



## Edited Transcript of ASX HY 2009 Media Briefing

17 February 2009

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### **Ross Kelly – Dow Jones**

*How would you characterise ASX's performance & outlook? And just on consolidation, what kind of need do you think there is for the ASX to be involved in that kind of consolidation? Is there a sense of urgency at all for that sort of purpose?*

### **Robert Elstone, Managing Director & CEO ASX Ltd:**

As you can see from my oversight comments just over the page (see powerpoint slides) as far as post balance date events are concerned. The first six weeks of this calendar year and the first 6 weeks of our second financial half year, whilst we posted for the month of January low trade execution volumes in both the cash equities and the futures market the first fortnight for the first 10 trading days of February have showed a distinct improvement from those January levels. So in that first fortnight of February equity cash markets averaged daily traded value at \$3.4 billion per day is up 19% on the soft month of January. SFE derivatives, so that's the SPI 200 futures contract and the interest rate derivatives, averaged a daily volume of 231,000 which is up 56% on January. ASX derivatives - single stock options - average daily volumes of 70,000 is up about 7%. So that's just one illustration of how difficult it is to forecast trade execution volumes in the current market.

We also sense, and this is in my written comments this morning, that the thirst for equity recapitalisation across all sectors of the economy is likely to be maintained during the second half of the financial year. It was very biased towards financial services companies and major banks in the first half, but we think that's likely to be far more diversified across the wider corporate sector during the second half. But the pipeline of access is likely to remain strong and you heard me say 10 minutes ago that our global ranking on secondary capital raisings is really quite something to be quite proud of.

As far as the macro environment is concerned on the fixed income side of our activity, the Federal Government has obviously announced two stimulus spending packages to date, one last October and one that passed through both houses late last week. I guess the underside of that is the issuance between now and June of approximately \$25 billion of new Commonwealth Government securities in the short-term with potential for further strong issuance once the May budget clarification on the size of the deficit and the forward estimate outlooks for Commonwealth revenues becomes public information. But it is clear to say that I think we are going to have a thriving bond market over the next six to 12 months which is something Australia hasn't had for well over a decade. And I think, again in my written comments this morning released to the market, I think that foreshadows something of a fixed income market renaissance. It's going to start feeling more like the 80s again with perhaps a better balance of asset allocation occurring between equities and fixed income securities. Not only because of a stimulated government bond market but a real possibility of the emergence of a retail debt market in Australia.

As for exchange consolidation ... I don't think there is a sense of urgency, and if John Durie is on the line, and I am sure he probably is, he will scold me for saying this, but in past presentations he has said "well Rob you write about this every six months and you are not doing anything." So I will anticipate John saying that to me again. I don't think there is a sense of urgency Ross. Neither is there a sense of lethargy and disinterest. When I briefed the analysts this morning in our auditorium I said that the criteria which could make cross border exchange consolidation make sense are not a million miles away from the same criteria that made the ASX SFE merger make sense. Namely, business model alignment because we are a multi-asset class vertically integrated exchange. So

perhaps it's a little easier to get scale economies out of potential combinations with other exchanges with the same business model. The second criterion we use is the technology issue. Do others, or do we, have technology that can scale up for growth and perhaps spread the capital requirements and people requirements of continually investing in upgraded technology across a larger asset base? And the third criteria we use are cultural and regulatory policy alignment. So we have got fairly robust filters that we use in dialogue that we have with other exchanges. But I don't think we feel under pressure to do something, but neither are we sitting back saying we should just sit out the dance. Clearly, events have been disrupted by the last six months with probably most of the exchanges preoccupied as we have been with either market supervision issues or clearing and settlement issues given how relatively volatile markets have been and the potentiality for unstable clearing and settlement systems. Next question. Another one Ross?

