



Edited Transcript of ASX HY 2009 Analyst Briefing

17 February 2009

Kieren Chidgey - Merrill Lynch

Two questions if I can. Firstly, just on your rebate structure looking forward a year, your average costs of trading for participants has gone up in the order of 23 to 24% in basis point terms in both cash equities and the SFE. Given rebates are close to zero in both markets, how important is that factor in terms of setting your rebate structures for 2010?

Robert Elstone, Managing Director & CEO ASX Ltd:

I would make two comments, one is the rebates are working exactly how they were designed to. You normally don't take the shock absorbers off a car when you come across a bumpy road, so I don't imagine that there will be any serious overhaul of the rebate methodology itself. We don't anticipate looking at the rebate metrics for a few months yet, so I am not going to be making any forward looking statements. All I would ask you to look at is perhaps the dramatic movement between January and the first fortnight of February - the hardest judgement we make around the rebate structures is trying to gauge what is a reasonable assessment or growth profile over the coming year. And that's going to be even harder to make that assessment this year because on the one hand we are coming off a low base of performance in the current year but it could rebound relatively quickly. I think that's probably all I will say. I don't envisage that there will be any radical surgery applied to the rebate mechanism. We certainly don't feel that because the average cost of trading has gone up because the volume has been lower that we have some obligation to return it to where it was because, clearly the rebate mechanism was designed to gain share disproportionately in favour on the upside of market participants and they got those benefits when the volumes were growing.

Kieren Chidgey:

Second question from me. Just quickly on the debt issuance that you talked about coming through the government, I think previously they expected around 15 billion to be issued over the next six months and as you have flagged, it has now grown to 25. Is that 10 billion incremental issuance a really significant driver in your view of SFE volumes over the next 6 months?

Just to correct your opening remark Kieren, I think what you would find is if you go back to the May, June announcement last year, now that was obviously prior to things becoming as volatile as they did last September, I think the government was initially committed to issuance of another 25 billion. But that was against the backdrop of the original objective going back to the CGS review of supporting the treasury bond futures markets because clearly prior to the global financial crisis there were some signs of liquidity in the underlying CGS market getting tighter and tighter each year. Largely because the actual tender uptake was disproportionately going offshore into Asian central banks and sovereign wealth funds rather than staying in the domestic economy. So the passage of legislation that passed last May was to facilitate growth in the potential stock of bonds from around about the 50 billion level to 75, so that was baked in prior to events of last September. I am not a government statistician and I don't work in the Federal Treasury but I think if you look at the pattern, I think the 23 billion that is forecasted between now and June to be issued is probably being issued for a totally different set of external reasons to the rationale for what was the 25 billion intention last year. In other words, the deterioration in the national terms of trade has been so dramatic that I think the government is even contemplating re-instituting the Treasury note issuance profile simply to iron out intra-month into fortnight movements, such has been the rapid rate of peel off of corporate tax payments.

So I suspect, and I am not going to stand here and make estimates as to what I think that number is going to be but certainly the 25 billion between now and June is public knowledge. You will have more guidance from the Commonwealth in May with a declared state of the then deficit and the forward estimates, so I think you will have plenty of opportunity to monitor where that number is going. If I were to reference most of the business economists around town, so it is not an ASX statement, they seem to be in the zone of the 100 to 125 billion within about 12 months from now but there is clearly a lot of assumptions in their own estimates on the size of the deficit and whether the two stimulus packages we have had so far will be supplemented by further need for stimulation down the track. So there are a lot of ifs, buts and maybes, but if the business economists around town are right, then you are certainly likely to see a doubling in the size of the bond market and that will affect the volumes. I don't think there is any doubt that even in the last 2 weeks, the first two weeks of February, the three year bond futures volumes appear to have spiked in anticipation of the tenders. Now that could be mechanically that people are hedging their tender bids through the futures markets but there will be a multiplier effect at some stage if the stock of bonds on issue doubles or trebles. History has shown in every other market around the world that there is not normally a one for one multiplier between the underlying physical and the derivative overlay product on which that contract is based.

Robert Elstone:

Next question. Are you all being terribly polite and pleasant or are your tummies rumbling and you want to go to lunch?

Catherine Allfrey - Wavestone Capital

Just on the secondary listings in terms of the fees, any plans to increase that to I guess take advantage of the situation?

