



Edited Transcript of ASX HY 06/07 Media Briefing

15 February 2007

Robert Elstone - Managing Director & CEO, ASX

Thank you all for coming. Some of you I know – Andrew and Glenda - and others that I don't, many thanks for coming along. We will try and keep this session as informal as possible. There is no sound and light show, no slide presentation and we will maximise the opportunity for some questions.

On my left is Alan Bardwell, newly appointed Chief Financial Officer of the group. He has been here a couple of months. On my right is Eric Mayne, our head of Markets Supervision.

We have given you a couple of slides. There is one on financial highlights, which I will quickly run through, and one which Eric has authored which looks at the market activity and in particular, our supervisory activities for the half we have just reported on.

Looking at the couple of slides we have provided, you will see a performance summary with a series of boxes down the right hand side with ticks in every box. This, I guess, is a sign of a strong result and a clue to how the market has reacted this morning since we briefed analysts at 9.30am. It suggests the market is pleased with the overall result.

Normal profit after tax is up 39.6% to \$139.3 million. Earnings per share is up 30.8% to 81.6 cents per share. The dividend is up 28.6% to 72.3 cents per share. On top of that, we had a capital reduction 58.5 cents per share and the underlying drivers of this operating performance were revenue up 19.6% to 259.7 million, expenses (and this is cash expenses) down 11.3% to \$75.2 million.

Last August when I came into this role, those of you who were here will recall me talking about three phases to the merger. The first phase was the period from July to December last year, and I mentioned at the analyst's session this morning that this first phase is well and truly complete and successfully completed. If anything, we made faster progress than I would have anticipated six months ago and that was largely because of the fantastic level of collaboration between the senior management teams of both the companies that came together, and that has continued on over the Christmas / New Year period. As we come into phase two, which I will talk about in a moment, I think we have got where we needed to be quicker, but more importantly, more effectively, than I would have predicted six months ago.

On top of merger integration, we had two very large core system change-outs. Click XT, which is the new integrated trading platform for cash equities and equity derivatives, and EXIGO, the new OTC clearing and settlement platform for wholesale fixed income financial markets. Lastly, we divested of Orient Capital, our small share registry business, so by any standards, it was an incredibly busy six month period.

At this morning's analyst briefing, I tried not to summarise what has already been summarised in both mine and Alan's report to the market. You will see, if you have had a chance to scan it or read it, and I would urge you to do that, that it is a very, very comprehensive level of disclosure. We have tried to lift the bar on our own disclosure and set the right example for this new company that is being built, and clearly I have sensed in my first six months in the role, a very high level of interest in both how the merger has come together and what the growth options for this new company are going forward.

As far as the second phase of the merger is concerned, which is the phase we are now in between January and June, this will be populated with Alan's efforts to carry out the last integration challenge, which is the finance function, further data centre rationalisation and further real estate savings.

The third phase, which will start later this year, will be more around clearing house integration and potential for other technology platform integrations. I guess the good news is, from my personal point of view, the speed and the effectiveness of the merger integration. It has enabled me personally to come up for air and look at the global scene much earlier than I anticipated and clearly that has been particularly active and I will have more to say on that in a moment.

I was at pains to point out in the analyst's session this morning that we have tried to address most of the topics that have been put to us by the investment community in the first six months of the merger. These issues cover such things as volume to value pricing on the cash equity side of the business and I have therefore picked three topics, both in my written word and in the session this morning, to perhaps say a little bit more on because they are three topics which I know are of interest to the media generally. So I have made written and verbal comments about the private equity trend and whilst I don't propose to add anything new here to what I have said in writing, I am happy to elaborate on what I have said in writing. I was actually on the phone with John Stewart about an hour ago and I joked to him at the end of that conversation that perhaps he might have some tips for me given the amount of writing you have done about his private equity comments, and perhaps I should have rung Peter Costello as well and got some tips from Peter.

The second topic is clearly the global phenomena of alternative trading systems, sometimes badged ECNs (Electronic Communications Network). Again, I devoted a fair amount of air play in my written comments to the way that I and the company is thinking about what these potential alternative trading platforms might mean for us.

