



Edited Transcript of ASX FY 2008 Analyst Briefing

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Arjan van Veen, Credit Suisse,

A question on something you can control which is expenses. Alan you mentioned you are looking to increase costs for the year at levels around CPI. You have got high CAPEX so your D & A is sticking up slightly, in the event of substantially weaker volumes across the board do you have some levers where you could potentially reduce your costs or do you have some avenues of controlling costs a bit tighter?

Alan Bardwell, CFO:

Well probably the key reason why we have broken out the variable operating expenses within the last couple of years is just to give you a sense of what that is and obviously they are a small part of our overall expense base. So, I feel the expense base has basically got the benefit of being reasonably sticky on the upside as well as on the downside so, I wouldn't expect there to be a great movement in that regard other than the variable operating expense mark.

And there no initiatives in place to look at certain larger type of projects where you can have another crack at the cost base?

Alan Bardwell:

Well to be honest with you I think we did an extensive job post the merger and I think Rob's numbers that he put up showing the FY06 through to FY08 shows that we took out \$32 million. There was a lot of extensive expense work done at that point and we have right sized the expense base. There isn't a whole set of projects out there that we would be working on from that respect.

Robert Elstone, CEO & Managing Director:

Just to endorse that I think most of our projects are really pointed at business or revenue development, technology upgrades, capacity upgrades, supervision requirements to make sure surveillance stays contemporary so there are no existing or prospective projects that are likely to hack into our cost base.

Rob do you have any view or knowledge of when the government might make an announcement on alternative trading platforms?

Robert Elstone:

I have no knowledge and no view.

Kieran Chidgey, Merrill Lynch.

Just a question on the SFE average trading fee which spiked in the second half FY08, how much of that is due to mix between local participants and what are the expectations going forward given the change around the rebate scheme for that group of participants. Can we expect an average fee to remain above \$1.60 into FY09?

There are probably two questions there. The first one, yes, the mix was affected because the local proprietary volumes were a lower percentage of the overall market and the second effect was, there were fewer participants meeting the volume threshold so it was largely the LVR rebate mechanism that drove up the cost because as the volumes fall people don't qualify for the rebates. On the more forward looking aspect of your question I think (a) it would be dangerous, and (b) we don't know what

the mix between LVR qualifying participants and local participants is going to be on a forward basis. But we don't have any grounds to believe that that mix is going to violently change course from what we have observed in the last 12 months. So, I think the final comment is the average unit fee is largely so dominated by whether the large volume rebate qualifying participants meet the growth uplift threshold that that will be the driver of how that variable trends in the current and the next financial year.

On the proposed debt issuance out of ASX's Clearing Corporation, what is the cost benefit of issuing debt against a reduction in insurance of that entity if you do go and replace the insurance? What is the additional fee?

A good question. Look, I think if we take the cost part of the question rather than the benefit part of the question, on the cost we can't give you guidance because until we approach the market with spreads as volatile as they are, we can't give you that guidance. I think therefore, the best way of answering your question is, will we be or are we exclusively cost driven? and the answer is no, so going to the benefit part of your question, part of the judgement we will make when Alan completes the road show is the benefit of changing from contingent capital consisting of third party insurance, to drawn capital. And we think if we made that decision it would bolster the quality of our capital resources and effectively give us a higher rating initially from the Reserve Bank as our compliance assessor. So, we will not just look at it from a cost point of view, we actually think there is a strong argument as we gear up the adequacy of our capital for a return to a rising volume environment. But that decision is not yet taken and I think that's why Allan used the words 'wholly or partly'. So, we will look at it from a cost point of view but the cost will not be the only decision criteria and we are obviously tempted, as you can tell from my comments, to factor in putting some premium on having drawn rather than contingent capital.

John Heagerty from ABN AMRO.

I was wondering if you could provide us with some more feedback from your trip to Europe and reflections on that and the implications for Australia. You talk about medium-term optimism, I was wondering if that sort of translates into near term pessimism?

