Edited Transcript of ASX HY 2008 Analyst Briefing

14 February 2008

Andrew Hill - Deutsche Bank

I have a question relating to fees for late settlement. Given what we have seen over the last month or so would you expect those fees to rise materially in the second half?

Robert Elstone - Managing Director & CEO, ASX

They certainly rose a lot in January. I think the best way of answering your question is that our settlements area, which conducts global benchmarking of ourselves against the other major CCP's and CSD's around the world, I am told that we are in the top three for settlement performance. We run on average round about 1% T+3 failure rates. About 90% of those failures actually settle on T+4 so we globally benchmark ourselves as being as close to best in class as we can be. We don't like earning revenue from late settlement fees so all I can say is they will be up in January because of events surrounding Tricom. Whether that's part of a trend that we would extrapolate to the second half I personally doubt, so quite frankly, if it doubled it wouldn't make a material alteration to our headline revenue anyway because a 1% fail rate is a very low fail rate as it is. When I say fail, I am only talking about failure against T+3 with a high settlement rate a day after, so I don't necessarily see events of January as symptomatic of the balance of the second half. I suspect with the benefit of hindsight it will be a function really of whether we saw a repeat of a 12 day secular sell off. That could repeat events of January but that's probably not incredibly likely.

Chris Williams - UBS

Two quick questions please. Just in light of the comments around ASX Clearing Corporation, could you give a bit more colour about the relevance of ASX capital in the mix of margin balances, debt from external sources and so on?

Robert Elstone - Managing Director & CEO, ASX

No, because our minds aren't made up yet. I think we use the term deliberately in giving consideration to the written comments Chris. What we are committed to is that our legal resources are putting the arrangements in place to create the company and to interpose it on top of both clearing houses, but at this stage we haven't put our own estimates around either the timing of when we would raise debt using that entity as a borrowing vehicle or how much debt we would raise and we don't feel in any hurry to do that given the state of credit market dislocation and the rise in borrowing spreads. I suspect you will get much more definitive information on quantum and which markets we are looking to tap probably more towards the middle of the year. At this stage there are other reasons. I must say the primary driver of moving to interpose a holding company has got as much to do with which version of clearing house integration we have in mind. For example, that vehicle may well prove to become a single point of lodgement for collateral and those considerations have really driven the decision as much as any thinking about putting debt in the balance sheet or reconstituting ASX parent entity support to its subsidiary clearers. I think you just need to be a little bit more patient and wait a few more months and we will provide that clarity then.

Chris Williams - UBS

A quick second question on the total rebates repaid or repayable through the course of FY08. It's looking like its going to exceed $100 million across futures and cash markets. Can you just talk about the practicality of rebating that quantum of money recognising that you probably look at it more proportionately to gross revenues? In the context of rebates, rebate mechanisms and also perhaps headline fees, if you could just make a few comments.

Robert Elstone - Managing Director & CEO, ASX

No comment on the number at all because it is a backdoor way of getting me to make a forecast about volumes and revenue.

Chris Williams - UBS

That wasn't the intention.

Robert Elstone - Managing Director & CEO, ASX

No, I know. If it was it was very well disguised. No comment on the number but I will just make sure I am understanding the question on the practicalities of the rebate. Apart from the fact that we accrue it on a monthly basis, so by definition the accrual will vary with monthly trading volumes. We happen to pay the cash equities rebate six monthly and we happen to pay the futures rebate annually, so there is the cash flow clarification if it's that part of your question. On the wider element of your question, if you look at the materiality that's implied in the pie chart that Alan put up, yes, I think at current rebate levels for the period we have just closed, if you think of rebates as a cost of sales, they are running somewhere around the 20% mark. Quite frankly, I would love to see the rebates grow as high as possible because by definition, if the rebates are high that tends to mean that our net revenue is high so if you are trying to tease out a philosophical position towards rebates, I hope they keep going up. Largely because of the way we set them we think it is fair to the shareholders via a growth uplift qualification and then disproportionately fair to the people that qualify for them based on a 75/25 mix and that's delivered some pretty spectacular reductions in net fees per trade to certainly our top 12 or 13 brokers on both the cash equities and the futures side.

John Heagerty - ABN Amro

A couple of questions as well if I may? Firstly on the outlook statement, I haven't had the opportunity to read all the way through the CEO's report but skimming through it, you mention that healthy organic growth outlook beyond 2008. Could you elaborate on that for us please?

