



Edited Transcript of ASX FY 2011 Media Briefing

18 August 2011

Robert Elstone - Managing Director and CEO, ASX Ltd:

Let me welcome those in the ASX building and those of you listening on the telephone for the results of the year ending 30 June 2011 briefing. This morning we released to the market a complete set of results materials including our entire annual report, and all of those documents are available on the ASX website.

Joining me on my left is my deputy Peter Hiom. Between the two of us we would like to go through some of the financial and operational highlights from the full year results, and then open it up for questions hopefully from people here in Sydney as well as those listening to this briefing on the line.

I think the rules of the process are that if you ask questions after our presentations please just speak into the microphone if you are here in Sydney (staff will make them available to you) and just tell us our name and organisation so that we can make an accurate transcript of these proceedings and make that transcript available on our website.

So without further ado I will refer you to the slide pack that's been made available to you, particularly page 4, once you have gone through the disclaimer pages, page 4 of that pack headed Financial Highlights FY11.

Underlying net profit after tax of \$356.6 million is up 7.2% on the prior year. Statutory net profit after tax is very close to that of \$352.3 million, up 7.4% year on year. Composition of that outcome was operating revenue excluding interest and dividends of \$617.6 million which was up 5%, cash operating expenses of \$135.5 million up a modest 1%, underlying earnings per share of 204 cents per share up 5.7% year on year, and off the statutory accounts, statutory earnings per share of 201.6 cents per share, up 5.9%. The end game of that financial year was a final dividend of 93 cents per share fully franked, bringing the full year dividend up 5.8% to 183.2 cents per share.

We have obviously released a very comprehensive annual report including all of our statutory financial statements and accompanying notes. We can't possibly do justice to that document in the 20 minute briefing session but we will do our best to give you a high level overview of the results, particularly with Peter providing commentary on some of the business initiatives, both backward looking and forward looking.

I have described in my written remarks to shareholders, earlier this morning, looking at the year in review, as a strong financial, operational and compliance performance across the Group during a period of very mixed economic indicators domestically. And obviously even prior to events of the last fortnight or so there was plenty of evidence of global investor concerns over European public debt contagion and the scale of the US deficit reduction challenge and what that might mean for US growth rates.

It was also a year where yet again, I think for the fifth year running, we have managed to contain our own operating expenditures and show good restraint. Equally I made the point earlier this morning that we have had close to 100% availability of our systems in the year to 30 June. As far as capital expenditure is concerned, while that lifted during the year to approximately \$50 million, \$25 million of that was earmarked for the new data centre which is on the lower north shore, another \$9 million was spent on investing in both the new cash markets and futures markets ASX trade and ASX Trade 24 technology platforms, and the remainder was really allocated into expanding and improving on our various service offerings, which sequences nicely for me to introduce Peter's comments to talk to you about the business initiatives.

Peter Hiom – Deputy CEO, ASX Ltd:

Thanks Rob and good afternoon everyone. As Rob mentioned we have released an annual report in which much of the detail I will touch on is contained, but I just wanted to start by just making an observation around the evolution of ASX - as it's been over the last two to three years - and as it will become in the next little while. Really moving from a one size fits all bundled service offering, offering fee models to all customers that are at the same functionality that is accessible to all customers that looks much the same. Predominantly transaction based so making money out of trading, clearing and settlement transactions but underpinned by history of innovation.

Now whilst all of that innovation remains true today, I think if you look at our trade execution business and what we have been undertaking in the last two years or so, which is now coming to fruition with the commencement of competition, we have been spending much of our time unbundling our service offering, providing a trade execution service that is specific to particular types of customers, providing a different fee structure for those customers, so tailoring those service offerings. And we are also looking at new service offerings, and I will touch upon some of those in our trade execution business in a second.

So we are looking for new opportunities all the time which will present with themselves new business models for us that will not necessary be transaction based, albeit transactions remain the heartland of who we are. And with that of course comes accelerated development of trading platforms and technology more generally, which means minor enhancements to the platform much more frequently as we seek to enhance the offering to different customers and more frequent major upgrades to support the transaction growth in the market. No better example of that than we have seen in the last couple of weeks where the industrial logic of the transaction, the trade execution platform change out that we undertook last October, is evident. And with that comes, of course, a much more complicated changed management environment, not just for us but for our customers, for regulators and other stakeholders as that environment changes over time.