Obviously I was there three weeks ago. I was in Britain, France and Germany and it was very noticeable to me that particularly in probably two sections of all three economies, high street retailing and in mortgage origination and property development that all three banking systems, the leaders of those banks, were making statements that they were all surprised by the speed with which the real economies in Europe (in those three countries) had been affected by, I guess, the secondary or tertiary consequences of 10 or 11 months of sub prime fallout. So, I think that was by far, so whilst people would ordinarily expect loan delinquencies to rise in the banking sector, I think there was a degree of nervousness across those three banking systems, particularly about the property development and home building sector and that coinciding with a loss of consumer confidence, albeit it was pleasing here yesterday to see the Westpac Consumer Sentiment Index. I think the other comment I would make is the City of London is obviously forecasting the loss of 60,000 jobs by December. So the mood in the City of London was distinctly sombre and I think that sort of validates comments that I know Mike Smith at ANZ and other bank leaders and I have made is, that it would do everybody good to have a trip to New York or London these days and actually find out how fortunate we are compared to the sentiment barometer in those markets. So, I think my closing comment would be everybody was trying to really guess whether this is likely to be a 2 or 3 quarter recession in the US and Europe or whether it's a 12 to 18 month soft landing. I think the general sentiment John, was that it won't be a deep recession but if it does turn into negative growth rates it's probably not going to be just for a quarter or two it may be a little bit longer, but not too severe was the general sentiment.

Chris Williams from UBS.

I have got two questions please; the first one is on CAPEX. I just want to understand whether the guidance you have given for FY09 should be taken as a new base? Or whether you think this is just perhaps a little bit of catch-up and perhaps a peak year in spend and to the extent that the useful life of your CAPEX in technology is clearly shortening, whether that has any impact on the amortisation of that spend.

Robert Elstone:

No to the second part of your question, or too early to tell, but take no as the answer to the second part. And new base probably, Alan and I have discussed this, probably a base for at least a couple of years given the sheer number of projects that we have on our plate at the moment. But to say new base for medium or long term, we would have no basis for saying that, so that's why we haven't said it.

And the extent to which you view it as either maintenance or growth CAPEX, can we understand that the maintenance CAPEX component probably hasn't changed a lot but the growth CAPEX component has?

Robert Elstone:

Yes, particularly in the year just gone and the over run in previous guidance that Alan referred to in his comments. A fair chunk of that is to do with hardware and capacity upgrades and we are clearly very, very committed to those and they would qualify as growth CAPEX to absorb the kind of staggering pace of trade volume uplifts that we have observed in the last 12 or 18 months. I think a growing percentage of our future base CAPEX is likely to be pointed at meeting regulatory obligations in Eric's area and meeting the business development. And that's why I answered the Credit Suisse gentleman's question that there will be comparatively few that are focused around taking more out of the cost base so it will probably be a mix of technology business as usual, supervision initiatives or business development revenue initiatives pointed at headline revenue growth and product and service diversification.

To the extent that that was one question thanks. The second question I had was derivatives. Looking at two particular components, firstly the margins on deposit in the futures business have halved year on year, I just want to get a bit of composition if you can provide it to the extent that that might flow into activity levels. And the second part of the derivatives question is around options or the equity options market in particular where your business has been, in global terms, a pretty poor performer in terms of volume growth. I want to understand the extent to which that is a product or market micro structure issue and if so what you are doing about it?

Robert Elstone:

First part of the questions on derivatives on futures and options derivatives and margins. It's probably a case study Chris, in why you have to be careful in seeing open interest in the futures market as a proxy of activity levels because if you take Alan's comments and the stats that are in the annual report, if you look at the contracts that have grown through the year, one of the fastest growers is the SPI 200. The SPI 200 contract historically and currently has normally explained the lion's share of our initial margining regime because of the volatility of an index future compared to the volatility of an interest rate future. And yet if we look back on the year we are reviewing you have actually had a somewhat of a transposition, you have had faster increasing SPI trading volume but a reduction in open interest, so a reduction in risk margining. It points to the time profile of the SPI trading that's occurring, so there is a lot more trading, but its much shorter duration trading than medium-term index arbitrage activity. Now whether that is structural, whether it's cyclical, (a) I don't know and (b) if I knew I would be mad to say anything because it could change so quickly within the space of a week or two.

I would have expected with global de-leveraging, you would have expected the margins to have come down profoundly, all that's surprised me a little bit is the SPI affect, that normally when the SPI volume rises you would expect open interest to increase. But I think the reason that it hasn't happened is that the duration of that and SPI trading has shortened profoundly, just as on the interest rate future side the duration of 3 in 10 bond year contract hedging activity has shortened back into the money market because the banks have gone so short in their own funding activity that the bank bill future volume is up. But the 3 and 10 year bonds are down which, again is what you would expect in a tight funding market. Also in a market where asset securitisation virtually stopped in the year, so you didn't get any interest rate risk transfer occurring off the back of mortgage portfolios to anything like the extent to which we did in previous years. On ETO's I think probably the only flaw, and I don't doubt the benchmarking work you have done because you are a good analyst, but I think there is probably a secular reason why our ETO volumes probably are not automatically benchmarked against other markets simply because we do have a large OTC CFD market compared to most other markets which have deep ETO volumes. I think there is no doubt that the CFD market, the OTC CFD market has had some impact.