The third area I have touched on in writing is the global exchange consolidation sector which has clearly been active in the months leading up to the Christmas break. The two, it could have even been three if you include Nasdaq / London, but certainly the two very high profile corporate entity transactions between the Chicago Mercantile Exchange and the Chicago Board of Trade, and between the New York Stock Exchange and Euronext. So even if Nasdaq / London had progressed, the sector is clearly very active if you think of it as a global market for corporate control and the exchange sector is right up there in terms of activity level.

So really, with those opening remarks, I didn't propose to go any further in my introductory comments and I will throw the session open for any of you to ask me any questions and I will just draw the line if I think you are taking me into continuous disclosure issues that I don't want to go anywhere near for obvious reasons.

Eric Johnston - AFR

Did I read somewhere here that the expectations for the integration costs have increased?

Robert Elstone - Managing Director & CEO, ASX

No. What is in the written word and what I said in this morning's session to the investment analysts, was that we stated in the public documents that preceded the merger that there was a synergies target of \$14 to \$18 million to be achieved by the end of calendar year 2008. What is in the written word is an expectation that we will achieve \$14 to \$16 million as a run rate by June of this year. That also explains why Alan was explaining to analysts that the upfront merger costs have also exceeded our targets because we have achieved the synergies faster than we thought before the merger went through, so I think the point Eric you are referring to, is not that we are likely to exceed the total, that may or may not be the case, that's hard to tell, but certainly we have achieved what we said we were going to achieve much, much quicker. I think what that is saying is we have made sufficient progress in cost savings for us to register a run rate or a running saving of \$14 to \$16 million as early as June of this year, instead of the earlier predicted December of 2008. It means you will actually see those numbers appear in the next financial year.

Eric Johnston - AFR

If I could just follow up, you made some comments about acquisitions. Obviously, there is a lot going on. While you are reluctant to discuss what you are specifically up to, is Asia a possibility more so than the northern hemisphere in terms of areas you could be looking at?

Robert Elstone - Managing Director & CEO, ASX

I don't look at global consolidation or growth opportunities of a cross border nature from a geographic presence point of view other than if I have to travel. It's easier for me to travel to Asia than it is to go to Europe or North America. I don't think there is any one zone of the world that has more opportunities or better potential partners for us than any other. It's just simply an ease of communication, but back to the way you started your question, I don't want to leave you with the impression that we are out there with anything that is likely to be imminent in the short term. I just think the two large transactions I am quoting, the Chicago Board of Trade and the Chicago Mercantile Exchange, that's a very, very significant merger. Not only because of the scale of the company that comes out the other end of it, but it completes the U.S yield curve in derivative terms, so it makes it a very potent force. New York Stock Exchange / Euronext is probably a more intriguing transaction. You could argue that the ASX / SFE merger is much closer to the Chicago Board of Trade / Chicago Mercantile Exchange merger because it is an intra-market merger. It's largely driven by either cost synergies or rounding out of product sets, whereas New York Stock Exchange / Euronext, I think, has had a lot more conjectural type coverage in the financial media because it's cross-border, which means there are very few cost synergies, so it smacks more of a leap of faith that there will be listing synergies, potentiality for common trading platforms across the Atlantic. There is no doubt that cross border mergers and acquisitions generally are more complicated than domestic mergers and acquisitions. The cross border exchange mergers and acquisitions are even more difficult because you run into localised national supervisory and regulatory regimes. But I am not looking at what is going on in the sector with any predetermined view that one part of the world is more important or less important than the other.

Eric Johnston - AFR

But would you run the risk of being left behind with all these alliances and takeovers being fashioned out?

Robert Elstone - Managing Director & CEO, ASX

There is the risk of that. On the other hand, I think one of the benefits of the ASX / SFE merger is that it has given the combined exchange the scale to be much more relevant than would have been the case if ASX and SFE had continued as stand alone exchanges. So, and I guess, the only other point I make Eric regarding being left behind - clearly we are in a pretty attractive market place in terms of the maturity of our banking system, the sheer scale of our wealth management industries, the fact that we have the fourth largest pension fund industry in the world, compulsory superannuation, and a well regulated marketplace. I don't feel an absolutely burning or urgent need that we have to go and join some of the other alliances, but I have an open mind.

