



Edited Transcript of ASX FY 2009 Media Briefing

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Peter Smith – Financial Times

With IRESS Technologies, you have got a 20% stake, can you tell me again what's the reason that you have got the stake and might you buy a bit more of it?

Robert Elstone, Managing Director & CEO ASX Ltd:

The reason we have got it, it pre-dates me, as the stake was taken 9 years ago so I can't speak for my predecessors why it was taken. I think over the 9 years that ASX has held that investment from memory, is that it has delivered a dividend yield of about 4 to 5% per annum and it's grown in capital value about 11% compound. I think if I asked any of you would you buy that investment you'd probably jump at the chance of buying it so it's been a very successful investment for us. We think it is an exceptionally well managed, well stewarded company by Peter Dunai and his board and because it's been a successful investment in the last year we have bought a little bit more stock. It's clearly an adjacent business to what we do but beyond that I am not going to make any forward looking statement or fan the fires of speculation as to what we may or may not do. We just think it's a great business that's extremely well run.

CHI-X in Singapore has opened its first pool in the Asian Pacific. What are you doing on that foot?

Robert Elstone:

Well I think the announcements we made several months ago regarding our own market micro structure initiatives as we have called them, involved a raft of rule changes, some of which covered reintroduction of functionality that was lost at the time of the Seats to ITS technology platform change out but some of them involved introduction of new order types and the introduction of our own dark pool which goes under the trade name of Volume Match. We are just awaiting regulatory clearance so we have seen that initiative. Let me head off your next question which will be, do I think it will be successful with an answer that says I don't know but we clearly intend to have our own dark pool. I think all that will differentiate our dark pool from everybody else's is that it will be structured in a way where the execution priors can only come from our own central limit order book. In other words it can be a disintermediation of the central limit order book that we operate by our own dark pool book whereas with the other dark pools that are seeking to compete with us at the moment out there in broker land even before we get to the CHI-X SGX initiative there's a delay in post-trade posting of the pricing of which dark matches have happened and they are allowed to match at any price outside of the bid offer spread in the central limit order book. And we think therefore, that whilst ours will be a dark book to facilitate volume discovery as opposed to price discovery, it will have the virtue that volume discovery in our own dark pool will not emasculate the efficiency of the central limit order book that we operate. Whereas the broker dark books by definition, have the capacity to do that because they are not compelled to report their trades immediately after execution and they are allowed to trade at prices outside of the central limit order book (CLOB).

Tony Boyd – Business Spectator

It was a follow-up of what Peter asked of the Technology and your investment and obviously you have done well out of that. If there was an opportunity to buy into the SMARTS platform would you take that up?

I really would prefer not to answer that question because I think anything I sort of said in that space you would all jump on as a sort of intention. It's not something I have devoted any time to through the rear view mirror. I think what I do devote a lot more time to is the performance of the Smarts platform and whether it meets Eric's needs and that's a focus I know Eric has directly, but indirectly I support the review he does periodically of our satisfaction level with Smarts. We would not rule out you know, supplementing Smarts in some way if we thought it was in anyway deficient in its algorithm intelligence or

if we felt response times were not where we needed them to be in a fast moving market but it's not. I am not trying to hedge your question, it's not a thing I have given any thought to through the rear mirror. So thank you for your question, I will have a lot more thought to it going forward.

I have just got another one for Eric. This is about the referrals that you make to ASIC. Their hit rate doesn't appear to be as good as yours. Would you support the introduction of civil penalties or civil action being taken by ASIC against insider traders, market manipulators and others?