Robert Elstone - Managing Director & CEO, ASX

I will elaborate but if you are asking me whether I am being too bullish in my sentiment - the reality is that beyond FY08 my horizons probably confine to this calendar year. What sits behind that John is that I think we have a healthy pipeline of organic business development initiatives. If you look at those which we itemised and I spoke about at the AGM last year, whether it's CFDs, whether its emissions, whether its ETFs or whether its just broadening global distribution, which we do all the time. Not withstanding a lot of media coverage about the early onset of a bear market, what impact will that have on volumes, unless we are just not listening to what a lot of the anecdotal evidence is telling us that certainly the momentum mix between vanilla equities trading and derivatives is going to continue to go in the direction of derivatives. So that gives you some degree of insulation against a pure traditional bear market shift. So I have just tried to get the balance right John in my comments that I think between a mixture of the healthy pipeline of business development initiatives and a healthy trend shift, not away from but more and more towards products that are not dependent on market sentiment for their trading activity, that's what really sits behind my comments. But I am probably only looking out realistically 12 months in saying that. I mean, if global markets collapsed as a consequence of either geo-political events, exigent shocks, third or fourth round of sub-prime fallout from mono-line insurers or whatever, then I might be revising that by the time we are reporting in August but as it stands today, that is my genuine view.

John Heagerty - ABN Amro

Just on competition - we have had Chi-X come in and announce that they are trying to get into the market as well. Can you give your view generally on the attempts to get into the market and how you see that impacting growing going forward?

Robert Elstone - Managing Director & CEO, ASX

Probably two levels of response: One is it's a global phenomenon of alternative trading venues attempting to differentiate themselves. So at that level, there is nothing surprising about any of the applications that have been put in. On impact, I think it's really, and I am not going to dodge the question I will just give you the truth, which is until the consultation processes that ASIC has in place are completed and we have clarity of what licenses are going to get up, what conditions if any are attached to what licenses, it's very hard to give you a good answer to that question. So I think again back to Chris's question, it's probably slightly premature until we get more clarity, presumably during the second half of our current financial year.

Mike Younger - Citi

Two questions if I may Rob. Firstly, with regard to the holding company that is being established over the clearing houses, presumably as you mentioned if that does lead to some sort of clearing house integration there will be some benefit to ASX in the form of reduced expenses? Presumably, if you are to raise debt for it it may also free up some capital that one day could go back to shareholders? On the flip side, I imagine it also means you will be able to cross margin with participants so can you give a view on whether you would expect the benefit to come through the ASX cost line if the clearing houses are to be integrated as well as whether ASX's ability to pay extra capital to shareholders will be improved following that?

Robert Elstone - Managing Director & CEO, ASX

I doubt Mike that it would come through the cost line at all. If there are benefits to be shared they will be capital in nature, largely capital in nature. So the lines that are likely to be affected there could have some impact on the net interest income line, but I think we are dealing with so many variables in terms of what's behind that initiative.

As I say, there are other things, there are other drivers there that make sense for us to do what we are doing and when we have more to say on that we will certainly be far more expansive probably by the end of the second half than we can be now. We are simply flagging that we are doing this internal restructuring. It has got a mixture of drivers, some of them are to do with an intermediate set of steps towards defacto clearing house integration because we may well, either of our own volition or in conjunction with the RBA, decide to maintain two separate clearing houses but achieve most of the benefits through a common entity. That may also end up being a borrowing entity to access the capital markets and put debt in the balance sheet. So the lines that would be affected probably would be only one and that's more likely to be net interest income than cash or capital expenses. How any benefits might be shared down the track between either collateral off-set, margin off-set or capital return to shareholders, it is simply too early to give that guidance. This is not because I am hedging but because we don't know yet.

As you have heard me say before at these presentations, this is a fairly long and laborious process and we are not the only stakeholder here. The RBA and ASIC, but primarily the RBA, really link arms with us on these kind of issues. All we wanted to do now is flag that we are interposing the holding company. We would like to access the capital markets during this calendar year but we won't do it because we strongly need to and that's why we will just pick our timing in terms of when the best time to access them is from a borrowing spread point of view and as soon as we make the decision on how much we want to borrow, we will tell the market either through a 3.1 disclosure or we will actually give guidance in the full-year result.

Mike Younger - Citi

The second question relates to cost. Alan made the comment that it is more about cost containment now rather than further reductions. Can we get a feel as to whether there was much in the way of redundancy charges in the staff cost line in this period and what kind of magnitude of costs will be incurred via this restructuring of the business surrounding the clearing holding company?