Andrew Robertson – ABC Television

Robert just on that issue, the ABC has been told that the Tokyo Stock Exchange made an approach to the ASX about an alliance and that you guys rebuffed it. Can you comment on that?

Robert Elstone - Managing Director & CEO, ASX

It must have been before my time.

Andrew Robertson – ABC Television

So it didn't happen?

Robert Elstone - Managing Director & CEO, ASX

Not in my time.

Andrew Robertson – ABC Television

What about before your time, have you heard of an approach from the Tokyo Stock Exchange?

Robert Elstone - Managing Director & CEO, ASX

No I haven't.

Robert Elstone - Managing Director & CEO, ASX

Glenda you had a question?

Glenda Korporaal – The Australian

On private equity, your comments here seem to focus a little bit more on the surveillance issues, but could you perhaps comment on the business implications for the increased trend to private equity takeovers? Perhaps you could comment on quotes from people like Margaret Jackson and others who have said that maybe they would be better off in the private space as there is too much pressure on directors of publicly listed companies when it comes to disclosure and all that.

Robert Elstone - Managing Director & CEO, ASX

I think two answers Glenda. I will take the second question first because I have actually written commentary on that in my report which was released this morning. If you read that, what I am saying is that whilst it is terribly tempting and legitimate to a degree to use the private equity phenomena as a checkpoint to pose the question about whether we have crossed the line on excessive regulatory compliance burden and costs. That is a totally legitimate question and a question that warrants discussion and review. I think it is simplistic in the extreme to characterise the private equity phenomena as due to that and that alone. There are other reasons. The two that I have quoted in my report this morning - one is if you had the coincidence of low nominal interest rates and dramatically under-gear corporate balance sheets, then that could just as easily explain the private equity syndrome. You could argue that index fund activity takes a lot of discretionary investing behaviour out of the market. You could argue that with a thin yield differential between cash returns and normalised equity returns, that what we are observing generally in the last four or five years is a shifting of risk appetite from households that are prepared to take more risk. Fund managers are pursuing alpha returns and the ultimate alpha is to privatise the company, so I think there are probably three or four reasons and whilst that line of questioning is legitimate, I think it is only one of several reasons that explain private equity.

On the first part of your question, what I said this morning and will continue to say in these kind of forums, is that I think there are three windows in on private equity. The first one is the question you are posing which is "does the economy have some optimal ratio of public versus private ownership of assets?" The answer is that nobody knows the answer to that question for any economy. So let's not dwell on that one. I don't think there is an optimal ratio that says well, private equity should stop once it gets to x percent.

The second window in, which again I have commented on in writing, is the systemic risk aspect of private equity. Not to portray it as bad or dangerous, but to be extremely mindful that it does raise systemic risks when banks are financing private equity transactions and whereas traditionally they used to hold that risk, that's what banks were designed to do, they have got very skilful at packaging, repackaging and passing that risk through to end investors. I think that is why you are getting people like Glen Stevens, the Governor of the Reserve Bank and Ian McFarlane, the former Governor, making these speeches about the systemic risk implications. Not to portray what's happening is bad, but as a watch point that says we have now had such a long successful business cycle that the people who are now holding these repackaged assets have never been exposed to a credit crunch or any erosion of capital value.

And the third window in on private equity really is the issues that it raises for ASX supervision and Eric in particular, where clearly, its not that its highly problematic because I think we have both the resources and the skills to make sure that our supervisory activity responds to it, but it does complicate the continuous disclosure regime when so many private equity approaches often are

incomplete or there are so many advisors involved in them, that you get leaks into the market. So, I think to talk about private equity as just one single phenomena is probably a little bit simplistic and you really need to be careful what particular angle you are coming from.

Finally, do I think that it's got such momentum that it spells the demise of public equity markets? Not in a wink. Having said that, I don't know where the pendulum will stop. And I suspect that it will take a failed private equity deal, and I don't mean a failure to get one done but a failure after the fact, that perhaps a slightly more moderate sentiment to come into the market. At the moment, it looks a one way street. It looks as though the public equity sector is exposed to assets to be privatised but I suspect the first one that does come a little bit unstuck will see an appropriate and a predictable market correction.

