



Edited Transcript of ASX HY 2008 Media Briefing

14 February 2008

Glenda Korporaal - The Australian

CFDs - There has been a lot of criticism of the ASX since offering these products. They have been described as very highly leveraged. Are they too risky to be put to a retail environment? Your second generation of CFDs - how will they change? Are you looking to in fact expand your market in that and how do you see that changing?

Eric Mayne - Chief Supervision Officer, ASX

I will respond on the first part, thanks Glenda. I guess it's important to note that the CFD market has been in operation for some considerable time before November 2007 and its been operating in the retail sector and it's been operating off-market. Off-market transactions don't have the same level of transparency nor do they have the level of regulation and oversight that is provided in ASX's market.

The second point that I would make is that ASX didn't design or introduce the product. It has brought the product to the market and through that, as I have outlined in my opening comments, has provided the level of transparency and regulatory oversight which brings greater, I think, level of comfort to investors to be properly informed about what it is they are trading in and therefore to have the additional comfort that the market they are playing in is actually being regulated by ASX. Our regulation of that market is overseen by ASIC, so I don't think its right to say that ASX is actually promoting a risky product. I think what we are seeking to do is to provide a more secure environment for retail investors to trade when you compare it to the market that exists off-market and has existed for some considerable time where there is nowhere near the level of transparency or oversight provided (by ASX).

Glenda Korporaal - The Australian

By giving people comfort, does that encourage more retail investors into a highly risky environment?

Eric Mayne - Chief Supervision Officer, ASX

No I don't think so. I think what you are doing is seeking to provide a more informed market. It's up to retail investors to make their decision once they have been properly informed of the risks. When you go onto our website there is a considerable amount of education provided. I mentioned before when we did our CFD workshops with the market participants that we provided education about the CFD market and again it's that awareness that we are providing to the market that needs to be taken into consideration.

Robert Elstone - Managing Director & CEO, ASX

I think the only additional perspective I would add to your question and to Eric's remarks is that every single product we have listed here has a risk profile. An equity security can go up and down, an interest rate security can go up and down in value, a warrant can go up and down in value and an instalment warrant can go up and down in value and a futures contract can go up and down in value. I think the one particular article you may be referring to had some factually incorrect statements in it. It referred to the illegality of these products in the US. That is simply untrue. There are jurisdictional disputes between the SEC and the CFTC which are at the heart of that. I echo Eric's comments and also provide you with the additional perspective that the London Stock Exchange has just announced

it is going to start an exchange traded CFD platform, obviously with the full support of the FSA in the UK, just as we have had the full support of ASIC in listing this product. It's incumbent on us as well as our corporate regulator to make sure that all the necessary protections are in place. We actually think we have advanced the cause of transparency as far as these products are concerned by listing them on the exchange. The second part of your question I think was on the second generation. I won't answer that because the thinking is not yet fully developed and it's probably at least 18 months away as to what that second generation will look like. So I think when we have something to say on that we'll make sure the market is well informed.

Katherine Jimenez - The Australian

Robert, can you tell us where you are at with Tricom - that whole situation where ASX sent people to (investigate)?

Robert Elstone - Managing Director & CEO, ASX

In terms of the Tricom matter, it's known that when the issue arose we provided oversight in relation to the settlement issue. From a supervisory perspective, we sent a couple of our supervision staff into Tricom to make sure that their policies and procedures were being observed and they were properly complying with our rules. It has also been announced that there has been an independent auditor appointed. We have that capability under our rules to insist that that be done and that Tricom appoints an auditor to our satisfaction, which they have done. The terms of reference have been agreed with the independent auditor. They are now carrying out their inspections and as a consequence we have taken our supervision staff out of Tricom for the time being. That doesn't mean to say we have stopped carrying out our own internal investigation or analysis about whether or not there are any further issues to be addressed in terms of the disciplinary side of things, such as any breaches of our rules. That's an ongoing issue that we would in the normal course of events follow.

Katherine Jimenez - The Australian

Robert, there's been a lot of criticism about the way the ASX has handled the Tricom situation. Peter Morgan, a very high profile fund manager, has basically said you have mishandled it. To what extent do you think that this latest episode has hurt the ASX's reputation? Do you believe that you have lost credibility in the market because there is a very strong reaction, not only locally but internationally, about the ASX role and how this was handled? The market sort of came to a standstill in August. It is just one episode after another. Do you think your credibility has been damaged and do you think you handled it correctly or mishandled it?

Robert Elstone - Managing Director & CEO, ASX

Well the question is, have we mishandled it? No. I think there has been media criticism, some of which has been uninformed. I think at the time of the potential settlement failure our disproportionate focus was ensuring that the wider market interests were protected and we achieved that.