So just with those opening comments I will just briefly go through each of our business lines, starting with the listings business. Thinking about those themes, we have been developing new investor relations services and have implemented some of those this year, and that will continue going forward. We have been refining the listing rules particularly around the reporting regime for mining, oil and gas and geothermal companies and so I think when we look forward we will continue to expand those investor relation services I mentioned.

We will be looking to create further efficiencies for our listed companies around their reporting requirements to us and importantly as we start to turn our minds away from the top 200, and the environment within which those securities trade in a competitive landscape, thinking about outside the top 200 listing and trading environment. And that's not code for a second board, but it is code for a variation of rules whether they are listing rules or

whether they are rules that govern the trade execution environment for those securities, again recognising that the requirements of our listed entities vary depending on the size of those companies. And even getting to the point of offering quotations services for securities that aren't even listed on ASX but may be securities which our investor base would like to have access to.

I move onto the trade execution business, obviously I mentioned our new trading platform that was implemented last October. We have also been implementing a dark fibre high capacity network called ASX Net. That's been fully implemented and we have been distributing more and more of our own services across that network. We have appointed Fidessa which is a globally renowned software provider to help us deliver our smart order routing service offering, again a step out offering for ASX called ASX Best. The data centre Rob mentioned is progressing satisfactorily towards November this year and our sales efforts in those regards are progressing satisfactorily. And in terms of commencement of competition for market services in October this year, we have been progressing the necessary functional and product changes required for us to continue to comply with our obligations as a market operator in that environment.

I think, looking forward, you can expect us to be expanding the services we offer within that data centre. You can see us launching our own high frequency trader execution platform called PureMatch later this year. ASX Best will be implemented and our first customers we anticipate to have on-stream by the end of this calendar year.

The change management process of functionality I referenced earlier, that's only going to continue, albeit I think ASIC is taking a very sensible approach towards the implementation of competition. That will be something they will be taking a close look at in terms of how new functionality is brought to market and how our customers cope with that change. And Rob will mention some comments around derivative products generally a little later, but there is certainly a pipeline of new derivative products we are seeking to list over the next 12 months.

I have mentioned in previous briefings the general shift towards clearing and settlement for ASX as an area of focus. And I think we are now starting to see some of the initiatives that we have been undertaking coming to fruition, one of those being signing Chi-X to our Trade Acceptance Service so Chi-X will be utilising our clearing services. They have signed a five year agreement with us for that purpose. And the Council of Financial Regulators has also announced its intention to consult on the centralised clearing of OTC [over the counter] interest rates swaps which, pending the outcome of that consultation process, clearly ASX is well positioned to provide that service to complement our well progressed offering on OTC equity derivatives. But that's just the start of it for clearing and settlement really for ASX. Beyond that I think you will again see us seek to tailor our service offering. So we will be looking to distinguish between the service offering to a high frequency trader, whose requirements are quite different from a long-only fund manager, and that is something we will look to implement over the next 12 months. We will continue to enhance our risk management and margining capabilities, we will be expanding our settlement services, particularly around corporate actions. And I think there are emerging opportunities around collateral management and securities lending, that are important initiatives for ASX to seek to provide, that are outside of that traditional transactional business that perhaps has been associated with ASX in the past.

So I will pass back to Rob.

Robert Elstone - Managing Director and CEO, ASX Ltd:

Thanks Peter. I will just wrap up with some comments really about events of the last six or seven weeks and the post balance state of events since 30 June. It's obviously been a very eventful period, both here in Australia and overseas.

Internationally first, I think obviously the European public debt refinancing pressures have intensified over recent weeks and haven't obviously been confined to Greece. We had the build-up of uncertainty linked to the target date for the US debt ceiling lifting and that generated its own uncertainty. Even though that has now passed we have obviously seen a subsequent S&P downgrading of US sovereign debt so that's led, or contributed to, downward revisions in US growth rates and a generally gloomier outlook over the next 12 months as far as most foreign markets are concerned.

The index movement since 30 June over the last six or seven weeks: the S&P has fallen 9.7%, the FTSE has fallen 9.9%, the German DAQ has fallen 18.7%, Singapore Straits Times index has fallen 7.6%, the Japanese index has fallen 7.2% and the Hong Kong index is down 9.8%. So fairly uniform, within a band of seven to high teens, has been the falloff in equity prices in the last six weeks. But obviously that accelerated in the past fortnight.

