



**ASX FULL-YEAR RESULTS
MEDIA Q&A
EDITED TRANSCRIPT
21 AUGUST 2014**

Shaun Drummond, The Australian Financial Review: *How much of a contribution overall has the return of the IPO market made? It seems looking at those graphs that growth and earnings would have been going down if it weren't for that higher growth in IPOs; and if that is the case are you seeing the effects of a reduction in your share price in cash market share trading and also fee reductions there as yet?*

Elmer Funke Kupper, ASX Managing Director and CEO: The question is what would have happened if the IPO market hadn't been as strong. If you look- just out of illustration – at the waterfall chart we used to show revenue growth, revenues were up in total by about \$41 million. \$15 million of that was our listings business, so significant. That would be \$26 million revenue growth without our listings business so that's still attractive. If you now look at the \$15 million of revenue growth, it really consists of three components: IPOs; secondary capital raisings for companies that already exist; and issuer services, for example sending out CHES holding statements and so forth. If we disclose those numbers separately ... we can give it to you. So yes, IPOs are an important part of that 15 million but secondary markets have been doing pretty well for the last couple of years. If you believe that the IPO market is more cyclical then that [secondary markets] is really the number you should look at out of the 15. Ramy.

Ramy Aziz, ASX Chief Financial Officer: IPOs contributed about \$10 million of additional revenue.

EFK: So 10 out of 41; call it a quarter so that is the answer to that question.

Andrew White, The Australian: *I just wondered, you have launched a number of potential growth businesses in the last year or so. The managed funds business, bookbuilds, OTC clearing. Which one of those do you think has been most successful and which ones have the most potential?*

EFK: We don't disclose specific revenue numbers for those. An important part of our growth in the last 12 months came from activity levels in the marketplace and as you know something like 70% - this is disclosed in the annual report Ramy – it's about 70% isn't it?

RA: Yes.

EFK: 70% of our revenues are driven by market activity and as you know, when the Titanic is steaming along and it steams well you get very, very attractive numbers and we have seen that last year. It also means that you need a lot of new deck chairs to turn it so, it's not an easy thing to grow something that large and successful.

Having said that, we believe we need a range of initiatives on the go that over time can add to the organic growth that we get, and that's why we have got so many of these on the go. You asked which are the most important - it's actually not an easy question to answer because it depends who you talk to.

If you talk about Australian investors in the equity markets who are sitting on \$1.8 trillion of funds, they would say “Elmer the investment supermarket you are trying to build that gives us a better corporate bond market, that gives us international equities, growth in managed funds, that’s the one we want because we need to do something with the cash that we sit on”.

If you ask our regulators and some of the investment banks and institutional investors, they say all of that and that they want the market infrastructure in place so they can reduce their risk, comply with global regulations and so forth. Sadly one of the things about a vertically integrated exchange that is multi-asset class, is that you have to do it all. One of the points that I made to the analysts this morning - and we are not giving specific numbers - is what we are trying to do is find that equation where we can make all those investments and yet keep returning 90% of our earnings in dividends.

If you look over the last couple of years, our capex has been running between \$38-\$43 million, and a range of \$40-45 million next year. At this stage, we are not talking about beyond that year. And what that allows us to do is retain the cash returns from that core business that’s been performing so well to shareholders and make those investments. It matters to us because we all know that creating markets and creating liquidity is difficult. Some of it will succeed, some of it may not. It’s why we believe we are doing the right thing.

Of course you need to make sure you manage the economics of the business to give the upside to shareholders when it all goes well. But there is more risk to shareholder returns if it doesn’t. That’s what we have done with that investment profile, and there are other exchanges around the world that have not done that. They piled money into new initiatives and of course when they didn’t deliver it ended very badly. We tried to find that balance and so far over the last three years we have been able to do that very nicely.

There are no investments that we would like to make at high speed that we are not making because we are tightening into capital expenditure, and yet we can keep that equation going. That’s very important when you step into the shoes of our investors because the returns - the cash returns - are attractive.

SD: *I know you are not saying specific numbers or expectations but in terms of your own earnings, which of those new businesses do you think have the most potential to add to those?*

EFK: We don’t do anything that we don’t think is important for our business or the Australian marketplace and which we don’t want to succeed. Ideally, we need all of them to succeed and that is certainly the task that we have given the management team. But we don’t put numbers against it.