*Yes just following on from that, I mean have you had any discussions with specific exchanges about consolidation?*

We meet as exchange CEOs, we meet through a number of forums during an average year, be it at conferences or trade fairs and promotions. We meet on specific issues because we cooperate with a number of exchanges either on the regulatory side of our activity, the supervisory side of our activity, or on technology or intellectual property issues. So we have regular dialogue with most of the potential partners that we could one day combine with. But I am not going to go beyond that in terms of specific discussions and talks.

**Andrew Robertson- Lateline Business.**

*Two questions, firstly how would you characterise the ASX's performance in the first half and what do you see as the outlook for trading conditions?*

**Robert Elstone:**

I think the adjective I used in my written word was robust. It's probably as good an adjective as I can come up with. I think about our performance, Andrew, not just in terms of financial performance, which I happen to believe was quite acceptable given this is the worse financial crisis that anybody has lived through before. But also, I don't prioritise our financial performance over our operational performance, reliability of systems or our supervisory performance in terms of making sure we do our level best to keep our eye on the ball in terms of potential market misdemeanour. And, finally, on the clearing and settlement side it was a particular volatile period so all our clearing and settlement margining regimes were thoroughly tested and I think we came through with flying colours. I am not in any way gloating about our performance but I think robust is an adequate adjective.

On the outlook part of your second question, we are simply never going to be in the business of forecasting trading volumes or values save and except if I sense, and I put this on the public record, that I think for example greater bond issuance by the Commonwealth of CGS securities is likely to give rise to larger bond future volumes over coming months simply because statistically that appears to be the case in every market around the world. But I don't think I or we as the exchange should stray and occupy the space of a myriad of business economists out there trying to forecast how long the recession could last, how long the bear market could last.

The final comment I would make - there is no doubt that for some time now initially in the period July 07 to probably the end of 07 there was a flight of retail interests out of the market. Equally, there is no doubt that probably from the start of calendar 08, an awful lot of natural inflow into superannuation funds, both mandatory and discretionary funds, which ordinarily would have had a normal asset allocation, has been parked essentially into cash so it's sitting outside of normal asset allocation. And if we go into a prolonged period of very low nominal interest rates that cash will inevitably need to come back into the market, either into the equity market or into property or into fixed income. It's just a guessing game on how long that is going to take and I am not going to provide commentary on whether I think that's six months, 12, 18, 24 months. It will be so much a function of what I have put in my written word which is when are credit markets going to normalise and when is the water of credit going to start flowing again the way it did prior to events of last September, and that is simply too big a question for any individual commentator to answer at this point.

*You talked about in your words the renaissance of the bond market; how much benefit will the ASX get from that?*

I think the whole market will get a benefit from it. Clearly, we have lived through a period where the treasury bond market has been kept alive as a consequence of the 2002 review which Treasurer Costello did. It's been literally just kept alive so that the interest rate transfer mechanism could function properly. It hasn't exactly been thriving as a market. ASX will be a beneficiary to the extent to which if you have a deeper liquid market in the underlying security then it will facilitate far more efficient risk transfer mechanisms via the derivative markets that we operate as an overlay to that market. But I have gone to lengths to also try and explain a view, using the rationale of the current macro financial crisis, that every cloud has a silver lining, not just for ASX but for Australia generally. And we do need to desperately develop our bond markets - Commonwealth Government, semi-government and corporate bond markets - particularly once an emissions trading scheme is up and operating. Once there is forward price discovery on carbon, that will send a signal back into the policy makers as to the quantum of change-out of the capital stock that is going to be necessary to facilitate investment in new technologies. There is no way when that signal becomes public knowledge that the equity market is going to fully finance the change-out of the capital stock which is going to be required, so the fixed income markets will need to play a pretty vital role. So in a somewhat paradoxical sense, for the worst of reasons, reviving our government bond market will have a multiplier effect into perhaps more depth in our corporate bond market, in a return to securitised mortgage markets, in the growth of retail debt markets. This will all be beneficial once the forward price for carbon becomes available over the next year or two or whenever that legislation is going to pass in the current term, presumably. So there are lots of good things, some for ASX but a lot more importantly for the wider economy, that will come out of Australia having deeper fixed income markets than its had during the decade or so where debt has been a little bit out of fashion at a government level.