Here in Australia our own index is down 7.4% since 30 June. We have increasing volatility in Australian equities, which has largely been led by a lack of investor confidence offshore. We have had very, very divergent indicators regarding the cash rate trend, and we seem to have divided economic camps between groups of economists that think the next move is down and other groups that think it's up. As a market operator I commented this morning we love that divergence because when you get divergent views you tend to get particularly active derivative markets and that's exactly what we have seen really in the whole six or seven week period since 30 June. I quoted stats in the analysts briefing this morning which I will re-quote here, that cash markets equities average daily value traded, at 5.7 billion, is up 20% on the same six week period last year, albeit July was relatively subdued but August has been obviously colossal given global volatility. The ASX 24 derivatives platform, so our futures and options platform, has been particularly active for the whole of the six or seven weeks since we closed the books. Our average daily volume on that platform is running about 521,000 contracts a day which is up a staggering 85% largely on the back of strong commodity markets. A lot of carry trade activity has since unwound as a consequence largely of central bank interventions, particularly in Japan and Switzerland. And our stock options and index derivative market is up to a daily average of 135,000 which, again by comparison with the same six weeks last year, is up close to 80%. So you can see that the derivatives markets have been very strong for the whole six weeks whereas equities have been strong for all the wrong reasons in the last fortnight or so.

On capital raising activity, the pipeline of new companies listing, we listed 10 new companies in the month of July compared to 13 in the same month last year, so not a lot of change there. And secondary capital issuance of \$3 billion raised in July this year compared to \$2.5 billion for last year. So again, there is not a lot of change in listing or capital raising activity.

I closed this morning's session, and close this one, with a reference and I see I have been misquoted in one media article already where I used Qantas as an analogy - not as a criticism of Qantas. I commented that during the period of recent market volatility where we have seen trading records broken in just about every product in the

last 10 days, our technology platforms, systems and processes have provided a completely uninterrupted service. The analogy I was using this morning was there are not many businesses where the customers can throw 100% increases in traffic volume with expectations that the service provider can just meet those volumes. So I will just correct that I wasn't having a go at Qantas, I was just using it as an analogy that if twice the number of people turn up to get on airplanes that they expect airplanes to be there, and that's the expectation that our market participants have of us.

So we are particularly pleased that during that fortnight or so of remarkable volatility, our systems held up well. That concludes, really, our prepared remarks which are a cut down version of what we said to the analyst community this morning.

Sue Lannin - ABC Lateline Business:

How long do you see this sharemarket volatility going on?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think David Murray has talked about a decade or two, hasn't he? It will take 20 years for the shake-out of this? I won't profess to echo that. It's almost impossible to see it being short lived largely because we have a world of rising commodity prices, rising food prices and an awful start in indebtedness in public financing in most of the developed world. So cost pressures on both agri-products and energy and raw material products are unlikely to abate unless the world goes into a serious recession/depression, which I don't think is likely, so I suspect it's at least got one to three years of life.

Volatility, as I think David Murray has said publicly, and others, is probably going to be the new norm and people will have to adjust to that because it's obviously a function of systemically rising energy and food prices coinciding with very weak fiscal positions in most of the advanced developed economies. Neither of those is likely to change anytime soon, so I am not predicting that markets will be in the doldrums for that period of time, but I think they will be volatile for that period of time at a minimum.

Ky Chow - Sky News Business:

So Robert, when you say you see the volatility continuing for one to three years, what level of volatility specifically are you referring to, what we saw seven or eight days ago or . . . ?

Robert Elstone - Managing Director & CEO, ASX Ltd:

The interesting thing is if you look at the average measures of volatility during the year we have just reported on, so the year 1 July 2010 to June 30 2011, volatility was not at historic lows but very close to historic averages. It's really been events of the last fortnight or so which have been much more akin to what we saw back in 2008.

My response to this lady's [Sue Lannin's] earlier question, was not a prediction that the volatility will only last one to three years, it was a prediction that says I think it's going to last at least one to three years. Whether it will be as dramatic as what we have seen in the last fortnight, I mean I have no particular insight, that by, or any standards, or what we saw in 2008 were right up there with one in 20 year type metrics, and hopefully we won't see that again.