Andrew Main – AFR

Andrew Main from the Financial Review, we always hunt in packs. There are normally five of us, so I am sorry for the small turnout. On the private equity thing Robert, I am being particularly dense I think today, but there is a paragraph that says what is important is to monitor the finite ability of currently very thin credit spreads in debt markets. Could you expand on that a little bit please? I am just trying to see where the, I realise you don't want to be an alarmist, but I am just trying to see where the concern is.

Robert Elstone - Managing Director & CEO, ASX

I think the simple point there is that long before the private equity trend of the last six months, a number of leading market economists and financial economists as well as central banks around the world have been writing articles where it is not concern but certainly noting, almost all time record lines in corporate debt spreads. That was as an observation. It was also being accompanied by growth in other adjacent markets like credit default swaps, so they were clearly sending a signal that corporate credit risk was being transferred around through that credit default swap market at quite a rate. Since the private equity phenomena has come into play, more so in the last six months as far as Australia is concerned, it poses the question I am writing about there. There is in the short-run nothing irreconcilable about very thin corporate debt spreads and the odd high profile private equity transaction. Over the long-run, being an old fashioned economist by training, that tells me that it is really not sustainable. It's not sustainable for private equity investors. They even understand value better than the entire community of funds managers do, and I think the chances of that is quite low. So you would normally expect that as the level of private equity activity grows, corporate debt spreads would start to widen and I think we are just too early Andrew into the phase of watching two variables that are somewhat incongruent and ultimately there will be adjustment. So either the valuations will come down or the debt spreads will reflect a truer insight into the underlying risk. I just don't think we have had enough time for that to play out yet.

Andrew Main – AFR

You are really saying that the market will eventually rule upon the financial viability of a number of private equity deals given the volume there is at the moment.

Robert Elstone - Managing Director & CEO, ASX

Yes, it feels to me - and I would be interested in yours, Glenda's views, Eric's views and others - it feels to me that we are simply in the, not exactly the honeymoon phase but we are at a fairly embryonic phase of the development of this. Indeed around the world, but particularly in Australia and nobody is starting yet to write the textbooks. You need a little bit of history. I suspect it will need five to seven years of history. The origins of private equity really went back to the LMBO movement in the early 80's and it took five to seven years for people to catch up and learn those lessons. I suspect that what we are now observing around the world, if you look at the way markets responded after the dot com bubble of 2000m, where there was clearly a downturn in asset values and activity levels in wholesale financial markets around the world. Since the upturn or the recovery phase started, about 2002 or 2003, private equity has come onto the agenda. As I said earlier, it is just another example of the pursuit of alpha returns, so it's as prevalent as hedge funds, short selling techniques and other forms of pursuit of alpha type returns. I just think it's much too early to form hard and fast views that it's the best thing since sliced bread or it's the devil incarnate as a trend. It will take probably one or two high profile hiccups. At the moment we are seeing one or two high profile story making deals with

obviously Qantas and others, but I would expect that trend of debt spreads to equity evaluations coming out of private equity deals, it must correct. Now whether it takes one year, two years or three years, if it doesn't correct then I think everyone who has been trained in economics for the last 50 years probably should give up their day job and go and learn another profession.

Glenda Korporaal – The Australian

It seems that there are a number of different, prominent people with different areas of expertise discussing private equity. You have Peter Costello saying he's got some worries and he's looking at the Qantas deal, Glenn Stevens and central bankers around the world, and then yourself and people like John Stewart. Do you think there could be grounds for some more getting together, or some parliamentary enquiry, or some more bringing together of this expertise in looking at what it means for Australia, because obviously you have different concerns and come from different areas?

Robert Elstone - Managing Director & CEO, ASX

I think it is a matter of public record Glenda that certainly this issue is on the radar screens of the Council for Financial Regulators, which are obviously Jeff Lucy, Glenn Stevens and Ken Henry from Treasury.

I would reference you an excellent overview article that the Financial Services Authority put out in the UK about two months before Christmas, which has clearly foreshadowed the way that the Financial Services Authority in Britain is thinking about this. It's an excellent document in the sense that it doesn't start off with the prejudice that private equity is good or bad - it menus out the issues, be they regulatory that Eric has to deal with, be they systemic risk, or be they more of a welfare nature. It's probably early days to be talking about a parliamentary enquiry. I mean nothing untoward appears to have happened that would probably warrant what you would be enquiring into and because I think we can't say when enough private equity activity enough. We will find that out through market mechanisms which are tried and proven, but certainly it appears to be on the radar screen of the principal regulators and it's obviously on ours as both a market operator and supervisor as well as a large central counter party to the global banks that are taking the bulk of the risks on these deals.

