



ASX LIMITED ANNUAL GENERAL MEETING

30 OCTOBER 2007

TRANSCRIPT OF Q&A

Agenda Item 1: ASX Financial Reports

Andrew Vier, ASX Shareholder

My name is Andrew Via. The question relates to the appointment of directors. I am opposed to directors being appointed who have got several other directorships and I see Mr Gonski is one of these. If Mr Gonski were elected....

Maurice Newman, ASX Chairman

This is not an item under financial reports.

Andrew Vier, ASX Shareholder

This is to do with the running of the company.

Maurice Newman, ASX Chairman

Perhaps we could leave that question until later.

Andrew Vier, ASX Shareholder

I just want to finish. The running of the company - would it be possible for the director to relinquish one of his other directorships so that he can spend more time on the ASX. That is my question.

Maurice Newman, ASX Chairman

Well, we will get to that question when we get to the election of directors. Are there any questions on the financial reports?

Paul Fanning, ASX Shareholder

Paul Fanning, ASX shareholder. I commend the two reports today where we have heard that the health of ASX since integration has been excellent and the Board and management have carried out their roles in a very responsible manner. There are one or two issues which I would like addressed. Perhaps one of the more interesting ones that has been viewed in the market was from late July when there was a major upset in global markets. The futures exchange of ASX was down for a period of about one hour during mid-trade and it had a diabolic effect back-feeding into ASX trading. Now I would like to hear some explanation or comment on how or why that happened and is it likely that it could happen again? Was it a programmed down period or was it an overload of the network or what?

Maurice Newman, ASX Chairman

Could I ask you to keep that question for later? This particular item is on financial reports and I don't think that goes to the issue of financial reports. Are there any questions please on ASX's financial report? Well, if there are no questions could we now move to the SEGC financial report.

(There were no further questions until Agenda Item 6)

Agenda Item 6: Increase cap on Directors' Remuneration

ASX Shareholder

Thank you. This is my first attendance at an ASX AGM and I am very impressed with the way it is being run. I would like to have some clarification on the points you have just made. You indicated there will be people standing down from the Board so two coming on, some going off, why half a million buffer?

Maurice Newman, ASX Chairman

Well, there will be one additional director if we take the one retirement which will take us pretty much up to the maximum threshold of where we are. The buffer we believe is inadequate and we believe that we need to have the room to move if necessary. There are no plans to spend the additional money, well certainly not all of it, plus the fact that we have the board of ASXMS. The directors who serve on that also receive directors' fees so altogether we believe it is in the interest of the company to provide that margin.

(There were no questions on Agenda Item 7)

General Business

Paul Fanning, ASX Shareholder

Thank you Mr Chairman. I return to my question from before in regard to the down period of futures trading in late July this year (16 August – Ed). I would like to get an understanding or comment from either you or from Robert Elstone as to the nature of the down time which had an impact on the ASX equities market and caused some instability at the time and a severe fluctuation in the intra-day index movement. Could I get an opinion as to whether it was a programmed down time or was it unscheduled? If it was unscheduled, was it within the normal guidelines to bring the futures market back up to speed. Thank you.

Maurice Newman, ASX Chairman

As it's an operational issue, I will ask Mr Elstone if he would respond.

Robert Elstone, ASX Managing Director and CEO

Thank you. It's a very good, legitimate question and I will respond to it as follows: The underlying cause was a hardware failure in the back-up system out at Bondi. It had nothing whatsoever to do with the primary operation of the market here. It had nothing to do with the age of equipment; it was just one of those things that happen from time to time. It happened in the back-up system at around 10.15 on the Thursday morning during the trading day.

We had a judgement to make and our Chief Operating Officer in the second row there on my right hand side came and reported the failure to me. Bearing in mind that this application that operates the futures market runs the best part of 24 hours a day, so it doesn't give you the same flexibility that the equities market gives you which is open for 6 hours a day where you can go in and make good or remediate any failures. So we had a judgement to make as to whether we were going to take a risk and run the futures market through until Saturday morning, bearing in mind it is open all Friday night as Chicago and the US are trading. Quite frankly, if it happened again another ten times I would make the same judgement – to operate the primary market without a backup is a very, very brave judgement. I think if I ever made that judgement I would be having some serious conversations with the Governor of the Reserve Bank quizzing me on why I made that decision, so it was one of those things. There was no underlying systemic cause and really the issue was that if it happens again we would make the same judgement to pause the market.

The second point I would make, unlike the way the incident was reported in parts of the media, the market was given 45 minutes notice that it was going to be paused. The media reported this as a sporadic event that took everybody by surprise, so everybody that was looking at a screen knew the futures market would be paused. I think we advised about an hour's pause and it was about one hour 20 minutes as it turned out.

The third part of your question is interesting because it's got both a philosophical component - should the equity market be kept open when the futures market is closed? Tragically, that's a philosophical question which could chew up the whole meeting but it's also a practical issue because had the outage in the futures market lasted longer than an hour, we would have been making a double-up decision on the scale of period of time that the equities market would be down and I find it interesting that prior to this merger, this question never got raised in

the preceding ten years when ASX and SFE operated as independent corporate entities. It doesn't invalidate your question in any way, but it is interesting to me that it has come about. I suspect that is because of the state of turmoil of markets back in July and August.