Did you want to ask one more Andrew?

*I heard what you said this morning about your own future; is it your preference, if you had the choice, would it be your preference to stay in your current role after your contract expires?*

I am going to dodge the question because I am knee deep in that discussion with the chairman at the moment and I wouldn't want to influence that question. And I don't think the market will have to wait very long for clarity on that issue. I would rather not comment on it until current deliberations with the chairman and the board are complete. But I think you can read from my tone, the positive tone, that I think the company is performing very well on multiple fronts and I am a very engaged CEO.

**Matthew Drummond – Australian Financial Review.**

*Can you explain why your fees from secondary listings haven't increased by the same amount as the actual amount of secondary raisings. I think secondary raisings have gone up by like 45% but your fees have only, the total fees you have collected have only gone up by 5%, is that right?*

**Robert Elstone:**

I think yes, your stats are right. The primary reason Matthew, will be that whilst we, last May I think, put modest increases through for our secondary capital raising fees, they operate on a banding basis so they are tiered by the size of the company and the capital raising itself. And with the benefit of hindsight that tiering meant that the larger capital raising done by the larger companies did not have the equivalent fees applied to them as some of the smaller companies and smaller raisings. So that's the primary reason why there is no linear tracking from the comparison that you are making.

*So if we are going to see more capital raisings by smaller firms in the future as you sort of talked about, we might see an increase in the revenue you collect?*

Correct.

*Would you be able to quantify in any way what the short selling ban has done for your revenue?*

I am not dodging the question Matthew but it's an impossible question to answer. All we can do is quantify, and we have provided this evidence to ASIC and the Council of Financial Regulators. All we can do after the fact is quantify what happened to trading volume compared to the pre-prohibition trend. We can quantify and we have done this, what happened to bid-offer spreads - they widened during the period of the prohibition. And we can quantify what happened to volatility while the ban was in place. Those three sets of metrics we have provided to ASIC and the Council of Financial Regulators and I think that helped them understand the extent to which liquidity suffered in the short-term in response to the prohibition; the extent to which bid-offer spreads widened as a consequence of

people not being able to short sell and the fact that ex post-volatility actually went up during the period of the short selling prohibition. But that does not mean that the volatility was caused by the prohibition itself because the volatility may well have gone up for other macro reasons of information effects hitting the market. But other than pointing, drawing a trend line through our July, August and September i.e. pre-prohibition volumes and making a heroic assumption that that trend line would have continued, it's almost impossible to do the maths that your question poses.

*You said you can't be a soothsayer on general trends but could I ask what the outlook for IPOs might be? You talked about how you think that there is still a strong thirst for secondary capital raisings out there, when are we going to start to see more IPOs come?*

One of the ultimate IPO barometers is overall market confidence. If you look at the IPO market in all the major developed financial economies around the world it's really at a very, very subdued state. I think it is unlikely that we will see the IPO market reignited until credit markets normalise. Companies want to be able to grow with confidence that they can access all sources of finance, including debt markets because that's their source of primary working capital. So until we see credit conditions and credit markets normalise I personally don't think it is likely that we will see some magical rebound in IPO activity levels. And that comes back to the way I answered Ross's question earlier: asking me how much longer will it take for credit markets to normalise is asking me how long is a piece of string. I am not a central banker and even the heads of the central banks are not making those kind of forward looking statements. It really is the whole issue of confidence in credit markets and bond markets and equity markets. It is a very, very nebulous concept, we know through confidence surveys, be it of consumers or businesses, that these things can ebb and flow and change very, very quickly. But I personally doubt that we will see an IPO rebound this side of credit markets operating the way they did prior to last September.