We might go to the phone. We have four questions on the phone.

Nathan Lynch, Thomson Reuters: *Hi, thanks a lot. Just wondering in the wake of the Newcrest fine, ASIC said its enforcement teams are going to be focussing on analyst briefings and continuous disclosure over this year. Can you share with us what the ASX’s view is on the quality of continuous disclosure and also how you are dealing with the vexed issue of selective briefings?*

EFK: Let me make two observations about the regime in Australia. First of all, I think we have one of the best and tightest continuous disclosure regimes in the world. The standards are very high in Australia. That is the first observation. The second observation is we have around 2,000 companies listed on the exchange and by and large people get it right. Obviously when you are dealing with 2,000 companies, occasionally people don’t get it right but I think the mechanisms are in place.

It's being monitored very carefully by our own compliance team and if there is a sense that people haven't followed the rules, it is referred to ASIC for review and potential action. What you see here is that process at work and you would expect that in a country this large with that many listed companies, we are right up there with the best in the world. Every now and then you get issues, but by and large the regime is very good and the process works very well.

I think one of the signs of a good working process is that we do raise issues when we believe there are some, and we do refer them to ASIC and ASIC takes action where they believe that is necessary. I won't make any comment about Newcrest or anyone else specifically because that is not my business. That is in the hands of the regulators and our compliance team. As an exchange we do this well, we do it carefully, we do it deliberately and we will not stumble. Hence, I am not answering the questions you might want to ask because the only way I can answer them is by putting it on the market announcement platform so everyone can get it at the same time. Then I can talk about it freely.

I will give you an example: people were very curious over the last year about how much we were spending on post-trade services and yet we didn't talk about it. Today we disclosed it; today numbers are out there; today we talk about it. So we are very careful and that discipline extends to whether you present here, whether you present at other analysts briefings, when we go overseas and meet investors - the answer is always the same. So I believe companies do this well. I believe management can control it but of course it's a large country, there are lots of companies and we need to monitor it because every now and then this might not work and then we take action. So I think it's fine but it's a very tight regime here; very high standards in Australia.

NL: *Just another question on the regulation front. Since December last year, ASIC's revealed that three major institutions have been caught out rigging financial benchmarks, which is a pretty major development. Does the rigging - it was more in relation to the BBSW and interest rate markets - but does the rigging of these benchmarks have any impact on the markets you operate and has it heightened your awareness about the apparent willingness of these major institutions to engage in pretty serious misconduct if there is a profit to be made?*

EFK: I would like to think that no one likes to engage in serious misconduct at any point in time. The fact that we have seen some of this - particularly overseas - is highly problematic. The nice thing about an exchange is we are the market; price discovery and virtually everything that we do is market-driven and so that's not easy to manipulate. And of course we do real-time market surveillance to make sure that we catch anyone who does. There are some changes in the world around the way benchmarks are being set, through the investment market banking community moving away from - call it a forum of banks that set benchmarks or give prices to benchmarks - to electronic delivery of benchmarks. Peter Hiom who is the Head of Business Development and the Deputy CEO is signalling that he might be able to add something to that.

Peter Hiom, ASX Deputy CEO: I think that as a consequence of what's happened in other parts of the world, investment banks are reviewing their participation, as Elmer just described, around the polling of prices. We can expect that, over time, to influence some of the benchmarks that we use for settling futures contracts. However, we have absolutely no concerns today. They will over time, transition to electronic benchmarks.

EFK: Like almost all markets in the world today, equities and derivatives are traded electronically. Twenty years ago, a lot of that was by individuals. The benchmarking of interest rates, some currencies and other instruments, has still in many cases been a people or institution-driven exercise. A market would poll a number of banks and through a set of rules come up with a pricing benchmark. As we have seen overseas, that process is more

prone to manipulation than an electronic process. We have zero concerns about that here in Australia, by the way, in relation to the markets that we operate. Nevertheless, overtime these things will become electronic and that risk will be taken away.

NL: *OK thanks for that. I have got another question about dark pools but I will ask that at the end.*

EFK: Please ask it.