Let me answer your question another way. I think every time these events have occurred around the world in other markets invariably the exchange or the central counterparty clearing house comes in for criticism from one source or another. We are not immune to criticism, we absorb it. We are looking at lessons that we can learn but I think some of the speculation and commentary was just ill-informed through no fault of the people making the criticism.

When you are dealing more with potential risk management situations as opposed to stock standard supervisory situations, the type that Eric has alluded to, where you are looking for insider trader potential breaches, market manipulation potential breaches, continuous disclosure breaches, 99.9% of the time you have a great deal of time because the very nature of the events provides you with time. You have discovery processes, you have investigation time periods. When you are dealing with a risk management event you virtually have no time at all. You are making decisions in real time. The fact that when you are making them there may be a thousand opinions out there about how you should be making them is not going to add any value to the decisions that you have to make. I don't want to come across as defensive. We are not immune to criticism, and I am sure a lot of that criticism will continue. As to whether our brand or our image has taken a hit, that's for others to judge. What I would say is that if you look at the way the Australian financial system going back to last August has dealt with issues at all levels - the banking system, the insurance sector, the exchange, has dealt with

probably the biggest crisis that's happened since certainly the Asian financial crisis and certainly since October 1987. The overall market structure, the strength of most of the institutions has held up extraordinarily well but I don't want that misinterpreted that we don't think that there are things we can do better, things the other regulatory agencies can do better and we are absolutely preoccupied with making sure that any lessons to be learnt are learnt.

Katherine Jimenez - The Australian

So you don't believe that your credibility has been damaged by this?

Robert Elstone - Managing Director & CEO, ASX

I don't think it is for me to opine on either our or the institution's credibility. I would need to go and conduct 5,000 interviews with people. I don't believe so but I may be wrong. You may be better informed that I am on what's happened to our credibility.

Andrew Robertson - ABC, Lateline Business

Just following on from those questions - One of the biggest criticisms certainly that I have heard from people I talk to is that the way the ASX handled Tricom meant that the market wasn't properly informed of what was going on. The fact that it was just one company became widespread belief that lots of firms could be involved. Could you have handled it better?

Robert Elstone - Managing Director & CEO, ASX

I don't think we could have handled it any differently given the lead times involved in a daily settlement process. They are incredibly short. One is having to make judgements and as I have said in my written words this morning, I think expectations of minute by minute or what I call 'ball by ball' commentary on what is going on, we will never ever be able to meet that hurdle. This is largely because our preoccupation the morning it happened was whether this was an adhoc situation, whether it was going to be resolved or whether it would have a wider systemic knock-on effect.

I think the audience you are referring to should draw some comfort from the fact that the market did settle that day and it has settled every single day since. Whilst we have heard the clamours and calls that we should have put Tricom into default within an hour or so of being advised, we had no grounds to put them in default but secondly, had we done so it probably would have set off a far more cataclysmic set of consequences and events. I think the people making the criticisms probably have no interest in that I suspect. But we have to make risk management calls in very, very short time frames and that will always be the case. I think we probably need more deeper understanding, and we have an obligation to contribute to deepening that understanding around the circumstances that surround the kind of supervisory activities that Eric conducts. Those other areas you normally have a great deal more time and the judgements you are having to make have got far more to do with forensic investigation and gathering evidence. In a risk management situation, none of those things apply - you are dealing with a real time mission critical environment.

Andrew Robertson - ABC, Lateline Business

Following on from that you would be aware of all the renewed talk about perceived conflicts of interest with you being both regulator and a player in your own market. Despite all the attempts you have made on the regulatory side and no criticism intended of you Eric, you can't get away from the fact that your first loyalty is to your shareholders, many of whom are your customers and also to your other customers. How do you bridge that?

Robert Elstone - Managing Director & CEO, ASX

I think with respect it's nonsense. I think the reality is that the long-term sustainability or the shareholder value of this business has to be inextricably linked to operating markets of maximum integrity. I think I have been on the public record in the last week in a couple of other interviews where I have said I fundamentally believe in the co-regulatory model and I say that Andrew largely because I think the skills that the corporate regulator has, the skills that ASX has, the skills of the prudential regulator APRA and the ultra prudential regulator the Reserve Bank have, they are very, very

specialised skills and the challenge is to make sure that the regulatory agencies work collaboratively and that any regulatory gaps or learnings get remediated as quickly as possible.