#### **John Durie - The Australian**

*The first one is to Eric: you had all these figures like how many referrals and so forth to ASIC. Have you ever done an audit saying like well we referred 45 matters to ASIC and they actually acted on one of them or 10, do you have any figures like that?*

#### **Eric Mayne, Chief Supervision Officer, ASXMS:**

We have John. When we send the referrals off to ASIC, ASIC looks at the referral and they do their own investigation inside so they don't just dismiss the referral on the paper that is provided to them. They do actually commit resources to determine whether or not there warrants further injection of resources at their end to do a full blown investigation. There are occasions when we get a response back from them that they have carried out an investigation, they have interviewed certain people, they have obtained documents but they don't believe that there is sufficient evidence to take the matter forward. So I get a letter back from ASIC in each of those cases where they say there is no further action. I think you, I can't lay my hands on the exact figures, say if there were 45 we sent, there certainly has been a pick up in the number of outcomes that ASIC have been able to generate. For example, coming through the wires this morning, there were six outcomes that ASIC had published in terms of banning action or taking other disciplinary action against market participants or individuals, in relation to the matters that we sent to them. So I guess John, I don't have the specific answers but I can tell you there has been a pick up on in relation to the number of outcomes that ASIC are achieving when I compare to what happened over the last six and 12 to 18 months.

*Sure but would those letters you got back saying thanks but we looked at them and couldn't take it any further, would that be like 10% of cases or?*

No, that can be quite a significant number of cases, it would be up towards the top end, it's probably about 80% of those cases we might send, would be in that category.

80%?

It could easily be that number, I can tell you that certainly when Alan Cameron came in as the chair of Markets Supervision he had a look at, for his own satisfaction, the actual referrals we sent, to see whether or not we as a market supervisor were sending the right matters to ASIC for further investigation. And he then had a look at the responses coming back from ASIC to see whether or not he was of the view that ASIC justifiably said that it shouldn't take the matter forward. If you were to ask him that question he would say that he was quite comfortable with what we did and he has equally found the response from ASIC justifiable because at the end of the day our obligation is to where we

reasonably suspect there might be a significant breach, once we form that suspicion we send the matter to ASIC. We don't have the investigatory powers or the ability to delve down into the evidence. ASIC does have that and when it does do that and where they find it doesn't warrant further progression, that's not to say that the referral in the first place was not warranted.

*Thanks. Now Rob can I ask you, in your figures you say that secondary raisings, these are like equity raisings, went up 29% in the period but your revenue from them only went up 5%.*

**Robert Elstone:**

I think they were the numbers that Matthew Drummond was quoting me.

*Sorry I missed that, I was on another phone.*

The 29% is definitely correct in terms of the amount of capital raised over the prior comparable period but I am not certain John on the fees.

*They are the figures in your results.*

If they are the figures there, then they are the figures. And I think the answer I gave was that the way the bandings work favours the (in a revenue sense) smaller companies doing smaller raisings, whereas what we observed was very large companies doing jumbo raisings.

*Sorry I must admit I got diverted and maybe Matthew asked this as well, but if we look at the average cash market trading settlement fee, that fell in the period by 33%, is that again because smaller people are dropping out of the market?*

You are barking up the right tree John. I think the statistic which Allan Bardwell our Chief Financial Officer spoke to at this morning's analysts presentation was that the ratio between trade execution and settlement messages tends to be distorted by a couple of trading patterns. When retail exits the market in volume, that ratio or that nexus between trade execution and settlement messages starts to break down. Similarly when you get a higher percentage of traded volume being done by algorithmic trading, those trades get fragmented for trade execution purposes but then re-aggregated for settlement purposes, so again you don't get a linear relationship between trade execution and settlement revenues.

*Yes I think now you are getting like six trades per settlement as against four a year ago?*

Yes roughly in that order of magnitude.

*So, finally, what's ever happened with Tricom in its failure to settle?*

**Eric Mayne:**

John, we don't as a practice publish or publicise actual outcomes until such time as they find their way through the disciplinary tribunal but I can tell you since the day we started on 28 and 29 January last year, we started off with a number of conditions being imposed on Tricom and they have been in place throughout the period. There have been investigations underway during that whole period and we are very close to finalising the outcomes that we are seeking to achieve both in relation to any further conditions we might impose on Tricom and also putting matters directly before the tribunal.