But I think predicting volatility is a negative sum game, and I wouldn't like to predict the degree of volatility that we will see. But most of the things that will drive it will be fear and anxiety and lack of confidence, and there appears

to be no shortage of that - thankfully predominantly offshore to Australia - and our politicians and regulators I think are making the correct reassuring noises that clearly our fortunes, at least for the immediate term, are a little bit brighter than most of our overseas markets compatriots. But, as the last fortnight has shown, we very much, most days of the week, take our lead from that sentiment in offshore markets.

Ky Chow - Sky News Business:

And just another question. You mentioned that confidence and sentiment is a large driver of that, but you also mentioned public indebtedness and cost pressures so which of those would you think is the dominant driver of the volatility?

Robert Elstone - Managing Director and CEO, ASX Ltd:

Look, I think in corporate earnings generally, if you look at reporting season in the US, Europe and here, I haven't seen the latest stats on disappointments versus those that have beat expectations, but I don't have a general sense that corporate earnings are the problem. I think it is more the fear factor attributable how low will slowing growth rates get to and, going back to this lady's [Sue Lannin's] question, how long will that slower growth last? So at the moment you have got, even in the economies where economists are troubled about the prospect of slowing growth, corporate earnings that are holding up.

Most of the problem areas are seen really in public finance and the degree of low capitalisation of banks and the stability of banking systems in countries where governments don't have many policy levers to pull, because they are at very high levels of start indebtedness.

So I think the fear factor associated with either financial defaults, be they public or private in the banking system, is probably as we saw in 2008 the biggest single driver of a global view that global financial risks are not receding, if anything they are greater now that they were 12 months ago.

Ky Chow - Sky News Business:

And one more if I may? Robert you have mentioned the growth of derivatives and, for example, exchange traded funds, are amongst those obviously as being areas of focus for the ASX. They also seem to be areas of focus for ASIC's new head, Greg Medcraft. He has singled out ETFs [exchange traded funds] and derivatives as a concern. Do you see some issues there developing, I suppose, if ASIC is honing in on the very things that the ASX is hoping to grow in?

Robert Elstone - Managing Director & CEO, ASX Ltd:

No I don't. First of all I applaud his statements because if you read his statements carefully he is referring to very specific types of derivatives. Greg has been on the public record for some years now that he has been at ASIC, in relation to the contract for difference markets, and I think he is joining a throng of global regulators expressing concerns about exchange traded funds where there is a very high synthetic component to the construction of the underlying ETF.

If you look at our strong derivatives performance, it's in absolutely globally recognised highly liquid index derivatives or interest rate derivatives. So you just need to be careful not to tarnish or brand all derivatives as risky. They can be if they are not well managed by the parties undertaking derivative activity, or if they are not well supervised by regulators. But I don't draw the bow you are drawing, Ky, being our strong derivatives growth is in some way being targeted by the regulator. If you look carefully at Greg's statements, he is making very sensible

statements particularly with his retail investor protection hat on, about the slightly more exotic or leveraged derivatives which retail investors need to be very, very careful how, and the extent to which, they get exposed to them. Not many retail investor's trade index derivatives or interest rate derivatives. They are more for the professional wholesale market.

Shani Raja - Bloomberg News:

I just wanted to ask how many exchange operators, in terms of competitors, do you think the Australian market can support?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I got this question earlier today and I will try to be consistent with my answer in case you go and check how I answered that question. I think across the value chain that Peter has talked about whether its listings, trade execution or clearing and settlement we are not unaware or in denial about the possibility of competition in other segments of our business. But I did say this morning that whilst a lot is getting written in general media or in industry journals about the inevitability of competition for market services across the entire value chain, you have got to apply a degree of high discount rate to that because of the scale of the market. It's one thing to keep quoting what's happened in Europe and what's happened in the United States but those markets are substantially larger scale markets than the Australian market. So whilst we are alive, I think alert but not alarmed to use the vernacular, on the need to change our business models and change our service offering along the lines that Peter has talked about, we think we are well placed to compete across our entire value chain. And if too many come in there will be tears before bedtime because I don't think the market has the scale to support what a lot of the journals and media are actually writing about.