I'm probably not giving you or Andrew the answers that you want but I think only time is going to be able to tell and I think any regulator that takes a predetermined view, and they are probably going to, the market is likely to get that decision wrong and if the market is likely to get it wrong, it is therefore highly likely that a regulator will get it wrong. There is no doubt that it's part of a wider issue that markets generally have become so much more sophisticated at packaging and transferring risk around that there would be an equal and opposite view that in fact we shouldn't have any concerns about this phenomena. It just happens that when you get extreme examples, like Qantas, extreme in the sense that that's an industry which is classically had a lot of sob stories associated with over leveraged airlines, particularly in the US after their industry was deregulated, then clearly that particular transaction is getting a lot of very appropriate scrutiny by the Treasurer's office.

Denny Thomas - Reuters

I just wanted to ask, from an ASX point of view, how do you see the exchange shaping up? I mean you would certainly want to be a global player in the emerging consolidation phase, how would you like to play it out? Would you like to build up small stakes like some of the other exchanges are doing in Asia? How do you see yourself shaping up into a global player?

Robert Elstone - Managing Director & CEO, ASX

That's a very good question. Two responses; I think it is fairly unlikely, and this is just a matter of my personal philosophy, that you would see us taking small minority equity positions in other exchanges. I think I am not quite sure what that achieves for us, it's quite possible to form strategic alliances around products, around technology platforms without taking an equity stake in an exchange. So I think that's reasonably unlikely.

On the other part of your question, as I responded to Eric's question from the Financial Review, I don't have a predetermined view about geography. I think there is probably some scope for equivalent sized exchanges (other than the mega merges of the majors). They are probably the group of exchanges that have a common interest, if only as an accident of their relative scale, but I am also I think in the

good position of not necessarily needing to do anything at all because we have got a terrific franchise in a terrific market and I think in a sense we have sometimes own advantages by virtue of the fact that capital markets are becoming more globally integrated. Stocks and fixed income securities are trading through the time zones much more than they have ever done in the past, so I suspect I will be as interested in domestic growth opportunities as across border over the next three years. I am just pleased that the merger has come together because I think if you look at the re-rating of the stock, both at the time of the merger and based on this first set of financials, it really does validate the merits for shareholders and I would argue for the wider economy of creating the kind of critical mass that we now represent. I think inevitably, coming back to Eric's question about Asia, I think it's harder to contemplate given the localised sovereignty of most of the Asian nations. It gets harder to contemplate out and out merger activity within this time zone, therefore I think it is probably almost slightly more likely if we were to contemplate full blown mergers with other exchanges, but I would probably rule out small minority states.

Michael West - The Australian

On private equity again, has the ASX itself or yourself or previous management actually received a formal or informal approach from a private equity player, consortium or one that could be construed like a bank who deals in private equity and do you think it is feasible that you might receive one?

Robert Elstone - Managing Director & CEO, ASX

Well, the answer to the second question is very easy. Anything is possible, anything is feasible. On the first part, no we have not, certainly on my watch, which is only six months old. We have not received any approaches.

Michael West - The Australian

Could you comment on what your defence might be or whether you think one is potentially successful were it to occur. It's been put that the gearing of the ASX is very low, very conservative debt levels and that a private equity player would think it is a beautiful asset to be able to gear up and make a lot of money out of it. What do you think about that proposition?