*What, say, in the next couple of weeks?*

I would say probably a couple of months. At the outside.

**Tony Boyd - Business Spectator.**

*Rob could you elaborate on the time of duration of the bonds that you would like to see the government issue?*

**Robert Elstone:**

We have had an historic relationship with AOFM since the Costello 2002 CGS review. AOFM is the issuing agent for government bonds. We have provided them with advice to ensure that the issuance calendar and the maturity of the bonds to be issued meets our bond basket requirement so that we can ensure that we have got market integrity around expiry settlement processes for treasury bond

futures. That will now alter a little bit because of the underlying stock of bonds on issue but certainly the issuance over the last month or so has largely mirrored the 2½ year to 4 year duration to support the 3 year contract and the 8-12 year duration to support the 10 year contract.

In my written commentary, Tony I have said that given how low nominal interest rates are at the moment and how low they are likely to stay, and given the prospect of a forward price for carbon sending a signal on the quantum of the capital stock change-out, there is certainly a case for long bond issuance to be considered by the Commonwealth. And it is not for me to determine what that might be but by definition it would be substantially longer than 10 year bonds. It might be something in the 20-25 or even 30 year zone but that would be very much an issue of government policy on probably the long-term size of the bond market, not the size that that bond market might need to get to over the next year or two for recessionary reasons. And I would advocate that that's an opportunity for government not only to exploit the current environment of low interest rates but to help build the risk transfer infrastructure of the country so that investment decision-making can be made much more efficient once we have a forward price for carbon.

*And a quick question for Eric. The spate of price queries that have occurred this year, many of them have resulted in companies fessing up to the stuff that they probably weren't going to tell us. Are you a little bit surprised about how much information has been elicited from these sort of secretive organisations?*

**Eric Mayne:**

No I am not surprised in terms of the price queries we are making, for a start because we have been in quite a volatile market, we are coming up to part of the profit reporting season. We anticipated there could be, obviously with the state of the economy and the global financial crisis, there could be variations in positions from companies. So what we sought to do was to remind them quite clearly of their obligation and therefore put them on notice that we would be monitoring it quite closely. When we issue price queries, the first trigger for that is whether or not there is a price or volume alert through our real-time alert system. There has been a reasonable number of increases in price queries, and it is largely because of the volatility and, I think, the current cycle that we are in. So I think that's not surprising. I guess I won't make any reference to your comment in terms of whether or not they were being misleading, I don't think that's the case. I think as a general rule, most listed companies are fully aware of their continuous disclosure obligations and that's reflected by the fact that most of the trading halts, and I say most in terms of 95% plus, of all trading halts that are requested are requested by the company, not initiated by ASX.

*There is one other issue that has been bubbling along. It's the length of time that some companies decide to either to have a trading halt and then an automatic suspension; are you worried about this? I mean we saw OZ Minerals disappear from the ASX for about 6 weeks?*

I think the basic premise is when we operate under a trading halt, it lasts for two days. There are exceptions in terms of capital raising where we might have a back to back trading halt to go two plus two, but upon expiry of either of those two periods the next step is that the company goes into suspension and as a general rule they will request a voluntary suspension. But both at the time that the trading halts are requested and also the time the company goes into suspension, there is a statement made to the market to provide reasons and transparency to the market as to why they have decided to take that course. And once a company is under suspension our job doesn't stop there. We constantly monitor the announcement they put out in terms of suspension or give an indication as to what their timing is likely to be, and we would be in dialogue with the company about making sure that they keep the market informed in accordance with their initial announcement, and if something transpires during the course or even before that period that we think warrants further explanation.