Secondly, I think if you look at CommSec volumes and the cash equity markets, that's a pretty good proxy of the presence of retail traders in the options market and you'd expect when CommSec cash equity volumes are down, there would be an ETO impact, so they are the backward looking statements. In terms of what sits behind the numbers that Alan was quoting, although the single stock ETOs are very fractionally down, they are virtually flat year on year, the index ETO is in fact up 88% in the year. Now some of that is because of spill over from the winding down of the SPI option, which is the Siamese twin contract to the ETO index option, so there is very much a transposition. In terms of activities, obviously we have increased market maker obligations, we have introduced mechanisms to allow SPI futures versus the XJO ETO block trades across both platforms so there is no legging risk. And we are looking at other initiatives around capacity related adjustments to ETO coding which would allow us to quote more series as well as tightening market maker obligations and we appear to have the full support of the market making community to make sure that the liquidity levels stay there. But I think probably the largest part of the explanation Chris, is that most of the other single stock option markets your benchmarking us against, don't have this huge OTC CFD market that we have. But having said that, that's just some insight into the initiatives which we have currently got pointed at reviving volumes in that segment.

William Ammentorp, Credit Suisse.

A question for you Mr Elstone. I know that you have highlighted that you don't know when the government will make any announcements regarding license granting to aspiring entrants, and I do note your commentary in the annual report which does highlight the significance that comes about the regulatory changes that need to take place. But obviously there is a probability of this event occurring and I would trust that internally you have done some reviews of what the potential financial impacts could be. I wonder if you could share with us some of the highlights of that exploration and perhaps more importantly what are the mitigants you think you can explore to reduce those financial impacts and also the opportunities which may actually occur from any sort of licensing changes?

Robert Elstone:

There is obviously a conscious reason why I haven't made any forward looking statements in today's release regarding the competition for market services issue and I understand, particularly to the sell side analysts, that is going to be a huge disappointment, but the reasons I haven't made any forward looking statements on that topic are probably several fold.

One is, it's a public policy decision before the government, it's not a decision that we are going to make and that decision has not been made. Secondly, I think as the whole market becomes informed initially of any regulatory changes which we believe would need to precede operability of licenses, then as the market becomes informed we will make statements along with the rest of the market. The third comment I would make is obviously I am on the public record already so I have no difficulty restating that we think the issue is not when the licenses are granted, we know that's the aspirations of the license applicants, but quite frankly that is not the issue, the issue is the adequacy of the regulatory framework. We are on the record as saying to the best of our knowledge the costs and risks as opposed to simplistic benefits of competition arguments have not been adequately modelled or analysed. And until they are, you cannot possibly get the regulatory framework right. I think the last thing I would say, is for me to say anymore either in writing or in this kind of forum would be just hypothetical and speculative and I am not going to make hypothetical or speculative statements. If shareholders, either sell side analysts or buy side are looking for a level of reassurance as to whether we are focused on the issues, and if will we have competitive responses, I can reply yes and yes. I think you have to draw some comfort from the performance we have delivered in the last 2 years and the fact that I think ASX has delivered an enormous service to this financial economy in the last 12 months in what has clearly been the most difficult period for a lot of market participants and a lot of listed companies.

Sorry that is a kind of leap of faith type statement, but it's all I am prepared to say for that reason. Have we been diligent on assessing scenarios, yes? Have we got competitive responses, yes? What will they be? Wait and see. As we become informed we will inform you but we are not informed anymore than you are, but we are doing a lot of thinking, a lot of work on it so thanks for your question.

Mike Younger, Citigroup.

My first of a two part question is with regards to the new futures platform that you are talking about for implementation in fiscal 2010, What sort of platform is that likely to come upon, something outsourced, something internal?

Robert Elstone:

It won't be CLICK XT. The annual report says FY 2010, might not be in 2010, so it could be later than your question poses. And at this stage we are in discussions with a vendor but because we haven't finalised the contractual aspects of those discussions, I am reluctant to say anything more on that because it would prejudice our contractual negotiation and give the negotiating leverage to our counterparty and I've no intention of doing that. But suffice to say, it will be a contemporary platform with all the features, latency, seamless fail over, redundancy, capacity, functionality, that you would expect us to introduce as we have done with all the other platforms that we have introduced.

Is CLICK XT not capable of handling futures volumes?