Robert Elstone - Managing Director & CEO, ASX

Yes, that is a very good question Mike. Certainly in other forums I think the financial structure in the global exchange space, particularly for global exchanges that are vertically integrated and have their own clearing houses is somewhat unique and although analysts, both sell side and buy side analysts, quiz us all the time about gearing the balance sheet. I think that reflects to some degree not a clear understanding of the risk profile that we face, and we need to do a better job at articulating our capital and risk management profile a little better and we will do that going forward. But as to the deeper part of your question, I think whenever I read or hear this sort of line of enquiry, and it is an absolute legitimate line of enquiry don't get me wrong, I think it would probably be a little bit harder in the case of ASX simply because under our constitution it would require a change in regulation to actually give effect to that type of transaction, which would require a parliamentary assent which is probably an even deeper test than just FIRB approval. So I wouldn't rule it out that one day it could conceivably happen, but I think to put ASX in the same basket as another listed company perhaps with a different style of constitution, it's probably not a step too far Mike but a higher hurdle.

Michael West - The Australian

Could I pop a couple of quick ones in while I have got the mic. On anonymous trading, has the review period for anonymous trading ended and if so what were the findings of the review and does the ASX expect to continue with the anonymous trading regime. I just might frame that in the light of the fact that I understand that some big bank players thought it was a good idea but no companies or individual brokers or anybody I have been able to talk to over the last couple of years has thought the broker ID blackout is necessarily bad, but most tend to think it is probably not a good idea that more transparency, more disclosure is a good thing.

Robert Elstone - Managing Director & CEO, ASX

I think again a two part question. I will answer the second part first. I don't think broker ID's have anything to do with transparency. In the legal sense of the word transparency in the legislative sense relates to pre-trade price transparency. I think the term transparency gets used too much and abused in that sense. On the first part of your question we have reviewed it ourselves, we have had it independently reviewed, it would certainly appear to be the case that for the major liquid stocks there is clear-cut empirical evidence that big office spreads have tightened and the market has been made more efficient by the introduction of anonymity and that also gels Michael with our anecdotal feedback. And I guess it's borne out by the sheer volume going through the exchange that if anonymity had been a sort of a devastatingly bad decision then our trading volumes presumably wouldn't be up 50% over the prior comparable period. I think probably there is more of an argument that for smaller stocks the evidence is slightly, it's more neutral, that's probably the best answer I can give you.

Michael West - The Australian

How do you manage to decouple the impact of the bull market and naturally increasing trading volumes from your analysis on tightening spreads?

Robert Elstone - Managing Director & CEO, ASX

I don't want to give you a lecture on step wise regression, but the academics that have done the work effectively freeze frame their data sets and throw a number of explanatory variables that drive the big office spreads. That work is being conducted by independent academics. It does tend to support the hypothesis that anonymity is being conducive to tightening the big office spread.

Stuart Washington – SMH

Two questions and one is a follow-up to Eric's question that kicked off. Am I to understand that your merger costs that you are booking in this half are actually up, but that's because of your run rate in terms of your overall savings you expect to achieve in June, and where do we find that increased cost in the merger, if that is in fact the case? Then the second question is, can you give us a bit of a throw forward on how you see the market playing out, because as Michael just said, you are a beneficiary of extraordinarily good times? Do you see ASX's growth being inherently coupled with good times going forward or do you see that things are going to tail off and ASX's fortunes with them?

Robert Elstone - Managing Director & CEO, ASX

On the merger costs one, I think you will find in Alan's CFO report that there is pretty good transparency that explains why the upfront merger costs, which are classified below the normal profit report by him, are higher than we thought and they are largely broken out between redundancies of people who have left the group and some provisioning for surplus lease space. I think what we are saying there is the reason the merger costs are up is because we have achieved, certainly the headcount reductions we were looking for, faster and we have made savings in other administrative and discretionary items of expenditure in excess of our targets six months ago. But I think Stuart you will find all that disclosed in the written word.

On your second question, beneficiary of good times and outlook, normally and I will stick with this pattern today, as the market operator, we normally don't go anywhere near predicting market levels of activity. I think that would be a silly practice for us because if you were a group of economists, I would get 18 different answers to that question and I am not sure I would add any value to it. What I would say however though, is that if you look at the fundamental trends of the market and that can be anything from is the current account deficit growing - is bank lending strong?; Is the index PE looking overheated? And I could keep going.

If you keep reeling off the fundamental drivers of market activity, you would be continuing to tick most of those boxes and that doesn't mean that we aren't about to have an exogenous shock and clearly we are living in a world of global terrorism. We could have the odd hedge fund collapse that could have repercussive systemic effects and of course, our fortunes are inexplicably linked to the buoyancy of financial markets. But if you look at the drivers over both the long run and the short run, every trend appears to indicate that the ratio of the financial economy to the real economy in Australia is moving in

favour of the financial economy. Where as I was brought up and educated in a world where valuations and real activity drove the world and the financial economy played an accommodative role.