Robert Elstone:

I don't think so. We will look at fees across the board at the time of the year when we complete our budget, but clearly we did a fee increase on secondaries last year which probably, with the benefit of hindsight was slightly more biased via the banding structure towards smaller companies than larger companies. And yet it has been ironic that large companies account for the bulk of the secondary raisings, so there may be some fine tuning when we come to look at it, but will we be looking to exploit the situation? No, we won't be. That is not just a politically correct answer by the way, we won't be.

Andrew Hills - Wilson HTM

The equity markets enhancement program you first announced in November 2008 - my understanding was you were thinking about an implementation date of around March and you just mentioned, well it sounds like your expectations for that have been put back, are there any reasons for that?

Robert Elstone:

I think we are now going to implement in two phases. The pure capacity phase of that announcement has been pushed back to May and that delay is solely bound up with quality of software drops that we have received since November which have subsequently been improved and met our expectations. Secondly, we got a little bit of push back from participants who simply wanted more time so the capacity piece of that is currently scheduled for May and we have indicated June for the functionality pieces. Largely because we have third party software quality dependencies as well as regulatory clearance from ASIC, and ASIC has indicated to us that they are having a thorough look at those rule changes and they would require that amount of time before they can give us an answer. But I wouldn't read anything sinister into the delay.

Andrew Hills:

OK and just one more on the spread on participant balances. I understand it depends on the movement between cash rates and short-term interest rates, but has there been any structural change in the way you charge participants?

Robert Elstone:

No, not during the reporting period.

OK thank you.

Thanks Andrew.

William Ammentorp - Credit Suisse

A couple of quick questions if I may. Taking a look at that margin income that you are picking up, obviously you did highlight your positive rate and positive volume variance that came through on that. I am wondering if you can provide some overview commentary of how that profile plays out as the spreads start to come back. I am not asking you to predict where spreads go but the rapidity of which that portfolio will reflect changing spreads. A second question to Robert if I can, around the M & A aspect which has always been an ongoing theme and just a re-iteration if you can that the Asia Pacific region is a more opportune advantage for you rather than say changes in Europe where a new CL was placed in there just the other day. If you can just reaffirm your outlook and I guess your philosophy on that.

Alan Bardwell, CFO, ASX Ltd:

I will start off on the spread question. Obviously the rate at which our earnings will decline, I mean it won't just be purely spread driven but it will obviously be based on those other factors I talked about which will be what are our ongoing assessment of volatility and the level of margin that we basically need to call. That's probably going to be your number one determinant. As spreads come in it depends on the other factors around the book, how, what the weighted average maturity of the book is going to be and clearly we have been bringing that in, which counterparties we basically are going to be investing with and as I stated in the half year report we have now got the majority of the book with A1 plus or better counterparties. Do I think those factors are going to change a lot in the next six to 12 months? Probably not. I would think we would continue to run the book very conservatively and that probably means therefore that the spread impacts is going to basically come in and there will be some negative outcome as a result of it.

Robert Elstone:

Your second question William, M & A, this is sort of 'I am damned if I do and I am damned if I don't'. I was tempted to say nothing in my written comments on this, simply because when I do press conferences John Durie says to me "well you write about this and you are not doing anything" so I thought I will fool him this time and I won't write about it and then he will complain I haven't said anything so with those opening remarks I am not quite sure I sort of follow or I agree or if I have given you the impression that I have some orientation towards the Asia Pacific region. The reality on this topic is that clearly we evaluate the opportunities on an ongoing basis. All the PE's of the exchanges have peeled off, the PE relatives haven't moved very much, so I think whilst the exchanges have been preoccupied, particularly if they are vertically integrated with their own clearing houses like us they are being very, very preoccupied with the clearing and settlement systems of the last six months for the reasons we have talked about.

I think all I can say on this is that we continue to be vigilant in evaluating opportunities. We don't have a bias. The criteria that we use, for, which I am on the public record is that, I think there are essentially three criteria that we use. That is: business model alignment, so we have a natural orientation to exchange groups which are multi-asset class and vertically integrated because that's what we are. Scalability of technology - because there is not a lot of point in putting two exchanges together because they look alike if they have got totally disparate technology platforms or they have got technology platforms which are not particularly scaleable to accommodate growth. And then probably the third criteria is, let's call it culture or regulatory regime compatibility which gives you a natural orientation towards the sort of Anglophile Anglo-Saxon exchanges. But really beyond saying they are the three criteria, they are the three filters that we use, geography doesn't really figure very prominently. The reason being if we at the moment, and I suspect this will change over time William, is that the capital flows around the world don't mirror geography. Most of the capital flows and risk transfer activity between Australia and the rest of the world is still very UK and US centric. It's not very north south. So if you were to stress geography and say well isn't it about geographic? Yes it could be, but the capital flows tell you something different, so it really depends whether you are looking at traditional capital flows or are you looking at forward capital flows which may be a lot more north south depending upon changes in global patterns of savings and trade. But they are the three criteria that we use, am I engaged on this topic? Absolutely and unequivocally, but when we have something to say on it we will say something definitive. If there are no other questions in the auditorium, I will open questions to people on the telephone line.