Robert Elstone:

It is theoretically capable of handling the volumes. The issue is not really the volumes Mike, with CLICK XT its probably two fold. Click XT doesn't operate as a 24 hour platform anywhere in the world and that is a prerequisite given where Australia sits in the global time zone. And secondly, the origins of CLICK XT, it was originally an equity and a single stock option platform so it has no spread trading functionality which is absolutely critical for interest rate futures trading so, between the fact that the cost of upgrading CLICK XT just for one customer in one part of the world that has particular requirements to use it in a way that no other customer in the world uses it, probably explains to you why it is unlikely to be CLICK XT as the solution.

My final question is in regards to exchange consolidation which you do mention in the annual report. You do closely align your comments with regards to Asia, is that something that you would become involved with at any point in time? Is the most logical area, Asia?

Robert Elstone:

No I don't think that follows. My reference in the annual report was to, I think the reference you are quoting, where I make the point that with capital pools being less Wall Street and Thread needle Street centric, namely China and the Middle East, as capital pools diversify geographically and some early evidence that perhaps the same trend may be occurring in commodities trading beginning to shift or diversify towards Asia then I think the whole issue or the significance of the Asian time zone to global investors and global brokers is clearly going up. These days there's not a CEO of a global investment bank I don't speak to, including that of your own Mike, that tells me that his US business is depressed, his European business is shocking but his Asian and Australian businesses are actually going quite well. So given the way brokers are motivated that tends to mean that they will put capital into what they see as a high growth region both in the short-term and the long-term, and I think the reference you are quoting is the point I was actually making is not that it causes us to think differently about Asia but I think the reference was that it causes the North American and European exchanges to look eastward towards the Asian time zone just as it is causing the Wall Street and Thread needle Street firms to bolster their Asian operations. And in that sense, we along with Singapore and Hong Kong and the Japanese exchanges and the Shanghai exchange, I think will become more interesting, either to each other or to those US and European exchanges, so that was simply the point I was making. You shouldn't interpret that, in me pointing out that capital pools are diversifying to Asia that it's more logical or more likely that if we combined with any other exchange it would be an Asian exchange. That doesn't follow albeit given the Prime Minister's initiatives no doubt he would be pleased if it was an Asian exchange.

What are the key factors that ASX would be looking at in terms of potential consolidation if ASX were interested in a target, what are the key things they would be looking for?

I am on the record so I am happy to answer this question; there are a number of drivers or criteria that we think about in relation to the attractiveness of potential combination with other exchanges. Technology could be one particularly given my answer to your earlier question, business model would be another one, functional or sectoral expertise or competency could be another one, size relatively, geography. I can probably list off 8 or 10, it will be absolutely meaningless to you Mike because unless

I tell you which one it is, you won't get the answer that you are probing me for. But they are all the criteria that we use in dialogue that we have and the way we analyse cases for and against combination with other exchanges and, I don't think there is anything surprising in that list.

David Humphreys, Morgan Stanley.

Good morning Robert, my question follows on from Mike's to be honest. I guess most CEO's in this kind of environment talk about opportunities; the environment we are in accelerates your need to act in terms of organic growth.

Robert Elstone:

I hope I heard your question correctly David, but let me respond in the following way. We have outlined in my section of the annual report today the areas of organic growth, be it around the new section of the rule book designed to attract unlisted funds and structure products, be it around the energy contract initiatives we have, be it around second generation CFD's, be it around further ETF listings. That's a pretty full bowl of fruit, coming back to Chris and others questions about the projects that we are managing. So we are very comfortable without being complacent, that we have a very solid pipeline of organic growth opportunities. Equally that doesn't make us complacent and turn our eyes away from global consolidation. I think globally the sector has gone through a bit of a breathing space period in the last six months, simply because it was so active in the preceding 12 months that the participants that were initiating these transactions have literally either been in transaction closure mode or they have been in integration mode.

The longer time goes on, and I have made the comment in the annual report, that whilst the PE's of all the exchanges have fallen the PE relativities haven't moved very much, so particularly for a scrip based transaction the rationale is still there. The board and I don't allow the fact that we have a very strong organic development profile to mean that we are asleep at the wheel on looking at combination opportunities. We look at them all the time and I think it just becomes not a guessing game, but at the right time and if we find the right partners with the right rationale then we would have every intention of participation but not to sell newspapers, it would actually be to grow the value of the company and that's obviously what drives me rather than satisfying media requests to be active. In fact the early days would suggest that the jury is out on some of the cross border exchange transactions that have been done and I think that is a good cautionary note to end my response.

Thank you very much and that brings us to about 8 minutes past 12 which is probably a perfect time. Let me thank you for a good set of questions and thank you very much for coming. I will no doubt see several of you over the coming days and weeks. Thank you very much again for coming.

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