You could argue in the last 5 to 10 years that the world's leading economists are beginning to question whether this has flipped around now and you see it in the way that, for example, a bank articulates through its monetary policy statements. The central banks around the world have done a superb job of getting trading goods inflation under control and they have turned their minds onto financial system stability. The asset bubble is their next area of attention. Both of those areas of attention are symptomatic of growing financial economy ratios as a percentage of the total of the economy. As long as that trend continues, and I suspect it will, as long as the economy continues to save and invest and not consume their increment to national income, then I suspect fundamentally we are just in a very, very good business. I would love to sit here as an executive team and take lots of credit, but that would be completely misleading. We are a good business, I would like to think we are well run but we are in a good sector and a good industry and by virtue of the merger we clearly now span entire equity markets and the fixed income markets as well. The derivative side of our activities appear to be growing as fast, if not faster than the underlying side and again that is very much in keeping with the trend in every developed financial economy around the world. That doesn't mean Stuart that we are not going to have the odd flat or low growth year, but I think it would be more likely that it would be the odd flat or low growth year rather than it would just plateau out or worse still, take a turn for the worse.

Stuart Washington – SMH

This may be one either for you or Eric. Just in terms of the rise of private equity and the impact on continuous disclosure, you make some comments there about it having the potential to place additional stress or pressure on that regime. Are you happy with the way corporations have responded to that, I guess in the last 6 months particularly?

Robert Elstone - Managing Director & CEO, ASX

I think the issue for us in looking at the continuous disclosure regime around private equity transactions is that it is a little bit different than what we normally encounter when you have, for example, a takeover or a merger situation.

Ordinarily, two listed companies both have continuous disclosure obligations to the market and so they both should be aware of their requirements. There is no competing tension. In a private equity transaction you have a private participant who is concentrating more on who needs or would like confidentiality and doesn't have an obligation to the Exchange about continuous disclosure. However, the listed company, who is the target, obviously has that tension or that obligation to make disclosure to us. Our responsibilities and our functions and the way in which we manage continuous disclosure for a private equity transaction is no different to how we would manage a public transaction, so that we do actually have surveillance activity that monitors price hikes, that actually issues price queries to the listed entity to try and get appropriate disclosure. Our issuers advisers do make contact with the listed company to make sure that they are meeting their obligations under the continuous disclosure regime and not necessarily trying to take advantage of any caveats that may exist. I think the important thing to remember in any continuous disclosure transaction is that the obligation to make the disclosure falls upon the listed entity to make that disclosure to our market immediately. Our role is not to make sure that they make that disclosure immediately, it's actually to monitor the fact that they are meeting the continuous disclosure obligations.

Stuart Washington – SMH

Can you just talk a little bit about when that obligation falls? You see all these different statements come out like "we have had preliminary talks or an informal approach". At what stage...

Robert Elstone - Managing Director & CEO, ASX

If you analyse the relevant rule, the primary obligation is on the company to immediately make disclosure to the market if a reasonable person would believe that disclosure should or would have a material impact on the price of the relevant securities that are being traded. So the prima-facie obligation is yes, you must disclose unless the relevant exception applies. There are three limbs to that exception. In a private equity context, if a reasonable person would not expect that information to

be disclosed, if the information is confidential, and lastly if the information concerns an incomplete proposal.

If those sorts of conditions have been satisfied then there is no obligation on the listed company to make a disclosure. In terms of confidentiality, if ASX formed the view that the confidentiality has been lost then we would discuss the need for an announcement by the company. The loss of confidentiality may be in the form of rumours in the market and there was a sufficient degree of specificity about that rumour. We would then speak to the listed company and say we would require you to make an announcement about that particular rumour and that announcement would either be to confirm the nature of the transaction or the discussions they are having, or alternatively to deny the rumour and state that they have nothing to say about it.