I think that is what is going on at the moment as we speak, not only in relation to matters that are pursuant to Tricom, but in other areas. I have seen Jeremy Cooper's comments today on margin lending, stop lending and all of these other areas. I think there has obviously been a real set of learnings for all the policy makers and all the regulatory agencies. But that doesn't mean that the system is broken or things are precariously poised - I just don't think that's fair or an appropriate criticism when you look at the kind of volatility that markets have observed, the uplift in trading volumes, the risk management machinery that's gone on to absorb this record volatility.

All in all the system has stood up extremely well and I think that's the kind of advice that the Treasurer has been getting from the Governor of the Reserve Bank and the Secretary to the Treasury and I would simply echo that advice. Now that's not to be interpreted as complacency. If there are learnings we will learn them but I think that's the best answer I can give you.

I don't believe that separating supervision from the market operator is in the interest of the market, not withstanding the perception of conflict because inevitably whoever conducts that supervision whether it was Eric and his team, whether it was ASIC or an independent agency, the minute they are distanced from the market they lose that knowledge of how the market actually works and how it operates and that's just a genuine belief on my part. Others obviously are entitled to have alternate points of view.

Katherine Jimenez - The Australian

I think CommSec sometime last year put in a submission to ASIC basically saying that they don't believe that the CFD market should be regulated by the ASX. They are the biggest margin lender in the market. What are your thoughts on that and do you believe that you are setting yourself up for some trouble again? Even ASIC in their own statements have described CFDs as high risk products. Are you asking for trouble?

Robert Elstone - Managing Director & CEO, ASX

I think Eric's already answered the question. I don't believe that we are (setting ourselves up for trouble). I think we have delivered more transparency to what had previously been an over the counter market only and this would not have been possible through any other mechanism.

Eric Mayne - Chief Supervision Officer, ASX

Perhaps the only other point I would add is that the CFD product is not a product that we alone just decided to put onto the market. Whether a financial product comes onto the market or not is a decision by the statutory regulator, not by us.

Katherine Jimenez – The Australian

Again could I ask you Robert, do you still today believe that you have the market's confidence - ASX as a regulatory body? In light of the recent events that have happened, you yourself said the last six months have been pretty extraordinary.

Robert Elstone - Managing Director & CEO, ASX

Well I think I have described how extraordinary the last six months have been and you are just asking me the same question again. I believe we do, but everybody is entitled to their opinion so if the people you are representing feel strongly enough about it I am sure they will keep voicing that opinion but at the end of the day.....

Katherine Jimenez – The Australian

I am asking you if you believe you still have the confidence?

Robert Elstone - Managing Director & CEO, ASX

Well I have answered your question three times now. I believe we have the overall confidence of the market. I think if that wasn't the case then with what the market has been through in the last six weeks, we would have seen far more traumatic consequences.

Rebecca Hind - ABC Radio

Individual investors may be scared off by the recent market volatility. I am just wondering how concerned you might be about that and the impact it will have on market participation?

Robert Elstone - Managing Director & CEO, ASX

The traditional answer probably until two or three years ago to that type of question would have been that historically there has been a fairly predictable exodus of retail participation in the market every time you go through volatility or what looks like the onset of a systemic downturn in index value. The only reason I think that chain has broken down a little bit is that the area of definition between wholesale and retail in markets generally has got a lot greyer in the last two to three years, partly because the wealth effects that have been created going back over the last 10 years, it's a greyer definition.

You have a large day trading community and a large high net worth community now and some of those traditional distinctions are starting to break down. So what we are observing and have observed since August is that those historically predictable patterns of overall volumes in the market dropping off because retail investors are running for the door doesn't appear to have happened. In fact, certainly in January, the anecdotal evidence would be that it has largely been the offshore investors that have left the market partly in response to the successive knock-on effects from US sub prime triggering what looks like or what I have described in my written remarks as the perceived inevitability of a consumer led US recession.

I won't say that those days of retail participation falling and bringing overall market volumes down have gone, but I think there is now a greyness of definition which tends to mean we are not currently observing, even though the index value is off 10% or 12% from what it was three months ago, we are not observing that trend at the moment. In fact, if anything, the flight of trading activity seems to be coming more from offshore than onshore rather than the retail portion of onshore exiting.

However, anything could happen if the market were to continue to slide. I am sure that people would be looking for alternative asset classes. At the moment with the listed property trust sector being hit as well, I think people are scrambling to look for asset classes which they are comfortable staying in and that's why you are seeing property cash, not only because of sub prime liquidity through the financial system, but you are probably seeing large cash asset allocation and that's fine, that's rational, but it won't last for very long given where cash returns are.

Richard Szabo - Merger Market

I was hoping to ask you about growth in a broader sense. I was having a read through and here it says that there were 16 new listings for January and I was wondering in that same period how many delistings there were?