NL: *OK. There was that issue involving Barclays and some other broker-operators of dark pools in the US and in response to that ASIC has said it is going to review the regulation of unlit markets over here over the next year, but it has expressed that the regime is different here and it is broadly confident in how things are operating here. Are you also confident that as a result of that review that there won't be any major regulatory changes required?*

EFK: ASIC has done a very good job across the board on everything high frequency trading and dark. When I go to the United States and overseas to talk to my colleagues and to other regulators, Australia is frequently mentioned as the best regulated market in the world that is fragmented, because, remember, we have multiple exchanges here. You don't have many of these issues if you only have one exchange and one market. It's when you have multiple that you have these issues. But, ASIC does that very well.

It is natural for them to look at the dark pool market and I think it is really important. When I say I've got no concerns I talk about our own dark market. Centre Point doesn't have pre-trade transparency, so an investor can be anonymous in a sense that he doesn't have to disclose how much of a particular stock he is willing to buy or sell, but everything else is absolutely transparent. The pricing mechanism is transparent. The commercial arrangements are transparent. The execution mechanism is transparent and it's a market, it is price-time priority like any other lit market, and of course we as an exchange are not in there trading ourselves and therefore that is no risk either.

I say that because if you look at the United States dark pools, and I can't talk specifically about Barclays but I can only talk about what I have read, it sounds like many of those qualities were not in place, and of course that can be a challenge for investors. This is the reason Centre Point has been so popular with real investors because it's giving them absolute control over the execution mechanism. Centre Point also has some innovations within it that give investors even more control. For example, investors can say 'I am happy to buy, I have got \$20 million of a particular stock to sell or to buy, I only want to interact with people who have a minimum amount on offer'. They have a better chance of interacting with real institutional investors on the other side - our entire innovation is about giving control back to the end investor and yet giving them anonymity if that is what they want. We provide a market, it is transparent, everybody gets the same view, everybody is welcome, there is no discrimination, there is no ASX prop-trading. I say that because when you look at the dark pools that people normally think of they are genuinely dark, there is no pre-trade transparency, there is no transparency on the commercial terms, there is no transparency on the execution mechanism, there is no transparency on whether high frequency traders or prop traders are in there - and it appears that in some cases senior management themselves don't know what's in there - and that's when you get these kinds of problems we have seen in the United States. That is what I read in the media, I don't have that first hand.

In Australia we are in a pretty good position, we don't have material concerns, certainly not about anything we do, and I think the investment banks here do things well. I think ASIC is continually looking at these things but I think what the regulators are saying - we need more transparency about how these things operate - because we know from overseas that if you don't have transparency you may one day wake up with a problem.

Anything ASX does is regulated, it's a market, it's transparent. With dark pools, many of those things are not in place. So I think what ASIC is saying I agree with. Having said that, it would be good if there was some more transparency because remember an off-market dark pool - unlike Centre Point which is an on-market dark pool - an off-market dark pool still provides all the functions of an exchange, they are matching transactions between buyers and sellers. Except how that happens is often not transparent and I think what ASIC would like to do is have a look at that and create some more transparency. But I should repeat that we have no concerns about the way the Australian market operates or how our clients are running their dark pools today. It's really a question for ASIC and I think the fact that ASIC has a steady hand here means they are not particularly concerned either. Australia's in a good place.

NL: *Yes, I mean, ASIC has been quite clear about its confidence in the way it is operating and it takes the same view that you guys do, but thanks for your time in answering that, appreciate it.*

EFK: We might move to the next person on the phone.

Justin Lee, Asia Risk Magazine: *Hi. With regards to OTC clearing for dealers and clients, can you give an update on how that is going in terms of the uptake and I guess how big a contributor that has been to revenues, and do you expect that to be a larger share going forward? And also secondly in terms of tie-ups with other exchanges, there was talk early this year of tie-ups with CME in terms of offering OTC clearing services. What's the latest on that and are you now exploring tie-ups with other exchanges as well?*