Robert Elstone - Managing Director & CEO, ASX

I will answer the second one and Alan can answer the first. Virtually none. The internal costs associated, I will be careful as I have my general counsel sitting in the front row and she is doing the bulk of the work, but the internal costs are largely opportunity costs of in-house legal resource time rather than explicit third party legal costs. Alan do you want to comment on redundancies?

Alan Bardwell - Chief Financial Officer, ASX

It's pretty minimal really and I think as we said at the time of the full-year, we had basically conducted the vast bulk of all of our restructuring activities from a staff perspective and so there are minimal amounts involved in the staff cost line for this half year.

Robert Elstone - Managing Director & CEO, ASX

You are certainly talking hundreds of thousands not millions of dollars.

Ryan Fisher - Goldman Sachs JBWere

I might just follow on from Mike's question and then I have got another question directly for you Rob. On the expense growth, can we interpret cost containment as trying to keep it to just general inflationary growth or are you more ambitious than that?

Robert Elstone - Managing Director & CEO, ASX

Inflationary growth is a good rule of thumb, it's a target. You will assess how we perform against that target as and when we report against it in future reporting periods, but it's a good rule of thumb. We are not setting out to grow our cost base faster than CPI. We are setting out to grow it slower and you will be the judge of that as and when we report the actual numbers.

Ryan Fisher - Goldman Sachs JBWere

Thanks that's pretty clear. Second question is harder to be specific on but you have commented recently and I think reiterated in your written piece, that ASX is looking at what the global consolidation of exchanges might mean and how you can get involved. Just two things - one is I gather it's still very early stages in everything and secondly, could you just confirm as something you mentioned six months ago which is that you are not a big believer in minority stakes for the sake of it?

Robert Elstone - Managing Director & CEO, ASX

I would certainly confirm the second one. I am not a big believer and on the first part of your question, I think you used the words Ryan 'early stages'. I think realistically I have now been in the role for a year and a half or I am well into my second year and I think I have been quoted elsewhere certainly in the media and in interviews that I have given that I think on balance we are more likely to participate than not.

My basis for saying that isn't grand ambition to participate, it's simply that if you look at calendar 2007 and the sheer pace of consolidation, we are more likely to participate in some way than not. But I would also again make two points of caution - one you have picked up on Ryan is that I am not a huge believer in minority stakes but also, I think the jury is still out on one or two of the cross border transactions that have been done.

Every time I say that people interpret it that I am a sceptic of them and I am not. It just says that the kind of EPS calculations that get audiences like you very excited, you have to apply a very different patience factor to when you are looking at cross border acquisitions and therefore you just need to be more cautious, more thorough in your evaluation as to whether the transaction makes sense because the payoff function takes a lot longer to achieve than in intra-market mergers like ASX, SFE or Chicago Merc and the Chicago Board of Trade.

David Humphreys - Morgan Stanley

Two questions if I may, just to follow on from Ryan. In relation to minority interests can you remind us of your position on Iress and the second question is in relation to the potential competition. You have talked a lot about or published a lot of written statements around market integrity being paramount to any potential competition. Can you give us an insight as to how much of a presumption it is that potential competitors will have access to your infrastructure given that seems to be one of their intentions?

Robert Elstone - Managing Director & CEO, ASX

On the Iress part of your question, from memory we are just over 17%, so I think that's the clarity in terms of what you are looking for. We obviously went up from, I think we were diluted down to 12% and then a line of stock became available and we didn't want to be diluted so we bought it.

On the more global issue of competition and access to infrastructure, again that's going to be subject no doubt to either the current or some supplementary form of consultation process because the issues are not straight forward and are in fact quite complex. I have gone into some lengths to comment in my written word in this morning's release that I think there needs to be a serious cost benefit analysis done of the costs and risks, not just the perceived benefits. Secondly, I think the wider systemic risk aspects of the issues that are embedded, particularly to clearing and settlement arrangements, need to be looked at again by all the relevant stakeholders including the RBA which is the systemic risk supervisor. So beyond that, I am probably not going to say too much more. Again, not because I am hedging but because I think that is going to stay a work in progress issue for several months if not the next year or so.

Well I think that concludes the morning's proceedings, thanks ever so much for attending, enjoy reading the written word and hopefully you will be better informed when you have read it.

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