Eric Mayne - Chief Supervision Officer, ASX

I am sorry I don't have those figures at my fingertips. I can certainly get them to you after this session but generally speaking we would have, I am trying to think last year we had close to 300 new listings and about 60 delistings, so that it would be about 20%. In terms of delistings in the month of January, I don't know what the exact figure was but I could certainly give those to you afterwards.

Richard Szabo - Merger Market

In terms of the new listings, what sector were they in?

Eric Mayne - Chief Supervision Officer, ASX

The majority of listings continue to come out of the resources sector. The number of listings on a year to date basis - the busiest office has been Perth. I think they account for around 70 listings for the period to date. Most of those would be in the resources sector and there is still a steady pipeline coming into the Perth office and the Perth office still has the highest number of listings along the train rather than the other offices. Sydney would come second, then Melbourne, then Brisbane and then Adelaide and that would be consistent with prior years.

Richard Szabo - Merger Market

As for the delistings, what sectors were they from primarily, were they also mining resources?

Eric Mayne - Chief Supervision Officer, ASX

No, they would be across the board and a variety of sectors. There could be a variety of reasons why a company would delist.

Richard Szabo - Merger Market

Financial services, transport possibly?

Eric Mayne - Chief Supervision Officer, ASX

I am sorry I just don't have a break-up. I would be guessing if I was to give you some figures.

Richard Szabo - Merger Market

The other thing I wanted to ask which is probably something that I may need to talk to you a bit more in depth about - so far you have had a great increase in your profit over the past year, your revenue is going up. I wanted to know a bit about possible M&A which might be happening in your space?

Robert Elstone - Managing Director & CEO, ASX

We are probably in a sector, if you think globally, which has been the hottest M&A sector certainly in calendar 2007. Normally whenever I give Glenda (Korporaal) an interview, probably 50% of the interview is devoted to this topic so your question might save me 10 minutes tomorrow when I give her an interview.

Clearly we are in a sector where global consolidation has run at quite a pace, certainly during 2007. During the bull market there will clearly be some correlation between the levels of optimism of equity markets generally and exchange consolidation. So it may slow a little bit given the shift in market sentiment that has occurred in the last two to three months.

I think I am on the record both through media and certainly my comments this morning that I think on balance, its more likely than less likely that we will participate in consolidation in one form but don't ask me when and don't ask me who and don't ask me how because I don't know and I wouldn't tell you if I knew so without being slapped on the wrist by Eric for being in breach of our own Listing Rules. We are clearly in a sector where that is occurring but I suspect the pace of it may slow slightly simply because equity markets are not quite as buoyant as they were prior to August last year when the sub prime problems first crystallised. Referring to the penultimate line of my written report, I said this morning that we are certainly vigilant, we continue to evaluate options and I obviously had a dialogue going with other exchanges around the world with whom we have legal systems in common with or we have business model attributes that share our own.

Richard Szabo - Merger Market

What regions were they from?

Robert Elstone - Managing Director & CEO, ASX

All regions.

I think perhaps we will swap questions. Perhaps give the people on the telephone line an opportunity to ask any questions. Can I throw it open to people perhaps in Melbourne?

John Durie - The Australian

In your commentary you talked about short sale activity and you are admitting you don't really know how much shorting is going on. You said that maybe the problem is that there are definition ambiguities. Could you explain how that could be fixed?

Eric Mayne - Chief Supervision Officer, ASX

The issue is one of reporting the extent of short selling activity by the client to the participant who in turn reports that activity to us. The Corporations Act contains a definition as to what is a short sale and when a client is required to report a short sale to a market participant. The definition in the Corporations Act is not exactly the same definition in our Market Rules but the definition in the Corporations Act, according to advice that has been given to clients, and I am talking about legal advice, is that a client is not required to disclose whether or not the client has borrowed stock to essentially cover for what would otherwise be a naked short sale.

If the client doesn't have the obligation to disclose that to the market participant, the market participant does not have the information therefore to report to ASX in accordance with its obligations under the Market Rules. So there is a jurisdictional gap if you like that Robert is alluding to. That the obligation is for the client to essentially provide the information, to provide the transparency to the market through the exchange but the jurisdiction for that rests with ASIC and not with ASX. We only have jurisdiction over the participant and we rely on what the participant tells us and the participant only in turn relies on what the client tells the participant.

John Durie - The Australian

OK, just a couple of quick follow-ups. If we are to accept that you are the best regulator because you are close to the market then surely that is an issue that you should be addressing not ASIC?