Eric Mayne, Chief Supervision Officer, ASX Markets Supervision:

Tony I would perhaps comment on your question about the hit rate. I think there is an important difference that needs to be borne in mind. When you say we have a high hit rate in terms of the number of matters we send to ASIC and that's essentially because our threshold we have to meet before we send that is a much lower threshold that ASIC has to meet before it would get the DPP comfortable with taking the matter on. Our obligation is to make a referral to ASIC where we have reasonable grounds to believe that there has been a potential breach of the insider trading provision so we have got a few indicators we look to, such as, are there related parties? Is there a connection between the party and the announcement that was made? Is there a sufficient degree of suspicion from our view to say this warrants further investigations. We don't have the powers to ask the questions that ASIC does. So that's why we have a much higher number of referrals compared to the number of successful outcomes that come from ASIC. ASIC has to convince on a matter of evidence to take to the DPP to take the matter forward. It is well-known that it is extremely difficult to get a successful prosecution up on insider trading so that does invite the question as to whether or not you can have a lower test in terms of whether or not to be more active around the civil prosecutions which ASIC has that ability to do if they want to. I think its' process or its' progress seems to be focused on the criminal side and generally if you can get successful criminal prosecution that clearly would send a much stronger message than civil prosecutions but am I in favour of having civil prosecutions in tandem with criminal, I think the answer to that is yes.

I had one other question. That was about the report of Short Sales. I think that we are not adequately informed at the moment about the level of short sales and the data that's available to the media or anyone else for that matter on a data and archive that you can search, you can see patterns emerging in certain companies and this is something that seems to be a failing.

Eric Mayne:

At the moment we give you this daily gross sale reporting and there is talk and depending on what the government regulations will be whether or not you get net sale reporting and the time delay that would be involved in relation to releasing that reporting. There is no doubt both pieces of the information, more information around the disclosure of the short selling whether its gross or net would be more informative to assist people in getting a feel for what's going on in the market, but I think also the other initiative is around the stock lending and the disclosure of the stock lending that is foreshadowed coming through the RBA and whether or not we get involved in that space. But again that's another feature, which will give more meaningful data and I think until such time as you get a combination of two or more of those you will need to be I guess, tolerant with what we have got and our daily data at the moment is significantly better than we had before we started doing that.

Robert Elstone:

The stock borrowing and lending data feed will start up in October and really that just leaves the third leg of the stool Eric said which is what form of net position reporting will be introduced really through the government legislative process. I think that's still being deliberated over by government. It's really when all three come into play as Eric said when you have gross daily net short position reporting and contemporaneously stock borrowing and lending, that's when the market will be better informed. We will be using the CHESSE depository system to provide the data on the stock borrowing and lending side including the brokers through the current tagging arrangements of tagging gross short sales to us and we are publishing them daily. The government holds the key on what form of net position reporting and who is going to be the information disseminator and I know it's something the government is well focused on.

Nathan Lynch - Complinet

Just a question about the CAMAC report and the recent recommendations that came down from that in regard to marginal lending, blackout trading and analysts briefings. It seemed to suggest that it was happy to rely on the corporate governance council principles and if they failed to be robust enough then you know something more severe like a listing rule change would be needed. What's your position on that, do you think that the corporate governance principals are going to be robust enough to deal with these issues.

Eric Mayne:

Nathan, actually the corporate governance council meets tomorrow morning to deliberate on the report and the recommendations that came out of that. The thing for the council will be to deliberate and to say well if we were to put it into the guidelines, and bearing in mind that the principles and recommendations are a flexible based system on an if not why not reporting. In other words you don't have to comply but you explain why you don't, providing you explain why you don't do it and what your alternate system with the reason you have for that decision, the underlying philosophy behind the principle. So the discussion of council tomorrow will be well if we were to put it into our principles and recommendations something around blackout trading, will it be effective in achieving what CAMAC is seeking to achieve because if it is not going to be effective then it will be a question of saying well what else is needed to support it. Will there need to be a listing rule amendment to reinforce the obligation that is in the guidelines that we currently have with for example with the audit committee composition. There is a guideline around that under the principle recommendations and that is reinforced by the listing rules to say that's a mandatory requirement so we get teeth in the supervision function to make that happen because we're insisting on compliance with the listing rules. You can't insist on compliance with the principles and recommendations other than show to the market that these companies aren't complying with what's required and then for ASX to pick up the cudgel on the listing rule they will need to look at whether or not it's an appropriate space for them to be in and again as I said they will be looking at those recommendations and that will be a decision to say well if its going to be effective, if it is, then I am sure that ASX will probably get involved in being part of that, but if not, if CAMAC suggested ultimately it will be in the form of legislation and I think everyone has a desire for these things not to be in the form of legislation. So, one might hope that either between the council and the ASX that some appropriate solution will be reached at in relation to each of those recommendations.