Glenda Korporaal – The Australian

Obviously, you don't want to forecast the market but what are your feelings in terms of new listings coming through? You have said there are a couple, I think maybe 25 or something that we already know of, but what's your feeling of the pipeline of new listings, is it still coming through as strongly as it has?

Robert Elstone - Managing Director & CEO, ASX

I will flick that one to Eric.

Eric Mayne - Chief Supervision Officer, ASX

Glenda, I think in the statistics we have given you for the six months just gone, there were 147 new listings as of today. The year to date figure for the financial year is 170 and we have something like 40 new listings in the pipeline, so there is still a constant stream of listings that are coming in. If I look at that in terms of the percentage increases in the various states of Australia, because it came off a low base, Adelaide has probably had the highest percentage increase. Perth has had the second highest increase in percentage terms but also the highest in absolute terms. Of the 147 new listings we had for the last six months, 60 came out of Perth, so the substantial majority are coming out of Perth. The next in absolute terms is Sydney and then to a lesser extent the other states. So there is a constant stream. It's brought about by the resources boom, and I guess the uranium sector is where we are seeing listings activity occurring as well as the normal mergers and acquisitions activity that is occurring in new listings on the east coast.

Glenda Korporaal – The Australian

We have talked about this before, but you have mentioned the increased referrals you have made regarding insider trading to ASIC. We haven't had a lot coming out the other end of the ASIC process. Are you frustrated and would you like the prosecutions process to perhaps speed up given that you have got a substantial increase in references to ASIC?

Eric Mayne - Chief Supervision Officer, ASX

Yes, there has been a substantial increase in the number of references and I think one would probably expect that, because you have had increased market activity and there are increased numbers of queries and investigations to carry out. I think it is probably important to appreciate the various stages of the insider trading investigation and whose who in the zoo in that sort of space. We are the front line detector in terms of monitoring potential breaches and once we think there is a reasonable case, we may refer to ASIC for further investigation. Once we form that view that there is a possibility of insider trading, we would then refer the matter onto ASIC, so we do stage one. Stage two then becomes ASIC's examination of the particular matter and they have that responsibility. They have the powers of investigation, search and seizure. In that phase, they need to examine the transaction and go out and gather the evidence to see whether or not they have sufficient material on which to launch a prosecution to satisfy the requirements under the relevant provisions of the Corporations Act. If they progress to that stage, then it goes off into prosecution and they will talk to the DPP about whether the matter should go forward, either criminally or indeed institute civil actions. So there are three distinct phases and each of those phases takes an element of time. So in one sense, yes I would like to see more and a quicker turnaround time, but it does take time to carry out these sorts of things. It does indeed take time to get a case up and running. I think my expectation over the next 12 to 18 months is

that we might see more activity. We are referring more cases to ASIC and we are in constant dialogue in relation to insider trading referrals with ASIC. So I guess the expectation is that there will be more activity at their end.

Robert Elstone - Managing Director & CEO, ASX

I would state at the end of that - at the time of the referral, we are referring little more than a prima-facie suspicion. We are referring facts to the regulator, but we may not be referring an actual crime as such. So I think it would be wrong for us to have or to voice any frustration at what ASIC does with our referrals. The main thing we are accountable for is making sure that we are not asleep on the watch and when we see suspicious activity, that we are resourced and professional enough to refer it. It's then a matter for the true enforcement regime to investigate it and ASIC has far more forensic investigative powers than we have under our operating rules.

Glenda Korporaal – The Australian

You are now more than 6 months into the job - what is your view on the total cost savings you can get from the merger?

Robert Elstone - Managing Director & CEO, ASX

I had that question asked about 8 different ways at the analysts briefing this morning and I gave a two part response. One answer is given in the guise of Alan's report. We have given expenditure guidance through until the end of the current financial year and ASX has not done that before. The reason we have done that is to raise our own standards of disclosure and secondly, because we are very confident on that guidance. The reason we are not giving guidance as far as the financial year 2008 is concerned, is because we don't know. It's not because we are being cute in any way and not telling the market and Alan and I haven't sat down and looked at the budget for next year yet. We will do that around about May and I would expect us to start giving a reasonable guidance on that issue in our full year results which will become public in August of this year.

I think at that point we indicated to ourselves we would stop at 3.30pm. Thanks very much for a good range of questions and many thanks for coming along.

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