Eric Mayne - Chief Supervision Officer, ASX

Well there needs to be clarity in terms of whose obligation it is. Whether or not a particular sale is covered by borrowed stock, the only person who would know that would be the client in the first instance and we just don't have the jurisdiction over the client. Now what we have called for is a review of the area and the position is that perhaps the best solution is to clarify the Corporations Act and have one central body look at it and the central body is perhaps ASIC. If as a consequence of that we would have a subsidiary role in monitoring activity, like we do in other aspects of the Corporations Act such as breaches for example, substantial shareholder notices and so forth, then of course we would accept and take a role in that space. In terms of providing some degree of certainty about the extent of short selling, the basic problem emanates in the first instance about the disclosure levels and obligations of the client and what the client believes he or she has to disclose to the market participant.

John Durie - The Australian

Now Robert could I please follow up with ASX's settlements and clearing. Can you give me some idea of how much that contributes to your revenue or profit - just the actual fees that you could earn on that?

Robert Elstone - Managing Director & CEO, ASX

ASX's settlement and clearing - if you were to look at the numbers that we published today John, I don't have them in front of me, but I will give you the best steer that I can verbally. If you were to look at the line in the income statement which is described as the 'cash market line' which is really a proxy for what you and I would think of as the equities market, so ignore the derivatives line and ignore the listings line. If you went to the cash market line, the clearing and settlement revenue in total you could use a rule of thumb of roughly a third. It's a third of that line.

John Durie - The Australian

A third would be clearing?

Robert Elstone - Managing Director & CEO, ASX

A third would be trading, a third would be clearing and a third would be settlements. There may be some slight measurement error but roughly that's the steer of that line.

John Durie - The Australian

Would you be opposed to that being split off from the ASX?

Robert Elstone - Managing Director & CEO, ASX

What being split off from the ASX?

John Durie - The Australian

The clearing and settlement.

Robert Elstone - Managing Director & CEO, ASX

Yes I would be. Again because I think the efficiency of being vertically integrated from the front end to the back end by far outweighs the benefits of separation.

John Durie - The Australian

Sorry back to Eric about Tricom. Would you be able to confirm whether your work with Tricom also involved investigation into market manipulation?

Eric Mayne - Chief Supervision Officer, ASX

I am not in a position to confirm that position. If we were, it is a matter which we wouldn't be disclosing publicly. We would be looking at all potential breaches that may have occurred within Tricom during the course of any events leading up to the settlement issue that arose. That work is ongoing and if as a consequence of our review we feel that there are breaches that do warrant either prosecution by us in terms of our disciplinary tribunal or referral to ASIC, we would do that and under our obligations with ASIC, under our MOU, if we do refer any matters to ASIC we do not disclose whether or not we have in fact made any referrals to them by naming the relevant entity.

John Durie - The Australian

One final question: For many years now people have been saying that the ASX has got no idea about the level of short selling. You have been saying well, that's nonsense and there are rules in place. Now we have a bit of a crisis on our hands and suddenly everyone is calling for increased regulation, this and that, would you concede that seems a little bit like the horse has already bolted?

Eric Mayne - Chief Supervision Officer, ASX

I am unaware of the level of what you were saying beforehand, bearing in mind I have only been here for three years, but certainly....

John Durie - The Australian

Well I have been writing for at least three years Eric.

Eric Mayne - Chief Supervision Officer, ASX

What we are saying is that there is a gap that has been identified. The extent of the reporting around short selling anecdotally suggests that it is lower than what it is happening out there. When I talk to market participants I ask them about short selling and they can't tell me what the extent of it is other

than saying that there is a lot of short selling going on out there and a lot of short selling is done under the guise of borrowed stock. Therefore, that is the issue or the problem I have identified in terms of providing greater transparency around what is otherwise the covered shorts as opposed to naked shorts. With regard to the naked shorts that are disclosed to the market participant, I am confident that they are being disclosed to us and therefore reported through our system. What I can't clarify or confirm is whether or not the clients are even disclosing their naked short transactions to the market participant when they would clearly be under an obligation to do that.

John Durie - The Australian

And how do you think hedge funds are sort of colluding in their trading?

Eric Mayne - Chief Supervision Officer, ASX

Anecdotally John that's what has been suggested to me - that they may be doing that and as a consequence of that anecdotal comment, we of course as part of our surveillance and investigations internally would be having a look at that area as well as any other possible areas where that might be occurring.

John Durie - The Australian

Have you seen the evidence of that?

Eric Mayne - Chief Supervision Officer, ASX

I am not in a position to comment. If I did see that, it would be a matter that I would take up with ASIC.

Malcolm Maiden - The Age

An operating question: You are detailing some quite healthy reductions in expenses coming out of the merger. How are you at this point with regard to savings synergies that you were expecting to book before the merger took place?