Another question in relation to the Tricom fine which was a pretty big event in the last few months. Under your new penalty regime the fine for those breaches would have been somewhere in the vicinity of \$4.35 million as opposed to \$1.35 million. If that were to happen again today, is the ASX ready to hand out fines of that magnitude and in fact is the market ready for those fines?

Eric Mayne:

Well it won't be ASX, it will be the Disciplinary Tribunal that hands out the fine because it is an important feature of the disciplinary structure that it is not ASX management that imposes the fine. We make the decision to put it before the Tribunal and we will have no hesitation in today's climate in taking the matter before the Tribunal regardless of what the fine might be but the Tribunal itself having regard to material before it will impose the fine and I think the message is you saw out of the circular that came out of Tricom and also the message that came from the Appeal Tribunal in the earlier State One matter was quite clear that they are concerned about mischief or misconduct that is occurring in the marketplace. They are very alive to the important place that market participants play in the whole capital market system and the trust and integrity it gives to the market. So I think you could expect that they will be equally vigilant in making sure that they impose appropriate fines having regard to the conduct that occurs. So you might assume that it could have been \$4.35 million, that's just a pure extrapolation, but it will depend on the circumstances of each case.

Bernard Kellerman - Insto Mag.

You were looking to raise some funding for your subsidiary, about \$145 million US, what's happened with that?

Robert Elstone:

We spent quite a long time, 6 or 9 months, getting regulatory and tax clearances. We have made informal soundings of prospective investors but what we have said in today's annual report is that from a pricing and particularly a covenant point of view, we don't believe that the timing is right to proceed with the financing at the present point in time. I think when we originally made this decision to look at this borrowing it was well in advance of events of last September/October. I think the work we put in will probably stand us in good stead for as and when credit markets thaw a little more from their current state. We have opted to introduce a dividend reinvestment plan in the short term and keep our powder dry not wanting to be constrained by covenants that we think could impede our flexibility. So we may look at it again in coming months but for the next few months we have opted not to proceed.

Any other questions here in Sydney. If not I will open it up to the operator.

John Durie - The Australian.

I am sorry I missed the answer to the last question but the dividend reinvestment plan - does that sort of go somewhere to replacing the debt you were going to raise, does it not?

Robert Elstone:

Well it's a coincidence of timing John because we were originally envisaging tapping the US private placement market sometime during the second half of the current calendar year. Given we have opted not to proceed with that because both the spreads in that market and the kind of covenants that are currently being demanded from investors in that market, we think would restrict our flexibility. We have opted to introduce the DRP instead. It may well be that we will revisit going back to the earlier gentleman's question, we will revisit tapping that market at a future date, but in the meantime we think earnings retention through a DRP given our register has got a high retail component to it. We are one of the few companies of the Top 50 that don't have an active DRP and it just gives capital flexibility, not only in relation to our central counter party subsidiaries but across the balance of the business. It doesn't mean that we are committed to activate the DRP for every dividend announcement that we make but in the very short term given that we have elected to stay out of the private placement market and in that context a DRP made some short-term sense to us.

So what sort of money do you think you could raise with that?

Robert Elstone:

I got that question this morning from the analysts. The short answer is I don't know until we have counted the votes but across the active DRP's of say the top 50 leading stocks, the retention ratio varies, at the low end they are 5 to 10, at the high end they are 25 to 30% retention of any given payout ratio. Given we have got a high payout ratio compared to many companies and we have got a high retail component I would expect us to be somewhere in the middle of that kind of 10 to 30% range, perhaps a little bit higher. We have announced a discount 2½% which is pretty much a mainstream discount. I think it's likely, particularly for the first time, it's likely to get reasonably strong retail investor uptake.