Shani Raja - Bloomberg News:

What proportion of your revenues do you think are potentially vulnerable to competitors?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Well the revenue breakdown provided in our income statement I think would tell you if you look at the cash markets, predominantly equity markets, trade execution is about 10 to 11% of our revenue. So that's the initial area that is exposed. At the moment there's no obvious threat of listings competition and whilst people are talking about clearing competition, and I am not predicting for a moment that that will or won't happen, but there are certain vagaries or unique factors in the Australian market that would suggest it's not likely to support multiple clearing house competitors to the ones that we already operate. So for now it's about 10% of our revenue that is at risk. And I think Peter made the comment this morning that we have already started to grow other revenue lines to substitute for that downside risk on trade execution revenue in equities.

Shani Raja - Bloomberg News:

Is there anything at all that you could tell us about who might replace you as CEO and whether that person is ...?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Well the short answer is no and the long answer is refer to the short answer I think. So nice try.

Shani Raja - Bloomberg News:

Have you decided already, has it been decided?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I am not privy to the process and that's one judgement I have opted out of.

Sue Lannin - Lateline Business:

Just going back to the question about ASIC and contracts for difference. The ASX has done a lot of promotion of contracts for difference. You have got information, part of your website is information and ASX courses, in retrospect did you promote contracts for difference too heavily, just given the risks to retail investors?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I will let Peter talk to that one because I think an exchange traded CFD [contract for difference] offering is a very different offering to an over the counter market offering which is principally what the chairman of ASIC's remarks have been targeted at. But do you want to have a go at that one?

Peter Hiom – Deputy CEO, ASX Ltd:

I think that's the main point. And I think some of the issues that have been highlighted have been the propensity for those over the counter CFDs to be described as if they are shares. In fact much of the documentation you will find, if you care to go and look at OTC offerings, will be phrasing like 'It's just the same as trading shares except you don't have to put up the full value of the shares', which of course is far from the truth because you don't get any voting rights and you don't actually get any dividends and there are a number of other things that are just not the same as shares. So we have never represented CFDs to be anything other than a leveraged product.

The difference between an over the counter and an exchange traded CFD is that one is centrally cleared and offered in all cases through a licensed broker - where the investor has access to the ASX fidelity fund which guarantees against fraudulent activity on the part of the broker. That's the ASX offering. The other one is none of those things. So again back to Rob's point around tarring everything with the same brush.

Certainly CFDs aren't for everyone, whether they are exchange traded or not, but certainly there are certain minimum standards that we would always apply to products that we offer that we certainly don't think are being applied in the over the counter space.

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think just to round that off, I think Ky's question about ETFs and concerns regulators around the world have had about ETFs, again we have made sure that our own listed ETF offering we imply or we impose constraints. And those ETFs are subject to ASIC review via a rule of approval process before they can be listed here. And we have been at pains to perhaps not follow the lead of some of the much larger offshore ETF markets which have listed ETFs with higher synthetic underlying assets than real physical or commodity assets in the index. So again you just need to be a little bit careful about tarring everyone with the same brush.

(Off mike) Ky Chow - Sky News Business:

So the concern is not about having ...even if it is a real asset like a commodity, ... not going to be as liquid as how easy it is to trade ...

Robert Elstone - Managing Director & CEO, ASX Ltd:

Ky it's all subject to the index composition and as long as the underlying index is either relatively diversified or supported by a deeply liquid underlying commodity or physical asset, ETFs are a highly effective way of getting

lost cost diversification. It's only when there is something wrong with the index composition or there is too much index weight allowed to be given by the regular to non-physical non-underlying assets, where you will tend to get heightened risk associated with the exchange traded funds.

Sue Lannin - Lateline Business:

If I could just follow up on the CFDs. Is there a case that they should be banned for sale to retail investors, whether they are over the counter or ASX listed? Because from what ASIC said last week as many investors don't understand and they even had complaints of 'why aren't we getting dividends?' So is there a real problem there with people is that they don't understand what they are buying when they buy CFDs?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think it's for the regulator to make that judgement and I think the regulator is obviously on the record on several occasions around the adequacy of disclosure, making sure that customers do understand the risk they are exposed to if they trade those instruments. And I think we will simply restate that there is a world of difference between an exchange traded offering and an over the counter offering. The market structure is very, very different between the two.

