to give anymore guidance beyond the upgraded guidance that you are getting in the current year. Not because we are being cute, but because we don't know.

Second question regarding trading platform convergence - I think this project has been kicked off internally. We are clearly in dialogue with Participants to try and get a rain gauge reading on how important this topic is to them. There are pros and cons from our point of view, so we will consult with users and that process has already kicked off but it is, if we do it, a major project and I don't expect us to be making decisions on that probably until the back end of this calendar year Mike.

And the third question on IRESS, to be honest with you I have been so frantically busy for 6 months I haven't really had the time or needed to think about the IRESS stake very much at all. I know there have been lots of rumours and speculations that we are a seller or we are a buyer but it's all utter nonsense. Basically, I haven't got round to thinking about it very much. My predisposition is that I will probably look at it more over coming months. This is simply because I've obviously started to come up for air personally from the integration process, but I think whatever speculation has been in the market has been quite baseless.

Mike Younger – Citigroup

Just to clarify on that first question. That was more about the cost reduction program rather than the merger synergies. What perhaps the annualised effect of what you have already done might be for the second half?

Robert Elstone - Managing Director & CEO, ASX

I am not close enough to that number Mike, so if I gave you an answer I would be misleading you. I think I will flick it to Alan to respond.

Alan Bardwell – Chief Financial Officer, ASX

I think Mike, in terms of the numbers you have got there for the first half; I mean they are fairly representative of what you are going to see going forward, so I wouldn't see any real change to the \$4.6 million that I had already put on the charts there.

Mike Younger – Citigroup

Any sign with regards to prior guidance of \$15 to \$20 million of cost savings by the end of fiscal 2008?

Robert Elstone - Managing Director & CEO, ASX

I think the only comment I would make on that is as I said here, we have got estimated total synergy savings for 2007 of \$14 to \$16 million, so if you look at that we are pretty much saying that in 2007 you know we've achieved those kind of numbers that you are talking about. We are not far off.

David Humphries – Morgan Stanley

Good morning Robert. A question in the context of your comments around the ASX's market micro-structure value proposition. In your engagement with stakeholders, do you see some of their actions in banding with the NZX as a tactical or a strategic move?

Robert Elstone - Managing Director & CEO, ASX

Good question. I think there is probably a mixed bag of motives on the part of the five brokers that have gone into that initiative. Folklore would suggest that getting two brokers to agree and stick with an agreement over a long time period is like defying gravity. Getting five to do it will be quite interesting. I suspect they have all got their own motives and those motives will span from optimism that the initiative will solicit a single or a series of responses from ASX, right the way through to a more evangelical belief that price discovery as we all know it is undergoing systemic change and markets will support multiple price discovery platforms and all stops in-between those two extremes. So I suspect that practically, the motives of each of the brokers will be different.

We speak to those brokers anyway because we obviously have day-to-day relationships with them, and our challenge really is to make sure that we do a better job at articulating our value proposition and we do as good a job as we can at making sure that any alternative trading system value proposition is not as compelling as our own. That's why I think I have tried in this morning's comments to say it is more complex than volume and value.

Our focus is on obviously improving marketplace liquidity and improving price transparency efficiency through both clearing platforms in the contemporary regulatory environment, and to do all that within a fee and rebate mechanism that equitably gain shares revenue growth between shareholders and users. I think that's our strategy. Now if somebody else has a better strategy, then there will be a winner and we will be a loser. I guess I would rather be in my position than in somebody else's position.

I think that probably brings an end to the questions you have for the morning and again, just let me re-state a thank you for those on the line and for those that have come physically into the auditorium. Thank you for coming and being patient. I would urge you to really study our written words and judge us by what we have put in the public domain.

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