John Heagerty - ABN AMRO

One question in two parts on settlement fees. I was wondering if you could provide a little bit more detail, and you mentioned it during the presentation, possibly Alan on the settlements, and how they have changed obviously talking about less retail trading and more algorithmic trading and how that

flows through. And then whether you think those trends are likely to continue for the second half of the year.

Alan Bardwell:

Yes as I was saying, probably the two predominant underlying activity levels that drive our settlement revenues are the dominant settlement message and client holding statements and certainly over the last year we have seen the proportion of those, the settlement message as well as the holding statements for trades in decline. I think in the holding statements case, it is probably even half of what it was a year ago. And I think a lot of this is because typically with a retail volume activity you basically get more of a one for one so when you get one trade, you get a settlement message, you get a holding statement and obviously as you do more and more trades of an algorithmic model nature, you end up getting more of a re-aggregation when we come back to settlement messages and holding statements so therefore, you can have multiple trades that might only basically mean one settlement message or one holding statement. How quickly do I think it will continue or where will it go? Well I think if we continue to see a movement there for more retail to stay out of the market, more algorithmic trading as a proportion of total traded activity, I think you will see those ratios worsen so really it depends on the underlying mix of our traded activity John.

Chris Williams - UBS

I have a couple of questions as well. The first is around technology and specifically your dependence on OMX as a provider and as of now a subsidiary of NASDAQ - just wanted to understand how you view that. Whether that's perhaps moved from largely an operational issue particularly in light of equity market initiatives that you have got underway, perhaps moving or nudging the strategic decision category in your thoughts or the board's thoughts.

Robert Elstone:

I think it is a good question Chris. There is no doubt that when one of your core vendors merges with another exchange we needed to chase down what the NASDAQ OMX group strategy is towards servicing technology customers like ourselves. Certainly in terms, so it becomes a more important watch point for us beyond the imminent capacity upgrade and functionality upgrade I have talked about. But I think certainly from our current plans we have got sufficient capacity, functionality, enrichment, and latency improvement to buy us quite a degree of time so we certainly don't feel under any time pressure. But yes, it certainly causes us not necessarily to be more concerned, but it causes us to think a little deeper about whether technology gets a higher ranking in terms of the way we think about cooperation with other exchanges or potential alignment with other exchanges. Much more than that, I couldn't say. We are delighted both through the rear view mirror and currently with the level of service we are getting out of the newly merged OMX group, so we have no short-term causes for concern. But it does become a watch point on a medium to long-term point of view.

Chris Williams:

Thanks. And just going back to this issue of Commonwealth government issuance, in the US there is obviously a very high correlation between issuance and activity in the market. I just wanted to understand a little better and I appreciate it's been asked in some forms already, the flow. Perhaps if there is an implication for example for Austraclear, in terms of deposits and also given that we have had very little issuance it is hard to draw on that sort of idea of correlation where we have already got a multiple of open interest being transacted in any one month. So I just want to get a couple more thoughts around that, particularly on the Austraclear issue.

Robert Elstone:

Well because Austraclear acts as a sub-registry function for CGS there would clearly be a pick-up so if the stock of bonds doubles or triples then there will be incremental revenue. Whether you would deem it from a modelling point of view to be material I personally doubt. It really is the potential multiplier effect on trade execution which is far more material so I think there are just a number of ways you can try and measure it and I wish you good luck in trying to measure it. The most direct way is the direct relationship between physical and derivative, so if you get more stock on issue you would expect more derivative trading. Where the modelling becomes impossible is when you look at spread trading activity between the three year and the 10 year bond or between the three year and the 90 day bank bill and the stock. The liquidity in one of those goes up materially, then it becomes impossible for us let alone you as an analyst community, to model spread trading on an ex-anti basis, but all the global evidence points to the fact that when the stock of underlying assets goes up these multiplier effects are real. If you have read my commentary you will see me advocating for some long bond issuance to perhaps provide a richer fixed income market, so quite what the government's intentions will be

around maturity profile of bonds is still going to be an open issue. But I would expect, unfortunately the number of pause and effects that go into being able to model those multipliers is just too voluminous and that's a good news story. If there was only one cause and effect, it would be easier to model but you probably wouldn't have as large a multiplier, so I really can't give you much more guidance than those comments I have just made Chris.