Heidi, Neue Zuercher Zeitung, Zurich:

I would like to ask a question about the deal which failed with Singapore Exchange. Do you see other realistic alternatives to this failed deal today?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Well there is a universe of potential alternative partners or combinations, and that universe is a matter of public knowledge. You know who the other exchanges are. I think earlier today Hong Kong has announced some form of hook-up with the Shenzhen and the Shanghai exchanges, so the universe of other potential combination partners is on the public record. You know who they are and I don't think I will comment on, in the aftermath of the attempt with Singapore, which one of those ASX might combine with in the future.

The board is already on the record as saying in the immediate aftermath of the Treasurer's decision that ASX simply must participate in regional and global consolidation and I don't think that view has changed since we made that statement back in early April.

Robert Elstone - Managing Director & CEO, ASX Ltd:

So if that is all from Sydney, we have four or five correspondents on the line, please go ahead.

Nathan Lynch - Thomson Reuters:

In relation to HFT [High Frequency Trading], it would be fascinating to hear what you are doing to court high frequency traders in the lead up to competition with the Liquidity Centre and Pure Match and those initiatives. In recent weeks there have been suggestions that HFT has compounded volatility, and that will be a trend going forwards now that HFT constitutes about a quarter of trading on your market. There have been people, like long only fund managers, who have said this is driving them away from central limit order book towards dark pools and internalisers. Do you see that as a sort of a conflict that ASIC needs to manage? And if so, how do you propose to manage that going forward in terms of the balance of HFT trading?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I don't see it in terms of conflict of interest because we haven't made the decision to make the market structure what it is about to become. That decision has been taken by the government based on advice from the corporate regulator. Once that decision has been made, and it was made several months ago, we simply have to respond to whatever the government wants the market structure to be. So far from seeing it, Nathan, as a 'how are we going to manage a conflict?' we will respond as a commercial enterprise to what the government wants the market structure to be. And it's the government that wants to attract high frequency trading into Australia. If it didn't want to do that it wouldn't be issuing new licenses to exchanges that specifically have that business model targeted at that section of the investment community.

So I don't see it in management of conflict terms at all. I see it as us endeavouring to be a one stop shop, offering products and services that have relevance to every segment of the investment community, be it retail, be it long-only, be it low latency, high frequency trading. I also think the growing percentage of algorithmic trade execution is unlikely to be reversed. So I think in a lot of this debate there are obviously two corners to the ring as far as there are large sections of the investment community which are very pro high frequency trading and there are large sections which are very anti. I guess it's for the history books to determine which of those is the more accurate view.

Nathan Lynch - Thomson Reuters:

And one quick follow-up question, in relation to the new ASIC market disciplinary panel, since that started up we have seen very little activity there. I think there has only been one penalty handed down. Given that you, you know the tribunal, has handed that over largely to ASIC, are you confident that ASIC is being active enough in that area to police your market.

Robert Elstone - Managing Director & CEO, ASX Ltd:

I have no line of sight on whether it is or whether it isn't and even if I did I wouldn't make any derogatory or pejorative remarks about the corporate regulator. I think they have got a very difficult job on their hands and I am sure they do it to the level best of their ability.

Richard Gluyas - The Australian:

I was wondering if you might be able to expand a bit on the derivatives growth and just talk about where that growth is coming from and who are actually buying these contracts and why? And is the kind of growth that we are seeing over the last year sustainable? And we are not talking about the recent six weeks of extreme volatility. And secondly, I was just wondering with your performance on costs, which was quite strong, if that partly reflected the fact the supervision role had gone to ASIC, and those people are now no longer part of your numbers?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I will knock the second one over first. No there is no effect because the cost savings we made from the transfer of 20 or so staff across to ASIC, we had a supervision levy re-imposed on us. So we didn't get any net cost gain out of that transfer. So our cost performance in that sense I am pleased to say is as pure as the driven snow so what you see is what it is.