Robert Elstone - Managing Director & CEO, ASX

I think the guidance we provided last August when we were reporting on our then end of financial year 2007 numbers, our disclosure guidance then was that the target synergies announcement back in July 2006 when the merger was effected was \$14 to \$18 million by the end of calendar 2008. The guidance I provided last August was that we had achieved that really by the middle of 2006, so we had met the target about a year and a half, just over two years prior to that.

Embedded Malcolm in today's comments were some comments that we would expect the operating expense profile, it's probably in its flat phase at the moment and therefore the pressure going forward will be to try and restrict cost inflation to well within CPI levels, but I think certainly in terms of the way the operation of the company is happening at the moment, we regard the fact that we exceeded the merger synergies last July and therefore we got them a lot quicker than the previous guidance we had given at the time of the announcement of the merger. I think we are almost through the cycle of cost saving benefits from the merger and we are now far more disproportionately focused on delivering further capital efficiencies through one form or another of integrating our clearing house activities between the cash equities and futures markets.

Nina Wan - The Australian Financial Review

Robert, in light of the push for greater regulation on margin lending, I wonder if you think firstly margin lending should be regulated under the consumer credit code and the FSRA and also secondly, whether company directors should disclose how much shares they hold on margin?

Robert Elstone - Managing Director & CEO, ASX

I think the first part of your question is probably not really a question for me. I am just the man on the clapper omnibus in terms of who the right regulator should be. It certainly shouldn't be ASX and I would endorse Jeremy Cooper's comments that were reported on the front page of the AFR today. I

think you have answered your own question in terms of the consumer credit code. On the second part though, I will flick the question to Eric but certainly give you my view. I think this is very much our domain in terms of company directors of listed entities participation in margin lending arrangements. This is an issue that we would have an interest in.

Eric Mayne - Chief Supervision Officer, ASX

Yes Nina, it is an issue that we have turned or are turning our minds to. When you look at a director's obligation under the Corporations Act in terms of disclosure of a director's interests, and also from the Corporate Governance Council about disclosure by directors of whether or not they hedge their option positions, I think it logically follows that there is a question of whether or not a director has used margin lending and the stock is being used as security.

I think that's an important point as opposed to whether a director just goes off and borrows money without having the stock as security. There is an issue as to whether or not there ought to be disclosure by those directors to the market and whether or not there should be some threshold. You could get situations where a company is closely held by the directors and therefore if there is an exposure in terms of the size of the margin loan or the stock that is being held, and therefore you could have a sizeable amount of stock coming onto the market in the event of a margin call and the director is forced to sell the stock before he/she had elected for the stock to be sold, so I do think that is an area ripe for consideration.

Nina Wan - The Australian Financial Review

Are you able to elaborate on those insider trading cases that you have been referring to ASIC in January in terms of the nature of those cases?

Eric Mayne - Chief Supervision Officer, ASX

Nina I get asked that question every year and unfortunately I can't elaborate on the nature of the cases. They vary - they could be directors, they could be people related to the corporation, they could be people quite independent of it. I am just not in a position to disclose the mix of those.

Nina Wan - The Australian Financial Review

Just to clarify, there were six in January?

Eric Mayne - Chief Supervision Officer, ASX

Six in January alone. We had eight in the 12 months to December so there had been 14 by the end of January.

Nina Wan - The Australian Financial Review

OK and just another question: In Robert's written statement he talked about the policy significance of granting license applications for alternative trading venues. I am just wondering if that's also reflected your own concerns about the competition that you might face from rival operators that are trying to grab market share from you?

Robert Elstone - Managing Director & CEO, ASX

If I am interpreting your question correctly I think the issue of competition for market services, which is the subject of a currently public consultation process, inevitably raised probably two sets of issues: The first one is, is competition good? Obviously ASIC is looking into that in a very public way. The other one which I think is not getting very much air play at all is, even if it is good, if it creates risks, then do the risks outweigh the benefits?

In my written words earlier today that were released, what we are simply saying is that to date, we have seen no evidence in the consultation process of any analysis of the costs and the risks. We have read lots and lots of glib statements about competition is good. That is not analysis. That is just an opinion and I think my public comments around Tricom would suggest that there is an example of less than transparent off-market trading that gave rise to a potential systemic risk. That doesn't mean to

say we shouldn't have competition. It just means that we should have a proper and thorough review, not only of the benefits but the costs and the risks as well.