For example there may be some story that is produced in the media that we believe requires further explanation by the company. So we are focusing constantly in terms of making sure that the company keeps the market informed even though they are period. OZ Minerals is one of the exceptions in terms of its length. But the market can feel assured that we must satisfy ourselves that there are general reasons to allow them to remain in suspension. We wouldn't just let them stay in suspension because it was a matter of convenience for them. It is really a matter of making sure the market is informed and the market is back operating as soon as reasonably practicable.

*Just finally Rob, the 100 cents EPS seems to be in line with the consensus and yet your shares have fallen 9%. Is it all about the dividend or what's going on?*

**Robert Elstone:**

I don't comment on day-to-day movements in the share price let alone intra-day. To be honest Tony, I have been in back-to-back meetings all day and I haven't even looked at what the market has done let alone what ASX has done and I won't provide any comment on that if you don't mind.

**Patrick Durkin - Australian Financial Review.**

*I wonder if I could get a comment from both Robert and Eric about whether you expect to continue in the role of market supervisor in the way it currently exists or whether you are factoring into your analysis that there may be some change in the landscape there. And just more broadly, what your thoughts are about the prospect of increased competition?*

**Robert Elstone:**

On the first question Patrick, we look at different scenarios across our entire business. You could argue, without being facetious, that given the half we have just been through which has been by far the most tumultuous half that we have experienced, we are disproportionately focused on the status quo because it is a front-line supervisory model that we believe in, we are committed to, we apply resources to and we apply ongoing investment to. It's not really for us to comment on what the government may or may not be thinking or may or may not be wanting to do. And as that plays out, that will become a matter of public knowledge. We have got licence obligations which must be adhered to. The level of cooperation between us and both the corporate regulator ASIC and the Reserve Bank around all the market evolutionary issues of last year is absolutely first-rate in terms of coordination and dialogue.

On the second part of your question Patrick, on licences again, that is an issue for the government. All I would do is re-state our position because it continues to be misrepresented and misrepresented. We at no stage are anti-competition. What we have said and I would say it again, is that there is no evidence that's been made public that the benefits of competition outweigh the costs or the risks. And the second comment I would make is that if there is to be competition for market services then in our view, a large number of prerequisite changes to the legislative and regulatory framework would be necessary and some practical implementation issues would need to be addressed long before licenses could become operable. That is just a restatement on what's already on the public record.

*Just one question to Eric. While we have been talking, ASIC have put an update out about the Tricom matter and I am not sure if that is what you were referring to Eric, but their release they have just put out talks about how Tricom has agreed with ASIC to accept licence conditions on a number of Tricom entities. Is your investigation going to take that further?*

**Eric Mayne:**

There are two parts of our investigation Patrick. ASIC has released the condition that they are imposing or additional conditions that they are imposing on Tricom as a licensee. We are also in the same position and have imposed additional conditions on Tricom as a trading and clearing participant. Those conditions are an extension of the conditions that we imposed from the beginning of the 28 and 29 January. They are not inconsistent with what the conditions that ASIC has imposed, but we as a matter of practice don't make public what our conditions are.

*But they are separate?*

They are separate conditions and they are conditions that are imposed on Tricom as a participant on our market. ASIC's conditions will be conditions on Tricom as an AFSL licensee. The other issue that we are following which is really addressing John's question, are the disciplinary outcomes that we are pursuing in relation to the investigations we have been carrying out over the last 12 months for potential breaches of our rules. And that's still to come.

*OK so just to be clear, is there any likelihood it will result in changes to the, you know, more broadly to the listing rules or to the governance standards?*

No, well there are no changes to the listing rules. The governance standards - you mean the internal governance standards for Tricom?

*Or the ASX governance standards.*

No, it's not relevant to that. The governance standards under our Principals and Recommendations, the ASX Corporate Governance Principals, are for listed companies not market participants. And in terms of any governance requirements for market participants that is a matter of whether or not we believe there has been a breach of our rules which is a matter that would then be pursued through our disciplinary tribunal. Have I answered your question?

*Yes, thank you.*

**Robert Elstone:**

Thank you for coming and thank you for your questions.