On the derivatives growth, I think in my written commentary in my section of the annual report, going to the very nice way you have positioned the question: putting aside the somewhat unusual events of the last six weeks, if you look at what drove derivatives growth in the 12 month period to 30 June, in particular interest rate derivatives

which were the lion's share of the derivatives growth, it was really a combination of we had a lot of, it was the year of man-made, some natural and some man-made disasters. Obviously we have seen everything from Queensland floods to Japanese and New Zealand earthquakes and tsunami in the case of Japan. We have seen rising food and commodity prices, as I responded to a colleague's question here earlier, and we have seen very wide persistent interest rate differentials between the continuing low interest rate policies being deployed by European and US central banks compared to our own here in Australia. And that has provided, let's call it the perfect storm, for particular interest rate derivative trading activity on the back of very strong forward currency market carry trade activity, where people have basically been, global investors have been, speculating on the back of strong commodity prices by investing in low coupon or low interest rate currencies and speculating on derivatives markets. That came to a bit of an abrupt halt 10 days ago with some Bank of Switzerland and Bank of Japan intervention which blew those trades up and we have seen some slowing down in our interest rate derivative volumes.

But really Richard it was the combination of three or four very large macro natural events superimposed with the turmoil in the Middle East at the start of our second half, then superimposed by the late in the financial year global investor concerns around the US debt ceiling and European public debt contagion. So if we could have dreamed all this up 12 months ago, it's the perfect set of circumstances for derivative markets to have a very good year because of volatility and divergent expectations on courses of interest rates and commodity prices.

So they are all the things that drove it until 30 June. The last two weeks has clearly just been driven by a degree of panic and fear and people try to cover positions that they had previously entered into, either cover them or unwind them. So I would expect the derivative volumes to not be sustained at the kind of levels we have seen in the first six weeks of the financial year. In fact I was urging analysts with their models earlier this morning not to add July and August together and multiply them by six and predict that that is a derivatives growth profile for next year. Having said that, I suspect our derivatives businesses will stay very strong for a long time to come.

Richard Gluyas - The Australian:

Can I just clarify who is actually buying the contracts mostly? They are what? Institutions? Banks? That kind of thing?

Robert Elstone - Managing Director & CEO, ASX Ltd:

On the interest rate derivatives side it will be a combination. Shorter derivatives tended to be dominated by banks dealing on principal account proprietary trading. Longer dated contracts are more favoured by global hedge funds that are looking at cross border price correlation between economies and asset classes within those economies. Domestically, there has been a heavy offshore component to the past 12 months, but even domestically we have had this onshore divergence of rate expectations particularly in the last quarter of the financial year with economists starting to become much more divergent in their views about the future course of interest rates. And that's obviously helped drive interest rate volumes because they tend to be stronger when there is a lack of unified views about the next move.

Tony Boyd – AFR:

I just wanted to ask you two things. First of all the CBOE [Chicago Board Options Exchange] or VIX [Volatility] index is you know it's a wonderful way for people to trade volatility in the futures markets. I wonder if the ASX would consider perhaps producing a contract like that?

Peter Hiom - Deputy CEO, ASX Ltd:

Tony, its Peter here. The short answer to that question is: it's in the pipeline of those new derivative contracts I referenced earlier. So yes you are right, we agree and we will be launching an Australian equivalent of that in the coming months.

Robert Elstone - Managing Director & CEO, ASX Ltd:

We would have loved to have had it listed in the last two weeks, Tony.

Tony Boyd – AFR:

Yes. Just to follow up about the SGX [Singapore Exchange Ltd] and the smorgasbord of opportunities that you have got in the future. If I look at the Treasurer's statement that came out when he rejected the takeover, he said that the way the system was structured at the moment was fine but they were worried about a holding company being in Singapore. And I just wonder is any of those options you have limited by the fact that the Council of Financial Regulators doesn't seem to have done much at all in the way of giving us greater clarity about what can and can't be owned offshore?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think the permutations around our participation in consolidation obviously fall into two categories; those where as a consequence of market parameters at the time ASX is the party that's acquired as opposed to ASX is the acquiring party.

It just happened as an accident of the timing of Singapore's approach to us that the PE differentials meant that ASX in that instance was the target. But most of the Treasurer's comments in his 8 April release wouldn't have much application if ASX was the acquiring entity. And whether that's 50% of the opportunities out there I won't comment on. So there is that part of the response. On your other specific part, you are absolutely right. We haven't had much clarity yet as to what were the concerns. We suspect, or we deduce from the website comments of Treasury and the Council of Financial Regulators, that the concerns really stemmed from gaps in the regulatory powers that currently exist under the Corps Law in Australia involving the onshore regulator's ability to step in to systemically significant clearing and settlement facility. And we think those gaps are relatively easily addressed so that Australia's sovereign interest could be well protected. But I think that's for the next few months to clarify one way or the other. But we have no particular insight that we can give you Tony.