Chris Williams:

I appreciate that, just one other point of clarification. Sorry the phone lines were in and out when you were answering the question about rebates - was your second point on the rebates simply that the absolute level of activity and the growth above which you set a benchmark, is something that you defer until the last possible moment?

I didn't use those words but coincidentally we won't be looking at this issue probably until around about May. Whether that qualifies as the last possible moment that is just getting very close to when we present our budgets to the board and I would rather have February, March, April and half of May data than November, December and January data to be making that decision on. Because it has a pretty fundamental bearing on the view you take of markets, so I am not only going to be making no forward looking statements but we are not even going to be looking at that for another 3 months.

Deana Mitchell - Macquarie

I have two questions. Firstly with regards to the SFE derivatives, you stated that you didn't pay an LVR, could you advise whether you paid prop or previously known as local rebates within that period first half 09?

Robert Elstone:

Yes we did.

On the quantum?

Robert Elstone:

I probably think your question Deanna and John's takes us into a zone where we have an incredibly high level of transparency and I think these kind of questions just put into context that no matter how much transparency we provide, the analysts are never ever satisfied. I think the reality is, they are not material relative to the total quantum of revenue that you are reading on the SFE derivatives line in our income statement and much more now I might be inclined to say they obviously were down because the overall volumes were down. Did you have another question Deana?

Deana Mitchell:

Yes I did. Just with regards to, I am not sure if you saw NYSE's report of last week, where they actually wrote down some goodwill on their balance sheet with regards to the NYSE Euronext merger which was probably around the same time that ASX and SFE was executed. In the context of the 2.2 billion worth of goodwill on balance sheet could you perhaps give us some commentary around that?

Robert Elstone:

The only commentary I will give you is clearly goodwill impairment is the issue de jour in this corporate reporting season. Our own board got a thorough analysis of the carrying value of goodwill which arose or was compounded by ASX's acquisition of SFE and was more than satisfied that we are a long, long way away from having an impairment write-down to even think about let alone consider. I am not across the specifics of NYSE Euronext other than the wires seem to say very specifically it related to the purchase accounting which was regarded as a standalone investment. In the case of ASX SFE it was an interim market merger that was of a horizontal integration nature. The two exchanges were effectively integrated within six to 12 months of July 06, so we look at the issue of goodwill from an integrated segment perspective and we have ample headroom and buffer to absorb any further deterioration in market conditions before that becomes a serious issue for us.

Mike Younger - Citi

My first question Rob, I was wondering if you could explain the company's additional investment again this year in IRESS and what the ultimate intention is?

Robert Elstone:

I think it is very brief. Opportunistic, if I could buy more IRESS shares at \$4.50 I would buy some more. Nothing more to it than that Mike, I just think at \$4.50 it was a very good buy and we had room to

move up and have been continuously diluted over the years and we don't wish to be diluted. So if we think they are fair value then we will buy them up to the 20% limit.

OK but would you go over the 20% limit?

Robert Elstone:

Well we might, but watch this space. No forward looking statements at all on that subject.

Mike Younger:

My second question is I guess an odd one. When you initially took over the CEO role at ASX it was an initial 3 year contract that expires in June, is it your intention to continue on in the role post June?

Robert Elstone:

It expires in July, and no comment because the chairman and I are deep in discussion on that matter. And when we have something to say, we will say it over coming weeks or months but there is plenty of time for that issue to resolve itself.

Mike Younger:

And I note in the commentary a new generation futures platform that you will be working on. Is there a reason why you wouldn't look to use the ITS or Click XT infrastructure?

Robert Elstone:

Probably a couple of reasons Mike. One is that the Click XT platform doesn't operate on a 24 hour basis anywhere in the world and doesn't offer interest rates spread trading functionality on a par with the existing platform. And [probably] thirdly, the costs of change-out to a platform like Click which was built originally as an equity options platform would be substantially higher for participants than it would be if we stick with existing functionality. So they are the 3 reasons why we didn't. And fourthly, I guess we didn't get any demand from participants to have an integrated platform and clearly from a risk management point of view whilst the efficiency benefits of a single integrated platform would be better in a theoretical sense from a risk management point of view you do actually have a better risk management outcome if you have disparate platforms servicing different markets.

I think that might conclude all questions on the line. Thank you.