Kathy Swan- ABC TV

I am from Inside Business. I have a question about the companies that have been issuing CDOs that have been allowed to list on the ASX. Is it true that companies like Hifi Securities, Mahogany Capital and Nexus Bonds have been allowed to list despite not meeting the ASX requirements of assets of about \$10 million or so and if it's true, why were they exempted?

Eric Mayne - Chief Supervision Officer, ASX

I am unable to answer the question because I don't have the facts at hand. My expectation would be that a company that lists on our exchange complies with all relevant aspects of our Listing Rules.

Kathy Swan- ABC TV

Do you think you would be able to look into that further just in case this is another area that retail investors might need more protection?

Eric Mayne - Chief Supervision Officer, ASX

Yes Kathy. If you could either call me after this or leave a number and I can call you and get some clarity around what it is you want and then I can follow it up for you.

Tim Boreham –The Australian

Just one question: I am just wondering what shareholders can expect regarding the holding clearing company proposal. Well, it's more than a proposal. The plan I presume there is some sort of capital return planned as a result of the effective gearing up?

Robert Elstone - Managing Director & CEO, ASX

That probably wasn't the prime motivation - interposing an intermediate holding company over the top of both our clearing house subsidiaries. It wasn't driven by debt issuance and the potential that has for upstream capital release. It was done as much for other reasons and we don't feel under any time pressure to go to market given the global credit market dislocation and we certainly don't have any needs to top up our capital adequacy position and that's all disclosed in today's numbers.

I think it's early days on that question and I suspect we will be giving the market further guidance when that subsidiary is in place, when it's then likely to approach the market around our full year results if not slightly before in August. So I am very reluctant to answer that, not because I am hedging but because I don't know.

We are absolutely preoccupied at the moment with putting the company in place, making sure that ASIC and the RBA are comfortable with the logic as to what drives the interposition of that holding company and then talking to our clearing participants about some of the potential benefits that may flow from that company, particularly in areas like single point that have collateral lodgement. The whole issue of what quantum of debt and when we would approach the market and which markets we would approach and what that could mean for further capital distribution is something we will probably be better informed on. We will then inform the market probably during the second half of this calendar year.

Tim Boreham –The Australian

It's not something you plan to complete in the second half, in the current half?

Robert Elstone - Managing Director & CEO, ASX

I very much doubt that looking at the work load involved for our own legal function in putting the company in place and looking at the current state of global credit markets. I don't think we would be in a hurry even if we were ready to do it today, so it's far more likely to happen in the second half of this

calendar year. The first half of our next financial year but by no means certain. If markets were to continue to deteriorate then we are under no time pressure to do it at all, but I suspect based on what we know today, that the second half of this year is the most likely time period. So we will provide the guidance you are alluding to more likely in August when we release our full-year results.

I think we will agree to make it the last question on line and then I will perhaps have one more in Sydney if there is one.

Stewart Washington - Sydney Morning Herald

Robert, I go back to an earlier statement that you made about the stress testing that you went through in relation to Tricom. I wonder about the on-the-fly risk management decision making that you spelled out previously - is there a sense where the risk is actually in the behaviour of some of your market participants and that you would act to address the behaviour of some of your market participants? Certainly as it appears to emerge from Tricom, these people had stock that they had issued margin loans over and they were then lending to third parties. Certainly that would appear to complicate any settlement process involving Tricom and I just wonder whether instead of doing on-the-fly risk management, the risk management should actually start two years earlier in what your market participants are allowed to do?

Robert Elstone - Managing Director & CEO, ASX

It's a very good, very appropriate question. I take umbrage at 'on-the-fly' though.

Stewart Washington - Sydney Morning Herald

Sure sorry. I didn't mean to offend on that.

Robert Elstone - Managing Director & CEO, ASX

No, no, I know what you are saying. I am semi-joshing here. We are a little better than on-the-fly. On-the-fly may be accurate in terms of my response to the earlier line of questioning that the time frames for decisions when you are faced with a potential settlement failure are minutes and hours. They are not days, weeks or months which we have the luxury of when we are looking at potential market manipulation or insider trading or continuous disclosure breaches.

Coming to the real substance of your question though Stewart I think that the way Eric responded to John Durie's question half an hour ago, you have to read a lot into the response that our specific investigations into all the circumstances surrounding Tricom are very thorough.

The fact that we are not going to sit here and describe what they are to you is a different issue but you have to read into Eric's responses to John Durie's question that there are no limits on the areas of investigation of the totality of the Tricom matters. That's the first part of my response.