My final comment is regarding what we have observed over the same trading period, i.e. roughly around about the middle of the day. The Hong Kong and Singapore markets on the equity side also traded down to the tune of about 3 ½ %. Ours traded down to about 5% and that is a trend which has become much more noticeable during the sub-prime fallout period of the last three to four months. The momentum in the Australian equities market appears to alter so we take a lead from the overnight share price index movement. We trade on our own momentum from 10am until 12pm and then when Singapore and Hong Kong come on-line, the level of jitteriness in equities markets around the world, both on the upside and on the downside has so upscaled in the last four months with people trying to second guess how prolonged these sub-prime aftershocks are going to be. It is now becoming quite commonplace that we observe patterns of trading in the Australian equity market over our lunchtime where it is looking for direction coming out of Singapore and Hong Kong. So it's a very good question. I wish I could give you a much better answer because there are three or four windows in on that but I think the bottom line is that we will always prioritise our ability to deliver the entire market and not run without back-up coverage.

ASX Shareholder

Thank you very much. I would like to find out what is likely to happen to the volatility of the underlying securities with ASX CFDs. What I am talking about here is - will BHP, if everyone has got CFDs on BHP with high leverage, is that going to effect the volatility of the underlying stock, the stock itself and other stocks? I mean this is about to happen in the next week so perhaps one of the technical people could answer this question?

Robert Elstone, ASX Managing Director and CEO

In the particular case of the most deeply liquid stocks, certainly the top 30 to 50, and in the first instance they will be the only stocks that CFDs are listed on, purely mathematically, it would be extremely unlikely that the level of liquidity in the CFD market would ever become a price determinate in the early phase of the market. There is no evidence around the world, bearing in mind that CFDs are only OTC traded in other markets, there is no evidence that price discovery occurs in the underlying CFD market over and above the primary equity market. So purely on the maths you would need staggering levels of trading volumes in CFDs to affect price discovery in the underlying stock. Very hard to believe that the kind of volatility we are observing - that volatility won't continue for a stock like BHP to be driven by what's going on in China and what's going on all night in the world's major commodity markets, so I think its very doubtful that the phenomenon that you are describing will see it play out. My only additional comment would be that we have already got CFDs (on OTC markets – Ed) and we are not aware of any impact that it has had on volatility.

John Clancy, ASX Shareholder

John Clancy is my name. We are in the middle of a mining boom now and every mining boom has always had scams in it until up to now. Don't you think that some of these companies that are coming onto your boards now are nothing more than a laugh? How could some of them be on the same board operating under the same rules as BHP and Rio?

Maurice Newman, ASX Chairman

Well, companies that come to list are companies which have to pass the test of prospectus and have to meet the other standards of listing which we set. To the extent that there are companies which will subsequently fail for reasons none other than they are unsuccessful, I don't think that is an issue that we should be concerned with. The main issue as to the integrity of the boards and the management of those companies - that is something which we obviously keep a very close watch on in terms of what they report to their shareholders, how they comply with our Listing Rules and of course ASIC will openly keep an eye on them as well.

John Clancy, ASX Shareholder

Companies coming on like that with \$2 or \$3 million capitalisation - it gets back to what you said earlier in your address – it's taking money away from and stops the market developing properly. You are taking money away from companies that could use that money, better than just a few directors sitting in an office with nothing and drawing a wage.

Maurice Newman, ASX Chairman

Well, we have certain minimum standards. These companies obviously comply otherwise they wouldn't be granted listing on our market and I don't think we are in a position to sit in judgement as to whether these are likely to be successful or otherwise. That's something for the market and the operations of those companies to ultimately prove.

John Clancy, ASX Shareholder

But isn't there an issue of corporate governance coming in there that someone has to draw a line somewhere - is that part of your job?

Maurice Newman, ASX Chairman

The line is drawn when companies come to list and meet the minimum standards. If they don't meet the minimum standards, they don't get admitted to our lists but it's not up to ASX to determine the investment merits or otherwise of companies which seek our listing. Are there any other questions?

ASX Shareholder

Thank you Maurice. This is one supplementary question. Options trading - I think I may have spoken to one of the board of directors after the last AGM. Options trading versus CFDs. I take great interest in half-year reports and also the monthly trading reports produced by ASX for ASX operations and also for SFE operations. They make excellent reading and I would like to do an analysis on the figures that make up the different components. It seems to me that the CFDs being released by ASX will be very welcomed by the market and will set a standard of responsibility that will be reflected back into the other providers of CFDs and like products. But in terms of ASX, there seems to be a slight downside which I would like some comment on and the level of options traded over the last several months seems to be at best flat but maybe diminishing. Is there any counter to that or is there any preference or what or why does this trend happen or what could happen for the future?

Robert Elstone, ASX Managing Director and CEO

I think I remember you asking this question at last year's AGM and I remember my answer at the time was that if you ask this question again in 12 months time and I wasn't able to give you a better answer I should probably be shot, so I will do my best. The answer is: 12 months ago is probably little different from today other than fingers crossed the volumes did go up compared to quarter on quarter, but I think the underlying thesis of your question is absolutely spot on. The reason the option volumes have not grown at their historic growth rate, I suspect, is two fold. One is the pattern of volatility - up until 30 June it didn't lend itself to double digit growth rates in the option markets because it looked like a one way bet and secondly, as I did respond 12 months ago, there is no doubt that the success of CFDs, coming back to this gentleman's question, the success of CFDs in the OTC market meant there is a disintermediation effect between the over the counter CFD market and the exchange traded options market. That is the very reason, along with some other regulatory transparency reasons, why we have opted to operate an exchange-based CFD offering. I am a market operator, not a market forecaster but my intuitive judgement is that it is inevitable if the exchange-traded CFD offering proves to be commercially successful, that some of that volume will come out of the current exchange-traded options pool, but please don't press me further and ask me to make a prediction because I won't do that. But quite frankly, as long as the overall pie is growing, I think arguing the toss about how we divide the pie would be a very high quality problem for us as a board.

Maurice Newman, ASX Chairman

Are there any other questions, any more discussions? Thank you ladies and gentlemen for your attendance today.