One more question for you and one for Eric. I was interested in your views on the private debt market in Australia and where a lot of people have been looking for the development of a much bigger corporate bond market here and I was just wondering whether you think it's feasible and what needs to be done.

Robert Elstone:

It's a good question and I think from the Prime Minister's Office down there, are a lot of people posing that question of what do we need to do with either the institutional arrangements, what could come out of the Henry Tax Review that might stimulate a corporate bond market. Clearly there is a lot of speculation going on about what changes Ken's review committee may make if any to the imputation system. So there are a lot of balls in the air that could impact but I think the level of good will and desire across both government agencies, industry associations, market practitioners, and the exchange to see a return of corporate on market with some vibrancy, is I think all the moon and the stars are aligned on this one and it may not happen over the next year or so but I think, and I am on record as saying that you know 30 years ago equity was the poor cousin of the markets. We lived in a very fixed income dominant market, that clearly changed with compulsory superannuation and dividend imputation and things may be starting to turn a little bit back in the other direction because we have governments back issuing debt in fairly large volumes, industrial entities obviously not wanting to negotiate covenants with banks that banks are now insisting on so, all the moon and stars are right for this to happen. But I suspect what will make it happen will be a combination of the unified set of views amongst policy makers and the fact that as the interest rate cycle begins to turn up as is already been foreshadowed in various quarters, the fixed income and the corporate market will appeal to more and more companies & investors. So far we have really only seen AMP and TABCORP come into that market but both issues have been very, very successful and I think it's a good foreboding trend for the next probably 5 years. I would expect you will see more action in the sort of 2 to 5 year corridor than the next 0 to 2 but I think everybody is pointing at what do we need to do to incentive arrangements to get an onshore vibrant bond market outside of the government sector itself.

One quick one for Eric please. You talked before about your hit rate against ASIC's hit rate and the Disciplinary Tribunal, do you reckon there are too many layers of regulation here like you have got you correct the data, hand it on to someone else who makes a decision or hands it back to you and it just seems there are too many fingers in the pie there?

Eric Mayne:

That's one way of looking at it. I think the way we would look at it in terms of why we value the whole process around spotting and detecting there be a disclosure breach or an incident of insider trading or market manipulation is, the reality is we just have that expertise that is close to the market and we have a flexible base system and we can react in a much quicker way I think in terms of detecting breaches. We operate very closely with ASIC, and it's not a layered system in the sense that ASIC doesn't have to wait and indeed in many cases it doesn't, for us to put pen to paper and write a report and put up a case for them to consider and decide whether they take action. We talk to them on a daily basis and if there are particular matters that we believe have got legs in terms of whether or not there is a prospect of a serious breach occurring, we will pick up the phone and say that we believe that we are onto something and they will marshal their resources straight away and so they will actually initiate their own internal mechanisms while we are continuing to work and providing the quality reporting or analysis that often ASIC looks for in terms of how we see the situation because they are reliant to the expertise we have and the value add that we have to process so while it may appear on its surface externally there are layers here, I think they are layers which do overlap to a considerable degree and operate quite efficiently.

Rob Elstone:

Adding John that on the Disciplinary Tribunal side I mean that really is a model that's got as much to do with peer review and creating an ownership so that it's a self regulation model by the market itself so when participants that have been fined heavily complain to the ASX there is not a lot of point in them doing that because its their own peers who form judgement on them, which I actually think is a stronger message in some respect than the exchange being, but I just echo what Eric said to you, there is no duplication or overlay in the sense that your question suggests.

Matthew Drummond – Australian Financial Review.

Robert I would like to ask you if you could clarify what you meant in the brief when you talked about incentives and the bias with the financial planners towards equities.