On the substance, I think without this being misinterpreted in any way, there is not a good understanding generally in the public regarding where regulatory jurisdictions start and stop. For example, our broker oversight under our Rules and under the Corporations Act is largely confined to the execution of securities transactions on the exchange. We do not have the regulatory remit that say a prudential regulator has to conduct forensic investigation of the stock lending activities of brokers. That is probably best done by another regulatory agency that has that remit, so without in any way questioning your question, because clearly with hindsight I think the growth of margin lending activity coinciding with a 12 day secular sell-off in the market, has crystallised a set of issues that are being thoroughly investigated. This is not only at the Tricom level, but across now at the regulatory agencies and yes, I think all of us would say with the benefit of hindsight, why weren't you looking for this before?

The reality is in many cases that agencies have been looking and you can criticise ASX or others for not looking hard enough, but I do think the level of reassurance I would seek to give you is that the investigations are into all aspects, not only of the settlement failure, but all the upstream drivers of what gave rise to the settlement failure.

We are not confining our own investigation into the events that crystallised on the day. We are going back up the causal chain alongside other regulatory agencies. I think the myth is there because ASX supervises brokers. The myth that ASX supervises everything to do with brokers and everything to do with their clients and that is simply inaccurate. So coming back to Katherine's (Jiminez) question, I have the utmost respect for Peter Morgan, I admire him enormously. Unfortunately, the second half of the sentence is I don't agree with everything he says and that's true of many other people in the market.

So I think we need to close off the interstate questions now.

Stewart Washington - Sydney Morning Herald

Can I just ask a quick follow-up?

Robert Elstone - Managing Director & CEO, ASX

Stewart go for it and be very quick.

Stewart Washington - Sydney Morning Herald

It's simply clarification on something Eric mentioned earlier. Eric, were you flagging that you would see a situation where a new body or an integrated body between ASIC and ASX would be in a position to regulate short selling? Is that what you were you flagging or were you simply referring to the review process that was underway?

Eric Mayne - Chief Supervision Officer, ASX

No Stewart, I wasn't referring to another body other than ASIC or ASX. What I was suggesting is in relation to short selling that I think the best body to regulate it, if there is to be a single body, it would be ASIC. We would have an ancillary role perhaps as a consequence of that review in terms of assisting in any monitoring or any information that comes through us, thereby assisting ASIC in its enforcement of any revised provisions in the Corporations Act.

Robert Elstone - Managing Director & CEO, ASX

Stewart let me also endorse what Eric has just said. I think short selling or long buying which is the other side, should be in a reporting sense the domain of the exchange. Invariably short selling practically takes place with other activities like stock lending or margin lending - they go fundamentally to the issue of the prudential regulation of the broker and that should logically be the oversight either of the corporate regulator or of a prudential regulator.

Andrew Robertson - ABC, Lateline Business

Your shares are down today after a great result. Every other company that has reported a great result has seen their shares sold off. What are your thoughts on what is going on in the market at the moment? On the market in general, the way the market is reacting to company and profits?

Robert Elstone - Managing Director & CEO, ASX

I think its certainly been noticeable over the last two or three reporting seasons, so probably going back 18 to 24 months that we are seeing more and more counter intuitive single stock price movements on announcements. In the sense that you are seeing stock sold-off often on strong underlying results and in some cases the reverse is applying where results are disappointing and the stock doesn't get sold-off as much as you would think. That would feed John Durie's legitimate supposition that the volume of short selling activity is probably greater than that which is currently being reported and that's an issue that needs to be remediated. John is absolutely right to write that in his articles. On the specifics of today, I seem to have been talking to people like you all day so I really wouldn't comment. Clearly our result today was slightly in excess of consensus expectation. We would have expected the stock to rise on a day when the balance of the market has risen, but I really try to steer clear of commenting on sort of intra-day or single day movements in our own stock. I can't throw any light on it if that's the purpose of your question.

Andrew Robertson – ABC, Lateline Business

I was looking for your comments.

Robert Elstone - Managing Director & CEO, ASX

It feels counter-intuitive and I suspect what its representative of going back to this lady's question (Rebecca Hind) is that the participants in the market today are quite different than the participants in the market five years ago. Then the market was probably far more dominated by traditional long-only investors. Today you have a much larger day trading community. You have far deeper derivative markets than we had even five years ago. You have far larger offshore participation. You have far more sophisticated retail participation and you have far more evidence of structured products interplaying with vanilla plain equities. Sorry that's a long-winded technical answer. It just happens to be the truth and I think it is just becoming more and more complex to analyse announcement effects and why stock prices are performing. You really have to look out two, three, four and five days afterwards to see what traditionally we would have seen happen instantaneously following an announcement because of the prevalence of short selling and people just generally prepared to speculate. This is in both directions, buying as well as selling.

I think that's a terrific set of questions and we will no doubt see you in August 2008.

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