Tony Boyd – AFR:

Oh OK. So I think the Treasurer said that he would be, you know, addressing this and I just wondered do you know if there is any progress being made?

Robert Elstone - Managing Director & CEO, ASX Ltd:

We know of no progress that is being made.

Vesna Poljak – AFR:

Is the succession for the next Chief Executive being led by the chairman or is there a sub-committee that has been formed to look after this?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Well, it's being led by the Chairman. There is a sub-committee and the whole Board is involved. So I think all three.

Vesna Poljak – AFR:

Except yourself, I understand, based on your previous comments?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Correct. Yes I am happy to be disqualified.

Vesna Poljak – AFR:

And is it considering both external and internal candidates?

Robert Elstone - Managing Director & CEO, ASX Ltd:

No, it's done a worldwide search and I think Peter's position was made clear to the Board that he was not nominating himself for involvement. So it will be an external appointment.

Ross Kelly - Dow Jones:

Most of my questions have been asked but can I just check whether or not you are having any, or anyone from ASX is having any, discussions at the moment with any other exchanges about potential merges?

Robert Elstone - Managing Director & CEO, ASX Ltd:

Look I simply repeat what I said leading up the announcement of the Singapore deal, that certainly at my level we talk all the time to our counterparts around the world on a wide range of subjects. If your question is: 'are we currently in dialogue with a view to making announcement?' Most definitely not.

Patrick Durkin – AFR:

I know you have touched on algorithmic and high frequency trading, but just specifically I wanted to ask do you believe that the growth of that form of trading algorithmic and high frequency trading has contributed to this new norm of market volatility, as you call it. I mean, to my mind given the levels of trading it now makes up, it must have a substantial market when we see movements in that form of very fast trading.

Robert Elstone - Managing Director & CEO, ASX Ltd:

I think to attribute every instance of market volatility to high frequency trading would be a giant leap of explanation. I think that's really all I can say beyond my response to the earlier question that this issue of high frequency trading is an issue of government policy. It is not an issue for the ASX. The government has determined that it wants to attract high frequency trading liquidity into Australia and it has done that via its in principle commitment to grant Chi-X a license. And Chi-X which will be, I am sure, a fine market operator but it is dedicated largely towards attracting high frequency traders into the Australian market. So I am not dodging the question, but I don't believe it's actually a question for ASX. It is a matter for government and the government has opined that it wants the liquidity benefits and the innovation benefits of seeing higher percentages of high frequency trading in Australia. This is not something that ASX is engineering.

Patrick Durkin – AFR:

And secondly I just wanted to check that I read you correctly that you seem fairly resigned that the Council of Financial Regulators will end up breaking up your monopoly on clearing and settlement and that we will see more

clearing houses in the market. I just wanted to check if that is the way I read that is correct, and if that is the case what sort of timeframe we could see for that?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I don't know what basis for your assumption is Patrick and I will, I have no particular insight into the thinking or the predilection of the Council of Financial Regulators. It's something that we are not privy to. When I have been asked in public forums like this morning to make comments there clearly has been a lot of media coverage and speculation about whether there would be, whether the competition for market services would extend to clearing and there have been articles written about various clearing houses that may or may not come into Australia. That doesn't mean I accept that is inevitable. It doesn't mean I accept it's a good or a bad thing. What we have said, and Peter and I have said this morning, is that we are ready for competition across our entire value chain as and when it may become a reality. I don't think that should be interpreted that I am resigned to the inevitability of it. In fact I think, the way I responded to the earlier question, I have deep question marks about the scale of the Australian market and the ability of that scale to support a lot of competition across the market services value chain.

Sue Lannin - ABC Lateline Business:

I just wondered have you got any expectations of what sort of percentage of market share you could lose when Chi-X enters the market?

Robert Elstone - Managing Director & CEO, ASX Ltd:

I will flick that to Peter.

Peter Hiom – Deputy CEO, ASX Ltd:

Short answer again is we have no expectations of what the market share loss will be but we take Chi-X incredibly seriously. They have been successful in other markets in acquiring market share and we don't operate on the basis that we have got some secret source here that is going to prevent them becoming a market operator with volume here. But to what extent, how fast it happens, we have no special insights.

ends