EFK: Let me start with OTC clearing. We launched our dealer-to-dealer service, this is the inter-bank market, not the end client - end clients are the AMPs and the Perpetuals and the Colonials and so forth - we are talking about the banks. We launched that service, everybody connected during the second half of the year. In the results pack we say that we have cleared about \$124 billion so far. That sounds like a big number but of course we have also said in another presentation that the total market for Australian interest rate swaps is in the order of \$15-\$16 trillion. These are enormous markets, a large part of which by the way is not cleared at all, so if you take the total market of \$15-\$16 trillion - a large part is not cleared, and then of what is cleared we did \$124 billion. Sometimes it can be difficult to actually get insights into what that means. It's a start, it's working, people are clearing, but in the scheme of things it's a modest number, relative to the size of the market, but it's a start. We launched our client clearing solution which is targeting the end investor at the end of July so that's a much longer road. You have to realise with all these things it can take 12 months for people just to connect. Remember we announced in July 2013 that our dealer-to-deliver infrastructure was ready, it was operating, the boxes are there, but for clients to actually connect and start trading took another nine months.

These are huge initiatives that people around the world have to prioritise. Are we happy that it is trading?, yes. Would I like a lot more than \$124 billion?, sure. And we have changed some of our fee structures as well to make sure that we align ourselves with our clients in the hope that we can grow that business, and we announced that last month.

When it comes to the tie-up with other exchanges, again no comment other than to say there is nothing to talk about otherwise we would have told you. We have said on the public record that we believe that exchange consolidation is something that will continue around the world. We have also said that the pressure to consolidate is greatest in Europe and North America where liquidity is most fragmented and people are under the most pressure, and that's exactly what we are seeing being played out. The acquisition of the New York Stock Exchange group by ICE and then ICE floating off Euronext and starting to sell bits and pieces of the New York Stock Exchange business, that's all in line with what I would have expected

to see in Europe and North America. So beyond that, no comment because there is nothing to talk about.

Mal Maiden, Fairfax Media: *Talking about the ASX results for the February 2013 half you noted that while share prices were rising volumes were lagging; they weren't rising as aggressively and you said at that time that a price rally that occurred without a volume rally was a bit fragile. Since then prices have continued to rise. What's been going on with volumes, what are your thoughts on it, what's happening with trading as a percentage of total market value for example?*

EFK: We saw a little bit of growth this year, a little over 4% in trading activity this year, on what has been a pretty flat period from the years before, and I am talking plural. It's been flat and we are getting a little bit of growth but trading activity is well below what it was before the GFC and it certainly hasn't picked up with the growth in the index, so it's a very good question.

As a consequence of that, the mathematical outcome of that, is that velocity which is the percentage of the market that turns over every year is sitting now at 78% and that is down again. If you think that the market is \$1.5 trillion and velocity is 78% you would expect total market turnover to be just over \$1 trillion, which is how the maths works. That number has been drifting down as the market has been rising and trading has been flat; just mathematics, that's how it works. When we talked about it this morning at the analysts briefing we made a couple of observations. One of the analysts asked is that because a lot of people are not churning money but sitting on the investments that they made. Passive investments, investments that hug the index if you will, might have become more popular and of course they have been very successful because the index has been rising. So if you hug the index you have done rather well. In fact, that's all you had to do over the last three years. But of course that is not creating churn, that's just people adjusting their portfolios to keep hugging the index and be passive, and I think that is part of the explanation as to why we are not seeing churn. But it's good for investors, not so good for us and the broking community. It's OK for us, it's not a big part of our revenues but it's not so good for the brokers because people are just riding the wave. But I can't predict when that stops and what happens if it starts to turn the other way which my guess would take some change in the interest rate environment and change in the economic outlook. But that's what's been going on. By the way internally, we don't really look at velocity so much because it is hard for us to control it.

What we can control is how people execute and so our investments in Centre Point and particularly the innovations within Centre Point, which are among the most sophisticated in the world, are all designed to give investors the best execution venue so that we become the execution venue of choice. Centre Point has become the execution venue of choice for real investors and yet it is more expensive than our other execution venues. There is some irony when you think about what happened in the last couple of years here. We are looking at innovation, being the execution venue of choice and hopefully getting a margin out of that.

Do we want velocity to go up from 78% back to 100% as it used to be? Absolutely. Can we control it? No. And I think while the interest rate environment is the way it is and where volatility sits I think we will continue to see that. Central banks have been managing this pretty well because one day interest rates are going to go up and the question is what happens with equity markets and bond markets at that point in time. Most of the literature sees consequences for the bond market rather than the equity market. It looks to me like the equity market is again driven by corporate earnings which is the way it should be.