Rob Elstone:

I am not an expert in the field Matthew but, I think there has been several articles written and that the conventionally held view is that if you go back several decades now but particularly to the one where financial planners grew in number, back in the 80s, I think the incentive arrangements in terms of commission structures, and in terms of product knowledge have always favoured a lot of financial planning advice going into either vanilla equities or equity related products. Be they capital guaranteed or structured products, warrants and the like and largely because I think the commission trail for advising in the equity space is simply a richer pasture for the intermediary planner than historically it's been for fixed income products. And that just requires, as you know, time for that to change and then there would be other pieces for distributions that need be built. Clearly the equities market via the evolution of wrap platforms and the proximity of wrap platforms to financial planners has also given equities a real boost. And traditionally wrap platforms haven't had much application to fixed income products so, you have a combination of economic incentives biased towards equities but also a lot of the plumbing in a distribution sense has been equally biased towards equities. And I think over time that will change as fixed income markets and prospectively energy as an asset class, begin to emerge and we may well end up over the next 5 or 10 years with investors having a slightly more balanced service offering from both the broker community and the financial planning community when it comes to asset allocation. It doesn't mean that equities will fall out of favour or become old fashioned, it just means that you will get more asset class diversification than we have had historically during this dream run of the last few years care of compulsory super and dividend imputation. One of the implications of the global financial crisis and the coincidence of that possibly with the Henry review will be that we may get a different pattern of asset allocation occurring at both an institutional and a retail level over the next 5 to 10 years.

One more question, is it right that your market enhancements like the VolumeMatch dark pool stuck in like a holding pattern behind the license applications from CHI-X and LiquidNet?

Rob Elstone:

I don't know that to be true or false. I won't answer the question. All I do know is that we put in a package of rule changes across a number of dimensions and we see that, we don't have that complete package of amendments approved yet and that's really all I can say. We expect they will be approved, the issue is time, we prefer it to be sooner rather than later but that's not really a decision that we make, we are in the hands of government there.

I think you are expecting ASIC to consider it and make a decision beyond the calendar year, you have no idea what is causing the delay?

Rob Elstone:

Well we know ASIC set about evaluating the rule changes very thoroughly and very comprehensively and we applaud them for doing that but no we have no insight as to the timing of when the complete package of measures will get regulatory approval.

Saeed Azhar –Thomson Reuters.

I just wanted to get your sense of the activity you described in your first quarter which is July to August, how sustainable are these volumes in the cash market as well as on the derivative market?

Unfortunately I am sorry you are asking me an impossible question. We operate the market, we don't forecast market activity. My comment this morning was the growth trajectory of the April to June quarter appears not only to have carried through in the July to mid August period but it appears to be uplifting a little further in both the equities market and the futures market but as to its sustainability you are really asking me to forecast where is the index going to be in 3 months time and I am not really in that business I am afraid.

What I am trying to ask you is the traded value of \$4.8 billion dollars, how do you compare that looking at your historical traded value?

Rob Elstone:

Well the average peaked on traded value prior to the global financial crisis, the average peaked at about \$6.2 billion so if, depending upon whenever things return to normal, assuming that's going to happen, asking me when will \$4.8b get back to \$6.2b, the answer is I don't know. Hopefully quickly but I don't know, but the average daily was \$6.2b and from memory that average peak was prior to events to September/October last year.

Lucy Battersby - The Age

You may have already touched on it, we were wondering if you had any indication from the new minister on where he stands on the issue of competing market license applications.

Robert Elstone:

No indication from him.

OK I also had another question about the doubtful debts in the figures. It says here expecting \$925,000 this year, I was wondering what they were from.

Robert Elstone:

To be honest Lucy the number is so small, I wouldn't follow or be able to quote it to you but it's not out of wack with what our historic accrual has been for debt recovery. I know one small part of it is relating to pre-paid annual listing fees which the receiver is seeking to recover but I don't think that qualifies as a bad debt, it was just a prepayment on something that is now owing to a receiver but beyond that if you netted that sum out it is running out at normal levels and its not something I would normally be across or be able to comment on I am afraid.

Because last year it was only \$43,000.