Tony Boyd, The Australian Financial Review: *Thank you Elmer. On your chart there about the regulatory future and the Financial System Enquiry you have highlighted the need to get rid of that 15% ownership limit. But if I read the FSI interim report it doesn't really address that question at all. In fact, I think if you go to the report it is almost saying you need to*

provide mid caps with a greater access or easier access to equity. That seems to be the single most important - apart from financial market infrastructure - recommendation in the report. I just wondered whether will you be making another submission next Tuesday and try and get some traction on this?

EFK: You would expect that most companies that have a great interest in this will make sure that they provide some additional comments to the Inquiry. I think the Inquiry got it by and large right. But I didn't expect the 15% to be changed through an inquiry process because that is not how it works.

What's really interesting is what I think the Murray inquiry is saying about our financial market industry: that it's well regulated, there are some different opinions on the value of competition, you know we could summarise all those, but frankly the Council of Financial Regulators, which is the combination of APRA, RBA, ASIC and Treasury, has done a good job of regulating our financial markets and there's really no reason why they shouldn't continue to do that. If the Murray inquiry says that there are continued questions around stability versus competition, how we can make sure Australia stays in control, the Council has done a terrific job on that and they should just simply continue to do that. I think what these enquiries are about is about what needs more fundamental change to improve the financial system from where we are today, whereas our topics, frankly, are very well managed by some very good regulators. That's what I think is going on here and by the way, we are delighted with that because I think that's one of the things that I really like and respect about what the Murray panel has done: for each of the issues they raise, they give a series of options. There are three or four different things we could do as a country. Option 1 is always 'do nothing' and that is one of the most important things you can say because sometimes enquiries feel that they need to come to a conclusion and that something has to change, even when it doesn't. In our case it hasn't even bubbled to the surface in a way you might expect because it has been well managed. It's a very good panel and I think they are genuinely concerned with the future of financial markets and the financial system.

TB: *Do you agree with their observation that it might be advisable for ASX to follow the lead of London and open up the market for high growth companies and internet and technology companies in a different way?*

EFK: No we don't. If you look at how our market operates, we've looked at what we call a second board from time to time. Every single time it was rejected as not adding value to the small companies or potentially reducing value for small companies, because now you are no longer part of this wonderful thing called ASX.

The preference is to be on the same board and everybody should be aspiring to that. We have never seen the second board as something that is particularly valuable because you have to ask yourselves how a second board would make a difference for those companies. It should make a difference if it had different rules. But if you have different rules you might get a different outcome. If you have got the same rules you are likely to get the same or worse outcome because you are no longer part of the main board. So we have taken that up and we've looked at what needs to change for the benefit of small and mid-cap companies specifically.

You may recall that last year we implemented some changes to the capital raising rules. There is a 15% limit on the amount of capital that companies can raise without shareholder approval (outside of an AGM). That applies or used to apply to everyone. We know that for small companies that's not a particularly helpful rule. So we sat down with the regulator and we agreed that that number could go to 25%. In the first year more than 600 companies used that new rule. We have some limits - the rule applies to companies outside the ASX 300 and with a market cap below \$300 million. Thankyou - Kevin Lewis, our Head of Compliance, is

here and knows all about this. That is the exact target group for the question that you ask. We are continuously looking at that.

You also asked a separate question which is, does Australia have its act together when it comes to venture capital and crowd funding? The answer is absolutely not and it has been raised by some politicians. Malcolm Turnbull has raised it, it's been raised in the media. While we are still talking about it, the UK has stolen the march yet again. I read in the press that while crowd funding was invented in the US, the UK is the number one market now. The UK has also introduced something called a 'patent box' which allows companies to commercialise IP developed in the UK at a lower tax rate. We really have to get to this stuff, and to be honest the processes that we face right now with the way Parliament and the Senate work makes me slightly depressed about our ability to pull this off. We need strong leadership and to deliver this because it is about the competitiveness of the country not about individual agendas. That's the end of my political speech. It is simply taking too long.

AW: *I was just going to ask about the investment in post-trade services, \$24 million this year. What do you think you have got from that and what are your expectations about whether you will face competition in that business at the end of this year when the moratorium comes off?*

OK let's split two things.

The moratorium is about the cash equities business not the derivatives business. We have made no investments in that other than a little bit of capital in the clearing house, because that is functioning very well. It is very efficient, it's working well, it's benchmarking well, it's going from T+3 to T+2, all that is happening.

What we are talking about when we talk about post-trade infrastructure is really the derivatives markets of the world, because that's where the regulators are tightening the regulations everywhere due to Lehmann Brothers and MF Global and so forth. That is where the investment has gone. It's not about cash equities and the review by the government. It is about global competitiveness in a new global regulatory environment.

The task we set ourselves by the end of FY14 was infrastructure in place so that we can be in the game, because we were well behind three years ago. We are catching up, we have done it in relatively high speed, faster than most exchanges, and we did it within our capex envelope. That is all we can ask for. Now it's about whether we can build liquidity. Then you might ask how we feel about competition in derivatives and post-trade services, and again you then have the different shape between the over-the-counter (OTC) market and the exchange-traded market, because the rules are different. For the OTC market, the regulators have said that is a globally competitive market, you can do it in Chicago, London, Singapore, Australia, you can do it where you want. That market is still in its infancy. A lot of it is not cleared today and that is the \$124 billion we talked about earlier – around 1% of the entire market we are doing at the moment.

The futures market, which is where we have all our revenues today, the exchange-traded market, there the regulations are different and there our regulators have said we like the risk of the interest rate futures market to be managed in Australia. As a result, 'we (the regulators) are going to put some restrictions on how much can be taken overseas'. The reason that's in place is because the interest rate futures market and the equity market are absolutely critical to the functioning of the economy. You never want to wake up with that market in trouble and the capital, the collateral and the infrastructure sitting overseas, because then you have just lost your economy. They are critical markets for our economy. The regulators recognised it and say 'we are going to restrict how much of that can go overseas, we want the capital and the collateral to be here'. People can come and compete by the way, it's a competitive market in that sense, but it has to be done here.

That's why it was so important for us to get regulatory clarity. Remember, we are putting our infrastructure in Australia, half a billion dollars of capital investment in Australia. It was important for us to know how the regulators were thinking. If the answer is 'we are quite happy for our interest rate market and our equity market to be managed from overseas', well maybe I should have taken our money overseas and invested it there. We didn't do that and we didn't do that because it is important to Australia, and the regulators recognised that. These things really matter. In futures and in equities there is recognition that having a domestic infrastructure is absolutely essential. The reality is that if we don't build it, it won't be built. We are putting our money where our mouth is and saying we will build it. You give us regulatory clearance, we will build it. That is what we have done and we will see what happens next.

OFF MIC: *Just to be clear, there is a moratorium on clearing competition that comes to an end ...*

EFK: That comes to an end theoretically in the first quarter of next year. We haven't been formally told that.

AW: *That's what I am asking: are you expecting it to be extended ...?*

EFK: I don't know. If you look at the business case 18 months ago not to change the market structure, there was not a lot of appetite in the marketplace and there was really no strong business case to change it. Dial forward two years, the question is what's changed?

What's changed is that we put in place a Code of Practice that gives transparency and enables our clients to provide input. What's changed is that we have an international benchmark cost report that says our fees are broadly similar to what you see in other markets. The real question becomes 'what is the problem we are trying to solve?' as we dial forward.

We say, as you would expect us to say, there is no problem to be solved because it is working just fine. There is a bit of the idea of the Code on Slide 19, Item 3 on the right: self-regulatory regimes can drive efficient competitive outcomes. That's a long way of saying the Code is working, let's back it, let's keep it and let's keep going. We need some certainty because we are going to T+2, we are overhauling our systems. We need some certainty for more than two years. That was fine up to now but we need longer term certainty. The final thing I would say is it's [equities clearing] \$40 million a year for the entire Australian economy. That's it. I would have thought there are more important things to focus on, but it's not in my hands. We are doing everything we said we would do and more. We are hopeful that the regulators and the government agree. But it is in their hands, not mine.

That is where we will close it off ladies and gentlemen. Thank you for joining us on the phone, thank you for joining us in the room here. We hope you found that useful and our colleagues are available to answer any further questions. Thank you.