Robert Elstone:

Well in that case there must be something other than Babcock and Brown prepaid listing fees that I am unaware of so I am sorry I can't give you an answer.

OK and another question was on government bonds and whether there was much talk of whether they will be available at a retail level in the future.

Robert Elstone:

Yes obviously there has been a lot of media speculation as to the desirability of government bonds being distributed. I mean historically, they have only been distributed through whole sale distribution mechanisms of broker dealers buying them and then distributing them to their end users mainly Asian central banks but clearly given the size of the borrowing profile coming out of the Federal Government at the moment there are a lot of incentives for the government to diversity distribution into the retail market

and we along with other partners are trying to assist the AOFM to identify what those sensible distribution methods might look like given that they have also restarted reissuing treasury notes, they intend to issue treasury index bonds and obviously they have made noises about Aussie bond issuance coming out of the national broadband network rollout whenever that happens. So with that kind of fixed income product proliferation coming out of the government they are extremely conscious of the desirability of widening their distribution into retail investors hands. It won't be a fast process. It's not going to take 6 or 9 months to happen. It could take 1, 2 or 3 years but again a little bit like the corporate bond market question John Durie was asking me 10 minutes ago, I think the moon and the stars are aligned on this. Everybody believes in the desirability of widening the distribution into the hands of the government securities, it's just a question of how that is done, but I think it will be done.

And one last question on other revenue, is that completely comprised of the late settlement fees?

Robert Elstone:

No it's not. It is really a miscellaneous account. Probably historically the dominant portion of other revenue has been fail fine fees and that number has been dramatically falling as a consequence of the initiatives, some of which Eric alluded to, that have been introduced since the Tricom delayed settlement issue last year. As I said in the analysts presentation this morning, even prior to that Tricom incident, Australian equity settlement was operating at world class levels in terms of failure rates. The numbers now are extremely low and that's why we are gathering even lower fail fee revenue and from the exchange's point of view we would like the revenue to be zero because it would reflect on much lower risk profile setting in the settlement system.

Patrick Durkin - Australian Financial Review:

Thanks gentleman just quickly for Eric, I know you have touched on this already but I was slightly surprised that the total ASIC referrals fell a little bit in the financial year given a lot of the volatility occurred in the stock market in the second half of last year. And also given on my calculations that ASX price queries increased from something like 447 to 600 so I am just wondering, and I know you said you had a low threshold but I wonder how you have such an increase in price queries but fall in ASIC referrals.

Eric Mayne:

I think Patrick, the total referrals referred to 88 and now I think from memory, last year was about 92. So therefore, I think they are comparable but the number of insider trading referrals year on year I think, was slightly up. What has gone down is the number of market manipulation referrals and again that's consistent with the change in the way in which the market was operating in FY09. In the first half of FY09 there was a fair slice of that but when we moved into the first half of this financial year with capital raising and M&A activity that tends to be consistent with past behaviour. There seems to be more activity around potential insider trading rather than market manipulation. And I think for the last quarter of FY09 we had zero market manipulation referrals to ASIC which gives you an indication of again the change in market activity and so I think whilst there is, it's only marginally lower than last year and the number of continuous disclosures were around about the same. So I was reasonably comfortable that there are no gaps in the way in which we were approaching things or in our diligence in covering necessary areas.

And just lastly Eric, I noted the national guarantee compensation fund continued to grow from I think \$101 million to \$ 105 and in your last report there hadn't been a claim for 2 years, I just wondered whether the rules around that need to be examined because it just seems extraordinary to go through a crisis like this one and to have that pot continue to grow.

Robert Elstone:

I think Patrick the only reason the pot is growing is that no claims have been made that meet the eligibility criteria for the claim to be paid. It's almost that simple. I mean it's probably a benefit that the fund continues to grow in size because if contingent claims ever got to a material level then the larger the fund the more money there is to support them but through the rear view mirror the fact that there has been no credible claims made I don't attribute any particular significance to that.

There are no further questions.